

Cabinet and Governor Appointed Agencies' Performance Audit Action Item(s) & Status

Correctional Industries: Planning, pricing and market share

(See also [cabinet agency response](#) for full context to Washington State Auditor's Office (SAO) [report](#), May, 2017)

The Departments of Correction (DOC) and Office of Financial Management (OFM) were included for this performance audit.

SAO Conclusion:

SAO Issues Summary:

1. CI has experienced planning challenges and contractor difficulties in the past when expanding industries and adding new ones.
2. Without a pricing policy, CI cannot ensure it saves agencies money while producing sufficient profit for reinvestment.
3. State law is not clear about what "fair competition" means.

SAO Recommendations (Rec) Summary:

1. Use leading practices to establish a formal business planning policy for new and expanding industries.
2. Develop a documented process to regularly assess the demand for skills taught to inmates based on input from private industry and current labor market data.
3. Improve existing efforts to obtain customer feedback on prices, and products by:
 - a. Expanding its customer survey to include questions about product quality and prices, and customer needs
 - b. Analyzing feedback to determine if CI's products and services adequately meet customer needs.
4. Develop, track and publish the following industry-specific performance measures:
 - a. Inmate post-release employment outcomes
 - b. Accuracy of CI's cost of goods sold forecast
 - c. Accuracy of CI's operating expense forecast
 - d. Profitability.
5. Establish a formal agency-wide pricing policy and a timeframe for implementing that policy. The pricing policy should include a documented process for:
 - a. Comparing prices for new and existing products to ensure prices are competitive
 - b. Approving prices to ensure they are set in accordance with policy
 - c. Reviewing prices at specified intervals, with formalized roles and responsibilities for reviewers.

The table below shows the current status of action items the agency initiated to address issues identified in the performance audit report. Please see the [cabinet agency response](#) for additional context and any additional steps already taken.

For an explanation of the columns below, [see the legend](#).

Issue/ Rec	Status	Action Steps	Lead Agency	Due Date	Current Resources ?	Budget Impact?	Legislation Required?	Notes
Rec 1	Completed	Develop a formal business planning policy encompassing	DOC	7/18	Yes	No	No	A formal business decision processes has been developed and implemented. The new

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		process constraints, business impacts, training requirements, efforts on private Washington businesses, and customer demand for CI goods and services.						CI Decision Package process utilizes SharePoint both as an approval routing and documentation system. The system is currently in use for business/program expansion projects and staffing needs decisions.
Rec 2.1	Completed	CI will establish a process to regularly review labor market data developed by the state Employment Security Department	DOC	6/17	Yes	No	No	The subtasks have been completed and CI's workforce development team will continue to actively monitor. DOC is currently working with ESD on the MOU.
Rec 2.2	Completed	CI will identify and deploy leading practices to engage potential employers for individuals released from incarceration.	DOC	9/17	Yes	No	No	Continue to work with Commerce on strategies related to employer engagement Continue to engage potential fair chance employers
Rec 2.3	Completed	CI will leverage existing relationships with stakeholders to define a process to request or run additional reports on labor market data.	DOC	12/17	Yes	No	No	Continue to review SOCs in relationship to labor market
Rec 2.4	Completed	CI will evaluate the need for and interest in a cross-sector employer advisory group.	DOC	12/17	Yes	No	No	CI workforce development will continue to engage with potential employers
Rec 2.5	Completed	CI will develop an employer needs survey for businesses that already employ previously incarcerated individuals	DOC	5/20	Yes	No	No	Using Employer Demand Reports from the Washington State Employment Security Department (ESD), CI Workforce Development compared the demanded skills with the opportunities and skills offered within CI. Developed a survey for employers to regularly assess the demands for specific skill sets. Survey is used by Community Employment Specialists when meeting with new and existing employers. The ESD

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								<p>Employer Demand report will continue to assist CI in identifying skills which would be beneficial for future consideration.</p> <p>Additional activities:</p> <ul style="list-style-type: none"> • CI participates in Chamber of Commerce events and represent the returning population to the community. • CI participates in the Apprenticeship Working Group which is working to identify employment opportunities and employer needs.
Rec 3.1	Completed	Develop a customer request tracking system to identify the most common reasons for requests, including returns, and request for repairs under warranty.	DOC	7/19	Yes	No	No	A customer tracking system was identify the most common reason for exemption requests, including returns and repairs under warranty was developed and is in the process of being vetted for usefulness.
Rec. 3.2	In progress	Develop a formalized and modern customer feedback process designed to significantly increase participation and to enhance assessment of product quality, pricing and new business development opportunities	DOC	1/21	Yes	No	No	<ul style="list-style-type: none"> ▪ During the customer advisory meeting held January 7, 2020, it was decided that a furniture customer survey focused on feedback from statewide facility planners is the most important and should be the starting point. The advisory group also determined that the majority of the survey questions should be designed by this group; CI will facilitate.

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Rec. 3.3	Completed	Establish an advisory council composed of representatives from customer organizations. A customer advisor council will assist CI in soliciting input on its operations and potential new products.	DOC	10/19	Yes	No	No	Customer Advisory Council was established and held initial meeting on January 7, 2020. A virtual meeting is planned for Fall 2020.
Rec. 4.1	Completed	Expand current post-release employment tracking to include industry-specific measures	DOC	7/19				CI is currently tracking this information on a monthly basis.
Rec. 4.2	Completed	Improve the current forecasting model to include an industry-specific measure for accurate price of goods sold.	DOC	7/18	Yes	No	No	The accuracy of forecasted cost of goods sold is being tracked, updated and posted on internal SharePoint dashboard. Data includes a summary page and individual pages for each industry/shop.
Rec. 4.3	Completed	Improve the current forecasting model to include an industry-specific measure for accurate operating expense.	DOC	7/18	Yes	No	No	CI's strategic plan is being redeveloped to focus on highest priority goals. At the Corporate Management Team (CMT) meeting in April 2018, members worked through exercise to identify priority goals. Next steps include: <ul style="list-style-type: none"> ○ Finalize updates to remaining strategic plan performance measures ○ Identify and assign owners for each measure ○ Develop reporting structure for strategy updates
Rec. 4.4	Completed	Develop industry-specific measure of profitability.	DOC	7/18	Yes	No	No	The accuracy of forecasted operating expense is being tracked, updated and posted on internal SharePoint dashboard. Data includes a summary page and individual pages for each industry/shop.

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Rec. 5.1	Completed	Improve annual fiscal forecast detail and accuracy by aligning industry-specific revenues and expenses, enabling full cost recovery for respective industries.	DOC	7/17	Yes	No	No	The accuracy of forecasted net income is being tracked, updated and posted on internal SharePoint dashboard. Data includes a summary page and individual pages for each industry/shop.
Rec. 5.2	Completed	Improve annual fiscal forecast detail and accuracy by developing a new warehouse and transportation cost allocation model	DOC	10/17	Yes	No	No	The new transportation allocation model has been implemented successfully. The new allocation model distributes costs more accurately to each division using the percentage of stops each division used within the transportation network.
Rec. 5.3	Completed	Establish a phased equipment replacement schedule by respective industry.	DOC	7/19	Yes	No	No	A five (5) year Equipment Replacement Schedule was initiated with the FY 2020 Forecast process. The intent is to build annual cash contributions into each industry's operating costs, committing equipment replacement funds to support and sustain ongoing program reinvestment
Rec. 5.4	In progress	Distribute the final pricing policy and corresponding pricing model, and train staff on using the model during the annual forecasting process.	DOC	10/19	Yes	No	No	<ul style="list-style-type: none"> ▪ As of July 1, 2019, CI implemented a new forecasting model to improve the accuracy of cost of goods sold and operating expenses as well as better measure profitability. This includes: ▪ The CI forecast and monthly financials include Headquarters (HQ) Administration (e.g., Human Resources, Marketing), Site Administration, and Industry Administration costs allocated to each respective site/industry based upon reasonable and manageable methodologies.

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								<ul style="list-style-type: none"> ▪ Financial pages and cost allocations have been established for certain HQ Administration expenses (e.g., Risk/Safety, Facilities) to enhance fiscal transparency in agency costs affecting CI industries. ▪ Certain industries (e.g., Optical, Textiles, Commissary Bulk Sales) have been re-aligned and/or established, with proportional sales and expenses allocated to promote effective measurement of industry operations and performance. ▪ Overtime expenses are now depicted as a distinct line-item for every industry, separate from salaries and benefits expenses. ▪ Warranty expenses are now depicted as a distinct line-item for the furniture industry’s operating expenses, enhancing transparency and improving the accuracy of the forecasted cost of goods sold and operating expenses. It is also expected to provide data to better measure the industry’s profitability (i.e., level of raw material and resources committed to product re-work)
Rec. 5.5	In progress	Implement the final pricing policy and corresponding pricing model	DOC	11/20	Yes	No	No	By June 30, 2021 – Identify possible refinements and revisions to the Forecasting and Product Pricing policy by developing and implementing the FY 2022 Forecast. This includes identifying potential enhanced measures of industry profitability.