STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Louisiana Prison Enterprises

April 1997

Performance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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OFFICE OF
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April 30, 1997

The Honorable Randy L. Ewing,
President of the Senate
The Honorable H. B. "Hunt" Downer, Jr.
Speaker of the House of Representatives
and
Members of the Legislative Audit Advisory Council

Dear Legislators:

This is our report of the performance audit of *Louisiana Prison Enterprises*. We conducted this audit under provisions of Title 24 of Louisiana Revised Statutes of 1950, as amended. All performance audits are conducted in accordance with generally accepted government auditing standards.

This report presents our findings, conclusions, and recommendations. We have also identified several matters for legislative consideration. Appendix D is the response of Louisiana Prison Enterprises.

I trust that this report will be of value to you in your decision-making process.

Sincerely,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/jl

[PRISON ENTERPRISES]

Office of Legislative Auditor

Executive Summary

Performance Audit
Louisiana Prison Enterprises

Louisiana Prison Enterprises is a division of the Department of Public Safety and Corrections. For fiscal year 1995, the agency sold more than $21.1 million in goods and services. Our audit found that:

- Louisiana Prison Enterprises should document its claims of saving the state millions of dollars annually. The agency has some examples of individual instances, but no cumulative figure. By developing a cumulative figure, Louisiana Prison Enterprises can illustrate how effective it is at saving the state money.
- Louisiana Prison Enterprises achieved part of its mission of being self-supporting for fiscal year 1995. However, some individual operations were not self-supporting, particularly agriculture operations.
- The agency's last long-range strategic business plan covered fiscal years 1989 to 1993. Since then, Louisiana Prison Enterprises has developed short-term plans. These short-term plans do not include formally developed performance measures. As a result, management does not measure and document whether goals and objectives are achieved.
- Louisiana Prison Enterprises formalized its methodology to price products in November 1996. In our test of this methodology, we found that some products may be under-priced or over-priced.
- Louisiana Prison Enterprises developed its last marketing plan in fiscal year 1990. It developed a sales plan in the middle of fiscal year 1996 in response to decreasing sales, but the plan only covered six months.
- Louisiana Prison Enterprises has two public/private partnerships. One is a federal Prison Industries Enhancement program. Inmate workers in this program have contributed more than $180,000 in taxes, room and board, and victims' compensation. The other is a cooperative endeavor agreement. Inmates in this program can earn regular incentive wages or a reduction in their sentence at double the normal rate, also known as double goodtime. However, these inmates do not pay taxes, room and board, or victims' compensation.

Daniel G. Kyle, Ph.D., CPA, CFE, Legislative Auditor
Phone No. (504) 339-3800

Audit Initiation and Objectives

We conducted this performance audit as part of the National State Auditors Association joint audit on corrections industries. The National State Auditors Association joint audit coordinating team developed the audit objectives. The 14 states, including Louisiana, participating in the joint audit had the discretion of pursuing other objectives or modifying the National State Auditors Association suggested objectives. We chose to pursue four objectives. The specific objectives of this audit were to:

- Assess the adequacy and reasonableness of Louisiana Prison Enterprises' program planning efforts
- Determine whether Louisiana Prison Enterprises is meeting its mission and goals
- Determine whether Louisiana Prison Enterprises' goods and services are competitively priced and whether sales and marketing efforts are efficient and effective
- Determine the extent to which public/private partnerships are being used to develop work programs

Achievement of Prison Enterprises' Mission and Goals Should Be Measured and Documented

For fiscal year 1995, Louisiana Prison Enterprises sold over $21.1 million in goods and services that were manufactured or provided through its various operations. Louisiana Prison Enterprises' mission is to reduce the overall cost of prison operations, state agencies, local government entities, and tax-supported institutions by operating self-supported industrial and agricultural businesses. (Pages 3-11)

Louisiana Prison Enterprises has not measured or documented how much money it is saving the Department of Public Safety and Corrections and the state by providing goods and services at cost. The agency reported in its fiscal year 1994 annual report that it saved the state millions of dollars by providing goods and services to the Department of Public Safety and Corrections, state agencies, and other entities. The annual report provided some examples of savings, but did not give a cumulative figure.

Louisiana Prison Enterprises paid incentive wages averaging $442,000 annually for fiscal years 1993 through 1995. These incentive wages went to inmates who worked in other areas of the Department of Public Safety and Corrections and were not Louisiana Prison Enterprises' workers. As a result, the state General Fund appropriation to the Department of Public Safety and Corrections did not have to cover the cost of these incentive wages. The actual amount that Louisiana Prison Enterprises paid from its self-generated revenue for fiscal year 1995 was nearly $465,000. (Pages 21-22)

Part of Louisiana Prison Enterprises' mission is to operate self-supporting programs. Louisiana Prison Enterprises was self-supporting as a whole for fiscal year 1995, but some individual operations were not, particularly agriculture. (Pages 22-25)

Some of the Department of Public Safety and Corrections policies may make it difficult for Louisiana Prison Enterprises to reach one of its goals of teaching marketable skills and good work habits. Several Louisiana Prison Enterprises' industries that teach marketable skills are housed at Louisiana State Penitentiary at Angola, a maximum security prison. The inmates housed at this facility usually receive lengthy sentences. Thus, inmates learning skills at these industries may never use them in the private sector or these skills may be obsolete when the inmate is released. (Pages 25-27)

Louisiana Prison Enterprises' last long-term strategic business plan was developed in fiscal year 1989. This plan covered fiscal year 1989 through 1993, a five-year period. Since 1993, Louisiana Prison Enterprises has used short-term plans that cover one year or less instead of long-term strategic business plans. None of the short-term plans contained formal performance measures. Louisiana Revised Statute 39:36(4)(c) requires clearly defined indicators of the quantity and quality of performance. (Pages 27-28)

Recommendations

2.1 Louisiana Prison Enterprises should establish formal procedures to measure and document the cost effectiveness of its operations.

2.2 The Department of Public Safety and Corrections, Corrections Services should review its policies that may lessen the impact of Louisiana Prison Enterprises' efforts to teach marketable skills.

2.3 Louisiana Prison Enterprises should review its goals to determine if the goals are realistic or conflicting.

2.4 Louisiana Prison Enterprises should formally develop and document performance measures for its operations. These performance measures should reflect Louisiana Prison Enterprises' mission and goals.

2.5 Louisiana Prison Enterprises should develop a strategic business plan that addresses short-term and long-term goals that are in agreement with the mission statement. The planning process should provide a means to change and alter the business plan to meet changes in the environment.

Product Management Needs Improvement

In November 1996, Louisiana Prison Enterprises implemented a formal written procedure to price its products. We examined 11 products and found that about one-half of them do not recover manufacturing costs. We also noted that the methodology used to set product prices may differ from what state law allows. While Louisiana Prison Enterprises has computer software that could price its products, this feature is currently not being used. According to officials, there are some problems with this computer software.

Louisiana Revised Statute 15:1153(A)(1) requires Louisiana Prison Enterprises to sell its products and services at cost. We interpret this law to mean each product or service should be sold at its cost to produce. However, Louisiana Prison Enterprises' officials interpret this law to mean that the agency as a whole should operate without a profit. Further clarification of this law will be necessary.

We attempted to compare prices of some Louisiana Prison Enterprises' products to similar products on state contract. However, we could not identify comparable products in size and quantity within a reasonable time frame. (Pages 29-33)

During our audit period, Louisiana Prison Enterprises did not have a current marketing or sales plan. Its last marketing plan was developed in fiscal year 1990. Louisiana Prison Enterprises developed a sales plan in the middle of fiscal year 1996 to address declining sales. This plan only covered the period from January 1 to June 30, 1996. (Pages 34-35)

Recommendations

3.1 Louisiana Prison Enterprises should use its computer software to price its products.

3.2 Based on clarification by the legislature, Louisiana Prison Enterprises should examine the selling prices of its products to provide the lowest possible price.

3.3 Using the direction provided by an updated strategic business plan, Louisiana Prison Enterprises should develop formal sales and marketing plans documenting the needs of all of Louisiana Prison Enterprises' product lines. Management should communicate the plan to the entire agency and the role personnel will play in achieving sales and marketing objectives.

Matter for Legislative Consideration

3.1 The legislature may wish to consider legislation that clarifies Louisiana Revised Statute 15:1153(A)(1). This clarification should state whether its intent is for Louisiana Prison Enterprises to conduct all operations at cost or to provide each product or service at cost.

Public/Private Partnerships

Federal and state laws have established programs to promote partnerships between state prisons and private businesses. Currently, Louisiana Prison Enterprises participates in two public/private partnerships. One partnership is established under the federal Prison Industries Enhancement program. The other program is a cooperative endeavor agreement and is not established according to either federal or state laws. (Page 38)

During federal fiscal year 1995, 30 inmates participated in the Prison Industries Enhancement program operated by Company Apparel Safety Items, Inc. This Prison Industries Enhancement program manufactures disposable garments. Inmate workers are paid at the minimum wage rate per hour. Since September 1994 when operations began, inmates working in Louisiana's Prison Industries Enhancement program have contributed nearly $181,000, or about 50 percent of total wages earned, in taxes, room and board, and victims' compensation. Inmate workers in Prison Industries Enhancement programs in other states have contributed about 68 percent of gross wages. Contributions in some other states include family support payments. At this time, no family support deductions are made for Louisiana inmates.

Inmate workers in Prison Industries Enhancement programs learn job skills that will help to ease their transition back into society. However, some major barriers had to be overcome to establish Louisiana's Prison Industries Enhancement program. Other potential problems could discourage the development of future programs.

While Louisiana currently has only one Prison Industries Enhancement program, some states have two or more programs that manufacture a variety of products and provide different types of services. Prison Enterprises does not actively seek private companies to establish additional Prison Industries Enhancement projects. (Pages 38-45)

Since 1987, Louisiana Prison Enterprises has had cooperative endeavor agreements with different companies that use inmates to process food products. In December 1992, Louisiana Prison Enterprises' current cooperative endeavor agreement became effective. Under this agreement, Louisiana Prison Enterprises provides approximately 240 inmates per day to process chicken (three shifts of approximately 80 inmates per shift per day). For fiscal year 1996, this private company paid Louisiana Prison Enterprises $237.95 per shift.

However, this partnership offers limited benefits. First, some inmate workers in this program earn incentive wages rather than minimum wage. Consequently, they do not pay taxes, room and board, or victims' compensation. Other workers receive sentence reductions instead of incentive wages. Second, the agreement does not identify the objectives of the partnership. According to documents we received from Louisiana Prison Enterprises, workers in this program learn good work habits. In addition, the program reduces idleness. (Pages 46-49)

Recommendation

4.1 The Department of Public Safety and Corrections, Corrections Services and Louisiana Prison Enterprises should consider the overall benefits of its public/private partnerships before engaging in any future ones. Consideration should be given to partnerships that benefit both the public and inmates.

Matters for Legislative Consideration

4.1 The legislature may wish to consider legislation that provides for a portion of the wages of inmate workers (not exceeding the federal limitations) in the Prison Industries Enhancement program to go toward family support.

4.2 The legislature may wish to consider legislation that enhances the public benefit of public/private relationships between the Department of Public Safety and Corrections, Corrections Services and the private sector. In doing so, the legislature may wish to require the department and Louisiana Prison Enterprises to engage only in partnerships that are under the Prison Industries Enhancement program or the Louisiana Restitution Industries program.

Matters for Legislative Consideration (Cont.)

4.3 Alternatively, the legislature may wish to consider legislation that clearly establishes the types of agreements and partnerships into which Louisiana Prison Enterprises may engage. This legislation should require that the agreements specify the objectives to be achieved and clearly identify the desired public benefit. The agreements should also include ways to determine if these objectives are achieved and if public benefit is realized.

Chapter One: Introduction

Audit Initiation and Objectives

We conducted this performance audit as part of the National State Auditors Association (NSAA) joint audit on corrections industries. The NSAA joint audit coordinating team developed the audit objectives. Fourteen states, including Louisiana, participating in the joint audit had the discretion of pursuing other objectives or modifying the NSAA suggested objectives. We chose to pursue four objectives. The specific objectives of this audit were to:

- Assess the adequacy and reasonableness of Louisiana Prison Enterprises' (Prison Enterprises) program planning efforts
- Determine whether Prison Enterprises is meeting its mission and goals
- Determine whether Prison Enterprises' goods and services are competitively priced and whether sales and marketing efforts are efficient and effective
- Determine the extent to which public/private partnerships are being used to develop work programs

Report Conclusions

For fiscal year 1994-1995, Prison Enterprises sold more than $21.1 million in goods and services. Generally, its mission is to be self-sufficient and to save the state money by producing and providing cost effective products and services. Overall, Prison Enterprises was self-sufficient. However, judged individually, some Prison Enterprises' operations, mainly agriculture, were not self-sufficient. According to agency reports, Prison Enterprises saves the state millions of dollars annually. In addition, these same reports provide some examples of instances of savings, but no cumulative figure.

Prison Enterprises has a goal of teaching inmates marketable skills and good work habits. Achieving this goal may be hindered by certain Department of Public Safety and Corrections' policies. Furthermore, another of Prison Enterprises' goals of not competing with private businesses may be in conflict with the goal of teaching marketable skills.

Prison Enterprises has operated without a long-range strategic business plan since 1993. The last long-range plan covered fiscal years 1989 through 1993. Instead, Prison Enterprises plans from year to year. Prison Enterprises has not formally developed any measures of performance that show progress toward achieving its mission and goals as required by Louisiana Revised Statute 39:36(4)(c).

Before November 1996, Prison Enterprises did not have a formal costing and pricing methodology. As a result, some products may have been over-priced or under-priced. In addition, about one-half of the products that we examined, using this recently implemented methodology, do not recover manufacturing costs. Furthermore, this methodology may not be consistent with state law.

Prison Enterprises developed its last marketing plan in fiscal year 1990. Since then, it has not had a current marketing plan. There was also no sales plan during this time. Prison Enterprises developed a sales plan in mid-fiscal year 1996 to address decreasing sales. This plan only covered the period January 1-June 30, 1996.

To provide more work opportunities, Prison Enterprises is involved with two public/private partnerships. The first is a federal Prison Industries Enhancement (PIE) program at Winn Correctional Facility in Winnfield. Inmates in this program have contributed more than $180,000 of their wages to defray the cost of their incarceration and to pay taxes and victims' compensation. Although some states' PIE programs make deductions for family support, Louisiana's PIE inmate workers pay none. Louisiana as well as other states encountered some barriers before PIE programs could begin operation. Future PIE programs in Louisiana may experience the same and other barriers.

The second partnership involves inmate workers processing chicken products. This partnership is a cooperative endeavor agreement, rather than a program similar to those established by federal and state laws. A private company pays Prison Enterprises for the use of inmate labor. This endeavor does not offer as many benefits as the PIE program. Inmate workers in this partnership earn regular incentive wages as opposed to minimum wage as required by the PIE program and a program allowed by state law. Instead of incentive wages, some inmates earn a reduction in their sentence at double the normal rate, also referred to as double goodtime. In addition, inmate workers do not pay taxes, room and board, or victims' compensation.

Program Background

According to an agency document, Louisiana Prison Enterprises (Prison Enterprises) has existed in Louisiana in one form or another since the 1950s. Prison Enterprises is a division within the Department of Public Safety and Corrections (DPSC). Act 59 of the 1983 Regular Legislative Session formalized Prison Enterprises as an entity to provide food, fiber and other necessary items for inmates, to provide goods to other state agencies, and to provide work opportunities for inmates.

Subsequent amendments and reenactments of the law have brought about some changes. Currently, Louisiana Revised Statute (R.S.) 15:1157 requires all state agencies, except DPSC, to purchase goods and services from Prison Enterprises, when available and when prices are less than those at the Office of State Purchasing. In addition to state agencies, goods and services may be sold to the governing authorities of parishes, municipalities, and other political subdivisions. Agricultural commodities may be sold on the open market. The sale of prison-made goods on the open market is expressly prohibited by state law.

R.S. 15:1152 permits Prison Enterprises to engage in any agricultural, aquacultural, silvicultural (forestry) or industrial enterprise in order to:

(1) use the resources of the department in the production of food, fiber, and other necessary items used by the inmates to lower the cost of incarcerating the inmates;

(2) provide products and services to state agencies, parishes, municipalities, and other political subdivisions. The products and services must be sold at the cost to the department for manufacturing the goods and providing the services; and

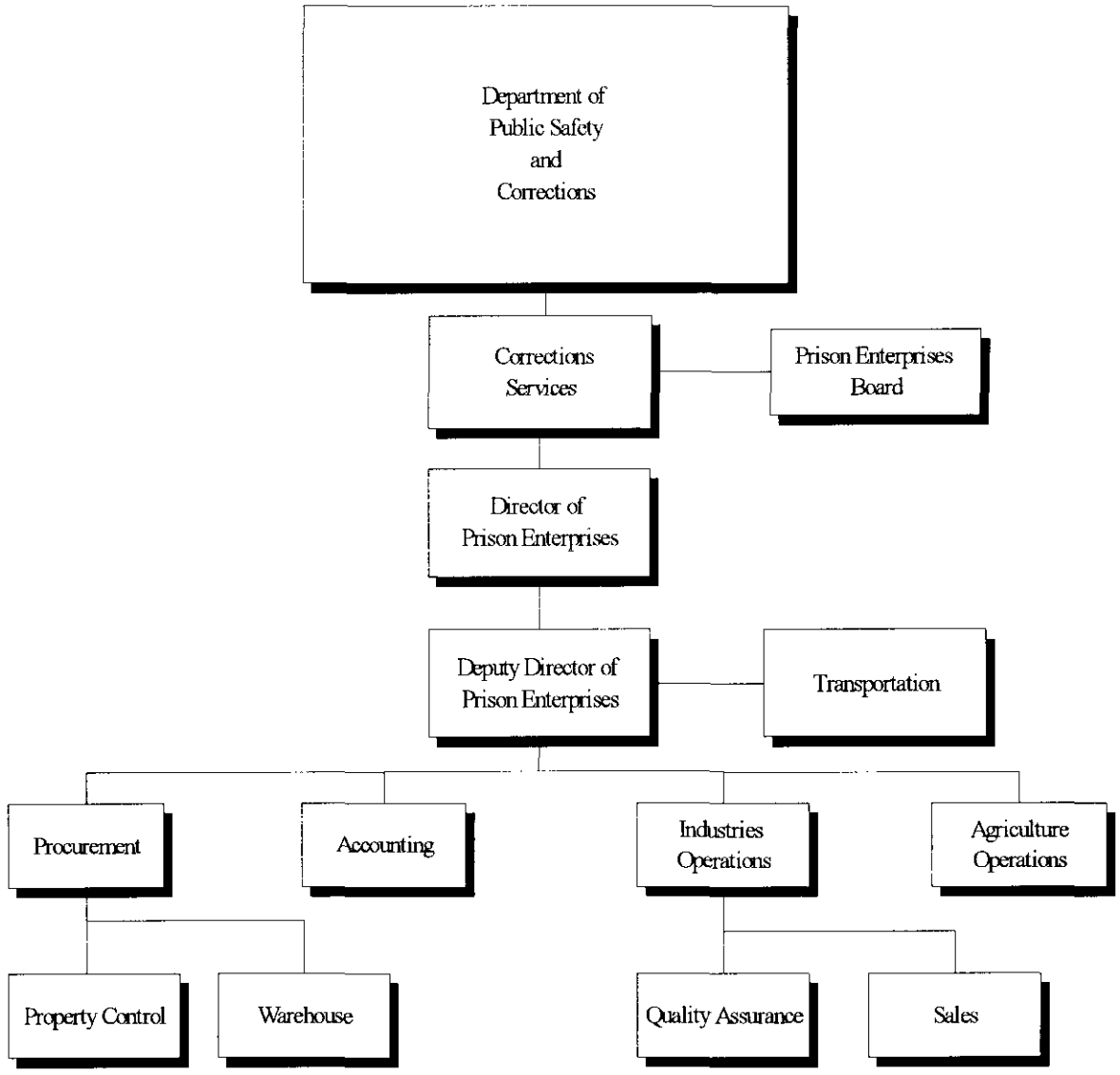
(3) provide work opportunities for inmates in accordance with law.

The Prison Enterprises Board, which is authorized by R.S. 15:1151-1155, advises the Secretary of Corrections Services on all aspects of administration of Prison Enterprises. The governor appoints all seven members of the Prison Enterprises Board.

Exhibit 1-1 on the following page shows how Prison Enterprises is organized and how it fits within DPSC. Prison Enterprises is organized into four departments: procurement, accounting, industries operations, and agriculture operations.

Not shown in this exhibit is the Food Distribution Center. This center is a retail operation that purchases cigarettes, candy, canned goods, commodities, and other products in large quantities. These items are then distributed to canteens at correctional facilities statewide for purchase by inmates.

Exhibit 1-1
Louisiana Prison Enterprises' Organization Chart As of June 30, 1996



Source: Prepared by legislative auditor's staff based on information provided by Prison Enterprises.

Program Operations

During fiscal year 1994-1995, Prison Enterprises employed about 857 inmates per day in industries operations and about 1,400 per day in agriculture operations during peak times. This number represents about 14 percent of the nearly 16,000 inmates that were incarcerated in state facilities at that time. Prison Enterprises also employed 127 civilian state employees. For fiscal year 1995, Prison Enterprises generated over $21 million in sales.

Prison Enterprises paid approximately $601,000 in inmate incentive wages for fiscal year 1994-1995. Of this amount, approximately $465,000, or 77.5 percent, was paid to inmates working outside of Prison Enterprises. According to the *State of the State Report for 1995*, prepared by the Division of Administration, Office of Planning and Budget, because Prison Enterprises pays incentive wages for all inmates in the department, state funds are not spent for this purpose. According to R.S. 15:873, the rate of incentive wages are determined according to the skill, industry, and nature of the work performed by the inmate and shall be no more than 20 cents per hour and no less than two cents per hour. Some inmate workers can earn a reduction in their sentences, known as goodtime, instead of incentive wages.

According to its annual reports, Prison Enterprises plays a very important role in reducing the cost of state government operations. In addition, through the various operations, inmates learn marketable job skills and work ethics that will assist them in finding jobs and reestablishing their lives upon release, thereby reducing recidivism.

During fiscal year 1994-1995, Prison Enterprises operated 18 industries at 8 of the state's 11 adult correctional facilities. In addition, Prison Enterprises had agriculture operations at several adult facilities and two of the state's three juvenile correctional centers. Exhibit 1-2 on the following page shows the location of the 11 correctional facilities where Prison Enterprises has at least one industry or agriculture operation.

Prison Enterprises produces a wide variety of goods and services. Its industrial operations manufactures license plates, furniture, mattresses, mops, brooms, chemicals, and garments. In addition, Prison Enterprises operates a print shop, silk-screen shop, and plastic sign shop. Prison Enterprises also operated a vehicle restoration shop, but this industry closed on November 19, 1995.

Exhibit 1-2

Louisiana Prison Enterprises

Locations of Facilities With Industries or Agriculture Operations

LEGEND

1. Louisiana State Penitentiary - Angola, LA
2. Dixon Correctional Institute - Jackson, LA
3. Elayn Hunt Correctional Center - St. Gabriel,
4. Avoyelles Correctional Institute - Cottonport, LA
5. Allen Correctional Center - Kinder, LA
6. Winn Correctional Center - Winnfield, LA
7. Phelps Correctional Center - DeQuincy, LA
8. David Wade Correctional Center - Homer, LA
9. Washington Correctional Institute - Angie, LA
10. Jetson Correctional Center For Youth - Baton Rouge, LA
11. Louisiana Correctional Institute For Women - St. Gabriel, LA

Source: Prepared by legislative auditor's staff based on information provided by Prison Enterprises.

Services provided include printing, mailout, and janitorial services. Prison Enterprises also provided services in data entry and microfilming during 1995; however, these operations closed April 10, 1996. Agriculture operations include row crops and garden vegetables, range herds, swine and dairy operations, meat cutting, food processing, feed mill, land leveling, hay and forestry.

Many of Prison Enterprises' product categories contain numerous types, styles, colors, and sizes of goods. For example, Winn Correctional Facility Garment Factory produces a wide range of garments, including white cotton sheets, towels, pillow cases, boxer shorts, and laundry bags. Appendix A lists Prison Enterprises' products and services and the location of the industry.

Total sales for fiscal year 1995 were $ 21.1 million, with approximately $10 million coming from industries. As shown in Exhibit 1-3 on the following page, Prison Enterprises' largest industries in terms of sales and net income for fiscal year 1995 involved the manufacture and sale of license plates and garments. Louisiana State Penitentiary Tag Plant produced 1.5 million license plates and generated over $2 million in sales.

Exhibit 1-4 on page 10 shows the results of agriculture operations for fiscal year 1995. The Meat Plant showed the largest net income and the Dairy sustained the largest loss.

Since 1987, Prison Enterprises has been involved in cooperative endeavor agreements with private companies to process food products. The current endeavor is with Crawfish Unlimited, Inc. Through this arrangement, Prison Enterprises provides approximately 240 inmates per day in three shifts at Dixon Correctional Institute in Jackson to de-bone chicken thighs.

In fiscal year 1995-1996, Crawfish Unlimited, Inc., paid Prison Enterprises $237.95 per shift for inmate labor. Inmate workers in this program earn regular incentive wages or a reduction in their sentence at double the normal rate, also known as double goodtime. According to documents received from Prison Enterprises, this arrangement lowers security costs, reduces idleness, and teaches a work ethic. The results of this operation are shown in Exhibit 1-4 as Food Processing.

Exhibit 1-3

Prison Enterprises' Industries Operations
Net Income by Industry for Fiscal Year 1994-1995

Industry	Sales	Cost of Goods Sold	Other (Income) and Expenses	Net Income (Loss)
Tag Plant	$2,192,746	$1,404,889	$387,394	$400,463
Garment Factory	1,522,787	1,038,037	237,382	247,368
Furniture	424,756	368,927	105,125	(49,296)
Furniture Restoration	1,011,321	738,469	208,922	63,930
Soap Plant	1,261,184	870,067	180,237	210,880
Janitorial	657,788	428,484	140,380	88,924
Microfilm	843,889	213,129	252,375	378,385
Mattress, Mop and Broom	576,865	437,238	97,387	42,240
Silk Screen Shop	401,893	311,991	71,566	18,336
Print Shop	366,027	254,661	91,095	20,271
Data Entry	270,057	113,647	32,227	124,183
Metal Fabrication	228,237	192,047	84,585	(48,395)
Mailout Program	97,551	74,611	15,679	7,261
Vehicle Paint and Body	84,919	145,930	33,100	(94,111)
Braille	12,672	3,801	3,120	5,751
Total	**$9,952,692**	**$6,595,928**	**$1,940,574**	**$1,416,190**

Source: Prepared by legislative auditor's staff based on Prison Enterprises' income statements.

Exhibit 1-4

Prison Enterprises' Agriculture Operations
Net Income by Operation for Fiscal Year 1994-1995

Industry	Sales	Cost of Goods Sold	Other (Income) and Expenses	Net Income (Loss)
Horse Program	$39,630	$96,897	($19,532)	($37,735)
Dairy	315,487	31,354	585,241	(301,108)
Swinery	428,693	519,598	72,809	(163,714)
Crawfish Farm	1,306	0	34,314	(33,008)
Replacement Heifers	96,344	124,449	2,772	(30,877)
Rangeherd	549,906	730,324	45,590	(226,008)
Corn	166,702	323,516	(4,936)	(151,878)
Cotton	326,059	400,366	(25,325)	(48,982)
Soybeans	177,075	299,293	(771)	(121,447)
Wheat	52,321	54,150	(3,485)	1,656
Vegetables	443,249	24,667	352,717	65,865
Blueberries	0	0	1,860	(1,860)
Land and Timber	130,389	0	120,526	9,863
Food Processing	162,677	0	106,345	56,332
Meat Plant	4,133,198	3,330,094	647,894	155,210
Total	**$7,023,036**	**$5,934,708**	**$1,916,019**	**($827,691)**

Source: Prepared by legislative auditor's staff based on Prison Enterprises' income statements.

The results of operations for the Food Distribution Center for fiscal year 1994-1995 are shown below:

Exhibit 1-5

Prison Enterprises' Food Distribution Center Net Income for Fiscal Year 1994-1995

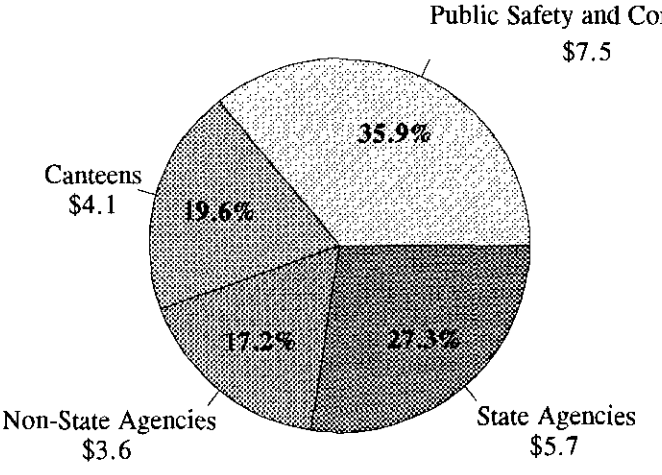
Sales	Cost of Goods Sold	Other (Income) and Expenses	Net Income (Loss)
$4,136,189	$3,757,192	$551,945	($172,945)

Source: Prepared by legislative auditor's staff based on Prison Enterprises' income statements.

Exhibit 1-6 below shows the distribution of sales among Prison Enterprises' customers.

Exhibit 1-6

Prison Enterprises' Sales by Customer Category (in Millions) For Fiscal Year 1994-1995



Source: Prepared by legislative auditor's staff using Prison Enterprises' sales information.

Program Resources

Prison Enterprises is accounted for in a governmental enterprise fund that is authorized by the Louisiana Legislature through the annual Ancillary Appropriation Act. The operation is supported by self-generated sales revenues.

Exhibit 1-7 below shows the total revenues and expenses and net income for Prison Enterprises for fiscal years 1993-1995. As Exhibit 1-7 shows, total revenues have remained somewhat constant during this period. Fiscal year 1995 revenue declined slightly from fiscal year 1994. Net income decreased by more than 44 percent from fiscal year 1994 to 1995. This decrease was mostly due to reduced sales and large losses in agriculture operations.

Exhibit 1-7

Prison Enterprises' Comparison of Financial Position for Fiscal Years Ending 1993 to 1995 (in Thousands)

	1992-93	1993-94	1994-95
Total Revenues	$21,617	$22,058	$21,111
Total Expenses	21,043	21,391	20,741
Net Income	**$574**	**$667**	**$370**

Source: Prepared by legislative auditor's staff using Comprehensive Annual Financial Reports for fiscal years ended 1993, 1994, and 1995.

Federally Certified Prison Industries Enhancement Program

The PIE Certification Program was originally authorized under the federal Justice Improvement Act of 1979 and later expanded under the federal Justice Assistance Act of 1984. The federal Crime Control Act of 1990 authorizes continuation of the program indefinitely.

The Bureau of Justice Assistance, a part of the United States Department of Justice, certified DPSC as a PIE program participant on January 20, 1994. DPSC, through Prison Enterprises, entered into a five-year agreement with Company Apparel Safety Items, Inc. (CASI) on September 6, 1994, to manufacture disposable garments. This is the only PIE project established by Louisiana since receiving certification in the program. The PIE project operates at Winn Correctional Facility in Winnfield.

According to the director of industries at Prison Enterprises, there is a limited relationship between the private company involved in the PIE project and Prison Enterprises. The employee/employer relationship is between the inmate and the private company. Prison Enterprises has no involvement in that relationship.

Prison Enterprises performs the administrative functions for the PIE project. These functions include, but are not limited to:

- Filing reports with the Bureau of Justice Assistance
- Disbursing inmate wages for room and board, victims' restitution, and to the DPSC for credit to the inmates' accounts

The PIE Certification Program exempts certified state and local departments of corrections from normal restrictions on the sale of prisoner-made goods in interstate commerce. In addition, the program lifts existing restrictions on these certified corrections departments, permitting them to sell prisoner-made goods to the federal government in amounts exceeding the $10,000 maximum normally imposed on such transactions.

The PIE Certification Program is designed to place inmates in a realistic working environment, pay them the local prevailing wage for similar work, and enable them to acquire marketable skills to increase their potential for successful rehabilitation and meaningful employment upon release. The PIE Certification Program has two primary objectives:

- To generate products and services that enable prisoners to make a contribution to society, help offset the cost of their incarceration, compensate crime victims, and provide inmate family support

- To provide a means of reducing prison idleness, increasing inmate job skills, and improving the prospects for successful inmate transition to the community upon release

Certified programs are required to meet statutory requirements and guidelines established by the Bureau of Justice Assistance. A total of 50 jurisdictions may be certified as PIE programs by the Bureau of Justice Assistance. Each certified program must meet the statutory requirements and guidelines below:

- Legislative authority to pay wages at a rate not less than that paid for similar work in the same locality's private sector.

- Written assurances that the PIE Certification Program will not result in the displacement of workers employed before program implementation.

- The authority to provide worker benefits, including worker's compensation or its equivalent.

- The authority to involve the private sector in the production and sale of prisoner-made goods.

- Written assurances that inmate participation is voluntary.

- Legislative or administrative authority to collect and provide financial contributions (of not less than 5 percent and not more than 20 percent of gross wages) to crime victim compensation/assistance programs, and legislative or administrative authority for crime victim compensation/assistance programs to accept such financial contributions.

- Written proof of consultation with organized labor and local private industry before PIE Certification Program start-up.

Eighteen United States Code Annotated Section 1761 establishes the allowable deductions from inmate wages: taxes (federal, state, and local), reasonable charges for room and board, allocations for family support, and victims' compensation. As noted above, deductions for victims' compensation are mandatory. However, total deductions may not exceed 80 percent of the inmates' gross wages.

The Bureau of Justice Assistance contracted with the Correctional Industries Association (CIA) to audit the PIE program. The routine audit was conducted to more effectively administer the PIE program throughout the United States. The CIA audited Louisiana's PIE project in October 1995 and found that it was in compliance with established mandatory certification criteria.

Scope and Methodology

This performance audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. In conducting the audit, we followed applicable government auditing standards as promulgated by the Comptroller General of the United States.

Eleven audit objectives were developed by the NSAA joint audit coordinating team. Fourteen states, including Louisiana, participating in the joint audit had the discretion of pursuing other objectives or modifying the NSAA suggested objectives. We pursued four of the objectives developed by the NSAA, with some modifications.

To address the audit objectives, we reviewed in-state and out-of-state reports, studies, publications, and other information relating to corrections industries programs. We also reviewed state and federal laws and regulations, financial information and current policies and procedures relating to Louisiana's Prison Enterprises' program. Furthermore, we interviewed Prison Enterprises' officials, as well as others who were responsible for administering the program. We visited Louisiana State Penitentiary to observe Prison Enterprises' operations. During our visit, we interviewed the site supervisors and obtained relevant data about inmate employees.

We reviewed Prison Enterprises' mission, goals, and other program planning documents, such as strategic plan, sales plan and marketing plan, to determine the agency's use of performance measures and whether goals were being achieved. In addition, we interviewed Prison Enterprises' officials to document how performance measures were created and when they were last updated.

To determine whether Prison Enterprises' products were appropriately priced, we reviewed Prison Enterprises' methodology of costing and pricing its products. We tested this methodology on 11 randomly selected products from six different industries.

In addition, we reviewed documents related to Prison Enterprises use of private/public partnerships in the development of inmate work programs. We also interviewed Prison Enterprises' officials to determine the benefits gained from the use of these partnerships.

Our office agreed to design and administer a survey to address the NSAA audit objective of assessing public/private partnerships involvement in the development of inmate work programs. To gather information, we surveyed a sample of states participating in the PIE program. Specifically, for both PIE and non-PIE programs, we determined:

- What products/services were produced?
- How many/what percentage of inmates were employed in these programs?
- What skills were taught to inmates?
- What has been the economic impact of the programs?
- What were the barriers to implementing PIE and non-PIE programs and how were these barriers addressed?

We identified 36 states that were certified in the PIE program. Instead of choosing a sample of these 36 states, we surveyed them all. We subsequently designed and sent a questionnaire to those 36 states. Twenty-two states, including Louisiana, responded to our questionnaire. We shared the survey results with other NSAA participants. A copy of the blank survey can be found in Appendix B and a summary of the results can be found in Appendix C.

Report Organization

The remainder of this report is organized into three additional chapters and four appendixes.

- **Chapter Two** addresses Prison Enterprises' program planning efforts and discusses whether goals and objectives are being achieved.
- **Chapter Three** discusses Prison Enterprises' methods of identifying production costs and pricing policies.
- **Chapter Four** discusses Prison Enterprises' public/private partnerships.
- **Appendix A** lists Prison Enterprises' industries, their location, and products.
- **Appendix B** is the survey of PIE programs in other states.
- **Appendix C** is a compilation of the results of the survey in Appendix B.
- **Appendix D** is Louisiana Prison Enterprises' response.

Chapter Two: Program Planning Efforts

Chapter Conclusions

Since inception, Prison Enterprises has had the same mission statement and goals. Prison Enterprises' primary aims are to reduce the state's costs and to be self-sufficient. Overall, the agency was self-sufficient for fiscal year 1995; however, most of its agriculture operations sustained losses. To illustrate its effectiveness at meeting its mission, documentation of the cost-effectiveness of Prison Enterprises' operations is needed.

Reaching one of its goals of teaching marketable skills and good work habits may be difficult for Prison Enterprises because of certain DPSC policies. Furthermore, many of Prison Enterprises' industries that teach marketable skills are housed at a maximum security prison. The inmates learning these skills may never use them in the private marketplace or these skills may be obsolete by the time the inmate is released.

Prison Enterprises' last long-term strategic business plan was developed in fiscal year 1989. This plan covered the five-year period of fiscal years 1989 through 1993. Since 1993, Prison Enterprises has used short-term plans that cover one year or less instead of long-term strategic business plans. None of the short-term plans contained measures of performance. State law requires clearly defined indicators of the quantity and quality of performance.

Processes Needed to Measure Achievement of Mission and Goals

Prison Enterprises' mission is generally consistent with state law because it includes most of the provisions included in state law with primary emphasis on providing goods and services to DPSC and other state agencies. Although not legally required, Prison Enterprises realized part of its mission by generating enough sales to cover its expenses for fiscal year 1994-1995. Prison Enterprises does not have documented procedures to measure progress towards its mission. In addition, some department policies may hinder accomplishment of some goals.

According to its mission, Prison Enterprises will reduce the costs of certain state government operations by providing cost effective products and services. State law calls for the products and services to be sold at the cost to the department for manufacturing the goods and providing the services. Prison Enterprises has not conclusively measured or reported on either of these.

Mission and Goals Combined Into One Statement

The mission and goals of Prison Enterprises are incorporated into one statement. However, according to *Manageware*, a publication by the Office of Planning and Budget, mission and goals are two distinct concepts. According to Prison Enterprises' management, the bulleted statements listed below are the agency's goals and the remainder is considered to be its mission:

> The mission of Prison Enterprises is to reduce the overall costs of prison operations, state agencies, local government entities, and tax supported institutions by operating self-supported industrial and agricultural businesses which:
>
> - Employ inmates in meaningful jobs;
> - Teach marketable skills and good work habits;
> - Provide quality, cost effective products and services;
> - Do not unreasonably compete with Louisiana businesses; and
> - Reflect a philosophy of integrity and operate similar to businesses in the private sector.

Based on the most recent five-year strategic business plan, the mission statement has been in effect since fiscal year 1989. According to Prison Enterprises' officials, the goals portion of its mission statement needs to be changed to more accurately reflect its operations. These officials said they are working to amend the current mission statement.

Documenting Reduction of State's Costs Should Be Implemented

Prison Enterprises has not measured or documented the cost effectiveness of providing goods and services to DPSC and other government entities. According to Prison Enterprises' officials, the agency primarily exists to supply quality products to DPSC at a reasonable cost.

Prison Enterprises reported in its 1992 annual report that it saved the state over $6 million by providing goods and services to DPSC, state agencies, and other entities. Prison Enterprises' management said it estimated this figure, in part, by comparing its prices to market prices for some of the goods and services that it provides. However, Prison Enterprises has not maintained documentation to support this $6 million savings claim.

In its fiscal year 1993-1994 annual report, Prison Enterprises states that it saves the state millions of dollars per year. However, the agency has not documented a total savings to the state for that year. Prison Enterprises included some examples in the 1993-1994 annual report of savings that it identified. According to Prison Enterprises 1993-1994 annual report, the items below are examples of ways that the agency saves the state money.

- Prison Enterprises provides janitorial services to state buildings at less than one-half the cost of private companies. Prison Enterprises estimates it saves the state $1 million annually by providing this service.

- Prison Enterprises uses inmates at the Louisiana Correctional Institution for Women to prepare mailings for the Department of Culture, Recreation and Tourism (DCRT). The inmates stuff, label, sort, and bundle more than one million pieces of mail, saving DCRT over $1 million annually.

According to interviews with agency personnel, Prison Enterprises also provides services to state agencies for which it does not receive payment. For example, Prison Enterprises provides inmates to assist state agencies to move to new locations. In addition, Prison Enterprises stores the materials used in DCRT mailings in its warehouse at no cost to DCRT.

In addition, Prison Enterprises paid an average of $442,000 annually in fiscal years 1993, 1994, and 1995 for incentive wages to inmates who work in other areas of the Department of Public Safety and Corrections, Corrections Services and not for Prison Enterprises. As a result, incentive wages for workers outside Prison Enterprises are not paid from general fund appropriations, but from Prison Enterprises' sales revenue. These incentive wages for fiscal year 1995 were approximately $465,000.

Because Prison Enterprises does not accumulate and document its estimated savings to the state, there is no way to know the full impact that the agency has in saving the state money. By documenting this information, Prison Enterprises can better demonstrate how it is meeting its mission of reducing the cost of state government.

Overall, Prison Enterprises Was Self-Sufficient for Fiscal Year 1994-1995

Part of Prison Enterprises' mission is to operate self-supporting programs. State law (R.S. 15:1153) requires Prison Enterprises to sell its goods and services at cost, but does not require it to be self-supporting. A program is considered self-supporting if its revenues equal or exceed its costs. Prison Enterprises' management said it tries to operate on a break-even approach. In other words, Prison Enterprises only wants to generate enough revenue from the sale of its goods and services to pay all expenses and to pay for future needs.

Although Prison Enterprises would like for all of its operations to be self-supporting, its officials believe that self-sufficiency applies to the overall operation and not to individual operations. As shown in Exhibit 1-7 on page 12, Prison Enterprises was self-supporting as a whole for fiscal year 1995 and the two preceding fiscal years. However, when gauged on an operation by operation basis, we determined that some Prison Enterprises' operations were not self-supporting.

Of the 39 industries and agriculture operations in fiscal year 1995, 22, or 56 percent, were self-supporting and actually experienced a profit. The remaining 17, or 44 percent, sustained a loss. Exhibit 2-1 on the following page compares the number of Prison Enterprises' operations that experienced a profit to those that sustained a loss for fiscal years 1994 and 1995.

Exhibit 2-1 also compares agriculture and industries operations. As this exhibit shows, 15 of 22 (68 percent) agriculture operations sustained losses in fiscal year 1994 and 14 of 21 (67 percent) sustained losses in fiscal year 1995.

Exhibit 2-1

Prison Enterprises' Agriculture and Industries Operations Profits and Losses Fiscal Years 1994 and 1995

	1994			1995		
Operation	**Profit**	**Loss**	**Total**	**Profit**	**Loss**	**Total**
Agriculture	7	15	22	7	14	21
Industries	13	7	20	15	3	18
Total	**20**	**22**	**42**	**22**	**17**	**39**

Source: Prepared by legislative auditor's staff using information provided by Prison Enterprises.

Industries Support Other Operations

Prison Enterprises' management said that profits realized from self-supporting operations subsidize operations that sustain losses such as agriculture. According to Prison Enterprises management, agriculture operations fulfill basic departmental needs and are important for providing inmates with good work habits (one of Prison Enterprises' goals). Exhibit 2-2 on the following page shows that industries operations were profitable while agriculture operations and the Food Distribution Center sustained sizable losses for fiscal years 1994, 1995, and 1996.

Exhibit 2-2

Comparison of Net Incomes for Industries and Agriculture Operations Fiscal Years 1994 to 1996

Operation	1994	1995	1996
Industries	$1,637,912	$1,416,191	$837,252
Agriculture	(802,717)	(827,697)	(1,073,127)
Food Distribution Center	(164,173)	(172,946)	(143,394)
Difference	**$671,022**	**$415,548**	**($379,269)**

Source: Prepared by legislative auditor's staff based on information provided by Prison Enterprises.

Closure of Operations Impacts Overall Self-Sufficiency for Fiscal Year 1996

For fiscal year 1996, Prison Enterprises experienced a combined $377,469 loss from all operations. The difference between this loss and the loss shown in Exhibit 2-2 is $1,800 received from the PIE program.

According to Prison Enterprises' management, some of this loss could be attributed to the closing of two operations halfway through the fiscal year. These two operations, microfilming and data entry, have traditionally been very profitable for Prison Enterprises. For fiscal year 1995, these operations experienced a total net income of $502,570. At the time of their closure in April 1996, the two operations experienced a total net income for fiscal year 1996 of $174,355.

According to Prison Enterprises' management, the Secretary of DPSC, Corrections Services, at the urging of the governor, directed Prison Enterprises to close these operations in the interest of public safety. Inmates performing microfilming and data entry had access to personal information on people, such as addresses and social security numbers. Therefore, the Secretary decided that these operations should not be handled by inmates.

The closure of these two operations was not the sole cause of Prison Enterprises total loss from operations in fiscal year 1996. Agriculture operations experienced a loss greater than the loss experienced in the previous fiscal year. However, the impact of the loss would have been reduced had Prison Enterprises not been forced to close these two operations.

Certain Factors Influence Goal of Teaching Marketable Skills and Measuring the Results

Prison Enterprises attempts to meet one of its goals of teaching marketable skills and good work habits by employing inmates in meaningful jobs. However, we identified certain factors that may hinder the agency in reaching its goal of teaching marketable skills. First, one prison policy allows inmates to change jobs for many reasons. Second, another prison policy does not ensure that inmates who may gain from Prison Enterprises' efforts will be assigned there. Third, another of Prison Enterprises' goals to not compete with private business may conflict with the goal of teaching marketable skills. Furthermore, Prison Enterprises has never measured whether inmates are using acquired skills once released.

According to Prison Enterprises' officials, the primary "marketable skill" taught is a work ethic. This work ethic includes training in job-related safety, use of equipment, job descriptions, quality assurance teams, and shop rules and regulations.

Some department policies can affect Prison Enterprises ability to teach inmates a marketable skill. According to Prison Enterprises' officials, inmates can be transferred to other Prison Enterprises' operations or moved to other jobs within the prison for various reasons. Inmates can request to be reclassified or sent to another operation. As a result, inmates may not work in an operation long enough to fully acquire the skills that could be useful upon release. Those inmates who do work in an operation for six months, or more, receive a certificate recognizing their work effort. The certificate shows that the inmate has completed six months of training in that operation. A copy of this certificate is placed in the inmate's Prison Enterprises' employment file and in the inmate's prison file. The inmate, once released, can use the certificate to show that certain skills were obtained while working in a Prison Enterprises' operation.

In addition, the worker selection process does not ensure that inmates will benefit from Prison Enterprises' efforts. Individual prison classification boards assess each inmate's skills and assign them to Prison Enterprises or another job within the prison. Most of Prison Enterprises' industries and agriculture operations are located at Louisiana State Penitentiary at Angola, which houses maximum security inmates with lengthy sentences. Therefore, inmates with shorter sentences at other facilities may not receive assignment to Prison Enterprises' operations. Most inmates available to work in the Prison Enterprises' operations at Angola may be incarcerated for a considerable length of time. As a result, the skills these inmates obtain from working in these operations may never be used or may be obsolete when the inmate is released.

Another condition that can impede Prison Enterprises' goal of teaching marketable skills is its goal of not competing with private businesses. These two goals may even conflict. Prison Enterprises' operations often do not provide work opportunities that will teach marketable skills because of its goal to not compete with the private sector.

Some operations may not teach inmates a marketable skill. One example is the tag plant, which employs as many as 80 inmates per day. In the tag plant, the inmate will acquire good work habits, but few other marketable skills. The agriculture operations, which employ the most inmates, also teach good work habits. The other skills learned from agriculture operations are perhaps the least marketable.

On the other hand, some Prison Enterprises' operations are similar to those in the private sector and may provide some marketable skills. Operations such as signs and silk screen that produce street signs and name plates, the print shop that produces business cards, and services such as janitorial teach skills that can be useful in the private sector. Without operations or the potential to develop operations that provide skills needed by private businesses, Prison Enterprises cannot be assured of meeting its goal of teaching marketable skills to be used by inmates once released.

In spite of its goal to teach marketable skills, Prison Enterprises has not measured whether the skills taught to inmates have been beneficial upon release. Without this information, Prison Enterprises may not be able to determine if its training is beneficial, needs improving, or should be expanded.

Recommendations

2.1 Prison Enterprises should establish formal procedures to measure and document the cost effectiveness of its operations.

2.2 The DPSC, Corrections Services should review its policies that may lessen the impact of Prison Enterprises' efforts to teach marketable skills.

2.3 Prison Enterprises should review its goals to determine if the goals are realistic or conflicting.

Long-Range Planning and Performance Measures Needed

Prison Enterprises does not currently have a long-range strategic plan. Prior management developed the last five-year strategic plan that covered fiscal years 1989 through 1993. The 1989 plan included several strategies to address the goals and objectives of the program. Compared to *Operating Jail Industries A Resource Manual* from the National Institute of Justice, the 1989 plan contained the major sections needed for a business plan for jail industries.

In July 1993, Prison Enterprises management, along with two consultants, finalized another strategic plan. The objectives in this plan set targets to be achieved primarily in 1993. For example, the first objective of this plan is to complete a long-range plan with goals and objectives to be distributed by May 1, 1993. However, the plan is dated July 29, 1993, nearly three months after the target date for achieving this objective. There is also an objective to complete a marketing plan by July 1, 1993. However, no formal marketing plan has been developed. Finally, another objective is to maintain and annually update files containing various information. One such file is documented savings to the state. During our audit, we did not identify such a file.

In addition, Prison Enterprises' 1993 strategic plan does not contain performance measures. Furthermore, Prison Enterprises has not formally documented its progress toward achieving its goals. R.S. 39:36(4)(c) requires each budget unit to have clearly defined indicators of the quantity and quality of its performance. In addition, R.S. 24:522(D)(2) requires all state agencies to develop specific goals and objectives for each of their

programs to include measures of their performance. According to Prison Enterprises' officials, the agency has performance measures, but these measures have never been formally documented.

Performance measures tell how successful an entity is at achieving its goals and objectives. They can provide information on customer perceptions, operation efficiencies, financial results or even the success of inmate employment. For example, the agency can accumulate information developed or received that shows whether its products and services have proven to be cost effective. This information can be reported through the agency's annual report and in the executive budget to demonstrate that its mission and goals are being achieved. Without performance measures, management cannot formally measure and demonstrate that goals and objectives are achieved.

Prison Enterprises' management concurs that performance measures are meaningful and effective. Management said that it will develop performance measures and include them in its new strategic business plan.

Plan of Action Insufficient for Long-Range Planning

Prison Enterprises has been using what it calls a Plan of Action. The Plan of Action for 1995 does not include long-term planning. This plan is essentially a list of tasks to be accomplished for the year in question, generally on a month to month basis. This plan of action does not serve as a long-range plan and cannot be used in lieu of a five-year strategic business plan.

Recommendations

2.4 Prison Enterprises should formally develop and document performance measures for its operations. These performance measures should reflect Prison Enterprises' mission and goals.

2.5 Prison Enterprises should develop a strategic business plan that addresses short-term and long-term goals that are in agreement with the mission statement. The planning process should provide a means to change and alter the business plan to meet changes in the environment.

Chapter Three: Product Management

Chapter Conclusions

Prison Enterprises recently implemented a formal procedure for pricing its products. About one-half of the products that we examined do not recover manufacturing costs. We also noted that the methodology used to set product prices may differ from what state law allows. We attempted to compare prices of some Prison Enterprises' products to similar products on state contract. However, we could not identify comparable products in size and quantity within a reasonable time frame.

Prison Enterprises does not have a current marketing or sales plan for the period audited. Its last marketing plan was developed in fiscal year 1990. Prison Enterprises developed a sales plan in the middle of fiscal year 1996 to address declining sales. This plan only covered the period from January 1 to June 30, 1996.

Formal Methodology for Pricing Products Recently Developed

Prison Enterprises recently refined and documented its method of pricing products. Before November 1996, this method was not formally documented. As a result, some products that were priced before implementing the formal methodology may have been too high or too low. Furthermore, the methodology may not be consistent with state law.

Exhibit 3-1 on the following page briefly illustrates the current process. First, Prison Enterprises determines the cost of raw materials, including packaging, used to make the product (Step 1). Then, Prison Enterprises adds an estimated amount, a percentage of raw materials based on historical data, that captures other manufacturing-related costs (Step 2). These other manufacturing-related costs may include some or all of the following items:

- Direct labor (inmate workers) and indirect labor (supervisors)
- Headquarters expenses, including salaries, related benefits, and payments for incentive wages to workers outside of Prison Enterprises

- Depreciation
- Insurance
- Utilities
- Transportation
- Sales costs

Finally, an additional amount is added to the total cost to determine selling price (Step 3). This additional amount, according to Prison Enterprises' officials, attempts to recover losses experienced by other operations. The factor used to estimate this amount is also based on historical financial data.

Exhibit 3-1

Prison Enterprises' Method of Establishing Product Prices

Step 1: Raw materials	$50.00
Step 2: Markup percentage	39%
Markup amount ($50.00 X 39%)	$19.50
Raw materials	+$50.00
Cost to make ($50.00 + 19.50)	***$69.50***
Step 3: Profit markup percent	14%
Profit markup ($69.50 X 14%)	$9.73
Cost to make (from Step 2)	+$69.50
Sale price ($69.50 + 9.73)	**$79.23**

Source: Prepared by legislative auditor's staff using an example provided by Prison Enterprises.

In addition to the method above, the agency uses what it calls competition-based pricing. According to Prison Enterprises' officials, if competitors sell a product for substantially more than Prison Enterprises sells a similar product, Prison Enterprises may increase its selling price. As a result, the agency can further offset losses incurred by other industries. However, if competitors sell products less than Prison Enterprises does, then the agency's price can be lowered to maintain sales volume.

Although it has computer software to establish prices, Prison Enterprises is not currently using this feature. Management said there are problems with the computer software, but it is planning to look at the software and its benefits to develop product prices.

We tested Prison Enterprises' recently implemented pricing methodology on 11 randomly selected products from six different industries. We calculated the cost to make and the sales price for these products using Prison Enterprises' methodology. We then compared the calculated sales price to the state contract sales price. Exhibit 3-2 below shows the results of this analysis.

- Four products sell for more than the calculated sales price.
- Six products sell for less than the calculated sales price.
- One product sells for about the calculated price.

Exhibit 3-2

Comparison of Calculated Sales Price to State Contract Price for Selected Prison Enterprises' Products

Product	Calculated Sales Price	State Contract Price	Dollar Difference	Percent Difference
Sterling Manager High Back Chair	$473.29	$399.00	$74.29	16%
Operational stool without arms	293.80	232.00	61.80	21%
Men's denim blue jeans-size 38	6.99	8.20	(1.21)	(17%)
Lab coat (extra large)	8.25	12.35	(4.10)	(50%)
Pine cleaner	288.78	288.00	.78	0%
Mop - heavyweight cotton (1 dozen)	66.03	51.30	14.73	22%
Blue Fireguard mattress	114.41	85.50	28.91	25%
Wall Locker	65.65	77.25	(11.60)	(18%)
Single frame bed	103.98	108.00	(4.02)	(4%)
Executive desk set	13.66	11.95	1.71	13%
Stop sign	73.01	47.75	25.26	35%

Source: Prepared by legislative auditor's staff using data received from Prison Enterprises.

We also found that five of the products in Exhibit 3-2 sell for less than the estimated cost to make the product. Those products are shown in Exhibit 3-3 below. This difference could be because Prison Enterprises did not have the formal methodology in place at the time these prices were set. As a result, Prison Enterprises may not be recovering its manufacturing costs on these products.

Exhibit 3-3

Comparison of Calculated Cost to Make to State Contract Price for Selected Prison Enterprises' Products

Product	Calculated Cost to Make	State Contract Price	Dollar Difference	Percent Difference
Sterling Manager high back chair	$415.17	$399.00	$16.17	4%
Operational stool without arms	257.72	232.00	25.72	11%
Mop - heavyweight cotton (1 dozen)	57.92	51.30	6.62	13%
Blue Fireguard mattress	100.36	85.50	14.86	17%
STOP sign	64.05	47.75	16.30	34%

Source: Prepared by legislative auditor's staff using data received from Prison Enterprises.

Pricing Policy May Not Be Consistent With State Law

Prison Enterprises' methodology of setting its prices may not be consistent with state law. R.S. 15:1153(A)(2) says that DPSC shall operate prison enterprises that provide goods and services **at cost**. In discussions with Prison Enterprises' officials, they said they interpret the term "cost" to mean that its operations as a whole should operate at cost, or without a profit. These officials also point out that Prison Enterprises must be able to generate enough revenue to replace equipment. Prison Enterprises also must recover costs such as incentive wages paid to inmates outside Prison Enterprises required by R.S. 15:873(B)(3). As previously discussed, equipment depreciation and incentive wages for workers outside of Prison Enterprises are already included when calculating other manufacturing-related costs.

We interpret R.S. 15:1153(A)(2) to mean that individual products should be sold at cost and that services should be provided at cost. Since Prison Enterprises' products are sold for more or less than cost, its pricing policy could be inconsistent with state law. The governmental entities that buy specific goods or use specific services are not guaranteed that goods and services are provided at the lowest possible cost.

Recommendations

3.1 Prison Enterprises should use its computer software to price its products.

3.2 Based on clarification by the legislature, Prison Enterprises should examine the selling prices of its products to provide the lowest possible price.

Matter for Legislative Consideration

3.1 The legislature may wish to consider legislation that clarifies R.S. 15:1153(A)(1). This clarification should state whether its intent is for Prison Enterprises to conduct all operations at cost or to provide each product or service at cost.

Competitiveness of Prison Enterprises' Products Not Determined

We tried to compare prices of Prison Enterprises' products to prices of similar products from other vendors on state contract. However, we could not identify a sufficient number of products that were comparable. There were an enormous number of products that could have been comparable. Because of specification differences, comparing these products would be difficult. The amount of time it would have taken to match the exact item in State Purchasing's database to its counterpart at Prison Enterprises was prohibitive.

Marketing and Sales Plans Should Be Developed

Prison Enterprises does not have a current marketing plan or sales plan. Prison Enterprises has operated without a marketing plan since February 1990. According to the marketing plan, Prison Enterprises' goods and services are used to fill voids created by reductions in state spending that resulted from reduced oil revenues. The marketing plan for fiscal year 1990 discussed customer relations and marketing strategies for each industry. The marketing strategy analyzes each Prison Enterprises' industry as a business unit and guides its marketing activities.

According to Prison Enterprises' officials, a formal marketing function has not been established for Prison Enterprises because the Department of Civil Service has not approved a marketing director position. Consequently, a marketing function has never been formed. During fiscal year 1995, a soap plant supervisor served as marketing director for Prison Enterprises. One other staff assisted the temporary marketing director. Their duties included developing and distributing catalogs of Prison Enterprises' products and attending trade shows.

New Marketing Plan Being Developed

Prison Enterprises is working on a preliminary outline for its new marketing plan. Prison Enterprises *Marketing Plan, Preliminary Outline for June 26, 1996* addresses the current marketing situation as well as current production levels and quality assurance issues. The preliminary outline for the new marketing plan is different from the previous plan. The outline discusses additional issues such as training marketing staff, strategic planning, and promotional ideas. The *Preliminary Outline* also addresses customer service and discusses mechanisms for handling customer relations. No date has been set for the completion of the new marketing plan.

The lack of a marketing plan significantly limits Prison Enterprises' ability to take advantage of opportunities to increase sales. According to the director of the Office of State Purchasing (OSP), OSP is on Prison Enterprises' mailing list, but rarely receives any promotional information. The director of OSP added that governmental entities similar to Prison Enterprises and private sector vendors have active marketing campaigns to promote their existence, products, and advantages.

Prison Enterprises Lacks a Sales Plan for Fiscal Year 1995

Prison Enterprises did not have a sales plan for fiscal year 1995. Prison Enterprises' officials developed a sales plan half way through fiscal year 1996 to address declining sales. This plan only addressed the period from January 1, 1996, to June 30, 1996. Prison Enterprises' sales projections are based on an industry's ability to produce and deliver within a predetermined time frame.

A typical sales plan is designed to achieve the following objectives:

- Identify potential customers and markets
- Identify product needs of these customers
- Identify promotional efforts and associated costs
- Establish sales goals
- Establish a mechanism for handling customer relations

We compared this sales plan to the above guidelines. The sales plan establishes sales goals, but it does not identify the cost of promotional efforts. The sales plan does not identify potential customers or identify the product needs of those customers. In addition, the sales plan does not establish a mechanism for handling customer relations. While this sales plan may have some of the short-term elements of a sales plan, the plan does not address long-term planning concerns.

Recommendation

3.3 Using the direction provided by an updated strategic business plan, Prison Enterprises should develop formal sales and marketing plans documenting the needs of all of Prison Enterprises' product lines. Management should communicate the plan to the entire agency and the role personnel will play in achieving sales and marketing objectives.

Chapter Four: Public/Private Partnerships

Chapter Conclusions

Federal and state laws exist that establish programs to promote partnerships between state prisons and private companies. Prison Enterprises participates in two public/private partnerships. One partnership is established under the federal PIE program. The other program is a cooperative endeavor agreement and is not established according to either federal or state laws.

Since beginning operations in September 1994, inmates working in Louisiana's PIE program have contributed nearly $181,000, or about 50 percent of total wages earned, toward taxes, room and board, and victims' compensation. Inmate workers in PIE programs in other states have contributed approximately 68 percent of gross wages. Contributions in some other states include family support payments. No family support withholdings are made for Louisiana inmates.

Inmate workers in PIE programs learn job skills that will help to ease their transition back into society. However, some major barriers had to be overcome to establish Louisiana's PIE program. Other potential problems could discourage the development of future programs.

While Louisiana currently has only one PIE program, some states have two or more programs that manufacture a variety of products and provide different types of services. Prison Enterprises does not actively seek private companies to establish additional PIE projects.

Prison Enterprises' cooperative endeavor agreement became effective in December 1992. This partnership offers limited benefits. First, inmate workers in this program earn incentive wages rather than minimum wage. Thus, they do not pay taxes, room and board, or victims' compensation. Other workers receive a reduction in their sentence instead of incentive wages. Second, the agreement does not list the objectives of the partnership. According to documents received from Prison Enterprises, workers in this program learn good work habits. In addition, the program reduces idleness.

Public/Private Partnerships Employ Inmates

State law requires DPSC to provide inmates with work opportunities. R.S. 15:832(A) says the department shall provide employment opportunities and vocational training for all inmates, regardless of gender, consistent with available resources, physical custody, and appropriate classification criteria. In addition to the operations discussed in the previous chapters, Prison Enterprises has, over the years, been involved in various public/private partnerships that employ inmates. Currently, the agency is involved in two such partnerships.

Through these partnerships, many inmates receive work opportunities. One of these partnerships is operated as a federal PIE program, as described in Chapter One. Inmate workers in this program pay federal and state taxes. These workers also contribute toward their room and board and victims' compensation. The other partnership is operated as a cooperative endeavor agreement. Workers under this agreement do not pay taxes or contribute toward room and board and victims' compensation.

PIE Program Offsets Incarceration Costs

During federal fiscal year 1995, 30 inmates participated in the PIE program operated by CASI, Inc. This PIE program manufactures disposable garments. Inmate workers are paid at the minimum wage rate per hour. For federal fiscal year 1995, they earned $149,361 in gross wages. These inmates also contributed $74,534 for taxes, room and board, and victims' compensation, as shown in Exhibit 4-1 on the following page. Total allowable deductions in Louisiana's PIE program for federal fiscal year 1995 were 49.9 percent of the inmates' gross wages. Exhibit 4-1 also shows the financial impact of this program since its inception.

Exhibit 4-1
Financial Impact of Louisiana PIE Operations

Wages/Deductions	Federal Fiscal Year 1994 to 1995	From Inception to 12/31/96
Gross Wages	**$149,361**	**$362,247**
Victims' Compensation	12,552	30,316
Room and Board	37,656	91,251
Family Support	0	0
Total Taxes	24,326	59,936
Subtotal Deductions	**(74,534)**	**(181,503)**
Net Wages	**$74,827**	**$180,744**

Source: Prepared by legislative auditor's staff using information provided by *Prison Enterprises*.

We surveyed 36 states with certified PIE programs and received responses from 16 states. Based on the responses, inmate net wages for PIE programs in other states came to 32.1 percent of the inmates' gross wages during federal fiscal year 1995. As shown in Exhibit 4-2 on the following page, inmate net wages in Louisiana's PIE program during federal fiscal year 1995 was 50.1 percent of inmates' gross wages.

The primary differences were deductions for family support and taxes. Louisiana's PIE project does not withhold money for family support. PIE programs in other states withheld an average of 8.8 percent of the inmates' gross wages for family support. However, five responding states also did not withhold money for family support. In addition, other states' PIE programs withheld an average of 23.8 percent of gross wages for taxes, while Louisiana's PIE program withheld 16.3 percent of the inmates' gross wages for taxes.

According to the industries operations director, no withholdings have been made from Louisiana PIE participants for family support because there have been no court orders to do so nor have any inmates asked to have this deduction made. According to information from the Bureau of Justice Assistance, deductions for family support are permissible at the discretion of the certified jurisdiction. R.S. 15:840.2 allows inmate work programs referred to as Louisiana Restitution Industries, which

seem similar to the PIE program. R.S. 15:840.2(D)(4) authorizes DPSC to deduct 40 percent of inmates' wages after tax and social security deductions for the inmates' spouse and children. These provisions have never been initiated by DPSC, but could be made to apply to workers in the PIE program.

Exhibit 4-2

Prison Industries Enhancement Programs in Other States
Gross Wages and Allowable Deductions for Federal Fiscal Year 1995

State	Gross Wages	Restitution	Room and Board	Family Support	Taxes	Net Wages
Arizona	$78,672	$10,422	$13,384	$623	$8,194	$46,046
California	3,173,486	551,177	551,177	357,930	1,162,015	551,187
Connecticut	173,000	8,700	33,000	5,800	13,000	112,500
Kansas	636,418	29,575	120,932	262	100,570	385,079
Maine	70,052	-	14,665	-	-	55,387
Maryland	8,283	414	2,487	3,658	89	1,635
Minnesota	603,469	53,881	201,536	2,113	42,953	302,986
Missouri	341,573	17,076	85,392	1,671	85,392	152,043
Montana	33,479	2,903	14,066	-	-	16,510
Nevada	243,130	12,182	59,463	-	21,663	149,822
Oklahoma	140,000	7,000	40,000	-	23,000	70,000
Oregon	1,012,423	50,284	500,760	50,284	124,353	286,741
South Carolina	1,608,993	80,392	237,747	274,818	267,569	748,467
Tennessee	659,800	33,000	330,500	-	44,600	251,700
Texas	1,792,394	266,336	408,960	234,623	623,295	259,150
Vermont	20,539	3,081	2,465	2,465	-	12,529
Total	**$10,595,711**	**$1,126,423**	**$2,616,534**	**$934,247**	**$2,516,693**	**$3,401,782**
Percentages Other States	100.0%	10.6%	24.7%	8.8%	23.8%	32.1%
Louisiana	**100.0%**	**8.4%**	**25.2%**	**0.0%**	**16.3%**	**50.1%**

Note: Alaska, Idaho, Indiana, New Mexico, and Wisconsin responded to our survey, but financial numbers were not available.

Source: Prepared by legislative auditor's staff from survey responses.

PIE Programs Develop Inmate Work Skills

According to the industries operations director, inmates in the PIE program develop knowledge of the assembly line process and quality control systems. The inmates in the program also learn how to rely on co-workers. Failure to produce quality products or downturns in the market can cause some inmates to lose their jobs until the work load or quality picks up. This possibility provides an incentive for the inmate workers to do a good job. Overall, the program provides an opportunity for inmates to develop an understanding of:

- All aspects of the garment industry (i.e., job related skills)
- Work ethic
- Responsibility and teamwork in a "real world" work environment

Work skill development is a necessary part of the rehabilitative process. Providing inmates with the opportunity to develop new and marketable job skills is a key to a smooth transition back into society and to reducing recidivism rates. As noted in Chapter One, the objectives of the PIE program include increasing inmate job skills and improving the prospects for successful inmate transition to the community upon release. Our survey of PIE programs in other states identified similar job skills that inmates may develop by participating in a PIE program. Some of the skills identified include:

- Job related skills
- Machine operation and tool skills
- Quality control
- Experience in a real world work environment
- Respect for supervision
- Personal responsibility
- Teamwork
- Work ethic
- Participation in apprenticeship programs

Barriers Encountered by DPSC While Developing PIE Program

According to the industries operations director, DPSC overcame two major barriers to establish the current PIE program. Opposition by organized labor and difficulty in obtaining workers' compensation for participating inmates impacted the development of Louisiana's only PIE program. These factors may affect the development of future PIE programs in Louisiana by limiting the types of projects that may be developed.

According to the industries operations director, organized labor initially opposed the PIE project based on displacement of work force issues. As stated in Chapter One, certification guidelines require written proof of consultation with organized labor and local private industry before PIE certification program start-up. However, approval by organized labor is not required.

The initial effort to start the PIE program in Louisiana involved the manufacture of mattresses. Prison Enterprises contacted representatives of organized labor. During a meeting with relevant parties, the AFL-CIO stated that it would oppose the project based on the number of workers out of work in that industry. This opposition became a major barrier to program development because Prison Enterprises wanted the support of organized labor.

Efforts to establish a PIE project in Louisiana were revived when CASI, Inc., approached Prison Enterprises to produce disposable garments. Another meeting was held with the representatives of organized labor. Prison Enterprises received support from organized labor for this project because the disposable garments industry was primarily based overseas. Therefore, local workers would not be displaced. Inmates would contribute to their incarceration costs as well as provide restitution to crime victims.

According to the industries operations director at Prison Enterprises, CASI, Inc., found it difficult to obtain workers' compensation coverage for the inmates. The eventual underwriters feared that the inmates would intentionally injure themselves to receive money without performing any work.

However, Attorney General Opinion 94-456 opined that the employee's right to receive workers' compensation benefits is *forfeited during incarceration and resumes after release.* According to R.S. 23:1021.4, inmates are not deprived of the right to workers' compensation, but these rights are limited.

The Attorney General's opinion helped alleviate the fears of the underwriters and cleared the way to provide for inmate coverage. The industries operations director is unaware of any workers' compensation claims in the two years of the current projects' operations.

Barriers to PIE Program Development in Other States

As noted earlier in this chapter, there were barriers to overcome in developing Louisiana's PIE program. According to our survey results, many other states had similar problems in developing their programs. However, some other states responded that they did not experience any barriers while starting up their PIE programs.

Seven of the 22 responding states (32 percent) reported not encountering any problems in the start-up of their PIE programs. Appendix C includes tables of the barriers included in the responses to our survey of other states.

Barriers to PIE program development identified by the remaining 15 states include:

- Bureaucratic apathy and staff attitudes
- Funding
- Inadequate staffing
- Organized labor and private sector concerns
- Political pressure and legislation
- Project size
- Shipping and receiving
- Wages
- Work space
- Workers' compensation

Other Possible Barriers to Developing Future PIE Projects in Louisiana

According to the industries operations director, DPSC regulations do not hinder the development of PIE programs. However, according to the director, there may be some policies and procedures at each individual institution which may hinder PIE programs.

First, the wardens control inmate movement within their respective institutions. Unaccounted for inmates may cause a lockdown until the inmate is located. This procedure may involve searches of inmates, employees, and visitors.

Second, shipping and receiving may be difficult for private companies because of delivery truck searches. The delivery truck searches take time that may result in late deliveries. To lessen these effects, the private company may have to make special delivery arrangements with the warden.

Finally, the inmates may not possess the skills needed to perform the work desired by the private company. For the current PIE project at Winn Correctional Facility, the warden provided a list of inmate workers for CASI, Inc., to choose its employees. CASI, Inc., chose those inmates it felt could perform the work.

PIE Program Products and Services in Other States

According to the survey responses, PIE programs in other states provide a variety of products and services. Several states have industries that manufacture clothing and textiles, furniture and accessories, metal furniture and fabrication, or electronic components. Examples of some products produced by other states' PIE programs include:

- Farm equipment (Minnesota)
- High pressure valves (Texas)
- Modular housing (California)
- Ophthalmic and safety eye wear (Texas)
- Wood toys (Tennessee)

Some PIE projects in other states provide services. Examples of these services include:

- Data entry/processing and computer services (California, Kansas, and Oregon)
- Laundry and dry cleaning (Alaska)
- Microfilm (Connecticut)
- Upholstery and reupholstery (Nevada)

Appendix C contains tables that detail the products and services of PIE programs in other states.

Prison Enterprises Does Not Actively Pursue Other PIE Programs

Prison Enterprises is evaluating the possibility of expanding the current PIE project and developing new PIE projects. However, according to the industries operations director, Prison Enterprises does not actively pursue private companies to establish PIE projects. Prison Enterprises generally waits for private companies to inquire about establishing a PIE project. Identifying appropriate products for inmate production and communicating the opportunities to the private sector are difficult tasks for Prison Enterprises. The industries operations director informs private companies interested in developing PIE projects of the realities of the program. In addition to the barriers noted in the previous sections, other considerations include the actual compensation levels of participating inmates, the nature of the work, and the overall work environment.

Matter for Legislative Consideration

4.1 The legislature may wish to consider legislation that provides for a portion of the wages of inmate workers (not exceeding the federal limitations) in the PIE program to go toward family support.

One Partnership Offers Minimal Benefits

Prison Enterprises has one partnership established by a cooperative endeavor agreement rather than under laws for similar programs. State and federal laws provide for programs under which public/private partnerships may exist between prison industries and the public sector. This partnership was not established under either of these statutory programs. Consequently, this partnership may not assure the same benefits as other statutory programs.

Since 1987, Prison Enterprises has been involved in cooperative endeavor agreements with private companies to process food products. Prison Enterprises is currently involved in a cooperative endeavor agreement with Crawfish Unlimited, Inc. This agreement became effective December 10, 1992.

In this partnership, inmate workers at Dixon Correctional Institute debone chicken thighs. According to the agreement, Crawfish Unlimited, Inc., trains correctional security officers (CSOs) provided by Prison Enterprises in maintaining product consistency, food quality, and other processes. The CSOs, in turn, train the inmate workers. The agreement does not specify the purpose of the partnership.

Prison Enterprises provides approximately 240 inmates per day to process chicken (three shifts of approximately 80 inmates per shift per day). For fiscal year 1996, Crawfish Unlimited, Inc., paid Prison Enterprises $237.95 per shift. Unlike the PIE program, inmate workers under this agreement are not employees of the private company and are not paid minimum wage. Rather, inmate workers at the chicken processing plant may earn regular incentive wages or a reduction in their sentences at double the normal rate, also known as double goodtime. As a result, Crawfish Unlimited, Inc., pays substantially less than it would if its partnership was created pursuant to one of the statutory programs.

Furthermore, Prison Enterprises provides up to five CSOs to the chicken processing facility and pays for some repairs. Exhibit 4-3 on the following page summarizes Prison Enterprises' revenue and expenses related to the Chicken Processing Plant for fiscal years 1995 and 1996.

Exhibit 4-3

Results of Operations for the Chicken Processing Plant for Fiscal Years 1995 and 1996

	1995	1996
Revenue	$162,677	$212,727
Expenses	106,345	198,323
Net Income	**$56,332**	**$14,404**

Source: Prepared by legislative auditor's staff using unaudited data provided by Prison Enterprises.

Benefits of Cooperative Endeavor Agreement Differ From Those of Other Programs

The arrangement between Prison Enterprises and Crawfish Unlimited, Inc., does not provide as many benefits as programs established by federal or state law. The primary differences are inmate workers in this program do not pay taxes or make other contributions required under the PIE program and Prison Restitution Industries.

Federal law provides for PIE programs, as mentioned in Chapter One and earlier in this chapter. State law provides for an inmate work program called Louisiana Restitution Industries (Restitution Industries). R.S. 15:840.2 authorizes the secretary of DPSC to establish projects at correctional facilities at Angola, St. Gabriel, and DeQuincy. These projects are to be entered into by contract, subject to state public bid laws. In addition, these projects may carry out industrial or other operations.

Inmates participating in such projects are to be paid no less than minimum wage and can have deductions made from their pay similar to the PIE program. Furthermore, state law provides for the deductions that must be made from each inmate's wages who participates in Restitution Industries. Those deductions are:

(1) federal and state income taxes and social security deductions;

(2) thirty percent of the remainder to the victims of any crimes committed by the inmate to the extent of their loss as determined by a written agreement or judgment and thereafter to any state fund established by law to compensate victims of crime;

(3) twenty percent of the remainder after deductions for taxes and social security, less administrative expenses, to defray the costs of room and board of the inmate;

(4) forty percent after deductions for taxes and social security to the spouse and children of the inmate. If the inmate has no spouse and children, 40 percent to any state fund established by law to compensate victims of crime; and

(5) all remaining to the inmate's personal fund.

Prison Enterprises' officials say they have no projects operating under Restitution Industries. Instead, Prison Enterprises entered into a cooperative agreement that does not provide as many benefits as the PIE or Restitution Industries programs. Article VII, Section 14(C) of the state constitution allows cooperative endeavor agreements for a public purpose. This article says:

> **For a public purpose**, the state and its political subdivisions or political corporations may engage in cooperative endeavors with each other, with the United States or its agencies, or with any public or private association, corporation, or individual. *--Emphasis added.*

According to Prison Enterprises' officials, the public purpose of this endeavor is to reduce inmate idleness and provide a work opportunity. Attorney General Opinion 93-164 says a constitutionally sanctioned cooperative endeavor agreement must meet three tests:

1. The public agency must have a legal obligation to expend public funds.
2. The expenditure must be for a legal purpose.
3. The expenditure must create a public benefit proportionate to its cost.

We do not dispute the importance of reducing inmate idleness and providing work opportunities. However, the public benefit of providing these things is difficult to measure. As a result, it is also difficult to determine if the costs of this agreement are proportionate to the benefits derived.

On the other hand, the benefits of the PIE program, which has little or no costs, are apparent. Inmates are paid more, receive work opportunities, and are not idle. Furthermore, benefits of the PIE program accrue directly to the public through payment of taxes, reduction in the cost of incarceration, and victims' restitution. According to state law, Restitution Industries program would also provide similar benefits.

Recommendation

4.1 The DPSC, Corrections Services and Prison Enterprises should consider the overall benefits of its public/private partnerships before engaging in any future ones. Consideration should be given to partnerships that benefit both the public and inmates.

Matters for Legislative Consideration

4.2 The legislature may wish to consider legislation that enhances the public benefit of public/private relationships between the DPSC, Corrections Services and the private sector. In doing so, the legislature may wish to require the department and Prison Enterprises to only engage in partnerships under the PIE program or the Louisiana Restitution Industries programs.

4.3 Alternatively, the legislature may wish to consider legislation that clearly establishes the types of agreements and partnerships into which Prison Enterprises may engage. This legislation should require that the agreements specify the objectives to be achieved and clearly identify the desired public benefit. The agreements should also include ways to determine if these objectives are achieved and if the public benefit is realized.

Appendix A

Prison Enterprises' Operations by Location for Fiscal Year 1994-1995

Location	Operation	Product/Service
Dixon Correctional Institute - Jackson, LA	Agriculture Operations	Rangeherd, Corn, Horse Program, and Food Processing
	Baton Rouge Janitorial	Janitorial Services Provided to State Departments
Elayn Hunt Correctional Center - St. Gabriel, LA	Agriculture Operations	Rangeherd
	Braille	Braille Services
	Data Entry	Data Entry Services
	Mail-Out	Mail-Out Services
	Microfilm	Documents, Original Roll of Film, Diskette/Magnetic Tape, Duplicate and Processed Film
	Soap Plant	Laundry Bleach, Laundry Detergent, Non-Skid Floor Wax, Toilet Soap, Pot and Pan Cleaner, Deodorant Bar Soap, and Disinfectant
Avoyelles Correctional Institute - Cottonport, LA	Agriculture Operations	Rangeherd, Crawfish, Rice
	Vehicle, Paint and Body Shop	Vehicle Repairs, Restoration, Paint and Body Work
Allen Correctional Center - Kinder, LA	Furniture Restoration	Comfort Line Manager Chair with Arms, Office Chairs, Wood Comfort Line Guest Chair, Comfort Line High Back Chair, Ergonomic Workmate Task Chair

Location	Operation	Product/Service
Winn Correctional Center - Winnfield, LA	Furniture Assembly	Select Operational Chairs, Sterling Manager High Back Chair, Sterling Leg Chair Without Arms, Sterling Operational Chairs, Sterling Manager Low Back Chair, and Sterling Sled Base Chair
	Garment Factory	White Cotton Sheets, Towels, Pillowcases, Washcloths, Dish Towels, Laundry Bags, Boxer Shorts, and Aprons
Phelps Correctional Center - DeQuincy, LA	Agriculture Operations	Rangeherd
	Garment Factory	Men's Blue Denim Jeans, Jackets, Blue Denim Jackets With Lining, Jumpsuits (White, Orange and Navy), Blue Denim Book Bags, Lab Coats, Blue Denim Jacket Without Lining, Pants (Orange Twill)
David Wade Correctional Center - Homer, LA	Agriculture Operations	Swinery
Washington Correctional Institute - Angie, LA	Agriculture Operations	Farm
Jetson Correctional Center For Youth - Baton Rouge, LA	Agriculture Operations	Rangeherd

Location	Operation	Product/Service
Louisiana Correctional Institute For Women - St. Gabriel, LA	Garment Factory	Towels, Sheets, Boxer Shorts, Laundry Bags, Shirts (Blue and White Broadcloth and Orange Twill), Pillowcases, and Washcloths
	Microfilming	Microfilm Services

Note: Land and Timber Management is also conducted at various institutions.

Source: Prepared by legislative auditor's staff using information provided by Prison Enterprises.

Appendix B

Prison Industries Enchancement (PIE) and Corrections Industries Programs Survey

Prison Industries Enhancement (PIE)
and Corrections Industries Programs
Survey

State:_____ **Agency Name:**_____
Person completing survey:_____**Title:**_____
Date completed:_____ **Phone: ( )**_____

I. General - These questions refer to both PIE and other corrections industries programs.

1) During 1995, what was the average daily inmate population for all adult correctional facilities in the state: _____

	Number
a. employable/trainable inmates:	_____
b. employable/trainable inmates that are employed:	_____

2) Of the total inmate population, how many were unavailable, unsuitable or unemployable for work programs due to the following:

	Number
Age	_____
Security	_____
Medical or physical handicap	_____
Other (please explain)_____	_____
_____	
Total	_____

II. Prison Industries Enhancement (PIE) programs

1) Date PIE certified: _____

2) List all PIE projects, types of products/services produced, and the number of inmates employed in each, as to be reported in the December 1995 quarterly report.

Project	**Products/Services**	**Number of Inmates Employed**
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Prison Industries Enchancement (PIE)
and Corrections Industries Programs
Survey

3) Do any of these projects involve seasonal "peaks" and "valleys" that impact the utilization of inmates throughout the year?

Yes___ No___

If yes, please explain:_____
_____
_____
_____

4) Describe the type of job skills and/or training being provided to the inmates through work programs._____
_____
_____
_____

5) What economic impact did inmate wages earned from PIE programs have on taxpayers and the states' correctional costs in the following areas for federal fiscal year ending September 30, 1995? List total gross wages and a breakdown of those wages.

Gross inmate wages earned: $_____

Indicate amounts used for the following items:

a. Victims compensation or restitution $_____
b. Room and board $_____
c. Financial support of inmates' immediate family $_____
d. Other (please explain)_____ $_____
_____

Net inmate wages: **$**_____

6) Describe and explain any barriers your state may have encountered implementing PIE *projects? How were these barriers addressed?*_____
_____
_____
_____
_____
_____

Prison Industries Enhancement (PIE)
and Corrections Industries Programs
Survey

III. Corrections Industries Programs (Non-PIE)

1) List all corrections industries projects, types of products/services produced, and the number of inmates employed in each for state fiscal year ending June 30, 1995. Attach additional sheets if necessary.

2) Do any of these projects, besides agriculture, involve seasonal "peaks" and "valleys" that impact the utilization of inmates throughout the year?

   Yes___ No___

   If yes, please explain:_____
   _____
   _____
   _____

3) Describe the types of job skills and/or training being provided to the inmates through work programs._____
   _____
   _____
   _____

4) What economic impact did inmate wages earned from corrections industries programs have on taxpayers and the states' correctional costs in the following areas for state fiscal year ending June 30, 1995? List total gross wages and a breakdown of those wages.

   Gross inmate wages earned: $_____

   a. Inmate rehabilitation $_____
   b. Inmate housing $_____
   c. Inmate health care $_____
   d. Victims compensation or restitution $_____
   e. Financial support of inmates' immediate family $_____
   f. Payment of fines and court costs $_____
   g. Other (please explain)_____ $_____
      _____

   Net inmate wages: $_____

Prison Industries Enchancement (PIE)
and Corrections Industries Programs
Survey

5) Describe and explain any barriers your state may have encountered implementing corrections industries projects? How were these barriers addressed?_____

Appendix C

Results of Survey of States With Prison Industries Enhancement Programs

Inmate Population Information

During 1995, what was the average daily inmate population for all adult correctional facilities in the state? For employable/trainable inmates? For employable/trainable inmates that are employed? Of the total inmate population, how many were unavailable, unsuitable or unemployable for work programs due to the following: Age? Security? Medical or physical handicap? Other (please explain)?

(Note: The following information is responses to Questions I.1 and I.2 on the survey instrument in Appendix B.)

	Average Daily Inmate Population			**Not Employable Due To:**				
State	Population	Employable	Employed	Age	Security	Disabled	Other	Total
Alaska	-	-	-	-	-	-	-	-
Arizona	19,542	3,226	16,316	-	-	-	-	-
California	136,707	97,745	79,017	-	-	-	-	38,961
Connecticut	16,000	8,000	264	-	-	-	-	8,000
Idaho	2,600	1,300	850	150	400	150	600	1,300
Indiana	14,154	-	1,665	-	-	-	-	-
Kansas	6,844	6,348	5,113	-	325	171	-	496
Louisiana	**17,050**	**14,203**	**14,203**	-	-	-	-	**2,847**
Maine	1,476	1,417	993	-	79	117	228	424
Maryland	20,963	19,430	1,196	156	1,077	300	-	1,533
Minnesota	4,720	4,000	1,067	139	346	236	-	721
Missouri	18,331	15,000	12,000	250	2,200	550	3,000	6,000
Montana	1,894	-	-	-	-	-	-	-
Nevada	7,334	-	-	-	-	-	-	-
New Mexico	3,918	3,857	3,857	-	-	-	60	60

	Average Daily Inmate Population			Not Employable Due To:				
State	Population	Employable	Employed	Age	Security	Disabled	Other	Total
Oklahoma	11,435	10,000	1,000	-	1,435	-	-	1,435
Oregon	7,552	5,954	3,654	-	452	509	637	1,598
S. Carolina	19,000	-	1,600	-	-	-	-	-
Tennessee	13,200	11,600	11,100	50	500	130	920	1,600
Texas	91,629	68,100	7,895	-	8,900	4,600	9,900	23,400
Vermont	989	810	-	50	40	10	-	100
Wisconsin	10,492	6,500	5,000	-	500	450	3,000	3,950

Prison Industries Enhancement Programs
Products and Services in Other States

Prison Industries Enhancement: Products

List all PIE projects and types of products/services produced as to be reported in the December 1995 quarterly report.

	General Products						Miscellaneous Products																	
State	Agriculture and Food Processing	Chemical Products	*Clothing/Textiles*	Furniture and Accessories (wood, other)	Metal Furniture and Fabrication	Stationery and Office Products	Bird Feeders and Planters	*Drawer Components*	Electronic Component Manufacturing	Farm Equipment	Fluid Protection Device	High Pressure Valves	Lead Castings and Painting Jig	Fishing Lures	License Plates	Mattresses	*Modular Housing*	Opthalmic and Safety Eye Wear	Plastic Products Fabrication	Stained and Beveled Glass	Street Sweeper Brushes	Waterbed Tubes or Mattresses	Wood Pallets	Wood Toys
Alaska																								
Arizona			X		X																			
California	X			X	X				X								X		X					
Connecticut			X																					
Idaho																								
Indiana																								
Kansas		X	X		X																X			
Louisiana			X																					
Maine															X									
Maryland																						X		
Minnesota						X	X			X														
Missouri													X											
Montana											X													
Nevada			X	X	X				X							X				X		X		
New Mexico																								
Oklahoma																								
Oregon			X	X																			X	
S. Carolina			X					X																
Tennessee			X																					X

State	General Products						Miscellaneous Products															
	Agriculture and Food Processing	Chemical Products	Clothing/Textiles	Furniture and Accessories (wood, other)	Metal Furniture and Fabrication	Stationery and Office Products	Bird Feeders and Planters	Drawer Components	Electronic Component Manufacturing	Farm Equipment	Fluid Protection Device	High Pressure Valves	Lead Castings and Painting Jig Fishing Lures	License Plates	Mattresses	Modular Housing	Opthalmic and Safety Eye Wear	Plastic Products Fabrication	Stained and Beveled Glass	Street Sweeper Brushes	Waterbed Tubes or Mattresses	Wood Pallets	Wood Toys
Texas									X			X					X						
Vermont			X																				
Wisconsin																							
Number of States	1	1	9	3	4	1	1	1	3	1	1	1	1	1	1	1	1	1	1	1	2	1	1

Prison Industries Enhancement: Services

List all PIE projects and types of products/services produced as to be reported in the December 1995 quarterly report.
(Question II.2 on survey instrument)

State	Services														
	Auto Body Repair	Building Automobiles	Data Entry/Processing and Computer Services	Dental Lab	Lacing Snow Shoes	Laundry or Dry Cleaning	Mailing	Maintenance Operations	Microfilm	Recycling	Refurbishing and Restoration: Vehicle	Sewing	Telecommunications or Telemarketing	Upholstery and Reupholstery	Wireharness Assembly
Alaska						X									
Arizona													X		
California			X	X				X		X					
Connecticut									X						
Idaho															
Indiana															
Kansas			X												
Louisiana															
Maine							X					X			
Maryland															
Minnesota															
Missouri															
Montana															
Nevada	X	X									X			X	
New Mexico															
Oklahoma													X		
Oregon			X												
South Carolina															X
Tennessee															
Texas															
Vermont					X										
Wisconsin															
Total	**1**	**1**	**3**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**2**	**1**	**1**

Corrections Industries Programs Products and Services in Other States

Correctional Industries (Non-PIE) Products

List all corrections industries projects and types of products/services produced for state fiscal year ending June 30, 1995.
(Response to Question III.1 on the survey instrument in Appendix B.)

General Products

State	Agriculture and Food Processing	Chemical Products	Clothing/Textiles	Food Service Equipment	Furniture and Accessories (wood, other)	Lumber	Fabrication	Shoes, Boots, and Gloves	Signs	Stationery and Office Products	Wood and Engraved
Alaska	X		X		X		X				
Arizona	X		X		X		X		X	X	
California	X	X	X	X	X		X	X	X		
Connecticut			X		X				X		X
Idaho	X				X		X		X		
Indiana	X	X	X		X		X		X		
Kansas	X	X	X		X				X		
Louisiana	X	X	X		X		X		X		
Maine	X					X					
Maryland	X		X		X		X		X	X	X
Minnesota			X		X		X		X	X	X
Missouri		X	X		X		X	X	X		X
Montana	X				X	X			X		
Nevada		X	X		X		X			X	
New Mexico	X	X			X		X	X			
Oklahoma		X	X		X		X	X	X		
Oregon	X		X		X		X				
S. Carolina			X		X		X		X		
Tennessee	X	X	X		X	X	X		X		
Texas											
Vermont	X				X	X	X		X		X
Wisconsin	X		X		X		X		X		
Number of States	15	9	16	1	20	4	17	4	16	4	5

Miscellaneous Products or Services

State	Boxes/Cartons	Concrete Products	Detention Equipment	Farm Equipment	Fiberglass Products	Gun Cleaning Tubes	License Plates	Limousines, Manufacture of	Mattresses	Mechanics Creeper	Modular Housing	Modular Office Systems	Mop Heads, Brooms, and Utility Brushes	Wear	Piers and Docks	Silhouette Targets	Snow Removal Equipment	Other Products or Services
Alaska																		
Arizona							X											X
California	X	X	X		X	X				X		X		X		X		
Connecticut									X					X				
Idaho							X					X						
Indiana	X	X					X						X					
Kansas													X					X
Louisiana							X		X				X					
Maine																		
Maryland	X						X		X		X	X	X					
Minnesota	X			X											X		X	
Missouri	X						X		X			X						
Montana																		
Nevada								X										
New Mexico							X											
Oklahoma	X								X									
Oregon																		X
S. Carolina									X			X						X
Tennessee							X		X			X						
Texas																		
Vermont																		
Wisconsin							X		X			X						
Number of States	6	2	1	1	1	1	9	1	8	1	1	7	4	2	1	1	1	4

Correctional Industries (Non-PIE) Services

List all corrections industries projects and types of products/services produced for state fiscal year ending June 30, 1995. (Response to Question III.1 on the survey instrument in Appendix B.)

Services

State	Administration and Business Skills	Asbestos Abatement	Assembly and Packaging	Bindery	Book Sorting	CADD/CAM Programs	Carpentry	Construction	Coupon Processing	Data Entry/Processing and Computer Services	Delivery and Installations	Dental Lab	Gang Labor	Graphics	Janitorial	Lamination Shop	Laundry or Dry Cleaning	Machine Shop	Mailing	Maintenance Operations	Marketing	Microfilm	Micrographics	Moving Service	Printing or Copy Service	Recycling	Refurbishing and Refinishing: Other	Refurbishing and Restoration: Vehicle	Restoration and Refinishing: Furniture	Sewing	Silkscreening	Telecommunications or Telemarketing	Upholstery and Reupholstery	Validation	Warehouse Operations
Alaska	X																X													X					
Arizona									X	X	X		X							X					X		X			X			X		X
California										X		X					X						X		X				X		X		X		
Connecticut										X							X		X						X										X
Idaho	X						X			X	X											X		X	X								X		
Indiana						X											X	X							X		X		X						
Kansas	X									X						X						X						X	X			X	X		X
Louisiana										X									X			X			X						X				
Maine																									X										
Maryland								X		X				X						X									X	X		X	X	X	X
Minnesota			X					X		X											X			X	X		X		X	X			X		
Missouri										X							X								X				X				X		
Montana	X																X			X					X								X		
Nevada																																	X		
New Mexico										X													X		X							X			X
Oklahoma	X			X						X					X										X										

Correctional Industries (Non-PIE) Services

List all corrections industries projects and types of products/services produced for state fiscal year ending June 30, 1995. (Response to Question III.1 on the survey instrument in Appendix B.)

Services	Oregon	S. Carolina	Tennessee	Texas	Vermont	Wisconsin	Total
Administration and Business Skills	X				X	X	8
Asbestos Abatement	X						1
Assembly and Packaging		X					2
Bindery							1
Book Sorting		X					1
CADD/CAM Programs	X						2
Carpentry							1
Construction							3
Coupon Processing							1
Data Entry/Processing and Computer Services			X				12
Delivery and Installations	X					X	4
Dental Lab							1
Gang Labor							1
Graphics						X	2
Janitorial		X					2
Lamination Shop							1
Laundry or Dry Cleaning	X	X				X	9
Machine Shop							1
Mailing	X						3
Maintenance Operations							3
Marketing							1
Microfilm							3
Micrographics							2
Moving Service							2
Printing or Copy Service			X		X		14
Recycling		X					1
Refurbishing and Refinishing: Other		X	X			X	6
Refurbishing and Restoration: Vehicle							1
Restoration and Refinishing: Furniture					X		7
Sewing		X					5
Silkscreening					X	X	4
Telecommunications or Telemarketing			X				4
Upholstery and Reupholstery	X				X	X	12
Validation							1
Warehouse Operations	X					X	7

Job Skills and Training Provided to Inmates in Prison Industries Enhancement Programs and Corrections Industries Programs

Prison Industries Enhancement (PIE) Programs

Date PIE certified? Number of inmates employed?

What economic impact did inmate wages earned from PIE programs have on taxpayers and the states' correctional costs in the following areas for federal fiscal year ending September 30, 1995? List total gross wages and indicate amounts used for: victims' compensation or restitution, room and board, financial support of inmates' immediate family, other (please explain), and net inmate wages.

Describe the types of job skills and/or training being provided to the inmates through work programs.

(Note: This information combines responses to questions II.4 and III.3 on the survey instrument in Appendix B.)

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Alaska	• Work ethic • Ability to follow supervision • Quality control	• Provide realistic work experience • Develop financial responsibility • Improve effective work habits and occupational skills to increase the probability for employment after release

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Arizona	• Telephone • Assembly • *Shipping*	• Upholstery • Carpentry • *Metal fabrication* • Farming • Data entry • Telemarketing • Printing • Sewing • Coupon processing
California	• Welding • Cabinetry • Horticulture • PC board manufacturing • Machinist • Key punch data • Assembly • Recycling	• Depending on the enterprise, training ranges from vocational education to on-the-job training
Connecticut	• Sewing • Operation of microfilm machines taught by employers (employer model)	• Specific to respective projects

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Idaho	Not active	• Apply for job • Carpentry • Follow instructions • Interview • Maintain job • Material laborer • Panels • Perform • Personal appearance • Personal responsibility • Upholstery
Indiana	Not active	No response
Kansas	All "on-the-job" training with no formal training offered by either the private sector companies or Department of Corrections	There is no formal training for most jobs in correctional industries. There is a pre-industry program that trains inmates in safety, basic math, and industry work ethics before they start work.
Louisiana	• All aspects of garment industry. Inmates rotate through different job duties • Teaches work ethic • Teaches responsibility • Teaches teamwork in a "real world" environmnment	• Work ethic • Responsibility • Respect for supervision • Learn to use various tools and equipment in wide range of operations • Learn teamwork concept • Learn quality control

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Maryland	Assembly of vinyl waterbed tubes involves cutting the vinyl, inserting a valve, heat sealing, testing the vinyl tubes for leaks, packaging and shipping the completed tubes	• In-shop training in metal fabrication, upholstery, graphic arts, cabinet making, meat cutting, masonry. • Familiarization with safety procedures, trade tools, equipment and work procedures. • Raised the minimum grade level for inmate employees from the fifth to eighth grade level. Inmates below that level are required to participate in MSDE basic education programs for a minimum of 90-days. • Apprenticeship program allows inmate students to work toward an apprenticeship certificate. • Provides vocational education programs in the areas of woodworking and printing which provide an introduction to SUI's Refinishing/Assembly and Graphics Shops.
Maine	• Machine operation • Safety • Inventory control • Lamination • Packing • Shipping	• Work ethic • Use of machinery • Safety • Selective Cutting

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Minnesota	• General labor • Welding • Machining • Metal fabrication • Spray painting • Mechanical assembly • Clerical	• Data entry • Telemarketing • Welding • Machining • Metal fabrication • Spray painting • Mechanical assembly • Clerical • General labor
Missouri	• This job requires good hand-eye coordination. • This is a manual production line type of job. One of the most important things taught to the inmate worker is good work ethics and meeting production schedules.	• Carpentry • Printing • Shoe manufacturing • Agribusiness • Reupholstery • Data entry • Metal fabrication • Furniture restoration • Sewing
Montana	No response	No response
Nevada	Various	Various

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
New Mexico	No response	• Work ethic • Inmates are trained in a variety of manufacturing and assembly techiques in various fields. • Inmates learn skills in service oriented areas such as print, micrographics, data entry and telemarketing.
Oklahoma	Telemarketing	Work ethic
Oregon	• Job skills specific to the factory/shop (i.e., saw operation) • Sewing machine operations • Computer use and map digitizing	• Clerical and telephone skills • Computer skills • Wood working skills • Upholstery skills • Operation of laundry and dry cleaning skills • Sewing skills
S. Carolina	Each company trains inmates for a particular skill.	Each inmate is trained for a particular job by the floor supervisor.

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Tennessee	• Wood working • Textile manufacturing • Industrial machine operation • Packing • Shipping and receiving	• Farming • Sawmill • Dairy/egg operation • Clothing/textile manufacturing • Component assembly (furniture) • Paint mixing • Wood working • Sign making • Welding • Printing and bindery • Data entry • Microfiling • Vehicle repair and restoration • Warehousing • Wood and metal refurbishing • Upholstery • Telemarketing • Maintenance • Clerical • Quality control

State	Skills Taught	
	PIE Program(s)	Non-PIE Program(s)
Texas	Most are employed without skills and are trained to perform the job duties assigned. Each industry provides an on-the-job training program.	• The primary job skill we try to provide our inmates is a "work ethic." • They also learn specific skills such as typing, welding, computer operation, printing, metal working, to name a few.
Vermont	Ninety-five percent of all industries jobs have a direct relation to work "on the outside." We are very active in apprenticeship programs.	Apprenticeship and pre-apprenticeship training through education and vocational education
Wisconsin	Not active	• Wood working • Metal working • Upholstery • Laundry • Printing • Screen printing • Data processing • Cut goods skills • Sign making • Metal stamping • Farming • Dairy processing

Economic Impact of Prison Industries Enhancement Programs and Corrections Industries Programs

Prison Industries Enhancement (PIE) Programs

Date PIE certified? Number of inmates employed?

What economic impact did inmate wages earned from PIE programs have on taxpayers and the states' correctional costs in the following areas for federal fiscal year ending September 30, 1995? List total gross wages and indicate amounts used for: victims compensation or restitution, room and board, financial support of inmates' immediate family, other (please explain), and net inmate wages.

Note: The following information is the responses to Questions II.1 and II.5 on the survey instrument in Appendix B.

State	Year Certified	Inmates Employed	Gross Wages	Restitution	Room and Board	Family Support	Other	Net Wages
Alaska	1989	6	-	-	-	-	-	-
Arizona	1991	41	$78,672	$10,422	$13,384	$623	$8,194	$46,046
California	1991	-	3,173,486	551,177	551,177	357,930	1,162,015	551,187
Connecticut	-	32	173,000	8,700	33,000	5,800	13,000	112,500
Idaho	1987	-	-	-	-	-	-	-
Indiana	1992	-	-	-	-	-	-	-
Kansas	1986	90	636,418	29,575	120,932	262	100,570	385,079
Louisiana	1994	30	149,361	12,552	37,656	-	24,326	74,827
Maine	1992	6	70,052	-	14,665	-	-	55,387
Maryland	1988	-	8,283	414	2,487	3,658	89	1,635
Minnesota	1985	109	603,469	53,881	201,536	2,113	42,953	302,986
Missouri	1989	44	341,573	17,076	85,392	1,671	85,392	152,043
Montana	1994	9	33,479	2,903	14,066	-	-	16,510
Nevada	-	215	243,130	12,182	59,463	-	21,663	149,822
New Mexico	-	-	-	-	-	-	-	-

State	Year Certified	Inmates Employed	Gross Wages	Restitution	Room and Board	Family Support	Other	Net Wages
Oklahoma	1982	20	$140,000	$7,000	$40,000	-	$23,000	$70,000
Oregon	1989	95	1,012,423	50,284	500,760	$50,284	124,353	286,741
S. Carolina	1987	381	1,608,993	80,392	237,747	274,818	267,569	748,467
Tennessee	1991	109	659,800	33,000	330,500	-	44,600	251,700
Texas	1993	145	1,792,394	266,336	408,960	234,623	623,295	259,150
Vermont	1994	5	20,539	3,081	2,465	2,465	-	12,529
Wisconsin	1992	-	-	-	-	-	-	-

Corrections Industries (Non-PIE) Programs

Number of inmates employed?

What economic impact did inmate wages earned from corrections industries programs have on taxpayers and the states' correctional costs in the following areas for federal fiscal year ending September 30, 1995?

List total gross wages and indicate amounts used for the following items: inmate rehabilitiation, inmate housing, inmate health care, victims' compensation or restitution, financial support of inmates' immediate family, other (please explain), and net inmate wages.

State	Inmates Employed	Gross Wages	Rehabilitation	Housing	Health Care	Restitution	Family Support	Other	Net Wages
Alaska	143	$279,991	$-	$-	$-	$-	$-	$-	$279,991
Arizona	946	205,107	-	44,674	-	7,711	2,478	4,451[a]	145,793
California	6,506	6,171,452	-	-	-	-	-	-	6,171,452
Connecticut	232	-	-	-	-	-	-	-	-
Idaho	267	272,907	-	-	-	-	-	-	272,907
Indiana	1,540	209,000	-	-	-	-	-	-	209,000
Kansas	396	217,234	-	-	-	-	-	-	217,234
Louisiana	857	599,981	-	-	-	-	-	-	599,981
Maine	62	96,391	-	-	-	-	-	-	96,391
Maryland	1,190	1,113,712	-	-	-	-	-	-	1,113,712
Minnesota	-	1,117,985	-	-	-	-	-	-	1,117,985
Missouri	-	969,168	-	-	-	4,355	-	-	964,813
Montana	309	-	-	-	-	-	-	-	-
Nevada	-	202,000	-	-	-	-	-	-	202,000
New Mexico	423	412,155	20,608	-	-	-	-	20,608[b]	370,940
Oklahoma	1,015	500,000	-	-	-	-	-	100,000[c]	400,000
Oregon	459	646,652	-	-	-	-	-	-	646,652

State	Inmates Employed	Gross Wages	Rehabilitation	Housing	Health Care	Restitution	Family Support	Other	Net Wages
S. Carolina	1,671	-	-	-	-	-	-	-	-
Tennessee	501	$1,275,000		-	-	-	-	-	$1,275,000
Texas	-	-	-	-	-	-	-	-	-
Vermont	112	94,837	-	-	-	-	-	-	94,837
Wisconsin	573	708,809		-	-	-	-	-	708,809

[a] taxes; [b] gate money; [c] inmate savings

Barriers to Implementing Prison Industries Enhancement Projects and Corrections Industries Projects

Describe and explain any barriers your state may have encountered implementing PIE projects? How were these barriers addressed?

(Note: Responses to Question II.6)

Alaska

- Primary problem is program or industry space
- Additional capital funding requested but not funded

Arizona

- Payment of prevailing wage versus minimum wage

California

- Lack of infrastructure
- Unsuitable geographic locations of institutions
- Inability to accomodate heavy shipping
- Receiving for security reasons
- Institutions feeling that they were inadequately staffed for needed hours of operation

Connecticut

- Bureaucratic apathy. I am still pushing for results.

Idaho

- Project too small to sustain profitability. We were unable to sustain.

Indiana

- Workers compensation issue is a stumbling block to getting private sector employers to join in PIE projects. We are currently trying to work through this issue.

Describe and explain any barriers your state may have encountered implementing PIE projects? How were these barriers addressed?

(Note: Responses to Question II.6, Cont.)

Kansas

- Floor space in maximum and medium custody prisons to offer to leave to private companies - we moved and consolidated other programs to make space.
- Getting security staff to accept PIE projects and get over resentment. Industry director spent time in annual training and orientation training of security officers explaining advantages of PIE.

Louisiana

- Initial opposition from organized labor (AFL-CIO). Addressed concerns in face-to-face meetings where all aspects of PIE explained. Nature of product-produced overseas currently helped win their support. Pointed out numerous benefits to Louisiana.

Maryland

- None

Maine

- None

Minnesota

- No barriers

Missouri

- The PIE Project has been well received by the state of Missouri.

Montana

- No response

Nevada

- None

New Mexico

- No response

Describe and explain any barriers your state may have encountered implementing PIE projects? How were these barriers addressed?

(Note: Responses to Question II.6, Cont.)

Oklahoma

- Labor union objections

Oregon

- After the computer-aided mapping was certified, we received complaints from an engineering group who perceived our program would be competing with them. We invited representatives from this group to participate in our user group government agency meeting. The users said that they could not pay the prices the private sector group charged, so we filled a niche and provided services that they would not otherwise be able to afford.

S. Carolina

- None

Tennessee

- Concern from organized labor who feared programs might threaten civilian jobs. Solved by addition of board members representing organized labor to ensure that programs are selected which avoid negatively impacting local labor markets.

Texas

- No barriers existed at the time of implementation.

Vermont

- Displacement issues
- Union issues

Wisconsin

- Under Wisconsin statutes, only goods and services produced outside of the USA may be sold to the private sector. Legislation was passed permitting up to three private businesses within the walls and permitting the sale on the open market of recylced paint and mattress by-products.

Describe and explain any barriers your state may have encountered implementing corrections industries projects? How were these barriers addressed?

(Note: Responses to Question III.5)

Alaska

- Space and staffing continue to restrict the growth of correctional industries. We have implemented a PIE project to utilize the last remaining space available.

Arizona

- None

California

- The Prison Industry Authority is required by law to assure that all new enterprises do not have substantial, unmitigated adverse impact on California private industry. In some instances this results in the PIE not approving a new enterprise proposal. Private industry is represented on the Prison Industry Board. In addition, organized labor is also represented on the Prison Industry Board. The Prison Industry Authority does not view private industry or organized labor as barriers. Instead, we view them as partners that we want to be sensitive to while we strive to find common goals.

Connecticut

- Bureaucratic apathy. I am still pushing for results.

Idaho

- No response

Indiana

- No response

Kansas

- Barriers are mostly related to finding sufficient market among eligible customers (i.e., state and local government, schools and non-profit organizations). We are adding new products to existing factories to access markets formerly served by state contract with private sector through State Purchasing.

Describe and explain any barriers your state may have encountered implementing corrections industries projects? How were these barriers addressed?

(Note: Responses to Question III.5, Cont.)

Louisiana

- Major barrier: perceived unfair competition with private sector business. We consult business and industry groups and attempt to show our impact is minimal on the overall market.
- Public perceptions are also a major problem (i.e., why should inmates get paid to work? Aren't they taking jobs away from free people?) Recently, public opinion shut down one of our major operations- micro/data.

Maryland

- None

Maine

- Lack of building space
- Lack of staff
- Lack of funding

Minnesota

- Objections from private sector businesses and subsequent political pressure. Our primary response to these objections is to point out the miniscule impact of our business on the total market. This is usually effective in deflecting criticism.

Missouri

- All new services and manufacturing programs are approved by a Joint Committee on Corrections and the Advisory Board of Vocational Enterprise Programs. The Advisory Committee consists of nine members: one from the State Office of Administration, three Labor Members, three manufacturing members, one vocational rehabilitation member and one criminology member.

Montana

- No response

Describe and explain any barriers your state may have encountered implementing corrections industries projects? How were these barriers addressed?

(Note: Responses to Question III.5, Cont.)

Nevada

- None

New Mexico

- The Correctional Industries Division operates all its activities through sales and accepts very little appropriation from the Legislature. One barrier is finding capital for equipment to implement such programs.

Oklahoma

- Need more sales-- addressed by increasing sales force.

Oregon

- No response

S. Carolina

- Each time we implement a new product for production, private sector vendors call their legislators and demand we get out of the business immediately.

Tennessee

- Concern from both organized labor and state employees who feared programs might threaten civilian jobs. Solved by addition of board members representing both organized labor and state employees' association to ensure that programs are selected which avoid negatively impacting local labor markets.

- Concern from public about inmates in data entry and telemarketing having access to confidential information. Solved by restricting participation of felons with certain offenses from some of these industries and developing policies and procedures which guide staff in determining what information inmates may view.

Describe and explain any barriers your state may have encountered implementing corrections industries projects? How were these barriers addressed?

(Note: Responses to Question III.5)

Texas

- One of the barriers we face is our prison industry product use laws are not always enforced. We confer with and encourage General Services Commission management and legislative leaders to enforce and strengthen the statutes.
- Another barrier we face that we are not very successful in addressing is entering a market that has a powerful legislative lobby: for example, highway guard rails.

Vermont

- Occasional reactions from small private companies in similar ventures. Usually dismissal due to state laws.

Wisconsin

- Opposition by the private sector and organized labor. Involve the Prison Industries Board and ad hoc committees including business and labor representatives. Identify sensitive products and avoid or restrict their sales.
- Inmate lack of skills-link vocational training with industries as possible (i.e., wood working, welding, printing, and data processing).
- Customer reticence to purchase inmate-made projects. Increased sales and marketing literature and tours of the shops customers. Increased linkage with quality private sector firms (i.e., purchase of chair kits).

Appendix D

Louisiana Prison Enterprises' Response

DEPARTMENT OF
PUBLIC SAFETY AND CORRECTIONS

M. J. "MIKE" FOSTER, JR., GOVERNOR

RICHARD L. STALDER, SECRETARY

April 10, 1997

Daniel G. Kyle, PhD., CPA, CFE
Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

RE: Management Response to Performance Audit

Dear Dr. Kyle:

The Performance Audit Division of the Office of Legislative Auditor presented themselves to Prison Enterprises through an entrance conference on March 25, 1996. According to the employees of the Legislative Auditor, this performance audit was to be performed in order to provide meaningful information about the positive and negative aspects of the operation of Prison Enterprises. Throughout the nine months of the audit, Prison Enterprises benefitted in many ways from the presence and input of the auditors. Through mutual correspondence, new and innovative ideas and management techniques were discussed and many were put into practice. Prison Enterprises management was very candid with the performance auditors throughout the duration of the project. We readily admitted that our organization has several problem areas, as all organizations do, and pointed each of these out to the auditors. We also discussed with them what steps Prison Enterprises has already put into motion to alleviate these problems. Prison Enterprises management would like to take this opportunity to thank the Office of Legislative Auditor for its efforts and its willingness and cooperation in regard to the presentation of this report.

- Prison Enterprises saves the State millions of dollars each year. Although we do not have a formal document to identify each dollar of savings, we were able to provide the auditors with many documented examples. Some of these include inmate incentive wages, performance of janitorial and other services at less than half of the market rate, sale of quality manufactured goods at below market price and payment of Office of Risk Management

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premiums for buildings and equipment owned by the State. Even larger savings are realized if one takes into account the fact that Prison Enterprises pays the salaries and related benefits of security personnel and Prison Enterprises supervisors who perform security functions in our operations. All of these costs would be necessary even if Prison Enterprises did not exist and would, therefore, have to be appropriated from the General Fund.

- *Prison Enterprises actually achieved its entire mission of being self-*supporting for fiscal year 1995. One must understand that in any business, especially one as diverse as Prison Enterprises, certain segments may experience losses from time to time. Prison Enterprises management and staff work very hard to ensure that our operation as a whole is stable enough to overcome these inevitable circumstances. A few of Prison Enterprises' operations have shown losses over the years. The audit report gives no credit to these operations and further states that other Prison Enterprises operations subsidize these. This is not entirely accurate. These operations, which are mostly agricultural operations, provide enormous benefits (inmate labor, salaries, flood control pumps, heavy equipment, etc.) to the Department of Corrections that do not, in turn, produce any revenue. Prison Enterprises feels that these operations, as much or more so than any other, allow us to fulfill our mission of reducing the cost to the State and providing work opportunities for inmates.

- The audit report criticizes Prison Enterprises for not having long range business plans. Prison Enterprises operates in a rapidly changing environment due to many influences that are beyond our control. In the past few years, several of our highest revenue producing operations have been discontinued without advance warning. A prime example of this was the immediate and unforeseen closure of Records Conversion, an event that the performance auditors witnessed during their audit. The loss of Records Conversion resulted in the loss of over $500,000 in annual net income. This, in turn, precipitated the layoff of approximately 25% of Prison Enterprises employees. It is obvious that this event would have rendered a long range business plan obsolete. The prospect of these types of events occurring in the future is likely. Due to this, it is extremely difficult for Prison Enterprises to operate according to long term business plans. We feel that our current method of formally planning for one and two years in advance, while constantly being mindful of the long term future, is the safest and most efficient way of operating Prison Enterprises.

- Prison Enterprises does not have a documented list of performance measures. However, we do have numerous measures of performance that are reviewed carefully by management on a day to day basis. Examples of these include monthly comprehensive financial statements prepared for each individual unit, weekly open order reports to measure production and delivery times, a customer complaint tracking system and regular internal compliance and operational audits. Perhaps the most revealing measure of Prison Enterprises' performance is its continued viability. In spite of the constant effects of external forces and increasing competition in the market place, Prison Enterprises is still able to provide quality products and services to its customers at low prices and remain a viable entity. Prison Enterprises management, in order to comply with LSA-R.S. 39:36(4)(c), will formally list our performance measures in the near future.

- The report states that Prison Enterprises recently implemented a formal procedure for costing and pricing its products. This is only partially correct. Although Prison Enterprises did formalize its pricing methodology in November 1996, our method of costing products through formal product structures was implemented long ago. These product structures provide us with accurate raw material costs. We use these product costs to track "cost of goods sold" as presented in our financial statements which, in turn, provide us with accurate information for pricing. Attachment 1 illustrates, using the auditors sample, that there is only a 4% difference between the old contract price and the price determined by using the new pricing formula. This is not a coincidence, but further illustrates that Prison Enterprises' pricing methods in the past were also accurate.

  Prison Enterprises continually refines and updates its product structures as prices of raw materials and the composition of finished goods change. However, cost is only a part of any complete pricing program. Prison Enterprises must also consider, like any manufacturer, market prices and competitive pricing. Our recently implemented pricing system was not designed to be a "stand alone" program. It is simply a tool for Prison Enterprises management to use along with marketing information to set prices that provide the most benefit to the State.

- The audit report makes numerous references to statutes which require Prison Enterprises to sell its products "at cost". To ensure accuracy, it is relevant to point out the actual language as it appears in the statutes. LSA-R.S. 15:1153 and LSA-R.S. 15:1157 require Prison Enterprises to sell goods and services "at a price which reflects the cost to the department of producing the goods or providing the services". Since Prison Enterprises operates

entirely on self-generated funds, every expenditure is part of the cost of producing goods and providing services. The same rationale applies to any consideration of recapitalizing, expanding existing operations or creating new industries. Without including some sort of mark-up over the basic cost of production, Prison Enterprises could not consider new programs, replace worn out equipment, pay approximately $600,000 in incentive wages each year, etc., and continue as a going concern. Therefore, if Prison Enterprises sold goods and provided services at the basic cost of production, as the audit report suggests, millions of dollars would have to be appropriated from the General Fund each year to cover the additional costs absorbed by Prison Enterprises (to the benefit of the State) through self-generated funds.

- Referring to the cooperative endeavor agreement between Prison Enterprises and Crawfish Unlimited, the audit report states that it "is a cooperative endeavor agreement and is not established according to either federal or state laws". This statement, as written, suggests to the reader that no authority exists for such an operation. However, this operation exists under the provisions of Article 7, Section 14(c) of the Louisiana Constitution and is clearly established according to State law.

Sincerely,

Charles C. Kleinpeter, D.V.M.
Director, Prison Enterprises

CCK:gs

CC: Bernard E. "Trey" Boudreaux, III
Michael J. Moore
Perry Stagg

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Price comparisons using cost based pricing models

Description	Number Sold FY 95-96	Contract Price	Revenue Generated	Price from Model	Revenue Generated	Total Revenue
FURNITURE						$ 1,245,695
Sterling High Back Executive	128	$ 399.00	$ 51,072.00	$ 473.29	$ 60,581.12	
Select Style Operational Stool	91	$ 232.00	$ 21,112.00	$ 293.80	$ 26,735.80	
GARMENT						$ 1,633,856
Men's Denim Jeans, size 38	9026	$ 8.20	$ 74,013.20	$ 6.99	$ 63,091.74	
Lab Coat, XL	*100*	$ *12.35*	$ *1,235.00*	$ *8.24*	$ *824.00*	
SOAP PLANT						$ 1,122,981
Pine Cleaner, 55 Gallon Drum	35	$ 288.00	$ 10,080.00	$ 288.78	$ 10,107.30	
MATTRESS, MOP, & BROOM						$ 524,855
Mop - Cotton, Heavyweight	542	$ 51.30	$ 27,804.60	$ 66.03	$ 35,788.26	
Blue Fireguard Mattress	238	$ 85.50	$ 20,349.00	$ 114.42	$ 27,231.96	
METAL FABRICATION						$ 466,046
Wall locker, 14" X 18" X 48"	423	$ 77.25	$ 32,676.75	$ 65.65	$ 27,769.95	
Single Frame Bed 30" X 79" X 18'	567	$ 108.00	$ 61,236.00	$ 103.98	$ 58,956.66	
SIGN & SILK SCREEN						$ 200,357
Executive Desk Set 2" X 8" name plate with 2 ink pens	0	$ -	$ -	$ 13.65	$ -	
STOP Sign, aluminum 36"	12	$ 47.75	$ 573.00	$ 72.76	$ 873.12	
TOTAL REVENUE (sampled items)			**$ 300,151.55**		**$ 311,959.91**	
TOTAL REVENUE (these industries)						**$ 5,193,790**

NOTE:

The sampled items represent only $300,151.55 (6%) of total revenues of $5,193,790 for the industries represented, and only 4% of total manufacturing revenues.

There is only a 4% difference, or $11,808.36 on a volume of $300,151.55, between the old contract price and the new pricing model.