

PERFORMANCE AUDIT REPORT

Expanding Sales of Prison-Made Goods

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
August 1985**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$5 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

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OBTAINING AUDIT INFORMATION

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EXPANDING SALES OF PRISON-MADE GOODS

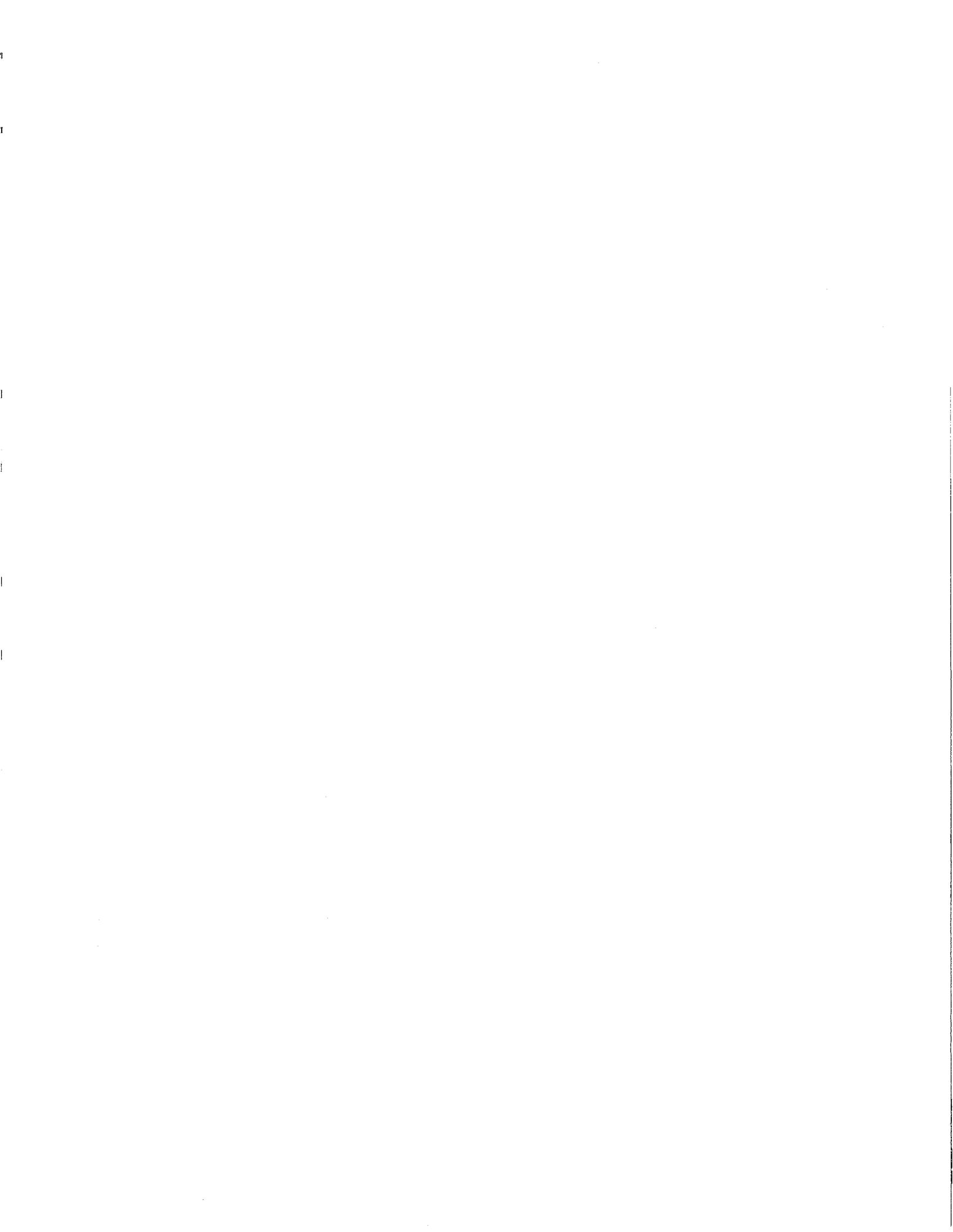
Summary of Legislative Post Audit's Findings

This audit was designed to examine the current and potential sales volume of the Kansas Correctional Industries program. It was conducted at the request of the Special Committee on Federal and State Affairs.

To what extent are State and other agencies purchasing prison-made goods? The Prison-Made Goods Act requires that State agencies purchase prison-made products from Kansas Correctional Industries. Local units of government, other states, the federal government, and non-profit organizations may also purchase products from Kansas Correctional Industries. The auditors sampled agency vouchers from fiscal year 1984 in order to determine the extent to which State agencies were complying with this law. They found that although agencies were buying many prison-made products, there is still considerable room for expansion of sales of existing products to State agencies. The auditors determined that agencies could have purchased an additional \$54,332 worth of paint products and \$358,588 worth of soap products in fiscal year 1984.

The auditors also found that there was a huge potential market for sales to local units of government and non-profit organizations. Based on surveys and sales information, the auditors determined that these local organizations buy less than five percent of their product needs from Correctional Industries. In one county alone, the auditors identified a potential market for prison-made products in excess of \$68,000.

How can the sale of prison-made goods be expanded or encouraged? Several options emerged for expanding and encouraging the sale of prison-made goods. One option was to strengthen the language and enforcement of the Prison-Made Goods Act so that there would be better compliance on the part of State agencies. A second option was for Correctional Industries to provide agencies with a greater incentive to purchase prison products by ensuring that the products are of consistently high quality and meet the needs of agencies. A third option involved increasing sales to local units of government and non-profit organizations by improving the marketing capabilities of Correctional Industries. The final option for expanding the sale of prison-made goods was to develop new industries. Correctional Industries recently received a feasibility study conducted by a consultant which recommended three possible candidates for new industries. Two of these, microfilming and data key entry, are in the process of being established and should employ inmates sometime during fiscal year 1986.



EXPANDING SALES OF PRISON-MADE GOODS

At its July 8, 1985, meeting, the Legislative Post Audit Committee directed the Legislative Division of Post Audit to conduct a performance audit looking for ways to expand sales of prison-made goods. This audit was requested by the Special Committee on Federal and State Affairs which, among other topics, was charged with examining the issue of inmate idleness. One way of reducing inmate idleness is increasing employment opportunities for inmates.

Kansas Correctional Industries, which employs inmates to work in prison industry factories making products such as soap, paint, signs, and furniture, is one vehicle that the Committee identified as being potentially able to employ more inmates. Legislative Post Audit had conducted an earlier performance audit of Kansas Correctional Industries in the summer of 1983 which focused on the rehabilitation aspects of the program. This audit examines the current and potential sales volume of the Kansas Correctional Industries program.

Kansas law requires State agencies to buy prison-made goods manufactured by Kansas Correctional Industries. The law also allows the prison products to be sold to local governments, school districts, and non-profit organizations.

The audit addresses two primary questions:

1. To what extent are State and other agencies purchasing prison-made goods?
2. How can the sale of prison-made goods be expanded or encouraged?

To answer these questions, the auditors sampled State agency vouchers for purchases of paint and soap products. The auditors also surveyed State agencies to get their opinions about Correctional Industries products. In addition, they contacted several local units of government and school districts to determine how much they were buying from Correctional Industries. Finally, the auditors contacted neighboring states to see what kinds of prison industries were successful elsewhere.

In general, their reviews showed that although State agencies are buying many of the products manufactured by Correctional Industries as required by State statute, there is still considerable room for expansion of sales of existing products to State agencies. They also found that there is a large market for the products of Correctional Industries in counties, cities, and school districts. There also appears to be some potential for creating new products or industries to fill market needs. Finally, the auditors found that Correctional Industries is working to encourage new industry development. These findings are discussed in this report, preceded by a brief discussion of the Kansas Correctional Industries program.

Background on Kansas Correctional Industries

Kansas Correctional Industries is part of the Department of Corrections. It operates a number of factories that employ inmates at several State prisons.

At the Kansas State Penitentiary, Correctional Industries operates furniture upholstery, furniture refinishing and manufacturing, sign, and paint factories. The Industries program at the Penitentiary also has a farming operation. A soap factory is operated at the Kansas Correctional Institution at Lansing. In addition, there is a clothing factory at the Kansas State Industrial Reformatory in Hutchinson.

The director of Kansas Correctional Industries coordinates the industries program at all of the institutions. He is assisted by a salesman, an assistant director, two accountants, and an office manager. Each factory has a civilian supervisor. In addition, an industries development specialist employed by the Department of Corrections works with the program.

The following table presents information on the number of inmate jobs in Correctional Industries. The fiscal year 1982 figures present comparative data from the earlier performance audit. That audit was limited to an examination of the Correctional Industries program at the State Penitentiary.

Employment of Inmates By Correctional Industries

	<u>Fiscal Year 1982</u>	<u>Fiscal Year 1985</u>	<u>% Change</u>
<u>State Penitentiary</u>			
Warehouse/admin.	8	13	62.5%
Paint	27	26	(3.7)
Signs	20	32	60.0
Upholstery	29	39	34.5
Furniture	38	76	100.0
Private Sector	0	9	N/A
Farm	<u>0</u>	<u>15</u>	<u>N/A</u>
Total	<u>122</u>	<u>210</u>	<u>72.0%</u>
<u>Correctional Institution at Lansing</u>			
Soap		12	
Private Sector		<u>22</u>	
Total		<u>34</u>	
<u>Industrial Reformatory</u>			
Clothing		<u>30</u>	
GRAND TOTAL		<u>274</u>	

At Kansas State Penitentiary, Correctional Industries employs 10.7% of the total population of 1,964 inmates. At the Kansas Correctional Institution at Lansing, there are 34 inmates employed by Correctional Industries or 17.9% of the total population of 190. At the State Industrial Reformatory, the 30 inmates employed by Correctional Industries represent 2.1% of the total population of 1,432 inmates.

As the table indicates, there has been a significant growth in inmate employment in Correctional Industries since fiscal year 1982. Employment

increased the most at the Penitentiary's furniture refinishing factory, which began a furniture manufacturing operation within the past two years. In addition, since the earlier audit, the farm began operating at the Penitentiary.

A new record-conversion factory will begin operating at the Penitentiary in fiscal year 1986. It will encompass two components: microfilming historical county court records, and data entry. According to Industries officials, up to 30 inmates will be employed by this factory. In addition, Industries officials anticipate that about 16 more inmates will be employed in private sector firms in fiscal year 1986. Total inmate employment at all institutions in fiscal year 1986 is expected to be about 326 inmates, up 19% over fiscal year 1985.

Sales of prison-made products have increased since fiscal year 1982. At the time of the earlier audit, total sales were just over \$3 million per year. Total sales in fiscal year 1985 were about \$3.6 million. The following table shows these sales by factory unit.

Sales of Correctional Industries Products

<u>Factory</u>	<u>Fiscal Year 1982 Sales</u>	<u>Fiscal Year 1985 Sales</u>	<u>% Increase</u>
Paint	\$1,844,720	\$1,904,414	3.2%
Signs	514,382	570,534	10.9
Soap	243,419	305,099	25.3
Clothing	180,507	285,544	58.2
Re-upholstery	151,541	204,342	34.8
Re-finishing	101,985	315,193	209.0
Total	<u>\$3,036,554</u>	<u>\$3,585,127</u>	<u>18.1%</u>

Overall, sales have risen just over 18 percent since fiscal year 1982. The biggest jump has been in the furniture re-finishing factory, where sales have increased by over 200 percent. The primary reason for this jump is that the factory is now manufacturing furniture in addition to re-finishing it.

Kansas Correctional Industries sells its products to State agencies, counties, cities, school districts, and non-profit organizations. The majority of its sales are to State agencies, however. The following table presents total Industries sales by type of buyer.

Correctional Industries Sales By Type of Buyer, Fiscal Year 1985

<u>Buyer</u>	<u>Sales</u>	<u>% of Total</u>
State agencies	\$3,088,933	86.16%
Cities, Counties	321,129	8.96
School Districts	55,951	1.56
Other	119,114	3.32
Total	<u>\$3,585,127</u>	<u>100.00%</u>

To What Extent Are State and Other Agencies Purchasing Prison-Made Goods?

State agencies are required to purchase prison-made products under the Prison-Made Goods Act (K.S.A. 75-5273 et seq.). Under this statute all agencies are required to purchase from the Secretary of Corrections:

"all articles or products required by such state agencies that are produced by inmates and no such article or product shall be purchased by any state agencies from any other source, unless excepted from the provision of this section by law or in accordance with K.S.A. 75-5277."

Several divisions or sections within the Department of Administration play roles in ensuring that the purchasing statutes relating to prison-made goods are being followed.

The Division of Purchases controls the bidding process for large-order purchases in excess of \$500. If an agency wants to purchase an item that is available from Correctional Industries, the Division does not request bids for that product but notifies the agency that it should order the item directly from Correctional Industries. If the desired product is not acceptable to the agency, the Division requires the agency to secure an exemption from Correctional Industries stating that it is unable to provide the required product. Alternatively, the agency can send a written justification to the Division documenting that the product produced by Correctional Industries is not acceptable.

In general, agencies have been authorized to buy less than \$500 worth of products without going through the Division of Purchases. The Division's procedures for such purchases state that use of the prison-made items is required. These smaller purchases are examined by the Pre-Audit Unit of the Division of Accounts and Reports. According to officials of the Division, if an auditor notices that an item was purchased from a source other than Correctional Industries, the auditor will send the voucher back to the agency. The agency must then obtain an exemption from the Division of Purchases before payment will be made.

Purchases under \$500 are also audited by the Special Services Section of the Division of Purchases for compliance with purchasing laws. These audits are called 29-E audits because they refer to memorandum 29-E, issued by the Division of Purchases, which delegates authority to agencies to make small purchases. This Section may issue citations to agencies that do not comply with the Prison-Made Goods Act. The 29-E audits have been conducted for the last two years. Summaries of the compliance violations found are forwarded to the Director of Purchases, who sends a copy of the findings to the Secretary of Administration and the head of the audited agency. The agency must provide a written response.

To test agencies' compliance with the Prison-Made Goods Act and to determine the approximate market for sales of existing prison-made products, the auditors identified a group of 20 agencies likely to have significant purchases of Correctional Industries products. Included in this group of 20

agencies were the Regents' institutions, State hospitals and training centers, the Department of Administration, the Department of Transportation, the Park and Resources Authority and the Fish and Game Commission. (A complete list is provided in Appendix A.) From this group of 20 agencies, the auditors selected a sample of eight agencies that were representative of each type of institution in the original group of 20 agencies.

The auditors examined the purchases of paint and soap products for fiscal year 1984. They identified all expenditures made for the types of paint and soap products available from Correctional Industries, and compared those figures with the amount each agency actually spent on Industries products that year. For this review they drew two samples. First, they selected a sample from all vouchers in the object codes which included paint and soap. Because this sample included many vouchers that were for very small amounts, even under \$1.00, they drew a second sample from all vouchers greater than \$50. Combining these two samples provided the most reasonable estimates possible. The following tables present the results of their review.

**Percentage of Purchases from Correctional Industries
Fiscal Year 1984**

<u>Agency</u>	<u>Total Purchases of Paint in the Samples</u>	<u>Total Purchases of Paint From Correctional Industries</u>	<u>Percent of Total</u>
Department of Administration	\$ 808	\$ 164	20%
Emporia State	9,653	9,451	98
Fish and Game Commission	1,333	759	57
Department of Transportation*	361	0	0
Kansas State	4,992	1,784	36
Park and Resources Authority	3,220	2,771	86
Topeka State	1,351	1,072	79
Winfield State	<u>5,789</u>	<u>5,268</u>	<u>91</u>
Total	<u>\$27,507</u>	<u>\$21,269</u>	<u>77%</u>

* This represents purchases of architectural paint. The Department of Transportation purchases all of its traffic line paint from Correctional Industries; fiscal year 1984 purchases totalled about \$968,000.

<u>Agency</u>	<u>Total Purchases of Soap in the Samples</u>	<u>Total Purchases of Soap From Correctional Industries</u>	<u>Percent of Total</u>
Department of Administration	\$ 7,024	\$ 1,256	18%
Emporia State	9,239	3,907	34
Fish and Game Commission	1,066	845	79
Department of Transportation*	11,674	3,285	28
Kansas State Park and Resources Authority	8,508	1,751	21
Topeka State	5,995	1,901	32
Winfield State	10,766	3,297	31
	2,740	290	11
Total	<u>\$57,023</u>	<u>\$16,532</u>	<u>29%</u>

Agencies Bought Significant Amounts of Prison-Produced Goods From Other Vendors in Fiscal Year 1984

As the table shows, these eight agencies made 77 percent of their "sample" paint purchases from Correctional Industries but only 29 percent of their "sample" soap purchases. In general, items that were not purchased from Correctional Industries involved relatively small dollar amounts. But, the total dollar value of the purchases was not insignificant. For example, \$6,238 worth of paint was purchased from other vendors, as was \$40,491 worth of soap. Agencies' compliance varied. The Department of Administration bought only 20 percent of the paint in its samples from Correctional Industries, while Emporia State University bought 98%. And Winfield State Hospital bought only 11 percent of the soap products in its sample from Correctional Industries, while the Fish and Game Commission bought 79 percent.

Examples of prison-produced goods that agencies bought from other vendors included varnish, paint, disinfectant, hand soap, and all-purpose cleaner. In each of these cases, the agency could have purchased the product from Correctional Industries.

There Are A Number of Reasons Why Agencies Are Not Buying Everything They Can From Kansas Correctional Industries

The auditors found that agencies did not buy everything they could from Correctional Industries because of exceptions provided in the law and ineffective enforcement. Agencies cited additional reasons for not buying from Correctional Industries. These reasons are discussed in the following sections.

Provisions in the Prison-Made Goods Act make it relatively easy for State agencies to avoid complying with the Act. Although the statute clearly requires State agencies to purchase prison-made goods, the exceptions allowed in parts of the statute are broad. Agencies may purchase items from other vendors if

the Secretary of Administration and the Director of Purchases agree that the product does not meet the "reasonable requirements" of the agency or that the requisition made cannot be reasonably complied with.

There is no statutory definition of "reasonable requirements". In the past, agencies have been given substantial leeway in determining whether or not a prison-made product met their needs.

Similarly, the Act's provisions are unclear with respect to the role of the Division of Accounts and Reports in enforcing compliance. The statute states that neither the Director of Accounts and Reports nor the State Treasurer shall question a voucher or warrant on the grounds that it violates the Prison-Made Goods Act. The Act does state that continued intentional violation of the Act by any State agency constitutes malfeasance in office, subjecting the person responsible for the violation to suspension or removal from office. This provision has never been used as the grounds for removing anyone from office.

There has not always been effective enforcement of the law. Sometimes, prison-made items can be purchased on State contracts that were awarded to vendors other than Correctional Industries. In their sample testwork, the auditors found that the Department of Administration had purchased floor wax that was on a State contract. Similarly, the Park and Resources Authority had purchased a cleaning solvent that was on a State contract. In addition, some agencies, such as the University of Kansas, have historically had contracts for janitorial supplies.

According to Division of Purchases' officials, awards for products were made to outside vendors in the past because of complaints about the quality of some of the Correctional Industries' products--especially floor wax. The Department of Administration awarded a contract for floor wax to another vendor in fiscal year 1984 because agencies asserted that the prison-produced product did not meet their needs. Contracts are also awarded to other vendors if there are questions about whether the Correctional Industries product meets the required specifications. For example, even though Correctional Industries produces a germicide, the University of Kansas Medical Center has a contract for this product because Correctional Industries has not tested its product to ensure it meets the required specifications.

Purchases for less than \$500 do not come through the Division of Purchases for approval. The procedures governing the agencies' local purchasing authority note that the use of certain items, including those produced by "Kansas State Industries," is required by State statute. However, the memorandum which delegates this purchasing authority to agencies does not specifically mention the mandatory purchase requirements contained in the Prison-Made Goods Act.

The Pre-Audit Unit with the Division of Accounts and Reports scans vouchers for purchases under \$500 for compliance with State laws and regulations. Officials of the Pre-Audit Unit estimate that only about 25-30 vouchers are rejected annually for non-compliance with the Prison-Made Goods Act. Based on their testwork, however, the auditors found considerably more instances where vouchers did not comply with the requirements of the Prison-Made Goods Act.

Agency compliance with State purchasing laws is also audited by the Special Services Section of the Division of Purchases. This section reviews agencies' records to determine if they are complying with the 29-E regulations delegating the authority to make small purchases.

The auditors examined three recent 29-E audits. In each case, they found one or more instances where the agency did not buy from Correctional Industries as required by law. In some cases, the audit cited the voucher as violating the Prison-Made Goods Act, while in other cases the voucher was cited for a violation of other purchasing requirements such as no competition. According to officials of the Special Services Section, if repeated violations of the authority to make small purchases are found, an agency may lose its small purchasing authority. This has never happened.

Agencies offered several additional reasons for not buying prison-made products. The auditors conducted a telephone survey of the eight agencies in the sample to discuss their purchasing patterns and attitudes toward prison-made products. All agencies said they were aware of the statutory requirement to buy prison-made products; however, only three agencies had written policies regarding purchases of these products. All agencies said they often used Correctional Industries goods, but nearly all also stated that there were particular products they did not purchase from the prison. Reasons for purchasing from other vendors fell into four categories:

1. **The quality of the product was not satisfactory.** Soaps for institutional laundries and automatic dishwashers were repeatedly mentioned as being too caustic. Several agencies purchase these products from other vendors. Floor wax and certain paints were reported to have been poor quality in the past. Both have been reformulated and agencies who have tried the new products appear to be satisfied.
2. **The product does not meet the specific needs of the agency.** Several agencies said they needed to purchase special colors or finishes of paint to meet specific requests or to match previous work. Many agencies also purchase a single detergent-disinfectant product for cleaning. Correctional Industries produces several disinfectants and several general cleaning products, but does not market one product that does both.
3. **A particular brand is requested by an agency's staff.** One state hospital reported that the staff "required" that Dial soap be used. The purchasing officer recently substituted Correctional Industries soap for Dial and received no complaints. Requiring a particular brand is in violation of the Prison-Made Goods Act if Correctional Industries also produces the product.
4. **Items are sometimes needed on a limited or immediate basis.** Several agencies stated that they purchased small quantities of paint or cleaning supplies on an emergency basis.

Although the agencies surveyed said they thought they purchased all they possibly could from Correctional Industries, the auditors' analysis of vouchers suggests that the reasons listed above are contributing to a considerable underutilization of prison-made goods.

In addition to determining the extent to which agencies were buying from Correctional Industries, the auditors were interested in determining the potential market for prison-made products. In their calculations, the auditors developed a ratio which expressed the percentage of expenditures in the sample that were for soap or paint products. This ratio was then projected to the total agency expenditures for the appropriate object codes to estimate the amount that could have been purchased from Correctional Industries.

Based on the sample data, the auditors estimated that the 20 identified agencies could have purchased an additional \$412,000 of prison-made soap and paint products in fiscal year 1984. These agencies bought \$97,374 worth of soap products and \$268,274 worth of paint products from Correctional Industries in fiscal year 1984. Using the ratios developed from the sample data, the auditors estimated that they could have purchased as much as \$455,962 worth of soap products and \$322,606 worth of paint products. This analysis suggests that 20 agencies could have bought approximately \$358,588 more in soap products and \$54,332 more in paint products than they actually did buy, for a total of about \$428,000. The following table summarizes these results.

Auditors' estimate of the amount of paint 20 agencies could have purchased	Actual amount of paint these agencies bought from Correctional Industries	Difference
<hr/> \$322,606	<hr/> \$268,274	<hr/> \$54,332
Auditors' estimate of the amount of soap 20 agencies could have purchased	Actual amount of soap these agencies bought from Correctional Industries	Difference
<hr/> \$455,962	<hr/> \$97,374	<hr/> \$358,588

**Local Units of Government, School Districts, and
Non-Profit Organizations Also Buy Products Produced by
Correctional Industries**

The prison-made goods statute mandates that State agencies buy prison products. It also gives other units of government and school districts the opportunity to purchase prison-made goods. In fiscal year 1985, school districts, local units of government, and non-profit organizations purchased a total of \$496,000 worth of Correctional Industries products. This represented 13.8 percent of the total sales.

To determine what the market for prison products was at various other governmental units and school districts, the auditors surveyed several organizations of varying size and location to see if they bought products from Correctional Industries. Twelve of the 15 organizations surveyed were aware of Correctional Industries, although not everyone contacted was aware of all of the products that Correctional Industries produced.

The following table lists the local units of government and non-profit organizations that were contacted. Fiscal year 1985 sales information, prepared by Correctional Industries' staff, is also shown.

**Fiscal Year 1985 Purchases of Correctional Industries
Products by Selected Local Units of Government
and Non-Profit Organizations**

<u>Organizations</u>	<u>Fiscal Year 1985 Purchases</u>
Counties:	
Douglas	\$3,236
Cherokee	286
Jackson	171
Gove	75
Cities:	
Topeka	2,483
Wichita	44
Manhattan	-0-
Atchison	48
Garden City	198
School Districts:	
Wamego U.S.D. 320	-0-
Salina U.S.D. 305	240
Shawnee Mission U.S.D. 512	-0-
Non-Profit Organizations:	
Menninger Foundation	N/A
Red Cross	N/A
Capper Foundation	-0-

Generally, the auditors found that these other organizations buy relatively small amounts of products from Correctional Industries, less than five percent of their total needs. Paint and signs, each purchased by four of the organizations surveyed, were the most commonly purchased products. In addition, two organizations had furniture re-upholstered by Correctional Industries, one organization purchased towels and one bought janitorial supplies. The survey respondents indicated that they were highly satisfied with the quality of the Correctional Industrial products they purchased.

Local units offered several reasons for not buying more products from Correctional Industries. Many counties and cities purchase goods through individual departments rather than through a centralized purchasing agent. Thus, when catalogs and other information from Correctional Industries are sent to the city or county, that information does not always filter down to the buyers in each department. In addition, two survey respondents indicated that they discontinued using Correctional Industries products several years ago because of the inferior quality of the products.

A third reason cited by survey respondents for not buying Correctional Industries products was that the products available did not meet their needs. The most frequently mentioned example of this was in the purchase of traffic

line paint. Large counties and cities are generally using "hot" paint for their traffic lines. This type of paint dries very quickly. Although Correctional Industries does not currently produce "hot" paint, it does produce a paint that dries in seven minutes. Officials of the paint factory also indicated that they are in the process of developing "hot" paint manufacturing capabilities and that such paint should be available within the next 18 months.

There is a high untapped market for sales to local units of governments and non-profit organizations. The auditors asked the survey respondents how much they spend for the various categories of products available from Correctional Industries. Although not everyone was able to give a precise figure, three respondents provided estimates. For example, one county estimated that it spends about \$72,000 annually for paint, signs, janitorial supplies and clothing. Of this total, it purchased about \$3,200, or 4.5 percent of the total, from Correctional Industries. The potential market for this one county alone, then, is about \$68,800 per year. On average, it appears that the organizations buy less than 5 percent of their product needs from Correctional Industries.

Conclusion

Although State law requires State agencies to purchase prison-made goods, agencies are buying many of these same products from other sources. This is particularly true for smaller purchases. It is relatively easy for State agencies to avoid purchasing from Correctional Industries because of exceptions in the Prison-Made Goods Act and because of ineffective enforcement of the statute. Local units of government buy relatively small amounts of prison-made products. Based on the results of the auditors' samples and surveys, there appears to be a large market for selling additional prison-made goods to State agencies, and a potentially huge market for sales to local governmental entities.

How Can the Sale of Prison-Made Goods Be Expanded or Encouraged?

Given the findings in this report, and based on the auditors' contacts with other states and local units of government, several options have emerged for increasing the sales of prison-made goods. These include strengthening the language and enforcement of the Prison-Made Goods Act to ensure that State agencies buy existing products from Correctional Industries as required, distributing promotional materials and quality-test results on products to provide agencies a greater incentive to want to buy prison goods, tapping into the huge potential market of local governments and non-profit organizations, and creating new products or industries to fill existing market needs. These options are discussed in the following sections.

Options for Increasing Sales of Existing Products By Strengthening The Language and Enforcement of the Prison-Made Goods Act

The auditors' estimates showed that as much as \$412,000 in additional sales of soap and paint products should have been made in fiscal year 1984 by

the 20 State agencies identified as likely to use prison-made products. Exceptions contained in the Prison-Made Goods Act and the lack of strong enforcement contributed to agencies' failure to buy all of the required products from Correctional Industries.

The Division of Purchases is beginning to tighten its bid process so that contracts are not awarded to other vendors for products that are produced by Correctional Industries. However, there are no written procedures in place to ensure that all agencies and products are handled in the same manner. In addition, there are no specific sanctions in the law for failure to comply with the Prison-Made Goods Act. Officials in one state surveyed by the auditors noted that the threat of revoking an agency's purchasing authority was a sufficient incentive to induce agency compliance with the mandatory purchase requirement in that state's Prison-Made Goods Act.

The auditors found that provisions in the State law governing purchases of products made by the Kansas Industries for the Blind may provide some solutions to the problems found in the Prison-Made Goods Act. The statute, K.S.A. 75-3316 et seq. sets up a committee of five people who are authorized to determine the fair market prices of products manufactured by the Kansas Industries for the Blind. In addition, this committee ensures that the products meet specifications required by the Director of Purchases. The committee certifies a list of available products and State agencies and school districts are required by the statute to purchase the products on the list. Unlike the Prison-Made Goods Act, there is no section in this statute which diminishes the responsibility of the Director of Accounts and Reports to enforce the mandatory purchase requirement.

Recommendations

To strengthen the Prison-Made Goods Act and provide for more effective enforcement of the Act, Legislative Post Audit makes the following recommendations:

1. The Special Committee on Federal and State Affairs should consider amending the Prison-Made Goods Act to do the following:
 - a. Eliminate the exceptions to the mandatory purchase requirement or more clearly define the conditions for getting exceptions. For example, a committee could be established to certify the products available from Correctional Industries that meet required specifications.
 - b. Clarify the role of the Director of Accounts and Reports in enforcing the Act.
 - c. Provide clear sanctions, such as withholding State payment for improper purchases and taking away delegated local purchasing authority for repeated violations of the Act.

2. The Division of Purchases should take the following steps:
 - a. Develop written guidelines to govern decisions relating to agencies that want to buy from vendors other than Correctional Industries. An agency should be required to satisfactorily demonstrate that the product it needs is not available from Correctional Industries, or that the available product is of unsatisfactory quality.
 - b. Amend memorandum 29-E relating to the delegation of authority for small purchases or sales and emergency purchases by agencies to specifically note that agencies are required by statute to buy all items from the Kansas Correctional Industries. Compliance with this statute should form one of the emphases of the 29-E audits.
 - c. Work with State agencies that make small purchases throughout the year for items needed on an "immediate" basis and provide guidance on making larger purchases so that a reasonable inventory of supplies can be maintained.

Options For Increasing Sales of Products By Providing A Greater Incentive for State Agencies to Buy Prison-Made Goods

In the past, agencies have complained about the quality of various products made by Correctional Industries. One of the products cited most frequently as being of poor quality was the floor wax. In the Spring of 1985, Correctional Industries had its reformulated wax tested to see how well it compared to other commercial waxes. The results of the test, performed by an independent laboratory, indicated that the quality was as good as and in most cases superior to the major waxes on the market. Because the wax has been proven to be high quality, the Division of Purchases is requiring agencies to sample the wax and provide written justification that it is not acceptable before it will request bids on another wax product.

Correctional Industries is also beginning to respond to buyer needs. For example, the soap factory produces a dry bleach but not a liquid bleach. The factory is in the process of developing a liquid bleach for sale to State agencies. The production of "hot" paint, being contemplated by the paint factory, is another example of addressing the needs of buyers.

The auditors also found that Correctional Industries manufactures some products that are marketed for a particular use but that can be used for other things as well. For example, discussions with Industries officials indicated that one of its cleaning products can be used by agencies for cleaning toilet bowls. The product is not marketed for this use, however, so agencies are buying toilet bowl cleaners from other vendors. Officials of several of the states contacted indicated that increasing product awareness enhanced sales of their prison products.

Recommendations

To maximize its sales volume, Correctional Industries should take the following steps:

1. Continue to have its formulated products tested by independent laboratories to show that they are of high quality. The results of these tests should be widely distributed to State agencies and other organizations.
2. Enhance its marketing efforts so that State agencies are aware of all of the uses of particular products.
3. To the extent feasible, continue to respond to buyers' needs for particular products.

Options for Increasing Sales to Local Units of Government and Non-Profit Organizations

There is a huge potential market for increasing sales of prison products to local units of government. In one county alone, the auditors estimated that the potential for Correctional Industries products was in excess of \$68,000. The survey respondents indicated that they would be willing to consider increasing their expenditures of Correctional Industries products, but that they needed more information about Correctional Industries and its products. Several respondents also suggested that increased assistance from a salesperson would be helpful so that questions could be answered and new products could be introduced and demonstrated. A number of the neighboring states contacted had two or more salespersons. At least one state also used telemarketing to assist its salesmen through pre-arranged sales calls. Sales booths at state conventions were also found to be an effective way of reaching new markets and disseminating product information to potential buyers.

Recommendation

To increase sales of prison-made goods to local units of government and non-profit organizations, the following recommendation is made:

1. Correctional Industries should consider enhancing its marketing capabilities by expanding its use of direct mail, telemarketing, and product demonstrations and exhibits.

Neighboring states have some innovative approaches to correctional industries. Most states have some type of prison industries program. The following table lists the number of inmates and total sales volume of the prison industry programs in the surrounding states.

Prison Industries in Surrounding States

<u>State</u>	<u>Number of Inmates Employed By Prison Industries</u>	<u>% of Total Inmate Population</u>	<u>Fiscal Year 1985 Sales</u>
Missouri	852	11%	\$7,303,000
Oklahoma	650	10	3,700,000
Colorado	450	15	6,040,000
Nebraska	140	10	2,000,000

Most states' industries programs examined by the auditors followed conventional approaches to increasing sales, including expanding the size or direction of existing industries. Some are using innovative approaches, however. One state had a contract with the Air Force to refinish all the furniture at one of its bases. Another had a contract with a university to make drapes and furnitures for a new dormitory. One state was involved in telemarketing sales in conjunction with a private company. Finally, one state had a blood plasma processing operation in conjunction with a private company. More information about other states' programs is provided in Appendix B.

Options for Creating New Industries

The earlier audit made several recommendations to improve the efficiency and financial stability of the Correctional Industries program. These included the following:

1. Conducting more long-range planning before developing new industries.
2. Conducting more research on proposed products to determine the level of demand.
3. Conducting more extensive financial analysis to determine which products or factories are least profitable.

Correctional Industries has begun to implement these recommendations. The Department of Corrections has developed a set of industry selection criteria that are used in evaluating the creation of new Industries programs. These selection criteria include the following:

1. Level of capital investment required.
2. Industry should produce a profit or at least break even.
3. Primary focus on institutions with greatest number of inmates in need of jobs; Industry should be labor-intensive.
4. Industry should allow for some form of incentive pay.
5. Industry should not place unreasonable burdens on security forces.
6. Priority for location: State Penitentiary, Correctional Institution at Lansing, Industrial Reformatory.

7. Industry should provide reasonable balance between reducing idleness and rehabilitation; Service industry is preferred type.
8. Industry should be selected on basis of identified need among the statutorily-defined market and not established without identification of market demand.

A market feasibility study has been conducted for new Correctional Industries programs. Correctional Industries received this report in January 1985. One part of the study was an evaluation of the selection criteria identified, which were determined to be appropriate and prudent.

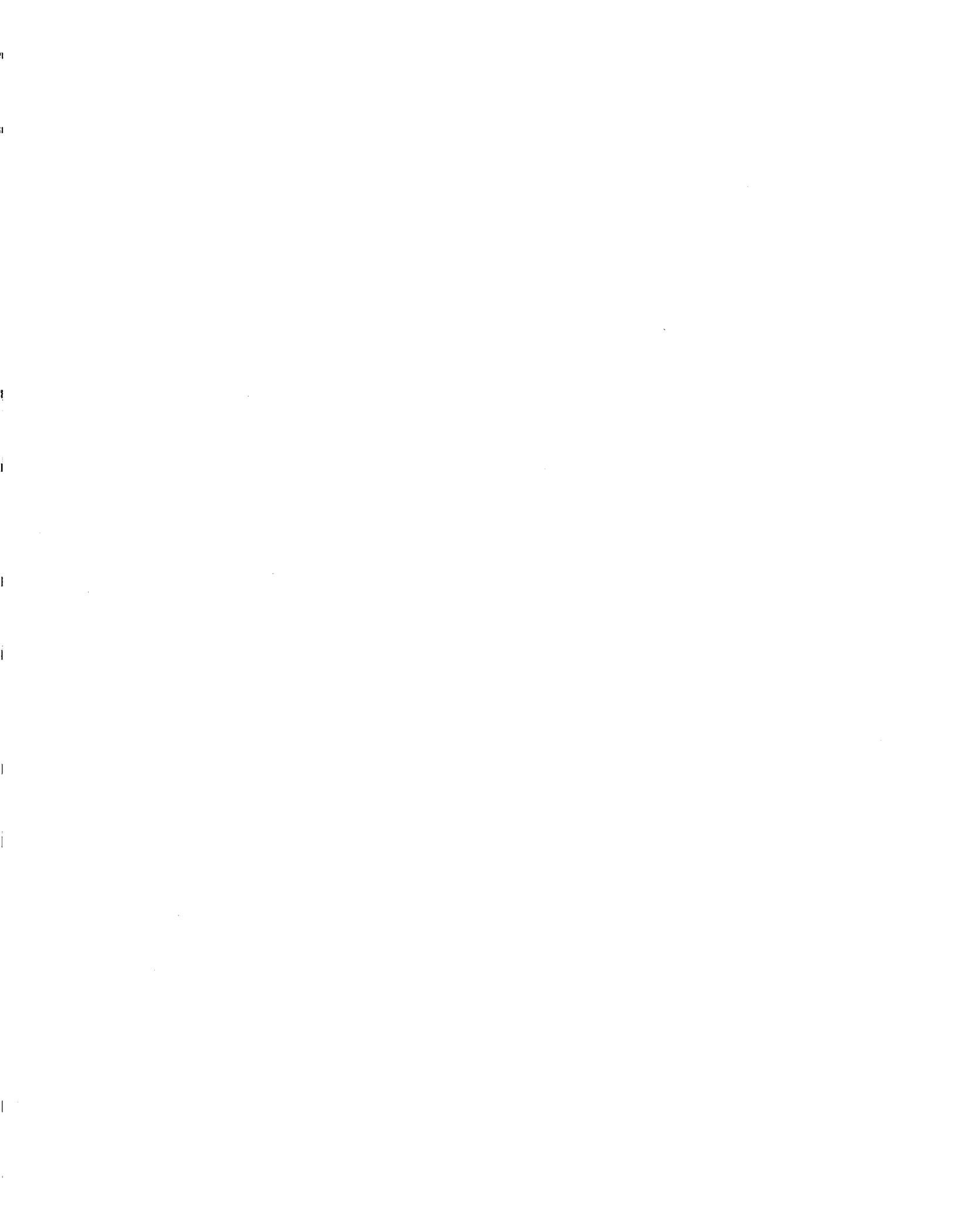
The second part of the study analyzed five possible industries to determine their feasibility. Microfilming, data key entry, meat processing, printing, and auto repair and servicing were the industries examined. For each industry, the consultant analyzed market demand, technical requirements, and economic feasibility. It was concluded that microfilming, data key entry, and printing were good candidates as Correctional Industries. Two of these industries will begin operations in fiscal year 1986--microfilming and data key entry. Both industries satisfy the selection criteria established by the Department of Corrections. In particular, they are service industries that will reduce idleness as well as provide rehabilitation skills. In addition, an identified market need was discovered for both industries prior to their establishment.

APPENDIX A

Agencies Identified As Likely to Purchase Prison-Made Goods

Department of Administration *
Fish and Game Commission *
Park and Resources Authority *
Department of Transportation *
Emporia State University *
Fort Hays State University
Pittsburg State University
Kansas Technical Institute
Kansas State University *
University of Kansas
University of Kansas Medical Center
Wichita State University
Topeka State Hospital *
Larned State University
Osawatomie State Hospital
Rainbow Mental Health Facility
Winfield State Hospital and Training Center *
Parsons State Hospital and Training Center
Kansas Neurological Institute
Norton State Hospital

* This agency was one of the eight chosen for further testwork.



APPENDIX B

Correctional Industries Programs in Other States

This appendix identifies prison industry programs in other states. Innovative programs are also noted.

Colorado

construction	janitorial products factory
license tag factory	wood furniture shop
sign shop	metal fabrication
printing	upholstery shop
lumber products	agribusiness
	inmate labor

Colorado Correctional Industries also sets up displays at conferences in order to familiarize potential buyers with its products.

Nebraska

vinyl shop	printing
wood shop	sign shop
upholstery shop	soap factory
metal work factory	furniture refinishing shop
license tag factory	garment factory

Missouri

printing	chemical products shop
data entry	furniture manufacturing
custodial	sign shop
furniture refinishing	laundry services
graphic arts	optical lab
shoe manufacturing	dental lab
license tag factory	microfilming

The state of Missouri has also established a blood plasma center that is financed and staffed by a private firm. Inmates donate blood from which plasma is extracted. The inmates are paid and earn about the same amount as they would if they worked in an industry factory.

Oklahoma

license tag factory
garment factory
drapery shop
sign shop
printing
furniture manufacturing
metal fabrication

data entry
microfilming
upholstery shop
box manufacturing
mattress factory
meat packing
furniture renovation

Inmates in Oklahoma are also making custom drapes and furniture for a new university dormitory.

Texas

shoe repair
bus repair
tire retreading
validation sticker manufacturing
metal fabrication
soap and detergent factory
textile mill

mattress factory
license tag factory
woodworking shop
mop and broom factory
box and sign manufacturing
furniture refinishing

Recently, Texas has established industries in microfilming, record conversion, data entry, and garment making.

Washington

metal fabrication
office furniture manufacturing
printing
cell furnishing manufacturing
dairy
detergent factory
meat cutting

mattress and flat goods manufacturing
sign shop
laundry
license tag factory
furniture restoration
concrete products

The state has also negotiated a contract with the federal government to repackaging cheese.

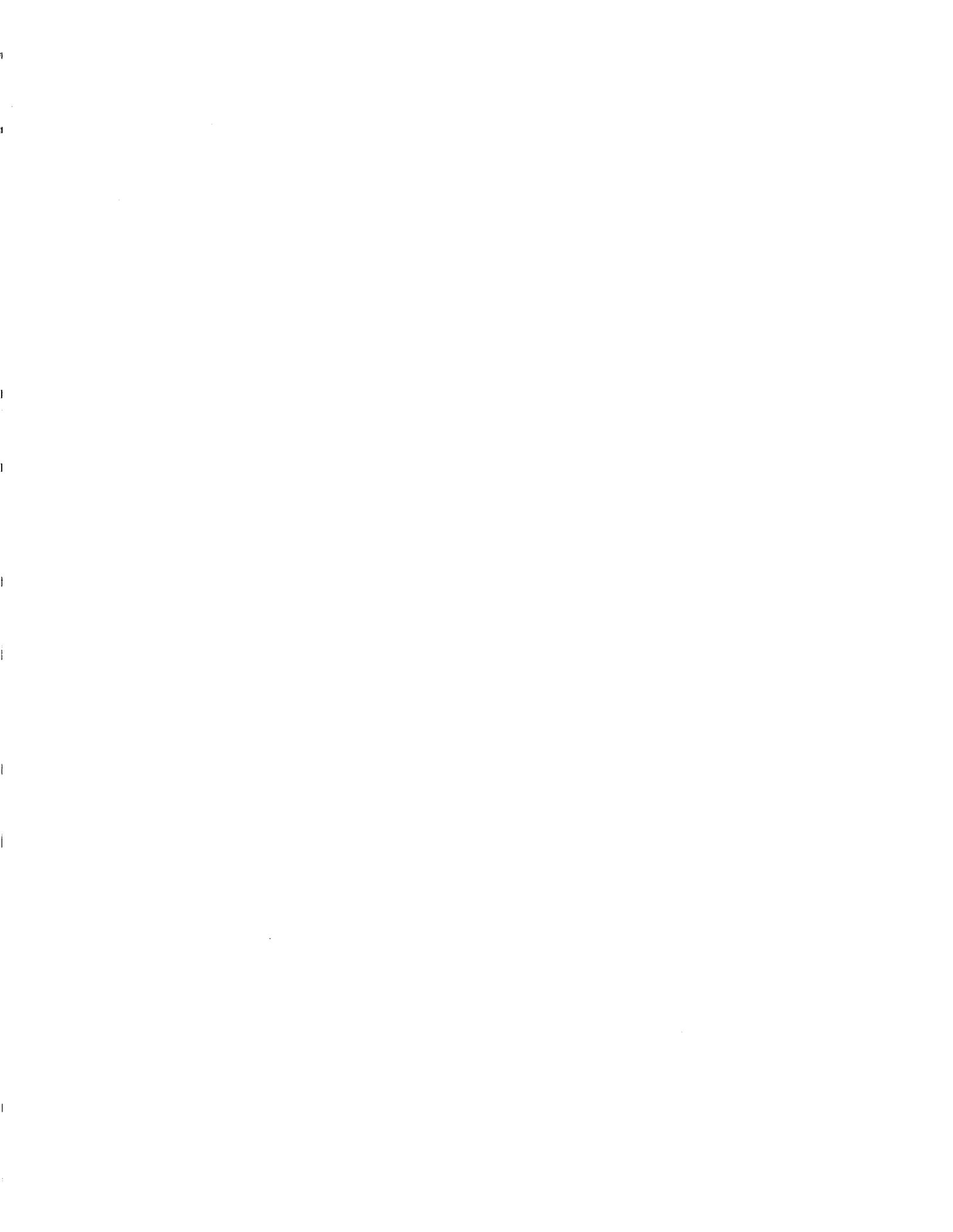
Idaho

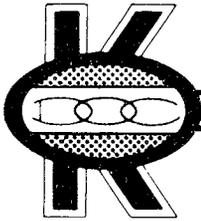
data processing
microfilming
metal fabrication
sign shop
carpentry shop

upholstery shop
auto body shop
dairy
farm
decal manufacturing

Inmates in Idaho also work in a rock cutting industry in conjunction with a private company. Industries' inmates are also building a boat dock for the state and are refinishing furniture for a local Air Force base.

APPENDIX C
Agency Response





KANSAS DEPARTMENT OF CORRECTIONS

JOHN CARLIN — GOVERNOR

MICHAEL A. BARBARA — SECRETARY

JAYHAWK TOWERS • 700 JACKSON • TOPEKA, KANSAS • 66603
• 913-296-3317 •

August 13, 1985

Meredith Williams
Legislative Post Auditor
Legislative Division of Post Audit
109 W. 9th Street, Suite 301
Mills Building
Topeka, Kansas 66612



Dear Meredith:

Thank you for the opportunity to review the draft report on Expanding Sales of Prison-Made Goods.

We would like to compliment Ellyn Rullestad and other members of the audit team on the thorough and professional job they did. We agree with the facts as presented and with the conclusions drawn. The following areas do merit response and further clarification.

AUDIT RECOMMENDATION:

Eliminate the exceptions of the mandatory purchase requirement or more clearly define the conditions for getting exceptions.

We agree that the statute for the mandated purchases needs to be tightened; however, we feel that there are justifiable exemptions and feel the second option of more clearly defining the type of exemptions as a better alternative. We already have an Advisory Committee which oversees the Industry Program and is responsible to review price changes among its other duties.

AUDIT RECOMMENDATION:

Correctional Industries should consider enhancing its marketing capabilities by expanding its use of direct mail, telemarketing, and product demonstrations and exhibits.

Again, we agree with this recommendation and the Correctional Industry program is currently taking steps to increase its marketing capabilities. KCI is expanding its customer mailing lists from 1,500 customers to 5,000. In October we will be mailing out 5,000 furniture brochures on the new Harvester furniture line. In December new price catalogues will be mailed to 5,000 customers.

In addition, for FY 87, we plan to increase the size of our sales staff for KCI and increase expenditures for advertising. We also hope to have a product exhibit at the State Capitol sometime after the beginning of the year.

We welcome the findings, comments and recommendations of the Legislative Division of Post Audit as constructive and useful. We feel that better utilization of the products offered by KCI not only is important in helping us deal with inmate idleness, but is also beneficial to the state as a means of saving taxpayers dollars. If we may be of further assistance, please feel free to contact me or my staff.

Sincerely,

A handwritten signature in cursive script, reading "Michael A. Barbara". The signature is written in dark ink and is positioned above the typed name.

Michael A. Barbara
Secretary of Corrections

MAB/PGS/jh
cc: R. Mills
D. Barclay
L. Ewell