

Prison Industry Authority:

Although It Has Broad Discretion in Pursuing Its Statutory Purposes, It Could Improve Certain Pricing Practices and Develop Performance Measures



December 2004
2004-101

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December 20, 2004

2004-101

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the pricing practices and impact of the Prison Industry Authority (PIA).

This report concludes that PIA has discretion with regard to how it fulfills its statutory purpose to be self-supporting. For instance, PIA uses profits from some enterprises to offset losses in others. In addition, although state law does not require PIA to offer competitive prices and its prices can differ from those of other vendors, PIA could improve certain pricing practices, such as product costs of questionable reliability, inadequate documentation justifying its prices, and a lack of policies with regard to special or discount pricing.

PIA has not established participation targets for the number of inmates it aims to employ among its various enterprises, which would allow it to demonstrate its effectiveness in fulfilling its statutory purpose to employ inmates. Also, PIA has not demonstrated adequately whether and in what manner it fulfills its statutory purpose to reduce the operating costs of the California Department of Corrections. Finally, although PIA has embarked upon various activities aimed at enhancing the employability of its participants, it has not established targets or performance measures to track participants' post-release success and evaluate its own performance.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

CONTENTS

<i>Summary</i>	1
<i>Introduction</i>	5
<i>Chapter 1</i>	
Although the Prison Industry Authority Has Discretion in Setting Prices, It Could Improve Certain Pricing Practices	13
Recommendations	26
<i>Chapter 2</i>	
The Prison Industry Authority Has Not Established Inmate Participation Targets or Related Enterprise Evaluation Criteria	27
Recommendations	33
<i>Chapter 3</i>	
The Prison Industry Authority Has Not Adequately Demonstrated Its Financial Impact on the California Department of Corrections	35
Recommendation	43
<i>Chapter 4</i>	
Although It Has Established a Program to Develop Inmates' Work Habits and Occupational Skills, the Prison Industry Authority Has Yet to Measure the Program's Effect Adequately	45
Recommendations	56

Appendix A

Fiscal Years 2002–03 and 2003–04 Prison Industry Authority Revenue by Enterprise and Major Customer	57
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Appendix B

Comparative Pricing Analysis of Prison Industry Authority Products and Services	61
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Response to the Audit

Youth and Adult Correctional Agency	63
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SUMMARY

Audit Highlights . . .

Our review of the Prison Industry Authority (PIA) revealed the following:

- Although state law does not require PIA to offer competitive prices and its prices can differ from those of other vendors, PIA could improve certain pricing practices.*
 - PIA has not established participation targets for the number of inmates it aims to employ among its various enterprises.*
 - PIA has not demonstrated adequately whether and in what manner it fulfills its statutory purpose to reduce the operating costs of the California Department of Corrections.*
 - Although PIA has embarked upon various activities aimed at enhancing the employability of its participants, it has not established targets or performance measures to track participants' post-release success and evaluate its own performance.*
-

RESULTS IN BRIEF

The Prison Industry Authority (PIA) operates under the policy guidance of an 11-member Prison Industry Board (board) and exists to employ inmates, to reduce the operating costs of the California Department of Corrections (Corrections), to offer inmates the opportunity to develop effective work habits and occupational skills, and ultimately to be self-supporting by generating sufficient revenue from the sale of products and services to pay for its own expenses. As of July 2004, PIA operated 25 manufacturing, service, and agricultural enterprises within 60 factories and farms at 22 of Corrections' 32 institutions. It recorded approximately \$144 million in revenue in fiscal year 2003–04, nearly all of it resulting from purchases by state agencies.

Although one of PIA's statutory purposes is to generate sufficient revenue from the sale of its products and services to ultimately be self-supporting, PIA has discretion with regard to how it fulfills this purpose. Over time, it appears that PIA has hovered around self-support; however, state law does not require each enterprise to be self-supporting, and the profits from some enterprises offset the losses in others. Specifically, of the 28 enterprises that experienced financial activity in fiscal year 2003–04, including three that PIA had closed recently, eight profitable enterprises offset much of the losses from 20 other enterprises.

Further, although PIA strives to keep the prices of its products and services competitive, state law does not require it to do so. Nonetheless, our review of the prices for 19 PIA products and services that in fiscal year 2002–03 generated approximately 24 percent of PIA's revenue shows that the prices for 14 of the items fall below the average price of the vendors we reviewed. The prices for an additional two items were no more than 15 percent greater than the average comparable price. Despite PIA's discretion with regard to pricing, we identified certain practices that could be improved, such as product costs of questionable reliability, inadequate documentation justifying its prices, and a lack of policies with regard to special or discount pricing.

In addition, although another of PIA's statutory purposes is to employ inmates, it has not established participation targets for the number of inmates it aims to employ among its various enterprises. Because the Legislature intended in part that PIA employ inmates in order to reduce inmate idleness and prison violence, we would expect PIA to establish long-range annual participation targets and report its progress in meeting these targets to the Legislature. Moreover, although inmates employed in PIA's enterprises contribute toward its ability to be self-supporting, this contribution varies depending on the enterprise. Yet PIA has not established criteria for evaluating each enterprise's combined contribution to PIA's statutory purposes of being self-supporting and employing inmates. Without establishing employment targets and routinely assessing the contribution of each enterprise to profitability as well as inmate employment against criteria, such as profitability per inmate, PIA limits decision makers' ability to assess its overall performance.

Further, although another of PIA's statutory purposes is to reduce the operating costs of Corrections, PIA has not demonstrated adequately whether and in what manner it fulfills this purpose. PIA claims that it provided Corrections \$14.1 million in cost savings in fiscal year 2002–03 by offering a correctional work or training program (correctional program) for inmates that Corrections otherwise would have had to fund. However, in PIA's absence, Corrections is neither legally obligated nor was it prepared to reassign all of PIA's participants in fiscal year 2002–03 to programs other than PIA. Thus, PIA's approach toward claiming cost savings to Corrections for fiscal year 2002–03 is questionable. An alternative approach to demonstrate PIA's financial impact to Corrections would be to evaluate sentence reduction credits that PIA or other correctional program participants earn at a faster rate than nonparticipants. Sentence reduction credits result in inmates spending less time in institutions, decreasing Corrections' costs of monitoring, housing, and feeding them. However, a new program initiated by Corrections in fiscal year 2003–04 as a result of a legislative requirement will reduce significantly or eliminate the group of inmates whose participation in PIA could result in a cost avoidance to Corrections due to their earning sentence reduction credits at a faster rate. Thus, PIA's ability to claim any cost avoidance in the future with regard to sentence reduction credits is impaired significantly.

PIA's diminishing ability to reduce Corrections' costs in this manner leaves performance measures with regard to post-release success as the primary benchmarks to demonstrate PIA's value and distinguish itself from other correctional programs. In 1999 PIA embarked upon various activities aimed at enhancing the employability of PIA participants after their release. Driving these activities are six goals that PIA developed in 2001 to enhance the employability of inmates. Although PIA's development and pursuit of its inmate employability goals represent an improvement from what we reported in previous audits, PIA needs to ensure that activities designed to meet these goals contribute to inmates' post-release success.

In July 2003 PIA entered into a contract with the Employment Development Department (EDD) that allows PIA to track the employment status of its former participants. However, PIA could do more to demonstrate its impact. Although PIA has begun to measure its participants' ability to obtain post-release employment and to avoid returning to prison, it has not established targets or performance measures to track participants' post-release success and evaluate its own performance. For instance, PIA does not compare its participants' post-release success to that of participants in other correctional programs, to nonparticipants, or to its own expectations. In addition, PIA lacks the necessary data to determine whether the specific training or experience it provides inmates affects the types of jobs they obtain after release. After we discussed this matter with PIA, it contacted EDD to discuss obtaining additional data of this type. Despite the challenges of establishing a direct link between PIA's activities and inmates' level of success after release from prison, without measuring and reporting on how inmates who have participated in its enterprises fare after release, PIA cannot provide an adequate perspective on the effectiveness of its pursuit of its statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills. Moreover, without performance measures or targets, PIA cannot focus its inmate employability efforts on areas that demonstrate success.

RECOMMENDATIONS

PIA should improve its method for identifying product costs, ensure that it documents the analyses supporting each price, and establish policies for entering into special pricing arrangements or offering discounts to customers.

PIA should establish long-range annual employment targets overall, for each enterprise, and as a percentage of Corrections' institution population. PIA should include these targets and annual results in meeting them, as well as explanations when they are not met, in its annual report to the Legislature.

To the degree PIA estimates cost savings that result from inmates participating in PIA, it should ensure that its analysis considers all the options and associated costs per inmate that Corrections would have available for reassigning PIA's participants into another program in PIA's absence.

PIA should establish targets against which to measure its participants' post-release success in obtaining employment and not returning to prison. For instance, PIA should compare the post-release success of its participants to that of participants in other correctional programs, to nonparticipants, or to its own expectations. Corrections should assist PIA in obtaining the necessary data for comparison by providing comparable data on other correctional programs.

AGENCY COMMENTS

The Youth and Adult Correctional Agency and PIA concur with our recommendations and outline an approach for implementing them. ■

INTRODUCTION

BACKGROUND

The Legislature established the Prison Industry Authority (PIA) to employ inmates, to reduce the operating costs of the California Department of Corrections (Corrections), to offer inmates the opportunity to develop effective work habits and occupational skills, and ultimately to be self-supporting by generating sufficient revenue from the sale of products and services to pay for its own expenses. A total of 662 full-time equivalent state employees work for PIA. Its administrative offices are in Folsom, California. As of July 2004, PIA operated 25 manufacturing, service, and agricultural enterprises within 60 factories and farms located at 22 of the State's 32 correctional institutions. Figure 1 on the following page shows the statewide locations of PIA's enterprise sites at their respective correctional institutions.

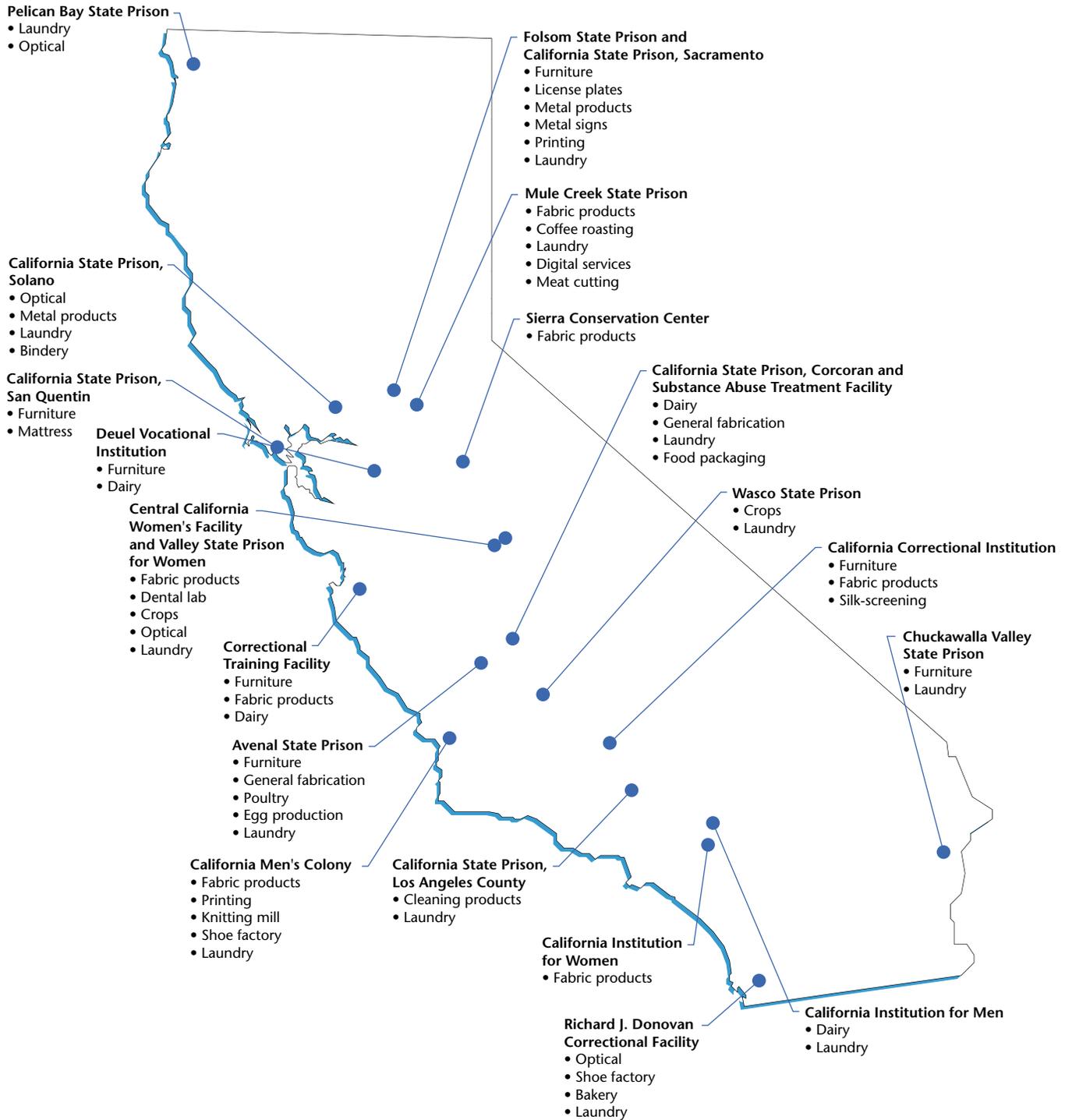
Inmates participating in PIA produce more than 1,800 products, including license plates, furniture, optical products such as eyeglass lenses, and agricultural products, and they provide services including laundry and printing. Corrections reports that as of June 30, 2004, PIA employed approximately 5,600 male and female inmates statewide, or 3.6 percent of Corrections' approximately 155,600 inmates in institutions. Inmates earn 30 cents to 95 cents an hour. During fiscal year 2003–04, more than \$550,000, or 30 percent of inmates' PIA earnings, was deposited into the Crime Victims Restitution Fund to pay for court-ordered restitution and fines. During fiscal years 2002–03 and 2003–04, PIA recorded approximately \$10.2 million and \$5.5 million in net losses.¹

PIA operates under the policy guidance of an 11-member Prison Industry Board (board), which consists of representatives of industry, labor, state agencies, and the general public. The director of Corrections serves as the board chair. Unlike Corrections' correctional work or training programs (correctional programs), such as academic or vocational education, PIA is not represented as a line item in Corrections' budget and is not subject to normal budgetary review. Rather, PIA relies on its

¹ As of mid-November 2004, fiscal year 2003–04 financial information was unaudited.

FIGURE 1

**Prison Industry Authority Enterprise Locations
July 2004**



Source: Prison Industry Authority.

own Prison Industries Revolving Fund to finance its operations. Instead of submitting a budget to the Department of Finance, PIA submits its annual budget to the board for review and approval. The board's authority over PIA also includes approving new manufacturing, agricultural, and service enterprises. State law calls for the board to meet at least four times during each fiscal year.

PIA SELLS PRIMARILY TO STATE AGENCIES

State agencies accounted for approximately 97 percent of PIA's revenue in fiscal year 2003–04. State law requires state agencies to make maximum use of PIA products and to work with PIA to develop additional products to meet their needs. Authority for purchasing goods and services for state government generally resides with the Department of General Services (General Services). State law provides that the director of General Services or his or her designee may procure goods from the private sector even though goods may be available from PIA, when in his or her discretion it is cost-beneficial to do so and if PIA continues to be included in solicitations for quotations for goods. General Services can delegate its purchasing authority to state agencies under certain conditions. It instructs state agencies to first consider if their needs can be met by PIA. However, state agencies can submit waiver requests to PIA to purchase non-PIA products in certain instances, such as if PIA does not make a requested product.

PIA also is authorized to sell its products and services to cities, counties, special districts, and other political subdivisions, as well as to federal agencies. Further, PIA may dispose of products by selling to foreign governments and businesses for distribution in other countries.

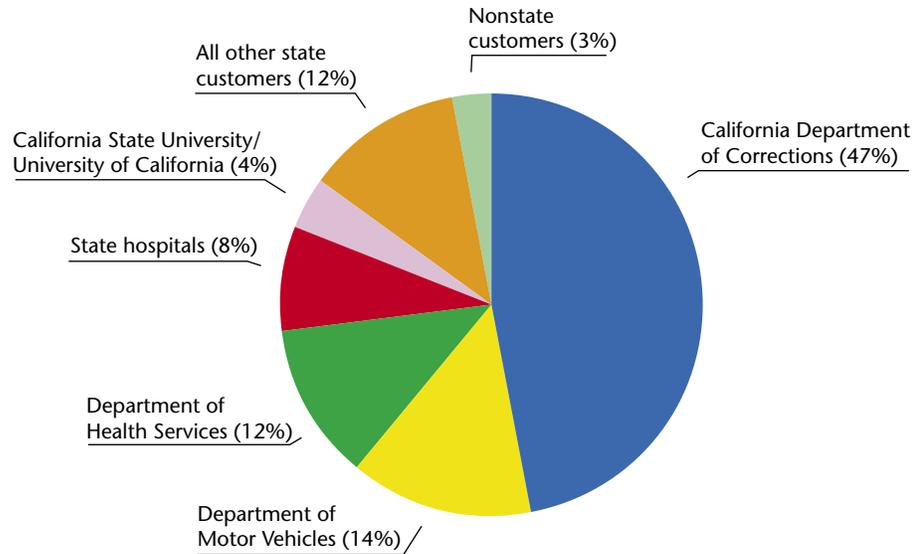
PIA recorded approximately \$144 million in revenue in fiscal year 2003–04. Corrections, as PIA's largest customer, provided 47 percent of PIA revenues. As shown in Figure 2 on the following page, the Department of Motor Vehicles and the Department of Health Services, which purchase mainly license plates and optical products, respectively, represented 14 percent and 12 percent of PIA revenues. Refer to Appendix A for a listing of PIA revenues by enterprise from its major customers for fiscal years 2002–03 and 2003–04.

PIA IS ONE OF SEVERAL CORRECTIONAL PROGRAMS

Corrections is responsible for the incarceration, training, and care of felons and nonfelon narcotic addicts as well as for the supervision of parolees released to the community. As we

FIGURE 2

**Fiscal Year 2003–04 Prison Industry Authority
Revenue by Major Customer**



Source: Prison Industry Authority fiscal year 2003–04 revenue data.

discussed previously, the director of Corrections chairs the board that oversees PIA. PIA is one of several correctional programs available to Corrections' inmates, but it is the only correctional program not contained in Corrections' budget. Table 1 shows the distribution of Corrections' institution population as of June 30, 2004, by inmates assigned to various correctional programs and those that are not assigned. Corrections assigned the most inmates, about 43,100, in institutional support and work programs, which include assignments such as maintenance and nursery crews. In addition, as of June 30, 2004, Corrections provided academic and vocational education programs for approximately 10,500 and 7,900 inmates, respectively. These correctional programs aim to equip inmates with the relevant knowledge and skills to help them find employment upon release. As of June 30, 2004, Corrections' waiting list for an assignment had reached approximately 35,600 inmates, while the number of inmates participating in its new bridging education program, which Corrections implemented in fiscal year 2003–04, amounted to approximately 17,500. After inmates arrive at their assigned institutions, those participating in the bridging education program, which provides educational instruction through an independent study approach, are considered to be on the waiting list for another assignment.

TABLE 1**Correctional Program Assignments of Corrections' Institution Population as of June 30, 2004***

Inmates assigned to a program		
Prison Industry Authority	5,600	3.6%
Vocational education	7,900	5.1
Academic education	10,500	6.8
Bridging education [†]	17,500	11.2
All other assignments [‡]	10,200	6.5
Institutional support and work programs	43,100	27.7
Total inmates assigned to a program	94,800	60.9
Inmates not assigned to a program		
Unwilling to work	900	0.6
Ineligible for programming [§]	10,600	6.8
New inmates and not yet assigned	13,700	8.8
On waiting list for program	35,600	22.9
Total inmates not assigned to a program	60,800	39.1
Total Corrections' institution population as of June 30, 2004	155,600	100.0%

Source: Inmate counts as of June 30, 2004, provided by the Estimates and Statistical Analysis Section in Corrections' Offender Information Services Branch. Detail on the bridging education program provided by Corrections' Education and Inmate Programs Unit.

* Inmate counts do not include individuals in community correctional facilities as well as nonfelon narcotic addicts.

[†] Of the 17,500 inmates in the bridging education program, 13,000 are in reception centers. These inmates become eligible for another assignment, and thus are considered to be on the waiting list, upon transfer to their assigned institutions.

[‡] The "all other assignments" category includes base camps, work crews, community crews, forestry training programs, substance abuse programs, and inmates whose program assignments are unknown.

[§] Inmates ineligible for programming are in administrative segregation or lockup units.

OUR PREVIOUS AUDIT REPORTS AND OTHER REPORTS OFFER VARIOUS RECOMMENDATIONS REGARDING PIA

We have performed three previous audits of PIA, while others, such as the California Performance Review and the Corrections Independent Review Panel, recently provided additional recommendations. In our 1996 audit report, we offered recommendations to help PIA better manage the costs and profitability of its products and factories. For example, we

recommended that PIA develop a method to allocate product costs based on the activity that generates the costs and that it increase its efforts to monitor competitors' product prices. In addition, we recommended that PIA measure and report its programmatic benefits, particularly with regard to inmates' post-release success. In a follow-up audit in 1997, we found that PIA had been slow to implement the recommendations of our 1996 report. Finally, in 1998 we reviewed PIA's practice of purchasing finished products and services from the private sector for resale, and found that it was neither well-planned nor cost-effective.

The California Performance Review, which consisted of 14 teams formed to analyze the State's programs and processes, made two recommendations regarding PIA in its August 2004 report. Specifically, it recommended that state law be amended to allow state agencies to purchase goods and services from a commercial supplier if the value and price are superior to those offered by PIA. It also recommended eliminating PIA's authority to purchase finished goods and services from the private sector to resell them to state agencies with little or no value added by inmates. In addition, the Corrections Independent Review Panel, which was formed to review the State's youth and adult correctional system, recommended in June 2004 that the board be dissolved and that Corrections absorb PIA's administrative functions.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to identify to the extent possible the total amount PIA has received from its customers for PIA products over the past two fiscal years and to determine, for a sample of items, whether the products are priced above the market. Also, the audit committee requested that we determine to the extent possible PIA's financial impact on Corrections and examine PIA's method for measuring its impact on inmates, particularly with regard to their obtaining employment upon release.

To identify the total amount PIA has received from its customers for PIA products over the past two fiscal years, we interviewed staff and reviewed PIA's annual reports to the Legislature, which contain audited financial information. At the time of our fieldwork, PIA's most recent annual report to the Legislature was for fiscal year 2002–03, so we requested PIA's supporting revenue and cost data by customer and enterprise for that fiscal year. We assessed the reliability of the data by performing electronic testing of required data elements, by reviewing existing

information about the data and the system that produced them, and by interviewing agency officials knowledgeable about the data. We determined that these revenue and cost data were sufficiently reliable for the purposes of our report. We further obtained PIA's unaudited fiscal year 2003–04 revenue and cost information to include in various analyses. Finally, we evaluated each enterprise's proportion of revenue and contribution toward PIA's overall profitability in terms of net profit and a per-inmate profit figure based on PIA's allocation of costs among enterprises and the number of inmates employed in each enterprise. After comparing the number of inmates PIA reports it employed as of June 30, 2004, to the number of inmates Corrections reports PIA employed as of June 30, 2004, we determined that the PIA-reported inmate figures were sufficiently reliable for the purpose of our report. With regard to PIA's overall ability to be self-supporting, our scope was limited to ongoing operations as presented in PIA's annual financial statements. It excludes any expenses PIA does not pay, such as the interest on contributions paid by the State's General Fund, which are described in our 1996 audit report.

To determine whether PIA products are priced above the market and to understand PIA's pricing policies, we interviewed staff and reviewed and evaluated the relevant laws, policies, procedures, and board minutes. Additionally, we evaluated the manner in which PIA identifies product costs, justifies product prices, and offers differing prices for the same product to different customers. Further, we selected a diverse sample of 19 PIA products and services that represents multiple enterprises and customer bases and makes up about 24 percent of PIA's fiscal year 2002–03 revenue. We selected 12 of our 19 sample items from a comparable pricing report prepared by PIA and chose the additional seven from the entire universe of PIA products and services sold during fiscal year 2002–03. For the 12 sample items appearing in PIA's report, we verified PIA's price and the comparable prices provided by PIA. For the seven sample items we selected, we compared each PIA price to the prices of three similar products and services available from private vendors or other states' prison industries. To identify similar products and services, we generally compared PIA's description of the product or service to another vendor's description. Although other vendor descriptions sometimes differed in certain respects from PIA's descriptions, we could not quantify the effect of those differences on price. We did not identify other readily measurable or comparable factors for additional analysis.

To determine PIA's financial impact on Corrections, we reviewed the relevant laws, regulations, and policies and interviewed PIA's and Corrections' staff members. We also reviewed PIA's annual reports to the Legislature. Further, we analyzed the various types of credits that inmates can earn to reduce their sentences and the resulting potential for PIA to provide cost avoidance to Corrections when compared with other programs into which Corrections can assign inmates. We also reviewed Corrections' data of the inmate groups that can earn various types of sentence reduction credits. To assess the reliability of data provided by Corrections, we interviewed officials knowledgeable about the data as well as obtained an understanding of how Corrections compiled the data. We determined that the data were sufficiently reliable for the purposes of our report. Finally, we considered other areas where PIA could have a financial impact on Corrections, such as utility and security personnel costs Corrections incurs on PIA's behalf.

To examine PIA's method for measuring the impact of its program on inmates, we interviewed staff and reviewed various reports that study the relationship between correctional programs and inmates' post-release success. Additionally, we reviewed PIA's inmate employability efforts and the manner in which PIA evaluates or monitors whether the skills inmates obtain through job training at PIA contribute to their post-release success. ■

CHAPTER 1

Although the Prison Industry Authority Has Discretion in Setting Prices, It Could Improve Certain Pricing Practices

CHAPTER SUMMARY

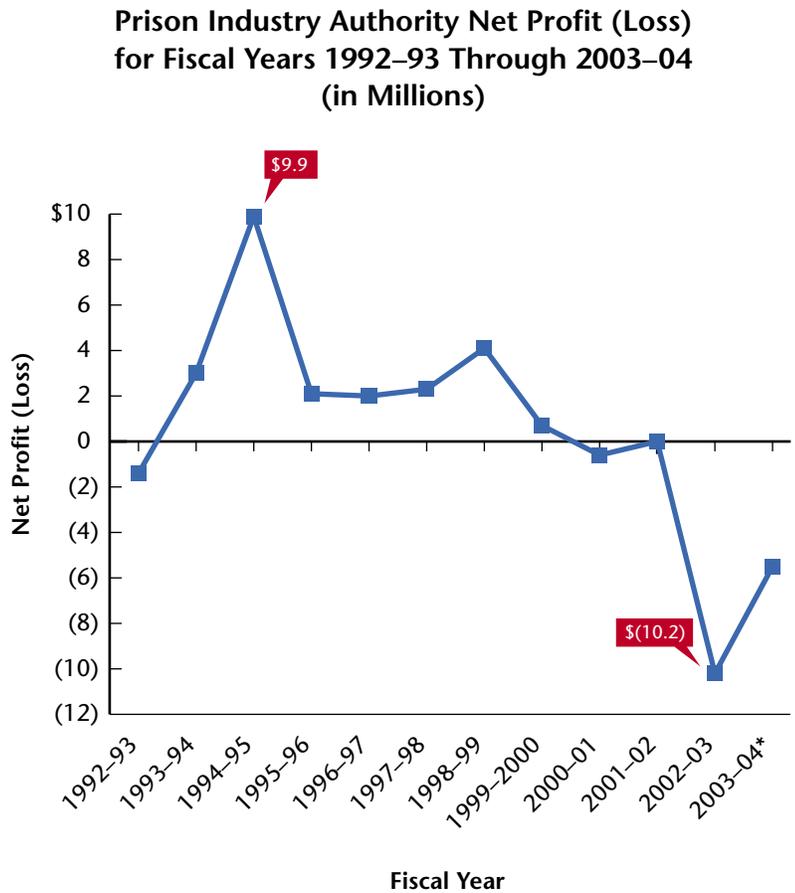
Although a statutory purpose of the Prison Industry Authority (PIA) is ultimately to be self-supporting by generating sufficient revenue from the sale of its products and services to pay for its expenses, PIA has discretion regarding how it fulfills this purpose. As a result, the profits from some PIA enterprises offset the losses in others. PIA strives to keep the prices of its products and services competitive, even though state law does not require it to do so. Nevertheless, when we compared PIA's prices for 19 products and services with the average price for a comparable product or service from three other vendors, we found that 14 PIA items were priced below the average comparable price, and an additional two prices were no more than 15 percent greater. Despite PIA's discretion with regard to pricing, we identified certain practices that could be improved, such as product costs of questionable reliability, inadequate documentation justifying its prices, and a lack of policies with regard to special or discount pricing.

AS PIA PURSUES ITS STATUTORY PURPOSE TO PAY FOR ITSELF, IT USES PROFITS FROM SOME ENTERPRISES TO OFFSET LOSSES FROM OTHERS

Statutorily, PIA is to remain self-supporting over time by generating sufficient revenue from the sale of its products and services to cover its expenses. Without sufficient revenue to cover its costs, PIA cannot pursue its statutory purposes to employ inmates, reduce the costs of the California Department of Corrections (Corrections), and offer inmates the opportunity to develop effective work habits and occupational skills. As shown in Figure 3 on the following page, although it saw a significant surge in net profits during fiscal year 1994–95 and a significant net loss during fiscal year 2002–03, PIA appears, over time, to have hovered around self-support. The jump in

profits in fiscal year 1994–95 occurred because PIA revenues increased by approximately 12 percent over the prior year while its expenses increased by only about 7 percent. According to PIA’s assistant general manager for operations, the largest revenue increase in that year took place in the fabric enterprise, which he credits to an increase in demand by Corrections as a result of the increasing inmate population. In contrast, PIA’s chief of the budget bureau attributes the loss in fiscal year 2002–03 to the closure or expected closure of various enterprises and certain facilities, which primarily accounted for approximately \$11 million in losses from the disposal or impairment of property.

FIGURE 3



Source: Financial data from Prison Industry Authority’s (PIA) fiscal year 2002–03 annual report and PIA’s fiscal year 2003–04 draft audit report, which includes an adjustment of \$2.4 million to reduce the fiscal year 2002–03 ending balance.

* The net loss of \$5.5 million for fiscal year 2003–04 was unaudited as of mid-November 2004.

State law stipulates only that PIA is to remain ultimately self-supporting over time rather than annually or by enterprise, so PIA has significant discretion in the manner by which it fulfills this requirement. Thus, it is not surprising to see certain PIA enterprises operating at a profit while others operate at a loss. According to PIA's assistant general manager for operations, capitalizing on competitive strengths, such as the profitability of certain enterprises, to support other losses of its operations is a standard business practice. Moreover, as it pursues its various statutory purposes, PIA may continue operating unprofitable enterprises that nevertheless contribute to another statutory purpose as long as it determines that the losses from the enterprises do not substantially affect PIA's ability to remain self-supporting over time.

During fiscal year 2003–04, the net profits from eight PIA enterprises offset much of the losses from the remaining 20.

During fiscal years 2002–03 and 2003–04, the net profits from seven and eight PIA enterprises offset much of the losses from the remaining 21 and 20 enterprises, respectively. Table 2 on the following page shows each of PIA's enterprises in fiscal years 2002–03 and 2003–04 and the net profit or loss for each. For example, during fiscal year 2002–03 the optical enterprise had a net profit of about \$6.3 million, while in fiscal year 2003–04 its net profit was approximately \$6.1 million. PIA notes in its fiscal year 2003–04 annual plan that optical orders have historically been a mainstay of PIA revenue through good and bad economic times. Conversely, the furniture enterprise had a net loss of approximately \$4.4 million and \$7.4 million in fiscal years 2002–03 and 2003–04, respectively.

Table 2 may not be indicative of the enterprises' performance in prior years. PIA reports that these two fiscal years reflect the effect of ongoing budget pressure felt by state agencies that has reduced customer demand for PIA products and services, particularly for discretionary items such as furniture. A more useful analysis of enterprise profitability would compare data from more than two fiscal years. However, as we discuss later in this chapter, prior to fiscal year 2002–03 PIA did not allocate all its costs to individual enterprises. Thus, Table 2 represents the extent of PIA's available data by enterprise.

TABLE 2

Prison Industry Authority Net Profit (Loss) by Enterprise, Fiscal Years 2002–03 and 2003–04

Enterprise	2002–03 Net Profit (Loss)	2003–04 Net Profit (Loss)
Operating enterprises		
Optical	\$ 6,342,976	\$ 6,059,897
License plates	6,234,250	6,818,668
Fabric products	2,959,608	2,327,285
Printing	1,855,227	2,310,067
Bakery	85,592	225,240
Bindery	72,399	(353,102)
Knitting mill	46,430	101,508
Mattress	(15,777)	(68,746)
Dental lab	(19,702)	(55,514)
Food packaging*	(32,400)	(648,802)
Coffee roasting	(43,856)	62,579
Silk-screening	(56,519)	(54,141)
Poultry	(233,154)	(1,370,538)
Metal signs	(252,654)	(88,498)
Egg production	(480,690)	(528,323)
Digital services	(481,738)	(312,864)
Cleaning products	(557,588)	(449,462)
Crops	(609,886)	(45,130)
Shoe factory	(796,477)	(1,023,219)
Meat cutting	(1,037,490)	(600,464)
Metal products	(1,163,383)	(2,022,427)
General fabrication	(2,222,711)	(3,407,657)
Laundry	(2,495,036)	(1,856,140)
Dairy	(3,392,475)	(1,569,896)
Furniture	(4,444,055)	(7,355,216)
Subtotals	(739,109)	(3,904,895)
Enterprises that closed during fiscal years 2002–03 or 2003–04†		
Paper products	(430,317)	(12,442)
Correctional Resource Recovery Facility (CRRF)	(5,299,805)	(495,965)
Textile mill	(3,932,015)	229,184
Nonenterprise related		
Inventory expense reserve‡	164,181	(348,835)
Unallocated adjustments§		(1,013,252)
Grand Totals	\$(10,237,065)	\$(5,546,205)

Source: Prison Industry Authority (PIA) allocations based on data from its fiscal year 2002–03 financial audit as well as its fiscal year 2003–04 draft financial audit, which includes a \$2.4 million adjustment to CRRF for additional impairment losses for fiscal year 2002–03.

* Food packaging is a new enterprise beginning in fiscal year 2003–04. The activity in fiscal year 2002–03 reflects administrative support costs for staff time spent on activating the enterprise.

† According to PIA, it closed the textile mill and paper products enterprises during fiscal year 2002–03 because continued losses outweighed the benefits of inmate participation, which was limited. These enterprises reflected financial activity in fiscal year 2003–04 related to disposal of assets and other closure activities. Further, PIA explained that on July 1, 2003, it ceased receiving refuse at its CRRF from the city of Folsom, which was its only customer. However, it did not close the facility until January 2004. Because of this situation, PIA recognized a net loss of approximately \$5.3 million and \$500,000 in fiscal years 2002–03 and 2003–04, respectively.

‡ “Inventory expense reserve” is not an enterprise. Rather, it represents the change in each fiscal year in the estimate of obsolete inventory amounts for all institutions where PIA operates. We include it in this table to ensure that the total net loss in fiscal year 2002–03 ties to PIA’s financial statements and the total net loss in fiscal year 2003–04 corresponds to PIA’s unaudited net loss.

§ At the time of our review, PIA had not yet allocated these costs, which primarily consisted of workers’ compensation costs, at the enterprise level.

STATE LAW DOES NOT REQUIRE PIA TO OFFER COMPETITIVE PRICES, AND ITS PRICES CAN DIFFER FROM THOSE OF OTHER VENDORS

The Prison Industry Board expects PIA to be competitive in pricing as long as PIA's profitability is ensured.

Although PIA no longer is statutorily required to establish prices as near as possible to the prices of equivalent items that are commercially available, the Prison Industry Board (board) nevertheless expects PIA to be competitive. At the same time, because of PIA's statutory purposes to be self-supporting, to employ inmates, to reduce Corrections' costs, and to offer inmates the opportunity to develop effective work habits and occupational skills, PIA cannot focus exclusively on competitive pricing. In 1983 the Legislature removed the only potentially limiting statutory language, which had required that, with the exception of products or services sold to Corrections, PIA's prices be as near as possible to those of items of equivalent quality from commercial sources. The elimination of this language left PIA and the board with greater discretion in establishing PIA's prices. Nonetheless, in 1985 the board established a pricing policy that included an expectation that PIA's pricing would ensure its profitability while still being competitive in the open market, and in October 2002 the board reaffirmed the expectation that PIA be competitive in pricing as long as its profitability is ensured.

To determine how well PIA meets the board's expectation that its prices be competitive, we selected 19 PIA products and services that in fiscal year 2002–03 made up approximately 24 percent of its revenue. We compared the price of each product or service with the prices of three products or services available from other vendors that met a similar description. To identify similar products and services, we generally compared PIA's description of the product or service to another vendor's description. Although at times other vendors' descriptions differed in certain respects from PIA's descriptions, we could not quantify the effect of those differences on price. Further, although PIA typically collects sales tax from its nonstate customers, as a state entity it cannot collect sales tax from other state entities. However, if state customers were to purchase elsewhere, they generally would be required to pay the sales or use tax applicable to the county where they are located. Because state customers, many of which are located in Sacramento County, provide approximately 97 percent of PIA's revenues, we increased other vendor prices by 7.75 percent to reflect Sacramento County's sales and use tax. Finally, because PIA generally does not charge its customers additional freight costs, we increased other vendor prices to reflect the amount a customer would pay for freight when other

vendor freight charges were not included in the price. Vendor freight charges were not readily available for other items in our sample, so we reduced PIA's prices to make them comparable.

Although PIA's prices can differ considerably from the prices of other vendors, we found that the prices for 14 of the 19 items in our sample fall below the average prices for comparable items, and an additional two items are no more than 15 percent greater. Table 3 provides a breakdown of the 19 items, showing the range by which PIA's price exceeds or is less than the average price for comparable items. Of the 19 items, PIA's most competitive price is for a cleaning product—43 percent lower than the average comparable product price. Its least competitive price is for a shoe product—67 percent higher than the average comparable product price. Appendix B provides the detailed analysis behind Table 3.

TABLE 3

**Sample of Prison Industry Authority Prices
Compared With Prices Charged by Other Vendors**

Percentage Above (Below) Other Vendors' Average Price*	Number of Items
31% and above	3
16 to 30%	0
0 to 15%	2
(0 to 15%)	7
(16 to 30%)	5
(31%) and below	2
Total Number of Items	19

Source: Bureau of State Audits' analysis based on Prison Industry Authority (PIA) prices and other vendors' prices for comparable items.

Note: Because 97 percent of PIA revenues result from state agency customer purchases and state agencies are not required to pay sales and use tax on PIA purchases, the PIA prices in our analysis do not reflect this tax. We generally increased other vendors' prices by 7.75 percent (the tax rate for Sacramento County) as state agencies would be required, for purchases from other vendors, to pay the sales and use tax rate charged by the county within which the customer is located. Nonstate customers, such as local governments, typically would be required to pay sales and use tax on PIA purchases. For a price comparison from the perspective of a nonstate customer, PIA prices would need to be increased by the applicable sales and use tax rate.

* For purposes of comparison, we selected three vendors for each sample item.

Because PIA offers more than 1,800 products and services, at any given time a stakeholder is likely to be able to identify individual products and services from other vendors that are less expensive than the comparable PIA product or service.

PIA offers more than 1,800 products and services that cover a wide spectrum of items, so at any given time a stakeholder is likely to be able to identify individual products and services from other vendors that are less expensive than the comparable PIA product or service, particularly if the stakeholder compares PIA's prices to the prices of products or services that are of lesser quality. For instance, PIA recently faced questions with regard to its shoe prices. In November 2003 the secretary of the Youth and Adult Correctional Agency—the executive agency that oversees the State's correctional system—asked PIA about a newspaper article criticizing Corrections' decision to purchase shoes for inmates from PIA at a price of \$7.30 per pair when a comparable item was available from the private sector for \$1.05 per pair.

PIA responded that it had conducted extensive meetings with Corrections, during which Corrections' medical, custody, business services, and procurement staff approved the use of the new PIA canvas slip-on shoe, at a price of \$7.30 per pair, as a replacement for the various slipper-type shoes used by reception centers. Reception centers provide short-term housing to process, classify, and evaluate incoming inmates. PIA indicated that an inmate can use the PIA shoe both at the reception center and at the institution where the inmate ultimately is placed, making it unnecessary to provide a second pair of shoes at the institution. The shoe also meets the podiatric specifications identified by Corrections' medical specialists. According to PIA, the shoe available from the private vendor has a thin sole, wears out quickly, and has created numerous podiatric medical injuries, while the PIA shoe is a more durable and supportive canvas style that reduces injuries and their associated costs.

The assistant deputy director of Corrections' institutions division confirmed PIA's description, indicating that although the \$7.30 shoe is more expensive, it is more durable and has improved the podiatric medical issues among the inmate population. Thus, although both products meet the definition of a shoe, the \$1.05 shoe does not meet Corrections' needs in the same manner as PIA's shoe. Figure 4 on the following page provides a picture of PIA's shoe and the shoe for sale from the private vendor. When we compared PIA's canvas shoe with comparable products from other vendors, we found that its price falls within the \$6.41 to \$8.62 price range for similar shoes.

FIGURE 4

Prison Industry Authority Shoe Compared to Other Vendor's Shoe



Source: Photograph taken by Bureau of State Audits' staff. The PIA-manufactured shoe and the vendor-manufactured shoe were provided by PIA.

The availability of products and services whose prices at any given point in time are lower than PIA's prices raises the question of the extent to which state agencies should be required to purchase from PIA. As discussed in the Introduction, state law requires state agencies to make maximum use of PIA products. The California Performance Review recommended that the governor work with the Legislature to amend current law to allow state agencies to purchase from a commercial supplier if the value and price are superior to PIA's. Our comparison of the prices for the 19 PIA products and services in our sample found that seven PIA prices are lower than the lowest price offered by the other vendors we identified. The remaining 12 prices exceed the lowest of the comparable prices by a range of 10 percent to 181 percent. Therefore, given that PIA does not price its products and services at the lowest comparable price, in some instances customers pay a premium in order to finance PIA's pursuit of its various statutory purposes.

From the perspective of customers interested in purchasing the least expensive products and services that meet their needs, the California Performance Review's recommendation merits

consideration. Current state law does not require PIA to price its products competitively or to offer the lowest price, but it nevertheless expects state agencies to make maximum use of PIA products. Yet in removing the statutory language requiring PIA to set its prices as close as possible to the prices of equivalent products available from the private sector, the Legislature, in effect, acknowledged that PIA may not be able to price all its products and services competitively because of its various statutory purposes and the realities of operating in a prison environment.

The Legislature has established statutory purposes unrelated to pricing that PIA must pursue and against which PIA should be evaluated.

Although customers may evaluate PIA products relative to prices they could find from other vendors, the Legislature has established statutory purposes unrelated to pricing that PIA must pursue and against which PIA should be evaluated. We discuss in the following chapters how PIA pursues these other purposes and how its performance can be evaluated. The extent to which state agencies can purchase non-PIA products and services may merit further consideration. If the Legislature decides to modify state law, the discussions should take into account the context described here.

PIA COULD IMPROVE CERTAIN PRICING PRACTICES

Although the board has established a pricing policy, we identified certain pricing practices that could be improved. For instance, because the reliability of its product costs is questionable, PIA cannot demonstrate to the board or its customers that, consistent with board policy, its prices are at a level sufficient to reflect the actual cost of producing each product and service. Further, PIA could not provide documentation of the analyses it conducts to arrive at prices, and thus it could not demonstrate a consistent pricing process under the board's policy. Finally, some state agencies have unique agreements with PIA to receive discounted prices for certain products. However, PIA does not have any policies defining the circumstances under which such agreements can be made and thus risks the appearance that its pricing practices are unfair.

PIA Continues to Lack Accurate Product Cost Figures

The board's pricing policy calls for PIA to establish prices at a level sufficient to ensure PIA's profitability while still being competitive in the open market. Although the board policy

To comply with the Prison Industry Board's general expectation that PIA prices recover the cost of producing an item, PIA must be able to identify product costs accurately.

allows PIA the discretion to establish prices that do not recover production costs, it generally expects PIA to price each item at a level sufficient to recover the cost of producing the item. To comply with this expectation, PIA must be able to identify accurately the costs involved in producing each item. In our 1996 audit report, we identified certain weaknesses in PIA's accounting system and processes that rendered PIA's product costs less accurate than they could be, and we recommended that PIA improve its system and processes to reflect product costs more accurately.

Although PIA has taken some steps to address our prior recommendations, the reliability of its product costs remains questionable. PIA hired a consultant to help it develop a cost accounting system that would address the major concerns we raised in our 1996 audit report and develop a costing system that would function adequately in an institutional environment. According to PIA's acting assistant general manager for financial operations, PIA is performing analyses and evaluations on a monthly and annual basis to improve its ability to distribute factory overhead costs among its products. For example, he explained that to monitor product costs, staff members review reports on a monthly basis to ensure that certain costs such as raw materials are reported correctly and that inventory costs appear reasonable. Nonetheless, according to the same acting assistant general manager, distributing costs to products consistently and accurately is difficult because PIA's cost allocation methodology still relies primarily on the estimated hours an inmate spends making a product and because these hours can fluctuate significantly in a prison environment. Thus, PIA cannot sufficiently rely on its own estimate of product costs.

Moreover, until recently PIA did not allocate certain costs, such as distribution, transportation, and administrative support, among its various enterprises, let alone among its individual products. Beginning with fiscal year 2002–03, PIA allocated these costs, totaling approximately \$28 million, to its enterprises, based in part on each enterprise's proportion of total revenue and on the staff time dedicated to each enterprise. According to the chief of PIA's budget bureau, PIA continues to refine and identify methods to allocate these costs by enterprise and believes that there may be more accurate methods for distributing these costs.

As PIA continues to refine this process, it must establish a way to account for these costs, not only at the enterprise level but also at the product level. As we reported in 1996, without accurate product costs it is difficult to manage a business, identify or manage product profitability, identify products that are losing money, establish fair and adequate prices, or develop plans to increase production, reduce production, or discontinue products. Moreover, without accurate product costs, PIA cannot demonstrate that it considers only applicable costs when pricing a particular product in accordance with the board's policy.

PIA Does Not Document Its Justification for Product Prices

In its pricing policy, the board established that PIA must base its prices on a profit margin, cost data, market data for comparable products and prices, and marketing strategies related to the product or service. Additionally, the policy requires PIA to review and update prices periodically to reflect changes in direct and indirect costs, profit needs, prevailing market trends, and marketing strategies. Although not explicitly required by the policy, we expected that PIA would document the analyses it performed to establish and review its prices in order to demonstrate how it applied the specific criteria in the board's pricing policy in practice. However, when we reviewed 19 products for which PIA had adjusted or established the price in fiscal year 2002–03, PIA was unable to provide supporting analyses demonstrating how it arrived at or reviewed the prices for any of these products.

PIA was unable to provide supporting analyses demonstrating how it arrived at or reviewed the prices for any of the 19 products we examined.

According to PIA's chief of marketing services, PIA has been preparing and documenting product price reviews for many years. She showed us an example of an analysis for one product that contained the relevant documentation, including the date of the price change, three other vendor prices for a comparable item, and PIA's estimate of its costs to produce the product. She also stated that since the board revised the pricing policy in October 2002, PIA has made a great effort to standardize the documentation and retain it so it will be available for future reviews if necessary. Nonetheless, for the 19 fiscal year 2002–03 product prices we reviewed, PIA could not provide evidence that it had performed an analysis to establish or change the products' prices. For two of the 19 items, the supporting documentation indicates that the price adjustment occurred in fiscal year 2002–03

and that PIA considered certain factors outlined in the board's pricing policy. However, PIA could not provide the actual analyses to which the documentation refers.

Without documenting the analysis that supports each price, PIA cannot demonstrate the consistency of the process it follows.

According to PIA's chief of marketing services, most of the price reviews are well documented but there have been some instances in which they were not documented or the documentation has been misplaced or for some reason is not available. However, she also indicated that PIA does not maintain documentation when it has reviewed a price and determined that a price change is unnecessary. In July 2004 PIA added procedures intended to standardize the gathering and documenting of information according to the board's pricing policy. Further, she stated that in the future PIA will maintain documentation for all price reviews, including those that result in no price change. Without documenting the analysis that supports each price, PIA cannot demonstrate to the board the consistency of the process it follows when pricing or reviewing the prices of its products and services.

PIA Lacks Policies Regarding Special or Discount Pricing

Although PIA has discretion with regard to pricing, we expected it to have established policies regarding special or discount pricing arrangements through which different customers pay different prices for like items. We identified certain products for which PIA charged a different price to different customers in fiscal year 2002–03 and asked PIA for an explanation. For example, Corrections and, more recently, the California Department of the Youth Authority have entered into memoranda of understanding with PIA to purchase certain clothing items at a 10 percent discount from PIA's regular price. These agreements require these two agencies to inform PIA of their projected annual need for these clothing items so that PIA is assured of a certain annual production volume. According to PIA's chief of marketing services, these agreements help PIA smooth out production and therefore deliver the products on time.

Although such bulk discounts seem reasonable, we would expect PIA to afford other agencies the opportunity to enter into similar agreements. PIA's chief of marketing services contends that any agency is eligible to establish an agreement with PIA if the circumstances are beneficial to both parties and the State. Further, she believes that all of PIA's sales representatives discuss the possibility of entering into such an agreement with any customer for whom it would be beneficial. However, there

Without policies defining the circumstances under which PIA enters into special pricing arrangements or offers discounts, PIA risks the appearance that its pricing practices are unfair.

is no written policy regarding such pricing arrangements. In addition, according to PIA's chief of marketing services, in some cases if PIA is not able to meet what a customer describes as an emergency need for a certain product, it will offer the customer an alternative but similar product at a reduced price. However, she stated that there is no policy or criterion governing this issue; sales representatives and managers use their knowledge of the relationship with the customer to make the determination at their own discretion. Without policies defining the circumstances under which PIA enters into special pricing arrangements or offers discounts, PIA risks the appearance that its pricing practices are unfair.

Further, PIA identified other situations in which some customers may pay full price for a given product while others pay a lower price for the same product, depending on when the item is purchased. According to PIA's assistant general manager for marketing, similar to other businesses, PIA offers discounts to liquidate overstocked or discontinued items. In addition, PIA may adjust prices as a marketing strategy to increase sales or introduce a new product. For instance, PIA's assistant general manager for marketing contends that as PIA pursues a strategy to expand its local government customer base, it is acceptable as a business practice and essential to PIA's growth in the market to offer prices to local governments that may differ from its standard prices.

Finally, PIA's prices for certain optical products sold to the Department of Health Services (Health Services) are significantly lower than the prices it charges other state agencies for the same products. Because Health Services purchases optical products on behalf of Medi-Cal—California's version of the federal Medicaid program—state regulations establish the rates that govern what PIA can charge Medi-Cal customers for all types of lenses, such as plastic and glass. For example, PIA cannot charge Health Services more than \$12.06 on average for five types of single-vision plastic lenses when Health Services purchases these lenses on behalf of Medi-Cal. However, PIA's price for the same type of product is \$27 when sold to another state agency. According to PIA's assistant general manager for operations, PIA recently decided to reduce the prices it charges other state agencies for plastic lens optical products to a level more equivalent to the Medi-Cal rates by January 2005. He also indicated, however, that PIA does not intend to reduce its prices for glass lenses to the Medi-Cal rates. He stated that currently, only 7 percent of all PIA optical orders are glass and, due to the decline of glass

lens material in the world market, which leads to shortages and higher costs, PIA will be forced to eliminate this product from its price schedules. The assistant general manager for operations also indicated that PIA has recognized the importance of customer satisfaction in standardizing the prices of optical products so that non-Medi-Cal customers receive prices similar to those available to the Medi-Cal program. In addition, he stated that PIA intends to maintain comparative rates for all optical products offered to all PIA customers.

RECOMMENDATIONS

PIA should develop a method to allocate administrative support, distribution, and transportation costs directly to its products and services. Until it does so, PIA should ensure that its allocation of these costs to the various enterprises is as accurate as possible.

PIA should ensure that it documents the analyses it conducts to establish, change, or review its prices.

PIA should establish policies for entering into special pricing arrangements or offering discounts and should ensure that its customers are aware of such opportunities. ■

CHAPTER 2

The Prison Industry Authority Has Not Established Inmate Participation Targets or Related Enterprise Evaluation Criteria

CHAPTER SUMMARY

Although a statutory purpose of the Prison Industry Authority (PIA) is to employ inmates, it has not established participation targets for the number of inmates it aims to employ among its various enterprises. The Legislature intended that PIA employ inmates in order to reduce inmate idleness and prison violence, so we would expect PIA to establish long-range annual targets and report to the Legislature its progress in meeting the targets. Moreover, inmates employed in PIA enterprises contribute toward PIA's ability to be self-supporting, but this contribution varies depending on the enterprise. Yet PIA has not established criteria for evaluating each enterprise's contribution to PIA's statutory purposes of being self-supporting and employing inmates. Without establishing inmate employment targets and routinely assessing the contribution of each enterprise to profitability as well as inmate employment against related criteria, PIA limits decision makers' ability to assess its performance and that of its enterprises.

PIA HAS NOT ESTABLISHED CRITERIA FOR EVALUATING ITS SUCCESS IN FULFILLING ITS STATUTORY PURPOSE TO EMPLOY INMATES

One of PIA's statutory purposes is to employ inmates in institutions under the jurisdiction of the California Department of Corrections (Corrections). However, state law does not specify how PIA, the Prison Industry Board (board), or the Legislature should evaluate PIA's performance relative to this purpose. Part of the expressed legislative intent for PIA was to reduce inmate idleness and prison violence. In fact, a 2001 Corrections study reported the results of an earlier study, which found that inmates participating in correctional work or training programs (correctional programs) were less likely to be disciplined for

misconduct than unassigned inmates. Additionally, inmates employed by PIA had slightly lower rates of misconduct than those assigned to other correctional programs.

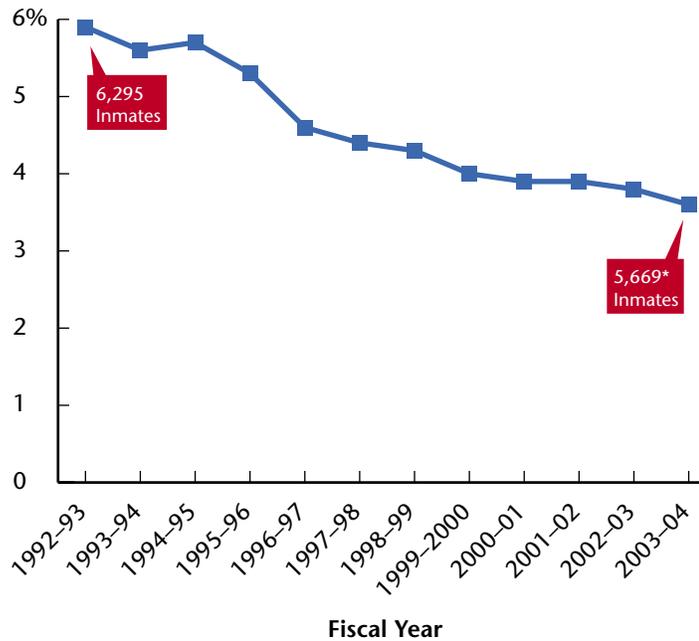
To identify PIA's contribution toward the legislative intent of reducing prison violence and idleness, state law requires PIA to provide, in its annual report to the Legislature, the number of inmates it employs in each of its enterprises. Figure 5 illustrates the decrease in PIA participation as reported by PIA over the last 12 fiscal years relative to Corrections' institution population. As the figure indicates, PIA participation has declined from 6,295 in fiscal year 1992-93 to 5,669 in fiscal year 2003-04. During the same time period, Corrections' institution population has increased from about 106,000 inmates to approximately 156,000. According to PIA's assistant general manager for operations, PIA has not done a thorough evaluation of the specific inmate employment changes over time. However, he believes the main reasons for PIA's overall decline in participation relate to the demise of the prison construction program for which PIA produced construction-related products, the closure or consolidation of various enterprises, and the more recent economic downturn.

Despite the overall decline in PIA's inmate employment, in the absence of statutory direction, neither PIA nor the board has established participation targets for the number of inmates or the percentage of Corrections' institution population PIA aims to employ, either overall or by enterprise. In its most recent strategic plan, developed in late 1997, PIA indicated that it would like to increase the number of inmates employed in its program, but it did not specify a target it sought to achieve, either overall or by individual enterprise. PIA's assistant general manager for operations explained that PIA decided to limit the detail elements in the strategic plan to allow greater flexibility in its further development. He stated that the intention was that subsequent reviews would delineate more specificity, including performance measures and targets, but that changing priorities and turnover in senior staff have limited further review and analysis of performance measures and targets.

In its most recent strategic plan, PIA indicated that it would like to increase the number of inmates it employs, but it did not specify a target it sought to achieve.

FIGURE 5

**Percentage of Corrections' Institution Population
Employed in the Prison Industry Authority
for Fiscal Years 1992-93 Through 2003-04**



Source: Prison Industry Authority (PIA) inmate employment data and Corrections' report of institution population as of June 30 for fiscal years 1992-93 through 2003-04.

* This 5,669 count differs from the approximately 5,600 inmates Corrections reports that participated in PIA as of June 30, 2004, and we report in the Introduction and Chapter 3. Both Corrections and PIA indicate that the discrepancy results from differences in how and when the information was gathered. We use PIA's participation data in this figure because Corrections' data on PIA participation for the entire 12-year time period was unavailable.

PIA currently forecasts in its annual plan, which presents its financial outlook for the coming year, the total number of inmates it expects to employ to meet anticipated customer demand, as well as planned enterprise closures, expansions, or activations during the upcoming year. Although PIA's anticipated inmate needs provide a valuable tool for projecting business activity during the upcoming year, these figures are not prepared as targets against which decision makers can evaluate PIA's performance with regard to its statutory purpose to employ inmates.

PIA could establish long-range targets for the number of inmates it will seek to employ overall, at each enterprise, and as a percentage of Corrections' institution population.

Despite the lack of specificity in PIA's enabling statute and in its strategic plan, we would expect PIA, in order to demonstrate its effectiveness in fulfilling its statutory purpose to employ inmates, to establish long-range annual targets against which to measure its performance. For instance, PIA could establish long-range targets for the number of inmates it will seek to employ overall or at each enterprise. If PIA intends to expand its business to increase the number of inmates it employs, it could describe the markets it plans to penetrate and the enterprises most likely to employ a greater number of inmates as a result. Similarly, if PIA anticipates a decline in the number of inmates it employs, for reasons such as an enterprise's planned closure or a decrease in customer demand, it could build these factors into its long-range targets and provide an explanation for the anticipated cause, preparing decision makers for future events. PIA also could establish an overall target for annual employment of a specific percentage of Corrections' institution population. Given PIA's experience with projecting customer demand and the number of inmate employees it will need to meet that demand, it should be able to establish reasonable long-range targets for inmate employment against which to measure its performance.

PIA's assistant general manager for operations stated that PIA recognizes that the number of inmates employed by PIA has decreased and it plans to increase employment by expanding its business. Specifically, PIA anticipates the development of a strategic business plan in early 2005 that will result in a marketing plan focused on markets that it can penetrate or expand, given its strengths and limitations. He explained that with that information PIA can better target growth in total and by enterprise. He stated that PIA recognizes the value of inmate employment targets and indicated that PIA would develop such targets during its strategic planning sessions.

ROUTINELY EVALUATING THE CONTRIBUTION OF PIA ENTERPRISES TOWARD ITS STATUTORY PURPOSES TO EMPLOY INMATES AND REMAIN SELF-SUPPORTING WOULD AID DECISION MAKERS

One of PIA's missions is to employ the maximum number of inmates needed to provide the goods and services requested by its customers. However, the number of inmates employed in each enterprise varies, depending on the enterprise's production demands. For example, its smallest enterprise in terms of revenue during fiscal year 2003-04, silk-screening, employed 21 inmates, while its second-largest enterprise in terms of revenue, fabric

The number of inmates employed in each PIA enterprise varies, depending on the enterprise's production demands.

products, employed 1,370 inmates as of June 30, 2004.² Although these participation figures provide one perspective on PIA's success in employing inmates, measuring the value of each inmate to PIA's statutory purpose to be self-supporting provides an additional perspective. PIA could routinely analyze each enterprise based on a per-inmate figure that combines an enterprise's profitability and the degree to which it employs inmates.

In Table 4 on the following page we combine these perspectives and expand upon Table 2 from Chapter 1 to reflect the number of inmates and the per-inmate profit or loss by enterprise. For example, although the furniture enterprise in fiscal year 2003–04 operated at a net loss of about \$7.4 million, it employed 739 inmates, resulting in a per-inmate loss of approximately \$10,000. This per-inmate figure compares more favorably against other enterprises that have a smaller net loss but employ fewer inmates. For instance, the cleaning products enterprise operated at a net loss of about \$449,500—lower than the net loss of the furniture enterprise—yet its per-inmate loss in fiscal year 2003–04 was about \$18,700, the second-largest among the active enterprises. Thus, when we evaluate the contribution of each enterprise—not only to PIA's statutory purpose to be self-supporting, but also to PIA's statutory purpose to employ inmates—the benefit of the furniture enterprise increases.

In deciding to close certain enterprises during fiscal year 2002–03, PIA considered enterprise profitability and number of inmates employed. Specifically, in fiscal year 2002–03, PIA closed two enterprises³ that it reports had been operating at a gross loss⁴ for at least eight years. According to the assistant general manager for operations, PIA closed the paper products enterprise primarily because of continuing losses. He explained that this enterprise was very small and had consistent losses that outweighed the benefits of inmate participation, which was limited. The enterprise employed 26 inmates in fiscal year 2001–02. He stated that PIA closed the textile mill because the market demand was insufficient to reach a level of profitability and the mill employed only 40 inmates during fiscal year 2002–03, which was its last year of operation.

² Refer to Table A.2 in Appendix A for fiscal year 2003–04 revenue by enterprise.

³ In addition to these two enterprises, PIA closed its Correctional Resource Recovery Facility because the city of Folsom, which was that enterprise's only customer, ceased sending refuse to the facility for processing.

⁴ As we discuss in Chapter 1, PIA did not evaluate the net profit or loss by enterprise until fiscal year 2002–03; therefore, for the years leading up to the closure of these two enterprises, it could provide only the gross profit and loss.

TABLE 4

Prison Industry Authority Enterprise Profit (Loss) Per Inmate, Fiscal Years 2002–03 and 2003–04

Enterprise	2002–03 Net Profit (Loss)	Inmates Employed in PIA Enterprise	Profit (Loss) Per Inmate Employed	2003–04 Net Profit (Loss)	Inmates Employed in PIA Enterprise	Profit (Loss) Per Inmate Employed
Operating Enterprises						
Optical	\$ 6,342,976	380	\$16,692	\$ 6,059,897	342	\$17,719
License plates	6,234,250	99	62,972	6,818,668	101	67,512
Fabric products	2,959,608	1,400	2,114	2,327,285	1,370	1,699
Printing	1,855,227	113	16,418	2,310,067	118	19,577
Bakery	85,592	58	1,476	225,240	76	2,964
Bindery	72,399	115	630	(353,102)	115	(3,070)
Knitting mill	46,430	74	627	101,508	76	1,336
Mattress	(15,777)	88	(179)	(68,746)	87	(790)
Dental lab	(19,702)	31	(636)	(55,514)	34	(1,633)
Food packaging*	(32,400)	0	—	(648,802)	20	(32,440)
Coffee roasting	(43,856)	20	(2,193)	62,579	20	3,129
Silk-screening	(56,519)	21	(2,691)	(54,141)	21	(2,578)
Poultry	(233,154)	100	(2,332)	(1,370,538)	106	(12,930)
Metal signs	(252,654)	27	(9,358)	(88,498)	27	(3,278)
Egg production	(480,690)	95	(5,060)	(528,323)	95	(5,561)
Digital services	(481,738)	18	(26,763)	(312,864)	21	(14,898)
Cleaning products	(557,588)	24	(23,233)	(449,462)	24	(18,728)
Crops	(609,886)	105	(5,808)	(45,130)	66	(684)
Shoe factory	(796,477)	154	(5,172)	(1,023,219)	176	(5,814)
Meat cutting	(1,037,490)	61	(17,008)	(600,464)	62	(9,685)
Metal products	(1,163,383)	256	(4,544)	(2,022,427)	256	(7,900)
General fabrication	(2,222,711)	294	(7,560)	(3,407,657)	291	(11,710)
Laundry	(2,495,036)	832	(2,999)	(1,856,140)	792	(2,344)
Dairy	(3,392,475)	234	(14,498)	(1,569,896)	238	(6,596)
Furniture	(4,444,055)	817	(5,439)	(7,355,216)	739	(9,953)
Subtotals	(739,109)	5,416	(136)	(3,904,895)	5,273	(741)
Enterprises that closed during fiscal years 2002–03 or 2003–04†						
Paper products	(430,317)	0	—	(12,442)	0	—
Correctional Resource Recovery Facility (CRRF)	(5,299,805)	0	—	(495,965)	0	—
Textile mill	(3,932,015)	40	(98,300)	229,184	0	—
Nonenterprise related						
Inventory expense reserve‡	164,181	—	—	(348,835)	—	—
Unallocated adjustments§	—	—	—	(1,013,252)	—	—
Support services¶	—	367	—	—	396	—
Grand Totals	\$(10,237,065)	5,823	\$(1,758)	\$(5,546,205)	5,669*	\$(978)

Source: Prison Industry Authority (PIA) allocations based on data from its fiscal year 2002–03 financial audit; fiscal year 2003–04 draft financial audit, which includes a \$2.4 million adjustment to CRRF for additional impairment losses for fiscal year 2002–03; and PIA report of inmates employed in each enterprise.

* Food packaging is a new enterprise beginning in fiscal year 2003–04. The activity in fiscal year 2002–03 reflects administrative support costs for staff time spent on activating the enterprise.

† According to PIA, it closed the textile mill and paper products enterprises during fiscal year 2002–03 because continued losses outweighed the benefits of inmate participation, which was limited. These enterprises reflected financial activity in fiscal year 2003–04 related to disposal of assets and other closure activities. Further, PIA explained that on July 1, 2003, it ceased receiving refuse at its CRRF from the city of Folsom, which was its only customer. However, it did not close the facility until January 2004. Because of this situation, PIA recognized a net loss of approximately \$5.3 million and \$500,000 in fiscal years 2002–03 and 2003–04, respectively.

‡ “Inventory expense reserve” is not an enterprise. Rather, it represents the change in each fiscal year in the estimate of obsolete inventory amounts for all institutions where PIA operates. We include it in this table to ensure that the total net loss in fiscal year 2002–03 ties to PIA’s financial statements and the total net loss in fiscal year 2003–04 corresponds to PIA’s unaudited net loss.

§ At the time of our review, PIA had not yet allocated these costs, which primarily consisted of workers’ compensation costs, at the enterprise level.

¶ PIA employs inmates to perform support services functions such as maintenance and repair, warehousing, and office administration.

* This count differs from the approximately 5,600 inmates Corrections reports that participated in PIA as of June 30, 2004, and we report in the Introduction and Chapter 3. Both Corrections and PIA indicate that the discrepancy results from differences in how and when the information was gathered. We use PIA’s participation data in this table because Corrections’ data on PIA participation by enterprise was not readily available.

PIA could establish a per-inmate profit threshold for each enterprise to offer decision makers a tool for evaluating the contribution of each enterprise toward PIA's statutory purposes to be self-supporting and employ inmates.

Although PIA took factors such as profitability and inmate employment into account in its decision to close the two enterprises, it could routinely assess each enterprise's contribution toward its statutory purposes to be self-supporting and employ inmates by performing an analysis such as that shown in Table 4, and it could evaluate the results against related criteria. In order to reflect the balance it seeks to achieve between its statutory purposes to employ inmates and be self-supporting, PIA could establish a per-inmate profit threshold that it expects each enterprise to meet consistently. An enterprise's success or failure in meeting such a threshold would offer decision makers a tool to evaluate the need to expand, close, or take corrective action at an enterprise and, in doing so, better ensure PIA's ability to pursue all its statutory purposes.

According to PIA's assistant general manager for operations, PIA already reviews data related to its enterprises' gross profit, inmate employment, work hours lost due to correctional institution needs and other reasons, percentage of late orders, quality control, and customer complaints. However, the manager acknowledged that PIA has not established criteria, such as profitability per inmate, against which it can evaluate each enterprise's contribution toward PIA's statutory purposes. The manager states that PIA expects to develop indicators to measure PIA's overall progress as well as the need to take corrective action at an enterprise and anticipates that future analyses will include a review of profitability per inmate.

RECOMMENDATIONS

PIA should establish long-range annual employment targets overall, for each enterprise, and as a percentage of Corrections' institution population. PIA should include these targets and annual results in meeting them, as well as explanations when they are not met, in its annual report to the Legislature.

The PIA should establish criteria, such as profitability per inmate, and evaluate its enterprises' contribution toward its statutory purposes of being self-supporting and employing inmates relative to such criteria. ■

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CHAPTER 3

The Prison Industry Authority Has Not Adequately Demonstrated Its Financial Impact on the California Department of Corrections

CHAPTER SUMMARY

Although one of the statutory purposes of the Prison Industry Authority (PIA) is to reduce the operating costs of the California Department of Corrections (Corrections), PIA has not demonstrated adequately whether and in what manner it fulfills this purpose. PIA claims that it provided significant cost savings to Corrections in fiscal year 2002–03 by offering a correctional work or training program (correctional program) for inmates that Corrections otherwise would have to fund. However, in PIA's absence Corrections is neither legally obligated nor was it prepared to reassign all of PIA's participants in fiscal year 2002–03 to programs other than PIA. Thus, PIA's approach toward claiming cost savings to Corrections for fiscal year 2002–03 is questionable.

An alternative approach to demonstrate PIA's financial impact to Corrections would be to evaluate sentence reduction credits that PIA or other correctional program participants earn at a faster rate than nonparticipants. Sentence reduction credits enable inmates to spend less time in institutions than they would otherwise, decreasing Corrections' costs for monitoring, housing, and feeding them. However, a new program initiated by Corrections in fiscal year 2003–04 as a result of a legislative requirement will reduce significantly or eliminate the group of inmates whose participation in PIA could result in a cost avoidance to Corrections due to their earning sentence reduction credits at a faster rate. Thus, PIA's ability to claim any cost avoidance in the future with regard to sentence reduction credits its participants earn is impaired significantly.

ALTHOUGH PIA CLAIMS TO PROVIDE SIGNIFICANT COST SAVINGS TO CORRECTIONS, ITS ANALYSIS OF THESE SAVINGS IS QUESTIONABLE

One of PIA's statutory purposes is to reduce Corrections' cost of operations. In its most recent annual report to the Legislature, PIA claims that it saved Corrections \$14.1 million during fiscal

year 2002–03. According to PIA’s former acting assistant general manager for financial operations, this amount represents the costs Corrections would have incurred if it had reassigned the approximately 5,800 inmates participating in PIA as of June 30, 2003, into correctional programs it funds. However, PIA bases its calculation on the particular correctional program components Corrections sought to expand in a fiscal year 1998–99 unapproved budget change proposal, namely certain vocational education and institutional support and work programs. Further, PIA did not demonstrate that the programs Corrections sought to expand in fiscal year 1998–99 represented the only available correctional program options and associated costs for fiscal year 2002–03. Thus, relying on the information from fiscal year 1998–99 renders an analysis of cost savings PIA provided Corrections in fiscal year 2002–03 questionable.

In PIA’s absence, Corrections is not legally obligated to reassign PIA’s participants into a correctional program.

Further, in PIA’s absence Corrections is not legally obligated to reassign PIA’s participants into a correctional program. According to state law, an inmate’s opportunity to participate in a correctional program is a privilege and not a right, and although each inmate is to have a reasonable opportunity to participate in such programs, these opportunities are offered only to the extent that Corrections has available institutional security and resources. In fact, according to Corrections’ chief of the operational review unit in the institutions division, if PIA were to cease its operations, participating inmates would be placed on a waiting list of inmates to be assigned to a correctional program. Given that Corrections reported that this waiting list consisted of about 44,100 inmates in June 30, 2003, the assumption upon which PIA claimed the \$14.1 million in fiscal year 2002–03 cost savings to Corrections appears unlikely.

Finally, a new program Corrections initiated in fiscal year 2003–04, the bridging education program (bridging program), which we discuss in more detail later, provides an additional option for inmates who wish to participate in a correctional program and are eligible to reduce their sentences by one year for each year of participation. Corrections initiated this program, which uses an independent study approach, as a lower-cost alternative to its existing correctional programs, such as academic and vocational education. For instance, the annual cost to Corrections of an inmate in the academic education program was about \$7,900 for fiscal year 2003–04, while the annual cost of an inmate in the bridging program was approximately \$2,000 for the same fiscal year.

The waiting list does not prevent an eligible inmate from participating in the bridging program, and it is Corrections' intent to place as many eligible inmates into the program as possible. However, not all PIA participants are eligible for the bridging program. As a result, PIA may be able to claim that it provides Corrections a cost savings only for those inmates that Corrections, in PIA's absence, would reassign into the bridging program. However, if Corrections decides to expand its existing programs or initiate new ones, to the degree that Corrections in PIA's absence no longer would place certain PIA participants on a waiting list and that it would incur additional costs for assigning them to a correctional program, PIA may be able to claim additional cost savings. If PIA intends to claim such cost savings, it must ensure that it claim the savings associated only with the group of inmates Corrections would reassign in its absence and consider all the costs of the various programs into which Corrections may reassign the inmates.

AN ALTERNATIVE APPROACH TO COST AVOIDANCE WOULD BE TO EVALUATE SENTENCE REDUCTION CREDITS

We considered an alternative approach to assess PIA's financial benefit to Corrections. We attempted to estimate the maximum cost avoidance PIA provided Corrections in fiscal year 2003–04 by employing inmates who, had they not been assigned to PIA, would have earned sentence reduction credits at a slower pace than they did by participating in PIA. Certain inmates earn sentence reduction credits at a faster pace while participating in a correctional program, such as PIA, than they could while not participating. Thus, these inmates spend less time in institutions than they otherwise would, and Corrections' costs of monitoring, housing, and feeding them decrease.

Sentence reduction credits result in inmates spending less time in institutions, decreasing Corrections' costs of monitoring, housing, and feeding them.

State laws and regulations prescribe a variety of sentence reduction credits. An inmate's ability to earn credits depends, in part, on the type of offense an inmate committed as well as the inmate's behavior while in prison. Table 5 on the following page provides a summary of the various sentence reduction credits and cost avoidance opportunities for inmates participating in a correctional program during fiscal year 2003–04. For instance, only one group of inmates—nonviolent offenders serving sentences fixed by statute who have never participated in a correctional program or who were removed from a correctional program as a result of their behavior or through some other action of their own—offered an opportunity for cost avoidance among the five inmate groups identified in the table. Specifically, this inmate group earned up to one year off their

sentences by participating in a correctional program during fiscal year 2003–04 and only up to six months off their sentences while not participating in a correctional program.

TABLE 5

**Opportunities to Provide a Cost Avoidance to Corrections
Through Correctional Program Participation During Fiscal Year 2003–04**

Inmate Group	Sentence Reduction Credits That Result From 12 Months of Participation in a Correctional Program	Sentence Reduction Credits That Result From 12 Months of Nonparticipation in a Correctional Program	Potential Cost Avoidance That Results From Correctional Program Participation
Nonviolent offenders serving sentences that are fixed by statute that have never participated in a correctional program or were removed from a correctional program due to their behavior or through some action of their own	Up to 12 months	Up to six months	The six-month difference between the sentence reduction credits that result from 12 months of participation and those that result from 12 months of nonparticipation
Nonviolent offenders serving sentences that are fixed by statute that are temporarily removed from a correctional program through no fault of their own	Up to 12 months	Same as in a correctional program	None
Violent offenders, or repeat offenders as sentenced by the court with at least one prior serious or violent conviction, serving sentences that are fixed by statute	Up to three months	Same as in a correctional program	None
Offenders serving life sentences with the possibility of parole	Zero to six months off the time before being considered for release on parole. The Board of Prison Terms decides whether and when to release these inmates.	Same as in a correctional program	None
Offenders serving life sentences without the possibility of parole	None	Same as in a correctional program	None

Source: Penal Code, California Code of Regulations, and Corrections’ staff.

Note: Corrections’ staff indicate that there may be certain exceptions to this table. For instance, a small number of offenders serving life sentences with the possibility of parole for 12 months of participation in a correctional program can earn up to 12 months of credit to reduce the time before being considered for release on parole. However, Corrections’ staff believe that the impact of such exceptions on our analysis is insignificant.

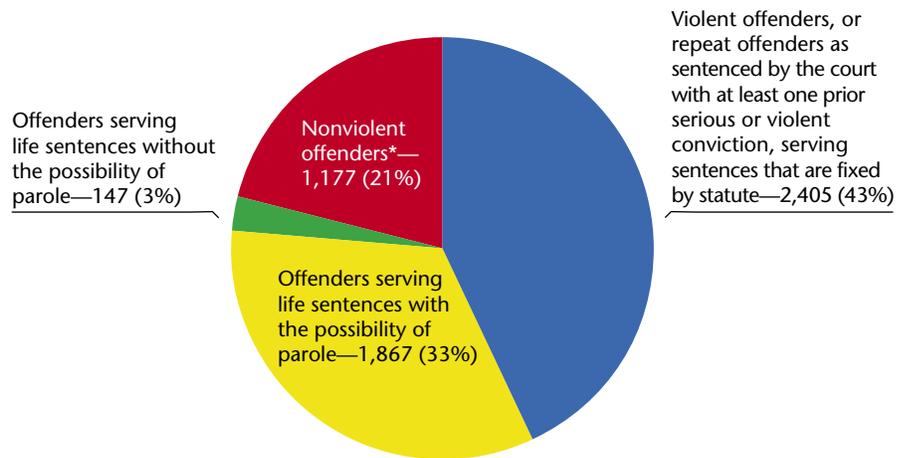
Although the second group of inmates in Table 5 serves similar sentences as the first group, the second group of nonviolent offenders serving sentences fixed by statute was removed from a correctional program through no fault of their own and, thus, continued earning the full one year off their sentence for each one year served regardless of correctional program participation.

Such inmates earn credit for what Corrections refers to as “S” time. Other inmate groups, as indicated by Table 5, do not provide potential cost avoidance to Corrections regardless of their participation in a correctional program.

Figure 6 provides Corrections’ breakdown, as of June 30, 2004, of PIA’s participants into various inmate groups. It shows that PIA employed approximately 5,600 inmates, of which only 1,177, or 21 percent, were nonviolent offenders serving sentences fixed by statute and, thus, offering a potential cost avoidance opportunity to Corrections because a segment of this population by participating in PIA could earn sentence reduction credits at a faster rate than they would as nonparticipants. According to Corrections’ chief of the offender information services branch, Corrections cannot differentiate the 1,177 nonviolent offenders serving sentences fixed by statute in PIA between those who were in the first and second groups of Table 5 before being assigned to PIA. Thus, we were unable to identify the proportion of the 1,177 who offered cost avoidance potential because they were earning sentence reduction credits at a slower pace before being assigned to PIA.

FIGURE 6

**Sentences Prison Industry Authority Participants
Were Serving as of June 30, 2004**



Source: Inmate counts as of June 30, 2004, provided by the Estimates and Statistical Analysis Section in Corrections’ Offender Information Services Branch, as well as Penal Code, California Code of Regulations, and Corrections’ staff.

* Corrections was unable to identify the portion of the nonviolent offenders who have never participated in a correctional program or were removed from a correctional program due to their behavior or through some action of their own, from the portion that before being assigned to Prison Industry Authority had been temporarily removed from a correctional program through no fault of their own.

Based on Corrections' data as of June 30, 2004, and assuming that PIA participants did not have another opportunity to earn sentence reduction credits at the same rate, we estimate that PIA could have generated as much as \$9.9 million during fiscal year 2003–04 in cost avoidance to Corrections as a result of sentence reduction credits the 1,177 inmates earned. We estimated a maximum cost avoidance of \$9.9 million that could have been provided by PIA in fiscal year 2003–04 by multiplying the 1,177 inmates participating in PIA by the number of additional days by which these inmates would have had their sentences reduced as a result of their participation in PIA. We then multiplied the result by Corrections' fiscal year 2003–04 marginal daily incarceration cost for each inmate, which represents expenses such as security personnel, medical staff, and utilities that Corrections reports it incurs for incarcerating an additional inmate in one of its institutions.⁵ This resulted in the estimated maximum costs Corrections could have avoided as a result of 1,177 nonviolent offenders that were serving sentences fixed by statute and participating in PIA during fiscal year 2003–04. To the degree that any of these inmates, before their participation in PIA, were other correctional program participants removed from the program through no fault of their own and thus were earning the same credits as they would earn by participating in PIA, the fiscal year 2003–04 cost avoidance must be reduced accordingly. However, as we indicate earlier, Corrections is unable to identify the proportion of the 1,177 inmates in PIA who already were earning full credit before being assigned to PIA. Thus, we were unable to reduce the estimated maximum cost avoidance PIA could have provided Corrections for fiscal year 2003–04 accordingly.

CORRECTIONS RECENTLY ESTABLISHED A PROGRAM THAT IMPAIRS SIGNIFICANTLY PIA'S FUTURE ABILITY TO CLAIM COST AVOIDANCE DUE TO SENTENCE REDUCTION CREDITS

Corrections recently developed and began implementing a program aimed at maximizing the potential cost avoidance provided by inmates eligible to earn one year off their sentences through one

⁵ To calculate the daily incarceration cost for an additional inmate, we use the average annual marginal cost of \$16,763 for fiscal year 2003–04, rather than the average annual total cost to incarcerate an inmate of \$30,929, because Corrections' institutions are currently above capacity. Thus, fixed costs, such as noncustody salaries and wages, workers' compensation, and general expenses would not currently increase as a result of an additional inmate. Similarly, because Corrections is above capacity, it does not avoid any additional fixed costs if it releases an inmate.

year of correctional program participation. As a result, PIA's future ability to claim a cost avoidance that results from its participants' sentence reduction credits will be impaired significantly.

In the fiscal year 2003–04 budget act, the Legislature required that Corrections provide priority placement in correctional programs to the inmates eligible to earn one year off their sentence for each year in a correctional program. Further, the Legislature required that Corrections submit a plan for offering education programs in reception centers, where new inmates are processed.

In the bridging program, teachers and artist facilitators provide educational instruction to inmates through an independent study approach.

In response to the legislative requirements, Corrections initiated the bridging program for inmates in the general population institutions in November 2003 and, in February 2004, expanded it to the reception centers. In the bridging program, teachers and artist facilitators provide educational instruction to inmates through an independent study approach. Unlike the more traditional classroom approach, the bridging program relies on various education delivery methods, such as study packets or audio-visual presentations delivered to the inmates, as well as one-on-one instruction or group presentations where possible. The bridging program is designed to operate at an inmate-instructor ratio of 54 to 1, with the instructor expected to meet with each inmate for at least 30 minutes each week.

The bridging program was developed as an alternative program for inmates who are not in an existing correctional program but would be eligible to earn one year off their sentence for each year they are assigned to a correctional program. These correctional programs have a waiting list and generally are not available to inmates in reception centers. Corrections intends to have as many eligible inmates as possible participate in the bridging program. Thus, Corrections expects to generate significant cost avoidance by assigning inmates earlier into a credit-qualifying program. The bridging program also provides an option for inmates who were removed from a correctional program through no fault of their own. Thus, the bridging program focuses primarily on the first two groups of inmates previously shown in Table 5. As of June 30, 2004, approximately 17,500 inmates participated in the bridging program.

As the bridging program expands, the number of inmates in the first group on Table 5 who can provide a cost avoidance by participating in a correctional program likely will decrease or be eliminated. In fact, based on Corrections' data, we identified that only about 3,000 of the approximately 35,600 inmates on the waiting list for a correctional program as of June 30, 2004,

Performance measures with regard to inmates' post-release success are the primary benchmarks through which PIA can distinguish and differentiate itself from other correctional programs.

belong to the group potentially able to generate cost avoidance.⁶ As a result, PIA's ability to provide cost avoidance to Corrections by employing inmates that earned sentence reduction credits at a faster pace than they would have by not participating in a correctional program is impaired significantly. This impact, combined with PIA's questionable approach toward claiming cost savings for fiscal year 2002–03, leaves the performance measures with regard to post-release success, which we discuss in Chapter 4, as the primary benchmarks through which PIA can distinguish and differentiate itself from other correctional programs, including the bridging program.

WE CONSIDERED OTHER AREAS WHERE PIA MAY HAVE A FINANCIAL IMPACT ON CORRECTIONS

Both Corrections and PIA identified certain costs that Corrections incurs on behalf of PIA. For instance, Corrections pays for the security personnel assigned to monitor inmates employed in PIA enterprises. However, Corrections' security personnel assignment schedules reflect security personnel assignments for only one of PIA's enterprises. According to Corrections' chief of the program support unit, PIA enterprises typically are located in areas where another correctional program, such as vocational education, may operate. Security personnel rove amongst all programs in the area, monitoring the inmates. As a result, the security personnel assignment schedules cannot be used to identify specific security staff assigned to monitor inmates in PIA. Nonetheless, security costs may differ among various correctional programs, and there are no standard staff ratios for each correctional program because staffing levels can vary depending on the number and level of the inmates, physical plant design, and type of program.

When we asked Corrections to provide us with an estimate of these security costs, Corrections' deputy director for the institutions division advised us that Corrections does not have an adequate methodology to fulfill this request and thus could not survey the institutions in order to compute an estimate. Nevertheless, Corrections accepts the responsibility of providing and funding security for all correctional programs, including PIA. Because Corrections was unable to isolate the security costs it incurs on behalf of PIA, we were unable to identify the financial impact on Corrections.

⁶ Inmates in the bridging program also are considered to be on the waiting list for another assignment once in their assigned institutions.

In 2004 Corrections conducted energy surveys of its institutions and began renegotiating the amounts that PIA reimburses it for utility expenses.

Further, Corrections has incurred utility costs on PIA's behalf. In 2004 Corrections conducted energy surveys of its institutions to identify potential cost savings and began renegotiating the amounts that PIA reimburses it for utility expenses at institutions where PIA operates. However, Corrections has not completed its energy survey reports, identified the amount by which it subsidized PIA's utility costs, or entered into negotiations with PIA to more accurately receive reimbursement for the utility costs Corrections incurs on PIA's behalf at all the institutions where PIA operates. Corrections expects to complete this process and adjust fiscal year 2004–05 billing by March 2005. Thus, it appears that Corrections no longer will subsidize PIA's utility costs in the near future.

Finally, as we discussed in Chapter 1, PIA prices can exceed prices for comparable items available from other vendors. When this is the case, the expense of paying these higher prices may result in a negative financial impact on Corrections. Conversely, to the extent it receives discounts, as we discussed in Chapter 1, and these discounts cause it to pay lower prices than it would if purchasing from other vendors, the savings from the lower prices may result in a positive financial impact on Corrections.

RECOMMENDATION

To the degree PIA estimates cost savings that result from inmates participating in PIA, it should ensure that its analysis considers all the options and associated costs per inmate that Corrections would have available for reassigning PIA's participants into another program in PIA's absence. ■

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CHAPTER 4

Although It Has Established a Program to Develop Inmates' Work Habits and Occupational Skills, the Prison Industry Authority Has Yet to Measure the Program's Effect Adequately

CHAPTER SUMMARY

The Prison Industry Authority (PIA) has taken steps to increase the employability of its inmates after their release. Moreover, as a result of obtaining data from the California Department of Corrections (Corrections) and entering into a contract with the Employment Development Department (EDD), PIA now has the capability to report on two of the common elements that decision makers use to assess a correctional work or training program (correctional program)—inmates' ability to obtain post-release employment and to avoid returning to prison. However, PIA needs to establish performance measures to ensure that its inmate employability activities contribute to inmates' post-release success. Further, PIA currently lacks the necessary data to determine whether the specific training or experience it provides inmates affects the type of job an inmate obtains after release. Despite the challenges of establishing a direct link between PIA's activities and its participants' post-release success, PIA cannot provide an adequate perspective on the effectiveness of its efforts to fulfill its statutory purpose of offering inmates the opportunity to develop effective work habits and occupational skills without measuring and reporting on how its participants fare after release from prison. Moreover, without performance measures or targets, PIA cannot focus its inmate employability activities on areas that demonstrate success.

VARIOUS STUDIES INDICATE THAT INMATES WHO PARTICIPATE IN CORRECTIONAL PROGRAMS APPEAR TO HAVE A BETTER CHANCE OF OBTAINING POST-RELEASE EMPLOYMENT AND OF NOT RETURNING TO PRISON

In establishing PIA's statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills, the Legislature declared its intent that PIA serve the goal of reintegrating inmates into the outside working population by replicating as closely as possible the production and service operations found in the outside world, in conjunction with relevant education, training, and post-release job placement. This statutory purpose relies on the premise that employment decreases a person's likelihood of committing crime. Thus, inmates who obtain employment upon release should be less likely to commit a crime that results in their return to prison. According to Corrections' data, approximately 60 percent of its inmates released for the first time in 2000 returned to prison within three years. In this climate, measuring how correctional programs such as PIA affect inmates' post-release success, in terms of ability to obtain employment and to avoid returning to prison, is particularly appropriate.

According to Corrections' data, approximately 60 percent of its inmates released for the first time in 2000 returned to prison within three years.

The literature we reviewed suggests that correctional programs can increase a participant's likelihood of obtaining post-release employment and decrease the likelihood of returning to prison when compared to inmates who do not participate in correctional programs. As evidence of the benefits it can provide to inmates, PIA points to a 1996 study of more than 7,000 federal inmates, which concluded that correctional programs appear to affect inmates' post-release employment positively. The study found that in each of the 12 months after release, former correctional program participants were more likely to be employed than former nonparticipants, and by the 12th month they were 14 percent more likely to be employed.

In recommending in June 2004 that PIA expand its inmate employability activities, the Corrections Independent Review Panel⁷ relied in part on a 2002 study by the Urban Institute that drew extensively on four comprehensive reviews of dozens of individual program evaluations. This study concluded that in general correctional programs can increase

⁷ The Corrections Independent Review Panel included a former governor, an outside executive director, two outside consultants, and staff from six different agencies and was charged by the current governor with conducting an independent review of the State's correctional system and reporting its findings.

post-release employment and decrease returns to prison, provided the programs are well-designed and implemented. Thus, the activities conducted by correctional programs such as PIA must demonstrate a track record that justifies their implementation.

External factors may limit the opportunity to link inmates' post-release employment directly to any particular correctional program.

Although the studies we reviewed suggest that activities designed to increase an inmate's likelihood of obtaining post-release employment have merit, external factors may limit the opportunity to link inmates' post-release employment directly to any particular correctional program. The Urban Institute study identified a range of methodological limitations that preclude any assessment of direct and unequivocal beneficial effects resulting from inmate participation in correctional programs. For instance, inmates who participate in correctional programs may have a preexisting motivation that those who do not participate in correctional programs lack. Because of this and other limitations, it appears to be difficult to identify and measure with sufficient certainty the unique benefit provided by an individual correctional program such as PIA. Any measurement of inmates' post-release success must be interpreted in this light.

PIA funded a 2001 Corrections study to determine whether the time inmates spend in the State's correctional programs leads to a greater likelihood of obtaining post-release employment and to a lower likelihood of returning to prison. Corrections found that the study's conclusions with regard to California inmates are consistent with the general conclusions of prior research nationwide that found a modest association between inmate participation in some correctional programs and higher post-release employment in addition to reduced returns to prison. Based on these conclusions, it appears that PIA has an opportunity to affect an inmate's ability to obtain post-release employment and avoid returning to prison.

IN 1999 PIA EMBARKED UPON VARIOUS ACTIVITIES INTENDED TO INCREASE INMATES' LIKELIHOOD OF OBTAINING POST-RELEASE EMPLOYMENT

In our 1996 and 1997 audits, we reported on the inadequacy of PIA's efforts in fulfilling its statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills. Subsequently, in quarterly meetings with PIA, the Prison Industry Board (board) considered the merits of preparing inmates for post-release employment with the intention of reducing returns to prison. In May 1999 a legislative workgroup composed of executive representatives from selected state

agencies, including PIA, and the private sector met to discuss the training of inmates, with an emphasis on preparing them for post-release employment. As a result, PIA developed a conceptual model for a program in which PIA would, for instance, develop training plans for inmates based on each inmate's aptitude and offer various services including prerelease and placement assistance in résumé writing and arranging job interviews.

As a result of both the legislative workgroup and proposed legislation that would have required PIA to develop performance measures to evaluate its success in increasing inmate employability, in September 1999 the board established a committee to oversee PIA's proposal to develop a program to enhance the employability of inmates after their release. Under the board's guidance, PIA proposed and in March 2000 implemented a work experience evaluation form to be completed and provided to each inmate participating in PIA annually and whenever an inmate with at least six months of PIA job experience is paroled, dismissed, or transferred. PIA asked its supervisors to complete the form in order to document, among other things, the inmate's job title, enterprise, years of experience, skill rating, equipment skill level, type of training or certificates received, and work rating with regard to various performance factors. In gathering this information, PIA intended to provide Corrections with pertinent data to facilitate the job placement of inmates subject to release. However, PIA had not developed an approach, as it would later, to track actual employment data. Thus, rather than determining whether the evaluation form actually contributed to the post-release employment chances of PIA participants, PIA periodically measured only the number of evaluations issued.

Rather than determining whether a work experience evaluation form actually contributed to the post-release employment chances of participants, PIA periodically measured only the number of evaluations issued.

As PIA's focus on inmate employability increased, the number of certifications issued during 2000 and 2001 to inmates for specific jobs at PIA enterprises, such as forklift operator and certified optician, also increased. Again, in the early stages of its inmate employability efforts, PIA measured and reported only on the number of certifications issued for each specialty, rather than assessing whether PIA participants with certifications were more likely to obtain post-release employment than those without. However, PIA funded a 2001 Corrections study, discussed previously, examining the link between the time inmates spend in the State's correctional programs and the likelihood of obtaining post-release employment or returning to prison. Thus, although it did not assess the actual impact of its inmate employability efforts, in 2000 and 2001 PIA nevertheless increased its focus on developing inmate work habits and occupational skills.

SINCE 2002 PIA HAS DEVELOPED A PLAN FOR INMATE EMPLOYABILITY AND PURSUED SIX GOALS

Although in 2000 and 2001 PIA engaged in various activities designed to increase inmate employability, it had not established a specific plan to guide these efforts or performance measures to evaluate their impact. In fact, PIA has yet to establish adequate performance measures to evaluate inmates' post-release success. Nonetheless, it has made some progress in its inmate employability efforts since 2002.

Goals of the Inmate Employability Plan

1. Establish industry-accredited training and certification programs statewide.
2. Develop a performance-based skill standards system.
3. Develop standardized policies and procedures for orientation, exit interviews, and other programs.
4. Link PIA-trained and certified parolees with related private sector jobs.
5. Work with Corrections to establish PIA classification and participation criteria for PIA work programs.
6. Develop a management review and evaluation system that captures programmatic data to track, measure, and validate the success of the inmate employability program.

In line with a board request in the fall of 2001, PIA prepared a plan to address inmate employability to become effective January 2002. PIA defined its inmate employability mission as developing, implementing, and evaluating training, certification, and other programs that increase inmate employability and coordinating job placement activities with Corrections. To those ends, the inmate employability plan establishes six goals, with objectives tied to each goal. The goals reflect PIA's initial inmate employability efforts as well as concerns we raised in our 1996 report regarding PIA's pursuit of its statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills.

Since 2002 PIA has developed and implemented various elements of each goal. For the first goal, PIA continued to pursue and offer industry-accredited certifications to inmates. As of September 2004, PIA reports that inmates have earned industry-accredited certifications in 14 different occupational areas, such as machining and laundry and linen management. To obtain an occupational certification, an inmate must fulfill the criteria required by external associations and pass an exam. Occupational certifications provide impartial, third-party verification of a person's expertise and industry-driven, tangible evidence of the individual's achievement of necessary proficiency levels. Upon release an inmate can present this credential to a prospective employer. From July 2001 through June 2004, PIA participants earned approximately 2,400 such certifications, although, as we discuss later, PIA presently cannot identify whether the certifications have led to post-release employment in the field in which inmates obtained certification.

As part of its second goal, PIA has entered into a contract with a consultant to develop and provide training to implement a performance-based skill standards system for one PIA enterprise. The skill standards system documents a list of skills an inmate must develop to demonstrate proficiency in a particular specialty, such as sewing machine operation. Skill standards provide a less formal means than occupational certifications for a supervisor to identify and document an employee's knowledge, skills, and abilities relevant to performing a specific job. However, employers also can rely on skill standards to identify the extent of a prospective employee's competency within an occupational cluster or across an industry sector. In August 2004 the consultant presented the skill standards system for the one enterprise to PIA staff at a pilot institution and trained staff in its use. The inmate employability program chief states that, after evaluating the use of the system for the one enterprise, PIA will consider expanding it to all its enterprises.

Before parole, PIA provides each participating inmate with material to help the inmate prepare a résumé and develop interview skills.

For the third goal, PIA developed policies and procedures for inmate orientation and exit interviews, offering inmates résumé-writing and interview preparation material. Before parole, PIA provides each participating inmate with material to help the inmate prepare a résumé and develop interview skills. PIA offers additional assistance to inmates who request it; however, an inmate must demonstrate the desire to use these optional services. PIA reports that, since the inception of these services in December 2002 through June 2004, nearly 620 inmates who were released on parole directly from PIA had résumé assistance in the form of materials available to them, but PIA does not track the number of inmates who requested and received additional assistance.

With respect to its fourth goal, the inmate employability program chief indicated that since 2002 PIA generally has discussed inmate job placement with 11 private sector employers to obtain their perspective. According to the program chief, most of the employers support the inmate employability program, with two expressing a willingness to participate in mock job interviews for PIA participants. One of those two has offered to explore the possibility of a presentation on the inmate employability program to further reach prospective employers in the area, while others indicated that they were willing to consider PIA participants for post-release employment. In addition, PIA is participating in Corrections' Offender Employment Continuum program—a program aimed at providing basic life skills, employability training, job retention, and placement into long-term gainful employment—to offer a pre-parole counseling and post-release job

In July 2004 Corrections entered into a contract with a county department of education to provide employment services to PIA participants at five correctional institutions.

placement program for PIA participants. Specifically, in July 2004 Corrections entered into a contract with a county department of education to provide employment services, such as training and placement, to PIA participants at five correctional institutions. The contractor is expected to track inmates after release, achieve specific performance measures related to inmates' post-release success, and report the results to Corrections.

For the fifth goal, Corrections established, and PIA concurred with, a new priority model for assigning inmates to PIA. In May 2004 PIA issued a memorandum to its administrators and managers describing the model, which gives priority placement in PIA to inmates serving sentences between two and five years. As a result, PIA anticipates decreasing the number of participants who are serving life sentences through attrition. As PIA implements this directive, the proportion of participants who will be released into society in the short-term with PIA experience should increase.

To implement the final goal, in October 2002 PIA obtained access to data gathered by Corrections. According to PIA's inmate employability program chief, these data allowed PIA for the first time to track the parole status of its former participants. In addition, after more than seven months of pursuing an agreement, PIA entered into a contract with EDD in July 2003 to obtain data that, when matched with the Social Security numbers provided by Corrections, allow PIA to track the employment status of its former participants. According to the contract, PIA provides EDD with approximately 2,000 Social Security numbers each quarter and in return receives applicable wage and employer data, unemployment insurance claim history, and current disability insurance claim history. As a result, PIA now has the capability to measure the overall employment rate of its former participants. We discuss the results of this effort in the following section.

PIA NEEDS TO ESTABLISH SPECIFIC TARGETS TO MEASURE INMATES' POST-RELEASE SUCCESS

Although it has developed and implemented various inmate employability activities and begun tracking post-release data, PIA has yet to evaluate adequately its impact on inmates' post-release success. PIA acknowledges the value of measuring the impact because, in requesting the EDD data, PIA expressed that in order to carry forth its statutory purpose of offering inmates the opportunity to develop effective work habits and occupational skills, PIA must have the ability to follow up on

the success of inmates in finding and retaining employment in the private sector with the training provided to them while inside the prison.

This falls in line with the recommendation in our 1996 audit report that PIA periodically examine the relationship between PIA participation and post-release employment. As a result of obtaining access to Corrections' data in October 2002 and entering into a contract with EDD in July 2003, PIA now has the capability to report on two of the common elements decision makers use to assess a correctional program—inmates' ability to obtain post-release employment and to avoid returning to prison. In fact, in its quarterly meetings with the board, PIA has begun to report data relating to post-release employment and returns to prison, even though it has not yet defined specific targets against which to measure its performance. Performance measures and targets allow decision makers the opportunity to evaluate PIA's ability to fulfill its statutory purpose.

PIA now has the capability to report on two of the common elements decision makers use to assess a correctional program—inmates' ability to obtain post-release employment and to avoid returning to prison.

In its September 2004 presentation to the board, PIA reported that approximately 60 percent of inmates with at least six months of participation in PIA who were paroled and have not returned to prison since January 2000 are employed. Yet PIA has not defined success, nor does it compare this figure to other Corrections' inmates, both program participants and nonparticipants. In another presentation to the board, PIA reported its recidivism rates. A recidivism rate measures the percentage of felons released to parole during a particular period who are returned to prison for any reason during a specific follow-up period. PIA reported that approximately 50 percent of inmates with at least six months of participation in PIA that were released for the first time in 2000 returned to prison within two years. In its presentation, PIA compared its recidivism rates with Corrections' overall rate, which, for this time period, was about 55 percent. However, PIA acknowledges that inmates in correctional programs could be predisposed toward a lower likelihood to return to prison. Thus, simply comparing the success of former PIA participants to that of Corrections' inmates may be insufficient. Rather, PIA not only should define success in relation to Corrections as a whole but also should develop additional targets and comparisons, such as other correctional programs or its own expectations. For example, PIA should define a certain recidivism rate that it seeks to achieve for its participants. Further, the inmate employability program chief stated that PIA is considering defining success with regard to wages as parolees who earn at least the state minimum wage

of \$6.75 per hour based on a full 40-hour workweek, or \$3,240 per quarter. Although this may be appropriate for certain enterprises, PIA could consider evaluating and establishing a wage success rate for each enterprise.

In order to compare itself to other correctional programs, PIA will need to be able to obtain relevant data from Corrections to allow for such comparisons.

In order to compare itself to other correctional programs, PIA will need to be able to obtain relevant data from Corrections to allow for such comparisons. According to Corrections, it may have difficulty assisting PIA in obtaining any necessary data for comparison. Although Corrections recognizes the benefits of performance measures and is willing to provide PIA with any data it has available, Corrections does not keep track of inmate employment history and performance during and after incarceration. In addition, Corrections indicates that its current information systems are limited to specific functions and lack the necessary connectivity that would be essential in tracking this information. Thus, Corrections states that it will need to establish new tracking systems and incur additional workload for which it is neither equipped nor funded. Given that PIA has been able to obtain data regarding its participants' ability to obtain post-release employment and avoid returning to prison, it seems reasonable that Corrections also could obtain this information for its correctional programs, allowing each program to distinguish and differentiate itself with regard to the performance of its participants. With this information, decision makers will be able to evaluate the merits of each correctional program and the value that they provide in terms of contributing to inmates obtaining post-release employment and not returning to prison.

Overall, PIA agrees that establishing performance measures and targets is a key to determining the success of its efforts to improve inmate occupational skills and increase post-release employment, reduce returns to prison, and increase wages. According to its inmate employability program chief, PIA is reviewing the data from Corrections and EDD to determine what future performance measures to implement and expects to include them in PIA's strategic plan, scheduled for completion in the first quarter of 2005.

As PIA considers how best to measure its participants' post-release success, it should consider going beyond what the current data from Corrections and EDD allow. For instance, PIA currently lacks the necessary data to measure and demonstrate whether the type of post-release employment inmates obtain is related to the specific training or experience they receive at PIA.

Thus, it presently cannot determine whether inmates who earn occupational certifications or work in particular enterprises actually obtain employment related to the area in which they were trained.

Offering inmates the opportunity to develop effective work habits, such as timeliness, professionalism, and the ability to follow instructions, is one-half of PIA's statutory purpose for preparing inmates for employment. However, through the establishment of the inmate employability program and focusing on occupational skills, the other half of PIA's statutory purpose, PIA has acknowledged that specific skill sets may enhance an inmate's ability to obtain post-release employment. In fact, in developing the strategy for its inmate employability program, PIA relied in part on a 2002 study by the Workforce Excellence Network—an initiative that seeks to foster a workforce development system through training, technical assistance, leadership tools, and forums. The study found that occupational certifications and skill standards promote certificate portability, skill transferability, worker mobility, and training consistency, all of which are particularly helpful attributes for job seekers, transitional workers, and dislocated workers. However, without being able to validate that the job an inmate obtained upon release actually relates to the training the inmate received, PIA cannot adequately focus its inmate employability efforts on areas where they can be most effective.

Without being able to validate that the job an inmate obtained upon release actually relates to the training the inmate received, PIA cannot adequately focus its efforts on areas where they can be most effective.

We have prepared an evaluation tool, shown in Table 6, that allows PIA to demonstrate each enterprise's contribution to its statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills by using various measures related to inmates' ability to obtain post-release employment and avoid returning to prison. The headings in Table 6 are based primarily on employment measures established in the contract between Corrections and a county department of education for the Offender Employment Continuum program and on recidivism rates that Corrections already reports. PIA's inmate employability program chief initially said the PIA would be able to provide the necessary information in Table 6 for all but the column entitled *Fiscal Year Average Employment in Related Industry*. After we discussed this matter with PIA, it contacted EDD to pursue additional data to be able to report this information as well. PIA also could consider reporting the results of Table 6 independently for those inmates who earn certifications.

TABLE 6

**Proposed Tool for Prison Industry Authority to Report
the Results of Its Inmate Employability Efforts**

Enterprise	Fiscal Year Average Entered Employment Rate*	Fiscal Year Average Employment Retention Rate at Six Months†	Fiscal Year Average Earnings Change in Six Months‡	Fiscal Year Average Employment in Related Industry§	One-Year Recidivism Rate	Two-Year Recidivism Rate	Three-Year Recidivism Rate
Bakery							
Bindery							
Cleaning products							
Coffee roasting							
Crops							
Dairy							
Dental lab							
Digital services							
Egg production							
Fabric products							
Food packaging							
Furniture							
General fabrication							
Knitting mill							
Laundry							
License plates							
Mattress							
Meat cutting							
Metal products							
Metal signs							
Optical							
Poultry							
Printing							
Shoe factory							
Silk-screening							
Support services							
Grand Totals							

* Entered Employment Rate: The number of inmates who worked at least six months in Prison Industry Authority (PIA) and who have entered employment by the end of the first quarter after release divided by the number of inmates who worked at least six months in PIA and who were released during the quarter.

† Employment Retention Rate at Six Months: Of those who are employed during the first quarter after release, the number who are employed in the third quarter after release divided by the number who were employed in the first quarter.

‡ Earnings Change in Six Months: Of those who are employed during the first quarter after release, the earnings during the third quarter minus the earnings during the first quarter divided by the earnings during the first quarter.

§ Employment in Related Industry: Of those who are employed during the first quarter after release, the number who are employed in an industry related to the enterprise in which they obtained PIA work experience divided by the number who are employed who obtained work experience in each enterprise.

|| Recidivism Rate: Of those inmates with at least six months' participation in PIA, the number who are returned to prison for any reason during a specific follow-up period (one, two, or three years) divided by the number who are released during a particular period (one year).

RECOMMENDATIONS

PIA should establish targets against which to measure its participants' post-release success in obtaining employment and not returning to prison. For instance, PIA should compare the post-release success of its participants to that of participants in other correctional programs, to nonparticipants, or to its own expectations. PIA also should measure each enterprise's contribution to its participants' post-release success and report the results in its annual report to the Legislature, using a tool such as the one we present. In addition, PIA should assess whether certain enterprises lead to higher-paying jobs and should establish a wage success rate for each enterprise. Finally, PIA should identify whether the specific training or experience inmates obtain leads to employment in a related field. Corrections should assist PIA in obtaining any necessary data for comparison by providing comparable data on other correctional programs to PIA.

PIA should track the individuals participating in unique components of the inmate employability program, such as additional résumé assistance or specific occupational certifications, to determine whether there is a link between the components and inmates' post-release employment, earnings, and returns to prison. By tracking inmates who use specific components of its inmate employability program, PIA can further refine and focus on those activities with a demonstrated track record.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: December 20, 2004

Staff: Karen L. McKenna, CPA, Audit Principal
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APPENDIX A

Fiscal Years 2002–03 and 2003–04 Prison Industry Authority Revenue by Enterprise and Major Customer

To identify the total amount the Prison Industry Authority (PIA) has received from its customers for PIA products and services over the past two fiscal years, we reviewed PIA's most recent annual report to the Legislature, which provides audited revenue figures for fiscal year 2002–03. We then obtained PIA's revenue database and verified its reliability, breaking out revenues earned by each of PIA's enterprises based on how much each of PIA's major customers purchased. Major customers are those who provided at least \$1 million in annual revenue to PIA. After determining that the data were sufficiently reliable for our purposes, we requested that PIA provide us with its fiscal year 2003–04 unaudited revenue figures. We present the results of our analysis of PIA revenue for fiscal years 2002–03 and 2003–04 in Tables A.1 and A.2 on the following pages, respectively.

PIA's major customers accounted for \$151.9 million, or 94 percent, of its revenues in fiscal year 2002–03 and \$133.5 million, or 93 percent, of its revenues in fiscal year 2003–04. The remaining customers are accounted for as other state customers or as nonstate customers. For example, in fiscal year 2002–03, the \$6.5 million reported for all other state customers represents revenue reported for about 100 customers. The \$3.6 million reported for all other nonstate customers represents revenue reported for about 240 customers.

TABLE A.1

Prison Industry Authority Revenue by Major Customer and Enterprise, Fiscal Year 2002–03

Enterprise	California Department of Corrections	Department of Motor Vehicles	Department of Health Services	Department of General Services	State Hospitals	Department of Transportation	California State University/University of California	California Department of the Youth Authority	California Department of Forestry and Fire Protection	City of Folsom	Employment Development Department	California Highway Patrol	All Other State Customers	All Other Nonstate Customers	Totals
Bakery	\$ 2,908,417	0	0	0	0	0	0	\$ 57,462	0	0	0	0	0	\$ (17,715)	\$ 2,948,164
Bindery	310,410	\$ 708,726	\$ 3,023	\$ 827,916	\$ 45,089	\$ 114,304	\$ 207	6,891	\$ 898	0	\$ 86,741	\$ 34,064	\$ 69,286	43,660	2,251,215
Cleaning products	1,678,984	0	285	0	27,341	0	792	57,828	720	0	0	0	4,681	3,127	1,773,758
Coffee roasting	819,873	0	0	0	87,268	0	0	275	0	0	0	0	1,777	25,735	934,928
Crops	451,468	0	0	0	14,928	0	0	0	0	0	0	0	0	673,997	1,140,393
Correctional Resource Recovery Facility	0	0	0	0	0	0	0	0	0	\$2,134,079	0	0	0	0	2,134,079
Dairy	9,094,656	0	0	0	1,241,791	0	0	769,487	0	0	0	0	116,887	1,629,821	12,852,642
Dental lab	342,462	0	0	0	0	0	0	3,477	0	0	0	0	0	0	345,939
Digital services	0	0	0	0	0	0	0	0	0	0	0	0	62,000	0	62,000
Egg production	3,911,356	0	0	0	236,685	0	0	108,162	0	0	0	0	35,028	11,063	4,302,294
Fabric products	17,618,919	7,200	1,384	55,676	823,651	1,628,105	1,898	533,640	1,893,502	5,114	14,428	118,952	169,019	417,963	23,289,451
Furniture	2,643,221	954,559	516,742	364,917	894,649	814,068	4,013,896	154,121	127,206	2,579	911,390	247,402	4,246,738	88,681	15,980,169
General fabrication	95,638	781,335	59,364	13,751,231	12,428	2,350,283	318,907	31,925	0	0	465,160	5,646	1,240,163	45,676	19,157,756
Knitting mill	1,144,630	0	0	0	47,100	0	0	95,076	0	0	0	0	2,606	2,840	1,292,252
Laundry	7,093,267	0	0	0	5,396,150	0	0	437,335	0	27,530	0	0	2,263	232,672	13,189,217
License plates	0	13,736,799	0	0	0	0	0	0	0	0	0	0	0	24,519	13,761,318
Mattress	1,312,721	0	0	0	171,076	0	262,928	77,710	4,974	0	0	52	45,372	146,159	2,020,992
Meat cutting	5,714,121	0	0	0	578,832	0	0	237,205	0	0	0	0	7,076	0	6,537,234
Metal products	1,192,239	9,752	14,862	21,056	195,507	479,554	27,954	9,524	9,526	0	42,298	715,064	227,469	135,655	3,080,460
Metal signs	4,872	498,245	0	586	0	2,061	0	762	0	0	0	48,427	138,602	29,449	723,004
Optical	566,711	47	18,448,931	1,506	92,521	412,303	2,950	47,777	1,049	0	0	7,432	37,058	0	19,618,285
Paper products	2,718	0	0	313,186	0	8,664	0	61	0	537	0	0	608	534	326,308
Poultry	4,896,800	0	0	0	167,976	0	0	57,646	180	0	0	0	2,992	3,969	5,129,563
Printing	1,896,360	3,225,969	17,446	11,864	25,950	0	0	840	1,792	2,225	0	0	130,061	11,362	5,323,869
Shoe factory	3,579,815	0	0	0	3,006	72	0	71,629	0	0	0	0	971	55,220	3,710,713
Silk-screening	71,690	0	0	0	0	8,075	0	0	0	0	0	269	4,113	2,698	86,845
Totals	\$67,351,348	\$19,922,632	\$19,062,037	\$15,347,938	\$10,061,948	\$5,817,489	\$4,629,532	\$2,758,833	\$2,039,847	\$2,172,064	\$1,520,017	\$1,177,308	\$6,544,770	\$3,567,085	\$161,972,848

Source: Prison Industry Authority fiscal year 2002–03 revenue data.

TABLE A.2

Prison Industry Authority Revenue by Major Customer and Enterprise, Fiscal Year 2003–04

Enterprise	California Department of Corrections	Department of Motor Vehicles	Department of Health Services	State Hospitals	California State University/ University of California	Department of Transportation	California Department of the Youth Authority	Employment Development Department	California Department of Forestry and Fire Protection	Department of General Services	All Other State Customers	Nonstate Customers	Totals
Bakery	\$ 2,822,331	0	0	0	0	0	\$ 52,521	0	0	0	0	0	\$ 2,874,852
Bindery	646,859	\$ 164,367	\$ 13,094	\$ 55,970	\$ 106	\$ 252,580	5,297	\$ (1,108)	\$ 18,658	\$ 147,411	\$ 196,810	\$ 37,499	1,537,543
Cleaning products	1,641,421	0	0	23,316	432	836	44,072	0	1,080	0	7,639	1,193	1,719,989
Coffee roasting	964,724	0	0	91,570	0	0	238	0	0	0	0	17,660	1,074,192
Crops	468,001	0	0	15,415	0	0	0	0	0	0	0	1,316,465	1,799,881
Dairy	9,061,959	0	0	1,202,125	0	0	604,796	0	0	0	109,268	2,047,871	13,026,019
Dental lab	330,677	0	0	0	0	0	2,612	0	0	0	0	975	334,264
Digital services	0	0	0	0	0	0	0	0	0	0	295,500	16,900	312,400
Egg production	4,497,943	0	0	307,471	0	0	93,013	0	0	0	30,366	9,789	4,938,582
Fabric products	14,077,914	5,293	29	714,489	1,918	1,131,978	805,623	3,199	1,428,588	16,705	222,720	275,847	18,684,303
Food packaging	171,070	0	0	0	0	0	0	0	0	0	0	0	171,070
Furniture	1,546,076	539,071	163,209	1,857,134	4,895,541	192,365	97,476	865,170	37,982	131,260	2,579,153	63,187	12,967,624
General fabrication	207,781	1,445,947	31,842	24,291	268,843	1,052,306	17,381	772,854	48,328	1,018,554	946,035	14,562	5,848,724
Knitting mill	1,219,176	0	0	101,550	0	0	136,830	0	0	0	280	3,849	1,461,685
Laundry	7,104,372	0	0	5,452,229	0	0	348,033	0	0	0	319,557	208,980	13,433,171
License plates	0	14,459,892	0	0	0	0	0	0	0	0	0	57,746	14,517,638
Mattress	1,705,171	0	0	220,360	313,237	0	64,062	0	1,551	0	33,602	167,695	2,505,678
Meat cutting	8,535,054	0	0	707,255	0	0	287,308	0	0	0	6,668	(873)	9,535,412
Metal products	1,126,984	34,422	17,152	136,692	58,151	324,701	14,439	26,994	0	12,039	837,187	159,393	2,748,154
Metal signs	5,274	390,027	0	487	0	0	35	0	0	805	233,001	835	630,464
Optical	599,351	62	17,673,057	97,246	1,072	372,821	36,357	0	964	700	36,868	0	18,818,498
Poultry	5,175,652	0	0	162,864	0	0	61,815	0	116	0	2,890	1,942	5,405,279
Printing	2,129,531	3,013,178	0	16,865	0	0	182	0	124	4,518	78,988	9,607	5,252,993
Shoe factory	4,110,505	0	0	2,047	0	0	67,926	0	0	0	0	(4,453)	4,176,025
Silk-screening	69,911	0	0	0	0	22,071	1,600	0	200	0	2,160	3,000	98,942
Totals	\$68,217,737	\$20,052,259	\$17,898,383	\$11,189,376	\$5,539,300	\$3,349,658	\$2,741,616	\$1,667,109	\$1,537,591	\$1,331,992	\$5,938,692	\$4,409,669	\$143,873,382

Source: Prison Industry Authority fiscal year 2003–04 revenue data.

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APPENDIX B

Comparative Pricing Analysis of Prison Industry Authority Products and Services

To evaluate the competitiveness of the prices charged by the Prison Industry Authority (PIA), we obtained the prices of 19 PIA products and services whose revenues constitute about 24 percent of PIA's fiscal year 2002–03 revenue and compared the prices with those of similar products and services available from other vendors. We adjusted the other vendor prices to reflect sales and use tax, which state customers generally would be required to pay if they purchased from vendors other than PIA, as well as freight costs, which PIA generally includes in its prices. In certain instances, we adjusted the PIA price for freight because other vendor freight information was not readily available. Table B.1 on the following page reflects the detail behind our analysis in Chapter 1. For instance, PIA's \$3.48 price for a T-shirt—item 6 in the table—exceeds the average comparable price of \$2.24 by 55 percent. On the other hand, PIA charges \$12.11 for another type of shirt—item 16 in the table—which is 21 percent lower than the \$15.42 average comparable price.

TABLE B.1

Comparative Pricing Analysis of Prison Industry Authority Products and Services

Item	PIA Price	Comparable Price #1	Comparable Price #2	Comparable Price #3	Average Comparable Price	Percentage by Which PIA Exceeds (Is Lower Than) Average Comparable Price	Percentage by Which PIA Exceeds (Is Lower Than) Lowest Comparable Price
1 Furniture product (chair)	\$ 399.00	\$ 490.26	\$ 484.86	\$ 340.00	\$ 438.37	(9)%	17%
2 Furniture product (chair)	272.00	280.00	361.05	397.22	346.09	(21)	(3)
3 License plate product	1.65	1.37	1.90	2.38	1.88	(12)	20
4 Binder product	4.48	3.05	4.02	2.40	3.16	42	87
5 Clothing product (socks)	0.99	1.06	1.43	1.26	1.25	(21)	(7)
6 Clothing product (T-shirt)	3.48	1.94	1.87	2.91	2.24	55	86
7 Clothing product (fire-retardant trousers)	62.48	79.93	86.58	119.82	95.44	(35)	(22)
8 Shoe product (split leather)	29.94	15.62	17.24	21.01	17.96	67	92
9 Shoe product (canvas)	7.05*	8.62	6.41	6.41	7.15	(1)	10
10 Modular workstation product	2,981.96	2,668.96	3,007.54	3,450.33	3,042.28	(2)	12
11 Optical product (lens)	27.00	37.66	14.55	32.33	28.18	(4)	86
12 Laundry service (per pound)	0.29	0.35	0.36	0.48	0.40	(27)	(17)
13 Furniture product (bed/dresser)	690.00	635.67	677.75	487.03	600.15	15	42
14 Furniture product (bed)	324.00	429.92	419.15	386.82	411.96	(21)	(16)
15 Clothing product (slip-on trousers with silk-screening)	10.93	9.51	13.88	10.59	11.33	(4)	15
16 Clothing product (shirt)	12.11	4.31	18.24	23.69	15.42	(21)	181
17 Furniture product (desk)	415.00	484.86	438.07	484.86	469.27	(12)	(5)
18 Clothing product (boxer shorts)	2.38	1.97	1.80	2.69	2.15	11	32
19 Cleaning product (soap, per ounce)	0.04	0.07	0.06	0.08	0.07	(43)	(33)

Source: Bureau of State Audits' analysis based on Prison Industry Authority (PIA) prices and other vendors' prices for comparable items.

Note: Because 97 percent of PIA revenues result from state agency customer purchases and state agencies are not required to pay sales and use tax on PIA purchases, the PIA prices in our analysis do not reflect this tax. We generally increased other vendors' prices by 7.75 percent (the tax rate for Sacramento County) as state agencies would be required, for purchases from other vendors, to pay the sales and use tax rate charged by the county within which the customer is located. Nonstate customers, such as local governments, typically would be required to pay sales and use tax on PIA purchases. For a price comparison from the perspective of a nonstate customer, PIA prices would need to be increased by the applicable sales and use tax rate.

* This \$7.05 price differs from the \$7.30 price we discuss in Chapter 1 because it reflects a reduction in PIA's price for freight costs. As we discuss in Chapter 1, when other vendor freight charges were not readily available, we reduced PIA's prices to make them comparable.

Agency's comments provided as text only.

Youth and Adult Correctional Agency
1515 K Street, Suite 520
Sacramento, CA 95814

December 1, 2004

Elaine M. Howle, State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Dear Ms. Howle:

The Youth and Adult Correctional Agency (YACA) has reviewed your draft audit report entitled "Prison Industry Authority: Although It Has Broad Discretion in Pursuing Its Statutory Purposes, It Could Improve Certain Pricing Practices and Develop Performance Measures." We value the recommendations made in the report and believe they will help us further improve the operations of the Prison Industry Authority (PIA).

We appreciate the State Auditor's recognition that PIA's prices were below the average competitors' prices in 75 percent of the test samples. Additionally, we thank the State Auditor for acknowledging PIA's Inmate Employability Program, which enhances the ability of inmates to obtain post-release employment and plays an integral role in reducing recidivism.

Enclosed is our response to the report's recommendations. If you have any questions concerning our response, please contact me at 323-6001.

Continued Success,

(Signed by: Roderick Q. Hickman)

RODERICK Q. HICKMAN
Secretary
Youth and Adult Correctional Agency

Enclosures

RESPONSE TO THE BUREAU OF STATE AUDIT'S REPORT

Chapter 1

Recommendation

PIA should develop a method to allocate administrative support, distribution, and transportation costs directly to its products and services. Until it does so, PIA should ensure that its allocation of these costs to the various enterprises is as accurate as possible.

PIA concurs with the Auditor's recommendation. PIA recognizes the need to incorporate all relevant costs, including administrative support and transportation costs, into its evaluation of product costs. PIA developed a methodology to allocate distribution, transportation, and central office costs among its enterprises consistent with industry standards. PIA used this methodology to evaluate the overall performance of PIA's industries for fiscal years (FY) 2002-03 and 2003-04. PIA will refine this process annually with the objective of continually improving the accuracy of costs that are allocated to PIA's enterprises. This process will further consider the related costs of implementing such changes to its cost accounting systems. The data from such analyses will serve as a tool for refining product costing and pricing strategies as well.

Recommendation

PIA should ensure that it documents the analyses it conducts to establish, change, or review its prices.

PIA concurs with the Auditor's recommendation. The Marketing and Business Analysis unit has been doing the necessary pricing analysis; however, until July 2004, the documentation had not been standardized. In July 2004, a standardized methodology was developed for establishing, changing, or reviewing pricing for standard products. A standardized form for documenting competitive pricing research was also developed. These tools are presently in use.

Recommendation

PIA should establish policies for entering into special pricing arrangements or offering discounts and should ensure that its customers are aware of such opportunities.

PIA concurs with the Auditor's recommendation. To support the existing Prison Industry Board pricing policy, the Marketing Division will formalize and document internal procedures that will include guidelines for offering discounts and other non-standard pricing strategies to all customers. The procedures will be completed by March 1, 2005.

Chapter 2

Recommendation

PIA should establish long-range annual employment targets overall for each enterprise and as a percentage of Corrections' institution population. PIA should include these targets and annual results in meeting them, as well as explanations when they are not met, in its annual report to the Legislature.

PIA concurs with the Auditor's recommendation. Beginning with FY 2005-06, PIA's Annual Plan, as well as its Strategic Business Plan, will include long-range inmate employment targets. PIA's Annual Report will address the success in meeting these targets.

Recommendation

The PIA should establish criteria such as profitability per inmate and evaluate its enterprises' contribution toward its statutory purposes of being self-supporting, and employing inmates relative to such criteria.

PIA concurs with the Auditor's recommendation. PIA has already adopted profitability per inmate as an indicator of performance and is considering other appropriate criteria for evaluation purposes.

Chapter 3

Recommendation

To the degree PIA estimates cost savings that result from inmates participating in PIA, PIA should ensure that its analysis considers all of the options and associated costs per inmate that Corrections would have available for reassigning PIA's participants into another program in PIA's absence.

PIA concurs and will implement the Auditor's recommendation when performing future analyses involving cost savings that result from inmates participating in PIA.

Chapter 4

Recommendation

PIA should establish targets against which to measure its participants' post-release success in obtaining employment and not returning to prison. For instance, PIA should compare the post-release success of its participants to that of participants in other correctional programs, to nonparticipants, or to its own expectations. PIA should also measure each enterprises' contribution to its participants' post-release success and report the results in its annual report to the Legislature, using a tool such as the one we present. In addition, PIA should

assess whether certain enterprises lead to higher-paying jobs and should establish a wage success rate for each enterprise. Finally, PIA should identify whether specific training or experience inmates obtain leads to employment in a related field. Corrections should assist PIA in obtaining any necessary data for comparison by providing comparable data on other correctional programs to PIA.

PIA concurs with the Auditor's recommendation. PIA is finalizing a contract with an institution of higher education to design and conduct a research study to measure the impact of PIA on its participants' post-release success. The research study would begin in 2005 and would be conducted over a multi-year period. The study results will be used to determine appropriate standards for establishing targets and metrics relative to post-release employment and recidivism. PIA will develop a table similar to the Auditor's recommendation for inclusion in its Annual Report. PIA will work with the California Department of Corrections to compare its impact on post-release employment and recidivism with other correctional programs and non-participants consistent with the Auditor's recommendation.

Recommendation

PIA should track the individuals participating in unique components of the inmate employability program, such as additional resume assistance or specific occupational certifications, to determine whether there is a link between the components and inmates' post-release employment, earnings, and returns to prison. By tracking inmates who use specific components of its inmate employability program, PIA can further refine and focus on those activities with a demonstrated track record.

PIA concurs with the Auditor's recommendation. Within the next 90 days, PIA will expand current tracking activities to better assess the impact of discrete elements of the Inmate Employability Program upon post-release employment and recidivism consistent with the Auditor's recommendation.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press