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The Honorable Christine Todd Whitman
Governor of New Jersey

The Honorable Donald T. DiFrancesco
President of the Senate

The Honorable Jack Collins
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

We have completed an audit of the Department of Corrections, Correctional Industries Program for the period July 1, 1994 to July 31, 1996.

Our report is transmitted herewith.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Richard L. Fair
State Auditor
January 2, 1997

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Department of Corrections Correctional Industries Program

Scope

We have performed an audit of the Department of Corrections, correctional industries program for the period July 1, 1994 to July 31, 1996. For the purpose of this audit correctional industries is defined as being the operations of two Department of Corrections agencies, the Bureau of State Use Industries (DEPTCOR) and Farm Operations within the Department's Office of Institutional Support Services. Both operations are administered without appropriated funding and are reported on the New Jersey Comprehensive Financial System as revolving funds. As such, each is fiscally constrained so that operational expenditures are financed by the revenue it generates.

DEPTCOR operates 21 industrial shops utilizing inmates from nine correctional institutions. A wide range of products are manufactured in the industrial operations and are sold only to tax supported agencies, institutions and units of state, county and municipal governments. Products include auto tags, bakery items, brushes and mops, clothing, furniture, mattresses, metal products, printing and signage. Data entry, tele-response and other services are also offered.

Farm Operations involve farms at or near nine state institutions, a dairy plant and a beef processing plant. Minimum security inmates are utilized from six correctional institutions or their satellite locations. The farms and plants produce a variety of products including milk, beef and pork for consumption in state institutions and feed crops that support the dairy farms.

Because of its relative size, our review and recommendations were more focused on DEPTCOR's operations.

Objectives

Our primary focus was to evaluate correctional industries operations and potential in maximizing inmate employment in productive jobs, while remaining self-sufficient.

We focused on the adequacy and ability of its operations in achieving the following objectives:

1. developing program goals, objectives and strategic business plans,
2. self-sufficiency,
3. reducing costs to taxpayers,
4. maximizing inmate employment while incarcerated,
5. maximizing employability of inmates when released,
6. offering goods at competitive prices,
7. establishing and administering effective Private Sector/Prison Industry Enhancement Certification (PIE) Programs.

These objectives were selected because of their inclusion in DEPTCOR's mission statement and their worth to a correctional industries program. DEPTCOR's stated mission is to:

1. develop and maintain inmate work programs,
2. be fiscally self-sustaining,
3. provide quality manufactured goods and services to government agencies at prices which effect savings of taxpayer dollars,
4. teach good work habits and marketable skills to help prepare the inmate for release to society, and
5. provide inmates with vocational training for pre-industry qualifications, on-the-job training, and assistance with post-release employment.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. In preparation for our audit, we studied legislation, executive orders, administrative codes, circular letters promulgated by the State Comptroller, and policies of the Purchase Bureau. We performed research on current available literature and shared nonconfidential information with auditors from other states participating in the National State Auditors Association Joint Audit of Correctional Industries Programs. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the policies, plans and goals of the agency, and the internal control structure. In addition, a survey of prison officials was conducted regarding the operation and potential expansion of correctional industries at their facilities. Limited conclusive results were also obtained from our survey of DEPTCOR customers and our follow-up of a sample of prior DEPTCOR inmates.

We evaluated correctional industries based on both full cost absorption and incremental common cost allocation methods. We did the same when evaluating the cost of expanding correctional industries projects. In full cost absorption, all costs associated with the project, including wage and fringe benefits of correctional officers and building and overhead costs are considered project costs. Incremental costing, however, is the difference in total costs between two alternatives. When allocating common costs, such as the cost of correctional officers and prison overhead, correctional industries is allocated only those additional costs incurred due to a project. In many instances this would mean that none of the security and building overhead costs are allocated to correctional industries if it is determined that the correctional facility would incur these costs anyway.

Our cost/benefit analysis of correctional industries officials was not limited to the amounts recorded in agency or departmental accounts. Our analysis identified all unallocated costs, as well as all benefits (both revenues and cost avoidances) received by the state. Programmatic benefits were also considered in our conclusions.

Prison superintendents and correctional

industries officials have stated that there are implied public

benefits derived from the correctional industries program including reduction in idleness of inmate, with a resulting alleviation of tension and violence. This behavioral effect in turn creates operational benefits to the Department of Corrections (DOC), such as reduced costs of security.

Determining a dollar value of a programmatic benefit that is measured by something not happening, namely prison unrest, is difficult at best. This is the case with quantifying the programmatic benefits of maximizing inmate employment. For our audit, we quantified DOC's programmatic benefit by determining the costs the department is willing to pay for the benefit. This methodology is crude because it is unknown whether these costs are being efficiently or effectively applied. We felt it important, however, to indicate DOC's financial commitment to achieve this objective. For this audit, we assumed that the current costs incurred by the prisons to assign correctional officers to correctional industries shops and supply adequate shop space is equal to the benefit they receive.

The primary objective of correctional industries (C.I.) is to provide employment and training opportunities for inmates while reducing costs to taxpayers and remaining fiscally self-sustaining. We found the need for improvement in achieving each of the objectives. However, correctional industries is the most cost beneficial program available to DOC in employing inmates and offers the best opportunity to maximize inmate employment.

Correctional industries is a program operating under conflicting goals and objectives. As a result there is a give and take which limits their ability to maximize any objective. Increasing profits and production is balanced against the retention

Conclusions

of inmate jobs in unprofitable labor intensive shops that stress training over production. Additionally, profits are minimized in order to offer low prices to other governmental agencies and provide taxpayer savings. But profits, on the other hand, are necessary to invest in capital equipment for expanded production and the creation of more inmate work opportunities,

and to remain fiscally self-sustaining. A result of stressing programmatic objectives and effecting statewide cost savings at the expense of profits is that C.I. has become dependent on the financial and operational support of other agencies.

Because of its dependency, the implementation of any correctional industries plan is not decided by correctional industries, nor is there a comprehensive strategic plan that integrates C.I. into the operations of the correctional facilities and the objectives of the department. As a result, although C.I. plans and develops projects, these plans have been delayed or scuttled by outside intervention or lack of cooperation. Capital project budgets require legislative, executive and departmental approval. New budgeted positions for civilian staff must be authorized and processed by the Department of Personnel. Correctional officers must be available and posted to the C.I. shops by the prisons. And operational changes must be agreed to and implemented by prison superintendents. DEPTCOR has not developed well defined program goals against which they can adequately measure their success and guide their long-range decision processes. The support of a comprehensive and broad based strategic plan is essential to form the consensus needed to develop new industries and shops.

Because of their inability to implement new and expanded inmate work projects, C.I. has not maximized their potential for employing inmates. C.I. employs only about 1300 (6.5 percent) of the 20,000 inmates in state facilities. Prison superintendents have indicated that an additional 4,000 underutilized inmates could be reassigned if C.I. jobs were available. Our review found that DEPTCOR has proposed various projects that would create over 500 new inmate jobs. The overall benefits the state would receive from these projects outweigh the costs. These projects, however, have not been implemented.

C.I. is not self-supporting. Although the C.I. revolving funds appear to be self-sustaining, we noted certain uncharged costs that would have resulted in negative fund balances. The DEPTCOR and farm operations accounts

are not charged the civilian employee benefit costs and facility overhead costs, such as utilities and building maintenance costs. During fiscal year 1995, these uncharged costs totaled nearly \$2.1 million.

Our analysis further went on to find that DEPTCOR's pricing is directly impacted by its costing methods. Since DEPTCOR was not charged some costs, they did not include them in their pricing formulas. We estimate the total cost savings provided by DEPTCOR'S reduced prices was \$1.4 million during fiscal year 1995.

In addition, C.I.'s fiscal benefit to the state is captured in the form of cost avoidance. In the absence of C.I., the state's General Fund would have to support inmate wages (stipends) and alternative work or training programs. A minimum of \$400,000 in inmate wages is avoided annually by the General Fund. Also, the cost of alternative programs, such as academic or vocational education programs that cost about \$4,000 per inmate annually, are avoided while still receiving programmatic benefits.

The majority of inmates working on DEPTCOR jobs have lengthy sentences and are not those inmates who would most benefit from its training aspects. These inmates are dropped from the program when they are reclassified to lower security facilities. Neither the Department of Corrections nor DEPTCOR has studied job placement of DEPTCOR inmates after release, but the lack of continuity in the program would discount any correlation.

Despite these findings, our review found a great potential exists in correctional industries. The remedy is expansion of the program. More efficient use of resources through economies of scale will enable C.I. to increase inmate employment in productive jobs while increasing production and profits. Increased production will also result in the ability to offer lower priced goods to more taxpayer supported customers, thereby providing greater taxpayer savings.

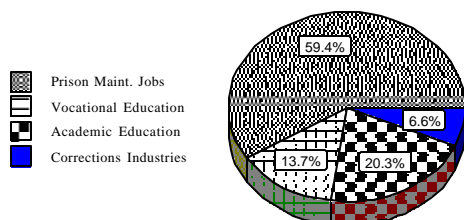
Expansion of the program should be done as part of its overall integration into the operations of the correctional facilities and the objectives of the department. All inmate assignments should be approached as a whole with one program supporting another. The DOC should develop a unified approach to inmate assignments eliminating destructive competing elements between programs. Program evaluation must also be done by taking a broad, long-term view of the program results.

Part of this program expansion should include C.I.'s participation in Public/Private Prison Industries Enhancement (PIE) programs. PIE programs have been found to offer wide-spread programmatic and fiscal benefits. Participation in this program that opens the market of prison-made goods to the private sector will require new legislation.

indicated that an additional 4,000 inmates (20 percent) could be assigned correctional industries jobs if they were available.

Distribution of Inmate Assignments

Percentage of Total Assignments at State Facilities



During fiscal year 1995, DEPTCOR employed 1,036 inmates. While this amount is an increase of 169 jobs since 1990, there has not been any growth in jobs over the last three years. In addition, the number of available farm operation jobs has remained flat during this five-year period, employing 245 inmates. The inmate population at correctional facilities, however, has consistently increased.

The stagnation in job growth experienced by correctional industries was the result of reaching capacity limits within its own historical operations. Just as prison superintendents have only a limited number of productive prison maintenance jobs available, correctional industries face this same limitation. The difference, however, is that where there is only a limited amount of prison maintenance work opportunities, correctional industries is able to create new businesses and work opportunities beyond its historical experiences. The key to correctional industries growth is expanding the capacity limits.

There are three capacities that can limit correctional industries operations,

1. Shop capacity - the physical space and equipment capabilities,
2. Market capacity - the ability to sell the items produced, and
3. Inmate labor capacity - the ability to obtain competent inmates to perform the jobs.

In addition, there are legal, financial and other outside (i.e., operational decisions and practices of other agencies, public opinion, and customer perceptions) obstructions impacting on correctional industries ability to expand. These factors must be addressed in developing a solution to expanding correctional industries beyond its current capacity.

Shop Capacity

Prison space is very limited. When asked about the availability of shop space at their facility, few superintendents were able to identify any potential sites. Of the three sites mentioned, all required substantial capital improvements to make the location suitable. The solution to the problem of shop capacity therefore, may not only be opening new shops within the prisons, but better utilizing current shops and creating new correctional industries projects beyond the traditional prison shop.

Correctional industries shops at many prisons are only operating at single shifts. As a result, shops are empty and equipment sits idle for most of the day. In addition, fixed overhead costs (i.e., shop and central office administration costs) are only allocated towards one shift of production. DEPTCOR officials have identified five shops that they would like expanded to a second shift. **Based on our analysis of this proposed expansion, we recommend the implementation of this project.** It could create an additional 295 inmate jobs and be cost effective. Not only could net income in the revolving fund increase, but the profits could cover all incremental costs associated with the expansion. Additional financial benefits would also be

received by this expansion (See TAXPAYER SAVINGS for

Expanding to a second shift could create 295 inmate jobs and increase profits.

an explanation of these additional benefits).

Another way of expanding correctional industries beyond shop capacity is to create inmate work opportunities outside of the traditional shop. This premise has already been incorporated by DEPTCOR in its warehousing and printing operations, but the potential for expansion in this area must be further developed. Obviously, inmate security is an important concern and eligible inmates will be limited. However, eligible minimum security inmates are currently being underutilized by DEPTCOR. This population would benefit from job training, since their eligibility for release is imminent.

DEPTCOR has proposed two projects that will utilize inmate labor outside of the prison. One project entails the training and subsequent use of inmates in the proper removal and disposal of asbestos, lead and underground storage tanks from government buildings. The other is the cleanup of illegal tire dumps and depositories, and the recycling or processing and disposal of these tires as an alternative fuel used by utility companies.

As with all DEPTCOR projects, the financial impact a project has on its revolving fund is a factor in its decision process. These cases, however, illustrate the limited financial scope addressed by the DEPTCOR revolving fund and why an expanded criteria is necessary to fully evaluate a project's cost and merit. Our analysis found that although these projects would increase net income in the revolving fund, the projected profits would not cover all expenditures associated with the expansion (See SELF-SUFFICIENCY for an explanation of these additional costs). As a result we would not normally recommend the implementation of these

projects. However, these projects have value similar to the vocational education and road and community work details created at the prisons. **We therefore recommend the DEPTCOR projects as an alternative to the vocational education programs and road and community work details which would require similar costs but almost none of the revenue.**

Lastly, another way of expanding correctional industries beyond shop capacity is to construct new shop space. Although this alternative is difficult to justify financially, it tangibly points out the department's attitude on the programmatic benefits correctional industries supplies. For example, the new South Woods State Prison was designed and constructed specifically to include 80,000 square feet of space for correctional industries shops at an estimated added cost of \$7 million. Capital equipment purchases of \$2 million will also be invested by the DOC for these shops. It is anticipated that over 20 percent of the 3000 inmate population will be employed at the correctional industries shops within the new prison.

Other, more modest construction projects have been proposed by DEPTCOR in their 1998 Capital Budget Request. Our analysis of their Mountainview Youth Correctional Facility project indicates that this project would create an additional 75 inmate jobs per shift and would be cost effective in the long run. Profits would cover all incremental costs associated with the expansion including the depreciation costs of the new building.

The problem with projects of this nature, however, is that the large initial capital investment required usually precludes DEPTCOR from proceeding with the project due to the short term effects these up front expenditures have on its revolving fund. As a result, it is typical for DEPTCOR to request funding of these projects from DOC capital appropriations. This method is an unreliable funding source for financing expansion and the capitalization of new operations. Many times, the long-term financial merits of a project are put off in favor of satisfying short-term restrictions and concerns. DEPTCOR needs to identify alternatives for obtaining capital funding. This financial obstacle drastically affects DEPTCOR's ability to project and implement its strategic plan.

We recommend that DEPTCOR prepare a strategic plan which includes anticipated long-term capital funding needs for capitalization of new shops and the regular equipment replacement of continuing shops. Prearranged capital funding approval should be obtained so that DEPTCOR can take advantage of opportunities for implementing their plan. In addition

to the traditional funding received through DOC's capital appropriations, other potential sources for financing are bond funds, certificates of participation, supplemental appropriations dedicated specifically to capital expansion and private sector investment in PIE shops. The fiscal viability of these new shops must be evaluated based on their overall long-term costs and benefits prior to implementation.

Proposed DEPTCOR Expansion Projects

<u>Project</u>	<u>Additional Inmate Employment</u>
Second Shifts	295
Disposal of Asbestos, Lead and Underground Tanks	25
Tire Clean-up and Recycling	50
Mountainview Youth Correctional	<u>150</u>
Total Expansion Projects	520
New Shops at South Woods	<u>600</u>
Total New C.I. Jobs	<u>1120</u>

Market Capacity

State law restricts the sale of goods made by prison labor, as well as the contracting of prison labor to the private sector. Also, Federal law restricts the interstate commerce of prison made goods to the private sector and limits Federal government purchases of these goods. New Jersey statutes, however, attempt to assure a market for all goods and services available from DEPTCOR. It requires all state and county agencies to make their purchases from DEPTCOR if the item the agency intends to purchase is identical, or similar, to what DEPTCOR offers. It also allows sales to other governmental agencies within and outside of New Jersey.

Lack of enforcement of the mandatory sourcing statute (NJSA 30:4-95 and 30:4-96), the issuance of market restrictive executive orders and limited sales and marketing efforts have limited DEPTCOR's success in achieving its existing market potential. These market obstructions are somewhat self imposed due to DEPTCOR's production limitations. Currently, correctional industries has not experienced a prolonged problem in selling all of the items it has produced. However, the intended expansion of correctional industries production may be inhibited unless new or expanded markets can be developed.

The mandatory sourcing statute attempts to assure a market for correctional industries goods and services and the ability for DEPTCOR to plan production based on anticipated product need. However, there is no enforcement clause and the Purchase Bureau does not have adequate procedures to enforce these statutes. Each year, millions of dollars of office furniture is purchased by state and county agencies from contract vendors. County jails obtain their inmate clothing from outside vendors without inquiring to their availability from DEPTCOR. The use of DEPTCOR data entry services is canceled and contracted out to a private vendor.

Additionally, the issuance of Executive Orders #36 and #33 have restricted or eliminated the printing and automotive repair operations performed by inmate labor. These viable activities, duly authorized by the State House Commission, were limited when their operations were centralized in another governmental agency.

Although the core market of correctional industries goods, institutions within the Departments of Corrections and Human Services (these departments represent over 50 percent of DEPTCOR's sales and nearly all of farm operations' sales) will likely increase, this core market cannot be expected to absorb the added production of the intended four-fold expansion in inmate participation. Better sales and marketing efforts, planning and research of new product lines, and enforcement of the mandatory sourcing statutes

will be necessary to assure that sales to existing markets are maximized. We recommend that each of these efforts be attained. We also recommend that the restrictions imposed by Executive Orders #36 and #33 be addressed and that DEPTCOR shops be excluded from these orders.

In addition, the opening of restricted markets may be necessary to assure the sale of all goods and services produced by correctional industries. New Jersey statutory limitations make the market of prison made goods one of the more restrictive in the nation. DEPTCOR officials would like to be able to sell to not-for-profit organizations and supply goods to DOC halfway house providers. We concur and further recommend that their market be extended to include all state contractors in the execution of their contracts. Since these markets are taxpayer supported, the ability to supply them with reduced priced goods could provide savings of taxpayer dollars. These markets are open to correctional industries in many other states. Legislation opening the market of goods and services produced by correctional industries to not-for-profit organizations and state contractors in the execution of their contracts should be considered.

DEPTCOR officials would also like to develop Public/Private partnerships to enhance its ability to effectively achieve its goals. Although some of these projects, such as the Asbestos, Lead and Underground Tank Removal Project, can be initiated within its existing market, establishment of Private Sector/Prison Industry Enhancement Certification (PIE) programs (See PIE PROGRAMS) would require legislative changes. We concur with DEPTCOR and recommend that required legislation be considered which would enable DEPTCOR's involvement in PIE programs.

Inmate Labor Capacity

It may seem contradictory to report that there are thousands of idle inmates and still cite that correctional industries is not able to obtain competent inmates to perform their jobs. That, however, is the case. Because of limitations imposed by facility superintendents, the loca-

tion of shops, and the lack of motivation of the inmate labor pool, correctional industries cannot always staff their available inmate jobs. Administrative control of the shops at the correctional facilities rest, as they should, with the facility superintendents. Limitations imposed by facility superintendents, such as the shop hours, number of shifts the shops can operate and the closing of shops due to reduced activity days, impact on the shop's ability to obtain and utilize inmate labor. Reduced activity days (RADs) are imposed in order to control correctional officer overtime. The two major reasons given for limiting shop hours and shifts are financial and security concerns.

We are aware of the financial disincentives the shops have on the appropriated spending accounts of the correctional facilities (See Self-Sufficiency). However, making operational decisions strictly on the narrow view of their financial effects on only these accounts is not an efficient and effective method of fiscal management. These costs, based on our analysis, are more than absorbed by the added revenue and benefits received and reported in other organizations' accounts. It has been estimated that during the first five and one-half months of fiscal year 1995, while all correctional institutions may have saved about \$300,000 in costs due to RADs, DEPTCOR lost nearly \$500,000 as a result of having their shops closed. **The department has already taken action to exempt DEPTCOR shops at most facilities from RADs closings. We concur with this departmental exemption.**

Security concerns, however, are not as easily quantified or substantiated. Although we do not recommend that security be compromised, we urge that operational procedures be reviewed to determine if changes could be made to off-set any security concerns. **We recommend that if security concerns can be addressed, shift hours and the number of shifts be extended for DEPTCOR shops.**

Inmate labor is also limited to those inmates accessible and in proximity to the shops. Currently, DEPTCOR shops are located only at eight facilities. Only inmates at those facilities can be utilized in these shops. In addition,

because of security concerns, only inmates housed within the secured perimeter are assigned DEPTCOR jobs. For these reasons, the inmates at facilities such as Mountainview Youth Correctional Facility or those housed outside the walls at East Jersey Prison are not available for DEPTCOR jobs. DEPTCOR jobs are accessible only to 12,000 of the department's 26,000 inmates.

This limitation is not a problem at most facilities because of the huge inmate labor pools, but it is an issue at the maximum unit at Edna Mahan Correctional Facility for Women and the Bakery at Bayside State Prison. Edna Mahan's North and South Hall units house less than 200 inmates, yet there are over 150 DEPTCOR jobs available only to these inmates. The high proportion of inmates being used limits the ability to replace absent or nonproductive workers.

Special qualifications are required for inmates working in the bakery at Bayside. Inmate must be "food clear". This requirement limits the number of qualified inmates available and places the bakery in direct competition for inmate labor with the prison's kitchen. Because of the shortage of qualified inmates, future expansion of bakery jobs is limited.

DEPTCOR should extend its accessibility to a greater portion of the inmate population. We recommend that new shops and assignments focus on the underutilized inmate population for employment, thereby ensuring an ample inmate labor pool from which to draw.

Lastly, the ability to obtain competent inmate labor is hampered because there is the lack of motivation of the inmate labor pool to work on DEPTCOR jobs. As a result of efforts to enforce the policy of assigning all inmates a job and paying them, the inmate wage scale no longer reflects a comparatively fair compensation for the work performed. Where DEPTCOR wages are paid only for actual hours of work at the shops, daily wages are paid to inmates assigned the other details (both work or educational assignments) regardless of the hours required. The

difference in wages between a DEPTCOR employee working five hours a day (\$1.65/day) and an inmate assigned an unskilled, overstaffed sanitation job (\$1.30/day) where the average working hours is substantially lower, is less than \$8.00 per month. Also, both inmates would receive the same work credits towards the commutation of their sentence. This non-disparity in compensation has resulted in problems getting inmates to productively accept DEPTCOR jobs. Inmate work force turnover and job attendance, brought on by the lack of compensation, is routinely an issue affecting productivity at some shops. Consequently, DEPTCOR managers are constantly training new replacement workers and equipment is inefficiently utilized or sits idle as available jobs are vacant.

This problem of retaining DEPTCOR workers is not restricted to the unskilled, unproductive inmate. Inmates often transfer to job assignments with added benefits not available from DEPTCOR jobs. Some prison maintenance assignments are “7-day” jobs. These assignments allow inmates to earn 40 percent more work credits compared to the 5-day DEPTCOR job. In addition, a review of the wages of prison maintenance jobs found that many of the rates paid exceeded departmental guidelines. DEPTCOR’s inability to compete against these inmate job opportunities has resulted in the loss of many skilled, productive laborers and the reduced overall productivity of the shops.

Improving the incentives for working on DEPTCOR jobs and restricting the assignments of inmates to unproductive jobs will help to correct the problem at some institutions. A more comprehensive evaluation of the inmate work and compensation policies may also be necessary to more fully rectify the situation. **We recommend that the department develop an inmate work and compensation policy which fosters the work ethic, encourages inmate motivation and growth, and rewards dedication to their assignments.**

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Self-Sufficiency

C.I. revolving funds offer inaccurate financial information, but because of statutory requirements, business decisions are made based on their effect on these funds.

DEPTCOR's stated mission, in compliance with NJSA 30:4-100, includes being fiscally self-sustaining. Although this is DEPTCOR's only statutory requirement, it is secondary to the overriding objective of maximizing inmate employment. Being self-sufficient is more a fiscal limitation imposed on correctional industries than an actual goal for the program. Both DEPTCOR and Farm Operations are administered without appropriated funding and are reported on the New Jersey Comprehensive Financial System as individual revolving funds. As such, each are fiscally constrained so that operational expenditures are financed by the revenue it generates and continuing balances. Although both organizations appear to be self-sustaining, we noted certain uncharged costs which would have resulted in negative fund balances. In addition, the financial operations of each organization are not self-contained and each is reliant on outside funding. Furthermore, the cash basis of accounting utilized by the revolving funds is inappropriate in a manufacturing business. As a result, the activity and balances recorded in the revolving funds do not reflect an accurate financial appraisal of the operations of correctional industries, nor do they serve as an appropriate management tool to evaluate the success of the program. Yet, because of statutory requirements, business and programmatic decisions continue to be made based on their effect on these cash operating accounts.

Profitability of Shops

DEPTCOR is charged by the DOC to maximize inmate employment. Being self-sufficient or making a profit is secondary. Evidence of DEPTCOR's hierarchy of objectives is its decision to keep unprofitable shops open. DEPTCOR's self-sustaining requirement is on its entire operations, not on individual shops. As a result, inmate jobs are retained at the expense of profits. During fiscal year 1995, 13 of 19 DEPTCOR shops' cost centers showed net deficits totaling \$1.2 million after the allocation of central office and other overhead expenses. Seven of these shops could not even cover their own operating

costs, posting operating losses in excess of \$400,000. These seven shops, however, employ 200 inmates, so they remain open.

DEPTCOR management has stated that they would not consider closing a shop unless the financial stability of the entire program was in jeopardy. Because of the fiscal success of the auto tag shop they have not been faced with this dilemma. Although they have made attempts to reverse the fiscal fortunes of unprofitable shops, some factors are beyond their management control and necessary changes could not be implemented. However, they are willing to keep these shops open for the sake of achieving their primary objective, employing inmates.

Although profit should not be the only criteria by which success of a shop is measured, it should not be completely discounted as a factor. **DEPTCOR management must be able to evaluate the effectiveness and efficiency of operations in its shops, and make necessary improvements in cooperation with the prison superintendents. For unsuccessful shops, it should consider alternatives such as replacing them with other industries with greater profit potential. Profits, although not their primary objective, are necessary to DEPTCOR's ability to finance capital expansion and achieve its mission objectives.**

Shift Hours

Correctional industries shops at many prisons are only operating during a single five-hour shift. As we previously noted, greater efficiency can be achieved and more jobs produced by expanding to a second shift at these shops. Greater efficiency and productivity could also be attained by revising the shop hours. Generally, inmates work from 8:00 to 11:00 A.M., return to their cell block for count and lunch, and are then escorted back to the shop to work from 1:00 to 3:00 P.M.. Correctional industries staff and correctional officers working eight-hour shifts, from 7:00 A.M. to 3:00 P.M., must find other things to do as they await the return of inmates. Production is limited to the number of units that can be produced during the five-hour inmate work period. Greater production will reduce unit costs by allocating the fixed and semi-fixed costs, which account for about half of all costs, to more

Matching inmate work hours with C.I. staff hours would greatly increase productivity net revenues.

units. Reduced unit costs can be passed on as price savings to state customers or be retained as increased profits to correctional industries. Expanded shop hours have been tried at some facilities. From time to time shop hours have been temporarily adjusted during peak demand periods at select shops. During these periods select inmates have been escorted to and from lunch by C.I. shop workers and inmate counts performed at the shop in order to extend productive time. During rare instances inmates have also been kept past 3:00 P.M.. This, however, normally requires the payment of overtime to the correctional officers, whose shift conclude at 3:30 P.M.. During each instance of expanded shifts, inmate security was not compromised.

Any change in shop hours obviously must be coordinated with and approved by the facility superintendent. As long as security concerns are addressed, matching inmate work hours as closely as possible with C.I. staff hours would greatly increase productivity and net revenues. **Our analysis indicates that for each additional hour of daily production, net revenues (profits) could increase \$700,000 and other taxpayer savings totaling \$200,000 could be realized. In addition to these added production benefits, increasing the shift hours can also have a positive affect on making C.I. jobs attractive to the inmates. By increasing the hours, the inmate daily wages are also increased. Clearly we recommend the efficient use of C.I. resources. Developing procedures that can increase productive shift hours obviously has our support.**

Revolving Fund Accounting

During fiscal year 1995, DEPTCOR revenues exceeded expenditures recorded in the revolving fund by \$400,000, increasing the balance to \$1.4 million. Farm Operations' revolving fund, on the other hand, indicates expenditures exceeded actual receipts by \$800,000, resulting in a negative fund balance of \$700,000 as of July 31, 1995. These revolving funds, however, are on a cash basis of accounting. This accounting basis does not accurately reflect inventory and fixed asset balances, depreciation expenses, and other accounting activities significant to a manufacturing operation. For example, Farm Operations collected over \$700,000 in additional fiscal year 1995

revenues after July 1995 and the fiscal year actually ended with a positive fund balance. Due to the inappropriate basis of accounting, the activity and balances recorded in the revolving funds do not reflect an accurate appraisal of the financial operations of correctional industries.

DEPTCOR, however, maintains separate financial records based on accrual accounting in accordance with generally accepted accounting principles. These financial statements show a net loss of \$191,081 for fiscal year 1995.

Compounding the reporting problem, our review found that a variety of costs associated with correctional industries are not charged. The major DEPTCOR operational costs excluded during fiscal year 1995 were \$1.2 million in civilian employee benefits and \$400,000 in various unallocated overhead costs, such as utilities and building maintenance. In total, if all operating costs were reported by DEPTCOR, the net operating loss for fiscal year 1995 would be about \$1.8 million. Similar costs excluded from Farm Operations charges were \$500,000 (See Exhibit 1).

Exhibit 1

**Analysis of Financial Impact of Operations
Fiscal Year 1995
(\$000)**

	DEPTCOR	Farm Operations
Net Income (Loss)	\$ (191)	\$ 26
Less Uncharged Costs:		
Civilian Employee Benefits	(1,200)	(525)
Direct Facility Overhead	<u>(404)</u>	<u>(15)</u>
Adjusted Net Income	(1,795)	(514)
Unallocated "Common Costs":		
Correctional Officers-Salaries	(1,357)	(405)
Correctional Officers-Benefits	(610)	(182)
Capital Projects (FY95 Budget)	<u>(1,500)</u>	<u> </u>
Total Costs - Full Absorption	(5,262)	(1,101)
Taxpayer Savings:		
Reduced Price Savings	1,437	687
Surplus Food Program	-	500
Inmate Wage Savings	350	93
Programmatic Benefits* (i.e. Reducing prison operating costs and inmate recidivism)	<u>3,871</u>	<u>602</u>
Net Fiscal Impact of Program	<u>\$ 396</u>	<u>\$ 781</u>

*See Methodology (page 5) for procedure used to quantify Programmatic Benefits

Besides these operational costs, other costs are incurred by the DOC and the prisons which benefit DEPTCOR. During fiscal year 1995, salary and benefit costs for the 22 correctional officer posts established in the DEPTCOR shops, totaling \$2 million, were not allocated by the prisons. During the 1970's, it was decided by the department that the cost of correctional officers are applicable to the correctional facility and should no longer be charged to the correctional industries account. DEPTCOR was also not charged for \$1.5 million in capital construction projects budgeted during fiscal year 1995 by the Department of Corrections to improve buildings containing DEPTCOR shops.

Regardless of which account is charged, any plans and decisions made with respect to correctional industries must be done knowing the financial effect on the operations of the correctional facility and other state agencies. For this reason, it is appropriate to note these costs and evaluate expansion programs based on the overall incremental costs incurred. It is likewise appropriate to evaluate expansion programs based on the overall benefits obtained not just the cash collected in the operating account.

Historically, the cash operating accounts (revolving funds) of C.I. have not included all of the non-cash costs of their programs. Because of this precedent and since the activity in the accounts would not offer C.I. management a comprehensive analysis of operations by which to make decisions, we make no recommendation on charging costs to these accounts. However, we do recommend that management develop a comprehensive reporting model that accurately measures the fiscal success of individual shops as well as the entire program. This reporting model should include all costs of the program, regardless of the appropriation account charged. It should also include all benefits obtained which result in taxpayer savings. In order to make sound business decisions, C.I. management should be afforded all necessary information.

1/4/2

Taxpayer Savings

DEPTCOR's mission statement includes the objectives of reducing costs to taxpayers and offering goods at competitive prices. We have identified four opportunities where correctional industries could achieve these objectives.

- C Directly contributing revenues (profits) to the state's General Fund.
- C Providing goods and services at prices which effect savings of taxpayer dollars.
- C Contributing to inmate accounts that can be charged for taxpayer recoveries.
- C Effecting cost avoidance of other taxpayer supported operations.

Transferring Excess Profits to the State Treasury

Although allowed by law (NJSA 30:4-100), a transfer of funds to the state's General Fund has never been made from either of the correctional industries revolving fund accounts. Each year, fund balances have carried forward to the subsequent year. Since the primary mission of correctional industries' management is not to make a profit, pricing methods and the fiscal evaluation of individual shops have not been developed to do so, especially if resulting in the charging of higher prices. Any balances remaining in the cash operating funds have been used for the expansion of the program and continued support of nonprofitable shops.

NJSA 30:4-100, however, also subjects any year-end cash operating account balances in excess of \$1 million to possible involuntary lapsing to the General Fund. This possibility, although never ordered, has impacted on DEPTCOR's planning process. DEPTCOR's ability to confidently put aside funds for future capital expansion and start-up needs has been limited, thereby hampering its ability to achieve its objectives.

We concur with correctional industries retaining its unexpended fund balances for future expansion needs. We also recommend that legislative consideration be given for eliminating the balance limitations from DEPTCOR's enabling statutes so that they are not restricted from pursuing viable projects.

Goods and Services at Reduced Prices

Correctional industries customers, traditionally government agencies, benefit from the reduced product prices it offers. Although the mandatory sourcing statute (NJSA 30:4-95) eliminates competition from contract vendors, nearly all C.I. products are offered at prices below those of other vendors. On average C.I. customers save 10 percent on their purchases. For fiscal year 1995, \$2.1 million in taxpayer savings was realized through reduced prices. In addition, customers save the cost and time of procurement.

An added cost saving benefit is provided by farm operations through its surplus food program. This program offers a collection point for private companies to donate their unwanted/unsaleable food products. Farm operations incur the cost of distributing this food to state institutions free of charge. During fiscal year 1996, state institutions received \$500,000 in free food due to the efforts of farm operations.

Offering goods and services to government agencies at prices which effect savings of taxpayer dollars is an objective in DEPTCOR's mission statement and one which it has realized. We recommend that expansion of the program continue to focus on this

objective as a factor in evaluating program success.

Recoveries From Inmate Wages

Based on a Bureau of Parole report, each inmate owes over \$2,000 in court imposed debt when released. Historically, most of the court receivables have gone uncollected. Almost none of it is collected while the inmate is incarcerated and only about 5 percent of the receivable is collected after release. New Jersey statutes

(30:4-91.4) allow for the withholding of one-third of an inmate's wages for payment of court imposed fines, penalties and judgments, as well as support of the prisoner's dependents. This withholding, however, has not been imposed in a consistent manner. A one-time collection from all inmates with account balances that exceeded \$300 was done in 1995. At that time \$200,000 was collected for court imposed fees and penalties. No records were available to isolate the amount collected from correctional industries inmates, but we estimate it to be about \$10,000.

Implementation of procedures deducting this withholding from inmate wages could collect about \$3.4 million annually; \$150,000 from DEPTCOR inmates alone. Procedures are expected to be implemented in January 1997. We concur with the implementation of these procedures.

Other states allow for greater authority in having inmates contribute to their own incarceration costs. Currently, there is no statutory provision for the collection of room and board from any inmates. The amount that could be recovered would be minimal because of the small wages paid and a greater percentage withholding would serve as a disincentive to work. **We therefore recommend that legislative provisions for the collection of inmate incarceration costs only be imposed in coordination with a PIE program (See PRIVATE/PUBLIC PARTNERSHIPS) and only on PIE program inmates, whose wage rates would be greatly increased.**

Cost Avoidance

Taxpayer savings are also provided through cost avoidance of other taxpayer supported operations. In the absence of C.I., the state's General Fund would have to support inmate wages (stipends) and alternative work or training programs. For fiscal year 1995, the 1300 C.I. inmates were paid through the revolving funds. If these inmates were assigned minimum wage prison maintenance

jobs, over \$400,000 in inmate wages would need to be paid by the General Fund. In addition, these inmates would only add to the ranks of underutilized inmate laborers.

The placing of inmates in alternative training programs would result in significant additional costs. The annual cost of alternative programs, such as academic or vocational education programs, are about \$4,000 per inmate (note: These costs exclude the correctional officer supervision and all facility overhead costs). C.I. inmate assignments are designed to offer similar programmatic benefits. The cost avoidance realized by C.I. programs clearly support their expansion which we also recommend.

1/4/2

Maximizing Inmate Employability When Released

An objective in DEPTCOR's mission statement is to teach good work habits and marketable job skills to help prepare the inmate for release to society. Additionally, they are to provide the inmate work force with vocational training for pre-industry qualification, on-the-job training and assistance with post-release employment. These objectives imply that correctional industries can provide inmates with skills so that after their release there will be a reduction in recidivism.

There have been a handful of studies done by other prison systems on the effects of their work programs on recidivism. A study on the Federal Prison Industries, known as UNICOR, found that the federal program reduces recidivism within the first year by as much as 35 percent. This four-year study published in 1991 entitled "The Post-Release Employment Project", traced over 7,000 federal inmates for one year after their release.

A similar study by New York resulted in contrary findings. In this report, the recidivism rates of the industry participant and nonparticipant groups were virtually the same. These contradictory findings suggest that results will vary by program, so the results New Jersey may find

cannot be forecasted based on those of other programs. In

addition, neither correctional industries nor the department has evaluated the effect New Jersey's inmate work programs, in particular DEPTCOR jobs, have on the employability of inmates when released or on their effect on recidivism. However, there are factors that would seem to limit the effectiveness of the DEPTCOR work program in achieving this objective.

DEPTCOR work program on post-release employability and recidivism.

Quality and Continuity of Inmate Labor

The location of DEPTCOR shops inside higher security correctional facilities limits their ability to employ the inmates who will eventually be released sooner. Of the nine correctional institutions that DEPTCOR utilizes for inmate labor, five are prisons where the median prison term exceeds ten years. Fifty-eight percent of the available DEPTCOR jobs are located in these five facilities or in maximum security units.

Another factor impairing programmatic benefits is that inmates do not stay in DEPTCOR jobs. As noted before, these jobs are not coveted by inmates. As a result, most DEPTCOR inmates request reassignment to other more desired prison jobs prior to their release, breaking the continuity in the program. At the East Jersey State Prison shops, the turnover rate of inmate workers transferring out of the program is 10 percent per month.

In addition, many inmates in DEPTCOR jobs, reclassified as minimum security risk prior to release, are subsequently transferred to facilities or units that do not have DEPTCOR shops. The lack of continuity in DEPTCOR employment during this pre-release period, which can be up to two years, as well as the high turnover of DEPTCOR inmates, reduces the beneficial effects of involvement in the

Quality of Jobs and Training

There is no question that correctional industries work programs have an impact on inmate work habits and work ethic. Having inmates familiar with time clocks, job descriptions and the importance of attendance to work schedules can give them valuable experience that they can use when they leave the prison system. But the jobs currently available through correctional industries do little else towards giving inmates skills necessary in obtaining post-release employment.

There is no systematic attempt to match inmate employment skills with outside opportunities. Farm operation jobs are not intended to teach farming skills and most DEPTCOR jobs are in fields with a labor surplus. For example, half of DEPTCOR jobs are in clothing shops, where post-release opportunities appear to be limited. Efficient use of labor through improved mechanization is also not a requirement, as it is in private industry. In fact, because of the conflicting objective to utilize as many inmates as possible, labor saving techniques and the use of high-tech equipment used by private industry is usually avoided.

There is no formal job placement program available to released inmates. Some shop supervisors have forged relationships with private businesses and have been able to recommend shop inmates for employment after release. These referrals to outside jobs, however, are the exception and are available only for those inmates with special skills in limited industries. Broad based post-release employment assistance is not offered.

Recommendations

The fact that DEPTCOR jobs are available to inmates with long prison terms and do not necessarily teach marketable skills is not a problem. For inmates that are not facing imminent release, the priority of training inmates with marketable skills is low. Concern with inmate post-release employability, however, is a greater factor with inmates approaching the end of their prison term. As future DEPTCOR job expansion addresses this large under

serviced inmate population, greater focus should be given

to marketability of inmate work skills. For example, DEPTCOR's proposed asbestos/lead abatement project, previously identified, addresses these added concerns. Not only is it in an expanding field in need of qualified workers, but the project will certify inmate graduates and will assist in post-release job placement and follow-up. Such projects, which because of the extensive training required, are limited in their ability to create inmate jobs, but can ultimately be of greater overall benefit to the state and its taxpayers by affecting the recidivism of inmates.

For C.I. jobs to have an impact on the employability of inmates after release we recommend that:

C
Labor market studies be utilized to identify the jobs and job skills in demand, and C.I. consider this information in developing jobs which address the market demand.

C
Inmate selection criteria be establish which assure that qualified inmates be assigned appropriate C.I. jobs.

C
Departmental policies and procedures be enacted to assure continuity of inmate employment in C.I. program jobs as they progress through the prison system. These policies should include necessary changes to make C.I. jobs more attractive to the inmates, thereby reducing voluntary transfer from C.I. program employment.

C
A post-release placement office and procedures be established to identify

and help secure jobs for inmates after release.

C Performance measures be established for post-release placement and monitoring procedures be developed to follow up on released inmates.

1/4/2

Production and Strategic Planning

As we have noted, DEPTCOR has a mission statement which outlines its objectives. Our review, however, has found that there are no quantifiable goals for DEPTCOR to attain. An annual report, which highlights an agency's goals and accomplishments, has not been prepared by DEPTCOR since 1992. Additionally, it does not develop business plans. That is not to say that DEPTCOR management does not have a vision of its future operations. The problem it has with formalizing a written strategic business plan is that it lacks the authority to implement this plan.

Strategic Business Plan

Strategic planning is done to provide management with a framework on which decisions can be made which will have a long-term impact on the organization. Long-term is defined as three to five years or longer depending on the nature of the business. Strategic planning is the formulation of long-term goals and objectives for the organization and the selection of strategies to achieve these goals. It is not a blueprint and should not be overly rigid. It must provide the flexibility to react to changes in the business environment. Strategic planning must consider the unique characteristics of each organization. A planning strategy should best match the organization's strengths with the best chance of achieving the organization's goals and objectives. Management can use its business plan to measure performance by comparing actual results with the plan.

Our review concluded that DEPTCOR performs various elements of strategic planning. Examples of planning done include the business plan for the South Woods State Prison and the Department of Corrections Two-Year Plan (fiscal years 1995 & 1996). However, a comprehensive strategic business plan will need to be developed and continuously reviewed and updated as necessary. It will be a valuable tool to DEPTCOR management's ability to meet its goals and objectives in the future.

The implementation of any DEPTCOR plan, however, is not decided by DEPTCOR. Although they infor-

mally plan and develop projects, these plans require the support of others outside the organization. Limited finances and a statutory financial restriction effectively require legislative, executive and departmental approval of all capital projects. Shop operations and correctional officer staffing are dictated by the operational control of the superintendents at each correctional facility. DEPTCOR civilian staffing requirements are limited and controlled by the Department of Personnel. For these reasons, we recommend that DEPTCOR's strategic business plan be a coordinated effort and incorporated into the plans of the department and the correctional facilities.

Coordination of Programs

Correctional industries work best when they are integrated into the operations of the facility and other programs. There, however, is no coordination between vocational training and C.I.. The correctional facilities operate vocational education programs in over a dozen different fields including auto body and auto maintenance, upholstery, industrial arts and small appliance repair. None of these training programs are developed or utilized as a prerequisite to C.I., and C.I. does not tailor its shops or products to utilize the training inmates receive in vocational education programs. As a result, inmates trained in vocational education programs do not benefit from the real world experiences and hands on application of their training offered through correctional industries. Additionally, correctional industries does not benefit from the hiring of inmates already trained in necessary skills.

Obviously, we recommend that the department, facility superintendents and C.I. management cooperate with each other in coordinating their efforts to accomplish their mutual goals. Specifically, we recommend that the training inmates receive in vocational education program be fostered and developed by utilizing their skills in C.I. shops or PIE programs.

Program Planning and Benchmarking

A performance measure is accomplished by comparing an activity to a standard or benchmark. An effective performance measurement is one that facilitates the management control process by which managers assure that resources are obtained and used efficiently and effectively in the accomplishment of the organization's goals and objectives. Currently DEPTCOR performs only informal productivity performance measures for items it manufactures. Productivity is the relationship between the resources used and the results obtained. Management has not established production benchmarks to which actual activity can be compared. In addition, no standard inventory levels have been established for manufactured products. DEPTCOR does not continuously manufacture its products to maintain desired inventory levels. Production for some product lines or at individual shops are increased and decreased as management reacts to short-term product sales orders. This practice does not ensure that resources are being applied and used efficiently. **We recommend the establishment of a performance measurement system to provide management a tool with which it can accurately and timely measure how well it uses its resources by relating the amount of output produced to the amount of input required to produce it.**

Quality Controls

A stated objective in DEPTCOR's mission statement is to provide quality manufactured goods and services to governmental agencies (customers). There is, however, no formal quality assurance program and no staff are specifically assigned to quality control activities. DEPTCOR bases its assurance of quality on customer satisfaction. Customer satisfaction, however, is only measured by product returns. There are no reports or programs soliciting customer comments. **We recommend that customer surveys be used to assess customer satisfaction.**

Marketing and Sales Efforts

While DEPTCOR's market includes New Jersey state and local governmental agencies, as well as governmental entities outside the state, about half of all sales are to the

Department of Corrections and over 90 percent of sales are to state agencies. Because of DEPTCOR's limited production there was no need to expand its marketing and sales effort. It was hard enough trying to keep up with current product orders. **Greater production, however, will require expanded marketing and sales plans. DEPTCOR should consider using its own tele-response shop to market its products to county and municipal customers.**

1/4/2

Private/Public Partnerships

Currently, New Jersey correctional industries' relationship with the private sector is limited to its purchasing of raw materials from them. Experiences by other states, however, have found that correctional industries can benefit from expanded participation in private cooperatives. Increased private sector participation can be done under either a Private Sector / Prison Industry Enhancement Certification (PIE) program or a non-PIE program.

Expanding private sector involvement in a non-PIE program can be done under existing statutes. The relationship, however, will be limited to that of a vendor. The state will be purchasing services and managerial expertise in support of our service to governmental agencies. Although the state can expect a number of programmatic and financial benefits associated with introducing a new industry, the market will remain limited as well as the number of ventures available. Therefore, the department should seek certification for a PIE program.

Private Sector/Prison Industry Enhancement Certification
(PIE) program

PIE is a federal certification program that allows prison made goods to be placed in interstate commerce to the private sector or sold to federal agencies. Such activities are normally restricted under federal law. PIE allows private sector companies to embark on joint ventures with correctional agencies and sell their products across state lines. As a condition of these competitive advantages, prevailing or minimum wage, whichever is higher, must be paid to the employed inmate.

The program has a dual purpose. First, the program seeks to generate goods and services that produce income so that inmates can contribute to society, their own costs, victims of crime, and family support. The second purpose is to provide meaningful work for inmates thereby reducing idleness, increasing job skills, and providing opportunity for rehabilitation.

Participation in the program is limited to the first 50 certified correctional agencies. Certification can be issued to either state or local prison industry programs. As a result, there is no guarantee that each state will be granted a certificate. To date, 36 certificates have been awarded or requested.

In order to be certified, a prison industry program must:

- C pay inmates the prevailing wage in the free market or minimum wage, whichever is higher;
- C provide a financial contribution to victim's compensation or victim's assistance programs;
- C consult with organized labor and local businesses that might be affected by the industry prior to start-up;
- C provide assurance that inmate labor will not displace other workers;
- C provide for worker's compensation; provide assurance that inmate participation in the program is voluntary

and that the workers agree to specific deductions from wages; and

C

involve the private sector.

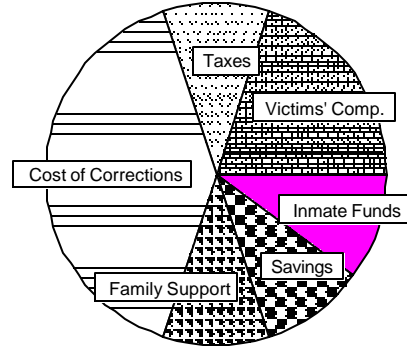
For New Jersey's correctional industries to participate in a PIE program, state legislation would need to be passed.

Private sector involvement in prison industries and greater marketability for inmate-made goods strengthens work programs and benefits the inmates, industries and correctional agencies beyond that associated with other inmate employment opportunities.

PIE certification permits agencies to deduct a portion of the inmates' salaries to help pay for their incarceration. This deduction helps defray the costs of room, board, medical care, and other institutional expenses. As much as 67 percent of the inmates' salaries can be deducted for the cost of incarceration. (Note: Total allowable deductions may not exceed 80 percent of the inmate's gross pay.) Inmates must pay taxes, including social security, and contribute to victim's assistance programs (at least 5 percent, but no more than 20 percent).

An inmate earning \$128.75 a week (minimum wage of \$5.15/hr., working 25 hours per week) can contribute over \$50 a week (based on a 40 percent deduction) towards the cost of corrections. Additional taxpayer and societal benefits can be realized through other allowable inmate wage deductions. The following chart illustrates a possible distribution of inmate gross wages, including deductions authorized or mandated by the PIE program.

Possible Wage Distribution



Possible Wage Distribution

		<u>Weekly</u>	<u>Annual</u>
Gross Wages (minimum)		\$128.75	\$6,695.00
Cost of Corrections	40%	\$ 51.50	\$2,678.00
Victims' Compensation	20%	25.75	1,339.00
Taxes & Social Security	10%	12.87	669.50
Family Support	10%	12.88	669.50
Savings	10%	12.88	669.50
Personal Funds	10%	12.87	669.50

With each PIE program employing about 75 inmates, the state can recover over \$200,000 per year from its inmates for the cost of corrections. In addition, other recoveries of uncollectible receivables or revenues supporting state programs can also be deducted from these inmate wages.

Though incurring higher inmate wages, correctional industries can still offer goods at below market prices. They do not incur the expense of employee benefit packages such as health, retirement, and vacation pay. In addition, the business requirement of "making a profit" is not the only motivational benefit to correctional industries. As a result, the private sector partner benefits from this relationship because of the reduced prices they pay for goods. Private companies may also find that participation

in inmate rehabilitation is rewarding from both a moral and

a public relations standpoint.

Inmates also benefit from this program, even with the large deductions in their wages. They benefit financially because, even at minimum wage, the remaining net pay still exceeds the 88 cents an hour maximum they could possibly receive working on a prison job. In addition, they will be employed in a work program that is teaching them marketable skills, unlike many other prison jobs.

The PIE program is sensitive to the needs and concerns of organized labor in the free society. The law stipulates that labor representatives are consulted in the administration of all PIE programs. It also ensures that PIE programs do not put free society laborers out of work. Statutes not only protect labor from unfair competition; they may actually benefit labor. For example, PIE programs could bring jobs back from other countries, along with complementary businesses needed to support these new ventures such as supplying raw materials and the civilian jobs needed within the PIE program.

Notwithstanding all of its benefits, PIE should be seen as a supplement to the existing correctional industries organization, not as an alternative or replacement. Given the number of inmates to employ, PIE projects will only employ a small portion of them. But the financial and other programmatic benefits the state could achieve from these few cooperatives may be worth the effort to develop and administer the PIE program. **We recommend that the legislature consider enacting required legislation and the department seek certification for a PIE program.**

1/4/2

State of New Jersey
DEPARTMENT OF CORRECTIONS

WHITTLESEY ROAD
CN 863
TRENTON NJ 08625-0863

CHRISTINE TODD WHITMAN
Governor
DEPARTMENTAL RESPONSE

WILLIAM H. FAUVER
Commissioner

December 23, 1996

Mr. Richard L. Fair
State Auditor
Office of Legislative Services
Office of the State Auditor
CN-067
Trenton, NJ 08625-067

Dear Mr. Fair:

I have reviewed the final report prepared by your office summarizing the audit of the Correctional Industries Program (DEPTCOR) covering the period July 1, 1994 to July 31, 1995. This department concurs with each recommendation included in the report. I have been advised by the Program's bureau chief that actions have been taken to implement many of the auditor's recommendations. The following responses have been developed based on information submitted by the bureau chief.

Shop Capacity:

1). Implementation of Second Shifts

DEPTCOR has been and will continue to implement second shift operations where feasible. Having already implemented second shifts at Edna Mahan South Hall Sewing and at the Wagner Metal Shop, we plan to continue plans to implement second shifts at Bayside Clothing, Edna Mahan Campus Shop and Northern State Clothing. This project should be completed in the next two years. Implementation is, however, dependent on the Department of Corrections ability to provide custody officer supervision for the expanded hours of operations and on DEPTCOR's ability to recruit qualified instructor personnel.

2). DEPTCOR Projects/Alternative to Voc-ed

The Department plans to aggressively pursue both projects (asbestos/underground storage tank removal and processing of scrap tires). An R-FI has been issued for the asbestos and underground tank program and we are working with DEP and Atlantic Electric on the requirements of the scrap tire program. We anticipate both programs will become operational in FY 97-98.

Although vocational education programs, road details and community work programs do not generate revenue they do provide a benefit to the state and the community and help to avert taxpayer costs. As such, the above DEPTCOR projects will be in addition to the vocational education programs, rather than an alternative.

Market Capacity:

3). Strategic Plan - Capital Funding

I have been assured that DEPTCOR will utilize the Audit report as the basis for the development of a formal strategic plan. This plan will identify long term capital funding needs for capitalization of new shops, replacement of equipment and will identify potential capital financing sources including potential private sector investment in Prison Industry Enhancement (PIE) shops.

4). Marketing efforts

The Department will incorporate improvements in sales and marketing efforts, product research, new product development and product planning in the agency's strategic plan.

Recommendations to enforce the mandatory sourcing statutes may require legislation to provide penalties for non-conformance. The agency will explore this with the Department of Treasury.

The recommendation to address restrictions imposed by Executive Order #36 and #33 will be initiated by this agency. Any change will, however, require the support of the appropriate executive level agency and the Governor's office.

5). Expansion of Market

Efforts will be made to secure necessary legislation to implement the auditor's recommendation to extend existing correctional industry markets to include all state contractors in the execution of their contracts with the State. Additionally, efforts will be made to expand correctional industry markets to not-for-profit organizations, which will also require legislation.

6). Prison Industry Enhancement

The agency with departmental assistance will seek to obtain the required legislation enabling participation in the Private Sector/Prison Industry Enhancement Certification Program (PS/PIECP).

Inmate Labor Capacity:

7). Expansion of hours of operation

Correctional Industry management will work with the Division of Operations management to identify and address security and operational concerns that arise as a result of second and expanded shift operations.

8). Accessibility of Program

The agency's strategic plan, will focus on developing industrial programs at facilities where industry programs do not presently exist.

9). Work and Compensation Policy

In conjunction with departmental representatives the agency will analyze and develop recommendations to effect a new inmate compensation policy which emphasizes the work ethic, encourages inmate motivation and rewards dedication to work assignments.

Self Sufficiency

10). Shift Hours

In an effort to increase the utilization of correctional industry resources, plans will be developed to increase hours of operation per shift to the extent that security and operational considerations allow.

11). Revolving Fund Accounting

The development of a comprehensive financial reporting model is being pursued by the agency through the use of Enterprise Resource Planning software. The software will provide accurate measures of the fiscal viability of individual shops and the entire program. The agency will make efforts to include all costs of the program in its financial model regardless of appropriation accounts charged. Additionally, the agency will attempt to develop information on monetary benefits accrued which result in taxpayer savings.

Taxpayer Savings

12). Fund Balances

The expansion of correctional industry programs is a significant component of the overall mission of the department. The agency with departmental assistance will seek to obtain the required legislation to eliminate restrictions on unexpended account and revenue balances thereby providing a continuing financial stream to fund inmate work programs.

13). Goods and Services at Reduced Prices

The agency will continue to focus on the savings of taxpayers dollars as an important aspect of the mission of DEPTCOR.

14). Recoveries from Inmate Wages

Necessary legislative actions will be pursued to insure the collection of inmate incarceration costs from those inmates employed by correctional industries in certified Prison Industry Enhancement Programs. However this will not preclude the department from continuing to deduct from inmate wages court imposed fines and penalties.

15). Cost Avoidance

Correctional Industry programs offer many benefits in addition to the quantified savings of taxpayers dollars. The Department concurs with recommendations and will pursue the expansion of industrial work programs.

Maximizing Inmate Employability When Released

16). Recommendations

The agency recognizes the importance of inmate employability after release and has incorporated such into its mission. In conjunction with the Department of Labor, DEPTCOR will obtain studies which identify jobs and skills in demand in the current labor market. This information will be used to develop industrial work programs which reflect those labor market needs as long as a satisfactory government market exists for the related product or service.

Development of a post release placement office to help secure inmate jobs and to provide inmates with appropriate life skills training to succeed in the workforce will be incorporated as part of the agency's strategic plan. The plan will incorporate provisions for the establishment of placement and monitoring procedures for follow up on released inmates. It should also be noted that placement and follow-up are already components of DEPTCOR's proposed asbestos abatement/underground storage tank removal program.

DEPTCOR cannot unilaterally address the recommendations concerning Inmate selection criteria and the assurance of continuity of inmate employment. However, DEPTCOR will make every effort to work with the Division of Operations to address the auditor's recommendations.

Production and Strategic Planning

17). Strategic Business Plan

DEPTCOR will actively solicit input from all functional and policy areas of the Department for consideration in the development of the agency's strategic plan.

18). Coordination of Programs

Correctional industries will make an effort to work with the Office of Educational Services to coordinate vocational training and industrial work programs.

19). Program Planning and Benchmarking

DEPTCOR intends to implement this recommendation with the advent of Enterprise Resource Manufacturing Software. This will allow the agency to accurately measure the utilization of its resources and production output.

Quality Control

20). Customer Satisfaction

In accordance with the recommendations made by the auditor's, DEPTCOR will conduct regular customer surveys and implement the use of customer focus groups to gauge customer satisfaction.

Private /Public Partnerships

21). PIE

The agency will pursue efforts to obtain legislation necessary for certification to operate Private Sector Prison Industry Partnerships as defined by the US Department of Justice, Bureau of Justice Assistance.

Very truly yours,


William H. Fauver
Commissioner

c: Chief of Staff Hilton
Assistant Commissioner Beyer
Assistant Commissioner Maurer
Director Waldis
Chief Rebovich