

State of Arizona
Office
of the
Auditor General

PERFORMANCE AUDIT

**ARIZONA
DEPARTMENT
OF
CORRECTIONS**

**Arizona Correctional
Industries**

**Report to the Arizona Legislature
By Debra K. Davenport
Auditor General
September 2001
Report No. 01-25**

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

September 26, 2001

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. Terry Stewart, Director
Arizona Department of Corrections

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Correctional Industries at the Department of Corrections. This report is in response to a June 16, 2001, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Correctional Industries plans to implement 6 of the 7 recommendations and implement 1 recommendation in a different manner.

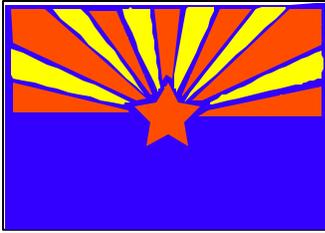
My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 27, 2001.

Sincerely,

Debra K. Davenport
Auditor General

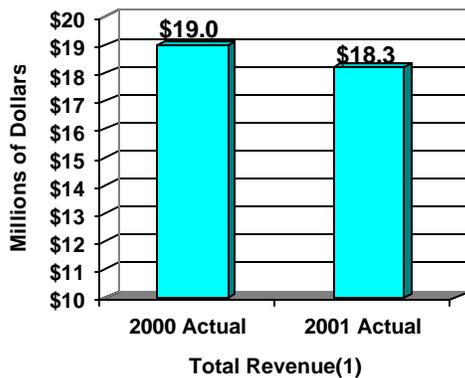
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Arizona Department of Corrections Arizona Correctional Industries

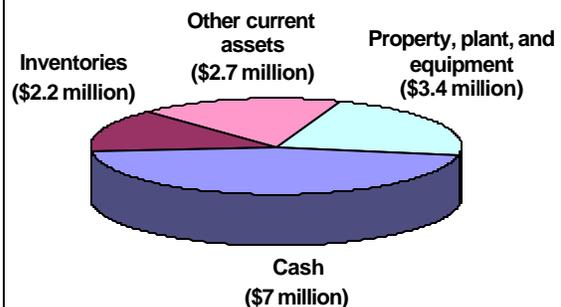
Services: Arizona Correctional Industries is one of six subprograms under the Prison Operations program in the Department of Corrections. ACI's mission is to develop and manage revenue-generating inmate work activities in state correctional institutions to combat idleness and develop good working habits. Major work programs include: **17 ACI owned-and-operated enterprises**—which manufacture articles and products and provide services as needed by state agencies or their political subdivisions; and **22 Labor contracts with public/private sector enterprises** that use inmate labor to produce goods and services. ACI receives no State General Fund appropriations, and is mandated to operate as a self-sufficient agency. The majority of ACI's revenue is derived from the sales of goods and services produced by its owned-and-operated industries, and revenues from labor contracts.

Revenue: \$18.3 million
(fiscal year 2001)

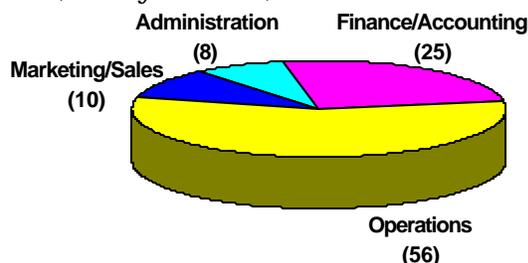


(1) Includes approximately \$340,000 and \$412,000 of non-operating income in 2000 and 2001, respectively, which is primarily interest.

Assets: ACI owns assets valued at more than \$15.3 million, as of June 30, 2001. Cash and other current assets, including inventories, account for nearly \$12 million of these assets. ACI's property, plant, and equipment assets had a net value of approximately \$3.4 million. These assets are associated with owned-and-operated enterprises and used to produce goods and services.



Personnel: 99 full-time staff
(fiscal year 2001)



Program Goals (fiscal years 2001-2003):

1. To employ inmates.
2. To increase the number of new industries operated by ACI.
3. To increase revenues generated by ACI.

Adequacy of Goals and Performance Measures:

ACI's goals appear reasonably aligned with its mission, and it has established six performance measures in line with its goals. However, the Department could improve ACI's goals and performance measures. For example:

- The Department could add a customer service goal, as recommended by the Department's Office of Strategic Planning and Budgeting. Performance measures under this goal could include quality measures, such as the percent of customers who report they are satisfied with ACI products or the percent of orders that result in complaints.
- The Department does not have all five types of measures to report on ACI's performance. Currently, ACI's six performance measures include one input, three outcome, one quality, and one efficiency measure. However, ACI does not report any output measures. Output measures indicate the amount of products or services provided, such as the number of inmate jobs created.

ACI should consider adding such an output measure under its first goal. Currently, ACI reports only the average monthly number of workable inmates employed, which includes monthly turnover. An output measure that reports the average monthly number of filled positions as of the end of the month would provide a clearer picture of the number of inmate jobs ACI is creating.

SUMMARY

The Office of the Auditor General has conducted a performance audit of Arizona Correctional Industries at the Department of Corrections, in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This performance audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279 and as part of the Sunset review set forth in A.R.S. §41-2951 et seq. This audit is the sixth in a series of six audits of the Department of Corrections. The prior audits focused on Security Operations (No. 00-20), Human Resources (No. 01-4), Support Services (No. 01-7), Private Prisons (No. 01-13), and Administrative Services and Information Technology (No. 01-18). A separate report addressing Sunset Factors for the entire Department is being issued concurrent with this report.

Arizona Correctional Industries (ACI), a subprogram of Prison Operations, has a mission to develop and manage revenue-generating work activities in state correctional institutions to combat idleness and develop good working habits. In fiscal year 2001, ACI employed an average of 1,634 inmates, or 7.1 percent of the employable inmate population, in both its ACI owned-and-operated enterprises and labor contract programs. The agency receives no state appropriations.

ACI Accomplishing Its Mission but Can Continue to Improve (See pages 11 through 24)

ACI has made substantial progress in the past decade in employing inmates in revenue-generating work activities, although several of its enterprises have insufficient sales to cover their costs. Overall, ACI became profitable in the 1990s, and has reported a positive net income since 1994. In addition, in fiscal year 2001 it employed, on average, 1,634 inmates, which is more than three times as many inmates as it employed at the time of its last audit in 1991. ACI reported approximately \$1.2 million in net income in fiscal year 2001, compared to its reported loss of \$950,000 in fiscal year 1991.

Factors contributing to ACI's success include:

- **Prison system growth**—which helped increase demand for beds, stairs and railings, window and door frames, and other products made by its metal fabrication plants, as well as increasing sales by the furniture factories for offices and medical facilities at new prison complexes;
- **One-time changes** from blue inmate clothing to orange clothing, which fueled garment factory production, and a change to a new license plate design, which increased license plate sales;
- **Establishment of a bakery** in 1996 that has contributed more than \$1.7 million in profits through fiscal year 2001.
- **More labor contracts** with private companies and ADOT's Motor Vehicle Division, which use inmate labor provided by ACI. Labor contracts now contribute almost one-third of ACI's total revenues and more than half of ACI's inmate jobs; and
- **Better business practices**, including reducing overhead costs from 23 percent of sales to 8.2 percent, better financial monitoring, and increased attention to product quality and customer service.

Despite ACI's overall success, several of its enterprises do not generate sufficient revenues to cover production costs, and some have had to lay off inmate workers. ACI owns and operates these enterprises, unlike the labor contracts, where the contracting company or state agency manages operations. Ten of its 17 owned-and-operated enterprises had operating losses in fiscal year 2001. Two of these enterprises, the metal fabrication shop and one furniture factory, reduced inmate jobs by a total of 130 since August 2000.

Many of ACI's owned-and-operated enterprises rely heavily on sales to the Department of Corrections. In fact, the Department contributed over 40 percent of ACI's total owned-and-operated sales revenues during the past six fiscal years. ACI regards meeting the Department's needs for products and services as an essential part of its mission. However, in fiscal year 2001, the

Department's need for ACI products decreased because of a slowdown in inmate growth, postponement of a planned new prison, and the Governor's re commendation that state agencies reduce spending in 2001. As a result, several enterprises had lower-than-expected sales for that same fiscal year. To reduce its dependence on the Department of Corrections, ACI should continue and build upon recent improvements in its sales and marketing efforts. During the past year, ACI has developed an improved product catalog, improved its Web site, and implemented other initiatives such as tracking and monitoring sales activities. ACI should build on this progress by analyzing sales staff activities to determine whether they spend enough time developing new customers, and examining its sales commission structure to more explicitly align it with marketing priorities. In addition, ACI should continue and expand its recent efforts to promote better quality assurance and improve customer satisfaction. Finally, ACI should take steps to improve information sharing among its facilities, and consider developing an integrated business plan to provide a road map for achieving its goals.

ACI and the Department Should Continue to Explore Potential to Develop a Printing Certification Program (See pages 25 through 30)

The Department and ACI should continue to explore the potential to develop a printing certification program in cooperation with Arizona's printing industry. Trade certification programs in prisons provide inmates the opportunity to obtain certification in a specific trade or occupation. Four out of 50 state correctional industries programs report offering a printing certification program.

Representatives from Arizona's printing industry have recently expressed interest in establishing a printing certification program involving inmate workers at the ACI printing facility, and ACI has entered into preliminary discussions with industry representatives to discuss the potential to develop such a program. Although the industry does not require certification, it could still provide an advantage to those who desire employment in the printing industry.

ACI should continue to explore the potential to develop a printing certification program in partnership with the Department's Inmate Education Program. Specifically, ACI and the Department's Inmate Education Program should survey members of Arizona's printing industry to measure the demand for skilled workers, and determine whether industry employers would be willing to hire ex-offenders. If the results of the research indicate that the industry would support a certification program, then ACI and Inmate Education would need to conduct additional activities, such as working with the printing industry to develop a curriculum, identifying instructional and equipment needs and any associated costs, and working with the Department's Security Operations staff to address any barriers to program completion. Based on this research, the Department should weigh the costs and benefits associated with a printing certification program, and if appropriate, implement a program.

TABLE OF CONTENTS

	<u>Page</u>
Introduction and Background.....	1
Finding I: ACI Accomplishing Its Mission but Can Continue to Improve	11
ACI Meeting Mission but Operating Losses Occur in Several Enterprises.....	11
ACI Needs to Build on Recent Improvements in Sales and Marketing Efforts.....	18
Recommendations	24
Finding II: ACI and the Department Should Continue to Explore Potential to Develop a Printing Certification Program	25
Trade Certification Programs Offer Benefits.....	25
Printing Industry Has Expressed Interest in a Certification Program.....	26
ACI and Inmate Education Program Should Coordinate Research Efforts.....	28
Recommendations	30
Agency Response	

TABLE OF CONTENTS (Concl'd)

Page

Tables

Table 1	Arizona Department of Corrections Arizona Correctional Industries Statement of Operations and Changes in Fund Equity—Enterprise Fund Years Ended June 30, 1999, 2000, and 2001 (Unaudited).....	6
Table 2	Arizona Department of Corrections Arizona Correctional Industries Gross Profit or Loss by Activity Years Ended June 30, 1999 through 2001 (Unaudited).....	17

Figures

Figure 1	Arizona Department of Corrections Arizona Correctional Industries Ten-Year Trend Line for Net Income Years Ended June 30, 1991 through 2001 (Unaudited).....	12
Figure 2	Arizona Department of Corrections Arizona Correctional Industries Comparison of Owned-and-Operated Enterprise, Labor Contract, and Total Sales Years Ended June 30, 1991 through 2001 (Unaudited).....	13

INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of Arizona Correctional Industries (ACI) at the Arizona Department of Corrections, in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee. The performance audit was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279 and as part of the Sunset review set forth in A.R.S. §41-2951 et seq. The audit is the sixth in a series of six audits of the Department of Corrections. Auditor General reports on Security Operations (No. 00-20), Human Resources (No. 01-4), Support Services (No. 01-7), Private Prisons (No. 01-13), and Administrative Services and Information Technology (No. 01-18) have already been issued. A separate report addressing Sunset Factors for the entire Department is being issued concurrent with this report.

Arizona Correctional Industries' Mission and Work Programs

Arizona Correctional Industries, a subprogram of prison operations, has a mission

“to develop and manage revenue-generating work activities in state correctional institutions which combat idleness and develop good working habits.”

ACI's inmate work programs are considered an integral part of the Department's overall prison work program, and are meant to complement the Prison Operation's efforts to reduce inmate idleness. Other Department work programs include the Work Incentive Pay Plan (WIPP) and intergovernmental agreements between the various prison complexes and other government agencies to provide inmate labor.

To accomplish its mission, ACI manages two types of inmate work programs:

ACI has both owned-and-operated enterprises and partnerships with private industry and government agencies.

- **ACI owned-and-operated enterprises:** These enterprises manufacture products and provide services primarily to meet the needs of state and local governments and nonprofit organizations.¹ Inmates who work in owned-and-operated enterprises can earn between \$.40 to \$.80 per hour, compared to \$.10 to \$.50 per hour in WIPP jobs. In June 2001, these enterprises employed 853 inmates at the Eyman, Florence, Florence West, Perryville, Phoenix West, Tucson, Douglas, and Winslow prison complexes and ACI and Department offices. ACI currently operates 17 enterprises in a variety of manufacturing, service, and agricultural trades, including:
 - **Manufacturing enterprises**—Bedding factory; two garment factories; bakery; license plate manufacturing; a sign shop that makes items such as street signs, car decals, and plaques; a metal fabrication shop that manufactures metal goods such as industrial bed frames and bike racks; wood and metal furniture refurbishing; two furniture factories; and an upholstery plant.
 - **Service enterprises**—Print shop/graphic arts; copy services; installation/support services; retail store; data entry/database services.
 - **Agricultural services**—1,100-acre farm based in Florence, Arizona, that has 275 acres in production. The farm grows alfalfa and Eldarica pine trees.
- **Labor contracts with private sector businesses and government agencies:** ACI also provides inmate employment opportunities through labor contracts with private sector companies and government agencies. Inmates that provide contract labor can earn up to 80 cents per hour in public

¹ Some of ACI's products are included on a state purchasing contract as authorized by the Department of Administration. A.R.S. §41-2636 allows ACI, Arizona Industries for the Blind, and certified nonprofit agencies for disabled individuals to have products approved for placement on the State's purchasing contract. The Department of Administration requires state agencies to purchase products from vendors included in this contract.

sector labor contracts programs, and at least \$2 or higher in private sector labor contract programs. Together, these labor contracts employed a total of 862 inmate workers in June 2001. In June 2001, ACI was administering 19 private sector labor contracts with 14 companies, and 3 labor contracts with 1 state agency.

ACI has labor contracts with a wide variety of businesses.

- **Private Sector Labor Contracts**—ACI’s 19 private sector labor contracts provide inmate workers to a variety of private businesses engaged in manufacturing, service, and/or agricultural operations, such as a window manufacturing company based at the Eyman, Lewis, and Tucson prison complexes; a milling company at Florence’s Picacho Unit; an auto auction and car refurbishment company that uses inmates from Phoenix West, a private prison facility under contract with the Department; a company that makes hand-crafted wooden doors that has set up operations at Lewis; business-to-business telemarketing companies based at Perryville and Lewis; an egg farm that uses inmate labor from Lewis; and a hydroponic tomato farm that uses inmate labor from Safford. Ideal candidates are companies that find it difficult to attract non-inmate workers.

- **Public Sector Labor Contracts**—ACI’s only public sector labor contracts are with the Arizona Department of Transportation Motor Vehicle Division. This division contracts with ACI to provide inmate labor to staff three customer service call centers located at the Perryville and Tucson prisons.¹

According to ACI, these programs employed an average of 1,634 inmates in fiscal year 2001, or 7.1 percent of the eligible inmate population.² In contrast, the WIPP jobs employed more than

¹ In addition, several state and local government agencies contract for inmate labor through Prison Operations at various prison complexes.

² The Department requires inmates to work, unless they are physically or mentally incapable of doing so. According to the Department, during fiscal year 2001, on average, 86 percent of inmates were eligible to work. Specifically, out of a total average daily population of 26,677 inmates, an average daily population of 22,896 were eligible to work in fiscal year 2001.

17,300 inmates, more than three-quarters of the eligible population. According to Department officials, inmates highly desire ACI jobs over WIPP jobs because they pay more and offer more meaningful work. Participation in ACI's work programs mirror nationwide statistics, as only 6.7 percent of all state and federal inmates in the United States are involved in correctional industries programs.

Eight of the State's ten prison complexes and two private prisons under contract with the Department provide inmate labor to ACI owned-and-operated enterprises, and/or provide inmate labor to partnerships.

Although inmate workers can earn more in labor contract programs, inmates who earn at least \$2 per hour are also required to contribute a portion of their wages to their cost of incarceration, in addition to those deductions required of all wage-earning inmates.

Benefits Associated with ACI's Work Programs

Prison administrators in Arizona's system state that inmate work programs, including Arizona Correctional Industries, assist inmate management efforts, act as an incentive for good behavior, teach inmates to have a work ethic, and provide inmates with savings they can use upon release. Other benefits include mandatory deductions withheld from inmate wages to defray incarceration costs or pay for things such as victim's compensation, restitution, child support, and taxes.

In fiscal year 2001, ACI reports that its inmates earned approximately \$5.3 million in wages and contributed:

- \$1,101,106 to DOC for room and board;
- \$186,140 to a state Victim Compensation Fund;
- \$104,987 to a state alcohol abuse and treatment fund; and
- over \$299,000 for federal, state, and FICA taxes.

Inmate wages provide savings, defray incarceration costs, and pay for restitution.

Organizational Structure

Arizona Correctional Industries is set up like a traditional business enterprise, and its functions can be grouped into four major units: administration; finance and accounting; operations; and marketing and sales. In addition to its inmate workers, ACI has 99 full-time equivalent (FTE) employees in the following divisions:

- **Administration (8 FTEs)**—This unit provides support for all of the division’s administrative functions, including all matters related to planning, personnel, legal affairs, and public information. This unit also includes business development, which develops ACI’s private and public sector labor contracts, and monitors compliance with labor contracts.
- **Finance and Accounting Bureau (25 FTEs)**—This unit manages a variety of administrative functions, including accounting, information technology, purchasing and materials management, and transportation.
- **Operations Bureau (56 FTEs)**—This unit oversees the activities of ACI’s owned-and-operated enterprises. More than half of these employees work on-site at the prison complexes.
- **Marketing and Sales Bureau (10 FTEs)**—This unit is responsible for generating sales and business for ACI’s industries and for providing customer service. It includes a four-member sales team and customer service staff.

Financial Position and Status

Since June 1992, ACI has operated as a financially self-sufficient division of the Arizona Department of Corrections. The agency receives no state appropriations and relies solely on revenues generated by its businesses and activities to support its operations. As shown in Table 1 (see page 6), fiscal year 2001 sales revenues were approximately \$17.9 million, gross profit was \$2.2 million, and net income was approximately \$1.2 million.

ACI is a self-sufficient agency that receives no State General Fund monies.

Table 1

**Arizona Department of Corrections
Arizona Correctional Industries
Statement of Operations and Changes in Fund Equity—Enterprise Fund
Years Ended June 30, 1999, 2000, and 2001
(Unaudited)**

	1999	2000	2001
Sales	\$16,721,346	\$18,663,449	\$17,871,855
Cost of goods sold	<u>14,641,204</u>	<u>16,127,602</u>	<u>15,639,956</u>
Gross profit	<u>2,080,142</u>	<u>2,535,847</u>	<u>2,231,899</u>
Operating expenses:			
Selling	424,738	408,947	408,224
General and administrative	962,529	1,012,942	1,062,612
Total operating expenses	<u>1,387,267</u>	<u>1,421,889</u>	<u>1,470,836</u>
Operating income	692,875	1,113,958	761,063
Net nonoperating revenues ¹	<u>154,412</u>	<u>299,935</u>	<u>411,888</u>
Net income	847,287	1,413,893	1,172,951
Fund equity, beginning of year	13,107,577	12,975,445	13,402,229
Increase in contributed capital:			
Donated equipment	20,581	12,891	8,866
Equity transfer out to State General Fund ²	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Fund equity, end of year	<u>\$12,975,445</u>	<u>\$13,402,229</u>	<u>\$13,584,046</u>

¹ Amount is primarily interest revenue; however, it also includes gains and losses on the disposal of assets and miscellaneous income.

² On April 19, 1999, the Arizona State Legislature directed Arizona Correctional Industries (ACI) to transfer \$4 million of its fund equity to the State General Fund. The transfer is to be made in four equal annual installments of \$1 million.

Source: Auditor General staff analysis of the Arizona Correctional Industries audited financial statements for the years ended June 30, 1999 and 2000, and ACI's *Statement of Operations and Changes in Fund Equity* for the year ended June 30, 2001.

Currently, ACI is in a strong financial position, although state lawmakers have recently targeted ACI's revolving fund to support other needs. At the end of fiscal year 2001, ACI had accumulated nearly \$7 million in cash on deposit with the State Treasurer. Although A.R.S. §41-1624 mandates that these monies should be used only to support ACI's operating expenses, the Legislature required ACI, in fiscal years 1999 through 2002, to contribute a total of \$4 million to the State General Fund.

ACI Has Improved Since Previous Audit

The Auditor General's Office conducted an audit of Arizona Correctional Industries in 1991. The 1991 audit identified numerous problems, some of which have substantially improved.

- **1991 Audit**—The audit found that poor business practices hampered ACI's ability to become self-supporting, and that ACI had not demonstrated that it could meet its state mandate to become self-sufficient by July 1, 1991. Seventeen of its 20 enterprises were losing money, and it relied on state appropriations to support its operations. ACI had received nearly \$3.7 million in state appropriations to help cover over \$3.9 million in operating losses. The audit recommended that ACI conduct a comprehensive review of its business practices and identify areas that would enable it to operate more efficiently. In addition, the report noted that ACI lacked a sales plan and a structured sales program to effectively market its products and services, and recommended that ACI develop such a program and place greater emphasis on securing new customers. Finally, ACI employed a monthly average of only 535 inmates, which was less than 4 percent of the state prison population.

- **Current Status**—The current audit found that ACI is now a profitable operation. In fiscal year 2001, it had a net income of approximately \$1.2 million. ACI employed, on average, 1,634 inmates in fiscal year 2001, more than three times the number employed in 1991. However, this report found that ACI needs to improve sales and marketing for its owned-and-

operated enterprises, and place greater emphasis on securing new customers (see Finding I, pages 11 through 24).

Scope and Methodology

In addition to following up on financial performance and marketing efforts reported in previous audits, this audit focused on two main areas: strategic and business planning in correctional industries; and development of a printing certification program based at the ACI print shop in the Perryville prison complex. The report contains findings and recommendations as follows:

- Improvements are needed in ACI's sales and marketing program, and ACI should do more to promote the effectiveness of its sales force.
- ACI and the Department's Inmate Education Program staff should work together to explore the potential to develop a printing certification program for inmates at ACI's printing facility.

Auditors used several approaches in reviewing the performance of Arizona Correctional Industries, including:

- Reviewing ACI's 1999 and 2000 annual reports; strategic planning documents for fiscal years 2001-2003; financial documents such as monthly profit/loss statements (June 2000; December 2000; June 2001); quarterly management reports (September 30, 2000; March 31, 2001); audited financial statements for the years ending June 30, 1989; June 30, 1990; June 30, 1991; June 30, 1997; June 30, 1998; June 30, 1999; and June 30, 2000; unaudited financial statements for the year ended June 30, 2001; and monthly reports from 1997 through 2001 that document trends in inmate employment for owned-and-operated enterprises and labor contracts.
- Reviewing literature and articles pertaining to correctional industries programs, business planning, and best practices in sales compensation, and other states' recent audit reports on

correctional industries; and interviewing staff from seven state correctional industries.¹

- Touring all prison complexes where ACI operates an owned-and-operated enterprise and touring labor contract operations and interviewing representatives from companies that contract with the Department and ACI to use inmate labor.

Similarly, auditors used several methods to determine what steps the Department should take to develop and implement a printing certification program at the ACI Graphic Arts Division based in Perryville, including:

- Interviewing representatives from the Printing Industries Association of Arizona.
- Reviewing a summary report of several state printing cost studies issued by the Governor's Office for Excellence in Government, and interviewing the staff involved in developing these studies.
- Reviewing literature discussing best practices in the development of inmate work programs, and interviewing staff from 14 state correctional industries programs that operate certified vocational education and training programs²; and
- Reviewing literature discussing economic and labor market trends in the printing industry, and labor market statistics from the Arizona Department of Economic Security docu-

¹ Auditors interviewed representatives from the following states: Indiana, Oklahoma, North Carolina, South Carolina, Maryland, and Virginia. These states were chosen because they managed both owned-and-operated enterprises and labor contracts, employed a similar number of inmates, and had similar annual revenues. In addition, auditors interviewed representatives from two prison industry programs in California—California Correctional Industries and California Joint Ventures—because of their large size and diversity, and the possibility that they would have significant planning needs.

² Auditors contacted states identified in the *2000 Correctional Industries Association Directory* as having programs that offer certified inmate training programs and also operate print shops. The selected states were California, Connecticut, Florida, Georgia, Iowa, Louisiana, Montana, New Hampshire, North Carolina, Texas, Utah, Washington, West Virginia, and Wisconsin.

Introduction and Background

menting employment and wage trends in the state printing industry.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director of the Arizona Department of Corrections and his staff, and the assistant director of Arizona Correctional Industries and his staff for their cooperation and assistance throughout the audit.

FINDING I

ACI ACCOMPLISHING ITS MISSION BUT CAN CONTINUE TO IMPROVE

Although Arizona Correctional Industries (ACI) has made progress over the last decade in accomplishing its mission of employing inmates in revenue-generating work activities, several ACI owned-and-operated enterprises currently have insufficient sales to cover their costs. As a result, some enterprises have had to reduce production and lay off inmate workers. To enable it to employ more inmates while remaining self-sufficient, ACI should continue recent improvements in sales and marketing efforts, ensure that its sales force has the resources to meet sales goals, reassess its sales commission structure in light of its marketing plan, and promote customer satisfaction. ACI should also explore the feasibility of computer networks to improve information sharing, and consider developing an integrated business plan.

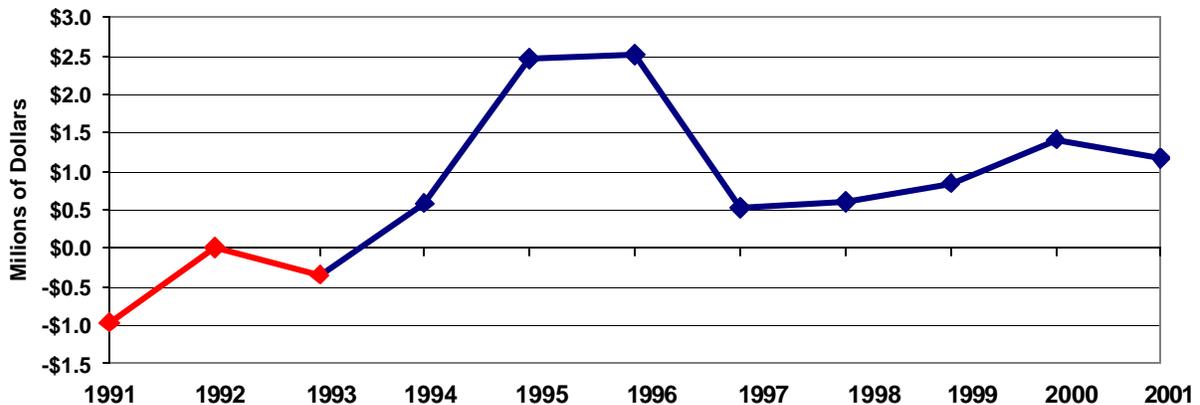
ACI Meeting Mission but Operating Losses Occur in Several Enterprises

In the past ten years, ACI has more than tripled the number of inmates it employs and become profitable, but insufficient sales in some enterprises have limited its ability to maximize its goals. Prison growth, the Department's change to orange inmate uniforms, and changes in state license plate designs contributed to growth in owned-and-operated enterprises. In addition, the establishment of a profitable bakery enterprise, expansion of its labor contracts with private sector businesses and government agencies, as well as implementation of good business practices, helped make ACI more successful. Although ACI has made substantial progress overall, several owned-and-operated enterprises had insufficient revenues to cover their costs in fiscal year 2001. As a result, some enterprises had to reduce production and lay off inmate workers.

Growth in sales revenues and good business practices made ACI more successful—ACI became a profitable prison operation in the 1990s and increased employment of inmates. As shown in Figure 1, ACI had net income of approximately \$1.2 million in

Figure 1

**Arizona Department of Corrections
Arizona Correctional Industries
Ten-Year Trend Line for Net Income
Years Ended June 30, 1991 through 2001
(Unaudited)**



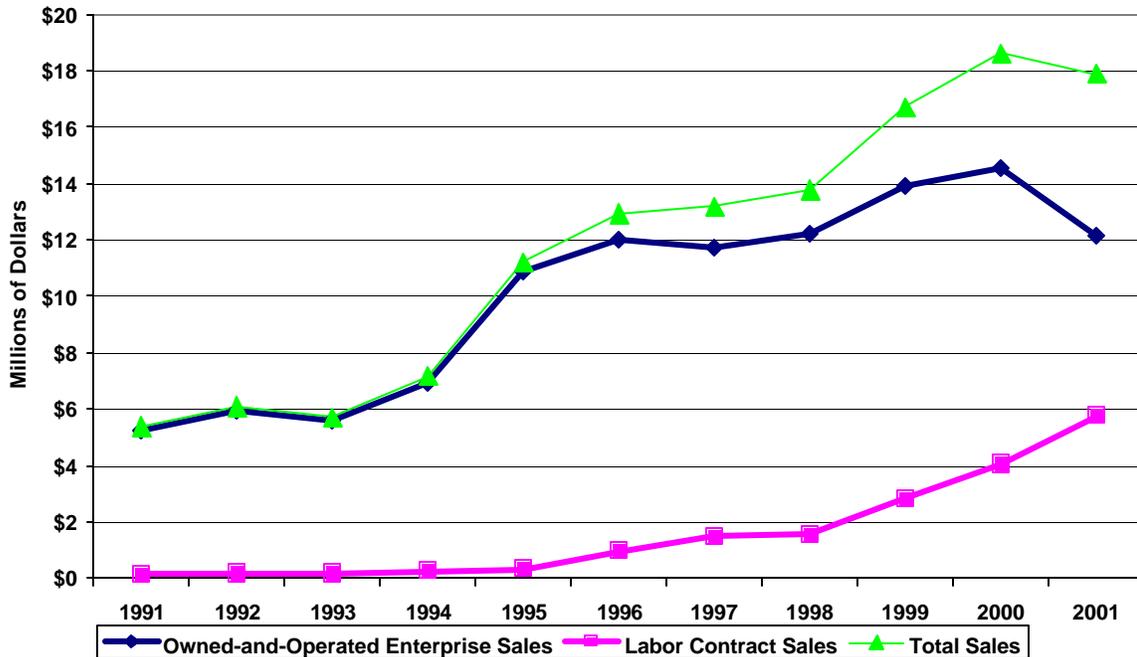
Source: Auditor General staff compilation of data from Arizona Department of Corrections, *Arizona Correctional Industries' 10-Year Profit Analysis FY1991-FY2000* and *Arizona Correctional Industries Statement of Operations and Changes in Fund Equity-Enterprise Fund* for the year ended June 30, 2001.

fiscal year 2001, compared to over \$950,000 in net losses in fiscal year 1991. Between 1991 and 2001, ACI has increased the total number of inmates it employs from a monthly average of 535 to a monthly average of 1,634. Several factors have contributed to this progress:

- **Prison system growth and other factors created growth in owned-and-operated enterprises**—Increased sales to two primary customers helped increase revenue for owned-and-operated enterprises. As shown in Figure 2 (see page 13), the past decade has seen sales for owned-and-operated

Figure 2

**Arizona Department of Corrections
Arizona Correctional Industries
Comparison of Owned-and Operated Enterprise,
Labor Contract, and Total Sales¹
Years Ended June 30, 1991 through 2001
(Unaudited)**



¹ In addition to its traditional owned-and-operated enterprises, ACI has labor contracts that provide inmate labor to private businesses and ADOT's Motor Vehicle Division.

Source: Auditor General staff compilation of data from Arizona Department of Corrections, *Arizona Correctional Industries' 10-Year Sales Analysis FY1991-FY2001* and information for the year ended June 30, 2001, contained in *Arizona Correctional Industries Profit and Loss Summary for the Month Ending June 2001*.

enterprises grow from \$5.2 million in fiscal year 1991 to \$12.1 million in fiscal year 2001. Sales to the Department of Corrections (DOC) and the Arizona Department of Transportation (ADOT) contributed substantially to these increased revenues. ACI views these agencies as important customers and has made efforts to meet their needs for service, pricing, and product quality. These efforts, coupled with the addition of new

prison units at Eyman and Yuma and the new Lewis complex, helped increase metal fabrication and furniture factory sales to a five-year total of almost \$11.6 million between 1996 and 2000. Prison system growth helped increase demand for beds, stairs and railings, window and door frames, and other products made by its metal fabrication plants, as well as demand for furniture in offices and medical facilities. Also, the transition from blue to orange inmate uniforms added significantly to garment factory sales, which totaled about \$4.8 million in fiscal years 1999 and 2000. Additionally, ADOT's Motor Vehicle Division introduced a new license plate style in early

Inmate employment in 4 factories (average positions in fiscal year 2001)	
Metal fabrication	76
Furniture	101
Garment sewing	223
License plate	23

1995, which contributed to the license plate shop's revenues of more than \$3.3 million in fiscal year 1995, and generated a succession of orders thereafter. In fiscal year 2001 alone, DOC and ADOT contributed \$7.1 million, or 58 percent of total sales for ACI's owned-and-operated enterprises.

- **Establishment of Bakery**—Establishment of a bakery in 1996 has contributed more than \$1.7 million in profits through fiscal year 2001. The bakery, located at the Eyman prison complex, supplies bread and other baked goods to all Department prisons. In June 2001, a total of 105 inmates worked at the bakery.
- **Expanded Labor Contracts**—Increased income and employment from ACI's labor contracts with private businesses and government agencies has also helped ACI become more successful. As shown in Figure 2 (see page 13), income from these agreements totaled more than \$5.7 million, or 32.1 percent of ACI's total sales revenues, in fiscal year 2001. In addition, labor contracts provided jobs for 862 inmates in June 2001, more than half the total number employed by ACI that month. Labor contract revenues increased more than 1,400 percent and labor contract profits increased by more than 3,000 percent since fiscal year 1995. Further, since ACI recov-

Since 1995, labor contract revenues have increased more than 1,400 percent, and associated gross profits have increased more than 3,000 percent.

ers all costs associated with the labor contracts, these arrangements contribute a greater share of their revenues to ACI's profits than owned-and-operated enterprises do.¹ Thus, labor contracts generated nearly 48.4 percent of ACI's gross profits in fiscal year 2001. In the past decade, ACI grew from only 1 to 22 labor contracts, with 9 other contracts currently in the development stage.

- **Good Business Practices**—ACI has also implemented improvements in its business practices, in accordance with audit recommendations made in 1991. The assistant director conducts regular one-on-one meetings with management staff to assess and develop strategies for their specific areas of responsibility. ACI provides each of its enterprises with budget and sales goals, and holds managers accountable for meeting those goals. ACI's financial condition is monitored through monthly budget analysis reports for each enterprise and quarterly strategic review meetings with the management team. In addition, cost control efforts have decreased selling, general, and administrative expenses from 23.1 percent of sales in 1991 to 8.2 percent in fiscal year 2001.

DOC and state agency sales declined in 2001.

Operating losses occur in some enterprises—Although labor contract revenues continue to grow, sales revenues in some owned-and-operated enterprises are insufficient to cover production costs. Ten out of 17 shops failed to show a gross profit in fiscal year 2001. Altogether, owned-and-operated enterprises' sales revenues declined by \$2.4 million in fiscal year 2001, compared to the previous year. Beginning in fiscal year 2002, ACI enterprises will also be required to pay correctional officer salaries to reimburse the Department for those officers providing security at the owned-and-operated enterprises. This will further increase these enterprises' costs.

Lower sales to the Department of Corrections and other state agencies explain most of the sales decline in fiscal year 2001. The Department has contributed over 40 percent of ACI's annual sales revenues from owned-and-operated enterprises for the past

¹ Labor contracts involve the "sale" of inmate labor services to private businesses and government agencies; revenues generated typically equal inmate and correctional officer wages, plus an additional amount equal to 11 percent of those combined wages.

six years. ACI regards meeting the Department's needs for economical products and services as a critical part of its mission. However, in fiscal year 2001, revenues from sales to the Department were more than \$1.2 million lower than the previous year. At the same time, ACI sales to other state agencies declined by more than \$983,000. A slowdown in inmate growth leading to cancellation of plans for new prison construction, together with the Governor's March 6, 2001, recommendation to state agencies to reduce spending, may have reduced the demand for ACI's products by these customers.

Lower enterprise sales affect ACI's ability to meet costs and employ inmates—As a result of insufficient sales, some ACI owned-and-operated enterprises did not cover their costs and ACI eliminated some inmate jobs. Some enterprises, such as the furniture shops, furniture installation services, and the farm, consistently fail to generate adequate sales to cover production costs, even before selling and other expenses are allocated to them, as shown in Table 2 (see page 17). In particular, enterprises that rely on sales to new prisons have been affected, including:

- **Metal fabrication shop (Florence)**—In fiscal year 2001, sales for metal fabrication were 56 percent lower than forecasted. The shop, which manufactures institutional bed frames and other prison products, fell short of covering its costs by over \$140,000. As production fell, the number of inmate jobs went from a high in August 2000 of 139 to only 61 in June 2001.
- **Furniture factories (Florence and Eyman)**—In fiscal year 2001, sales for the two furniture shops were 60 percent lower than forecasted, and the shops failed to cover their production costs by more than \$404,000. These two shops have consistently failed to be profitable for the last three fiscal years, losing nearly \$1.3 million between fiscal years 1999 and 2001. ACI shut down the Eyman enterprise in February 2001 and dismissed 52 inmate workers, who had no other ACI job options to which they could transfer.

Because ACI's mission is to employ inmates, it may choose to continue some enterprises that have operating losses instead of closing them down as a private company might do. ACI also

Table 2

**Arizona Department of Corrections
Arizona Correctional Industries
Gross Profit or Loss by Activity
Years Ended June 30, 1999 through 2001
(Unaudited)**

	Gross Profit (Loss)		
	1999	2000	2001
<i>Owned-and-Operated Enterprise</i>			
Bakery	\$ 666,078	\$ 502,228	\$ 769,064
Sewing—Douglas	492,262	427,291	596,411
License Plates	75,584	506,946	335,598
Sewing—Perryville	98,775	148,174	178,226
Copy Services	112,542	118,112	142,866
Bedding	120,306	203,231	56,550
Retail Outlet	(2,263)	10,874	17,647
Sign Shop	81,940	76,893	(838)
Kit Manufacturing & Upholstery	205,609	(12,762)	(17,341)
Wood/Metal Refurbishing	87,770	(85,860)	(21,455)
Installation	(70,126)	(49,594)	(46,497)
Data Fulfillment	(11,224)	(17,097)	(48,890)
Farm	(302,335)	(251,317)	(127,622)
Furniture—Florence	(139)	(99,908)	(128,965)
Graphic Arts	174,765	413,637	(136,316)
Metal fabrication	265,164	186,331	(140,406)
Furniture—Eyman	<u>(415,468)</u>	<u>(365,744)</u>	<u>(275,572)</u>
Gross profit from owned-and-operated enterprises	<u>1,579,240</u>	<u>1,711,435</u>	<u>1,152,460</u>
<i>Labor Contracts</i>			
Gross profit from labor contracts	<u>482,724</u>	<u>780,322</u>	<u>1,079,439</u>
Total gross profit	<u>\$2,061,964^a</u>	<u>\$2,491,757^a</u>	<u>\$2,231,899</u>

^a Amounts are less than amounts reported in ACT's audited financial statements by \$18,378 and \$44,090 in fiscal years 1999 and 2000, respectively, because the audited financial statements include the sale of scrap from all operations in gross profit.

Source: Auditor General staff analysis of the Arizona Correctional Industries *Ten Year Profit Analysis* (1999 and 2000) and Arizona Correctional Industries *Profit and Loss Summary* for the month ending June 2001.

operates under some constraints not faced by private companies. For example, it must defer to security needs when the Department lacks sufficient officers to supervise or transport inmates or cancels all inmate movements to investigate or resolve an incident. However, to ensure it can continue its overall profitability, ACI should take steps to improve sales in its owned-and-operated enterprises.

ACI Needs to Build on Recent Improvements in Sales and Marketing Efforts

ACI has recently made several improvements in its sales and marketing efforts, but it can do more. Increasing sales from owned-and-operated enterprises remains important even though its labor contracts may increasingly contribute to ACI's profitability. To increase sales, ACI should build on recent progress such as the development of an improved product catalog. In addition, ACI should ensure that its sales force has the necessary resources, explicitly align its sales incentives with its marketing plan priorities, and continue and expand its current efforts to promote customer satisfaction. Finally, ACI should take steps to enhance information sharing among its operations by exploring the development of a LAN/WAN, and consider developing an integrated business plan.

ACI has focused on labor contract expansion.

Owned-and-operated enterprises' sales remain important— Despite the success of ACI's strategy of building new labor contracts with public and private employers, ACI's traditional owned-and-operated enterprises remain important. Labor contracts provide an excellent source of revenue and inmate jobs. However, they present two risks that could result in loss of inmate jobs. First, most contracts can be canceled on 30 days' notice, allowing the employers to quickly end the agreement.¹ Second, businesses involved in interstate commerce must comply with a federal law requiring them to demonstrate that inmate

¹ Many labor contracts contain a clause stating that either party may cancel the contract with 30 days' written notice.

labor does not displace other workers.¹ ACI follows a similar policy for all its labor contracts. Thus, many labor contracts could close during periods of high unemployment. In addition to these risks, labor contracts may not be appropriate for some prison facilities due to physical space limitations, lack of freeway access, or the security level of the inmates. Traditional owned-and-operated enterprises can continue to provide inmate jobs and revenue during times and at locations where labor contracts are unavailable.

ACI has made recent improvements to sales and marketing initiatives, but still over-relies on the Department of Corrections—

ACI has implemented several sales and marketing initiatives intended to expand its customer base and increase sales. For example, the 1991 performance audit reported that ACI lacked a sales plan, had weak sales and marketing efforts, and relied too heavily on the Department of Corrections for sales. Until this past year, ACI had not updated its product catalogs or brochures since 1992. Frequent turnover in the sales and marketing management position may have contributed to this lack of progress in updating catalogs, as eight managers have held that position in ten years.

Since the 1991 performance audit, ACI has implemented several marketing initiatives, such as:

- Development of marketing plans. ACI's fiscal year 2002 marketing plan has goals to increase sales, customer base, and satisfaction; and
- Attendance at 18 tradeshow between 1998 and 2000 and plans for attendance at seven trade shows during fiscal year 2002.

¹ The federal Bureau of Justice Assistance can issue Prison Industry Enhancement (PIE) certification to businesses per 18 U.S. Code 1761(c) of 1979, which allows participating agencies using inmate labor to produce interstate goods. Restrictions under this law include paying inmates wages comparable to local non-inmate wages for similar work, and not displacing non-inmate workers.

Initiatives completed this past fiscal year include:

- Improved product catalogs highlighting ACI's 9 major product groupings, plus 13 individual product brochures;
- Monthly direct marketing mailing to target groups; and
- Attractive, updated ACI Web site.

Although it has made these improvements, ACI has not yet reduced its dependence upon the Department of Corrections for sales from its owned-and-operated enterprises. For the last six years, the Department has contributed over 40 percent to ACI's owned-and-operated sales revenues. This dependence is less significant than it was in 1991, when ACI did not have labor contract revenues to compensate for weak sales. Yet, this year's decline in Department sales shows the impact of this dependence on ACI's enterprises' ability to meet costs and be profitable.

Sales staff do not meet sales goals—ACI's four sales staff generated from approximately \$306,000 to \$914,000 in commissioned sales in fiscal year 2001, and acquired about 20 new customers per year during the past 4 fiscal years.¹ By comparison, ACI's goals for commissioned sales were over \$1.1 million per salesperson in fiscal year 2001.

Two factors could be contributing to not meeting these goals:

- **Staff may spend too much time serving the Department of Corrections**—Some ACI staff believe the sales staff spend significant time serving the Department of Corrections facilities. This may leave less time to develop new customers or serve current customers. In January 2001, ACI began using a software program to track sales staff activities, which should help it assess whether sales staff have adequate time to promote marketing plan goals. If the data show that servicing the Department restricts sales staff's time to develop relationships with new customers, ACI may want to consider design-

¹ ACI does not pay commissions on sales to the Department of Corrections or on sales of certain items, such as license plates. Non-commission sales in fiscal year 2001 ranged from \$0.8 million to \$1.7 million per salesperson.

nating a salaried position to work with the Department and free the commission sales staff to focus on other customers.

- **ACI's sales compensation plan is not explicitly aligned with marketing plan priorities**—ACI needs to reassess its commission structure and bonus plan to ensure they align with ACI's current marketing plan priorities. A sales commission structure sends a strong message to sales staff about a company's goals and priorities. However, the commission structure has not been significantly revised in seven years, and it does not promote sales to support currently struggling enterprises or expand ACI's customer base. For example, commissions for nearly all products are set at 2 percent, regardless of the comparative profitability of the enterprises.

In addition, although the fiscal year 2002 marketing plan focuses on expanding ACI's customer base, the sales compensation plan provides no bonuses for new customer sales.

ACI does have a plan for providing annual bonuses if sales staff meet goals, but rarely pays out some bonuses due to stringent requirements for earning them. ACI sets aggressive sales goals based on best historical performance for each enterprise. Individual sales staff can earn a bonus by meeting 100 percent of sales goals for all enterprises. In addition, the entire group can earn a bonus if all four salespersons earn the individual bonus. According to ACI's assistant director, group bonuses have been paid only once in ten years. Business literature suggests the value of a bonus plan as an incentive is diminished if the bonuses are unachievable.

ACI should continue efforts to promote customer satisfaction as a sales and marketing goal—To support its efforts to increase sales, ACI should also work to promote customer satisfaction. ACI has experienced problems with customer service, delivery times, and product quality, and has recently begun efforts to measure and improve customer satisfaction. Auditors interviewed 12 officials from agencies that have made major purchases from ACI during the past 4 years.¹ An official from the

¹ Auditors interviewed officials from 6 state agencies, 2 school districts, and 1 university that had each purchased over \$20,000 of ACI products in fiscal years 1998 through 2001.

Department of Administration, which purchases items used in prison construction, said ACI's quality and customer service had improved considerably. However, several of the officials identified problems with product quality, such as peeling laminate, and delayed delivery dates. Some of the customers complimented ACI on its customer service. However, others stated they would not purchase from ACI if they had a choice.¹

Although ACI records and tracks open complaints to ensure they are resolved, it lacks a database of all complaints, whether open or closed. As a result, it cannot analyze the type and frequency of complaints. However, ACI staff stated they believe complaints typically involved receiving incorrect products due to incorrect product specifications.

ACI management has already begun to promote better quality assurance and customer satisfaction. For example, to resolve a problem with customers receiving incorrect products, ACI hired a graphics designer who started working July 2001 who will draw product specifications using a computer-assisted design (CAD) program. In addition, ACI has developed a plan to send out customer satisfaction surveys with shipments, and the new marketing plan has a quality assurance goal.

In addition to these efforts, ACI should add a customer satisfaction goal to its strategic plan, as recommended by the Department of Correction's Office of Strategic Planning and Budgeting. Further, ACI should also track and analyze customer complaints in order to identify and resolve recurring problems.

ACI should also take steps to improve information sharing among operations—As part of its customer satisfaction and sales efforts, ACI should explore linking its central office, manufacturing shops, and regional managers through a computer network, in order to facilitate tracking of purchase orders, sales orders, and shipments. Lack of an automated information system may be hampering ACI's ability to improve sales, marketing, and customer satisfaction. However, implementing a network link will

A computer network might improve business communications.

¹ Arizona Revised Statutes §41-2636 requires state agencies to purchase certain products from ACI as long as the products are readily available, can be delivered in a timely manner, and are of equal quality and price as the same materials and services in the private sector.

depend upon the Department of Corrections, which currently lacks a complete local area network/wide area network (LAN/WAN), as reported in the Administrative Services and Information Technology audit (see Report No. 01-18).

In addition, ACI will need to work with the Department's Information Technology unit to ensure that the network incorporates internal security controls to prevent inmate access. This is particularly important for ACI because it employs inmates in its warehouse and central office as well as at each of its factories.

Integrated plan could provide a road map—ACI should also consider developing an integrated business plan that integrates ACI's strategic plan's goals and objectives with its marketing plan and its enterprise-specific business plans. While the Department has many of the components of such a plan, it has not fully integrated them into a document that provides specific short-term tactics and long-term strategies. Of the seven states that had partnerships as well as owned-and-operated enterprises, Oklahoma, North Carolina, Indiana, and Maryland said they used a business plan and described the benefits. One state official felt a good business plan was like a road map that directed efforts to achieve future goals.

Recommendations

1. ACI should ensure that sales staff have the resources and incentives to support its marketing goals and priorities and expand its customer base. As part of this, ACI should:
 - a. Continue using tracking software to follow the activities of its sales force and determine whether they have sufficient time to develop new customer contacts.
 - b. Consider alternative ways to serve the Department of Corrections, such as designating a salaried position to work with the Department.
 - c. Reassess its commission and bonus structure to assure that it promotes sales in less profitable enterprises and aligns with the focus to expand its customer base.
 - d. Evaluate the current sales goals, commission rates, and bonus plans to make certain that goals are achievable and that staff are both motivated and adequately rewarded for their efforts.
2. ACI should continue its efforts to promote customer satisfaction and quality assurance. To accomplish this, ACI should:
 - a. Add a customer service goal to its strategic plan and business plan.
 - b. Track and analyze Customer Complaint Reports to enable ACI to identify and resolve recurring problems.
3. ACI should improve information sharing among its facilities to help customer satisfaction and sales efforts. To assist in this goal, ACI should:
 - a. Investigate the feasibility of a computer network to link ACI operations when the Department of Corrections obtains a LAN/WAN. The network should incorporate internal security controls to prevent inmate access.
4. ACI should consider developing an integrated business plan to promote the growth and expansion of ACI's owned-and-operated enterprises, and communicate strategies to increase sales.

FINDING II

ACI AND THE DEPARTMENT SHOULD CONTINUE TO EXPLORE POTENTIAL TO DEVELOP A PRINTING CERTIFICATION PROGRAM

The Department of Corrections and ACI should continue exploring the potential to develop a printing certification program. Certification programs in vocational trades offer benefits to inmates and industry, and several state correctional industry agencies offer such programs. Recently, representatives from Arizona's printing trade association have expressed interest in developing a certification program that would involve inmate workers at the ACI printing facility. The potential opportunity to develop a printing certification program requires thorough research, and ACI should work with the Department's Inmate Education Program to continue exploring this opportunity.

Trade Certification Programs Offer Benefits

Trade certification programs in prisons provide inmates the opportunity to obtain certification in a specific trade or occupation. Such programs provide inmates the opportunity to learn a skilled trade, which could improve their ability to obtain employment upon release from prison, and also provide benefits to the industries that need skilled tradespersons. Formal trade certification programs typically follow a curriculum that is validated by industry, and may include a formal apprenticeship. Some trades and occupations require certification in order to work in the industry.

Trade certification programs provide the opportunity to learn a skilled occupation.

According to the Correctional Industries Association (CIA), 17 of 50 state correctional industries programs plus the District of Columbia had formal certified inmate-training programs in the year 2000. For example, Washington and Utah have certification programs in asbestos abatement. In addition, four states—Florida,

Georgia, Louisiana, and Wisconsin—report that they offer printing certification programs. Representatives from three of these states stated that inmates who obtain certification usually find it easier to obtain jobs.

Currently, several of the Department's 60 vocational education courses train inmates in an occupational trade that requires licensure. For example, in 1994, the Department established a construction technology program for female inmates in cooperation with the Arizona Builder's Alliance. The program utilizes a nationally recognized curriculum, which includes coursework and a formal apprenticeship. Inmates who complete the coursework begin an apprenticeship in either carpentry or electronics while they are still in prison. If they are released prior to completing the apprenticeship, they are sent to the Arizona Builder's Alliance to find a job that allows them to complete their program. Prior to establishing the program, Rio Salado's Inmate Education Administrator first approached the Arizona Builder's Alliance to obtain their support. She then purchased the industry's national curriculum. In addition, Rio Salado has an agreement with Arizona Builder's Alliance to help place inmates in jobs upon release, although they do not track job placement statistics.

Printing Industry Has Expressed Interest in a Certification Program

Representatives from Arizona's printing trade association have expressed interest in establishing a printing certification program involving inmate workers at the ACI printing facility. Although the printing industry does not require certification, certification may lead to better job opportunities. Currently, the Department's graphic arts training program does not lead to certification in any specific printing trade occupation.

Printing trade association is interested in establishing a certification program—Representatives from Arizona's printing industry trade association have expressed interest in developing a certification program for inmate workers at ACI's printing facility in Perryville. Trade association representatives say they are interested in such a program because they want to develop a

mutually beneficial relationship with ACI. In addition, the industry representatives state that they experience difficulties finding skilled workers.

ACI has entered into preliminary discussions with the representatives of the printing industry to discuss the potential of developing a certification program. In January 2001, ACI officials initiated contact with the trade association. In May 2001, several trade association representatives toured the ACI print shop and found it to be a well-run print operation.

Job opportunities in the printing trade may be better for a certified tradesperson.

Certification could provide better job opportunities in the printing industry—Although the printing industry does not require its workers to be certified, certification could still be advantageous for people seeking work in the industry. The National Council for Skill Standards in Graphic Communications has established national skill standards in three broad occupations—pre-press imaging, press operating, and finishing/distribution. It administers certification examinations twice a year. According to the Arizona Department of Education’s Career and Technical Education Division, some employers seek workers who are certified by the Council. The Federal Bureau of Labor Statistics has predicted that through 2008, job opportunities in the printing trade will be best for persons who have computer backgrounds, or people who have completed formal apprenticeship programs. A former chairman of the Printing Industries Association of Arizona (PIAZ) confirmed that industry employers feel more comfortable hiring people who have credentials because, unlike in the past, employers cannot ask prospective employees to demonstrate their printing skills or operate equipment due to liability and workman’s compensation concerns and other labor laws.

Current printing training program does not lead to formal certification—Although the Department currently offers a vocational education course in the graphic arts through Rio Salado Community College, it does not lead to formal certification in a specific printing trade occupation. The course addresses topics such as the history of printing, safety issues, and chemical processing and teaches desk-top publishing skills. However, the current program is not well linked to ACI’s printing operations. For example, ACI’s inmate workers are not required to attend the course in order to work in the print shop. ACI officials state that

workers learn to operate the print shop's heavy machinery mainly through on-the-job training.

ACI and Inmate Education Program Should Coordinate Research Efforts

Evaluating the potential to develop a printing certification program requires thorough research. ACI should work with the Department's Inmate Education Program to measure the demand for skilled workers, and determine whether industry employers would be willing to hire former inmates. If the results suggest the program should be implemented, several other factors would need to be addressed, such as curriculum, instructional needs, equipment requirements, and inmate participation in longer-term training.

ACI and Inmate Education should conduct preliminary research to measure industry support—ACI should conduct exploratory research activities in cooperation with the Department's Inmate Education Program, since this unit is responsible for overseeing the Department's vocational education programs. According to the current inmate education administrator, partnerships with outside industry should follow a planning process that involves conducting thorough research to measure industry support and their employment needs, and working with the industry to develop an education and job placement program.

More research is needed to measure demand for skilled print workers in Arizona.

As a first step, ACI and Inmate Education should survey the printing industry to measure the demand for skilled workers in Arizona's printing industry. Although leaders in Arizona's printing trade association say there is a labor shortage, it is not clear whether jobs would be available in the future for former inmates who completed a certification program. The national Printing Industries Association expects employment to grow about 1.4 percent annually from 2000 to 2006, but employment statistics from Arizona's Department of Economic Security show a recent decline in printing and publishing jobs in the State. In the year 2000, Arizona's printing industry employed 17,500 persons for all printing occupations, 200 fewer than 1999. A former PIAZ chairman confirmed these trends. He stated that although the

industry should still grow modestly, many moderately skilled workers are being displaced due to automation and company mergers. To address these uncertainties, ACI and Inmate Education should survey members of the printing industry to determine their need for skilled workers. In addition, ACI and Inmate Education need to find out whether industry employers would be willing to hire female ex-offenders, since ACI's printing facility hires female inmates exclusively.

In addition, several other factors need to be addressed—ACI and Inmate Education would need to address the following factors:

- **Curriculum and instructional staffing needs**—ACI and Inmate Education would need to work in partnership with the printing industry to develop an instructional curriculum that meets the industry's practical needs. Depending on the curriculum developed, the Department might need to hire additional instructors. The Arizona Department of Education has developed a graphic communications curriculum based in part on National Council standards and the National PrintED program, an accreditation program for secondary and post-secondary graphic arts programs.¹ The Department may be able to use this as a basis for developing its own curriculum.
- **Equipment requirements**—ACI might also need to invest in new printing equipment. According to one printing trade association representative who toured the ACI print facility in May 2001, ACI may need to invest in digital pre-press equipment in order to make training relevant for today's marketplace. The representative stated that digital equipment can cost between \$20,000 and \$200,000, depending on the end product.
- **Inmate participation in long-term training**—Finally, the Department and ACI would need to determine whether inmates could complete a long-term training program and address any barriers to participation. For example, all print shop workers come from Perryville's medium-security Santa Maria unit. Inmates who successfully downgrade their status to minimum security are relocated to a minimum-security

¹ This program was originally developed by the Printing Industry Association of Georgia and adopted by the Georgia Department of Education, and has since accredited nearly 100 schools across the United States.

unit, which does not provide workers for the print shop. This would affect their ability to complete a training program. The Department discourages mixing inmates from different classifications. However, this barrier could be resolved by reserving one shift for medium-security inmates and a second shift for minimum-security inmates. Perryville's warden supports changes to reduce barriers that prevent completion of trade certification programs.

Recommendations

1. ACI and the Department's Inmate Education program should work together to explore the potential of a printing certification program. To accomplish this, they should survey the printing industry to measure the demand for skilled workers in Arizona's printing industry and to determine whether industry employers would be willing to hire female ex-offenders.
2. If the results of the preliminary research indicate that the printing industry would support a certification program, then ACI and the Department's Inmate Education Program should conduct the following activities:
 - a. Work with the printing industry representatives to develop a curriculum.
 - b. Identify instructional staffing needs and associated costs for implementing the curriculum.
 - c. Identify any additional equipment ACI might need to make the program relevant to today's marketplace, and the associated costs.
 - d. Work with the Department's Security Operations program to address any barriers to program completion.
3. Based on the research conducted by ACI and Inmate Education, the Department should decide whether it would be worthwhile to implement a printing certification program, and if appropriate, implement such a program.

Agency Response

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September 25, 2001

Debra Davenport, CPA
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: FINAL WRITTEN RESPONSE TO AUDITOR GENERAL'S PERFORMANCE AUDIT OF
THE ARIZONA CORRECTIONAL INDUSTRIES DIVISION OF THE ARIZONA
DEPARTMENT OF CORRECTIONS

Dear Ms. Davenport:

The mission of the Arizona Department of Corrections (ADC) is to serve and protect the citizens of Arizona by imprisoning offenders legally committed to ADC and by providing community based supervision for those conditionally released. Arizona Correctional Industries (ACI) plays a key role in carrying out this mission. Originally created for simple utility, today Arizona Correctional Industries stands as one of the cornerstones in the achievement of the Arizona Department of Corrections' mission and goals. Through vision, ingenuity, and commitment, ACI has transformed itself since the last Auditor General Performance Audit into a financially self-sufficient business enterprise with far-reaching benefits. One of the Department's primary goals is to optimize inmate participation in work programs. ACI is continually pursuing new and expanded operations and partnerships, with emphasis on the number and quality of inmate jobs, as well as the quality of the goods produced and services provided. Through their assignment to ACI, inmates learn higher-level job skills and are introduced to the work habits and work ethic that will assist them in successfully changing their lives.

The Department's highest priority is maintaining effective custody and control over inmates in an environment that is safe and secure for staff and inmates. ACI work programs directly support this goal through the reduction of inmate idleness and disruptive behavior. In addition, the desirability

of ACI work assignments contribute to the day-to-day management of prisons by providing a major incentive to inmates to voluntarily comply with institutional requirements.

We have reviewed your September 18, 2001, report for your performance audit of the Arizona Correctional Industries. In this regard, we are appreciative of the acknowledgment of the significant contributions and achievements of ACI since its last performance audit. Likewise, we also value the recommendations on how ACI might continue to build upon its success towards further expansion of its prison industries, while continuing to meet its legislative mandate to operate without taxpayer dollars.

Below please find our written response which also identifies any issues or concerns we have with the audit findings.

FINDING 1: **ACI ACCOMPLISHING ITS MISSION BUT CAN CONTINUE TO IMPROVE**

Recommendation 1:

ACI should ensure that sales staff have the resources and incentives to support its marketing goals and priorities and expand its customer base. As part of this, ACI should:

- a. Continue using tracking software to follow the activities of its sales force and determine whether they have sufficient time to develop new customer contacts.
- b. Consider alternative ways to serve the Department of Corrections, such as designating a salaried position to work with the Department.
- c. Reassess its commission and bonus structure to assure that it promotes sales in less profitable enterprises and aligns with the focus to expand its customer base.
- d. Evaluate the current sales goals, commission rates, and bonus plans to make certain that goals are achievable and that staff are both motivated and adequately rewarded for their efforts.

RESPONSE:

1. *The finding of the Auditor General is agreed to and the audit recommendation will be implemented.*

Recommendation 2:

ACI should continue its efforts to promote customer satisfaction and quality assurance. To accomplish this, ACI should:

- a. Add a customer service goal to its strategic plan and business plan.
- b. Track and analyze Customer Complaint Reports to enable ACI to identify and resolve recurring problems.

RESPONSE:

2. The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Recommendation 3:

ACI should improve information sharing among its facilities to help customer satisfaction and sales efforts. To assist in this goal, ACI should investigate the feasibility of a computer network to link ACI operations when the Department of Corrections obtains a LAN/WAN. The network should incorporate internal security controls to prevent inmate access.

RESPONSE:

3. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 4:

ACI should consider developing an integrated business plan to promote the growth and expansion of ACI's owned-and-operated enterprises, and communicate strategies to increase sales.

RESPONSE:

4. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

FINDING 2: **ACI AND THE DEPARTMENT SHOULD CONTINUE TO EXPLORE
POTENTIAL TO DEVELOP A PRINTING CERTIFICATION
PROGRAM**

Recommendation 1:

ACI and the Department's Inmate Education program should work together to explore the potential of a printing certification program. To accomplish this, they should survey the printing industry to measure the demand for skilled workers and to determine whether industry employers would be willing to hire female ex-offenders.

RESPONSE:

1. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 2:

If the results of the preliminary research indicate that the printing industry would support a certification program, then ACI and the Department's Inmate Education Program should conduct the following activities:

- a. Work with the printing industry representatives to develop a curriculum.
- b. Identify instructional staffing needs and associated costs for implementing the curriculum.
- c. Identify any additional equipment ACI might need to make the program relevant to today's marketplace, and the associated costs.
- d. Work with the Department's Security Operations program to address any barriers to program completion.

RESPONSE:

2. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Recommendation 3:

Based on the research conducted by ACI and Inmate Education, the Department should decide whether it would be worthwhile to implement a printing certification program, and if appropriate, implement such a program.

RESPONSE:

3. The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

On behalf of the Arizona Department of Corrections and its staff, I take this opportunity to thank you and your staff for the benefit of the observations made with regard to Arizona Correctional Industries. It was a pleasure interacting with them. We are certain that their efforts will result in an improved corrections operation for the State of Arizona and the public safety of its citizens.

Thank you for the opportunity to respond.

Sincerely,

Terry L. Stewart
Director

TLS/JJS

cc: Charles L. Ryan, Deputy Director, Prison Operations
John J. Spearman, Assistant Director, Arizona Correctional Industries

Other Performance Audit Reports Issued Within the Last 12 Months

01-1	Department of Economic Security— Child Support Enforcement	01-14	Arizona Automobile Theft Authority
01-2	Department of Economic Security— Healthy Families Program	01-15	Department of Real Estate
01-3	Arizona Department of Public Safety—Drug Abuse Resistance Education (D.A.R.E.) Program	01-16	Department of Veterans' Services Arizona State Veteran Home, Veterans' Conservatorship/ Guardianship Program, and Veterans' Services Program
01-4	Arizona Department of Corrections—Human Resources Management	01-17	Arizona Board of Dispensing Opticians
01-5	Arizona Department of Public Safety—Telecommunications Bureau	01-18	Arizona Department of Correct- ions—Administrative Services and Information Technology
01-6	Board of Osteopathic Examiners in Medicine and Surgery	01-19	Arizona Department of Education— Early Childhood Block Grant
01-7	Arizona Department of Corrections—Support Services	01-20	Department of Public Safety— Highway Patrol
01-8	Arizona Game and Fish Commission and Department—Wildlife Management Program	01-21	Board of Nursing
01-9	Arizona Game and Fish Commission—Heritage Fund	01-22	Department of Public Safety— Criminal Investigations Division
01-10	Department of Public Safety— Licensing Bureau	01-23	Department of Building and Fire Safety
01-11	Arizona Commission on the Arts	01-24	Arizona Veterans' Service Advisory Commission
01-12	Board of Chiropractic Examiners	01-25	Department of Corrections— Arizona Correctional Industries
01-13	Arizona Department of Corrections—Private Prisons		

Future Performance Audit Reports

Department of Corrections—Sunset Factors

Department of Public Safety—Criminal Information Services Bureau,
Access Integrity Unit, and Fingerprint Identification Bureau

Department of Public Safety—Sunset Factors