

PRISON INDUSTRY AUTHORITY

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

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Youth and Adult Correctional Agency response as of December 2004

Audit Highlights . . .

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

- Although state law does not require PIA to offer competitive prices and its prices can differ from those of other vendors, PIA could improve certain pricing practices.*
 - PIA has not established participation targets for the number of inmates it aims to employ among its various enterprises.*
 - PIA has not demonstrated adequately whether and in what manner it fulfills its statutory purpose to reduce the operating costs of the California Department of Corrections.*
 - Although PIA has embarked upon various activities aimed at enhancing the employability of its participants, it has not established targets or performance measures to track participants' post-release success and evaluate its own performance.*
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The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to identify to the extent possible the total amount the Prison Industry Authority (PIA) has received from its customers for PIA products over the past two fiscal years and to determine, for a sample of items, whether the products are priced above the market. Also, the audit committee requested that we determine to the extent possible PIA's financial impact on the California Department of Corrections (Corrections) and examine PIA's method for measuring its impact on inmates, particularly with regard to their obtaining employment upon release.

Finding #1: PIA lacks accurate product cost figures, does not document its justification for product prices, and lacks policies regarding special or discount pricing.

The Prison Industry Board (board) has established a pricing policy that allows PIA the discretion to establish prices that do not recover production costs, but it generally expects PIA to price each item at a level sufficient to recover the cost of producing the item. To comply with this expectation, PIA must be able to identify product costs accurately. However, according to PIA's acting assistant general manager for financial operations, distributing costs to products consistently and accurately is difficult because PIA's cost allocation methodology still relies primarily on the estimated hours an inmate spends making a product and because these hours can fluctuate significantly in a prison environment. Moreover, until recently PIA did not allocate certain costs, such as distribution, transportation, and administrative support, among its various enterprises, let alone among its individual products. Without accurate product costs, PIA cannot demonstrate that it considers only applicable costs when pricing a particular product in accordance with the board's policy.

In its pricing policy, the board established that PIA must base its prices on a profit margin, cost data, market data for comparable products and prices, and marketing strategies related to the product or service. Additionally, the policy requires PIA to review and update prices periodically to reflect a variety of changes. We expected that PIA would document the analyses it performed to establish and review its prices in order to demonstrate how it applied the specific criteria in the board's pricing policy in practice. However, when we reviewed 19 products for which PIA had adjusted or established the price in fiscal year 2002–03, PIA was unable to provide supporting analyses demonstrating how it arrived at or reviewed the prices for any of these products. Without documenting the analysis that supports each price, PIA cannot demonstrate to the board the consistency of the process it follows when pricing or reviewing the prices of its products and services.

Although PIA has discretion with regard to pricing, we expected it to have established policies regarding special or discount pricing arrangements through which different customers pay different prices for like items. However, after identifying certain products for which PIA charged a different price to different customers in fiscal year 2002–03 and asking PIA for an explanation, we found that there is no written policy regarding such arrangements. Without policies defining the circumstances under which PIA enters into special pricing arrangements or offers discounts, PIA risks the appearance that its pricing practices are unfair.

We recommended that PIA develop a method to allocate administrative support, distribution, and transportation costs directly to its products and services and ensure that, until it does so, its allocation of costs to the various enterprises is as accurate as possible. In addition, we recommended that PIA ensure that it documents the analyses it conducts to establish, change, or review its prices. Finally, PIA should establish policies for entering into special pricing arrangements or offering discounts and ensure that its customers are aware of such opportunities.

PIA Action: Partial corrective action taken.

PIA states that it plans to annually refine its process of allocating distribution, transportation, and central office costs among its enterprises, with the objective of continually improving the accuracy of costs that are allocated to PIA's enterprises and allowing PIA to further refine product costing and pricing strategies as well. PIA also states that in July 2004 a standardized methodology was developed for establishing, changing, and reviewing pricing for standard products and a form for documenting competitive pricing research was also developed. Finally, PIA states that by March 1, 2005, it will formalize and document internal procedures that will include guidelines for offering discounts and other nonstandard pricing strategies to all customers.

Finding #2: PIA has not established inmate participation targets or related enterprise evaluation criteria.

Although one of PIA's statutory purposes is to employ inmates, and the Legislature intended in part that PIA employ inmates in order to reduce inmate idleness and prison violence, PIA has not established participation targets for the number of inmates or percentage of Corrections' institution population PIA aims to employ, either overall or by enterprise. Moreover, although inmates employed in PIA's enterprises contribute toward its ability to be self-supporting, this contribution varies depending on the enterprise. Yet PIA has not established criteria for evaluating each enterprise's combined contribution to PIA's statutory purposes of being self-supporting and employing inmates. Without establishing employment targets and routinely assessing the contribution of each enterprise to profitability as well as inmate employment against criteria, such as profitability per inmate, PIA limits decision makers' ability to assess its overall performance.

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

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

PIA Action: Partial corrective action taken.

PIA states that beginning with fiscal year 2005–06, its annual plan and strategic business plan will include long-range inmate employment targets and its annual report will address the success in meeting these targets. PIA indicates that it has adopted profitability per inmate as an indicator of performance and is considering other appropriate criteria for evaluation purposes.

Finding #3: PIA has not demonstrated adequately whether and in what manner it reduces the operating costs of Corrections.

PIA claims that it provided Corrections \$14.1 million in cost savings in fiscal year 2002–03 by offering a correctional work or training program (correctional program) for inmates that Corrections otherwise would have had to fund. However, in PIA's absence, Corrections is neither legally obligated nor was it prepared to reassign all of PIA's participants in fiscal year 2002–03 to programs other than PIA. Further, PIA bases its calculation on the particular correctional program components Corrections sought to expand in a fiscal year 1998–99 unapproved budget change proposal and did not demonstrate that these programs represented the only available correctional program options and associated costs for fiscal year 2002–03. Thus, PIA's approach toward claiming cost savings to Corrections for fiscal year 2002–03 is questionable.

A new bridging education program (bridging program) Corrections initiated in fiscal year 2003–04 provides an additional option for inmates who wish to participate in a correctional program and are eligible to reduce their sentences by one year for each year of participation. As a result, PIA may be able to claim that it provides Corrections a cost savings only for those inmates that Corrections, in PIA's absence, would reassign into the bridging program and incur related costs. The bridging program also will reduce or eliminate the group of inmates whose participation in PIA could result in a cost avoidance to Corrections due to their earning sentence reductions credits at a faster rate. Thus, PIA's ability to claim any cost avoidance in the future with regard to sentence reduction credits its participants earn is impaired significantly.

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

PIA Action: Pending.

PIA states that it will implement our recommendation when performing future analyses involving cost savings that result from inmates participating in PIA.

Finding #4: PIA has not established targets or performance measures to track participants' post-release success and evaluate its own performance.

As a result of obtaining data from Corrections and entering into a contract with the Employment Development Department, PIA now has the capability to report on two of the common elements that decision makers use to assess a correctional program—inmates' ability to obtain post-release employment and to avoid returning to prison. However PIA has not established targets or performance measures to track participants' post-release success and evaluate its own performance. Further, PIA currently lacks the necessary data to determine whether the specific training or experience it provides inmates affects the type of job an inmate obtains after release. For instance, one component of PIA's inmate employability program is to offer industry-accredited certifications to inmates. However, PIA presently cannot identify whether the certifications have led to post-release employment in the field in which inmates obtained certification. Despite the challenges of establishing a direct link between PIA's activities and inmates' level of success after release from prison, without measuring and reporting on how inmates who have participated in its enterprises fare after release, PIA cannot provide an adequate perspective on the effectiveness of its pursuit of its statutory purpose to offer inmates the opportunity to develop effective work habits and occupational skills. Moreover, without performance measures or targets, PIA cannot focus its inmate employability efforts on areas that demonstrate success.

We recommended that PIA establish targets against which to measure its participants' post-release success in obtaining employment and not returning to prison. For instance, PIA should compare the post-release success of its participants

to that of participants in other correctional programs, to nonparticipants, or to its own expectations. PIA should also identify whether the specific training or experience inmates obtain leads to employment in a related field. Corrections should assist PIA in obtaining any necessary data for comparison by providing comparable data on other correctional programs to PIA. To further refine and focus on those activities with a demonstrated track record, PIA should also track the individuals participating in unique components of the inmate employability program to determine whether there is a link between the components and inmates' post-release employment, earnings, and returns to prison.

PIA Action: Pending.

PIA states that it is finalizing a contract with an institution of higher education to design and conduct a multi-year research study scheduled to begin in 2005 to measure the impact of PIA on its participants' post-release success. PIA plans to use the study results to determine appropriate standards for establishing targets relative to post-release employment and recidivism. PIA also indicates that it will develop a table similar to the one we recommended to include in its annual report to demonstrate each enterprise's contribution to participants' post-release success. PIA states that it will work with Corrections to compare its impact on post-release employment and recidivism with other correctional programs and nonparticipants. Finally, PIA indicates that by March 1, 2005, it will expand current tracking activities to better assess the impact of discrete elements of the inmate employability program upon post-release employment and recidivism.