



AUDIT OF  
MISSOURI VOCATIONAL ENTERPRISES

**From The Office Of State Auditor  
Claire McCaskill**

*The long-term viability of this program may be at risk if current financial trends continue.*

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PERFORMANCE AUDIT



Office of  
Missouri State Auditor  
Claire McCaskill

February 2002

**Financial stability of prisoner job program may be at risk if current trends continue**

This audit reviewed the Department of Correction's vocational enterprises program (the program), which employs inmates in jobs that teach skills they can use after release from prison. The inmates produce goods (such as office furniture) and offer services (such as dry cleaning) purchased by state agencies or political subdivisions. The following highlights the audit's findings:

**Program lost \$5 million in 2001 due to state budgetary changes**

In fiscal year 2001, state budget and department officials for the first time charged the program \$2.5 million in building usage rent. Officials imposed the rent by moving a like amount of fuel and utility costs from the department's General Revenue Fund budget to the program's budget. In addition, the program paid \$2.3 million in salary costs for department teachers, correctional officers and clerks with duties unrelated to the program. Continued responsibility for these unnecessary costs could put the program's future at risk. (See page 2)

**\$1.4 million lost in waste tire recycling operation**

The waste tire operation has lost \$1.4 million since 1995 after accepting many jobs at below operation costs and underestimating some job costs. Auditors found the average site clean-up costs the program \$217 per ton, but the program only charged \$100 to \$150 per ton for its work.

In addition, the program pays a private trucking firm up to \$5,000 annually to haul away the shredded tire byproduct resulting from the clean-up projects. The program discards most byproduct material because state law restricts the program from selling its products on the open market and government operations rarely need this material. The ability to sell all byproduct material to private companies could produce up to \$75,000 a year in extra revenue and save the disposal expenses. (See page 5)

**Program ineffective in mission to improve prisoner work opportunities**

More than half the inmates have long-term sentences and may never use their new job skills in an outside workplace, which is inconsistent with the program's mandated mission to increase prisoner work opportunities upon release. Auditors found 55 percent of participating inmates are serving life-sentences or have more than 10 years left in prison. This situation occurs partly because the factories are primarily located at prisons

YELLOW SHEET

with higher populations of long-term prisoners. (See page 15)

**\$1 million in lost sales when some state agencies had program bid for business**

Three state agencies requested or required the program to submit bids with private sector vendors for some agency purchases. As a result, the program lost more than \$1 million in sales. Agency officials justified the bidding practice because they received better prices from private sector businesses; however, state law requires state agencies to purchase program products without requiring bidding. (See page 8)

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**Missouri State Auditor**

Honorable Bob Holden, Governor  
and  
Gary B. Kempker, Director, Department of Corrections  
and  
Wilbur Gooch, Administrator, Missouri Vocational Enterprises  
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The State Auditor's Office audited the Missouri vocational enterprises program. This program, mandated by state law, employs state correctional facility inmates in jobs that teach skills they can use upon release. These jobs in turn produce goods and services purchased by state and local governments.

The objectives of this audit were to evaluate (1) whether the vocational enterprises program fulfills its statutory mandate, (2) state agency compliance with the state's purchasing laws related to the program, (3) state agency satisfaction with the program's goods and services, (4) the program's financial condition and management practices, and (5) how Missouri's program compared to similar programs in other states.

We made several conclusions including: the long-term viability of the program may be at risk if the program's operating budget continues to pay for unrelated Department of Corrections costs; state agencies generally complied with the requirement to purchase the program's applicable goods and services and were satisfied with the products; some management practices need improvement; and the majority of participating inmates have long-term sentences with little chance for outside employment, which is inconsistent with the program's mandated mission.

The audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

Claire McCaskill  
State Auditor

August 24, 2001 (fieldwork completion date)

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## RESULTS AND RECOMMENDATIONS

### **1. Budgetary Changes Resulted in Program Losses**

The Missouri vocational enterprises program lost approximately \$5 million during fiscal year 2001 when state budget and Department of Corrections officials had the program pay for costs unrelated to the program's operation. Also, the Department of Corrections has not paid \$1.7 million to the program for goods and services received in fiscal years 1999 and 2000. Continuing financial losses in this program threaten its viability and could drive up the price of goods and services provided to the program's primary customers (state agencies and elected officials). Costs unnecessarily charged to the program included:

- ✓ \$2.5 million for building usage.
- ✓ \$1.5 million for salaries for all vocational education teachers (33 positions).
- ✓ \$600,000 for salaries of 17 correctional officers and 3 clerks.
- ✓ \$180,000 for correctional officers and academic teachers salaries charged in error.

The program has also incurred \$1.4 million in losses related to the state's waste tire recycling program. While the vocational enterprises program operation is in good financial condition now, this situation may not be the case if these costs continue to be incurred.

*(See Appendixes III and IV, pages 23 and 24 for the program's income statement and balance sheet for the 5 years ended June 30, 2001.)*

### **Background**

Program operations are accounted for in the Working Capital Revolving Fund. This fund is part of the budget for the Department of Corrections and the department Director oversees these operations. The program receives guidance from an Advisory Board established under Section 217.555, Revised Missouri Statutes (RSMo) 2000, and the Joint Legislative Committee on Corrections.

### **Building usage charge imposed**

For fiscal year 2001 state budget and department officials shifted responsibility for \$2,573,502 in prison fuel and utilities costs from the General Revenue Fund portion of the Department of Corrections budget to the vocational enterprises program. Budget officials used a \$6 per square foot rental figure to estimate the rental cost to vocational enterprises for using department facilities. This rental charge was imposed by assigning a like amount of department fuel and utility costs to the program's budget. These costs were in addition to the \$358,000 in fuel and utility costs the program already pays for based on an

\$2.5 million in  
costs never  
imposed before

agreement with the department. Essentially the state is now requiring the program to pay rent for space previously provided without charge.

The statutes are not clear, however, whether such a space rental charge can be imposed. Under Section 217.565, RSMo 2000, the Department of Corrections is to purchase, lease, or otherwise provide suitable plants, machinery, equipment and materials to put the vocational enterprises program into effect. Under Section 217.595, RSMo 2000, none of the earnings of the vocational enterprises program shall be transferred to the General Revenue Fund. Based on past practices, until fiscal year 2001, the statutes were interpreted as not requiring such a building usage charge.

For fiscal year 2002, program officials were able to negotiate the building usage/fuel and utility charge down to \$1 million. The program is restricted from selling products in the private sector and does not have the ability to move operations if the "building charge" is considered excessive or unreasonable. Because vocational enterprises cannot expand sales markets to cover these cost increases, it does not seem reasonable to impose such a charge on the program.

If there are concerns by state officials that the program is not paying an equitable share of building fuel and utility costs or other costs incurred related to program operations, then a reasonable allocation method needs to be developed and consistently applied.

### **Vocational enterprises paid salaries of some Department of Corrections employees**

During fiscal year 2001, the vocational enterprises program paid approximately \$2.3 million in salary costs for various Department of Corrections teachers, correctional officers and clerks whose duties are not directly related to program operations. Some of these costs have been imposed for years.

\$2.3 million in costs to the program

### **Vocational education**

The vocational enterprises program was required to assume \$1.5 million in teacher salary and benefit costs in fiscal year 2001.

The Department of Corrections justified this change in the department's budget documents by stating the department is "transitioning to a work-based approach to skills training that connects offender training to interview and placement in department job assignments in (vocational enterprises) industries and services."

The relationship between the vocational education program and vocational enterprises program is tenuous. Only 155 of 1,169 (13 percent) vocational education students enrolled in classes in fiscal year 2000 participated in one of the three training courses designed to train inmates for jobs in the vocational enterprises program. During March 2001, only 11 of these 155 students were working in a vocational enterprises program job related to their training. Department of Corrections officials have indicated they will propose shifting the costs of the vocational education program back to the General Revenue Fund for fiscal year 2003.

### **Correctional officers and clerks**

Since the early 1980s, the vocational enterprises program has paid for salary and benefit costs of 17 correctional officers and 3 clerks of the department (\$600,000 in fiscal year 2001). Department officials decided program factories needed extra correctional officers to protect civilian staff and limit theft; and extra clerks to process inmate payroll and department payment for program goods.

However, vocational enterprises and Department of Corrections staff stated the correctional officers charged to the program provide general security throughout the prison and not just in the factories. In addition, the vocational enterprises program did not require clerical work beyond the duties clerks already handled.

### **Payroll overcharge**

Table 1.1 identifies payroll amounts erroneously charged.

**Table 1.1: Payroll Costs Incorrectly Charged to the Vocational Enterprises Program**

<b>Salary and Benefits</b>	<b>Error Period</b>	<b>Amount</b>
Eight correctional officers	June 2000 - January 2001	\$ 125,764
Six academic teachers	July 2000 - April 2001	54,507 <sup>1</sup>
Total		\$ <u>180,271</u>

Source: Department of Corrections payroll records

<sup>1</sup>The full error totaled \$137,755. Department of Corrections officials corrected \$83,248 of the error prior to the end of the fiscal year.

Department of Corrections personnel requested adjustments for the errors from the Office of Administration but the request was denied and the errors have not been corrected. The denial occurred because the request was received after the deadline for making adjustments to fiscal year 2001 payroll records.

### **Product prices have not been adjusted**

The vocational enterprises program management is not including the additional \$4 million in costs (\$2.5 million for fuel and utilities charges and \$1.5 million for vocational education staff) in product pricing decisions. If similar costs continue to be imposed, these costs will have to be included in those pricing decisions or losses could continue. Ultimately, the program's primary customers, state agencies and elected officials, will pay more for goods and services. Our analysis indicated fiscal year 2001 prices for most goods and services would have been about 13 percent higher if the additional costs had been factored into pricing decisions. In effect, other state agencies would be forced to support some operating costs of the Department of Corrections because of the higher prices that would have to be charged to these agencies for goods and services.

Product prices  
would increase  
by 13 percent

## **Department of Corrections did not pay bills on time**

The Department of Corrections has not paid the vocational enterprises program for some goods and services received over the last 3 years. At April 2001, the department had unpaid bills of \$1.7 million for transactions that took place in fiscal years 1999 and 2000. Payment of other department bills was put as a priority over the program's bills. Delayed payment deprives the program of necessary operating capital.

## **Waste tire recycling program losses**

Since the inception of the program in 1995, losses in the waste tire recycling program have exceeded \$1.4 million as the result of:

- Department of Corrections officials requiring the vocational enterprises program to participate in this program and accept many clean up projects at below operation costs.
- The vocational enterprises program not adequately estimating job costs on some projects.

Department of Corrections officials view the program as a public relations opportunity. The program uses inmate workers to clean up illegal waste tire dumps that are identified by the Department of Natural Resources and ruled as such by courts. Department of Corrections officials have publicized the success of the program in press releases and in the *Official Manual of the State of Missouri*.

Vocational enterprises officials did not adequately use historical job costs when establishing contract prices for waste tire recycling clean up projects. Audit tests determined the historical cost to be \$217 per ton. The majority of the sites were cleaned up for prices ranging from \$100 to \$150 per ton resulting in a shortfall between program costs and revenues.

State's tire recycling effort being subsidized

The vocational enterprises program has subsidized the statewide waste tire cleanup effort. During our audit, vocational enterprises and Department of Natural Resources personnel began negotiations to increase the compensation for future services.

## **Waste tire byproduct becomes an expense for the program**

Restrictions on the sale of the shredded waste tire byproduct harm the program. At times, the vocational enterprises program has hired private trucking firms (paying up to \$5,000 annually) to haul away the excess byproduct. This practice occurs because state law does not allow the vocational enterprises program to sell products on the open market. The University of Missouri - Columbia campus power plant is the only government-owned utility using the byproduct, but the plant only consumes about 20 percent of the annual byproduct output. Four private companies in the state use this material and could possibly purchase this byproduct if open market sales were allowed. Vocational enterprises officials estimated sales of the byproduct material could produce up to \$75,000 in annual revenue.

## Conclusions

The vocational enterprises program is currently in a relatively strong financial position. However, continued imposition of costs unrelated to operations, participation in unprofitable industries, and excessive delays in payments for goods and services will put the long-term viability of the program at risk.

## Recommendations

We recommend the Director, Department of Corrections:

- 1.1 Coordinate with state budget officials to evaluate having the vocational enterprises program pay for building occupancy charges, vocational education program expenses, and correctional officer and clerical position costs.
- 1.2 Develop additional controls over the allocation of payroll costs to ensure the vocational enterprises program is charged for only authorized budgeted positions.
- 1.3 Reimburse the program \$180,271 for the payroll allocation errors that remain uncorrected.
- 1.4 Improve bill-paying practices to ensure obligations to vocational enterprises do not remain unpaid for an excessive period of time.
- 1.5 Evaluate waste tire recycling job costs on a regular basis and negotiate with Department of Natural Resources officials to adjust project compensation as needed to at least recover costs.
- 1.6 Seek authorization from the General Assembly for vocational enterprises to sell the waste tire byproduct on the open market.

## Department of Corrections Comments:

- 1.1 *The Department notes the recommendation. The FY2003 budget request submitted to Office of Administration – Budget and Planning contained General Revenue funding for vocational education program personal services and expense and equipment.*
- 1.2 *The Department concurs and has dedicated resources within our Information Systems section to develop computerized reports that provide breakdowns of payroll by appropriation for each pay cycle from Statewide Advantage for Missouri II - Human Resources. MVE has established a review of each payroll period expenditures to ensure that only budgeted positions are charged to the Working Capital Revolving Fund.*
- 1.3 *The Department concurs with this recommendation. Upon being made aware of the errors, the Department expedited the appropriate documents to the Office of*

*Administration indicating that their processing was necessary to correct the errors. The Office of Administration denied this request because it was received after the deadline for prior period adjustments. The Department will again request Office of Administration approval to process the documents to correct these errors.*

- 1.4 The Department concurs with this recommendation as it pertains to prudent business practices. Efforts have been undertaken to improve the Department's turnaround time in facilitating payment of current obligations. According to recent statistics published by the Office of Administration, the Department of Corrections averages 16 days turnaround from the date of receipt of a vendor invoice to check date. The state average is 18 days. The department will continue to monitor and evaluate available resources in an effort to pay down the past due payables to MVE.*
- 1.5 The Department of Corrections (DOC) and the Department of Natural Resources (DNR) met on July 31, 2001 to address issues associated with continuation of the cooperative relationship for the clean-up of illegal tire dumps. The results of the meeting were: 1. DOC and DNR agreed to create separate agreements for each individual illegal tire dump rather than operating from an overall pricing agreement. 2. DOC and DNR agreed that each illegal tire dump clean up would be priced based upon the difficulty of the project. 3. DOC and DNR agreed that MVE's minimum charge for the clean up of each illegally dumped tire would be \$2.11.*
- 1.6 The Department notes the recommendation, but disagrees. The Department will not seek sponsorship of legislation to expand MVE's authorization to sell its products or services on the open market. Expanding the sale of MVE products and services has been extremely controversial.*

## **2. State Agencies Materially Complied with State Purchasing Laws, but Some Changes are Needed**

Review of compliance with state purchasing laws related to the vocational enterprises program indicates:

- ✓ State agencies are generally complying with the requirements to purchase goods and services from vocational enterprises.
- ✓ Three state entities failed to comply with state purchasing laws by requesting or requiring the vocational enterprises program to submit bids on proposed purchases, which cost the vocational enterprises program sales in excess of \$1 million.
- ✓ The centralized statewide accounting system is not designed to be user friendly for the vocational enterprises program, which has meant wasted employee effort in some cases.
- ✓ Outdated or unused statutory provisions related to purchasing requirements, which result in some sales losses.

### **Background**

Under Section 217.575, RSMo 2000, state agencies and elected officials are required to purchase available goods and services from the vocational enterprises program unless the program grants the agency a waiver. The only statutorily authorized reasons for granting waivers are that the program cannot provide the specific good or service required or the program cannot provide the good or service within 90 days. Under the statewide accounting system, certain purchase orders based on the transaction's commodity code are flagged for vocational enterprises waiver evaluation. A vocational enterprises program employee must evaluate these transactions for waiver.

### **Agencies generally complied with purchasing laws**

Auditors scanned thousands of state transaction records on the statewide accounting system and performed a detailed review of 36 transactions to conclude agencies generally purchased applicable goods and services from the vocational enterprises program.

### **Three agencies imposed restrictions on purchases from vocational enterprises**

The Department of Transportation, Office of the State Public Defender, and the Lottery Commission requested or required the vocational enterprises program to submit bids along with private sector vendors to obtain the agencies' business for some transactions. The vocational enterprises program did not win the bids and lost more than \$1 million in sales as shown in Table 2.1.

**Table 2.1: Sales Lost Due to Bidding**

<b>Agency</b>	<b>Goods Purchased</b>	<b>Approximate Sales Lost</b>
Department of Transportation	Aluminum sign blanks	\$ 550,000
Lottery Commission <sup>1</sup>	Office cubicles	417,000
Office of the State Public Defender	Various items	<u>70,000</u>
<b>Total</b>		<b>\$ <u>1,037,000</u></b>

Source: Statewide accounting system and discussion with agency officials

<sup>1</sup>Requested vocational enterprises bid on the cubicle project. The request to bid was accepted by program staff.

Agency representatives justified their practices by stating they received better prices for the products purchased. However, Section 217.575, RSMo 2000, clearly requires purchases to be made from vocational enterprises without bidding being necessary. As a result, the agency personnel should not be seeking bids if the program can supply the good or service since vocational enterprises purchases are exempt from bidding requirements. This non-compliance, if left uncorrected, will result in continuing sales losses for the program and lost training opportunities for inmates.

The vocational enterprises program employees have not used a similar review of data from the statewide accounting system to identify transactions and agencies that may not have complied with state purchasing law regarding purchase of items from the program. These agencies could be contacted to evaluate products or other issues impacting sales. In addition, the review could be used to identify commodity codes that should also be flagged for transaction waiver review and others that may need to be removed from the process.

**Some transactions were unnecessarily waived**

Vocational enterprises staff are waiving some transactions for which the program could have produced the products. Audit tests showed waivers were granted for other than statutorily authorized reasons for 10 of the 36 transactions (27 percent) tested. These waivers were for items such as office furniture for the Office of the State Public Defender and the Department of Transportation, retirement plaques for the Department of Transportation and vehicle inspection stickers for the Highway Patrol totaling \$125,074.

**The statewide accounting system transaction processing needs some changes to enhance the waiver process**

The waiver system would run smoother if program employees did not have to review such a high number of transactions. For example, state agencies will often purchase small quantities of items that are not practical or cost effective for the vocational enterprises program to supply. If minimum thresholds were set in the statewide accounting system, these small transactions could be waived automatically and not require explicit waiver approval from program officials. Similar efficiencies could be created if purchases being made by state agencies from the vocational enterprises program were not flagged for waiver evaluation.

## Many purchasing related statutes are outdated or not used

The following statute sections were noted that are either outdated or not used:

<u>Statute section</u>	<u>Statutory requirement</u>	<u>Issue</u>
RSMo 2000 217.575 (2)	Requires state agencies and vocational enterprises to retain paper copies of purchase waivers granted.	Under the current statewide accounting system the waiver process is electronic.
217.575 (5)	Establishes an arbitration process state agencies and vocational enterprises can use to resolve disputes over price, quality, design, etc.	The arbitration process has never been used.
217.580	Officials and agencies are required to report to vocational enterprises estimates for the ensuing year of the amount of supplies of different kinds or types of services required to be purchased by them that can or may be furnished by the program.	Most officials and agencies fail to provide the data. For those agencies that do provide the data it is too vague to be of any use.
217.590	Any person who knowingly refuses or neglects to comply with the provisions of Sections 217.575 and 217.580 shall upon conviction be guilty of a Class A misdemeanor.	The penalty has not been enforced.
301.290	Vocational enterprises is mandated to purchase, erect and maintain all of the machinery and equipment necessary for the manufacture of signs used by the state transportation department. The Department of Transportation is also mandated to procure all signs from vocational enterprises.	Compliance with these provisions is no longer practical. See Issue 3, page 14 for more details.

Many of these laws have been in place for decades and new state procedures have made them obsolete or not practical.

## Conclusions

State agencies and elected officials are generally complying with the purchasing requirements related to vocational enterprises goods and services; however, some noncompliance was noted. The state's purchase waiver system needs some improvements. State statutes relating to the purchasing requirements and the waiver process need to be updated to reflect new processes.

## Recommendations

We recommend the Director, Department of Corrections:

- 2.1 Coordinate with the Office of Administration to ensure agency purchasing officials are aware items purchased from the program are exempt from the state's bidding laws.
- 2.2 Improve procedures for granting waivers to ensure waivers are not granted for products the program can supply within 90 days.
- 2.3 Coordinate with the Office of Administration to set minimum dollar thresholds so that low dollar transactions bypass the vocational enterprises waiver approval process and remove purchases being made from the program from waiver review.
- 2.4 Use data from the statewide accounting system to identify transactions and agencies that may not have complied with state purchasing laws regarding purchase of applicable items from the program and evaluate the commodity codes being flagged.
- 2.5 Seek from the General Assembly revision to the various state statutes related to the vocational enterprises program that are outdated.

## Department of Corrections Comments:

- 2.1 *The Department concurs with the recommendation and has initiated contact with the Director of Office of Administration – Division of Purchasing and Materials Management to begin developing a plan for ensuring that agency purchasing officials are aware of applicable statutes regarding MVE.*
- 2.2 *MVE has been granting waivers when an agency could demonstrate that they could purchase a similar product at a cheaper price from an outside vendor. The Department notes the recommendation and will amend its manner of granting waivers to ensure that the practice is consistent with this recommendation. The Department has initiated contact with the Director of the Office of Administration – Division of Purchasing and Materials Management to begin developing a plan for ensuring that agency purchasing officials are aware of applicable statutes governing MVE products and waivers.*
- 2.3&
- 2.4 *The Department has initiated contact with the Director of Office of Administration – Division of Purchasing and Materials Management and acquired a commitment from the Office of Administration to explore the viability of this recommendation with MVE.*
- 2.5 *The Department notes the recommendation and will consider the specific statute sections cited within this report when developing future legislative packages.*

### **3. Some Management Practices Need Improvement**

Better management practices are needed to ensure program resources are used effectively. Audit tests noted a variety of program issues that need to be resolved including:

- ✓ Inventory management.
- ✓ Accounts receivable collections.
- ✓ Factory management.
- ✓ Business planning.
- ✓ Marketing and customer satisfaction.

These conditions resulted from breakdowns in management controls and oversight. If not corrected, the vocational enterprises program could lose financial resources, product sales and one of its industries.

#### **Background**

Vocational enterprises operates as a semi-autonomous entity under the Division of Offender Rehabilitation of the Department of Corrections. The Director of the Department of Corrections in conjunction with a statutorily created Advisory Board has general supervision over the planning, establishment and management of the program and determines the locations of the various industries within the prison system. Within the program, there is a multi-layered management structure. An administrator is responsible for the program's day-to-day activities.

#### **Stronger controls over inventory levels are needed**

Excessive inventory levels exist at several vocational enterprises program factories. Excess inventory may be as much as \$8 million. Since 1997, approximately half of the program's factories have received software that computes inventory reorder points and economic reorder quantity information. However, factory managers seldom use these tools to make inventory purchasing decisions.

Excess inventory  
may be as much  
as \$8 million

We performed an analysis of the inventory values as of June 30 for the years 1997 through 2001. We used the following formula to estimate the number of days of inventory on hand at the end of each fiscal year:

$$\frac{\text{Cost of Goods-Materials}}{365 \text{ days}} = \text{Material cost per day}$$
$$\frac{\text{Inventory Value}^1}{\text{Material cost per day}} = \text{Number of days of inventory on hand}$$

<sup>1</sup> This value includes raw materials, work-in process and finished goods.

Table 3.1 indicates our results:

**Table 3.1: Estimates of Annual Fiscal Year-End Inventory Levels for All Factories**

<b>Calculations Data</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Total Inventory Value (in millions)	\$ 7.47	8.17	11.59	12.21	11.80
Total Cost of Goods Sold - Material (in millions) <sup>1</sup>	\$ 18.03	18.22	15.06	15.01	12.64
Estimated Days of Inventory	151	164	281	297	341

Source: Vocational enterprises program financial statements

<sup>1</sup>Includes annual physical inventory adjustment

Examples of some of the estimated days of inventory at specific factories at June 30, 2000, are noted in Table 3.2 (similar data for the year ended June 30, 2001, was not available until after fieldwork completion and not obtained):

**Table 3.2: Estimated Days of Inventory at Specific Factories**

<b>Factory</b>	<b>Location</b>	<b>Number of Days of Inventory</b>
Clothing	Jefferson City Correctional Center	1,029
Office Cubicle	Jefferson City Correctional Center	669
Furniture	Crossroads Correctional Center	546
Metal Production	Moberly Correctional Center	443

Source: SAO computation based on factory inventory records

Vocational enterprises officials stated some reasons for holding excess inventory were:

- To take advantage of lower than normal commodity prices and quantity discounts.
- To prepare for the needs of the two new correctional facilities. The delayed opening of these facilities impacted the inventory levels.

Only 3 of 21 factories had less than 100 days of inventory. One hundred days of inventory should be sufficient in almost all instances to meet the program's needs given the time it takes to develop bid documents to order supplies, analyze the results of the bids and receive shipment of raw materials without impacting normal production. As shown in Table 3.1 above, the total inventory value at June 30, 2001 was nearly \$12 million and represented over a 300 days supply. Reducing inventory levels to 100 days in inventory on average would result in a reduction of up to \$8 million in the total value of the inventory (2/3rds of current inventory levels). These monies could be put to other uses by the program.

## Collection procedures for accounts receivable need to be enhanced

Vocational enterprises program personnel have not always effectively collected payment on old outstanding receivables. At March 20, 2001, the Departments of Revenue and Transportation owed a total of \$1.4 million for 120 or more days.

Audit staff contacted representatives from these agencies to determine why the payments had not been made. Within a few days, the disputes or misunderstandings had been resolved for the majority of the transactions making up this balance. These results are shown in Table 3.3:

**Table 3.3: Change in 120-Day Past Due Accounts Receivable**

Agency	March 20, 2001	April 13, 2001	Decrease Amount	Percentage Decrease
	120 Days Past Due	120 Days Past Due		
Department of Revenue	\$ 1,278,502	\$ 261,915	\$ 1,016,587	80
Department of Transportation	<u>125,906</u>	<u>71,504</u>	<u>54,502</u>	43
Total	\$ <u>1,404,408</u>	\$ <u>333,419</u>	\$ <u>1,071,089</u>	76

Source: Vocational enterprises program aged accounts receivable reports

The normal procedure for following-up on past due accounts requires accounts receivable staff at vocational enterprises to inquire about the overdue bill. Vocational enterprises officials indicated both departments discussed in the above table generally paid bills timely. As a result, the delay of payment should have prompted officials to determine what was wrong. In instances in which the purchasing agency continues to delay payment, the delinquency should be reported to higher-level officials for action.

## Sign shop future in question

The vocational enterprises program has not improved the technological capability of the sign shop and risks losing the limited amount of sales currently made to county and city highway departments and state agencies.

As noted in Issue 2, page 10, state law requires the Department of Transportation to purchase all signs from vocational enterprises. However, the Department of Transportation has established a sign shop with state-of-the-art equipment, which manufactures high visibility signs that meet pending federal highway sign guidelines. The vocational enterprises sign shop cannot currently produce products that will meet the new federal standards. Signs produced by the Department of Transportation have a useful life expectancy of 10 years while those produced by the vocational enterprises sign shop have an expected life of about 3 years. Over time, the Department of Transportation reduced purchases of signs made by the vocational enterprises program due to pricing, quality and other issues.

It will cost about \$150,000 to purchase new equipment necessary to allow the vocational enterprises program to produce signs that will comply with the new federal standards. To meet the quantity demand of the Department of Transportation, the sign shop would have to expand or possibly relocate to another prison. Therefore, while the law states that vocational enterprises

should be producing all signs, it would not be practical for this to occur. The Department of Transportation would have to substantially curtail the activity of the department's production facility while at the same time the vocational enterprises program would have to invest in new equipment and arrange for better facilities. However, it might be feasible for the vocational enterprises program to update the existing production facility so that it is capable of producing signs required by other state agencies and local governments and produce at least some of the sign needs of the Department of Transportation.

### **Factory operations are primarily at prisons with inmates having long-term sentences**

At March 2001, 844 of 1,528 (55 percent) inmates employed at vocational enterprises had either life sentences or more than 10 years remaining on their sentences. This results from:

- Factory managers primarily preferring employment of inmates with longer sentences.
- Most factories being based at higher security level prisons with fewer short-term inmates.

One of the mandates for the vocational enterprises program is to employ inmates in positions that teach job skills and work ethics, which could lead to improved job opportunities after release from prison.

According to vocational enterprises officials, employing inmates with longer sentences keeps them occupied while in prison and leads to improved product quality by allowing development of more advanced job skills. Because inmates with long-term sentences fill most of the vocational enterprises program jobs, there are fewer opportunities for inmates with 5 years or less remaining on their sentences to develop job skills prior to release. This situation could partially be resolved if Department of Corrections officials placed future prison industry facilities at lower security prisons, moved current operations where practical and gave priority to hiring inmates with less time on their sentences. Allowing more opportunities for the short-term prisoners could result in less repeat incarcerations, which is one of the goals of the vocational enterprises program.

Jobs go to  
prisoners with  
long-term  
sentences

### **Long-range business plan not developed**

The vocational enterprises program has not developed a long-range business plan. In June 1999, program officials volunteered to give the program's Advisory Board a 5-year business plan for strategic planning purposes. Vocational enterprises officials indicated that the significant changes related to the opening and pending opening of new prisons has delayed the formulation of this plan. Such a plan is necessary to help ensure the factories remain modernized, operations remain efficient and the program fulfills its mission.

## More civilian employees per inmate than most other states

The most current nationwide data from calendar year 1999<sup>2</sup> indicated that Missouri's prison industry ratio of the number of inmates employed to civilians employed, at 6.84 to 1, ranked 40<sup>th</sup> in the nation.

$$\frac{1,362 \text{ Inmates}}{199 \text{ Civilian manufacturing and administrative staff}} = 6.84$$

For this period, Missouri's prison industry program:

- Ranked 12<sup>th</sup> in gross sales at \$31.2 million.
- Ranked 33<sup>rd</sup> with 5.4 percent of all state prison inmates employed.

*(See Appendix V, page 25 for some statistics for all states.)*

The actual number of inmates employed is dependent upon the level of production considered necessary to fulfill sales demand. In April 2001, the program employed 1,552 inmates and 220 civilians. The ratio of inmates to civilian employees had improved to 7.05 to 1, but is still low. The program's civilian employees include management, supervisory, and support staff positions. The ratio for Missouri's program indicates a need to evaluate the duties and responsibilities for the various management levels and support staff.

Workforce has more civilians than most states

## Recycled cartridge program

The vocational enterprises' recycled cartridge program remains underutilized by state agencies because:

- State agency personnel were concerned about product quality due to many problems when the program started in the mid 1990s.
- The vocational enterprises product catalog (until recently) did not include this program as an available service.
- State agency personnel attributed most cartridge failures to vocational enterprises products even though many failures came from other sources.
- Agency success with the program has not been adequately marketed. For example the Department of Social Services estimates annual savings of \$200,000 using vocational enterprises cartridges.

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<sup>2</sup> Obtained from 2000 Correctional Industries Association Directory published by the Correctional Industries Association, Inc.

At our suggestion, cartridge program personnel assigned identification stickers to the program’s products and tracked cartridge failure rates. For the period November 2000 to February 2001, the product failure rate was 1.3 percent. These initiatives should help resolve the concerns of the state agency personnel. Vocational enterprises could promote the program by reporting the results of the cartridge failure study along with potential savings to state purchasing agents.

**Customers are not regularly surveyed**

Vocational enterprises management relies primarily on feedback from complaints received on an individual basis to assess product concerns and other customer issues. Formal customer surveys have not been done. In order to evaluate customer satisfaction with program products and services, we sent a questionnaire to 29 purchasing agents of state agencies and elected officials since these customers represent approximately 75 percent of program sales. Twenty-four agents responded. The survey asked agents to:

- Rate the program on a scale of 1 (low) to 10 (high) for various issues.
- Rate product quality.
- Provide reasons (more than one possible) why agents chose other vendors.
- Rank the ability to obtain a waiver to purchase from other vendors.

Table 3.4 shows the average rating, based on a scale of 10, given by the respondents.

**Table 3.4: Agency Rating for Various Issues**

Issue	Average Rating
Vendor warranty of goods	7.8
Accuracy of invoices and monthly billing statements	7.6
Quality of goods and services	7.4
Adequacy of the selection of goods	7.0
Completeness and ease of use of product catalog	6.7
Complexity of the administrative process required to make a purchase	6.6
Regular contact by the vendor sales representative	6.4
Price of goods and services	6.2
Delivery time from date of order	6.1
<b>Overall rating as a vendor</b>	<b>7.1</b>

Source: Agency survey responses

These results indicate general satisfaction (ranging from 60 to almost 80 percent) with the vocational enterprises operations and the products offered. While there is room for improvement in customer satisfaction, these results could serve as a baseline for vocational enterprises to set goals and measures, and to conduct future surveys for comparison purposes.

Table 3.5 shows the summary results of reasons for not purchasing from vocational enterprises provided by the 24 purchasing agents who responded to the survey.

**Table 3.5: Reason Other Vendors Were Used**

<b>Reason</b>	<b>Number Citing Reason</b>	<b>Percent</b>
Delivery time	17	70.9
Price	11	45.9
Product quality	7	29.2
Minimum order quantity too large	3	12.5
Product selection	2	8.4

Source: Agency survey responses

These results emphasize the value of customer satisfaction surveys. The responses clearly show that delivery time is a concern to the agencies. Vocational enterprises management can use such surveys to pinpoint problems and develop remedies. Resolving the problems could lead to increased sales.

Twenty-nine percent of the respondents cited product quality as a reason for using other vendors. Table 3.6 summarizes the views of the respondents who chose to rate product quality. The responses show general satisfaction with the quality of most products.

**Table 3.6: Agency Assessment of Program Products**

<b>Product Line</b>	<b>Agencies Using Product Line</b>	<b>Agencies Rating Products As</b>	
		<b>Good</b>	<b>Needs Improvement</b>
Wood Furniture	22	12	5
Chairs and Seating	22	15	4
Printing Services	22	10	3
Metal Furniture and Files	20	7	6
Modular Office Systems	18	6	3
Engraved Products and Frames	17	5	0
Furniture Restoration	14	5	1
Decals, Stickers, Labels	13	4	1
Signs	12	3	1
Chemical Products	7	1	3
Recycled Printer Cartridges	6	3	3
Clothing and Bedding	5	0	1
Data Entry Services	4	1	0
Waste Tire Recycling	2	0	0

Source: Agency survey responses

Fourteen of 21 (66 percent) responding agents indicated it was not difficult, easy, or very easy to obtain a waiver from vocational enterprises to allow the agents to purchase from other vendors. Vocational enterprises officials have received the survey results.

## **Conclusions**

Vocational enterprises officials may increase program sales by making the improvements noted. A business plan and periodic customer satisfaction surveys would give them tools to evaluate program performance and identify areas needing management attention.

## **Recommendations**

We recommend the Director, Department of Corrections:

- 3.1 Develop additional controls over vocational enterprises factory inventory levels to limit program assets being used in this area.
- 3.2 Initiate additional collection procedures in instances where program accounts receivables are outstanding a significant period of time.
- 3.3 Consider modernization of the sign shop and work with the Department of Transportation to supply at least some of the sign needs of the department.
- 3.4 Continue to identify industries that could be placed in or moved to institutions housing inmates with less time on their sentences so those inmates receive more opportunities to participate in the program.
- 3.5 Prepare a 5-year vocational enterprises program business plan for strategic planning purposes.
- 3.6 Evaluate the number of civilian employees on the vocational enterprises staff and make any changes considered necessary.
- 3.7 Enhance the marketing efforts for the toner cartridge recycling program.
- 3.8 Conduct periodic vocational enterprises customer surveys and incorporate the results of those surveys into long-term business planning.

## **Department of Corrections Comments:**

- 3.1 *The Department concurs with this recommendation. MVE has developed a plan to reduce its raw materials inventory by approximately \$2,000,000 through the production of finished goods. Additional controls will be developed to provide additional oversight of raw material inventory.*
- 3.2 *The Department concurs with the recommendation. MVE currently tracks aged accounts with the J.D. Edwards software that is used for their accounting purposes. MVE will establish a system of review of accounts receivables on a scheduled basis and notify customers of delinquent payments.*

- 3.3 *The Department notes the recommendation, but MVE's current financial position restricts significant investments in additional production equipment. We note that the Department of Transportation has already invested in this technology. MVE will initiate contact with the Department of Transportation to identify areas where MVE might serve their needs more effectively.*
- 3.4 *The Department concurs with the recommendation and acknowledges the need to provide additional vocational skill development opportunities for low custody and short term sentenced offenders. MVE moved its shoe manufacturing industry from the high custody level Jefferson City Correctional Center to the lower custody level Central Missouri Correctional Center on September 4, 2001. The department is presently examining additional opportunities for relocation of existing industries and services to newer and lower custody correctional centers.*
- 3.5 *The Department notes this recommendation and is in the process of evaluating the location and type of services and industries located at each of its correctional centers. The department has opened a new facility each of the last two years, and has plans to replace one facility and open another within the next three years. The change in available industry space, offender custody level by facility, and specific time frame for additional facilities will be included in this review.*
- 3.6 *The Department notes this recommendation. The Department continually evaluates each vacancy that occurs to determine whether filling the position is necessary to the effective and efficient operation of the Department.*

*The Department would like to point out that it is difficult to compare the staffing pattern of civilian employees in any specific state's Prison Industry to any other specific state's staffing pattern. The number of civilian custody and production staff employed varies based upon: the number of industries or services provided, the number of institutions at which industries or services operate, the composition of the inmate work force employed, and the architecture of the buildings in which industries or services are provided.*

- 3.7 *The Department notes the annual cost savings gained by Department of Social Services through the use of vocational enterprise cartridges. This information will be incorporated in future marketing of this product.*
- 3.8 *The Department notes this finding. MVE is currently exploring the possibility of adding a customer satisfaction form to their CD catalog and web site. This would allow agencies to comment on service, delivery and product quality at any time during the calendar year and not only when they receive a product.*

**OBJECTIVES, SCOPE AND METHODOLOGY**

**Objectives**

The objectives of this audit were to evaluate (1) whether the vocational enterprises program fulfills its statutory mandate, (2) state agency compliance with the state's purchasing laws related to the program, (3) state agency satisfaction with the program's goods and services, (4) the program's financial condition and management practices and (5) how Missouri's program compared to similar programs in other states.

**Scope and Methodology**

Auditors conducted work between January and August 2001. The audit included:

- Review of applicable state statutes and policies and procedures related to the vocational enterprises program and state purchasing laws.
- Discussion with officials of the program, the Department of Corrections, the Office of Administration, the Attorney General's Office, and various other state agencies and local governments regarding state purchasing law and purchasing practices.
- Discussion with program officials in several other states.
- A survey of purchasing agents for state agencies and elected officials.
- Review of inmate data from the Department of Corrections inmate tracking system related to vocational education and employment in the program.
- Review of state agency expenditure and purchase order records from the state's centralized accounting system.
- Review of records in the statewide personnel reporting systems.
- Review of financial records of the vocational enterprises program.
- Review of the 2000 Correctional Industries Association Directory which included various state fiscal year 1999 financial and program information for the prison industry programs for all states.

**BACKGROUND**

Established under Sections 217.550 through 217.595, RSMo 2000, the Missouri vocational enterprises program employs inmates within the state's prison system. The program is under the oversight of the Director of the Department of Corrections. The program receives guidance from an Advisory Board and the Joint Legislative Committee on Corrections. The primary goals of the program are to increase the work and training opportunities of inmates and to manufacture or provide such goods or services as are, or may be, needed and used by state departments, agencies, institutions or political subdivisions; any state employee; or any not-for-profit public or private agency.

The program's financial activity is accounted for exclusively through the state's Working Capital Revolving Fund. Until 1982, legislation required a portion of the program's earnings to be transferred to the General Revenue Fund. Since 1982, all earnings are now to remain in the Working Capital Revolving Fund. The profits from the sales of goods and services are to be used to develop new products and create expanded vocational training opportunities. In fiscal year 1994, the program began supporting some expenses of the Department of Corrections vocational training program and in fiscal year 2001 began paying the salaries and benefits of the vocational training staff.

Vocational enterprises program products include wooden office furniture, modular office systems, chairs, license plates, signs, clothing, chemical products and metal office and institutional furniture. The program also provides laundry, dry cleaning, data entry, printing, printer cartridge recycling, waste tire recycling and furniture restoration services. Approximately 75 percent of sales are to state agencies. Many cities, counties, school districts, state colleges and other political subdivisions also purchase some goods from the program. In 1994, the program received the authority to sell its products and services to non-profit organizations, state employees, and to private sector contractors leasing buildings to state agencies.

**APPENDIX III**

**MISSOURI VOCATIONAL ENTERPRISES  
INCOME STATEMENT  
FIVE YEARS ENDED JUNE 30, 2001**

	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Revenue</b>					
Sales-Regular	\$ 25,608,995	29,184,122	28,440,278	34,557,950	33,973,874
Sales-Interdepartmental	1,463,604	1,542,929	2,219,156	1,208,294	1,167,384
Other	759,173	771,618	543,999	501,790	414,687
Total Revenue	<u>27,831,772</u>	<u>31,498,669</u>	<u>31,203,433</u>	<u>36,268,034</u>	<u>35,555,945</u>
<b>Cost of Goods Sold</b>					
Material	12,888,188	14,351,349	15,271,754	18,287,475	18,330,080
Inmate Labor	1,342,693	1,435,541	1,286,946	1,352,543	1,219,387
Manufacturing Overhead	2,938,629	2,048,578	1,703,571	948,786	391,701
Freight	(20,950)	35,877	55,173	43,392	32,257
Subtotal	17,148,560	17,871,345	18,317,444	20,632,196	19,973,425
Physical Inventory Adjustment	(250,289)	663,722	(206,788)	(71,539)	(303,370)
Adjustment of Standard to Actual Costing	(2,820,612)	(2,385,831)	(1,757,918)	(945,551)	(332,183)
Total Cost of Goods Sold	<u>14,077,659</u>	<u>16,149,236</u>	<u>16,352,738</u>	<u>19,615,106</u>	<u>19,337,872</u>
<b>Gross Profit Margin</b>	13,754,113	15,349,433	14,850,695	16,652,928	16,218,073
<b>Expenses</b>					
Salaries and Wages	8,100,158	6,153,236	5,681,703	5,292,203	4,785,280
Benefits	2,513,393	1,769,104	1,609,967	1,356,198	1,254,173
Other	8,200,607	5,608,670	5,857,992	4,966,917	4,688,452
Total Expenses	<u>18,814,158</u>	<u>13,531,010</u>	<u>13,149,662</u>	<u>11,615,318</u>	<u>10,727,905</u>
<b>Net Profit (Loss)</b>	<u>\$ (5,060,045)</u>	<u>1,818,423</u>	<u>1,701,033</u>	<u>5,037,610</u>	<u>5,490,168</u>

Source: Vocational enterprises, JD Edwards cost accounting system

**APPENDIX IV**

**MISSOURI VOCATIONAL ENTERPRISES  
BALANCE SHEET  
FIVE YEARS ENDED JUNE 30, 2001**

	<b>2001</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>
<b>Assets</b>					
Current Assets					
Cash	\$ 7,998,419	5,533,667	9,639,253	13,972,619	9,548,177
Accounts Receivable	3,071,832	10,811,829	7,696,550	7,668,527	9,951,562
Inventory	11,796,596	12,206,481	11,592,637	8,169,007	7,467,236
Total Current Assets	<u>22,866,847</u>	<u>28,551,977</u>	<u>28,928,440</u>	<u>29,810,153</u>	<u>26,966,975</u>
Fixed Assets					
Land and Improvements	102,953	102,953	102,953	102,953	102,953
Buildings	6,399,037	6,074,550	5,864,607	2,818,548	2,003,797
Accumulated Depreciation	(1,281,939)	(1,048,946)	(823,893)	(530,410)	(458,498)
Vehicles	3,219,979	3,194,329	2,973,055	2,326,044	1,901,776
Accumulated Depreciation	(2,681,662)	(2,358,784)	(2,026,484)	(1,389,875)	(1,205,496)
Office Equipment	3,371,489	2,910,413	2,643,199	2,075,167	1,817,228
Accumulated Depreciation	(2,158,784)	(1,749,123)	(1,386,337)	(1,218,741)	(1,021,619)
Technical Equipment	14,591,795	12,475,096	11,344,225	11,128,022	10,250,101
Accumulated Depreciation	(11,738,699)	(9,734,515)	(8,940,959)	(7,168,281)	(6,165,062)
Total Fixed Assets	<u>9,824,169</u>	<u>9,865,972</u>	<u>9,750,366</u>	<u>8,143,428</u>	<u>7,225,180</u>
Total Assets	<u>\$ 32,691,016</u>	<u>38,417,949</u>	<u>38,678,806</u>	<u>37,953,581</u>	<u>34,192,155</u>
<b>Liabilities and Fund Equity</b>					
Liabilities					
Accounts payable (net)	11,941	760,179	2,941,055	1,864,591	2,936,852
Accrued Payroll	585,207	192,340	126,711	133,579	114,762
Due to Component Units	338	(1,379)	954	564	3,117
Compensated Absences	449,598	449,598	449,598	449,598	449,598
Total Liabilities	<u>1,047,084</u>	<u>1,400,738</u>	<u>3,518,318</u>	<u>2,448,332</u>	<u>3,504,329</u>
Obligations Lease/Purchase	92,400	138,600	0	0	0
Equity					
Retained Earnings-Beginning	36,878,611	35,160,488	35,505,249	30,687,826	25,448,620
Prior Period Restatement	(267,034)	(100,300)	(2,045,794)	(220,187)	(250,962)
Retained Earnings-Ending	36,611,577	35,060,188	33,459,455	30,467,639	25,197,658
Net income (loss)	(5,060,045)	1,818,423	1,701,033	5,037,610	5,490,168
Total Equity	<u>31,551,532</u>	<u>36,878,611</u>	<u>35,160,488</u>	<u>35,505,249</u>	<u>30,687,826</u>
Total Liabilities & Equity	<u>\$ 32,691,016</u>	<u>38,417,949</u>	<u>38,678,806</u>	<u>37,953,581</u>	<u>34,192,155</u>

Source: Vocational enterprises, JD Edwards cost accounting system

## APPENDIX V

### MISSOURI VOCATIONAL ENTERPRISES NATIONAL PRISON INDUSTRY STATISTICS 1999 STATE FISCAL YEAR 1999

STATE	NUMBER OF		% OF	RANK	NUMBER OF		GROSS SALES PER			RATIO OF	
	CORRECTIONAL POPULATION	INMATES EMPLOYED	INMATE POPULATION EMPLOYED		CIVILIAN STAFF	GROSS SALES	RANK	EMPLOYEE	RANK	EMPLOYED	RANK
Alabama	25,153	635	2.5%	48	98	\$ 14,000,000	27	\$ 142,857	35	6.48	42
Alaska	2,641	169	6.4%	26	18	3,337,442	42	185,413	18	9.39	26
Arizona	25,782	1,473	5.7%	28	79	16,898,580	24	213,906	10	18.65	2
Arkansas	12,200	560	4.6%	36	54	5,851,910	35	108,369	43	10.37	20
California**	168,973	6,771	4.0%	40	690	153,858,550	1	222,983	7	9.81	23
Colorado	15,640	1,230	7.9%	18	160	30,053,565	14	187,835	15	7.69	34
Connecticut	Not Provided	432	*	*	33	6,279,164	33	190,278	14	13.09	13
Delaware	5,800	174	3.0%	46	15	789,220	48	52,615	48	11.60	17
Florida	68,599	2,534	3.7%	41	351	81,220,000	3	231,396	2	7.22	39
Georgia	37,951	1,400	3.7%	42	170	30,053,000	13	179,412	19	8.24	31
Hawaii	3,531	400	11.3%	9	27	6,096,715	34	225,804	5	14.81	8
Idaho	4,000	413	10.3%	10	40	6,860,740	32	171,519	24	10.33	21
Illinois	44,910	1,582	3.5%	44	215	52,489,000	6	244,135	1	7.36	38
Indiana	19,214	1,536	8.0%	17	190	29,373,546	16	154,598	31	8.08	32
Iowa	7,520	420	5.6%	31	84	15,000,000	25	178,571	21	5.00	47
Kansas	8,707	675	7.8%	21	67	10,628,640	31	158,636	28	10.07	22
Kentucky	8,825	721	8.2%	16	74	12,400,000	28	167,568	25	9.74	24
Louisiana	18,714	820	4.4%	38	95	21,061,190	19	221,697	8	8.63	28
Maine	1,656	127	7.7%	22	17	1,309,001	47	77,000	47	7.47	37
Maryland	22,918	1,309	5.7%	29	157	35,750,429	8	227,710	4	8.34	29
Massachusetts	10,100	482	4.8%	35	63	11,764,820	30	186,743	16	7.65	35
Michigan	42,844	1,362	3.2%	45	165	34,352,837	11	208,199	11	8.25	30
Minnesota	5,927	853	14.4%	5	157	18,469,399	22	117,639	41	5.43	46
Mississippi	17,908	325	1.8%	49	29	4,117,796	40	141,993	36	11.21	18
Missouri	25,368	1,362	5.4%	33	199	31,203,432	12	156,801	29	6.84	40
Montana***	2,070	310	15.0%	4	41	5,500,000	37	134,146	38	7.56	36
Nebraska	4,112	535	13.0%	6	41	Not Provided	*	*	*	13.05	14
Nevada	9,500	389	4.1%	39	21	3,920,000	41	186,667	17	18.52	3
New Hampshire	2,342	376	16.1%	2	23	2,500,000	45	108,696	42	16.35	6
New Jersey	31,268	2,704	8.6%	15	174	17,057,233	23	98,030	46	15.54	7
New Mexico	5,204	491	9.4%	13	36	5,018,170	39	139,394	37	13.64	11
New York	71,736	2,597	3.6%	43	397	71,054,000	5	178,977	20	6.54	41
North Carolina	31,517	2,278	7.2%	24	390	74,322,549	4	190,571	13	5.84	44
North Dakota	980	124	12.7%	7	28	2,906,596	43	103,807	45	4.43	50
Ohio	46,500	3,000	6.5%	25	235	38,500,000	7	163,830	26	12.77	16
Oklahoma	22,170	1,350	6.1%	27	100	14,415,000	26	144,150	34	13.50	12
Oregon	9,388	731	7.8%	20	94	21,612,957	18	229,925	3	7.78	33
Pennsylvania	35,980	1,831	5.1%	34	169	34,392,914	10	203,508	12	10.83	19
Rhode Island	3,420	350	10.2%	11	24	5,400,000	38	225,000	6	14.58	9
South Carolina	20,830	1,922	9.2%	14	113	19,986,784	21	176,874	22	17.01	5
South Dakota***	2,385	230	9.6%	12	13	2,000,000	46	153,846	32	17.69	4
Tennessee	16,871	906	5.4%	32	145	22,500,000	17	155,172	30	6.25	43
Texas	148,900	6,657	4.5%	37	520	83,548,000	2	160,669	27	12.80	15
Utah	5,600	868	15.5%	3	92	12,323,141	29	133,947	39	9.43	25
Vermont	1,640	120	7.3%	23	22	2,698,800	44	122,673	40	5.45	45
Virginia	25,000	1,400	5.6%	30	158	34,753,108	9	219,956	9	8.86	27
Washington	13,222	2,358	17.8%	1	171	29,990,000	15	175,380	23	13.79	10
West Virginia	3,016	236	7.8%	19	53	5,597,109	36	105,606	44	4.45	49
Wisconsin	19,832	594	3.0%	47	132	20,260,377	20	153,488	33	4.50	48
Wyoming	920	105	11.4%	8	5	Not Provided	*	*	*	21.00	1
National average	23,251	1,205	7.5%		129	\$ 24,248,390		\$ 167,041		10.28	

\* Could not be computed

\*\* Includes California Joint Ventures and California Youth Authority

\*\*\* Gross sales 1998

Source: 2000 Correctional Industries Association Directory

**STATE AGENCY RESPONSES TO FACTS IN THE REPORT**

Although the recommendations were directed to the Department of Corrections, the Office of the State Public Defender and the State Lottery Commission provided the following responses addressing the facts presented in the report.

**Office of the State Public Defender**

*Thank you for the opportunity to respond to your audit comments regarding the Missouri Vocational Enterprise program. The Office of the State Public Defender supports complete compliance with RSMo 217.575. This statute allows the vocational enterprises program to fix its prices for goods and services and provides, in part, “The cost shall not be fixed at more than the market price for like goods and services.” (RSMo 217.575.4)*

*When we have found the price fixed by vocational enterprises violates RSMo 217.575.4, we have given them the opportunity to comply with the statute. Bidding in the open market gives them this opportunity without the inherent delays of arbitration. When the vocational enterprises program brought their prices into statutory compliance, either by successful bid or voluntary reduction, we purchased their goods. When they do not, we secure the best goods at the best price.*

*The legislature surely intended departments to secure the best goods at the best price, or it would not have included the above-cited language. Otherwise, departments of state government could end up subsidizing the excesses or inefficiencies of vocational enterprises. Tax dollars would be wasted as departments spent more than necessary for goods or services. Private businesses could not compete, even if they had superior products at better prices. Had the legislature intended departments to buy vocational enterprises products regardless of price, it would have said so.*

*In the future, our department will address our differences with the vocational enterprises program in the manner called for in the statute. We will avail ourselves to the arbitration provisions of RSMo 217.575.5 when necessary. Of course, if the prices fixed are in statutory compliance, it won't be necessary.*

**State Lottery Commission**

*Missouri Vocational Enterprises (MVE) agreed to submit a bid on office cubicle systems without any coercion or ultimatums of any sort from the Missouri Lottery (ML). The issue of MVE bidding on office cubicle systems came up in a planning meeting. Their representatives said they had a quality product that they would be happy to bid in an open procurement with private vendors.*

## APPENDIX VI

*In addition, the Lottery has an Attorney General's letter indicating that the ML did not have to use MVE based on specific statutory requirements in its enabling legislation. RSM. Rev. Statutes 1994, Section 313.270.*

*Lastly, the ML has utilized MVE on 31 occasions since fiscal year 1999 and has not requested MVE to submit bids on these purchases or any other purchases since the office system procurement.*