

MEMORANDUM

TO: Members of the Joint Budget Committee

FROM: Steve Allen, JBC Staff, 303-866-4961

SUBJECT: Lost Request for Audit of Colorado Correctional Industries

DATE: April 8, 2013

During the 2012 session, the JBC voted to request an audit of Colorado Correctional Industries (CCI) by the Office of the State Auditor. A copy of the signed letter requesting this audit is attached to this memo. This copy of the request was found in the official files of the JBC.

During 2013 figure setting for the Department of Corrections, Senator Lambert asked about the status of this audit request. Staff called the State Auditor to investigate and discovered that the auditor's office knows nothing about the audit. The auditor's office cannot recall receiving a request and has no copy of a request letter in its files.

Staff talked to other JBC staff members and to the State Auditor about this situation, but is unable to determine what went wrong.

Staff talked to the State Auditor about the best way to fix this problem and the Auditor recommends that the JBC send a new request to the Audit Committee; the new request would replace the one-year-old request.

Staff has prepared a new request letter, which is attached to this memo. The letter is very similar to the letter that the JBC approved during the 2012 session, the key difference being the change of chairs at the Audit Committee and the JBC.

STATE OF COLORADO

REPRESENTATIVES

Cheri Gerou, Chair
Jon Becker
Claire Levy

SENATORS

Mary Hodge, Vice-Chair
Pat Steadman
Kent Lambert

**STAFF DIRECTOR**

John Ziegler

JOINT BUDGET COMMITTEE

200 East 14th Avenue, 3rd Floor
LEGISLATIVE SERVICES BUILDING
Denver, CO 80203
Telephone 303-866-2061
www.state.co.us/gov_dir/leg_dir/jbc/jbchome.htm

April 03, 2012

Representative Cindy Acree, Chair
Legislative Audit Committee
200 East 14th Avenue
Denver, Colorado 80203

Dear Representative Acree,

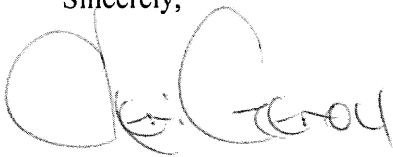
The Joint Budget Committee requests a performance and financial audit of Colorado Correctional Industries (CCI), which is a division of the Department of Corrections. We make this request out of concern that CCI is not operating its industries on a "thorough-going business basis" as required by Section 17-24-113, C.R.S., and in a sufficiently "profit oriented" fashion as required by Section 17-24-106 (a), C.R.S. We are also concerned that CCI is not taking adequate account of the effect of its competition on similar industries already established in the state, as required by Section 17-24-104 (3) (a), C.R.S.

Our concern that CCI is not operating on a sufficiently profit-oriented, thorough-going business basis is founded on the low rate of return on assets that CCI has earned in recent years. In the past 3 years, CCI's operating income has equaled only about 1 to 2 percent of total assets. This persistently low rate of return could mean that CCI is pricing its goods too low, in violation of Section 17-24-112, C.R.S., that it is making unsound business decisions when it decides which services and products to produce, that it is paying salaries and benefits to its non-inmate employees that are out of line with its private-sector competitors, or that it is inefficiently managed and run. Section 17-24-106 (a), C.R.S., states that CCI should seek to "reimburse the general fund for the use of inmate labor for the expense of adult correctional services." We are concerned that the General Fund and taxpayers are not receiving the full benefits that CCI is capable of producing.

We request that you gather detailed performance and financial data to determine if CCI operations are providing the maximum offset of general fund expenditures. In addition, we ask you to evaluate CCI financial record keeping practices to determine whether they are adequate and are consistent with all relevant state laws and regulations.

We greatly appreciate your consideration of this request.

Sincerely,

A handwritten signature in black ink, appearing to read "Cheri Gerou". The signature is written in a cursive, somewhat stylized font.

Cheri Gerou, Chair
Joint Budget Committee

STATE OF COLORADO

SENATORS

Pat Steadman, Chair
Mary Hodge
Kent Lambert

REPRESENTATIVES

Claire Levy, Vice-Chair
Crisanta Duran
Cheri Gerou



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April 8, 2013

Representative Angela Williams, Chair
Legislative Audit Committee
200 East 14th Avenue
Denver, Colorado 80203

Dear Representative Williams,

The Joint Budget Committee requests a performance and financial audit of Colorado Correctional Industries (CCI), which is a division of the Department of Corrections. We make this request out of concern that CCI is not operating its industries on a "thorough-going business basis" as required by Section 17-24-113 (2), C.R.S., and in a sufficiently "profit oriented" fashion as required by Section 17-24-106 (1) (a), C.R.S. We are also concerned that CCI is not taking adequate account of the effect of its competition on similar industries already established in the state, as required by Section 17-24-104 (3) (a), C.R.S.

Our concern that CCI is not operating on a sufficiently profit-oriented, thorough-going business basis is founded on the low rate of return on assets that CCI has earned in recent years. In the past 3 years, CCI's operating income has equaled only about 1 to 2 percent of total assets. This persistently low rate of return could mean that CCI is pricing its goods too low, in violation of Section 17-24-112, C.R.S., that it is making unsound business decisions when it decides which services and products to produce, that it is paying salaries and benefits to its non-inmate employees that are out of line with its private-sector competitors, or that it is inefficiently managed and run. Section 17-24-106 (a), C.R.S., states that CCI should seek to "partly reimburse the general fund for the use of inmate labor for the expense of adult correctional services." We are concerned that the General Fund and taxpayers are not receiving the full benefits that CCI is capable of producing.

We request that you gather detailed performance and financial data to determine if CCI operations are providing the maximum offset of general fund expenditures. In addition, we ask you to evaluate CCI financial record keeping practices to determine whether they are adequate and are consistent with all relevant state laws and regulations.

We greatly appreciate your consideration of this request.

Sincerely,

Senator Pat Steadman, Chair
Joint Budget Committee