



COLORADO
Department of Corrections
Office of the Executive Director

Rick Raemisch | Executive Director
2862 S. Circle Drive
Colorado Springs, CO 80906
P 719.226.4701 F 719.226.4728
DOC_ExecutiveDirector@state.co.us

August 7, 2015

Dianne E. Ray, CPA
State Auditor
Colorado Office of the State Auditor
1525 Sherman St., 7th Floor
Denver, CO 80203

Dear Auditor Ray:

In response to your request, we have prepared an updated status report regarding the implementation of audit recommendations contained in the January 2015, Colorado Correctional Industries performance audit. The attached report provides a brief explanation of the actions taken by the Department of Corrections to implement each recommendation.

If you have any questions, please do not hesitate to contact me at (719) 226-4701 or by email rick.raemisch@state.co.us.

Sincerely,

A handwritten signature in black ink that reads "Rick Raemisch".

Rick Raemisch
Executive Director



AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Colorado Correctional Industries

AUDIT NUMBER: 1350P

DEPARTMENT: Department of Corrections

DATE OF STATUS REPORT: 08/07/2015

SUMMARY INFORMATION

Rec. Number	Agency's Response	Original Implementation Date	Implementation Status	Revised Implementation Date (If applicable)
1a	Agree	September 2015	Implemented	
1b	Agree	December 2015	Partially Implemented	July 2016
1c	Agree	December 2015	Not Implemented	July 2016
1d	Agree	December 2015	Not Implemented	
2a	Agree	December 2015	Not Implemented	
2b	Agree	March 2015	Implemented	
2c	Agree	June 2015	Implemented	
2d	Agree	June 2015	Implemented and Ongoing	
2e	Agree	March 2015	Implemented	
3a	Agree	July 2016	Partially Implemented	
3b	Agree	April 2015	Implemented and Ongoing	
4a	Agree	April 2015	Implemented and Ongoing	
4b	Agree	July 2015	Implemented and Ongoing	
5a	Agree	April 2015	Implemented	
5b	Agree	May 2016	Not Implemented	
6a	Agree	July 2015	Partially Implemented	July 2016
6b	Agree	July 2016	Not Implemented	
6c	Agree	July 2015	Not Implemented	July 2016
7a	Partially Agree	February 2016	Implemented	
7b	Partially Agree	February 2015	Implemented and Ongoing	
8a	Agree	July 2016	Not Implemented	
8b	Agree	December 2016	Not Implemented	

DETAIL OF IMPLEMENTATION STATUS

Note: The Department agreed with all of the audit recommendations with the exception of Recommendation No. 7 with which it partially agreed.

Recommendation No. 1:

The Division of Correctional Industries (CCI) should improve its management of the financial performance of its industries operations by:

- A. Establishing long-term profitability targets and strategies to meet them, methods for incorporating such targets and strategies into the annual financial plans for each shop, and procedures for regularly evaluating profitability to assess performance and develop strategies to improve.

Current Implementation Status for Rec. 1, part a: Implemented.

Agency's Update: A policy review team established Administrative Regulation (AR 450-10) to provide guidelines for developing, implementing and monitoring CCI business operations. That policy calls for establishment of profitability targets, enterprise accounting, employment targets and requires adjustment if targets are not achieved. Corrective plans are required when targets are not in line with the business plan. Business plans are reviewed quarterly.

- B. Developing processes and quantifiable metrics for evaluating all benefits that shops provide to the State, including profits, cost savings, and other non-financial benefits; incorporating these processes and metrics into CCI's operational policies that require an annual shop-level financial review; and enforcing the policy requiring unprofitable shops to develop written business plans, including corrective actions, to improve performance.

Current Implementation Status for Rec. 1, part b: Partially Implemented.

Agency's Update: The OSA recommendation to develop metrics for assessing the value of unprofitable shops and determining why shops that lose money would stay open has been a challenging process since there are individual considerations for each unprofitable shop. From the recommendation, a spreadsheet was created with a formula applied to every shop that determines whether the shop loss calculated by the OSA is higher or lower than the lost benefit to state taxpayers. In addition, specific notable issues were identified for each shop that might further demonstrate value to either the state or to the DOC. CCI is continuing work on how best to quantify many of these but the initial effort is in place and will be utilized to evaluate business performance in the current year. The lack of available data and the degree of complexity will delay full implementation by the targeted date. The Division believes that this process will be dynamic and change as the business climate and correctional needs change.

- C. Adjusting accounting practices to independently track the finances of each major business, service, and product line or category within the shops and to allocate overhead costs to each shop in quarterly profit-and-loss statements that management uses to evaluate performance.

Current Implementation Status for Rec. 1, part c: Not Implemented.

Agency's Update: CCI has not been able to do a comprehensive budget review in fiscal year 14/15 because reportable data from the State accounting system (CORE) is not yet available. CCI is moving forward working our existing enterprise accounting program (Global Shop) to enhance our ability to provide better reporting. CCI has arranged a consulting meeting on August 12, 2015 to discuss program capability, cost, future usage, and Return on Investment with the same company. The full implementation will be delayed, and will not meet the initial anticipated implementation date. The full implementation will be delayed, and will not meet the initial anticipated implementation date.

- D. Based on the processes outlined in PARTS A through C, making changes necessary to ensure that shops operate in a cost effective manner and closing or repurposing shops that do not provide benefits to the State that outweigh their costs.

Current Implementation Status for Rec. 1, part d: Not Implemented.

Agency's Update: As financial information becomes available, whether through CORE or via CCI's own shop level information, decisions about on-going operational viability of each program will be evaluated per existing policy.

Recommendation No. 2:

The Department of Corrections (Department) should ensure that the Division of Correctional Industries (CCI) operates as a financially independent entity and that its operational expenses are funded solely by its business activities by:

- A. Developing a written policy to clearly define the Department and CCI's financial responsibilities in a manner that ensures that CCI operates as a financially independent entity.

Current Implementation Status for Rec. 2, part a: Not Implemented.

Agency's Update: This policy will be developed after all areas of financial responsibility have been identified as either CCI or the CDOC. Meetings continue, and areas are actively being identified. Working group has identified areas of concern noting the highest priority first so the most benefit can be achieved in the shortest amount of time. There have been discussions on how CCI will be able to endure additional costs. The Agency will have this policy implemented by original implementation date.

- B. Amending the written agreement between CCI and the Division of Education for training programs to ensure that all payments provided under the agreement are for clearly defined training programs that CCI would not otherwise provide.

Current Implementation Status for Rec. 2, part b: Implemented.

Agency's Update: New Contract has been agreed upon by CCI and DOE and is actively being used. Contract language calls for specific training opportunities, apprenticeships, certificates and college credit that are provided to the offender workforce.

- C. Implementing contract monitoring procedures for the agreement between CCI and the Division of Education to ensure that funding amounts align with actual costs for training programs and that CCI provides agreed-upon, measurable deliverables before receiving payments on invoices.

Current Implementation Status for Rec. 2, part c: Implemented.

Agency's Update: New training plans and tracking has been developed and placed into service. Specific deliverables have been identified, a value has been established based upon comparable private sector values, and must be documented prior to payment.

- D. Implementing procedures to ensure that CCI pays or reimburses the Department for all CCI expenses, including for utilities and capital investments, such as water rights acquisitions and improvements to land.

Current Implementation Status for Rec. 2, part d: Implemented and Ongoing.

Agency's Update: Operational changes to the Utility allocation formula have been made and implemented for the current fiscal year. Any direct purchase of water rights or land improvement will be consistent with the SAO recommendation.

- E. Seeking guidance from the State Attorney General's Office on whether the current practice of using room-and-board deductions taken from the wages of inmates working in industries certified by the federal Prison Industries Enhancement Certification Program to fund CCI operations is consistent with state and federal law, notwithstanding the concerns raised in this report, and if necessary, changing its practice to comply with all applicable laws.

Current Implementation Status for Rec. 2, part e: Implemented.

Agency's Update: Beginning with FY16 all cost of incarceration deductions received from offenders in a Prison Industries Enhancement program will be collected and deposited into the General Fund.

Recommendation No. 3:

The Division of Correctional Industries (CCI) should improve its reporting practices by:

- A. Reporting all statutorily required information in its budget requests, annual reports, and financial reports. If CCI management believes that some of the required information is not necessary, it should clarify with policymakers who receive the reports what information is needed and seek legislative changes accordingly.

Current Implementation Status for Rec. 3, part a: Partially Implemented.

Agency's Update: CCI will include all statutorily required information in the Budget submittal for the Department of Corrections and financial information will be presented per statute as soon as the information becomes available from State's financial reporting system. CCI will not seek Legislative changes.

- B. Providing the Correctional Industries Advisory Committee (Advisory Committee) with information required by its policies, including information to evaluate proposed new industries and notice of major changes to existing operations, such as closures. In addition, CCI should provide the Advisory Committee with regular updates on each of its businesses and follow-up reports on approved business proposals and venture agreements.

Current Implementation Status for Rec. 3, part b: Implemented and Ongoing.

Agency's Update: A new business plan template was created. The plan was introduced on January 20, 2015 to the Advisory Board which was approved. Updates on existing operations and major changes are presented as they occur. Additional information per the recommendation has been and will continue to be provided at each Advisory Board meeting.

Recommendation No. 4:

The Division of Correctional Industries should ensure that its inmate pay plan is uniform and equitable by:

- A. Working with the Department of Corrections to modify its information system or developing an alternative method to capture average incentive pay and average daily or hourly wages paid to inmates in each shop.

Current Implementation Status for Rec. 4, part a: Implemented and Ongoing.

Agency's Update: All offender pay information is now being captured and monthly reports are being generated. Changes to the Department's Master Program Scheduling data will be made as the entire Offender Management System is developed but the information being gathered meets the needs identified in the recommendation. The Department is in the beginning stages of outlining the requirements of the new Offender Management System with the selected vendor.

- B. Implementing a policy and regular process for monitoring the average wages paid in each shop to ensure that actual wages are cost-effective and provide appropriate incentives to promote efficient production and inmate proficiency and that any variations between the wages paid by the shops are aligned with this goal.

Current Implementation Status for Rec. 4, part b: Implemented and Ongoing.

Agency's Update: All offender pay information is now being captured and monthly reports are being generated. The CCI Offender Pay Committee has utilized that data during the review of the annual incentive pay plans for each operation and this information will be included in quarterly reviews of all operations.

Recommendation No. 5:

The Department of Corrections (Department) and the Division of Correctional Industries (CCI) should ensure that they do not improperly compete with the private sector by:

- A. Including in all new CCI business plans and venture agreement proposals information analyzing the possible effect of the new business or agreement on private sector businesses in the state and providing such information to the Correctional Industries Advisory Committee to use in evaluating the proposals in accordance with statute.

Current Implementation Status for Rec. 5, part a: Implemented.

Agency's Update: A new business plan template was created and includes a section on impact of the new business on private sector business. The plan was introduced on January 20, 2015 to the Advisory Board which was approved. All submittals to the Advisory Board in March and July of 2015 have utilized that format.

- B. Working with the General Assembly to establish appropriate statutory authority and pricing guidelines for selling inmate-produced goods and services through the Department's vocational and educational training programs not currently administered by CCI or, alternatively, moving these programs into CCI.

Current Implementation Status for Rec. 5, part b: Not Implemented.

Agency's Update: The Department, in coordination with the Governor's office, is currently considering legislative proposals for the 2016 legislative session. For full implementation, this proposal would require passage by the General Assembly which would not be possible until 2016 at the earliest.

Recommendation No. 6:

The Division of Correctional Industries (CCI) should improve its management of the training programs offered to CCI-employed inmates by:

- A. Developing and annually updating strategic objectives, goals, and quantifiable performance measures for its training programs that are aligned with CCI's mission of providing inmates with meaningful job skills that will help them find employment upon release.

Current Implementation Status for Rec. 6, part a: Partially Implemented.

Agency's Update: The CCI entities that provide certified training opportunities, college credit, or apprenticeship opportunities have their goals clearly identified as a portion of their annual business plan. Those opportunities will be reviewed quarterly during the business plan review. The education plan identifies some objectives that can be developed into performance measures; the working group continues discussions on strategic objectives and development of quantifiable performance measures. The work on correlating the job market to a prison training and education setting has added a degree of complexity that has delayed full implementation by the targeted date.

- B. Monitoring training programs offered in CCI shops to assess performance toward the strategies and goals outlined in PART A. This should include centrally tracking information related to each training program, including the scope of training offered and inmate participation and completion data. CCI management should then use the information collected when making strategic decisions regarding its training programs.

Current Implementation Status for Rec. 6, part b: Not Implemented.

Agency's Update: Monthly reporting of participation in the many CCI programs that provide certified training, college credit, or apprenticeship opportunities is utilized to update each participating offender's transcript that is maintained by the CDOC Division of Education. As PART A is completed, monitoring and tracking mechanisms will be developed and implemented.

- C. Reporting strategic objectives, goals, and measures, as well as data showing its progress each year to policymakers, stakeholders, and the general public through the Department of Corrections' strategic plan or CCI's annual reports.

Current Implementation Status for Rec. 6, part c: Not Implemented.

Agency's Update: Discussions with CDOC Division of Education have brought to light the complexity of implementing this by July 2015. Work continues this fiscal year on the development of tracking data for goals and measures and will be a part of future annual reports.

Recommendation No. 7:

Note: The Department partially agreed with both parts of this recommendation, reporting that it was awaiting an FCC ruling that would clarify what costs it can properly recover through inmate phone system fees and that it believed that phone system revenues should continue to contribute to inmate benefits programs.

The Department of Corrections and the Division of Correctional Industries (CCI) should ensure that the rates charged for inmate phone services are reasonable and based on costs by:

- A. Renegotiating the contract with the inmate phone service provider to lower the calling rates so that they are based only on CCI and the phone service provider's costs for providing phone service and not on the need to fund unrelated expenses, such as inmate benefit programs.

Current Implementation Status for Rec.7, part a: Implemented.

Agency's Update: SB15-195 refinanced significant portions of areas that had been paid from profits from the Canteen & Library Fund and further directed the Department to not receive any commission from the phone system except as much as was necessary to pay for the calling cost and the direct and indirect costs of managing the calling system. A new agreement was executed August 1, 2015 that implements that statutory change and SB15-195 was effective August 5, 2015.

- B. Implementing a regular process for reviewing the contract with the inmate phone service provider to ensure that the calling rates continue to be reasonable, based on costs, and in compliance with state and federal laws.

Current Implementation Status for Rec.7, part b: Implemented and Ongoing.

Agency's Update: This new offender calling system agreement is evaluated annually and the provider's performance is reviewed.

Recommendation No. 8:

The Department of Corrections (Department) should ensure that physical plant and facility maintenance, vehicle maintenance, and food and laundry services are operated in a cost-effective manner and in accordance with statute by:

- A. Evaluating the cost-effectiveness of the current structure for administering these services as opposed to reassigning these services to the Division of Correctional Industries (CCI).

Current Implementation Status for Rec.8, part a: Not Implemented.

Agency's Update: The Department has determined that the evaluation would be studied in-house and that study will be completed during the current fiscal year.

- B. Depending on the results of its cost effectiveness study, either transferring responsibility for these services to CCI or seeking legislative change to allow for the division of responsibilities that the Department determines would be most beneficial to the State.

Current Implementation Status for Rec.8, part b: Not Implemented.

Agency's Update: The Department, in coordination with the Governor's office, is currently considering legislative proposals for the 2016 legislative session. For full implementation, this proposal would require passage by the General Assembly which would not be possible until 2016 at the earliest.
