



STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT

DEPARTMENT OF CORRECTIONS'
CORRECTIONAL INDUSTRIES PROGRAM

MAY 1994

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*To the Legislative Audit Commission, the
Speaker and Minority Leader of the House
of Representatives, the President and
Minority Leader of the Senate, the
members of the General Assembly, and the
Governor:*

This is our report of the Management Audit of the Department of Corrections' Correctional Industries Program. The audit was conducted pursuant to Legislative Audit Commission Resolution Number 99, which was adopted December 6, 1993.

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

A handwritten signature in black ink, appearing to read "W. G. Holland". The signature is stylized and includes a long, sweeping line extending upwards and to the right from the end of the name.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
May 1994



OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

REPORT DIGEST
Management Audit of the
DEPARTMENT OF CORRECTIONS'
CORRECTIONAL INDUSTRIES PROGRAM

SYNOPSIS

Correctional Industries produces goods and services using inmate labor for the Department of Corrections, other State agencies, not-for profit entities, and the private sector. In Fiscal Years 1993 and 1994 (as of December 31, 1993), we identified eight finished goods which Industries purchased for resale. These goods were underwear, gloves, milk, officer clothing, recycled oil, recycled antifreeze, remanufactured tires, and replacement broom handles.

We also found that:

- Industries' policies did not provide adequate guidance regarding the pricing of finished goods purchased and resold.
- On some finished goods purchased for resale, Industries charged up to 161 percent more than it paid for them; others were either not marked up or sold for less than Industries' purchase cost. The maximum gross profit generated from the resale of finished goods was about \$35,000 in Fiscal Year 1993.
- Some finished goods regularly produced by Industries, such as underwear and gloves, could be purchased off the open market at a cheaper price.
- The purchase and resale of finished goods is not explicitly included in Industries' statutory mandate; the General Assembly may wish to consider requiring that Industries include information on finished goods purchased and resold in its annual report.

REPORT CONCLUSIONS

On December 6, 1993, the Legislative Audit Commission adopted Resolution Number 99, which directed the Auditor General to conduct a management audit of the purchase and resale of finished goods by the Department of Corrections' Correctional Industries program.

Correctional Industries produces goods and services through the use of inmate labor. Industries' 52 different shops offered over 280 products in 33 categories during Fiscal Years 1991 through 1993. In Fiscal Year 1993, Industries reported \$40.84 million in revenues and \$39.66 million in expenditures, resulting in a net profit of \$1.18 million (2.9 percent).

We identified eight types of finished goods that Industries purchased and resold during Fiscal Years 1993 and 1994 (as of December 31, 1993). These finished goods were ready for resale without any improvement by Industries. Industries normally produced three of these goods (underwear, gloves, and milk), but special circumstances (prison lockdowns, stocking a central warehouse, and machinery failure) resulted in Industries purchasing these goods off the open market. Industries did not routinely produce the other five finished goods purchased (recycled oil, recycled antifreeze, remanufactured tires, broom handles, and officer clothing).

Industries' policies do not provide adequate guidance regarding the pricing of finished goods purchased and resold. Industries resold some purchased finished goods to correctional facilities at the same price as it paid for them. For another finished good, Industries charged less than the price it paid for the good. For other finished goods purchased and resold, Industries charged anywhere from 2 percent to 161 percent more than it paid for them. We recommended that Industries adopt a pricing policy that addresses the purchase and resale of finished goods.

Some finished goods produced by Industries could be purchased more cheaply off the open market. For example, Industries purchased men's briefs off the open market at \$13.90 per dozen; Industries normally charges \$20.95 per dozen for briefs it produces.

Industries did not track the percentage of profit generated from the resale of purchased finished goods. We estimated that the maximum gross profit generated from reselling finished goods was about \$35,000 in Fiscal Year 1993.

The purchase and resale of finished goods is not explicitly included in Industries' statutory mandate, which is to train and employ committed persons in the production of articles, materials, or supplies. The General Assembly may wish to require the Department of Corrections to report information on finished goods purchased and resold by Industries, as part of its annual reporting requirement in 730 ILCS 5/3-12-11.

INDUSTRIES' OPERATIONS

The Department of Corrections' Correctional Industries (Industries) operates manufacturing, service, and agricultural industries within 18 of the 24 adult correctional centers statewide. Industries' purpose is to provide committed persons with marketable skills, promote habits of work and responsibility, and contribute to the expense of the employment program and the costs of incarceration (730 ILCS 5/3-12-1). In Fiscal Year 1993, Industries employed an average of 1,394 inmate workers per month, or about four percent of the over 33,500 adults in the State's adult correctional facilities.

As shown in Digest Exhibit 1, Industries' total revenues have increased from over \$23 million in Fiscal Year 1989 to over \$40 million in Fiscal Year 1993. During the same period, expenses increased from almost \$22 million to \$39.7 million. Net income decreased from seven percent of total revenues in Fiscal Year 1989 to almost three percent in Fiscal Year 1993. Monies to support Industries' operations are generated from sales revenues and appropriated by the General Assembly.

Industries produces a large variety of goods and services, such as furniture, soap, brooms, clothing, meats, and baked goods. Industries' annual reports listed over 280 products in 33 different product categories made at 52 different shop locations.

Digest Exhibit 1 CORRECTIONAL INDUSTRIES' REVENUE, EXPENSES, & NET INCOME (in millions)

Fiscal Year	Total Revenues	Total Expenses	Net Income
1989	23.6	21.9	1.7
1990	29.0	26.5	2.5
1991	32.7	31.0	1.7
1992	35.0	33.5	1.5
1993	40.8	39.7	1.2*

*Does not add due to rounding.

Source: OAG Analysis of Industries data

Industries' primary customer is the Department of Corrections. Sales to Corrections totaled over \$26 million, or about 66 percent of Industries' total sales in Fiscal Year 1993. Other State agencies, excluding universities, accounted for 21 percent (\$8.5 million) of Fiscal Year 1993 sales. Other customers included not-for-profit entities, local governments, colleges and universities, and the private sector.

The amount of profit generated by Industries' individual operations varied. Some operations made money; others lost money. The revenues, expenses, overhead costs, and profit margins for all industries are included in Appendix D of the report. Overall, 20 industries were profitable and 32 were not. (pages 2-8)

PURCHASE OF FINISHED GOODS

Most products sold by Industries are improved or finished by Industries' workers. Statutes authorize Industries to produce articles and materials for resale (730 ILCS 5/3-12-2) but do not specifically address the purchase of goods already finished. Industries officials stated that the practice of buying goods and reselling them was not generally consistent with the statutory intent. There may be special circumstances, however, where Industries needs to purchase finished goods, such as equipment failure or pursuant to another statutory mandate.

Given that the purchase and resale of finished goods is not explicitly covered by Industries' statute, it may be beneficial to provide the General Assembly with information regarding the extent of Industries' purchase and resale of finished goods. Statutes (730 ILCS 5/3-12-11) require Industries to submit an annual report to the General Assembly detailing operational information, such as sales, cost of materials and labor, etc. The statute could be amended to require Industries to also report information regarding finished goods purchased and resold. (pages 11-12)

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider revising the annual reporting provisions contained in 730 ILCS 5/3-12-11 to require the Department of Corrections to report information concerning finished goods purchased and subsequently resold by Correctional Industries. Such information could include: the purchase price, the resale price, the customers, and the quantity of finished goods sold.

FINISHED GOODS PURCHASED AND RESOLD

We identified eight types of finished goods that were purchased and resold by Industries during Fiscal Years 1993 and 1994 (as of December 1993). Five of these were purchased on a regular basis during that time:

- **remanufactured tires, recycled oil, and recycled antifreeze** were purchased pursuant to Corrections' statutory mandate to

establish a recycling program. Industries collected used oil, tires, and antifreeze, delivered them to recycling contractors, and purchased the recycled materials for resale.

- **officer clothing** (such as ties, jackets, and trousers) were purchased to supply Corrections' centralized clothing warehouse.
- **broom handles** were purchased and resold to replace broken broom handles.

Due to special circumstances, Industries purchased for resale three types of finished goods it normally produced.

- **underwear and gloves** were purchased for resale in 1993, according to Industries officials, due to lockdowns at the Menard facility and increased demand due to the stocking of the centralized clothing warehouse.
- **1/2 pint cartons of milk** were purchased when equipment broke down at Industries' Vandalia dairy facility. (pages 12-19)

INDUSTRIES' PRICING POLICY

Correctional Industries did not have a consistent, documented policy for the pricing of finished goods purchased and resold. Existing policies mainly addressed goods produced by Industries and not finished goods Industries purchased for resale.

As shown in Digest Exhibit 2, there was a wide range in the amount of mark-up Industries' placed on finished goods it purchased for resale. For the finished goods purchased due to special circumstances, Industries charged its normal selling price for each item. Two of these items — underwear and gloves — were purchased more cheaply than they were made by Industries, which resulted in a profit of over \$55,000. This amount was subsequently refunded to the customers. Selling the milk at the normal selling price resulted in a net loss of over \$1,500.

Of the finished goods routinely purchased and resold, Industries sold officer clothing at the purchase price (i.e., no mark-up). Mark-ups on the other four finished goods ranged from 0 to 161 percent.

Policies require job quotation sheets for each item Industries sells. It is from the job quotation sheet that the selling price of a product is calculated. For seven of the eight purchased finished goods we

Digest Exhibit 2
CORRECTIONAL INDUSTRIES FINISHED GOODS BOUGHT & RESOLD
Fiscal Years 1993-4 (Through 12/31/93)

Product	Prices Paid (Range)	Prices Charged (Range)	Price Differences (Range)@	Percentage Difference@ ***
RECYCLED OIL:				
W30 Case (2 Types)	\$ 8.55 - 10.57	\$ 9.15 - 11.63	\$.60 - 1.06	7% - 10%
W30 Drum (2 Types)	117.15 - 150.48	131.45 - 165.53	14.30 - 15.05	10% - 12%
W40 Drum	139.70	139.70	0	0%
W40 Case	9.09	10.27	1.18	13%
REMANUFACTURED TIRES:				
PMW Tires (7 Types)	\$ 27.49 - 34.67	\$ 28.49 - 35.67	\$ 1.00	3% - 4%
PMB Tires (12 Types)	23.60 - 41.95	24.48 - 42.95	.88 - 1.06	2% - 4%
ATR Tires (3 Types)	39.45 - 50.02	40.45 - 51.02	1.00	2% - 3%
RECYCLED ANTIFREEZE:				
Drum	\$ 110.50 - 111.50	\$ 121.55	\$10.05 -11.05	9% - 10%
Case	13.20	14.28	1.08	8%
BROOM HANDLES:				
Wood (Metal Thread)	\$.94	\$ 2.45	\$ 1.51	161%
Wood (Wood Thread)	.72 - .84	1.60	.76 - .88	90% - 122%
Street Handle	1.03 - 1.18	2.45	1.27 - 1.42	108% - 138%
KNIT:				
Briefs (SM - XL)	\$ 13.90 - 13.97	\$ 20.95*	\$ 6.98 - 7.05	50% - 51%**
T-Shirts (SM - XL)	16.94 - 24.03	27.80*	3.77 - 10.86	16% - 64%**
Panties (9 Sizes)	9.60 - 14.75	13.10 - 14.75*	0 - 3.50	0% - 36%**
KNIT:				
Gloves	\$ 5.97	\$ 15.60*	\$ 9.63	161%**
MILK: (1/2 Pint Cartons)	\$.135	\$.1325*	\$ (.0025)	(2%)
OFFICER CLOTHING:				
Ties	\$ 1.605 - 1.69	\$ 1.65 - 1.69	\$ 0 - .045	0 - 3%
Jackets (2 colors)	77.75 - 78.00	77.75 - 78.00	.00	0%
Trousers (Male)	27.90	27.90	.00	0%
Trousers (Female)	32.21	32.21	.00	0%
Notes: * Also equals the selling price of these items when made by Industries. ** Credit memos were issued on these items on 12/30/93. *** Percent difference column does not include labor or overhead costs. Percentages rounded. @ Ranges may or may not reflect previous ranges shown.				

reviewed, job quotation sheets had not been prepared. Industries' officials said one was completed several years ago for the broom handles but could not locate it.

While Industries' policy requires special review of prices set, the policy does not specifically address the pricing of purchased finished goods.

We recommended that Industries revise its policies to provide more specific requirements regarding the purchase and resale of finished goods. The policy should specify when finished goods can be purchased, address the manner in which prices are to be set, and specify procedures for Central Office review and approval. (pages 21-24)

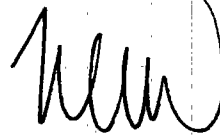
OTHER PRICING ISSUES

Some finished goods purchased and resold by Industries could have been purchased off the open market at a cheaper price. For example, Industries purchased briefs for \$13.90 and \$13.97 per dozen; for briefs made at its Menard facility it regularly charged \$20.95 per dozen. Similarly, Industries paid \$5.97 per dozen for work gloves; it charged \$15.60 per dozen for work gloves produced at its Menard facility. However, Industries produced 1/2 pints of milk cheaper (13.25 cents) than it paid to purchase it off the open market (13.5 cents).

Industries did not monitor the amount of profit generated from the sale of finished goods purchased for resale. Based on the amount of goods sold in Fiscal Year 1993, we estimated that the maximum gross profit on finished goods purchased for resale would have accounted for about three percent (\$35,000) of Industries' overall net profit of \$1.18 million. This does not include the \$55,000 profit made from the sale of underwear and gloves which was subsequently credited back to the purchasing facilities. (pages 24-25)

AGENCY RECOMMENDATION

This audit makes one recommendation to Correctional Industries regarding the guidelines for purchasing and reselling finished goods. The Department of Corrections agreed with the recommendation. Appendix E contains the Department's written response.



WILLIAM G. HOLLAND
Auditor General

WGH/JK
May 1994

TABLE OF CONTENTS

Auditor General's Transmittal Letter	i
Report Digest	iii
CHAPTER ONE: INTRODUCTION	1
REPORT CONCLUSIONS	1
BACKGROUND	2
FUNDING	3
INDUSTRIES' PRODUCTS	4
INDUSTRIES' CUSTOMERS	6
PROFITABILITY OF INDIVIDUAL OPERATIONS	8
SCOPE AND METHODOLOGY	8
REPORT ORGANIZATION	9
CHAPTER TWO: FINISHED GOODS	11
PURCHASE OF FINISHED GOODS	11
MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY	12
FINISHED GOODS PURCHASED ON A REGULAR BASIS	12
Remanufactured Tires	13
Recycled Oil	13
Recycled Antifreeze	15
Officer Clothing	15
Broom Handles	16
FINISHED GOODS PURCHASED DUE TO SPECIAL CIRCUMSTANCES	17
Underwear	17
Work Gloves	18
Milk	18
CHAPTER THREE: PRICING OF FINISHED GOODS PURCHASED AND RESOLD	21
INDUSTRIES' PRICING POLICY	21
Job Quotation Sheet	21
Review of Prices Set	23

AGENCY RECOMMENDATION	24
OTHER PRICING ISSUES	24

EXHIBITS

Exhibit 1-1	CORRECTIONAL INDUSTRIES' REVENUE, EXPENSES & NET INCOME Fiscal Years 1989 - 1993	4
Exhibit 1-2	SUMMARY OF CORRECTIONAL INDUSTRIES' SALES AND PRODUCTION COSTS BY PRODUCT CATEGORY Fiscal Year 1993	5
Exhibit 1-3	CORRECTIONAL INDUSTRIES' CUSTOMER SALES Fiscal Year 1993	7
Exhibit 2-1	FINISHED GOODS REGULARLY PURCHASED Fiscal Years 1993-1994 (Through 12/31/93)	13
Exhibit 2-2	CORRECTIONAL INDUSTRIES FINISHED GOODS BOUGHT AND RESOLD Fiscal Years 1993-1994 (Through 12/31/93)	14
Exhibit 2-3	FINISHED GOODS PURCHASED DUE TO SPECIAL CIRCUMSTANCES Fiscal Years 1993-1994 (Through 12/21/93)	17
Exhibit 2-4	CREDIT MEMOS ISSUED TO FACILITIES	18

APPENDICES

APPENDIX A:	Audit Resolution Number 99	29
APPENDIX B:	Items Produced By Correctional Industries	33
APPENDIX C:	Sample Job Quotation Sheets	45
APPENDIX D:	Revenues, Expenses, Overhead, & Profit Margins Fiscal Year 1993	53
APPENDIX E:	Agency Response	57

CHAPTER ONE INTRODUCTION

On December 6, 1993, the Legislative Audit Commission adopted Resolution Number 99 which directed the Auditor General to conduct a management audit of the Department of Corrections' Correctional Industries (see Appendix A). The audit is to determine:

1. Whether the practice of buying finished goods and reselling them is consistent with Correctional Industries statutory mandate;
2. Whether the amount of mark-up Correctional Industries places on finished goods it purchases and resells is based on the costs incurred to repackage and distribute the finished goods;
3. Whether finished goods purchased and resold by Correctional Industries to the Department of Corrections could be purchased off the open market at a cheaper price; and
4. Whether Correctional Industries identifies the percentage of profits generated from the resale of finished goods.

REPORT CONCLUSIONS

Correctional Industries produces goods and services through the use of inmate labor; Industries' 52 different shops offered over 280 products in 33 categories during Fiscal Years 1991 through 1993. In Fiscal Year 1993, Industries reported \$40.84 million in revenues and \$39.66 million in expenditures, resulting in a net profit of \$1.18 million (2.9 percent).

We identified eight types of finished goods that Correctional Industries purchased and resold during Fiscal Years 1993 and 1994 (as of December 31, 1993). These finished goods are items ready for resale without any improvement by Industries. Industries normally produced three of the finished goods it purchased (underwear, gloves, and milk), but special circumstances (prison lockdowns, stocking a central warehouse, and machinery failure) resulted in Industries purchasing these goods off the

open market. Industries does not routinely produce the other five finished goods purchased (remanufactured tires, recycled oil, recycled antifreeze, officer clothing, and broom handles).

Industries' policies do not provide adequate guidance regarding the pricing of finished goods purchased and resold. For some finished goods it purchased, Industries resold them to correctional facilities at the same price as it paid for them (i.e., no mark-up). On the resale of one-half pint milk, Industries charged less than it paid for the milk. For other finished goods purchased and resold, Industries charged anywhere from 2 percent to 161 percent more than it paid for them. We recommended that Industries adopt a pricing policy that addresses the purchase and resale of finished goods.

Some finished goods produced by Industries could be purchased from the open market at a cheaper price. For example, due to the special circumstances described above, Industries purchased men's briefs off the open market for \$13.90 per dozen; Industries normally charges \$20.95 per dozen for briefs produced at its Menard knit shop. Industries did not track the percentage of profit generated from the purchase and resale of finished goods. We estimated that the amount of profit generated from the resale of finished goods was minimal, about three percent of Industries' overall profit in Fiscal Year 1993.

The purchase and resale of finished goods is not explicitly included in Correctional Industries' statutory mandate, which is to train and employ committed persons for the production of articles, materials, or supplies. The General Assembly may wish to consider requiring the Department of Corrections to report information on finished goods purchased and resold by Correctional Industries, as part of its annual reporting requirement in 730 ILCS 5/3-12-11.

BACKGROUND

On January 1, 1973, Public Act 77-2097 authorized the establishment of the Correctional Industries program in Illinois. Illinois Correctional Industries, a component of the Adult Division of the Illinois Department of Corrections, operates manufacturing, service, and agricultural industries within 18 of the 24 adult correctional centers statewide. Industries is authorized by statute (730 ILCS 5/3-12-2) to "establish, maintain, train, and employ committed persons in industries for the production of articles, materials, or supplies for resale to authorized purchasers."

Correctional Industries' (Industries) purpose is to provide committed persons with marketable skills, promote habits of work and responsibility, and contribute to the expense of

the employment program and the costs of incarceration (730 ILCS 5/3-12-1). Industries' policies state that the goal of Industries is to duplicate a free world work environment to the greatest extent possible while operating within a budget that does not exceed income, maximizing the number of inmate assignments, and providing customers quality goods and services at a competitive price.

Industries sells the products and services it produces to various customers, including Illinois State and local governments and not-for-profit organizations. Statutes require that the State and its political units purchase from the Department "all articles, materials, industry related services, food stuffs, and supplies required by them which are produced or manufactured by persons confined in institutions and facilities of the Department." Agencies wishing to purchase from other sources must obtain a written exemption from the Department of Corrections based on the fact "that the items requested are not then available" (730 ILCS 5/3-12-7).

According to Industries' Fiscal Year 1993 Annual Report, there were 1,394 average inmate workers per month during that year. This number represents about four percent of the over 33,500 adults incarcerated in the State's 24 adult correctional facilities.

Committed persons employed by Industries were paid monthly wages ranging from \$25 to \$275. The statutes (730 ILCS 5/3-12-5) allow for different rates of compensation based on "the effort, skill and economic value of the work performed." The Department of Corrections has determined that three percent of a committed person's compensation be withheld to offset the cost of incarceration. In Fiscal Year 1992, Industries paid \$1,722,600 in inmate wages, which resulted in withholdings of \$51,678.

FUNDING

Correctional Industries does not receive an appropriation from the General Revenue Fund. Rather, monies to support the operations are generated from sales revenues and deposited into the Working Capital Fund (301). The General Assembly appropriates Correctional Industries an amount of funds each year. Exhibit 1-1 shows the total revenues (sales and other income), expenses, and net profits for Correctional Industries for Fiscal Years 1989 - 1993.

As shown in Exhibit 1-1, total revenues have increased from over \$23 million in Fiscal Year 1989 to over \$40 million in Fiscal Year 1993. Expenses have also increased during the same period, increasing from almost \$22 million in Fiscal Year 1989 to over \$39.6 million in Fiscal Year 1993. Net income has decreased from seven percent of total revenues in Fiscal Year 1989 to almost three percent in Fiscal Year 1993.

INDUSTRIES' PRODUCTS

Industries produces a large variety of goods and services, such as furniture, soap, brooms, clothing, meats, and baked goods. Industries' Fiscal Year 1991 to 1993 annual reports listed over 280 products in 33 different product categories made at 52 different shop locations.

<i>Exhibit 1-1</i> CORRECTIONAL INDUSTRIES' REVENUE, EXPENSES, & NET INCOME <i>Fiscal Years 1989 - 1993</i>					
	<i>FY 89</i>	<i>FY 90</i>	<i>FY 91</i>	<i>FY 92</i>	<i>FY 93</i>
Total Revenue *	\$23,614,024	\$28,995,447	\$32,666,321	\$34,960,152	\$40,839,625
Total Expense	\$21,913,782	\$26,463,756	\$30,968,907	\$33,496,010	\$39,661,941
Net Income	\$ 1,700,242	\$ 2,531,691	\$ 1,697,414	\$ 1,464,142	\$ 1,177,684
% of Net Income of Total Revenue	7.2%	8.7%	5.2%	4.2%	2.9%
Fund Balance	\$16,166,227	\$18,706,294	\$21,564,441	\$15,780,432	\$16,958,116
* Includes non-operating revenues and Industries' freight charges.					
<i>Source: OAG Analysis of Correctional Industries Data</i>					

Many of Industries' product categories contain numerous types, styles, colors, and sizes of goods. For example, Menard's knit shop produces a wide range of garments, including briefs, socks, caps, towels, and t-shirts. Industries' bakery at its Illinois River facility produces numerous baked goods, almost solely for correctional facilities. These baked goods included white, wheat, and rye bread, hamburger and hot dog buns, rolls, danish, and cookies. For further information on the types of products and services produced by Correctional Industries, see Appendix B.

As shown on Exhibit 1-2, Industries' largest operations involve food processing or agricultural products. For example, during Fiscal Year 1993, the Hill and Vandalia dairies produced over 21 million cartons of milk, and four facilities produced a total of almost 6 million pounds of meat. Exhibit 1-2 shows that meat processing accounted for 25 percent of Industries' total sales, milk processing accounted for about 11 percent, and farms accounted for about 10 percent.

Exhibit 1-2
**SUMMARY OF CORRECTIONAL INDUSTRIES' SALES
AND PRODUCTION COSTS BY PRODUCT CATEGORY**
Fiscal Year 1993

<i>Product</i>	<i>Sales</i>	<i>Percent of Total Sales</i>	<i>Production Cost</i>	<i>Percent of Production Cost</i>
<i>Meat Processing</i>	<i>\$10,345,774</i>	<i>25.45%</i>	<i>\$9,354,252</i>	<i>26.75%</i>
<i>Milk Processing</i>	<i>\$4,324,667</i>	<i>10.64%</i>	<i>\$3,771,543</i>	<i>10.79%</i>
<i>Farms</i>	<i>\$3,964,083</i>	<i>9.75%</i>	<i>\$4,182,691</i>	<i>11.96%</i>
<i>Garment</i>	<i>\$3,333,183</i>	<i>8.20%</i>	<i>\$2,142,759</i>	<i>6.13%</i>
<i>Optical</i>	<i>\$2,501,254</i>	<i>6.15%</i>	<i>\$1,966,917</i>	<i>5.63%</i>
<i>Asbestos</i>	<i>\$1,912,945</i>	<i>4.71%</i>	<i>\$1,452,250</i>	<i>4.15%</i>
<i>Knit</i>	<i>\$1,809,684</i>	<i>4.45%</i>	<i>\$1,495,197</i>	<i>4.28%</i>
<i>Metal Furniture</i>	<i>\$1,360,769</i>	<i>3.35%</i>	<i>\$1,288,637</i>	<i>3.69%</i>
<i>Furniture</i>	<i>\$1,340,092</i>	<i>3.33%</i>	<i>\$1,129,581</i>	<i>3.23%</i>
<i>Mattress</i>	<i>\$1,229,985</i>	<i>3.03%</i>	<i>\$ 900,740</i>	<i>2.58%</i>
<i>Bakery</i>	<i>\$1,212,471</i>	<i>2.98%</i>	<i>\$1,088,258</i>	<i>3.11%</i>
<i>Soap</i>	<i>\$1,195,570</i>	<i>2.94%</i>	<i>\$ 816,513</i>	<i>2.34%</i>
<i>Data Entry</i>	<i>\$1,023,886</i>	<i>2.52%</i>	<i>\$ 729,972</i>	<i>2.09%</i>
<i>Laundry</i>	<i>\$706,757</i>	<i>1.74%</i>	<i>\$ 528,662</i>	<i>1.51%</i>
<i>Broom and Wax</i>	<i>\$611,915</i>	<i>1.51%</i>	<i>\$ 518,278</i>	<i>1.48%</i>
<i>Tobacco</i>	<i>\$603,050</i>	<i>1.48%</i>	<i>\$ 396,644</i>	<i>1.13%</i>
<i>Sign</i>	<i>\$495,119</i>	<i>1.22%</i>	<i>\$ 626,167</i>	<i>1.79%</i>
<i>Furniture Refinishing</i>	<i>\$477,044</i>	<i>1.17%</i>	<i>\$ 384,032</i>	<i>1.10%</i>
<i>Silk Screening</i>	<i>\$476,356</i>	<i>1.17%</i>	<i>\$ 416,466</i>	<i>1.20%</i>
<i>Boxes</i>	<i>\$462,331</i>	<i>1.14%</i>	<i>\$ 382,830</i>	<i>1.09%</i>
<i>Recycling</i>	<i>\$423,931</i>	<i>1.04%</i>	<i>\$ 374,891</i>	<i>1.07%</i>
<i>Waste Removal</i>	<i>\$265,355</i>	<i>.65%</i>	<i>\$ 290,651</i>	<i>.83%</i>
<i>Tires</i>	<i>\$149,095</i>	<i>.37%</i>	<i>\$ 192,820</i>	<i>.55%</i>
<i>Dry Cleaning</i>	<i>\$145,483</i>	<i>.36%</i>	<i>\$ 192,734</i>	<i>.55%</i>
<i>Transfer Supply</i>	<i>\$82,237</i>	<i>.20%</i>	<i>\$ 46,649</i>	<i>.13%</i>
<i>Sewing</i>	<i>\$79,185</i>	<i>.19%</i>	<i>\$ 62,996</i>	<i>.18%</i>
<i>Vehicle</i>	<i>\$43,136</i>	<i>.11%</i>	<i>\$ 15,462</i>	<i>.04%</i>
<i>Re-Refined Oil</i>	<i>\$29,688</i>	<i>.07%</i>	<i>\$ 27,943</i>	<i>.08%</i>
<i>Belts</i>	<i>\$29,098</i>	<i>.07%</i>	<i>\$ 20,541</i>	<i>.06%</i>
<i>Microfilming</i>	<i>\$11,885</i>	<i>.03%</i>	<i>\$ 86,205</i>	<i>.25%</i>
<i>Warehouse</i>	<i>\$1,932</i>	<i>.00%</i>	<i>\$ 57,097</i>	<i>.16%</i>
<i>Bindery</i>	<i>\$164</i>	<i>.00%</i>	<i>\$ 15,956</i>	<i>.05%</i>
<i>Telemarketing</i>	<i>\$0</i>	<i>.00%</i>	<i>\$ 7,443</i>	<i>.02%</i>
TOTAL	\$40,648,124	100%*	\$34,963,777	100%

* Does not add to 100% due to rounding

Source: OAG Analysis of Correctional Industries Data

Other product and service categories that exceeded one million dollars in sales included garment manufacturing, optical products, asbestos abatement, knit products (e.g. underwear, towels, gloves, and caps), furniture, mattresses, baked goods, soap, and data entry services.

INDUSTRIES' CUSTOMERS

Industries' primary customer is the Department of Corrections. The statutes also require other State agencies to purchase Industries' products and services (730 ILCS 5/3-12-7). Not-for-profit corporations, units of government in other states, and the federal government may also purchase these goods. Items produced or manufactured by Industries' personnel can also be sold on the open market.

The statutes establish the following order for the allocation of Industries' products and services:

- (1) Department of Corrections;
- (2) The State, its agencies and public institutions;
- (3) Political subdivisions of the State and their agencies in which a producing institution or department facility is located;
- (4) Other political subdivisions of the State and their agencies and public institutions;
- (5) Open market;
- (6) Not-for-profit corporations chartered in Illinois;
- (7) Units of government in other states;
- (8) Units of federal government;
- (9) Not-for-profit corporations chartered in other states;
- (10) All other permitted purchasers.

Correctional Industries is required to issue a list of all goods available for sale and shall issue certificates to any required purchasers whenever the goods requested are not currently available. According to Industries' officials, the Department of Corrections has granted exemptions from the purchase requirement by certifying that the items requested were not readily available.

Exhibit 1-3 summarizes sales by customer for Fiscal Year 1993. Sales to the Department of Corrections totaled over \$26 million, or about 66 percent of Industries' total sales during this period; items Industries sold to correctional facilities included food, clothing, cigarettes, bedding, cleaning materials, and other goods used in daily operations.

<i>Exhibit 1-3</i> CORRECTIONAL INDUSTRIES' CUSTOMER SALES <i>Fiscal Year 1993</i>		
<i>Agency</i>	<i>Sales</i>	<i>% of Total Sales</i>
Department of Corrections	\$ 26,215,151	65.9%
Other State Agencies	\$ 8,517,451	21.4%
Not-for-Profit Entities	\$ 922,339	2.3%
Local Governments	\$ 516,491	1.3%
College & Universities	\$ 322,827	.8%
Other (primarily agricultural and manufacturing products sold to private sector)	\$ <u>3,285,741</u>	<u>8.3%</u>
TOTAL	\$ <u>39,780,000*</u>	<u>100.0%</u>
* Does not include all invoices made during lapse period.		
<i>Source: OAG Analysis of Correctional Industries' Fiscal Year 1993 Annual Report</i>		

Other State agencies, excluding universities, accounted for 21.4 percent (\$8.5 million) of Fiscal Year 1993 sales. The Department of Mental Health and Developmental Disabilities (DMHDD) purchased over \$1.5 million in goods and services from Correctional Industries in Fiscal Year 1993. Items typically purchased by DMHDD included furniture, terrycloth bibs for facility use, underwear, and soap products. The Department of Transportation purchased \$339,000 worth of goods from Industries in Fiscal Year 1993. Transportation primarily purchased signs and furniture from Industries. Other State agencies also purchased \$2.3 million in optical goods (Department of Public Aid), \$1.9 million for asbestos abatement (various State agencies), and \$1.02 million for data entry (Department of Public Aid and Secretary of State).

Not-for-profit entities accounted for over two percent of Industries sales in Fiscal Year 1993. Colleges and universities and local governments each accounted for about one percent of sales. The majority of "other" sales in Exhibit 1-3 pertained to agricultural products sold to private businesses such as grain elevators and slaughterhouses.

PROFITABILITY OF INDIVIDUAL OPERATIONS

The amount of profit generated by Industries' individual operations varied. Some operations made money; others lost money. As shown previously in Exhibit 1-1, overall in Fiscal Year 1993 Industries made 2.9% profit on revenues. Industries' policies state that products be priced as competitively as possible with the private sector, allowing an overall profit of up to 10 percent.

The revenues, expenses, overhead costs, profit margins, and average number of inmates employed for all industries are shown in Appendix D. Overall, 20 industries were profitable and 32 were not. The range of profitability is due to a number of factors. For example, officials stated that the Stateville garment shop was competitive because of the lower labor cost compared to domestic garment makers; they also stated that the microfilming shop at Centralia has not increased business volume as quickly as predicted, resulting in net losses on sales. Due to the scope of this audit, which was limited to the purchase and resale of finished goods, we did not conduct a detailed analysis of the profitability of individual operations.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The scope of this audit focused on the purchase and resale of finished goods by Correctional Industries. In this audit, finished goods are defined as goods purchased and subsequently resold by Industries to which no value was added. This audit did not focus on Industries' primary functions, which are to manufacture products from raw materials and to provide services. We also limited our analysis of financial statements primarily to finished goods purchased and resold by Correctional Industries. The time period of the audit covered all of Fiscal Year 1993 and half of Fiscal Year 1994, through December 31, 1993.

To identify the extent to which Correctional Industries purchased and resold finished goods, we asked Industries' officials to identify all such instances. We also: examined the physical inventory listings as of June 30, 1993, for all Correctional Industries' shops and locations; reviewed vouchers for Fiscal Years 1993 and 1994 (as of December 31, 1993) for selected shops; reviewed information from the Comptroller on vouchers paid, the vendor name, and voucher amount from which we selected a sample of these vouchers to review; reviewed all emergency purchases for the Department of Corrections for Fiscal Years 1993

and 1994 (through December 31, 1993); and reviewed contract information kept by the Comptroller for Fiscal Year 1994 to identify vendors that might supply finished goods purchased by Correctional Industries.

To determine the purchase and selling price for each finished good identified, we examined the Fiscal Year 1994 invoices of goods sold to the institutions and compared the prices charged to the prices paid by Correctional Industries. For officer clothing purchased beginning in Fiscal Year 1993 as stock for a central warehouse, we also examined the invoices charged to each facility for Fiscal Year 1993.

In examining how prices are set, we selected a sample of items produced by the shops and reviewed the documentation supporting the costs of producing each item, including operating statements, labor reports, and overhead cost allocation factors. We examined the amount of profit added into each price calculation.

We reviewed documentation on each purchase of finished goods identified by Correctional Industries' officials for Fiscal Years 1993 and 1994, including contract documents, vendor invoices, payment vouchers, shipping and receiving reports, and sales invoices to institutions. We examined credit memos issued to institutions for the purchase of finished goods and compared the amounts to the sales invoices for each institution. We also visited the Correctional Industries operation at Menard Correctional Facility.

In addition, we reviewed the internal controls for Correctional Industries that related to buying and selling of finished goods. Our review and the assessments done as part of the OAG Financial and Compliance audits showed that the controls were logically designed and consistently applied. Therefore, we limited our testing to the areas described above.



REPORT ORGANIZATION

The remainder of this report is divided into two chapters plus appendices. The chapter topics are as follows:

Chapter 2 discusses Industries' purchase and resale of finished goods; and

Chapter 3 examines Industries pricing policies for finished goods purchased and resold.

CHAPTER TWO FINISHED GOODS

Correctional Industries purchased five types of finished goods for resale on a regular basis: one of which was usually sold at cost; the other four were usually marked up. Three other types of finished goods, regularly produced by Industries, were purchased due to special circumstances. Industries charged its normal selling price for these three items. Because two of the products were purchased for less than the normal selling price, Industries made a profit of over \$55,000 that was subsequently refunded to purchasers. The remaining product was purchased at a price higher than Industries' normal selling price, and Industries lost over \$1,500 upon resale at the normal selling price.

PURCHASE OF FINISHED GOODS

A finished good is a manufactured product that is ready for sale or other disposition. There are two ways Industries obtains the finished goods it sells:

- (1) Persons committed to correctional institutions use raw materials to make the product. Some products are made completely from raw materials while others are purchased in a nearly finished state and improved by committed persons (for example, some preassembled furniture is purchased which Industries may paint or varnish before selling).
- (2) The product is purchased off the open market in a finished state and resold without improvement by Industries.

Most products sold by Industries are improved, or finished, by Industries' workers. This method of producing finished goods is consistent with Industries' statutory mandates. Illinois statutes (730 ILCS 5/3-12) state that the purpose of Industries is to provide work assignments that "equip [committed persons] with marketable skills, promote habits of work and responsibility and contribute to the expense of the employment program and the committed person's cost of incarceration." The statutes allow Correctional Industries to "enter into contracts for the purchase of raw materials required for industrial production."

The statutes (730 ILCS 5/3-12-2) specifically authorize Industries' "production of articles, materials, or supplies for resale. . . (emphasis added)." The statutes do not, however, specifically address the purchase and resale of goods that are already finished. Industries officials stated that the practice of buying goods and reselling them was not generally consistent with the statutory intent.

There may be, however, instances where Industries needs to purchase finished goods. For example, if Industries cannot meet demand for a good it produces because of machinery failure, Industries may have to purchase a finished good to supply its customers.

In other instances, the purchase and resale of finished goods may be associated with the pursuit of another statutory mandate. Statutes require Corrections to establish and operate a recycling program (730 ILCS 5/3-12-14). As part of that program, Correctional Industries collects used tires, anti-freeze, and oil, and delivers them to recycling companies. Industries then purchases the recycled products as finished goods and resells them. The purchase and subsequent resale of the finished recycled good is an essential component of the Department's recycling program.

Given that the purchase and resale of finished goods is not explicitly covered by Industries' statute, it may be beneficial to provide the General Assembly with information regarding the extent of Industries' purchase and resale of finished goods. Statutes (730 ILCS 5/3-12-11) require Industries to submit an annual report to the General Assembly detailing operational information, such as sales, cost of materials and labor, etc. The statute could be amended to require Industries to also report information regarding finished goods purchased and resold.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider revising the annual reporting provisions contained in 730 ILCS 5/3-12-11 to require the Department of Corrections to report information concerning the finished goods purchased and subsequently resold by Correctional Industries. Such information could include the purchase price, the resale price, the customers, and the quantity of finished goods sold.

FINISHED GOODS PURCHASED ON A REGULAR BASIS

Exhibit 2-1 lists the finished goods that were purchased on a regular basis during Fiscal Years 1993 and 1994 (through December 31, 1993). These items include

remanufactured tires (various sizes and types), recycled antifreeze, recycled oil (various weights), broom handles (3 different types), and officer clothing (ties, jackets, and trousers). The details of these purchases are described below.

Exhibit 2-1 FINISHED GOODS REGULARLY PURCHASED (Fiscal Years 1993-1994 Through 12/31/93)	
<u>SHOP</u>	<u>ITEM</u>
Centralia Tire	Remanufactured Tires
Centralia Oil	Recycled Oil
Logan Warehouse	Recycled Antifreeze
Logan Warehouse	Officer Clothing
Menard Broom	Broom Handles
Source: OAG Analysis of Industries' Data	

Remanufactured Tires

The purchase of remanufactured tires began after May 1992, in response to Public Act 87-647, effective January 1, 1992, which established a recycling program for the Department of Corrections. Since May 1992, Correctional Industries has had a contract to purchase remanufactured tires for resale to the Department of Central Management Services (DCMS). Under the contract, Correctional Industries picks up used tires from State garages, sorts the usable ones, and takes them by truck to the contractor in Chicago. When the contractor completes the remanufacturing of the tires, Correctional Industries picks them up and stores them until DCMS places an order for the remanufactured tires. As shown on Exhibit 2-2, Correctional Industries charges \$0.88 to \$1.06 over the invoice price of each tire for the transportation and handling of the tires. This equates to a mark-up of 2-4 percent over the price Industries paid for the tires.

Prior to Industries' involvement in this process, DCMS had the contract with the tire manufacturer. Under that contract, DCMS paid approximately \$2 per tire for freight charges. According to Industries' officials, DCMS requested that Industries take over this contract. When the contract was amended, Industries agreed to charge DCMS one-half of the freight it paid previously. This resulted in a net savings to DCMS on the purchase of remanufactured tires for State vehicles. In Fiscal Year 1993, Industries distributed 2,965 remanufactured tires to State garages.

Recycled Oil

As with tires, the purchase of recycled oil began in 1992, in response to the recycling and refuse sorting mandate for the Department of Corrections. Industries collects used oil from the garages of the Department of Central Management Services (DCMS) and the Department of Transportation (DOT). The used oil is delivered to two companies under

Exhibit 2-2
CORRECTIONAL INDUSTRIES FINISHED GOODS BOUGHT & RESOLD
Fiscal Years 1993-1994 (Through 12/31/93)

Product	Prices Paid (Range)	Prices Charged (Range)	Price Differences (Range)@	Percentage Difference@ ***
RECYCLED OIL:				
W30 Case (2 Types)	\$ 8.55 - 10.57	\$ 9.15 - 11.63	\$.60 - 1.06	7% - 10%
W30 Drum (2 Types)	117.15 - 150.48	131.45 - 165.53	14.30 - 15.05	10% - 12%
W40 Drum	139.70	139.70	0	0%
W40 Case	9.09	10.27	1.18	13%
REMANUFACTURED TIRES:				
PMW Tires (7 Types)	\$ 27.49 - 34.67	\$ 28.49 - 35.67	\$ 1.00	3% - 4%
PMB Tires (12 Types)	23.60 - 41.95	24.48 - 42.95	.88 - 1.06	2% - 4%
ATR Tires (3 Types)	39.45 - 50.02	40.45 - 51.02	1.00	2% - 3%
RECYCLED ANTIFREEZE:				
Drum	\$ 110.50 - 111.50	\$ 121.55	\$10.05 - 11.05	9% - 10%
Case	13.20	14.28	1.08	8%
BROOM HANDLES:				
Wood (Metal Thread)	\$.94	\$ 2.45	\$ 1.51	161%
Wood (Wood Thread)	.72 - .84	1.60	.76 - .88	90% - 122%
Street Handle	1.03 - 1.18	2.45	1.27 - 1.42	108% - 138%
KNIT:				
Briefs (SM - XL)	\$ 13.90 - 13.97	\$ 20.95*	\$ 6.98 - 7.05	50% - 51%**
T-Shirts (SM - XL)	16.94 - 24.03	27.80*	3.77 - 10.86	16% - 64%**
Panties (9 Sizes)	9.60 - 14.75	13.10 - 14.75*	0 - 3.50	0% - 36%**
KNIT:				
Gloves	\$ 5.97	\$ 15.60*	\$ 9.63	161%**
MILK: (1/2 Pint Cartons)	\$.135	\$.1325*	\$ (.0025)	(2%)
OFFICER CLOTHING:				
Ties	\$ 1.605 - 1.69	\$ 1.65 - 1.69	\$ 0 - .045	0 - 3%
Jackets (2 colors)	77.75 - 78.00	77.75 - 78.00	.00	0%
Trousers (Male)	27.90	27.90	.00	0%
Trousers (Female)	32.21	32.21	.00	0%
Notes: * Also equals the selling price of these items when made by Industries. ** Credit memos were issued on these items on 12/30/93. *** Percent difference column does not include labor or overhead costs. Percentages rounded. @ Ranges may or may not reflect previous ranges shown.				
Source: OAG Analysis of Correctional Industries Data				

contractual agreement with Industries to recycle the oil. These companies filter, reprocess, and repackage the oil so it is usable. Industries does not actually re-refine the oil; it buys the repackaged oil for resale to DCMS garages. DCMS may request that delivery be made directly to a DOT facility.

Oil recycling is to be integrated within Industries' tire delivery system. When picking up scrap tires at DCMS garages, Industries' personnel are instructed to request information regarding the inventory of used oil.

In Fiscal Year 1993, Industries distributed 1,370 cases and 144 drums of recycled oil. As shown on Exhibit 2-2, Industries purchased cases of recycled oil for \$8.55 to \$10.57 (depending on the weights) and marked the resale price up \$0.60 to \$1.18 (7 - 13 percent). Drums of oil were purchased at \$117.15 to \$150.48 and marked up \$14.30 to \$15.05 (10 - 12 percent). However, drums of 10W40 oil were not marked up, but were resold at the purchase price. According to Corrections' officials, there was no mark-up on the 10W40 oil because virgin oil could be obtained at the same price.

Recycled Antifreeze

The recycling mandate also prompted Correctional Industries to purchase recycled antifreeze. In July 1993, Industries began purchasing the antifreeze to supply DCMS garages. Similar to the recycled oil and remanufactured tires, Industries picks up the old material and takes it to a contractor to re-refine it. Industries stores recycled antifreeze from the contractor at the Logan warehouse until orders are received. Industries also supplies DCMS garages with clean, empty drums to store used antifreeze until it can be picked up.

Industries pays \$13.20 for a case of antifreeze; it charges \$14.28, a mark-up of 8 percent. For a 55 gallon drum, Industries pays \$110.50 and \$111.50 and charges \$121.55, a mark-up of 9 - 10 percent. These prices charged were negotiated and are part of a signed agreement between DCMS and Correctional Industries.

Officer Clothing

Industries began purchasing officer clothing for resale after December 1992, when the Department's Central Warehouse was established. The Department of Corrections gave Industries the responsibility to stock and operate the Central Warehouse. Ties, jackets, and trousers were purchased for stock in the Central Warehouse for sale to the individual facilities.

The purpose of the Central Warehouse was to centralize the clothing purchases and shipping to allow each prison to maintain less clothing inventory. According to Department officials, they expect the warehouse to save about \$1 million in reduced inventories and purchases at each facility.

Prior to the creation of the Central Warehouse, the Department of Corrections had contracts with suppliers for the items of officer clothing. These contracts had been negotiated through DCMS. Each facility would order from the contracts for its own clothing needs. This resulted in each facility keeping an inventory of items on hand in a number of sizes. When the Central Warehouse was established, it centralized the Department's inventory of these items at one location, rather than having each facility maintain its own inventory of items.

Industries first ordered ties for the warehouse in April 1993. Initially, the ties were sold at a 4 cent per tie profit. In December 1993, Correctional Industries decided to sell the ties at the price it paid for them. The total profit on the ties sold from June 1993 to December 1993 was \$22.75.

No mark-up is added to the price of officer trousers that are unhemmed. The trousers are ordered unhemmed in various waist sizes, so that they can be finished at the appropriate length. If the facility orders the hemmed trousers, then \$1 is added for the labor and materials to hem the trousers.

Officer jackets are sold to facilities for the price that Industries pays for them: \$77.75 for green and \$78.00 for black jackets. Industries began ordering the jackets in Fiscal Year 1994, to replenish depleted inventories.

Broom Handles

Industries' broom shop at the Menard Correctional Center makes brooms from raw materials such as broom corn, wire, and handles. Most brooms are sold to correctional facilities. Because the handles break, Industries receives a large number of orders for handles only. The handles thus serve a dual purpose as a raw material (when used by Industries to make a broom) and a finished good (when sold to replace a broken handle). For several years Industries has purchased various styles of broom handles from private manufacturers. In Fiscal Year 1993, Industries sold 19,700 broom handles.

During the period under review, Industries purchased these broom handles for prices ranging from \$0.72 to \$1.18 each and resold them as finished goods for \$1.60 and \$2.45 each (mark-ups ranging from 90 to 161 percent). According to Industries' officials, the selling price for replacement broom handles also takes into account handling and selling expenses. The selling price was set several years ago and has not been updated.

FINISHED GOODS PURCHASED DUE TO SPECIAL CIRCUMSTANCES

Exhibit 2-3 lists items purchased to fill short-term needs during Fiscal Years 1993 and 1994 (through December 31, 1993) after extenuating circumstances prohibited Industries from producing enough of the products to meet demand. These items included underwear (men's briefs, ladies panties, and t-shirts), work gloves, and milk.

Underwear

From April 1993 to October 1993, Correctional Industries purchased 21,994 dozen underwear, including briefs, t-shirts, and panties. Men's briefs and t-shirts are usually made by Correctional Industries in the knit shop at the Menard Correctional Facility. These items are then sold to the correctional institutions. Briefs are sold for \$20.95 per dozen in most sizes. T-shirts sell for \$27.80 per dozen. These prices reflect the cost of producing the items, including raw materials, labor, and overhead costs, and a margin for profit.

Industries' officials cited two reasons for the need to purchase underwear and gloves. First, the Menard knit shop was locked down several times during 1993. Industries' records showed that the Menard Correctional Center was on lockdown status for 44 days during calendar year 1993. Lockdowns are ordered during periods of prisoner unrest. Other lockdowns were ordered when flood waters of the Mississippi River affected parts of the prison during the spring and summer of 1993. Prisoners are confined to their cells during a lockdown; Industries operations do not function during these periods.

The other special circumstance requiring the purchase of the underwear and gloves was the need to establish inventories at Industries' centralized garment warehouse. Industries established a centralized warehouse for inmate and officer clothing in December 1992 at Logan Correctional Facility. When the warehouse was created, Industries agreed to supply the stock for the warehouse, including underwear. However, Industries' officials stated they were not able to meet the increased demand without purchasing the underwear off the open market.

Exhibit 2-3 FINISHED GOODS PURCHASED DUE TO SPECIAL CIRCUMSTANCES (Fiscal Years 1993-1994 Through 12/31/93)

<u>SHOP</u>	<u>ITEM</u>
Menard Knit	Underwear
Menard Knit	Gloves
Vandalia Dairy	Milk

Source: OAG Analysis of Industries Data

When Correctional Industries sold the underwear and gloves to the facilities, it charged the price it normally charged when it made the items. However, Correctional Industries paid less to purchase the items than it would have cost to produce them, which resulted in a profit for Industries. For example, men's briefs were purchased for \$13.90 and \$13.97 per dozen and sold at Industries' normal selling price of \$20.95 per dozen. This resulted in a profit of \$6.98 and \$7.05 per dozen briefs sold.

Industries later issued credits to all facilities that had purchased the underwear or gloves. The credits were for the difference between the price Industries paid to buy the items and the higher price it charged to the facilities. The credit memos

were dated December 30, 1993. A total of \$55,457.46 in credits was issued to the facilities: \$41,089.50 for underwear and \$14,367.96 for gloves. Exhibit 2-4 shows the total number of dozens sold to the facilities and the amount of the credit issued.

**Exhibit 2-4
CREDIT MEMOS ISSUED
TO FACILITIES**

	Dozens Sold	Total Credit
Briefs	4,322	\$ 30,275.96
T-shirts	1,740	10,272.47
Panties	311	541.07
subtotal	6,373	\$ 41,089.50
Gloves	1,650	\$ 14,367.96
TOTAL	8,023	\$ 55,457.46

Source: OAG Analysis of Industries Data

Work Gloves

The Menard Knit shop also purchased 1,650 dozen pairs of work gloves for resale in August 1993. The gloves were bought, as with the underwear, because the Knit shop could not supply enough gloves to meet the demand from institutions and the central warehouse. As with the underwear, the gloves were initially sold at the normal selling price for gloves, \$15.60, even though they had been purchased for less (\$5.97). As shown in Exhibit 2-4, Industries also issued credits totalling \$14,367.96, associated with the overpayment on the sale of work gloves.

Milk

Correctional Industries' Vandalia Dairy operation purchases raw milk from dairies. The Vandalia facility processes the raw milk, producing both whole milk and 2 percent milk for correctional facilities. However, the carton machinery used in packaging the 2 percent milk broke down and needed repair in September 1993.

The Vandalia Dairy operation purchased 609,350 half-pints of 2 percent milk in September and October 1993 at a cost of 13.50 cents per half pint. The milk was sold at Industries' normal selling price of 13.25 cents per half pint, resulting in a net loss for Correctional Industries.

Correctional Industries officials contacted three milk suppliers to obtain bids on supplying the 2 percent milk needed. One company was unable to meet its needs; two others supplied bids. The lowest bid was for 13.50 cents per half pint. Correctional Industries prepared an emergency purchase affidavit showing the need for the purchase. A total of 609,350 half-pints were purchased between September and October 1993. The total cost of the purchase was \$82,262.

Correctional Industries sells the milk it produces for 13.25 cents per half pint. When this milk was purchased at 13.50 cents per half pint, Industries' officials decided to sell the milk at the normal selling price (13.25 cents per half pint). This resulted in a net loss of over \$1,500.

CHAPTER THREE PRICING OF FINISHED GOODS PURCHASED AND RESOLD

Correctional Industries did not have a consistent, documented policy for the pricing of finished goods purchased for resale. Policies mainly address goods produced by Correctional Industries and not finished goods which Industries purchased for resale. Policy also does not specifically require Central Office review and approval of the selling price of the finished goods purchased and resold.

INDUSTRIES' PRICING POLICY

Correctional Industries' policy requires that several steps be followed to help ensure that the prices charged for goods and services are competitive with the private sector, cover costs incurred, and are properly reviewed and approved.

Job Quotation Sheet

A basic element in this process is the job quotation sheet. Policy requires that a job quotation sheet be prepared for each item to be sold (see Appendix C for sample job quotation sheets). It is from this job quotation sheet that the selling price of a product is calculated. There are four main components on the job quotation sheet:

- Cost of materials used to produce an item.
- Cost of direct labor to produce a product.
- Four types of overhead costs:
 - *Indirect labor overhead*: includes inmates performing non-manufacturing functions, such as janitorial or administrative duties. The amount of indirect labor is based on the previous month's indirect labor as a percentage of direct labor.

- **Factory manufacturing overhead:** includes all manufacturing items except raw materials and inmate labor. The salaries of supervisory workers and facility office expenses would be included in factory manufacturing overhead. This overhead factor equals total expenses minus raw materials and inmate labor, plus or minus manufacturing overhead absorbed.
 - **Factory administrative overhead:** includes administrative expenses for the location including salaries, travel, equipment, maintenance, and telephone expenses for Industries' superintendent and support personnel at the facility. This overhead factor includes the total administrative expenses divided by the total factory direct labor.
 - **Central office selling, general, and administrative overhead:** primarily includes direct labor charges for central office employees. This overhead factor is determined by dividing central office expenses by inmate direct labor. This charge is not factored into those items sold within Correctional Industries.
- Profit at a certain percentage of total costs.

For the eight purchased finished goods we reviewed, Industries was unable to locate a completed job quotation sheet. For the broom handles, Industries officials stated one was completed several years ago but could not locate it. For the other finished goods, officials said that job quotation sheets had not been prepared.

Industries officials stated it was difficult to prepare job quotation sheets for finished goods purchased and resold. Industries' cost system allocates all overhead costs based on the amount of direct labor that goes into making a good. Because the finished goods purchased for resale are not improved (i.e., no labor is used to take raw materials and produce a finished good), there are no direct labor costs associated with finished goods. Consequently, under Industries' cost system, no overhead costs would be allocated to the finished goods.

As shown on Exhibit 2-2, Industries sold some finished goods at the same price it paid for them (i.e., there was no mark-up). These included the underwear and work gloves (since the "gross profit" was subsequently credited back to the purchasing institutions) and officer clothing. In the purchase of milk, Industries charged less than it paid for the good.

Industries, however, does incur costs in the purchase and resale of these finished goods. Industries' Central Office staff processes invoices and vouchers. Industries staff at facilities supervise the inmates' handling of finished goods and carry out various administrative responsibilities associated with their receipt and distribution. Facility overhead costs are also incurred. Finally, inmate labor costs are incurred in the receiving, handling, storage, and distribution of purchased finished goods.

Not including the labor and administrative costs associated with purchased finished goods can result in Industries charging more for its other products and services to subsidize the costs incurred in handling and distributing the purchased finished goods. If costs are not recovered in the selling price of the purchased finished goods, it could reduce Industries' overall net profit, or Industries could recover the costs by charging more for the goods and services it produces. Consequently, purchasers of other goods and services may be subsidizing Industries' purchase and resale of finished goods.

Also, preparing a job quotation sheet for finished goods purchased for resale would require an examination of the costs incurred in the purchase and resale of finished goods. We inquired whether the amount of mark-up on the resale of remanufactured tires and recycled oil was sufficient to cover Industries' costs incurred in purchasing, storing, and transporting these finished goods. An Industries official stated that there was insufficient data to determine whether Industries was losing or making money on the oil and tires. Formally analyzing the costs incurred in such ventures, such as through the preparation of a job quotation sheet or some other method, would help ensure that Industries' selling price is adequate to recover the costs incurred.

Review of Prices Set

Industries' policy requires each location superintendent to review their prices on a quarterly basis. The Industries superintendents at each facility are required to submit to central office any requests for special management review of price quotes in certain situations. The following situations are covered by the policy:

- Quotes from shops that are not in production;
- Quotes from shops that anticipate significant changes in production levels (either increases or decreases);
- Quotes for new products for which determination of either raw material usage or direct labor cost is difficult prior to significant experience;
- Quotes for products for which a significant increase or decrease in direct labor pay per unit is being proposed; or
- Quotes for agricultural products where cost is anticipated to be above market.

The above situations do not explicitly deal with the pricing of purchased finished goods. According to Industries' officials, the price charged for the resale of finished underwear and gloves purchased and sold in 1993, which was the impetus for this audit, was not reviewed by the Central Office. Clarification of Industries' policy to require that prices

set for all finished goods purchased for resale must be reviewed by the Central Office would help prevent such a reoccurrence.

Requiring a special management review of all instances where finished goods are purchased for resale would help ensure that: (1) Industries' staff at correctional facilities are aware of the need to inform Central Office of the pricing of finished goods; and (2) provide Central Office with an opportunity to review the price set for finished goods purchased for resale.

AGENCY RECOMMENDATION

Correctional Industries should revise its policies to provide more specific requirements regarding the purchase and resale of finished goods. The policy should specify when finished goods can be purchased, address the manner in which prices are to be set, and specify procedures for Central Office review and approval.

Department of Corrections Response:

"Correctional Industries will revise its pricing policy to include more specific requirements regarding the purchase and resale of finished goods. The policy will address the three primary situations when the purchase of finished goods is consistent with the goals and objectives of Correctional Industries:

- Additional quantities of goods normally produced by Industries are needed due to production shortfalls caused by lockdowns or equipment failures.
- Goods not normally produced by Industries are needed in conjunction with a service-based program or mandate.
- Goods are needed to meet customer demand for replacement or complementary components of Industries' manufactured goods.

The policy will require procedures for the pricing of finished goods purchased for resale, and all such purchases will require Industries' Central Office review and approval."

OTHER PRICING ISSUES

Legislative Audit Commission Resolution Number 99 also asked whether the finished goods purchased and resold by Correctional Industries to the Department of Corrections could have been purchased off the open market at a cheaper price. Clearly, the Department could purchase underwear and work gloves from the open market cheaper than the price charged by Industries for underwear and gloves it makes. Industries purchased briefs for \$13.90 and \$13.97 per dozen. Its regular selling price for briefs it made was \$20.95. It purchased work gloves for \$5.97 per dozen; it regularly charged \$15.60 per dozen for the work gloves produced at its Menard facility. In these instances, Industries could purchase products off the open market cheaper than it cost them to make them. Industries did credit

the purchasing institutions' accounts in late 1993 for the difference between the purchase and selling price for the underwear and gloves (see Chapter 2).

Broom handles are the other finished goods which Industries sold correctional facilities at a selling price substantially higher than its purchase price. For example, Industries paid 94 cents for a wood broom handle with a metal thread. It charged correctional facilities \$2.45 for each handle.

For the other purchased finished goods we examined, however, we found that the prices charged by Industries were generally comparable to the open market. All of the other finished goods were purchased off of contracts let by the Department of Central Management Services. According to a DCMS official, all of these contracts were competitively bid. The mark-up to cover Industries' costs ranged from 0 percent to 13 percent (see Exhibit 2-2). And for one purchase, the 2 percent milk in 1/2 pint cartons, Industries' purchase price was higher than the price it charged for the cartoned milk it produced.

Industries officials stated they try to sell products as close to the market price as possible. According to Industries officials, they review monthly information from the Department of Central Management Services that lists the prices of commodities purchased through the competitive bid process. Industries uses this information to set commodity prices at a level consistent with the open market.

Industries does not monitor the amount of profit generated from the sale of finished goods purchased for resale. Based on the amount of goods sold in Fiscal Year 1993, we estimated that the maximum gross profit on finished goods purchased for resale would have accounted for about three percent (\$35,000) of Industries' overall net profit of \$1.18 million. This excludes the \$55,457 profit realized in the sale of underwear and gloves which was subsequently credited back to the purchasing correctional facilities. Most of the estimated profit was associated with the sale of 19,700 broom handles, which would yield an estimated maximum gross profit of \$29,700. Overhead and labor costs are not included in the estimated \$35,000 gross profit on the purchased finished goods, which would reduce the amount of gross profit.

APPENDICES

APPENDIX A

AUDIT RESOLUTION NUMBER 99

Legislative Audit Commission

RESOLUTION NO. 99
Presented by Senator Topinka

WHEREAS, the Department of Corrections operates manufacturing, service, and agricultural industries within adult correctional centers; and

WHEREAS, the Correctional Industries program was established to provide committed persons with marketable skills and promote habits of work and responsibility; and

WHEREAS, in Fiscal Year 1993, Correctional Industries had net sales totaling \$38.1 million; and

WHEREAS, State statutes require that prices set for Correctional Industries goods shall be as near to the usual market price for such items as possible; and

WHEREAS, Correctional Industries has recently purchased finished goods, repackaged them, and then sold them at a marked-up price to correctional facilities; now

THEREFORE BE IT RESOLVED by the Legislative Audit Commission of the State of Illinois that the Auditor General is directed to conduct a management audit of the Department of Corrections' Correctional Industries.

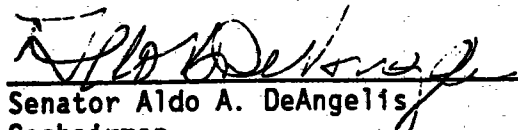
BE IT FURTHER RESOLVED that this audit shall include but need not be limited to the following determinations:

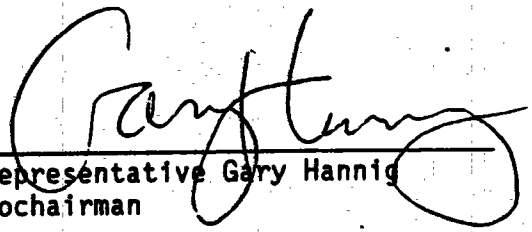
- 1) Whether the practice of buying finished goods and reselling them is consistent with Correctional Industries' statutory mandate;
- 2) Whether the amount of mark-up Correctional Industries places on finished goods it purchases and resells is based on the costs incurred to repackage and distribute the finished goods;
- 3) Whether finished goods purchased and resold by Correctional Industries to the Department of Corrections could be purchased off the open market at a cheaper price; and
- 4) Whether Correctional Industries identifies the percentage of profits generated from the resale of finished goods.


BE IT FURTHER RESOLVED that the Illinois Department of Corrections, the Department of Central Management Services, and all other State agencies which may have information relevant to this audit shall cooperate fully and promptly with the Office of the Auditor General in the conduct of this audit; and

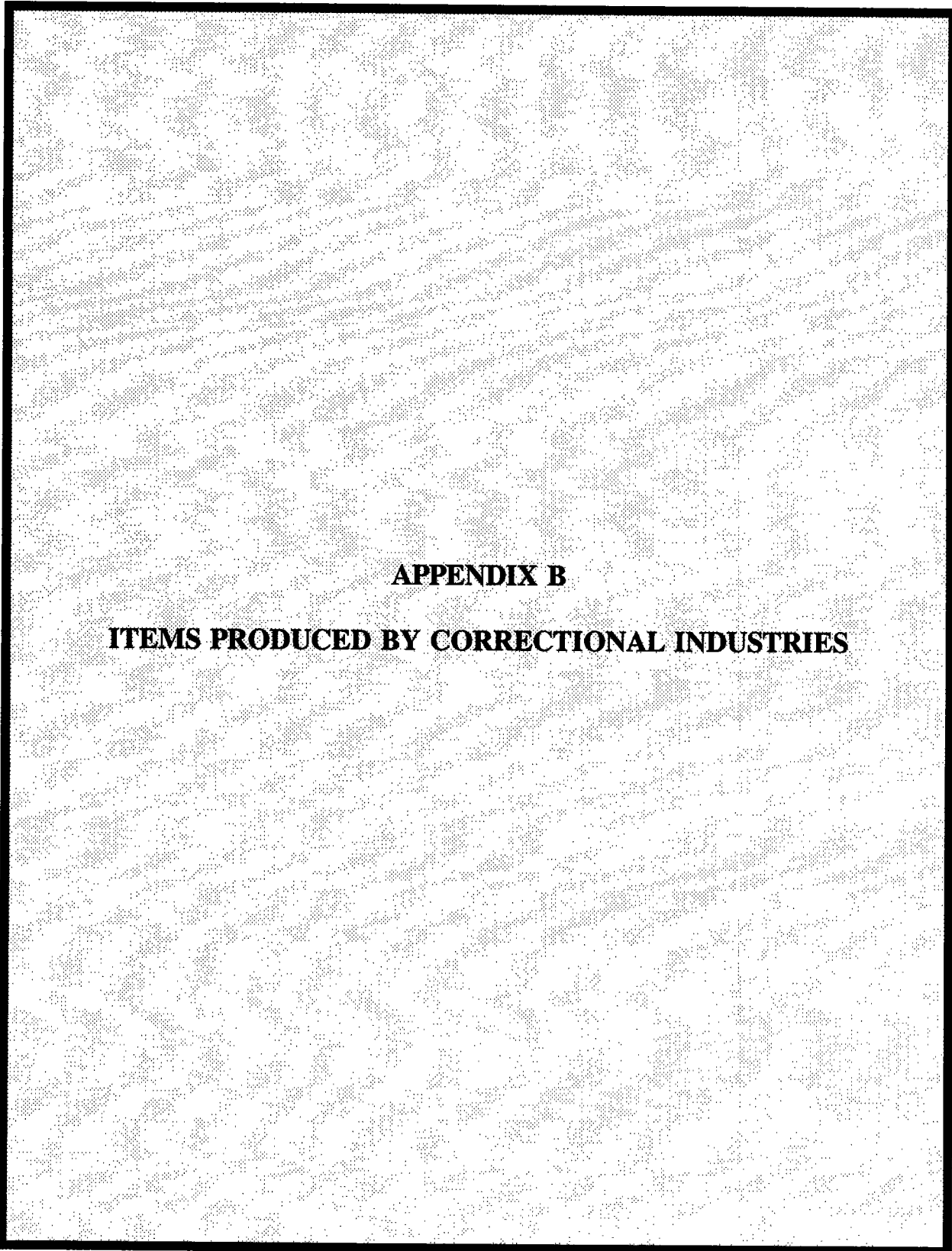
BE IT FURTHER RESOLVED that the Auditor General shall commence this audit immediately and report his findings and recommendations as promptly as possible in accordance with the provisions of the Illinois State Auditing Act.

Adopted this 6th day of December, 1993.


Senator Aldo A. DeAngelis
Co-Chairman


Representative Gary Hannig
Co-Chairman


Representative Margaret Parcells
Secretary



APPENDIX B

ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES

17

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1

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
CENTRALIA			
Microfilming Microfilm Images	NA	71,650	394,389
Tire Recapping Recapped Tires	919	1,527	1,328
Remanufactured Tires, Distribution	NA	NA	2,965
Dry Cleaning Dry Cleaning - Pieces	44,272	60,895	58,606
Belts Belts	15,606	9,707	13,906
Metal Furniture Cabinets Chair Buffing	183 NA	178 NA	225 2,338
Re-Refined Oil Oil Distribution, Case Oil Distribution, Drum	NA NA	NA NA	1,370 144
DANVILLE			
Bindery Rebound Books	512	993	136
Paper Pads	877	654	778
Box Factory Boxes (all types)	780,604	824,089	845,652
Silk Screening Silk Screened Items	42,173	90,488	215,599
DIXON			
Optical Eyeglasses	128,341	130,595	132,761
Sewing Eyeglass Cases	NA	66,895	72,245
Glove Pouches	NA	NA	5,254
DWIGHT			
Garment Aprons	2,090	1,882	3,074
Blouses	4,101	2,495	2,178
Coffee Filters	NA	NA	50
Dusters	985	1,855	2,034
Eyeglass Cases	NA	44,088	75,176

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Flags and Banners	NA	43	13
Glove Pouches, Cut	NA	NA	20,294
Handkerchiefs	2,650	4,205	2,550
Hospital Gowns	6,904	2,438	2,208
Lab Coats	NA	230	185
Nightgowns/Nightshirts	334	72	319
Pants, Hemming	NA	NA	688
Pajamas	3,261	4,058	4,518
Robes	110	464	146
Shirts (All Colors)	94,895	113,888	86,496
Slacks	2,132	1,288	1,957
Special Aprons	NA	NA	4,550
Surgical Caps	500	NA	508
EAST MOLINE			
Laundry Dry Cleaning (Pieces)	31,963	31,161	33,246
Laundry (Pounds)	2,907,804	2,959,576	2,814,123
HILL (GALESBURG)			
Meat Processing Beef (Pounds)	1,619,416	2,170,069	1,881,689
Milk Processing Milk (Cartons)	10,032,950	10,089,350	11,338,850
2% (5 Gallon Bags)	2,686	2,947	8,228
Juice (Cartons)	4,407,311	5,003,000	7,232,375
Juice (5 Gallon Bags)	NA	14,224	12,694
GRAHAM			
Furniture Desks	136	49	39
Credenzas	106	31	27
Bookcases	75	40	33
File Cabinets	66	19	22
Chairs	2,063	1,039	1,035
Desk Returns	29	10	19
Settees	541	238	267
Tables	409	358	341

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Keyboard Trays	8	2	7
Beds	NA	NA	552
Nightstands	42	206	544
Wardrobes	15	42	144
Reupholstery	368	827	NA
Drawers	225	NA	NA
Bed Hutch/Springs	155	NA	NA
Wooden Paddle	NA	200	NA
Desk Accessories & Misc.	NA	2,014	NA
ILLINOIS RIVER (CANTON)			
Bakery			
Bread (Pounds)	NA	2,378,000	2,942,400
Buns (Dozens)	NA	235,000	551,400
Hard Rolls (Pounds)	NA	45,000	104,900
Donuts/Danish (Pounds)	NA	NA	7,612
Cinnamon Rolls (Pounds)	NA	NA	2,400
Cookies (Pounds)	NA	NA	7,300
JOLIET			
Mattress			
Mattresses	12,572	10,361	11,249
Mattress Covers	6,492	3,087	5,571
Pillows	12,943	8,352	9,332
Pillow Cases	4,014	3,235	3,177
Sheets	5,935	4,838	6,247
Laundry Bags	2,581	4,753	8,704
Data Entry			
Keystrokes	182,828,165	192,852,079	348,437,792
Transfer Supply			
Initial Issue Kits	17,804	18,494	20,850
Destination Kits	14,206	14,272	15,718
Dry Cleaning (Pieces)	61,552	61,552	64,808
LOGAN			
Furniture Refinishing			
All Items	1,716	1,820	1,339
MENARD			

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Broom and Wax			
Brooms (All Types)	7,373	7,681	6,077
Brushes (All Types)	7,505	5,928	7,340
Wet Mop Holders	1,292	1,454	518
Pads (All Types)	2,345	4,937	7,804
Handles	NA	6,981	19,700
Carnauba Wax (Cases)	1,595	502	NA
Hi Gloss Floor Finish (Cases)	2,575	5,224	6,723
Hi Gloss Floor Finish (Pails and Drums)	NA	NA	1,446
Hi Gloss Restorer (Cases)	925	2,184	3,683
Hi Gloss Restorer (Pails and Drums)	NA	NA	77
No Rinse Stripper (Cases)	2,479	3,365	3,957
No Rinse Stripper (Pails and Drums)	NA	NA	1,179
Floor Sample Kit	NA	NA	79
Knit			
Sweatshirts (Dozens)	637	366	202
Mops (Dozens)	2,302	2,770	2,532
Floor Dusters	2,661	2,291	2,242
Terry Towels (Dozens)	13,237	11,442	11,357
Terry Wash Cloths (Dozens)	12,204	11,740	8,127
Knit Caps (Each)	24,314	16,084	21,320
Work Gloves (Dozens)	3,709	3,346	8,929
Knit Towels	1,572	10,166	2,875
Gym & Tote Bags (Each)	3,212	3,444	2,598
Briefs (Dozens)	16,916	17,604	15,138
T-shirts (Dozens)	11,600	17,151	14,273
Socks (Dozens)	18,445	19,330	18,113
Ladies Panties (Dozens)	1,284	1,673	397
Terry Bibs (Dozens)	1,820	2,361	1,523
Safety Vests (Each)	8,184	5,431	7,928
Danger Flags	780	527	1,544
Danger Flags w/Staffs	1,562	2,646	3,511
Flag Staff (Only)	NA	NA	550

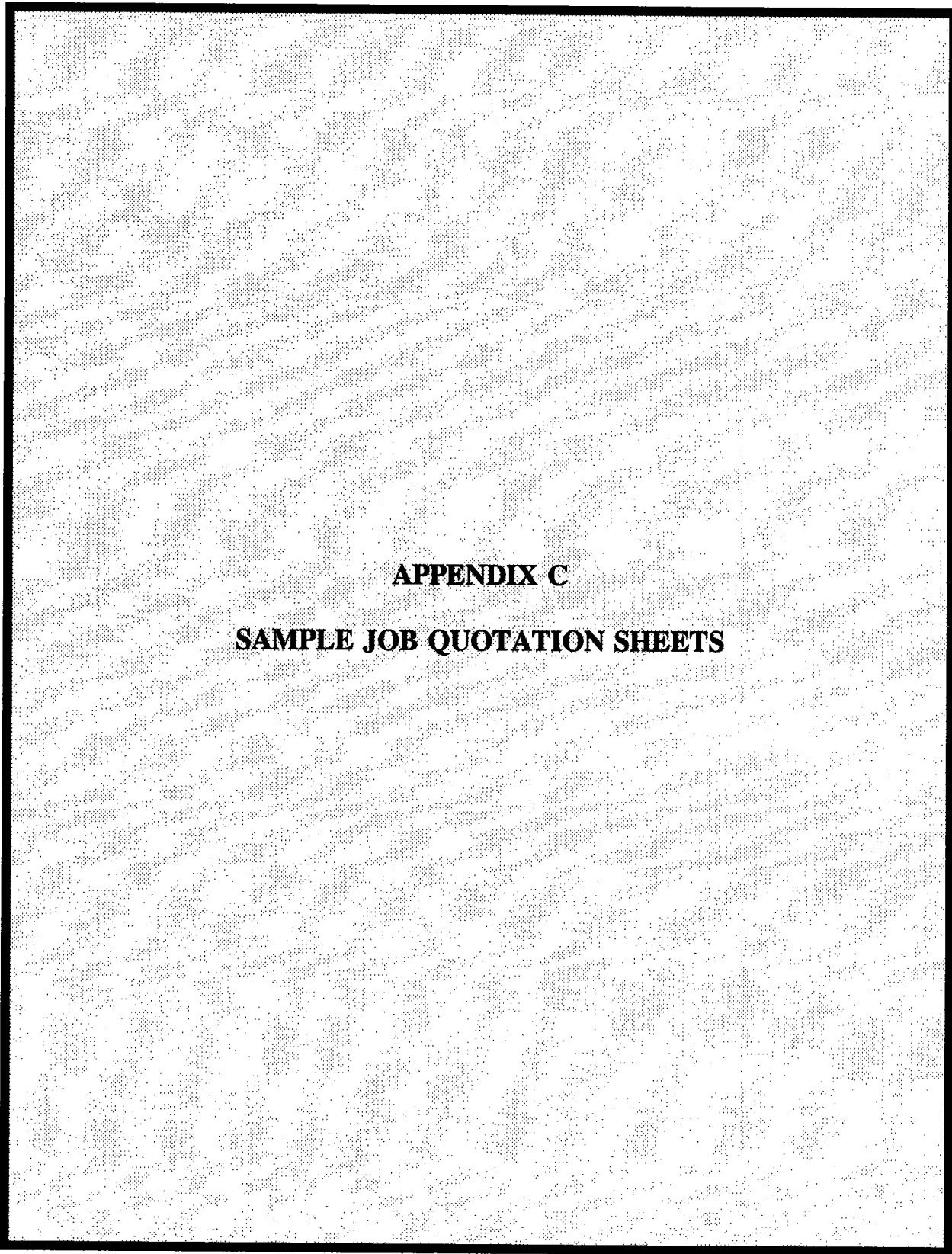
APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Tobacco Cigarettes	10,929	11,880	8,394
Farm Crops Alfalfa (Tons)	37	NA	NA
Grass Hay (Tons)	244	NA	383
Clover Hay	NA	NA	64
Wheat (Bushels)	2,752	5,884	NA
Soybeans (Bushels)	5,644	13,590	15,562
Straw (Tons)	75	46	NA
Bean Straw (Tons)	NA	NA	891
Farm Beef Beef Sold (Head)	24	75	29
Farm Swine Swine Sold (Head)	1,447	1,181	717
Meat Processing Pounds Produced	730,184	645,548	723,791
PONTIAC			
Sign Vehicle Marking	NA	318	1,250
Sign Faces	1,420	5,144	4,333
Finished Signs	21,702	28,459	25,193
Sign Blanks	NA	NA	1,102
Decals	21,479	40,109	16,020
Signs	1,568	162	106
Plate Holders	129	116	123
Name Plates	NA	NA	638
Barricades	129	237	60
Stop and Slow Paddles	962	781	662
Key Control Tags	1,250	2,000	1,000
Die Cut Letters and Numbers	863	523	1,768
Miscellaneous	NA	NA	87
Data Entry Keystrokes	NA	NA	652,523,552
Records	7,861,912	1,954,224	NA
SHAWNEE			

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Metal Furniture			
Tripods	1,007	8,084	NA
Barricades	627	327	NA
Beds	3,086	2,544	5,171
Shelving Units	5,695	NA	3,681
Bed Drawers	2,422	1,565	2,768
Leveler Bars	3,854	NA	NA
Thermostat Guards	151	NA	NA
Footlockers	265	450	2,688
Bunking Adaptors	1,649	1,099	2,521
Sign Blanks	459	1,895	15,791
Bunking Ladders	300	65	336
Wardrobes	1,303	NA	NA
ID Tags	NA	6,500	1,151
Wall Mount Accessories	NA	195	317
Brackets and Hardware	NA	2,498	4,074
Utility Cabinets	NA	61	6
Rapid Mount Brakers	NA	NA	950
Dayroom Furniture	NA	NA	162
Modular Lockers	NA	NA	672
Box Frame Springs	NA	NA	487
Bakery Equipment	NA	208	NA
Repaint Chairs	NA	2,354	NA
Miscellaneous	NA	NA	2,806
SHERIDAN			
Refinished Furniture (Pieces)	3,825	3,412	3,334
STATEVILLE			
Furniture			
Desks	715	113	133
Bookcases	429	98	130
Credenzas	140	37	NA
Study Carrels	8	114	8

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Printer Stands	75	10	23
Wardrobes	45	142	28
Tables	272	200	198
Wall Units	NA	1,026	22
Coat Trees	76	8	24
Stacking Chairs	2,123	1,782	1,678
Table Tops	NA	40	212
Chests	119	58	40
File Cabinets	175	37	NA
Nighstands	60	NA	160
Bedside Cabinets	NA	24	NA
Folding Tables	38	NA	86
Headboards	NA	NA	72
Footboards	NA	NA	50
Shelves	3,600	5,017	3,750
Miscellaneous	NA	NA	93
Soap			
Laundry Builder (Drum)	293	407	25
Laundry Builder (Bag)	NA	NA	36
Laundry Detergent (Drum)	14,622	11,147	25
Laundry Detergent (Box)	NA	NA	13,970
Laundry Detergent (Case)	NA	NA	521
Industrial Liquid Cleaner (Case)	9,578	9,275	12,517
Tru Klenz (Cases)	1,981	2,449	2,299
Liquid Glass Cleaner (Gal., Case)	5,125	4,555	3,410
Liquid Glass Cleaner (32 oz. Bottles, Case)	NA	NA	1,245
Quatshield (Case)	NA	NA	4,644
Quatshield (Gallons)	3,593	4,413	NA
Germiquat (Case)	NA	NA	5,054
Germiquat (Gallons)	4,410	4,785	NA
Bar Soap (3.5 oz., Case)	3,082	3,031	2,573
Bar Soap (1 oz., Case)	NA	NA	515

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Aloe Wash (Gal., Case)	1,028	1,238	1,187
Aloe Wash (8 oz. Bottle, Case)	NA	NA	204
Clean Fresh (8 oz. Bottle, Case)	1,663	1,415	987
Gentle Scrub (Gal., Case)	1,854	1,942	1,440
Aloe Wash, Press Pak (Case)	NA	NA	3,690
Anti-Microbial, Press Pak (Case)	NA	NA	1,269
Gentle Scrub, Press Pak (Case)	NA	NA	577
Garment			
Windbreakers and Coats	47,649	40,379	37,080
Pants	108,125	91,567	88,109
Jumpsuits	9,586	7,953	8,125
Coveralls	2,158	1,838	2,628
Shorts	1,056	757	1,048
Dietary Tops	1,130	1,618	290
Farm			
Corn (Bushels)	80,318	38,861	122,608
Soybeans (Bushels)	24,796	9,575	37,005
Hay (Tons)	NA	215	NA
VANDALIA			
Crops			
Corn (Bushels)	35,000	19,665	40,534
Wheat (Bushels)	NA	NA	1,272
Silage (Ton)	1,800	NA	3,056
Hay (Sq. Bales, Each)	6,737	NA	10,839
Soybeans (Bushels)	2,700	992	NA
Dairy			
Raw Milk (Pounds)	23,775,844	2,106,755	2,461,311
Milk Processing			
Milk (Cartons)	NA	NA	10,345,200
Milk (5 Gal. Bags)	11,238	12,140	10,840
Milk (8 ounce Case)	148,975	194,988	NA
Chocolate (8 ounce Case)	9,238	7,474	NA
10% Juice (Cases)	60,261	61,721	NA
100% Juice (Cases)	33,651	33,961	NA

APPENDIX B - ITEMS PRODUCED BY CORRECTIONAL INDUSTRIES			
ITEMS PRODUCED BY SHOP	FY 1991*	FY 1992*	FY 1993
Juice (Cartons)	NA	NA	4,011,350
Meat Processing			
Beef (Pounds)	1,214,381	NA	1,679,028
Beef Carcass (Pounds)	1,597,465	NA	NA
Pork (Pounds)	194,947	NA	NA
Cooked Product (Pounds)	NA	304,095	NA
Raw Product (Pounds)	NA	1,157,805	NA
VIENNA			
Livestock/Crops			
Milo (Bushels)	431	3,346	NA
Cattle Sold (Head)	1,050	1,848	2,908
Soybeans Sold (Bushels)	106	870	NA
Hay Sold (Bales)	1,348	NA	NA
Distillers Grain (Tons)	2,964	NA	NA
Ethanol			
Ethanol Sold (Gallons)	412,080	387,956	326,818
WESTERN			
Food Processing			
Beef (Pounds)	NA	352,286	893,913
Poultry (Pounds)	NA	690	533,399
Fish (Pounds)	NA	NA	254,473
Turkey (Pounds)	NA	98,040	NA
NA - Information not available; shop was not open or shop not listed as producing this item in this Fiscal Year.			
* - Information was not broken out by shop until FY 1993 for most institutions.			
Source: OAG Analysis of Industries Data.			



APPENDIX C

SAMPLE JOB QUOTATION SHEETS

APPENDIX D

REVENUES, EXPENSES, OVERHEAD & PROFIT MARGINS

FISCAL YEAR 1993

Appendix D
Revenues, Expenses, Overhead & Profit Margins
Industries FY 93

Name	Revenue	Gross Operating Expenses	Gross Profit (loss)*	Overhead Costs	Net Profit (loss) After O/H	Net Margin on Revenue	% of Revenue to Total Revenue	% of Profit to Total Revenue	# of Ave Inmate Workers per/month
1 Joliet Transfer Supply	\$82,237	\$46,649	\$35,588	\$7,947	\$27,641	33.61%	0.20%	0.07%	3
2 Stateville Soap	\$1,195,570	\$816,513	\$379,057	\$41,122	\$337,935	28.27%	2.94%	0.83%	10
3 Stateville Garment	\$2,381,359	\$1,497,080	\$884,279	\$337,019	\$547,260	22.98%	5.86%	1.35%	100
4 Centralia Belts	\$29,088	\$20,541	\$8,557	\$2,447	\$6,110	21.00%	0.07%	0.02%	1
5 Joliet Mattress	\$1,229,985	\$900,740	\$329,245	\$76,466	\$252,779	20.55%	3.03%	0.62%	33
6 Menard Tobacco	\$603,050	\$398,644	\$206,406	\$68,449	\$117,957	19.56%	1.48%	0.29%	13
7 Danville Box Factory	\$462,331	\$382,830	\$79,501	\$29,983	\$49,518	10.71%	1.14%	0.12%	18
8 Logan Refinishing	\$152,784	\$84,803	\$67,981	\$51,996	\$15,985	10.47%	0.38%	0.04%	18
9 Hill Milk Proc.	\$2,413,104	\$2,098,418	\$313,686	\$75,921	\$237,765	9.85%	5.94%	0.58%	21
10 Vandalia Milk Proc.	\$1,911,563	\$1,672,125	\$239,438	\$51,171	\$188,267	9.85%	4.70%	0.46%	24
11 Dixon Optical	\$2,501,254	\$1,966,917	\$534,337	\$290,434	\$243,903	9.75%	6.15%	0.60%	79
12 Dwight Garment	\$951,824	\$845,679	\$106,146	\$213,473	\$92,673	9.74%	2.34%	0.23%	71
13 Menard Broom & Wax	\$611,915	\$518,278	\$93,638	\$37,556	\$56,080	9.16%	1.51%	0.14%	14
14 Vandalia Meat Proc.	\$3,359,139	\$2,982,954	\$406,185	\$120,920	\$285,265	8.49%	3.26%	0.70%	29
15 Lincoln Asbestos Abate.	\$1,912,945	\$1,452,250	\$460,695	\$300,494	\$160,201	8.37%	4.71%	0.39%	89
16 Graham Furniture	\$923,817	\$697,695	\$226,122	\$155,087	\$71,035	7.69%	2.27%	0.17%	30
17 Menard Knit	\$1,809,684	\$1,495,197	\$314,487	\$195,996	\$118,491	6.55%	4.45%	0.29%	57
18 Centralia Refined Oil	\$29,688	\$27,943	\$1,746	\$0	\$1,746	5.88%	0.07%	0.00%	0
19 Hill Meat Processing	\$3,955,310	\$3,604,693	\$350,617	\$130,538	\$220,079	5.56%	9.73%	0.54%	31
20 Centralia Metal Furn.	\$122,659	\$115,965	\$6,693	\$2,842	\$4,051	3.30%	0.30%	0.01%	1
21 Danville Silk Screening	\$476,356	\$416,466	\$59,890	\$61,487	(\$1,597)	-0.34%	1.17%	0.00%	30
22 Menard Meat Proc.	\$1,124,900	\$1,036,435	\$88,465	\$92,465	(\$4,000)	-0.36%	2.77%	-0.01%	10
23 Western Meat Proc.	\$1,906,425	\$1,760,170	\$146,255	\$154,578	(\$8,323)	-0.44%	4.69%	-0.02%	21
24 Ill. River Bakery	\$1,212,471	\$1,088,258	\$124,213	\$130,381	(\$6,168)	-0.51%	2.88%	-0.02%	60
25 Vienna Livestock/Crops	\$2,270,104	\$2,280,519	(\$10,415)	\$86,029	(\$96,444)	-4.25%	5.58%	-0.24%	22
26 Dixon Sewing Shop	\$79,185	\$82,986	(\$3,801)	\$19,848	(\$3,658)	-4.62%	0.19%	-0.01%	3
27 Vandalia Crops/Dairy	\$709,050	\$627,904	\$81,145	\$114,317	(\$33,172)	-4.68%	1.74%	-0.08%	25
28 Shawnee Metal Furn.	\$1,238,110	\$1,172,672	\$65,438	\$160,882	(\$95,444)	-7.71%	3.05%	-0.23%	51
29 Stateville Furn.	\$416,275	\$431,886	(\$15,611)	\$19,165	(\$34,776)	-8.35%	1.02%	-0.09%	11
30 East Motline	\$706,757	\$528,662	\$178,095	\$239,650	(\$61,555)	-8.71%	1.74%	-0.15%	70
31 Logan Tires	\$423,931	\$374,891	\$49,039	\$90,231	(\$41,192)	-9.72%	1.04%	-0.10%	20
32 Graham State Garage	\$22,567	\$7,177	\$15,389	\$17,996	(\$2,607)	-11.55%	0.06%	-0.01%	6
33 Pontiac Data Entry	\$791,292	\$473,034	\$318,258	\$435,694	(\$117,436)	-14.84%	1.95%	-0.29%	119
34 Stateville Crops	\$382,921	\$437,086	(\$54,164)	\$3,083	(\$57,247)	-14.95%	0.84%	-0.14%	9
35 Menard Waste Removal	\$132,397	\$123,346	\$9,051	\$35,496	(\$26,445)	-19.97%	0.33%	-0.07%	4
36 Stateville Waste Removal	\$132,958	\$187,305	(\$54,347)	\$1,799	(\$36,146)	-27.19%	0.33%	-0.09%	2

Appendix D
Revenues, Expenses, Overhead & Profit Margins
Industries FY 93

Name	Revenue	Gross Operating Expenses	Gross Profit (loss)*	Overhead Costs	Net Profit (loss) After O/H	Net Margin on Revenue	% of Revenue to Total Revenue	% of Net Profit to Total Revenue	# of Ave. Inmate Workers per/month
37 Pontiac Sign Shop	\$495,119	\$626,167	(\$131,048)	\$32,859	(\$163,907)	-33.10%	1.22%	-0.40%	35
38 Sheridan Refinishing	\$324,250	\$299,229	\$25,021	\$146,505	(\$121,484)	-37.47%	0.80%	-0.30%	45
39 Centralia Tire Recapping	\$149,095	\$192,820	(\$43,725)	\$12,942	(\$56,667)	-38.01%	0.37%	-0.14%	4
40 Centralia Dry Cleaning	\$70,833	\$82,521	(\$11,688)	\$17,289	(\$29,177)	-41.31%	0.17%	-0.07%	8
41 Vienna Ethanol	\$408,774	\$484,569	(\$75,795)	\$130,516	(\$206,311)	-50.47%	1.01%	-0.51%	43
42 Joliet Dry Cleaning	\$74,850	\$110,213	(\$35,363)	\$2,487	(\$37,850)	-50.57%	0.18%	-0.09%	5
43 Menard Crops	\$119,698	\$168,698	(\$49,001)	\$38,001	(\$87,002)	-72.68%	0.29%	-0.21%	4
44 Joliet Data Entry	\$232,664	\$256,938	(\$24,274)	\$145,454	(\$169,798)	-73.00%	0.57%	-0.42%	25
45 Menard Swine	\$59,356	\$126,541	(\$67,185)	\$34,056	(\$101,241)	-170.57%	0.15%	-0.25%	4
46 Centralia State Garage	\$20,569	\$7,393	\$13,176	\$67,297	(\$54,121)	-263.12%	0.05%	-0.13%	7
47 Menard Beef	\$14,180	\$57,374	(\$43,194)	\$17,836	(\$61,030)	-430.39%	0.03%	-0.15%	1
48 Centralia Microfilming	\$11,885	\$86,205	(\$74,320)	\$13,795	(\$88,115)	-741.40%	0.03%	-0.22%	8
49 Logan Warehouse	\$1,932	\$57,097	(\$55,166)	\$77,417	(\$132,583)	-6862.47%	0.00%	-0.33%	17
50 Danville Book Bindery	\$164	\$15,956	(\$15,792)	\$0	(\$15,792)	-9629.27%	0.00%	-0.04%	0
51 Jacksonville Tele. Marketing	\$0	\$7,443	(\$7,443)	\$88,969	(\$96,412)	N/A	0.00%	-0.24%	6
52 Stateville Garage	\$0	\$892	(\$892)	\$0	(\$892)	N/A	0.00%	0.00%	
Total	\$40,648,124	\$34,963,777	\$5,684,345	\$4,698,165	\$986,179		100.00%	2.43%	1317
Freight - Own	\$116,856				\$116,856			0.28%	
Non-Operating Revenue	\$74,645				\$74,645			0.18%	
Total	\$40,839,625	\$34,963,777	\$5,684,345	\$4,698,165	\$1,177,680		100.00%	2.90%	1317

* Amount may not add due to rounding

** An additional 59 workers were assigned to "Administration" at various locations

Source: OAG analysis of Correctional Industries Data

APPENDIX E
AGENCY RESPONSE

1301 Concordia Court / P.O. Box 19277 / Springfield, IL 62794-9277 / Telephone: (217) 522-2666
TDD: (800) 526-0844

May 12, 1994

William G. Holland
Auditor General
509 South Sixth Street
Springfield, IL 62701

Dear Mr. Holland:

The Department of Corrections is providing this letter in response to the recommendation in the report of the Correctional Industries Program management audit.

Correctional Industries will revise its pricing policy to include more specific requirements regarding the purchase and resale of finished goods. The policy will address the three primary situations when the purchase of finished goods is consistent with the goals and objectives of Correctional Industries:

- ▶ Additional quantities of goods normally produced by Industries are needed due to production shortfalls caused by lockdowns or equipment failures.
- ▶ Goods not normally produced by Industries are needed in conjunction with a service-based program or mandate.
- ▶ Goods are needed to meet customer demand for replacement or complementary components of Industries' manufactured goods.

The policy will require procedures for the pricing of finished goods purchased for resale, and all such purchases will require Industries' Central Office review and approval.

Thank you for the opportunity to respond to your report.

Sincerely yours,



Howard A. Peters III
Director