



**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

**EVALUATION REPORT**

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**MINNCOR Industries**

**FEBRUARY 2009**

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## OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

February 2009

Members of the Legislative Audit Commission:

In 1994, the Minnesota Department of Corrections consolidated and centralized individual prison industry programs into a single statewide business known as MINNCOR Industries. In response to legislative concerns about its operations, the commission directed OLA to evaluate MINNCOR's overall management and business practices.

We found that MINNCOR has generally done a good job in achieving high levels of inmate employment and generating enough revenue to cover its costs. Some of its practices though, especially regarding its labor arrangements with private businesses, lack transparency and have placed the state at risk. Financial reporting and oversight need to be improved, and we make several recommendations to accomplish this.

Our evaluation was conducted by Jo Vos (project manager) and David Chein, with assistance from Pat Ryan and Bryan Dahl. We received the full cooperation of the Department of Corrections and MINNCOR Industries, and we thank them for their assistance.

Sincerely,

A handwritten signature in black ink that reads "Jim Nobles". The signature is written in a cursive, flowing style.

James Nobles  
Legislative Auditor



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# Summary

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**Overall, MINNCOR has been successful in maintaining high levels of inmate employment and generating enough revenue to cover its costs.**

## Major Findings:

- MINNCOR Industries employed about 16 percent of Minnesota's adult prison population in fiscal year 2008—one of the highest rates in the nation (pp. 14-15).
- For fiscal year 2008, MINNCOR reported revenues of \$35.8 million, expenses of \$32.8 million, and net income—or profit—of \$3.0 million (p. 10).
- Although MINNCOR has shown a profit in recent years, the Department of Corrections (DOC) has annually transferred over \$1 million deducted from inmates' wages for their confinement costs to MINNCOR (pp. 32-33).
- Most of MINNCOR's profits come from two industries that employ relatively few inmates: license plates and the canteen (pp. 38-39).
- Profits have gone toward improving internal operations and supporting other inmate-related programs (pp. 39-40).
- Sales to inmates and state agencies accounted for nearly 79 percent of MINNCOR's sales revenue in 2008; sales to all other levels of government were about 4 percent (pp. 28-30).
- In 2008, inmates spent about 55 percent of their work hours manufacturing, assembling, or packaging products for private businesses (pp. 23-24).
- MINNCOR has used purchase orders rather than formal contracts when allowing private businesses to use inmate labor and prison space (pp. 45-47).
- MINNCOR does not adequately track revenues and expenditures related to its labor arrangements with private businesses (p. 44).
- Although MINNCOR has begun to market its products more aggressively, it has not developed a formal marketing plan (p. 50).
- Most state agency staff doing business with MINNCOR were satisfied with the results (pp. 52-55).

## Recommendations:

- MINNCOR should report its full cost for inmate wages and the amount it receives from DOC for inmates' confinement costs in its annual financial statements and reports (pp. 70-71).
- MINNCOR should use contracts rather than purchase orders when allowing private businesses to use inmate labor (p. 71).
- MINNCOR should monitor and annually evaluate each of its labor arrangements with private businesses (p. 71).
- MINNCOR should develop a formal marketing plan, as required by state law (p. 73).

## Report Summary

Minnesota state correctional facilities have operated industrial programs for well over 100 years, beginning with the manufacturing of twine at Stillwater State Prison. Although the types of industries in state facilities have changed over the years, their goals have not: to help inmates learn good work habits, provide them with marketable skills, and reduce inmate idleness. In the mid-1990s, the Legislature and the Department of Corrections (DOC) added another goal: to operate without a state subsidy. To help make this possible, in 1994 the department consolidated and centralized its individual facility programs into a single statewide business known as MINNCOR Industries.

### **In FY 2008, MINNCOR employed 16 percent of prison inmates.**

The number of inmates employed by MINNCOR increased 50 percent over the last decade, going from 865 inmates in fiscal year 1999 to 1,297 inmates in 2008. Over the same time period, the adult inmate population in state facilities increased 42 percent, from 5,622 to 7,987 inmates. After dipping slightly in the middle of the decade, MINNCOR employed 16 percent of the inmate population in fiscal year 2008, the same as in 2001.

According to National Correctional Industries Association data, the percentage of inmates employed in prison industries in Minnesota was triple the national average in 2007. Minnesota has traditionally had higher participation rates than other states. For example, it employed 18 percent of its inmate population in

fiscal year 1998, compared with a national average of 9 percent.

In 2008, seven of the state's nine adult correctional facilities had industry programs. Inmate participation in MINNCOR varied from 4 percent in St. Cloud to 34 percent in Shakopee. In the other five facilities with industries, MINNCOR employed between 20 and 26 percent of inmates.

### **MINNCOR reported an overall profit of \$3 million for FY 2008.**

Between fiscal years 1999 and 2008, MINNCOR's sales grew from \$18.5 million to \$35.8 million, a 91 percent increase. Sales peaked in 2006 at \$41.5 million and declined 14 percent over the last two years—due partially to a deteriorating economy.

MINNCOR reported an overall net income—or profit—of nearly \$3 million for 2008—its highest level ever. MINNCOR is expected to be self-sufficient overall, and income from some industries can be used to offset losses in others. In recent years though, almost all of its industries have generated enough revenue to cover their costs.

### **DOC annually transfers over \$1 million deducted from inmates' wages for their confinement costs to MINNCOR.**

The manner in which MINNCOR reports its expenditures and profits understates its true costs for inmate labor. The federal government requires that prison industries producing goods for interstate sales pay inmates at least prevailing wage rates. States can deduct up to 80 percent from these inmates' wages for a variety of purposes, including

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**With net income close to \$3 million, FY 2008 was MINNCOR's most profitable year ever.**

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**MINNCOR's financial statements do not show its total wage costs or the money DOC transfers to MINNCOR.**

taxes, dependent support, restitution, and confinement costs. According to the federal Bureau of Justice Statistics, this provision “reflects a Congressional intent to permit the use of room and board deductions to lower costs otherwise incurred by the public for inmate incarceration.”

Rather than using the money withheld from inmate wages to directly reduce its confinement costs, DOC returns the wage deductions to MINNCOR. Instead of recording this as income, MINNCOR simply reduces what it reports for inmate wages by this amount. For example, MINNCOR actually paid \$3.7 million in inmate wages in 2008, but its financial statements only show wage costs of \$2.5 million. Likewise, MINNCOR understated its 2006 and 2007 expenditures for inmate wages by \$1.5 million and \$1.2 million, respectively.

**MINNCOR should report its full wage costs and the amount it receives from DOC for inmates' confinement costs in its annual financial statements and reports.**

State government should conduct its business in an open, transparent manner. The way MINNCOR records—or, more specifically, does not record—the full cost of inmate wages and the funds it receives from DOC for inmates' confinement costs in its financial statements and reports is not accurate. MINNCOR should report these costs in a manner that aligns with data it compiles for the Department of Finance's *Comprehensive Annual Financial Report*, which complies with generally accepted government accounting principles.

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**MINNCOR has formal contracts with less than one-third of the private businesses that use inmate labor and prison space.**

**Using purchase orders when allowing private businesses to use inmate labor places the state at risk.**

Over the last few years, MINNCOR has increased its use of private labor arrangements as a source of inmate jobs. These arrangements allow private companies to use inmate labor and prison space to assemble, package, or manufacture products for their own use or resale. Sales from such arrangements made up 15 percent of MINNCOR's total 2008 revenue—more than double the amount for 2005.

During fiscal years 2006 through 2008, MINNCOR had labor arrangements with 45 to 47 private businesses. At most, though, it entered into formal contracts with only 30 percent of them each year; the other 70 percent used inmate labor through purchase orders. Using inmate services based solely on purchase orders comprised about 41 percent of revenue from such work in 2008.

Relying on purchase orders rather than contracts is risky. Purchase orders basically state an agreed upon price for a specific product or service and a due date. They do not cover other items that DOC policy requires in its contracts, including quality control and record keeping procedures. Most importantly, they do not contain standard language that should be present in all Minnesota contracts, including indemnification, audit, cancellation, and data privacy clauses. Purchase orders are not reviewed by DOC's central office, nor do they contain signatures from the Department of Administration (DOA) or MINNCOR. Furthermore, the purchase orders that MINNCOR

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**MINNCOR needs to develop a formal roadmap to guide its marketing activities.**

relies on are not standard forms developed by DOA or even MINNCOR, but forms developed by the businesses themselves.

Because contracts provide important assurances to the state, DOC should amend its policy on revenue contracts to require that MINNCOR use such contracts when allowing private businesses to use inmate labor.

**MINNCOR does not adequately track its revenues and expenses from private labor arrangements.**

MINNCOR does not track the expenses it has incurred under each of its labor arrangements, nor does it systematically monitor what each company has paid for MINNCOR services over the course of the fiscal year. This creates problems when evaluating whether individual arrangements make or lose money. Without more detailed information on each of its labor arrangements, MINNCOR cannot adequately evaluate whether it has negotiated a “good” arrangement, whether it should amend its price, or whether certain arrangements should be cancelled and others expanded.

**MINNCOR should develop a formal marketing plan.**

Although state law places few restrictions on MINNCOR’s customer base, its biggest customers are inmates from state correctional facilities and state agencies. Items sold to inmates through facility canteens accounted for 22 percent of MINNCOR’s 2008 sales. Among state agencies, the departments of Public Safety, Corrections, and Human Services collectively accounted for 39 percent of sales revenue.

MINNCOR does not sell to all of its potential customers. For example, it captured slightly less than one-third of state agency purchases for printing services in 2008. Only about 4 percent of its revenue was from sales to other levels of government, including educational institutions, cities, and counties. Furthermore, fewer than 10 percent of school districts used MINNCOR at all.

As government agencies respond to the state’s current budget problems, MINNCOR will likely have to expand its customer base to simply stay even. Yet, it has not developed a formal, written plan that sets forth specific marketing goals and strategies to show how it will accomplish this. Also, it has not developed a formal marketing plan to attract private sector businesses to employ inmate labor, as required by the 2008 Legislature.

Although it lacks a formal roadmap to guide its marketing activities, MINNCOR has recently begun to market some products more aggressively. For example, staff have met with Minnesota State Colleges and Universities officials to promote MINNCOR’s office, residential, and school products. Also, MINNCOR has begun contacting cities and counties throughout Minnesota and the surrounding states to assess whether its recreational products meet the needs of local governments.

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# Introduction

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Minnesota state correctional facilities have operated industrial programs for well over 100 years, beginning with the manufacturing of twine at Stillwater State Prison. Although the types of industries in state facilities have changed over the years, their goals have not: to help inmates learn good work habits, provide them with marketable skills, and reduce inmate idleness. In the mid-1990s, the Legislature and the Department of Corrections (DOC) added another goal: to operate without a state subsidy. To help make this possible, in 1994, DOC consolidated and centralized its individual facility programs into a single statewide business known as MINNCOR Industries.

Over the last few years, some policy makers have questioned MINNCOR's overall management, business practices, and profitability. For example, concerns have been raised about the prices MINNCOR charges state agencies, whether MINNCOR has an unfair competitive advantage over private businesses, and the location of some of its industries. Others have raised concerns about DOC's oversight of MINNCOR's operations. Our evaluation focused on the following questions:

- **What types of products does MINNCOR Industries produce, how many inmates does it employ, and who are its customers?**
- **To what extent is MINNCOR profitable? How does it use its profits?**
- **How does MINNCOR determine product lines and prices? What steps, if any, does it take to ensure that it does not compete unfairly with private businesses? Do state agencies purchasing MINNCOR products pay too much?**
- **How well is MINNCOR organized and managed? Does the Department of Corrections exercise sufficient control over MINNCOR's operations and finances?**
- **How do MINNCOR's activities compare with prison industry activities in other states? How do other states organize and manage their prison industry programs?**

We used a variety of research methods to answer these questions. First, we reviewed state and federal laws, rules, and policies; MINNCOR budgets, annual financial statements and reports, payroll records, contracts, and other documents; and other literature from the federal government, states, and related organizations. Second, we analyzed MINNCOR data on inmate participation rates, product lines, customers, and finances; DOC data on the number and characteristics of inmates participating in MINNCOR and the general inmate population; Department of Finance data on state agency purchasing expenditures;

and National Correctional Industries Association data on prison industries in other states. Third, we sent surveys to nearly 600 state agency staff with purchasing authority about their familiarity with, and experiences using, MINNCOR. Fourth, we compared prices MINNCOR charges for select items with those charged by prison industry programs in other states and, to a limited extent, the private sector. Fifth, we toured all MINNCOR industry programs in the state and interviewed industry directors, wardens, and other prison staff. Finally, we interviewed staff from various state offices and agencies, including MINNCOR and the departments of Administration, Corrections, and Public Safety, as well as representatives from state employee labor unions.

For the most part, our evaluation focused on MINNCOR's operations at the state level. Although we looked at the revenues and expenditures of each facility's industry programs, we did not specifically evaluate the efficacy of individual industries. For example, we did not examine whether individual industries could manufacture their products or services more efficiently or whether particular industries should be eliminated or expanded. In addition, we did not examine what effect, if any, inmate participation in MINNCOR has on recidivism.

This report is divided into four chapters. Chapter 1 provides a short overview of MINNCOR, including its goals, product lines, organization, and staffing, and compares Minnesota's industry program with those of other states. Chapter 2 discusses the number and percentage of inmates employed in MINNCOR's industries and the wages they receive. Chapter 3 analyzes MINNCOR's sales revenue, expenditures, and profitability. Chapter 4 examines a variety of management issues, including contract administration, planning and marketing, customer satisfaction, and product pricing. It also presents our overall conclusions and recommendations.

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# Background

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Prison industry programs have been an integral part of Minnesota's correctional system for over one hundred years. As in most other states and the federal government, these programs have been expected to serve a variety of purposes. This chapter provides a short history of MINNCOR Industries and discusses the various goals under which it must operate. It also provides an overview of MINNCOR's current products and services, including the correctional facilities where industries operate, and MINNCOR's organizational structure. It concludes with a short discussion of prison industries in other states.

## HISTORY OF MINNCOR

Minnesota's first prison industry was established in the mid-1870s with the production of twine at Stillwater State Prison.<sup>1</sup> Over time, as the number of state-operated correctional facilities grew, so too did the number and type of industries. By 1994, each of the state's seven adult correctional facilities ran its own set of industries that offered a diverse array of products and services, including furniture, automotive repair, clothing, printing, telemarketing, and data entry. Each facility did its own financial planning, product design and development, marketing, sales, and distribution, and it was not uncommon for industries in different facilities to compete with one another for business. Facilities provided the industries with cost-free space and security. While some facilities charged their industry programs for a portion of facility maintenance and utility costs, those charges were generally minimal. Most industries operated at a loss and were, at least partially, subsidized by General Fund dollars through an annual operating grant from the Department of Corrections (DOC).<sup>2</sup>

During the 1990s, due partly to the state's economic problems, public officials became interested in having prison industries operate in a more business-like manner and "pay their own way." Subsequently:

- **In 1994, the Minnesota Department of Corrections created MINNCOR Industries to increase efficiency and decrease reliance on the General Fund.**

The department centralized various industry functions in its St. Paul office, including management, sales, marketing, purchasing, budgeting, and financial

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<sup>1</sup> Minnesota Department of Corrections, *MINNCOR Industries Fiscal Year 2001 Annual Report* (St. Paul, undated), 4.

<sup>2</sup> Criminal Justice Institute, *A Five-Year Business Plan for the Private Operation of the Minnesota Department of Corrections' Prison Industries* (New York, NY: Criminal Justice Institute, February 14, 1997), 1, 13. The Legislature did not make direct appropriations to MINNCOR. Rather, MINNCOR funding was included as part of DOC's budget request for institution support services.

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**Minnesota's first prison industry was established in the mid-1870s at Stillwater State Prison.**

reporting. MINNCOR began consolidating industries into single facilities to reduce costs and eliminate competition among facilities. In late 1995, MINNCOR developed a five-year plan that called for a 25 percent reduction by fiscal year 2001 in the General Fund grant or “subsidy” the department contributed annually to prison industry programs.<sup>3</sup>

The Legislature, however, was looking for greater savings. In 1996, it required the Commissioner of Administration to hire a consultant to evaluate Minnesota prison industries and develop a five-year business plan.<sup>4</sup> The consultant was to assume that a private corporation would be operating the prison industry program without a state subsidy. The same law required DOC to develop a five-year plan for its own operation of MINNCOR, although the law stopped short of requiring the department to assume that prison industries would operate without General Fund support.

The Legislature never privatized MINNCOR, but the message was clear: operate without a state subsidy. The department revised its five-year plan in 1997 with a major goal that MINNCOR achieve self-sufficiency by fiscal year 2003.<sup>5</sup>

## PURPOSE OF MINNCOR

Self-sufficiency is not MINNCOR’s only goal. According to state law:

- **MINNCOR exists “...for the primary purpose of sustaining and ensuring MINNCOR industries’ self-sufficiency, providing educational training, meaningful employment and the teaching of proper work habits to the inmates...and not solely as competitive business ventures.”<sup>6</sup>**

MINNCOR’s mission statement broadens its goals to include providing “. . . services that benefit the community by operating a dynamic and profitable business.”<sup>7</sup>

Achieving these goals can be difficult for a variety of reasons. First, trying to operate a profitable business within a secure setting is challenging. A common criticism of prison industry programs is that they have an unfair advantage over the private sector because inmates are paid far less than minimum wage. While this is generally true, other circumstances give the private sector a competitive advantage. Prison industries can and do shut down unexpectedly for lockdowns

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**MINNCOR is expected to meet a variety of goals, without General Fund support.**

<sup>3</sup> Minnesota Department of Corrections, *MINNCOR Industries Five Year Business Plan FY 1996 through FY 2000* (St. Paul, 1995), unpaginated.

<sup>4</sup> *Laws of Minnesota* 1996, chapter 408, art. 8, sec. 27-28.

<sup>5</sup> Minnesota Department of Corrections, *MINNCOR Industries Five Year Business Plan FY 1998 through FY 2002* (St. Paul, 1997), unpaginated.

<sup>6</sup> *Minnesota Statutes* 2008, 241.27, subd. 1

<sup>7</sup> MINNCOR Industries, *Mission Statement*, <http://www.minncor.com/about/mission.htm>, accessed November 26, 2008.

and shakedowns. Time must be taken out during the workday for routine inmate counts, handing out and collecting tools, and escorted lunch breaks. Other interruptions, such as attorney visits and medical appointments, can further disrupt industries' production schedules. As we discuss in Chapter 2, the average inmate workweek is considerably shorter than the average workweek "on the outside."

Second, unlike private businesses, MINNCOR has limited control over the inmates that are assigned to it. As we discuss in Chapter 2, prison officials assign inmates to either education, treatment, or work programs. Some inmates assigned to MINNCOR may have few job-related skills and some may be unmotivated to learn. Some inmates may never have learned work fundamentals such as showing up on time, putting in a full day's work, adhering to a job schedule, or taking orders from supervisors. Likewise, some may never have experienced the satisfaction of a "job well done."

Finally, prison industries' goals can be at odds with one another. For example, being profitable generally means operating as efficiently as possible. However, facility officials, not MINNCOR, determine the overall number of inmates to be employed. Furthermore, statutes require that prison industry programs "...utilize inmate labor to the greatest extent feasible."<sup>8</sup> This sometimes means employing more inmates than efficiency would dictate. For example, some assembly jobs at the correctional facility in Shakopee are filled by two inmates, each working part time, rather than one inmate working full time. While this increases MINNCOR's training and administrative costs, it addresses the facility's need for work assignments that accommodate inmates' schedules.

Despite the somewhat ambitious goals set out for MINNCOR in statute, we found that:

- **Although Minnesota statutes require that MINNCOR provide inmates with job skills and good work habits, its main function is to keep inmates busy.**

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**Using prison industry jobs is one of several strategies prison officials use to keep inmates busy.**

According to DOC and MINNCOR officials, industry programs are one of several options correctional facilities use, in part, to keep inmates busy.<sup>9</sup> When inmates have too much "idle" time, tension and violence tend to rise. Having inmates engaged in useful, structured activities, such as MINNCOR, increases inmate and staff safety.

Industry programs are also evaluated regarding the extent to which they keep inmates busy. As part of its internal evaluation process, MINNCOR assesses industries' success at least annually on two dimensions: the percentage of inmates employed and profitability. Although neither DOC nor facility wardens

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<sup>8</sup> *Minnesota Statutes* 2008, 241.27, subd. 1.

<sup>9</sup> For the most part, facilities assign inmates to one of four programs, depending on inmate needs and, to some extent, desires: education, treatment, MINNCOR, or facility support. Facility support, which is not administered by MINNCOR, refers to a variety of jobs that help maintain the overall facility, such as dining room worker, janitor, or groundskeeper.

have established long-range goals for MINNCOR in these areas, MINNCOR has set informal goals for itself. Overall, MINNCOR expects to employ at least 15 percent of the inmate population or show a net income or profit of 10 percent.<sup>10</sup> Individual industries are also judged against these standards. However, they are given some latitude. The profits from some industries can be used to offset losses in other industries, as long as those industries losing money employ large numbers of inmates.

## PRODUCTS AND FACILITIES

To accomplish its purposes, MINNCOR operates two types of inmate work programs. First, it owns and operates industries that sell MINNCOR products to state agencies, local governments, educational institutions, nonprofit organizations, and, to a very limited extent, private businesses and individuals. These products are often referred to as “MINNCOR-labeled” products. For example, MINNCOR provides laundry and printing services to public sector customers; it manufactures its own brands of furniture, cabinetry, and clothing as well as a variety of metal products such as snow plow attachments, outdoor grills, and mailbox posts.

Second, MINNCOR enters into labor arrangements with private businesses that allow companies to use inmate labor and prison space to assemble, package, or manufacture products that the companies use themselves or sell to others.<sup>11</sup> For example, inmates count and package balloons, trim excess plastic materials from products, assemble tractors, and remove identifying labels from products that have been returned to a major retailer for resale to others.

Overall, we found that:

- **MINNCOR operates a broad assortment of industries statewide that offers inmates an opportunity to work in a variety of jobs.**

MINNCOR industries are currently located in six of the state’s nine adult correctional facilities: Faribault, Moose Lake, Oak Park Heights, Rush City, Shakopee, and Stillwater.<sup>12</sup> As shown in Table 1.1, specific industries vary by facility and range from simple assembly and packaging jobs requiring little in the

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**MINNCOR  
operates industry  
programs in six of  
Minnesota’s nine  
adult correctional  
facilities.**

<sup>10</sup> MINNCOR Industries, “Organizational Mission Assessment,” *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), 2.

<sup>11</sup> MINNCOR uses the term “subcontracts” to refer to its labor arrangements with private businesses. We avoid using that term because, as we explain in Chapter 4, MINNCOR does not actually enter into contracts with most of the companies that use inmate labor.

<sup>12</sup> As we discuss in subsequent chapters, DOC, facility wardens, and MINNCOR jointly decide whether a facility will have a prison industry component.

way of inmate skills or training to jobs requiring “real world” skills, such as printing, welding, or carpentry.<sup>13</sup>

**Table 1.1: MINNCOR Industries, Fiscal Year 2009**

Facility	Industries
Faribault	Wood furniture, plastic products, chemicals, laundry, and private labor arrangements
Oak Park Heights	Canteen <sup>a</sup>
Moose Lake	Printing, sewing, and private labor arrangements
Rush City	License plates/stickers and private labor arrangements
Shakopee	Sewing and private labor arrangements
Stillwater <sup>b</sup>	Metalwork, furniture, upholstery, and private labor arrangements

NOTE: Private labor arrangements involve inmates assembling, manufacturing, or packaging products for private businesses.

<sup>a</sup> The canteen is the prison store where inmates can purchase a variety of items such as snacks, clothing, and electronics.

<sup>b</sup> Stillwater also serves as MINNCOR's warehouse and distribution center.

SOURCE: MINNCOR Industries, *2008 Annual Report* (St. Paul, December 2008), 8-12.

**Inmate and facility characteristics affect the types of industries MINNCOR operates.**

The assortment of jobs within any given facility is more limited, due partly to the characteristics of the inmate population. For example, the state’s medium security facilities at Faribault and Moose Lake generally offer a wider array of jobs than does the state’s most secure facility at Oak Park Heights, where staff try to keep inmate access to work tools to a minimum for safety reasons.

In addition, the physical structure of a facility may limit the types of industries located there. For example, Rush City’s physical plant does not lend itself to heavy manufacturing such as welding and tractor assembly—two industries that fit well within the industry program at Stillwater.

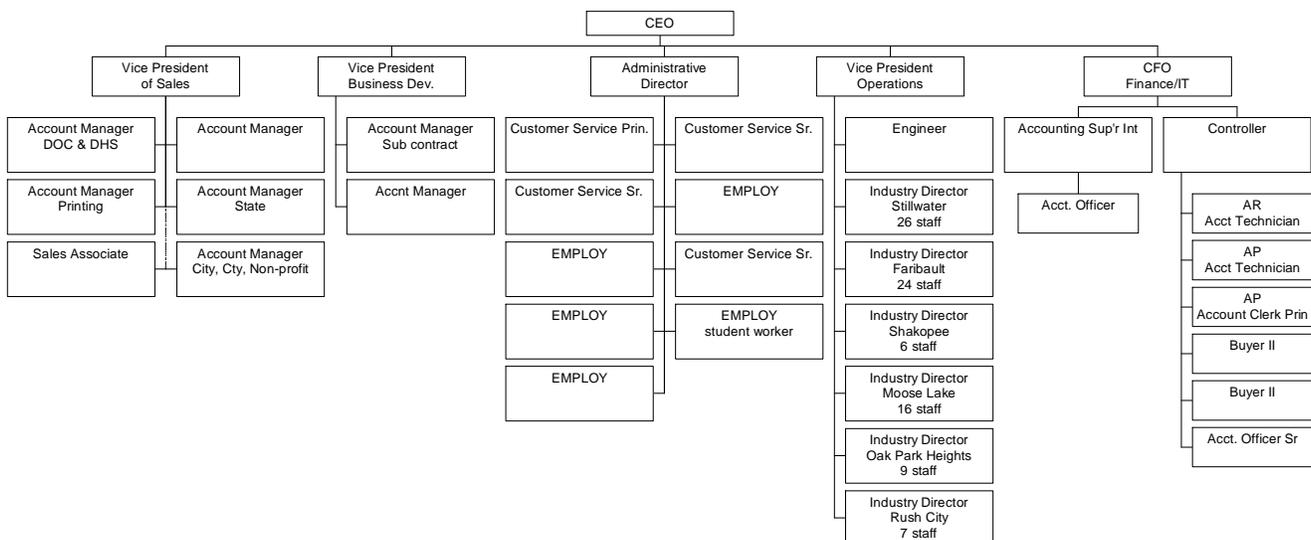
## ORGANIZATIONAL STRUCTURE

MINNCOR is structured like a private business, with a chief executive officer, a chief financial officer, and three vice presidents. As Figure 1.1 shows, MINNCOR has five organizational divisions. The Sales Division markets MINNCOR-labeled products and services. The Business Development Division develops and manages MINNCOR’s arrangements with private businesses to use inmate labor and prison space. The Administrative Division provides a variety of administrative functions, including fleet management, customer relations, human

<sup>13</sup> For accounting and reporting purposes, MINNCOR groups similar types of industries into “cost centers” such as furniture, sewing, metal products, and subcontracting (which we refer to as labor arrangements). Each cost center can produce several types of products. For example, sewing includes producing inmate clothing that MINNCOR sells to DOC as well as pillows that it produces for a small private company.

resources, and purchase order processing.<sup>14</sup> It also runs MINNCOR's EMPLOY program, which helps former inmate workers obtain jobs once released from prison. The Operations Division oversees each facility's industry program, including product production, warehousing, and distribution.<sup>15</sup> It is the largest of MINNCOR's five divisions, with all but two staff located at correctional facilities. The Finance Division manages MINNCOR's financial reporting systems, including planning, budgeting, and accounting. The division also does MINNCOR's purchasing (for both central office and industry-related materials) and provides training to facility accounting staff. In fiscal year 2008, MINNCOR had a total staff of 118.<sup>16</sup> About one-fourth of the staff worked out of the central office in St. Paul while three-fourths worked at the various facilities with industry programs.

**Figure 1.1: MINNCOR Industries Organizational Chart, 2009**



SOURCE: MINNCOR Industries, January 2009.

Although it is expected to operate like a private business:

- **MINNCOR Industries is part of the Minnesota Department of Corrections and, therefore, subject to its policies and procedures.**

MINNCOR is not incorporated as a separate organizational entity nor as a public corporation. MINNCOR is a unit or division within the auspices of DOC. The

<sup>14</sup> The Administrative Division also acts as liaison to DOC's Human Resources Division, which provides personnel services to MINNCOR.

<sup>15</sup> An industry director oversees each facility's industry program on a daily basis.

<sup>16</sup> Office of the Legislative Auditor, analysis of staffing data received from the Minnesota Department of Corrections, 2008.

Commissioner of Corrections appoints MINNCOR's chief executive officer (an unclassified position in the state's civil service system) who reports directly to the department's deputy commissioner of facility services. The deputy commissioner reviews and approves all MINNCOR-related policies and directives and provides general oversight of MINNCOR's operations.

MINNCOR staff are department employees and, with a few exceptions, part of the state's classified civil service. Depending on their job classification, staff are also governed by work rules established under Minnesota Association of Professional Employees, American Federation of State, County, and Municipal Employees, Middle Management Association, or Managerial Plan contracts.

Although all MINNCOR staff are hired by its chief executive officer and must report ultimately to him or her, some MINNCOR staff are also accountable to other department officials. For example, MINNCOR's chief financial officer reports directly to MINNCOR's chief executive officer and the department's chief financial officer. Similarly, facility industry directors report to their respective wardens and to MINNCOR's vice president for operations.

Unlike many private businesses that report to an independent board of directors:

- **MINNCOR has an advisory board that consists entirely of staff from MINNCOR and the Department of Corrections.**

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**MINNCOR has an advisory board to help it decide how to spend its profits.**

MINNCOR's advisory board consists of two deputy commissioners of corrections, the assistant commissioner of facilities, the assistant commissioner of support services, the chief financial officer for the department, two facility wardens, and MINNCOR's chief executive officer and chief financial officer.<sup>17</sup> The board meets periodically throughout the year and has primarily been used to help advise MINNCOR on its operations and "recommend" ways to spend MINNCOR earnings and profits. As we discuss in Chapter 3, the board has "recommended" various ways for MINNCOR to spend its profits for the benefit of inmates, and MINNCOR has complied with those funding directives.

Minnesota statutes establish a revolving fund under the control of the Commissioner of Corrections for MINNCOR's operations.<sup>18</sup> Both the Legislature and the department expect MINNCOR to rely solely on revenues generated by its business activities to support and grow its operations. In fiscal

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<sup>17</sup> In the mid-1990s, MINNCOR created a prison industries advisory board consisting of representatives from business, industry, organized labor, the Legislature, and state agencies to review MINNCOR's operations and provide technical assistance and advice. Due to a lack of outside interest in the board, MINNCOR replaced it with one composed entirely of department staff.

<sup>18</sup> *Minnesota Statutes* 2008, 241.27, subd. 2.

year 2008, MINNCOR reported that its revenues were about \$35.8 million, expenses about \$32.8 million, and net income—or profit—about \$3.0 million.<sup>19</sup>

## OTHER STATES

According to data collected annually by the National Correctional Industries Association:

- **Minnesota’s organizational arrangement for its prison industry program is similar to those of other states.**

Like Minnesota, most states operate their prison industry program as part of their corrections departments.<sup>20</sup> However, there are some exceptions. For example, Florida’s prison industry program is a private, nonprofit corporation governed by a board of directors whose members are appointed by the Governor and confirmed by the Senate. Maryland’s program operates as a separate state agency while Tennessee’s program is a quasi-state entity governed by a board of directors, independent from its corrections department. The federal government’s prison industry program is located within the U.S. Federal Bureau of Prisons and is operated as a wholly owned government corporation. As in Minnesota, about one-half of the states have a board of directors; most of these boards are advisory rather than policy-setting boards.

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**Like Minnesota, most states expect their prison industry programs to be self-sufficient.**

The requirement to be self-sufficient, that is, to operate wholly on the revenues brought in by its operations, is also a common requirement for prison industries. We found that:

- **Minnesota is like most other states and the federal government in that its prison industry program is expected to be self-sufficient.**

Prison industry programs in 44 states, including Minnesota, and the federal government are expected or required to be self-sufficient, either through a legislative or administrative mandate.<sup>21</sup> Minnesota’s program is also like industry programs in 36 other states and the federal government in that it operates on a revolving fund.<sup>22</sup>

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<sup>19</sup> MINNCOR Industries, *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), unpaginated. MINNCOR’s financial statement has not been audited by an outside party. Minnesota statutes and DOC’s policies do not require that MINNCOR periodically undergo an independent financial audit of its activities.

<sup>20</sup> National Correctional Industries Association, *2008 NCIA Directory* (Baltimore, MD: National Correctional Industries Association, 2008).

<sup>21</sup> *Ibid.*, 116. While industry programs in all states that require self-sufficiency reported being so in 2007, some (eight) also reported receiving General Fund appropriations or appropriations for daily operating expenses.

<sup>22</sup> *Ibid.*, 119.

For the most part:

- **Minnesota's prison industry program offers products or services similar to those offered by most other states.**

According to data collected by the National Correctional Industries Association, MINNCOR produced 28 different types of products or services in 2007, one-half of which were also produced by most other states.<sup>23</sup> For example, about 40 states reported making mattresses, metal products, or license plates. MINNCOR produced nine products that fewer than ten other states also offered, including emergency/security products such as utility belts and suicide gowns, centralized canteen services, and recreational equipment such as picnic tables and beaver dams. On the other hand, unlike Minnesota, prison industries in most other states manufacture modular office and office panel systems, decals, or embroidery.<sup>24</sup>

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<sup>23</sup> *Ibid.*, 124-130.

<sup>24</sup> As we discuss in Chapter 2, MINNCOR eliminated its modular office and office panel system industries in fiscal year 2006 because they were unprofitable and too time-consuming for staff given the number of complaints MINNCOR received about the particular products.



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# Inmate Employment and Wages

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Although not explicitly stated in law or MINNCOR's mission statement, one of MINNCOR's implicit objectives is to keep inmates occupied. Keeping inmates busy is essential to managing prisons and provides for a safer environment for both inmates and staff. In addition, employment in a prison industry gives some inmates marketable skills and helps them develop good work habits. As noted in Chapter 1, individual industries are evaluated in terms of their ability to be financially profitable while employing sufficient numbers of inmates to meet the needs of correctional facilities. This chapter looks at how many inmates MINNCOR employs, how many hours they work, and the wages they receive.

## INMATE EMPLOYMENT

Prison industries exist alongside education, treatment, and other work programs as the main activities that keep inmates busy and productive. Thus, the needs of specific correctional facilities for inmate jobs are largely dependent on the number of inmates involved in other programs. In addition, concern for staff and inmate safety is important in determining the types of industries that correctional facilities can house and the number of inmates they can employ.

To give inmates useful work experience, MINNCOR tries to emulate the outside world as much as possible within the constraints imposed by working in correctional facilities. Thus, inmates have to apply for jobs, work scheduled hours each week, be evaluated quarterly, and receive a salary based on those evaluations.

The Department of Corrections' (DOC) policy on inmate assignments requires each facility to post vacancies and requires inmates to fill out a written application.<sup>1</sup> Each facility must have an assignment committee to review applications and make job assignments. Among the factors considered are the inmate's experience and work history, past disciplinary actions, the education and treatment needs of the offender, and security concerns. Graduates of prison vocational programs are given preference for filling MINNCOR jobs. Although the policy does not list specific educational requirements to work for MINNCOR, some industry directors told us they require inmates to have a general education diploma (GED) while others said they require a certain level of proficiency in reading and writing. Inmates are evaluated quarterly and receive wage increases if they receive positive evaluations. Inmates who receive negative evaluations

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**Prison industries exist alongside other programs to keep inmates busy and productive.**

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<sup>1</sup> Minnesota Department of Corrections, "Division Directive 204.010: Offender Assignment and Compensation Plan," *Policies, Directives, and Instructional Manual* (St. Paul, 2008), <http://www.doc.state.mn.us/DocPolicy2/Documents/204.010.htm>, accessed March 21, 2008, 2.

for poor performance or workplace incidents receive a range of disciplinary actions from a verbal warning to dismissal.

## Percentage Employed

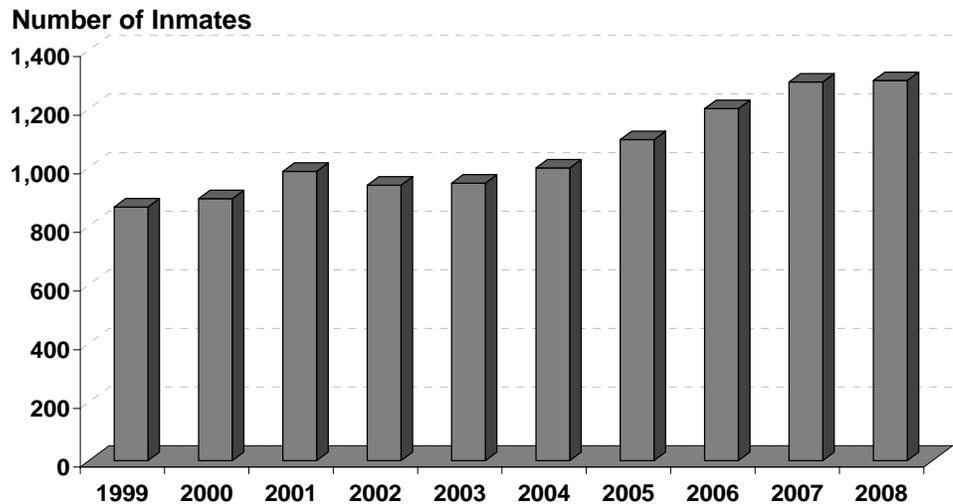
Although there is no absolute standard for the percentage of inmates that should be employed, MINNCOR has set targets for each industry to employ at least 15 percent of a facility’s work force. We found that:

- **Employing about 16 percent of all adult inmates in fiscal year 2008, MINNCOR has generally done a good job responding to correctional facilities’ need for industry programs.**

As indicated by Figure 2.1, the number of inmates employed by MINNCOR increased 50 percent over the last decade, going from 865 inmates in fiscal year 1999 to 1,297 inmates in 2008. Over the same time period, the total adult inmate population increased 42 percent, from 5,622 to 7,987 inmates. Figure 2.2 shows that, after dipping slightly in the middle of the decade, 16 percent of total inmates were employed by MINNCOR in fiscal year 2008, almost the same percentage as in 2001.

**The number of inmates employed by MINNCOR increased 50 percent over the last decade.**

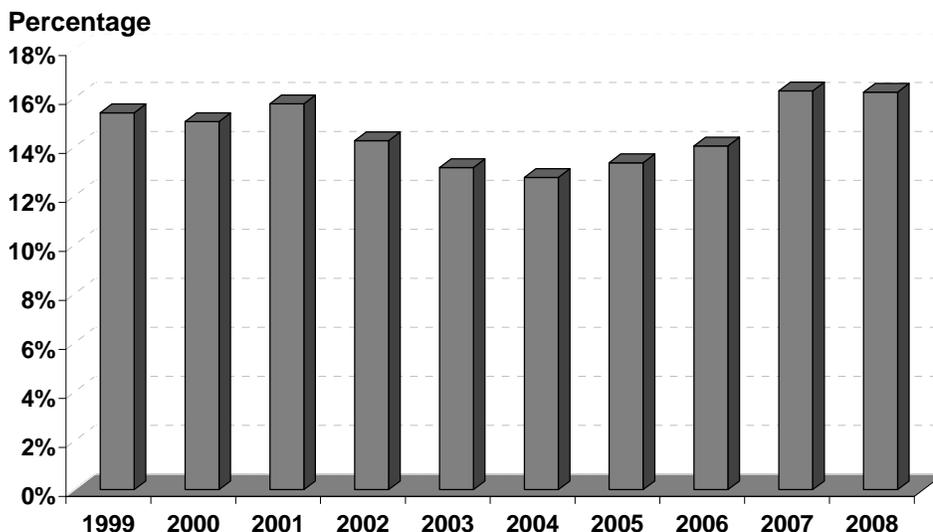
**Figure 2.1: Number of Adult Inmates Employed by MINNCOR, Fiscal Years 1999-2008**



NOTE: The number of MINNCOR inmates is the average of three points in time corresponding to the beginning, middle, and end of each fiscal year.

SOURCE: Office of the Legislative Auditor, analysis of data contained in Minnesota Department of Corrections, *Adult Inmate Profiles* (St. Paul, July 1, 1998-July 1, 2008).

**Figure 2.2: Percentage of Adult Inmates Employed by MINNCOR, Fiscal Years 1999-2008**



NOTE: Data reflect the average percentage of MINNCOR inmates relative to the total adult inmate population at the beginning, middle, and end of each fiscal year. Total inmates exclude inmates serving time in space that the Department of Corrections leases from county jails and the privately-owned Prairie Correctional Facility.

SOURCE: Office of the Legislative Auditor, analysis of data contained in Minnesota Department of Corrections, *Adult Inmate Profiles* (St. Paul, July 1, 1998-July 1, 2008).

**Minnesota has traditionally employed a higher percentage of inmates than other states.**

Compared with other states:

- **Minnesota leads the nation in the percentage of inmates employed in prison industry programs.**

According to data reported by states to the National Correctional Industries Association, Minnesota employed about 18 percent of its inmates in prison industries in fiscal year 2007, compared with a national average of 6 percent.<sup>2</sup> Minnesota has traditionally employed a higher percentage of inmates than other states. For example, Minnesota employed 18 percent of its inmate population in fiscal year 1998, compared with a national average of 9 percent.<sup>3</sup>

<sup>2</sup> National Correctional Industries Association, *2008 NCIA Directory* (Baltimore, MD: National Correctional Industries Association, 2008), 112. The percentage reported to NCIA is greater than the 16 percent we reported earlier because the NCIA directory is based on fiscal year 2007 data and it excludes work release inmates from the total inmate population. The average for states is not weighted and excludes Massachusetts and Oregon because those states did not report numbers of total inmates. Table A.1 of the appendix shows comparative data for fiscal year 2007 on the number of inmates employed, hours worked, and annual sales for all 50 state prison industry programs.

<sup>3</sup>*Ibid.*, 112.

Together, DOC management, the wardens of individual correctional facilities, and MINNCOR decide which facilities operate prison industry programs and the approximate number of inmates that each facility will employ, based on the overall mission of each facility. As a result:

- **Inmate employment varied considerably by facility in fiscal year 2008, ranging from 4 percent in St. Cloud to 34 percent in Shakopee.**

Seven of the state's nine adult facilities operated industry programs in fiscal year 2008.<sup>4</sup> As Table 2.1 shows, inmate participation in MINNCOR varied from 4 percent in St. Cloud to 34 percent in Shakopee, the state's only facility for adult female offenders. In the other five facilities with industry programs, MINNCOR employed between 20 percent and 26 percent of inmates.

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**About one-third of the inmates at the Shakopee correctional facility are employed by MINNCOR.**

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**Table 2.1: Inmates Employed by MINNCOR by Facility, Fiscal Year 2008**

Facility	Total Inmate Population	Number of Inmates Employed by MINNCOR	Percentage of Inmates Employed by MINNCOR
Stillwater	1,406	309	22%
Faribault	1,157	296	26
St. Cloud	996	37	4
Rush City	984	195	20
Moose Lake	766	164	21
Shakopee	531	179	34
Oak Park Heights	435	88	20

NOTES: Total inmate population is the average at the beginning, middle, and end of fiscal year 2008. MINNCOR inmates are the average number of inmates employed by MINNCOR over 26 pay periods.

SOURCES: Minnesota Department of Corrections, *Adult Inmate Profiles* (St. Paul, July 1, 2007, January 1, 2008, and July 1, 2008); and MINNCOR Industries, "Organizational Mission Assessment," *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), 2.

Over the last three years, inmate participation in MINNCOR has grown more at some facilities than at others. For example, inmate participation at Shakopee increased from 26 percent in 2006 to 34 percent in 2008. Similarly, participation at Rush City increased from 11 percent to 20 percent over that time period. The percentages of inmates employed by MINNCOR at the Faribault, Moose Lake, Oak Park Heights, and Stillwater facilities have not changed substantially since 2006.

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<sup>4</sup> There are no MINNCOR industries at Lino Lakes or Willow River. In addition, MINNCOR moved its license plate industry from St. Cloud to Rush City in May 2008, leaving six facilities with MINNCOR industries in fiscal year 2009.

So far, MINNCOR has been able to supply enough inmate jobs to meet the existing needs of correctional facilities, but:

- **Expected growth in the state's inmate population may put pressure on MINNCOR to increase the number of inmate jobs.**

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**As the state's prison population increases, so does the need for more inmate jobs.**

The Department of Corrections projects that Minnesota's total prison population will grow by about 30 percent over the next decade.<sup>5</sup> We estimate that MINNCOR would have to create nearly 400 new jobs between now and fiscal year 2018 to maintain its current level of employing 16 percent of all inmates. At the same time, MINNCOR is facing pressure to create more jobs in the immediate future. For example, the correctional facility at Faribault, under renovation for the last few years, has recently begun to increase its population by transferring in many of the inmates that the department formerly housed under contract at the privately-owned Prairie Correctional Facility in Appleton, Minnesota. In addition, the department plans to transfer 250 sex offenders currently housed at its Moose Lake facility to the Minnesota Sex Offender Program.<sup>6</sup> The department intends to transfer other inmates from the Prairie Correctional Facility to Moose Lake to fill those beds. The department recently constructed a new segregation unit at Stillwater and it plans to convert the old segregation unit into 125 new inmate beds. Finally, DOC added 92 new beds to its Shakopee facility in fiscal year 2008 and plans to fill them as the need arises. The wardens at these facilities expect MINNCOR to provide jobs for some of the new inmates.

Facility wardens expressed concern that impending budget cuts for the 2010-2011 biennium may reduce funding for facility treatment and education programs.<sup>7</sup> Since MINNCOR is self sufficient, wardens expressed hope that it would be able to add enough jobs to occupy inmates if the number of inmates in education and treatment programs was reduced due to cutbacks in those areas.<sup>8</sup>

In terms of physical capacity, MINNCOR should be able to accommodate the need for more jobs. The wardens and industry directors at the Moose Lake, Faribault, and Stillwater facilities said that they have space to add new industries. At facilities where there is no space to expand operations, MINNCOR can still increase inmate employment by adding additional work shifts.

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<sup>5</sup> Minnesota Department of Corrections, *Minnesota Prison Population Projections: Fiscal Year 2008 Report* (St. Paul, May 2008), 6.

<sup>6</sup> The offenders, civilly committed after the expiration of their criminal sentence, are being housed in the prison until the Department of Human Services' new sex offender treatment center, also located in Moose Lake, adds enough beds to accommodate them.

<sup>7</sup> The department had previously directed wardens to reduce fiscal year 2009 expenditures by 4 percent from 2008 levels.

<sup>8</sup> Department of Corrections officials told us that, if cuts were necessary, education and treatment programs would be among the last programs affected.

To help ensure that it is meeting its own goals as well as the needs of facilities, MINNCOR annually evaluates each industry in terms of its profitability and the number of inmates it employs. We found that:

- **MINNCOR has done a good job of eliminating and consolidating unprofitable industries, and it has increasingly relied on labor arrangements with private businesses as a source of inmate jobs.**

Over the last several years, MINNCOR has eliminated some industries and consolidated others. For example, it dropped its auto refurbishing program at Faribault during fiscal year 2005. According to MINNCOR's inmate payroll and financial statements, the program employed eight inmates and lost about \$27,000 in fiscal year 2005.<sup>9</sup> MINNCOR stopped making office partitions and modular furniture at its Stillwater facility in fiscal year 2006 because the industries were not profitable, employed few inmates, and were too time consuming for staff given the number of complaints MINNCOR received about the particular products. MINNCOR also stopped making signs and nameplates at Moose Lake.<sup>10</sup> Over the past decade, MINNCOR consolidated its furniture program from several locations to its Faribault facility and its printing program to Moose Lake. As a result of these eliminations and consolidations, MINNCOR reduced the number of industries it operates from 23 in fiscal year 2000 to 13 in 2009.<sup>11</sup>

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**Although MINNCOR has closed several industries, it has maintained inmate jobs by doing more work for private businesses.**

Despite reducing the number of industries it operates, MINNCOR has been able to increase inmate employment over the years, mostly by increasing the number of arrangements it has with private businesses to supply inmate labor and prison space to manufacture, assemble, or package their products. According to MINNCOR payroll records, there were 157 inmates doing work for private businesses in fiscal year 2000. By fiscal year 2008, the number increased more than fourfold to 667 inmates.<sup>12</sup> MINNCOR also increased inmate employment by taking over facilities' canteen operations in fiscal year 2003.<sup>13</sup> It employed 88 inmates at its canteen warehouse in Oak Park Heights and an additional 19 inmates distributed canteen goods to inmates at the state's other correctional facilities in fiscal year 2008.

Over the last several years, MINNCOR has not focused on developing new product lines of its own. It began selling school desks made at Stillwater in fiscal

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<sup>9</sup> The number of inmates employed is an average over 26 pay periods. Losses are before the allocation of central office costs. In fiscal year 2004, the program employed 17 inmates and lost about \$50,000.

<sup>10</sup> MINNCOR transferred the signs and nameplates industry to the Minnesota Sex Offender Program during fiscal year 2008. MINNCOR employed 16 inmates in the industry before the transfer.

<sup>11</sup> Office of the Legislative Auditor, analysis of MINNCOR Industries annual reports and financial statements.

<sup>12</sup> Office of the Legislative Auditor, analysis of MINNCOR Industries inmate payroll records.

<sup>13</sup> Before fiscal year 2003, each facility was responsible for operating its own canteen.

year 2000 but dropped the program in 2007 after losing too much money.<sup>14</sup> MINNCOR management told us that it is not well-suited to creating new products because it is risky and requires talents and skills that it does not have. On the other hand, MINNCOR recently expanded its line of cleaning products by adding “green-certified” products. Green-certified products are independently certified as meeting stringent quality control and environmental standards. MINNCOR hopes to increase chemical sales by \$200,000 to \$300,000 in fiscal year 2009.<sup>15</sup> MINNCOR also recently expanded its canteen services by taking over the distribution of over-the-counter drugs at facilities, which has, in turn, allowed facility nurses to focus on inmates’ needs rather than paperwork.

## MINNCOR Inmate Characteristics

According to industry directors, MINNCOR inmates present special challenges. Many inmates do not have a history of steady employment or good work habits. We compared a random sample of MINNCOR inmates with the Minnesota prison population in general and found that:<sup>16</sup>

- **MINNCOR inmates differ from the overall prison population in several ways, including gender, age, and length of remaining sentence.**

As shown in Table 2.2, 14 percent of inmates working for MINNCOR at the end of fiscal year 2008 were female compared with 6 percent of the total prison population. MINNCOR offenders were, on average, three years older than inmates overall, and a higher percentage of MINNCOR participants were at least 50 years old.

Available data suggest that inmates working for MINNCOR were slightly less educated when they entered prison than the prison population as a whole.<sup>17</sup> Only 45 percent of MINNCOR inmates had either a high school diploma or a GED, compared with 51 percent of all inmates, although some MINNCOR workers likely received a GED while in prison. MINNCOR inmates were slightly more likely to have a college degree than were all inmates, 14 versus 12 percent. In

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<sup>14</sup> [MINNCOR Industries, 2007 Annual Report](#) (St. Paul, December 2007), 8. At its peak, in fiscal year 2006, the program employed 92 inmates. However, MINNCOR’s financial statements indicate that the program lost \$361,000 in fiscal year 2006 and \$288,000 in fiscal year 2007.

<sup>15</sup> [MINNCOR Industries, 2008 Annual Report](#) (St. Paul, December 2008), 6.

<sup>16</sup> There were 1,197 inmates on MINNCOR payroll for the pay period ending June 20, 2008. We drew a random sample of 120 inmates (10 percent) from that payroll and asked DOC to provide us with basic demographic information about them. We compared these data with data for all inmates, as published in Minnesota Department of Corrections, *Adult Inmate Profile as of 07/01/08* (St. Paul, July 2008).

<sup>17</sup> Educational achievement data were missing for 28 percent of the MINNCOR inmates and 24 percent of all inmates.

contrast, according to 2005 census data, over 91 percent of all Minnesotans over age 25 completed high school and 31 percent completed college.<sup>18</sup>

**Table 2.2: Differences Between MINNCOR Participants and All Adult Inmates, June 2008**

Characteristic	Inmates Employed by MINNCOR	All Inmates <sup>a</sup>
Gender		
Male	86%	94%
Female	14	6
Average Age	39	36
Percentage Over 50 Years Old	16%	11%
Educational Achievement at Intake <sup>b</sup>		
Less than high school diploma	41%	37%
High school graduate	17	21
General education diploma	28	30
College degree or more	14	12
Commitment Offense		
Person offense	58%	50%
Drug offense	26	27
Property offense	8	12
Other offense	8	11
Percentage With a Life Sentence	15%	5%
Average Sentence Time Remaining	3.9 years	2.5 years

**Inmates that participate in MINNCOR tend to be older and serving longer sentences than inmates in general.**

NOTES: MINNCOR data are based on a sample of 120 inmates employed by MINNCOR during the pay period ending June 20, 2008. Information on all inmates is based on the July 1, 2008 inmate census except for educational achievement data, which are based on the January 1, 2008 inmate census.

<sup>a</sup> All inmates include inmates participating in MINNCOR.

<sup>b</sup> Percentages exclude 28 percent of MINNCOR inmates and 24 percent of all inmates whose educational achievement levels at intake were not known.

SOURCES: Office of the Legislative Auditor, analysis of data provided by MINNCOR and the Minnesota Department of Corrections, Information and Technology Division; and Minnesota Department of Corrections, *Adult Inmate Profile as of July 1, 2008* (St. Paul, July 2008), 1.

MINNCOR offenders were more likely to have been sentenced to prison for a crime against a person than were inmates in general. As of July 1, 2008, MINNCOR offenders had an average of almost four years remaining until their sentences expired, about 1.4 years more than all inmates.<sup>19</sup> Average sentences varied greatly among MINNCOR offenders. For example, 42 percent of the

<sup>18</sup> Martha McMurry, *Minnesota Education Trends, 2000 to 2005* (St. Paul: Minnesota State Demographic Center, September 2006), 10.

<sup>19</sup> The average time remaining excludes inmates sentenced to life in prison. Most inmates leave prison under "supervised release" prior to the actual expiration of their sentence. If they violate the conditions of their release, they may be returned to prison to serve the remainder of their sentence.

MINNCOR sample had less than one year remaining on their sentence, meaning that MINNCOR must constantly hire and train new inmates. On the other hand, 15 percent of MINNCOR inmates were serving life sentences. Although it may seem counterintuitive to provide job skills to inmates serving life sentences, MINNCOR officials told us that “lifers” and other offenders with long sentences often make good employees and provide some stability to industry programs that must deal with a very transient population.<sup>20</sup>

## INMATE WAGES

State law allows DOC to pay inmates for the work they perform while in prison.<sup>21</sup> Whether inmates work for MINNCOR or hold other jobs at their facilities, they receive an hourly wage.<sup>22</sup> Depending on the job, inmate wages can vary considerably. We found that:

- **While most MINNCOR jobs paid inmates less than \$1.00 per hour in fiscal year 2008, some jobs paid prevailing wage rates averaging \$7.18 per hour.**

Most MINNCOR workers earn \$0.50-\$1.00 per hour. Inmates receive quarterly job evaluations, and those with positive evaluations receive increases of \$0.25 per hour. Up to 20 percent of MINNCOR workers may advance to \$1.50 per hour, and up to 10 percent may advance to \$2.00 per hour.<sup>23</sup>

A small percentage of inmates, though, can earn substantially more. Concerned that prison industries paying low wages to inmates might compete unfairly with privately owned businesses, the federal government requires that states selling prison-made products across state lines be certified by the Prison Industries Enhancement Certification Program (PIECP).<sup>24</sup> Inmates working on products sold in interstate commerce must be paid, at a minimum, prevailing wage rates, which are determined annually in Minnesota by the Department of Employment and Economic Development.<sup>25</sup> For fiscal year 2008, the prevailing wage was

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**MINNCOR must pay inmates who produce products for interstate sale at least prevailing wages of about \$7 per hour.**

<sup>20</sup> In addition to the 15 percent with life sentences, 10 percent of our sample of MINNCOR inmates had over ten years remaining on their sentences.

<sup>21</sup> *Minnesota Statutes* 2008, 243.23, subd. 1.

<sup>22</sup> Not all inmate jobs are MINNCOR jobs. For example, inmates with custodial and food service jobs are paid out of facility budgets.

<sup>23</sup> Minnesota Department of Corrections, “[Division Directive 204.010: Offender Assignment and Compensation Plan](#),” *Policies Manual*, 6.

<sup>24</sup> *18 U.S. Code 1761 (c)*. The requirement does not apply to products sold to other government or nonprofit organizations or to work that does not increase the value of a product. See: National Correctional Industries Association, *PIE Certification Program* (Baltimore, MD: National Correctional Industries Association, undated), 17, <http://www.nationalcia.org/pieguide2.html>, accessed March 21, 2008.

<sup>25</sup> Minnesota Department of Corrections, “[Division Directive 204.010: Offender Assignment and Compensation Plan](#),” *Policies Manual*, 9.

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**Inmates earning prevailing wages must pay for a portion of their confinement costs.**

\$7.09 per hour.<sup>26</sup> As is the case with other inmates, workers receiving prevailing wages with positive performance evaluations may receive wage increases.

In fiscal year 2008, 19 percent of the hours worked by MINNCOR inmates, about 340,000 hours, were subject to prevailing wage rates. The average pay rate for those hours was \$7.18 per hour. The remaining 81 percent of hours worked in fiscal year 2008, about 1.4 million hours, were paid according to the department's standard pay scale and averaged \$0.86 per hour. Thus, while PIECP wages applied to only 19 percent of the hours worked, because the rate of pay was so much higher, they constituted 66 percent of the total wages paid to MINNCOR inmates in fiscal year 2008.

Inmates with PIECP jobs do not necessarily keep all of their wages. Rather, PIECP wages are subject to certain deductions, including taxes, family and dependent support, restitution or payments to a crime victim compensation fund, and a contribution toward inmates' cost of confinement. These deductions cannot exceed 80 percent of an inmate's PIECP wages.<sup>27</sup> In fiscal year 2008, total deductions for PIECP jobs in Minnesota came to 77 percent of wages.<sup>28</sup>

## INMATE HOURS WORKED

Although MINNCOR tries to emulate conditions in the private sector, prison is an atypical job environment that poses special challenges. For example, wardens and industry directors all stressed the importance of safety and security over maximizing productivity. Thus:

- **While MINNCOR tries to operate as efficiently as possible, inmates working in prison industry programs averaged about 27 hours of work per week in fiscal year 2008.**

In fiscal year 2008, 1,275 inmates worked nearly 1.8 million hours for MINNCOR, averaging 1,385 hours per year or 26.6 hours per week. This was a small increase over 2007, when inmates worked an average of 26.2 hours per week, and 2006, when the average inmate worked 25.3 hours per week.

According to MINNCOR management and industry directors, working with inmates in a prison setting presents several impediments to running an efficient operation with a 40-hour work week. Security concerns require inmate counts to make sure no inmates are missing and tool counts since tools could potentially be used as weapons. Although industry directors told us that fights among inmates are more likely to occur in the cell blocks or activity areas than in the industry

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<sup>26</sup> Memo from Denise Ehlenz, Industry Director, Minnesota Correctional Facility at Oak Park Heights and MINNCOR PIECP certificate holder, to MINNCOR finance directors and industry directors, July 20, 2007.

<sup>27</sup> 18 U.S. Code 1761 (c).

<sup>28</sup> National Correctional Industries Association, "Prison Industry Enhancement Certification Program Quarterly Reports," September 30, 2007, December 31, 2007, March 31, 2008, and June 30, 2008.

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**Security procedures such as lockdowns and inmate counts affect the number of hours inmates can work each week.**

areas, they noted that many inmates have issues dealing with authority and confrontations with staff and other inmates do occur. Subsequent disciplinary actions sometimes slow down the production process. Movement of inmates to and from jobs also must be controlled and can present problems. If an inmate has a medical or legal appointment, there may not be an escort available to return the inmate to the work area, sometimes causing the loss of an entire day's work instead of just an hour or two.

Prisons also have lockdowns, where inmates are confined to their cells while correctional staff search for weapons, drugs, or other contraband. Staff training requirements can also result in industry shutdowns. Wardens told us that they are not always able to accommodate MINNCOR's needs when scheduling lockdowns and training. Sometimes unique situations will force MINNCOR to temporarily halt operations. For example, the industry director at Stillwater told us that, because inmates have to walk outside to get from their cell blocks to industry buildings, MINNCOR has had to shut down on foggy days because correctional officers in the towers could not clearly view the inmates.

Although prison industry programs in other states face similar issues, we found that:

- **On average, inmates in Minnesota work slightly fewer hours per week than prison industry workers in other states.**

Among states reporting hours worked by inmates to the National Correctional Industries Association in fiscal year 2007, the average inmate worked 27.7 hours per week, about 1.5 hours more per week than Minnesota inmates.<sup>29</sup> Minnesota ranked 23 out of 42 states reporting.

We noted earlier that MINNCOR has been able to increase the number of inmates employed by increasing the number of labor arrangements it has with private companies. In fact:

- **The majority of inmate work hours—55 percent in fiscal year 2008—are spent manufacturing, assembling, or packaging products for private businesses to use or sell.**

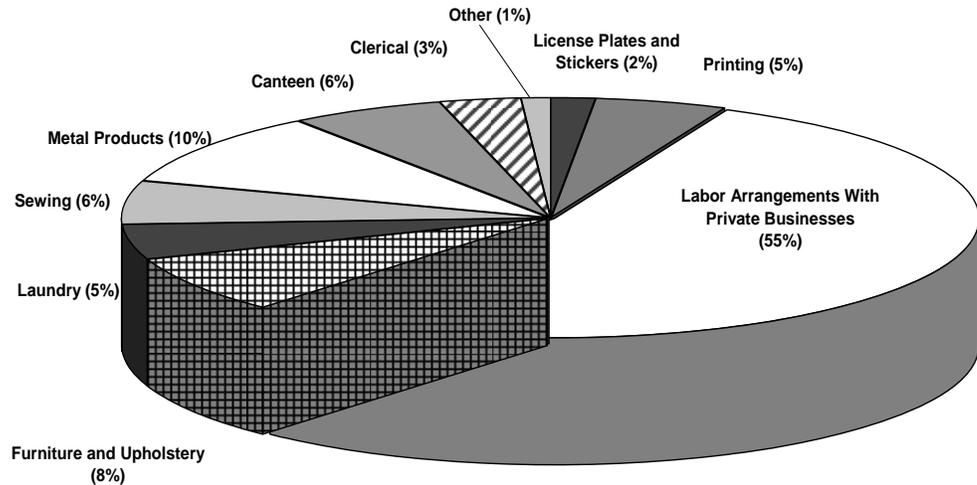
As Figure 2.3 shows, 55 percent of the hours worked by inmates in fiscal year 2008 involved arrangements whereby private companies used inmate labor and prison space to assemble, package, or manufacture their products. Ten percent of inmate hours were devoted to manufacturing metal products, 8 percent to furniture and upholstery, 6 percent to sewing, 5 percent to printing, and 2 percent to making license plates and renewal stickers. Six percent of inmate work hours were devoted to running the canteen and 5 percent to providing laundry services to DOC facilities, state hospitals, veterans' homes, and other government and private nonprofit facilities.

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<sup>29</sup> Office of the Legislative Auditor, analysis of data reported in National Correctional Industries Association, *2008 Directory*, 112-114. See Table A.1 of the appendix for individual state data on inmates employed, hours worked, and annual prison industry sales.

**Figure 2.3: Inmate Hours Worked by Industry, Fiscal Year 2008**

**Over one-half of inmate work hours are spent producing or packaging products for private businesses to use or sell.**



SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries inmate payroll, fiscal year 2008.

The percentage of MINNCOR inmate work hours devoted to labor arrangements with private businesses has grown in recent years, from 36 percent of total hours in fiscal year 2006 to 55 percent in 2008. The percentage of inmate hours devoted to making metal products increased from 5 percent in fiscal year 2006 to 10 percent in 2008. On the other hand, inmate hours devoted to making furniture declined from 21 percent of total inmate hours in 2006 to 8 percent in 2008, due primarily to MINNCOR's decision to stop manufacturing school desks and modular office furniture.

Keeping inmates employed is one of two criteria that MINNCOR considers in assessing the success of particular industries. Profitability is the other factor and, as the following chapter shows, the most profitable industries are not necessarily the ones that employ the largest share of inmates.

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# Finances

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As discussed in Chapter 1, MINNCOR Industries has been operating since the mid-1990s under the expectation that it should be self-sufficient. In this chapter, we evaluate how well it has achieved this goal and examine some of the challenges MINNCOR faces as it strives to remain self-sufficient in the years ahead. To do this, we analyze MINNCOR's sales and expenditures over time, examine whether some industries have been more profitable than others, and discuss what MINNCOR does with its profits.

For the most part, our analyses are based on data collected and reported by MINNCOR in its annual financial statements and reports. MINNCOR has its own financial accounting system distinct from the Minnesota Accounting and Procurement System (MAPS) used by state agencies. MINNCOR's financial statements are not subject to annual audits by the Department of Corrections (DOC) or the Office of the Legislative Auditor, but the Department of Finance requires MINNCOR to reconcile its financial statements each year with the state's *Comprehensive Annual Financial Report*, which is prepared in accordance with generally accepted accounting principles.<sup>1</sup>

We did not conduct a full financial audit for this evaluation and, therefore, cannot offer a formal audit opinion on MINNCOR's financial condition. We did, however, reconcile revenues and expenditures in MINNCOR's fiscal year 2008 financial statements with MAPS. We also examined whether MINNCOR allocated central office and facility-based general and administrative costs to specific industries in a consistent manner, and we reviewed how MINNCOR determined costs and prices for a sample of products. Although we have some concerns about the way MINNCOR reports some of its revenues and expenditures, which we discuss later in this chapter, we think that MINNCOR's financial statements are materially accurate and fairly reflect its overall financial condition.

## SALES

MINNCOR is faced with the difficult task of trying to be financially self-sufficient while operating within the constraints of a prison setting. To achieve its goal of self-sufficiency, MINNCOR must make products and provide services

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<sup>1</sup> The Office of the Legislative Auditor has periodically conducted financial audits and special investigations of DOC that have included aspects of MINNCOR's operations. See: Minnesota Office of the Legislative Auditor Financial Audit Division, *Department of Corrections: Oak Park Heights, Red Wing, and Stillwater Facilities, July 1, 2004, through December 31, 2006* (St. Paul, September 2007); and Minnesota Office of the Legislative Auditor Financial Audit Division, *Department of Corrections Special Review: MINNCOR Industries and Minnesota Correctional Education Foundation* (St. Paul, July 2006).

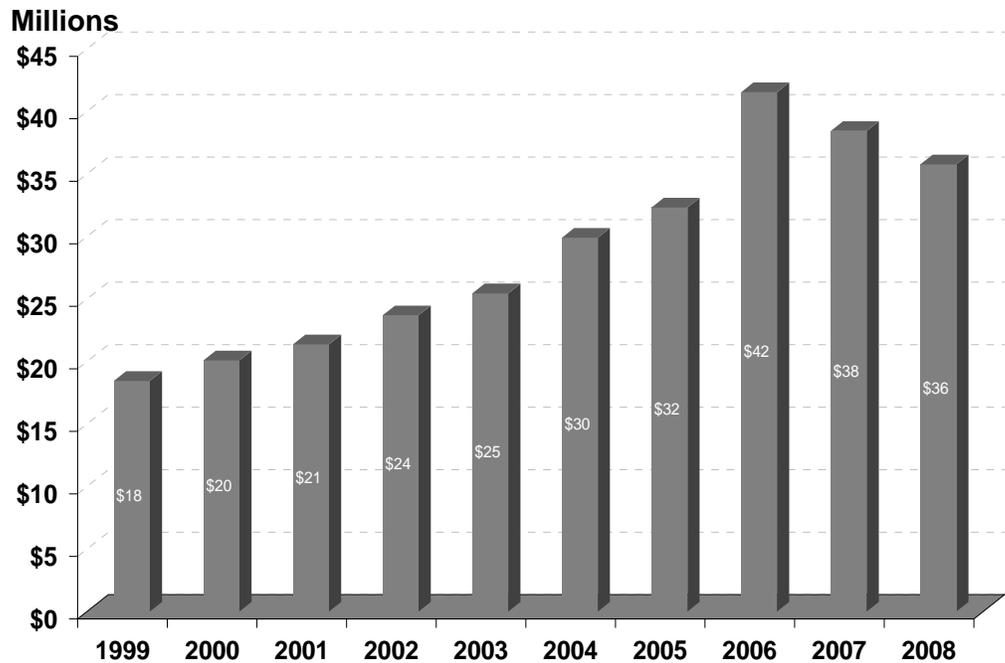
that attract customers. How well MINNCOR does this is revealed by its sales revenue.

## Sales Revenue

Figure 3.1 shows how MINNCOR's sales revenue has changed over time. As shown:

- MINNCOR's sales revenue totaled \$35.8 million in fiscal year 2008, nearly double the amount from a decade earlier.

**Figure 3.1: MINNCOR Reported Sales, Fiscal Years 1999-2008**



**MINNCOR's overall sales revenue has nearly doubled since fiscal year 1999.**

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries annual reports, fiscal years 1999-2008.

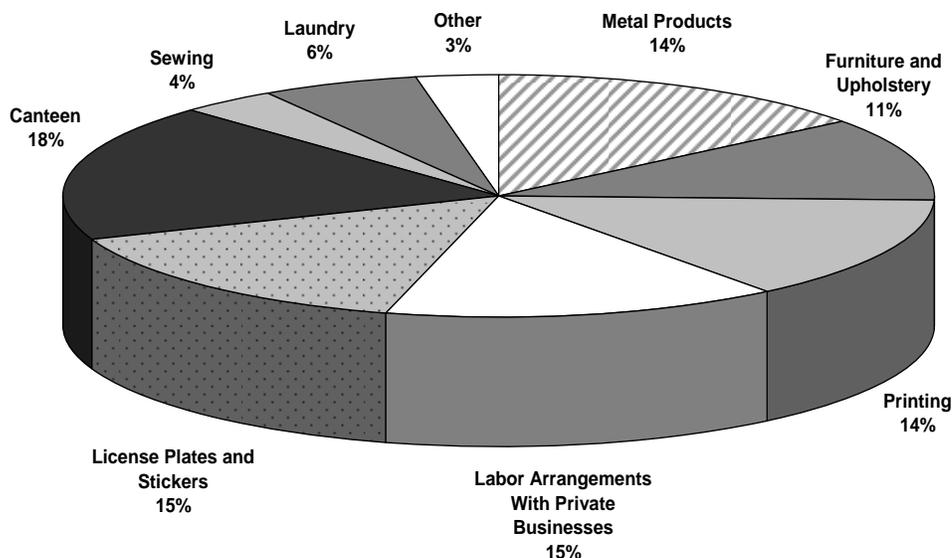
Between fiscal years 1999 and 2008, sales revenue grew from \$18.5 million to \$35.8 million, a 91 percent increase. Over the same time period, the Consumer Price Index increased 21 percent.<sup>2</sup> MINNCOR's sales peaked in 2006 at \$41.5 million and have declined 14 percent over the last two years.

In fiscal year 2008, sales were distributed fairly evenly among MINNCOR's major industries. As Figure 3.2 shows, the canteen accounted for 18 percent of sales revenue and arrangements with private businesses to use inmate labor and

<sup>2</sup> Bureau of Labor Statistics, *Consumer Price Index for Urban Consumers, 1998-2008*, <http://data.bls.gov/cgi-bin/surveymost>, accessed October 8, 2008.

space to manufacture, assemble, and package products made up 15 percent, as did license plates and renewal stickers. Printing and metal products each made up 14 percent of sales revenue; and furniture and upholstery, including mattresses, made up 11 percent.

**Figure 3.2: MINNCOR Reported Sales by Industry, Fiscal Year 2008**



SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries data, *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008).

**Revenue from inmate labor arrangements with private companies has grown rapidly over the last few years.**

As noted earlier, MINNCOR has increasingly used labor arrangements with private businesses as a source of inmate jobs. Sales revenue attributable to these arrangements more than doubled in recent years. In fiscal year 2005, sales from labor arrangements totaled \$2.2 million and constituted 7 percent of all sales revenue. By 2008, such revenue came to \$5.2 million, constituting 15 percent of all MINNCOR sales.

Some of the sales attributed to specific industries are actually due to labor arrangements with private companies. For example, MINNCOR includes sales from labor arrangements that involve sewing with its sewing sales because the labor is performed by inmates in the sewing shops at the Shakopee and Moose Lake facilities. We estimate that about 85 percent of Shakopee’s sewing sales involved arrangements to manufacture products for private companies. In the same manner, we estimate that over one-half of the metal sales revenue at the Stillwater facility comes from labor arrangements. As a result, MINNCOR’s use of labor arrangements is greater than portrayed in its financial statements and, consequently greater than indicated above.

Sales revenue from other industries decreased in recent years. Most notably, furniture and upholstery sales fell 75 percent between fiscal years 2006 and 2008, dropping from \$16.1 million to \$4.0 million. This was mostly due to

MINNCOR's decision to discontinue its modular office and school specialties lines, as discussed in Chapter 2. In fiscal year 2006, furniture and upholstery sales were 38 percent of total sales, compared with 11 percent in 2008.

Each June, MINNCOR develops an annual budget that sets sales goals for the upcoming fiscal year. It then updates its sales projections midway through the fiscal year, taking into account actual results from the first six months and economic trends. We found that:

- **In recent years, MINNCOR has generally been successful in meeting sales projections.**

MINNCOR projected sales of \$41.2 million in fiscal year 2006 and \$38.2 million in 2007. Actual sales, as reported by MINNCOR, were \$41.5 million for 2006 and \$38.4 million for 2007, slightly above the projected amounts.<sup>3</sup> For fiscal year 2008, MINNCOR's projected and reported sales were both \$35.8 million.<sup>4</sup> In recent months, MINNCOR's sales have fallen slightly below projections, probably the result of the recent economic downturn and projected government deficits. MINNCOR originally projected sales of \$41.2 million for fiscal year 2009. For the first half of the year, sales were \$18.3 million, about \$3.2 million below the amount budgeted for the period and about \$700,000 below sales for the first half of fiscal year 2008.<sup>5</sup>

MINNCOR acknowledges the challenges presented by the recent economic downturn and plans to lower sales projections for the second half of the fiscal year. In the summary of fiscal year 2008 results, MINNCOR's chief financial officer noted that MINNCOR is "...challenged with selling to state agency customers that have a minimal budget to work with."<sup>6</sup> MINNCOR hopes to meet revised sales goals for 2009 and beyond by holding its current state agency customer base, increasing efforts to develop new local government and educational institution customers, and continuing to increase the number or dollar value of arrangements to use inmates to assemble or package products for private businesses.

## Customers

Unlike laws in many other states, Minnesota statutes place few restrictions on MINNCOR's customer base.<sup>7</sup> All government agencies can purchase from

<sup>3</sup> MINNCOR Industries, *Fiscal Year 2006 Annual Financial Statement* (St. Paul, July 2006); and MINNCOR Industries, *Fiscal Year 2007 Annual Financial Statement* (St. Paul, July 2007).

<sup>4</sup> MINNCOR Industries, *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008).

<sup>5</sup> MINNCOR Industries, *December FY09 and YTD FY09 Financial Results* (St. Paul, January 2008).

<sup>6</sup> MINNCOR Industries, *Fiscal Year 2008 Annual Financial Statement*, 1.

<sup>7</sup> For example, 21 states and the federal government have laws or policies restricting prison industry sales to their respective state agencies; only 16 states, including Minnesota, allow intrastate sales to private businesses. National Correctional Industries Association, *2008 NCIA Directory* (Baltimore, MD: National Correctional Industries Association, 2008), 120.

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**Due to the poor economy, MINNCOR plans to lower its sales goals for fiscal year 2009.**

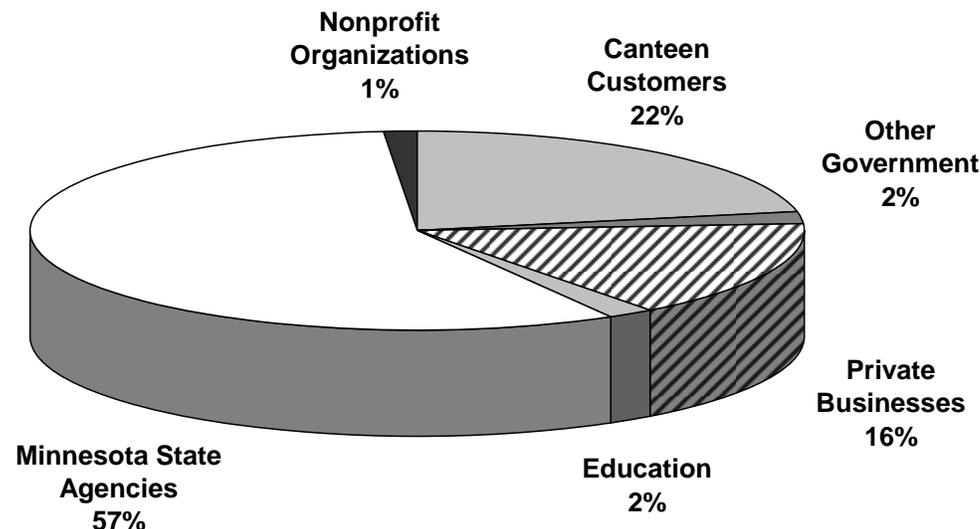
**State agencies are not required to buy products or services from MINNCOR.**

MINNCOR if they choose, including those in other states and the federal government.<sup>8</sup> Private companies, non-profit organizations, and individuals are also free to purchase from MINNCOR. State laws and policies do not require state agencies, including DOC, to buy products and services from MINNCOR, although doing so allows them to forgo the competitive bidding process.<sup>9</sup>

While MINNCOR has a broad base of potential customers, Figure 3.3 shows that:

- **Sales to state agencies and inmates at correctional facilities accounted for 79 percent of MINNCOR’s sales revenue in fiscal year 2008, while sales to all other levels of government came to about 4 percent.**

**Figure 3.3: MINNCOR Sales by Type of Customer, Fiscal Year 2008**



NOTE: The percentage of sales to canteen customers and private businesses differs from the percentages reported in Figure 3.2 because of timing differences in when MINNCOR records sales in its financial and customer data bases.

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries sales data, fiscal year 2008.

<sup>8</sup> *Minnesota Statutes* 2008, 16B.181, subd. 2(a).

<sup>9</sup> In 1995, the Legislature required state agencies to purchase certain products or services from MINNCOR. Three years later, partly at MINNCOR’s request, the Legislature repealed Minnesota’s mandatory state use law. See: *Laws of Minnesota* 1995, chapter 226, art. 5, sec. 1; and *Laws of Minnesota* 1998, chapter 386, art. 1, sec. 2.

MINNCOR's biggest customers were inmates who purchased canteen items at correctional facilities; they accounted for 22 percent of sales revenue. Among state agencies, the departments of Public Safety (17 percent of total sales), Corrections (15 percent), and Human Services (6 percent) purchased the most from MINNCOR.

MINNCOR's printing and furniture industries accounted for most of its state agency sales. About 97 percent of its printing sales were to state agencies in fiscal year 2008. The Department of Human Services, MINNCOR's biggest printing customer, accounted for 21 percent of printing sales. Although state agencies spent about \$4.7 million on printing through MINNCOR in 2008, they spent far more with outside vendors. According to Department of Finance data, state agencies spent about \$11.7 million in fiscal year 2008 for printing services; about 35 percent of this was through MINNCOR.<sup>10</sup>

The Department of Corrections is MINNCOR's major customer for many of its smaller industries. Nearly all sales of chemical products (such as disinfectants and soaps) and sewing products (such as inmate pants and shirts) in fiscal year 2008 were to DOC. Likewise, nearly 70 percent of mattress sales were to the department.<sup>11</sup>

As noted in Figure 3.3, about 16 percent of MINNCOR's sales were to private businesses in fiscal year 2008, up from 10 percent in 2006. These sales involved labor arrangements that allow private businesses to use inmate labor and prison space for packaging, assembling, or producing their products.

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**Few local governments purchase products from MINNCOR.**

Few local governments buy from MINNCOR. About 4 percent of MINNCOR's sales revenue in 2008 was from sales to other levels of government, including cities, counties, towns, school districts, higher education institutions, federal agencies, and public agencies in other states. Furthermore, fewer than 10 percent of school districts made purchases through MINNCOR in each of the last three fiscal years.<sup>12</sup> Sales to school districts comprised 0.2 percent of MINNCOR's sales revenue in fiscal year 2008, while sales to higher education institutions comprised about 1.8 percent.<sup>13</sup>

## EXPENDITURES

Table 3.1 looks at how MINNCOR has spent its money over the last four fiscal years. We found that:

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<sup>10</sup> Office of the Legislative Auditor, analysis of Department of Finance data, 2008.

<sup>11</sup> Office of the Legislative Auditor, analysis of MINNCOR Industries sales data, 2008.

<sup>12</sup> In fiscal year 2008, 19 of 336 school districts (6 percent) and one K-12 private school purchased an item or service from MINNCOR. Office of the Legislative Auditor, analysis of MINNCOR Industries sales data, 2008.

<sup>13</sup> *Ibid.*

- Like many manufacturing businesses, a majority of MINNCOR's reported expenditures have been for material and labor.

**Table 3.1: MINNCOR Reported Expenditures, Fiscal Years 2005-2008**

	(\$000s)			
	2005	2006	2007	2008
Cost of Goods Sold	\$16,592	\$24,115	\$20,666	\$17,020
Other Expenditures				
Staff Salaries and Benefits	\$ 8,633	\$ 9,449	\$ 9,217	\$ 9,384
Inmate Wages	1,839	2,586	2,705	2,484
Security	705	789	771	908
Purchased Services	272	313	83	135
Materials and Supplies	1,216	920	870	937
Equipment Maintenance and Repairs	348	433	339	371
Rent and Utilities	102	624	580	580
Shipping	(68)	294	434	557
Depreciation	594	646	671	683
Indirect Costs	792	923	989	791
Other	77	106	121	89
	\$14,510	\$17,083	\$16,779	\$16,919
Total Expenditures	\$31,102	\$41,197	\$37,446	\$33,939

NOTES: Expenditures include both manufacturing costs and general and administrative costs, but exclude investment income and nonrecurring costs such as restructuring costs. As a result, total expenditures reported here differ slightly for those reported in MINNCOR annual reports. To create this table, we reduced the number of expenditure categories in MINNCOR's financial statements by combining similar accounts. For example, MINNCOR has several depreciation accounts including buildings depreciation, machinery and equipment depreciation, vehicles depreciation, and so on. We combined them into one all-inclusive depreciation category.

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries financial statements, fiscal years ending June 30, 2005-2008.

MINNCOR's largest expense is the cost of goods sold, which refers to the costs of the raw materials used to produce a finished product, excluding labor, equipment, depreciation, and shipping. As Table 3.1 shows, the cost of goods exceeded all other operating expenses combined for each of the years shown. In fiscal year 2008, the cost of goods was just over \$17 million, or 48 percent of sales. This does not include general supplies needed in the manufacturing process such as parts and lubricants for machines and shop and office supplies, which totaled \$937,000, or 3 percent of sales.

As shown in Table 3.1, MINNCOR's second largest cost is labor. Non-inmate staff cost \$9.4 million in salary and benefits in fiscal year 2008, about 26 percent

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**MINNCOR pays about \$1 million more in inmate wages than its financial statements indicate.**

of sales.<sup>14</sup> Although there were many more inmates than civilians working for MINNCOR, inmates are paid much less than civilian staff. In its annual financial statements, MINNCOR reported paying \$2.5 million in inmate wages in 2008, or 7 percent of sales. However:

- **MINNCOR does not report all of the wages it pays to inmates in its financial statements, thereby understating its expenditures.**

MINNCOR payroll records indicate that it actually paid \$3.7 million in inmate wages in fiscal year 2008, but its financial statements only show wage costs of \$2.5 million. Similarly, MINNCOR's failure to include all of the wages it paid to inmates in fiscal years 2006 and 2007 understated expenditures by \$1.5 million and \$1.2 million in 2006 and 2007, respectively.

These discrepancies occur because the federal Prison Industries Enhancement Certification Program (PIECP) requires prison industry programs to pay at least prevailing wages to inmates who produce merchandise sold to out-of-state customers. However, inmates who receive prevailing wage rates do not keep all of their wages. Federal law allows state corrections departments to deduct up to 80 percent of PIECP wages for a variety of purposes, including taxes, family support, restitution, and paying a portion of confinement costs. According to the federal Bureau of Justice Statistics, this provision "reflects a Congressional intent to permit the use of room and board deductions to lower costs otherwise incurred by the public for inmate incarceration."<sup>15</sup> Rather than using the money withheld from inmate wages to directly reduce the cost of confinement, however, we found that:

- **The Department of Corrections has annually transferred to MINNCOR over \$1 million deducted from inmates' wages to pay for their confinement costs.**

Department of Corrections' policy requires that it return deductions for inmates' cost of confinement to MINNCOR, and the department returned about \$1.2 million in fiscal year 2008.<sup>16</sup> However, the \$1.2 million that MINNCOR paid out in wages and then received back from the department is not reflected in its financial statements. As required by the Department of Finance, MINNCOR reports the \$1.2 million in the state's *Comprehensive Annual Financial Report*, which is prepared in accordance with generally accepted accounting principles. It is included along with the other inmate wages as an expense under the category

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<sup>14</sup> Staff salaries and benefits were equally divided between manufacturing staff assigned to specific industries and general and administrative staff.

<sup>15</sup> U.S. Bureau of Justice, "Prison Enhancement Certification Program Guideline," *Federal Register*, vol. 64, no. 66, April 7, 1999, 17011.

<sup>16</sup> Minnesota Department of Corrections, "Division Directive 300.1004: Compensation," *Policies, Directives and Instructions Manual* (St. Paul, 2008), <http://www.doc.state.mn.us/DOCPolicy2/Documents/300.1004.htm>, accessed April 14, 2008. This is consistent with state law, which requires that, "All sums of money received...for correctional services...are appropriated to the commissioner of corrections for the purposes of the fund from which the earnings were paid." *Minnesota Statutes* 2008, 243.23, subd. 2.

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**MINNCOR's annual financial statements do not show the funds DOC transfers to MINNCOR after deductions are made from inmates' wages for their confinement costs.**

of “purchased services” and the reimbursement to MINNCOR is included under “other income.”<sup>17</sup> MINNCOR’s failure to account for inmate wages and the confinement cost funds it receives from DOC in its financial statements in the same way it reports them in the state’s *Comprehensive Annual Financial Report* understates its expenditures and overstates the extent to which it is self-sufficient.

As shown in Table 3.1, security expenses were \$908,000 in fiscal year 2008, about 3 percent of sales. Security expenses are payments that MINNCOR made to DOC for correctional officers to oversee canteen operations and reduce inmate theft of canteen goods. For the most part, MINNCOR does not pay the salaries of correctional officers that routinely patrol MINNCOR work areas, except for overtime pay when an industry operates more than one work shift per day. MINNCOR management told us that DOC would need to pay for correctional officers no matter what activity the inmates were doing.

At the same time:

- **MINNCOR does not pay some typical business-related expenses.**

For example, MINNCOR pays rents for its St. Paul office—about \$277,000 in fiscal year 2008—but it does not pay rent for any of the space it occupies at facilities.<sup>18</sup> Also, as discussed in Chapter 2, most inmate workers are paid wages well below what private industries pay their workers, and MINNCOR does not have to pay for health insurance, contribute to social security or pension plans, or pay for other fringe benefits that non-inmate employees often receive. MINNCOR does, however, pay for its share of state indirect costs that all state agencies pay for administrative support, which came to \$791,000 in 2008.

Over the last several years:

- **MINNCOR has reduced expenditures by eliminating unprofitable industries and consolidating operations.**

As we discussed in Chapter 2, MINNCOR closed its auto refurbishing industry at Faribault; eliminated its farm machinery, panel and modular office and school furniture industries at Stillwater; consolidated all woodworking operations at Faribault; and closed its signage industry at Moose Lake. As a result of these and other changes, MINNCOR’s cost of goods sold declined 29 percent between fiscal years 2006 and 2008, from \$24.1 million to \$17.0 million.

According to MINNCOR, facility industry directors have also taken steps to improve operational efficiency. For example, the Stillwater facility hired a production planner to redefine work responsibilities and streamline the production process. At Oak Park Heights, MINNCOR reduced the prices it paid for canteen items, improved inventory control, increased security, and instituted

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<sup>17</sup> Minnesota Department of Finance, *State of Minnesota Comprehensive Annual Financial Report for the Year Ended June 30, 2008* (St. Paul, December 2008), 166.

<sup>18</sup> Since October 2005, MINNCOR has been paying its share of utility costs at correctional facilities, which came to \$263,000 in fiscal year 2008.

random strip searches of inmate workers to reduce theft of canteen items by inmates.

## Allocation of General and Administrative Costs

Industry directors at some MINNCOR facilities expressed concerns about the way central office general and administrative costs are allocated to specific industries. General and administrative expenditures are costs not directly related to product production such as the salaries and benefits of central office staff and facility-based industry directors. MINNCOR, like most businesses, allocates central office general and administrative costs to specific facilities and industries when it determines the cost of specific items and considers whether industries as a whole are profitable.<sup>19</sup> In fiscal year 2008, central office and facility-based general and administrative expenses totaled \$4.0 million and \$2.2 million, respectively.<sup>20</sup>

We reviewed MINNCOR's method for allocating general and administrative costs and concluded that:

- **MINNCOR allocated general and administrative costs in a reasonable manner.**

Each of MINNCOR's divisions allocates general and administrative costs in one of three ways: (1) the proportion of inmate hours worked in an industry to total inmate hours worked; (2) the proportion of each industry's sales to total MINNCOR sales; or (3) estimates of the proportion of time that each central office employee spent working in each industry.

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**MINNCOR allocates the largest share of its general and administrative costs to its private labor arrangements.**

Some industries have been allocated a greater portion of those costs than others. For example, as Table 3.2 shows, MINNCOR allocated 30 percent of its 2008 general and administrative costs to labor arrangements with private businesses. This appears to be reasonable, considering that inmates work on these labor arrangements in five different facilities and, collectively, labor arrangements make up a majority of the hours worked by MINNCOR inmates. Likewise, MINNCOR assigned only 7 percent of its general and administrative costs to canteen operations, which accounts for 6 percent of total inmate hours worked. General and administrative expenditures were 36 percent of labor arrangement sales and 6 percent of canteen sales.

<sup>19</sup> MINNCOR uses this allocation method to develop "burden rates" to determine the prices for its products and services. We discuss product pricing in Chapter 4.

<sup>20</sup> MINNCOR Industries, *Fiscal Year 2008 Financial Statement*, 4.

**Table 3.2: MINNCOR General and Administrative Costs by Industry, Fiscal Year 2008**

Industry	General and Administrative Costs (\$000s)	Percentage of Total General and Administrative Costs	Percentage of Industry Sales
Labor Arrangements With Private Businesses	\$1,865	30%	36%
Furniture and Upholstery	927	15	23
Metal Products	919	15	18
Printing	560	9	11
License Plates and Stickers	465	8	9
Laundry	463	7	22
Canteen	415	7	6
Sewing	402	6	31
Other	179	3	16
Total	\$6,194	100%	17%

SOURCE: Office of the Legislative Auditor, analysis of data presented in MINNCOR Industries, "Organizational Mission Statement," *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), 2.

## PROFITABILITY

Profitability, or net income, is revenue minus expenditures. As discussed in Chapter 1, MINNCOR adopted a five-year plan in 1997 calling for it to be self-sufficient by 2003. Furthermore, its mission statement calls for it to be profitable. However, profitability can be difficult to measure. For example, some of MINNCOR's expenditures are aimed at foregoing current profits in order to improve future operations. As a manufacturing company, MINNCOR must continually maintain and repair its equipment and replace machinery when it becomes obsolete or too worn to fix. In fiscal year 2008, MINNCOR spent about \$371,000 on equipment maintenance and repair plus an additional \$1.3 million to purchase new manufacturing equipment.

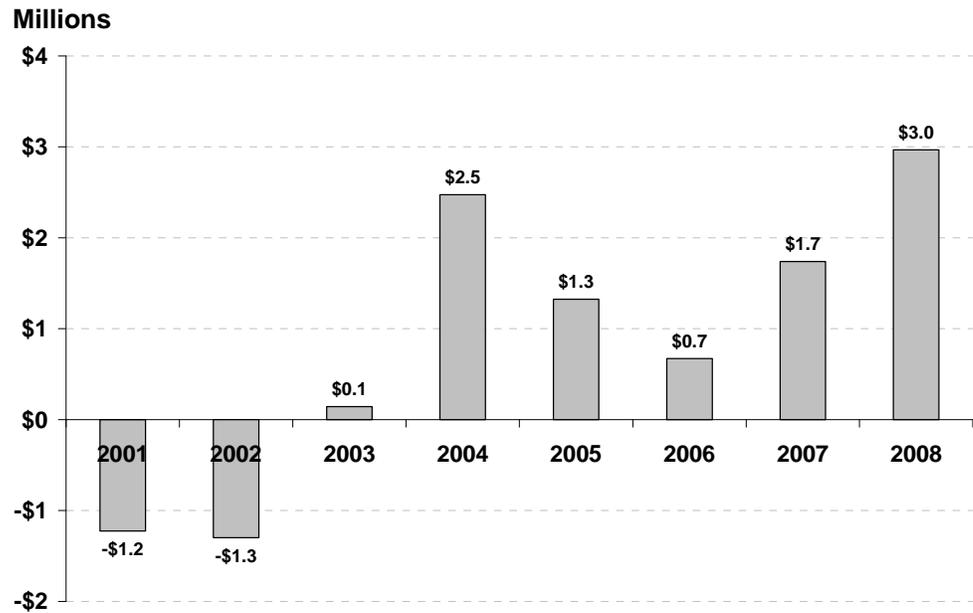
As discussed earlier, MINNCOR's failure to include in its financial statements all of the wages it pays to inmates has resulted in an understatement of MINNCOR's expenditures. Likewise, its failure to acknowledge DOC's return of the wages withheld from inmates to MINNCOR gives the appearance that MINNCOR is more self-sufficient than it actually is.

## Net Income

Figure 3.4 shows MINNCOR’s reported net income since fiscal year 2001.<sup>21</sup> According to these data reported by MINNCOR in its annual reports:

- MINNCOR has been profitable since fiscal year 2003, with profits hitting an all-time high of \$3 million in 2008.

**Figure 3.4: MINNCOR Reported Net Income, Fiscal Years 2001-2008**



**Fiscal year 2008 was MINNCOR’s most profitable year ever.**

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries annual reports, fiscal years 2001-2008.

As shown in Figure 3.4, MINNCOR reported earning a small profit in fiscal year 2003 and has been profitable ever since. Fiscal year 2008 was MINNCOR’s most profitable year ever, with a reported net income of \$3.0 million, slightly more than 8 percent of sales.<sup>22</sup> However, had MINNCOR reported all of the

<sup>21</sup> Table A.2 of the appendix shows reported sales, expenditures, and net income for fiscal years 2005 through 2008.

<sup>22</sup> This excludes expenses related to MINNCOR’s EMPLOY program, which helps inmates find employment after they leave prison. MINNCOR spent \$336,339 on EMPLOY in fiscal year 2008. EMPLOY is discussed in greater detail in Chapter 4.

wages it actually paid to inmates as an expense, MINNCOR would not have been profitable in two of the last six fiscal years (2003 and 2006).<sup>23</sup>

In addition to measuring overall profitability, MINNCOR measures the profitability of individual businesses at two points: before and after allocating general and administrative costs. Table 3.3 shows reported fiscal year 2008 operating income (profits before allocating general and administrative costs) and net income (profits after allocating general and administrative costs) for different MINNCOR industries. However one defines profitability, it is clear that:

- **Some MINNCOR industries are more profitable than others.**

**Table 3.3: MINNCOR Sales and Income by Industry, Fiscal Year 2008**

Industry	Sales (\$000s)	Operating Income <sup>a</sup> (\$000s)	Operating Income as a Percentage of Sales	Net Income <sup>b</sup> (\$000s)	Net Income as a Percentage of Sales
License Plates and Stickers	\$ 5,330	\$1,927	36%	\$1,462	27%
Laundry	2,089	776	37	313	15
Other	1,112	289	26	109	10
Canteen	6,554	944	14	529	8
Printing	4,876	881	18	321	7
Metal Products	5,142	1,024	20	105	2
Sewing	1,279	414	32	12	1
Labor Arrangements With Private Businesses	5,238	1,909	36	44	1
Furniture and Upholstery	<u>4,009</u>	<u>884</u>	22	<u>(43)</u>	-1
Total	\$35,629	\$9,048	25%	\$2,854	8%

NOTES: Total sales exclude design sales and sales from one MINNCOR industry to another. License plates and stickers include both St. Cloud and Rush City; sewing includes Shakopee and Moose Lake; furniture and upholstery include furniture at Faribault and upholstery, mattress, and several discontinued industries at Stillwater; labor arrangements include five facilities; and "other" includes the plastics and chemical industries at Faribault, signs at Moose Lake, and market research at Shakopee.

<sup>a</sup> Operating income is sales revenue less cost of goods sold and manufacturing costs.

<sup>b</sup> Net income is operating income less general and administrative costs.

SOURCE: Office of the Legislative Auditor, analysis of data reported in MINNCOR Industries, "Organizational Mission Statement," *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), 2.

<sup>23</sup> MINNCOR officials told us that had DOC not transferred confinement cost deductions made from inmates' wages to MINNCOR, they would have made additional changes to its operations to be profitable.

As Table 3.3 shows, operating income as a percentage of sales was greatest for the laundry, license plate, and sewing industries and for labor arrangements with private businesses. However, as noted earlier, some industries incurred more general and administrative costs than others. After allocating these costs, license plates and stickers was MINNCOR's most profitable industry in 2008, with net income equal to 27 percent of sales. Private labor arrangements, on the other hand, which had the largest share of general and administrative costs, had net income equal to 1 percent of sales. Sewing, with the second largest share of general and administrative costs, had an operating income of 32 percent of sales, but a net income of only 1 percent in 2008.<sup>24</sup> The furniture and upholstery industry lost money in 2008, but this was largely due to residual costs related to closing out the office panels and modular furniture operations at Stillwater.

Table 3.4 shows inmate employment and profits for different MINNCOR industries in fiscal year 2008. Viewed this way, it is clear that:

- **Most of MINNCOR's profits come from two industries that employ relatively few inmates: license plates and the canteen.**

**Table 3.4: MINNCOR Inmate Employment and Net Income by Industry, Fiscal Year 2008**

Industry	Inmate Hours	Percentage of Total Hours	Net Income	Percentage of Total Net Income
Labor Arrangements				
With Private Businesses	973,764	55%	\$ 44,399	2%
Metal Products	175,711	10	105,090	4
Furniture and Upholstery	135,374	8	(42,702)	-1
Sewing	104,513	6	11,646	0
Canteen	103,640	6	529,482	19
Printing	88,728	5	321,263	11
Laundry	83,340	5	312,923	11
License Plates and Stickers	27,216	2	1,462,423	51
Other	<u>74,103</u>	<u>4</u>	<u>109,428</u>	<u>4</u>
Total	1,766,388	100%	\$2,853,952	100%

NOTE: Percentages may not total 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries inmate payroll and financial data, fiscal year 2008.

<sup>24</sup> According to the industry director at Moose Lake, the Moose Lake facility manufactures linens and sells them to MINNCOR's laundry industry at Faribault. Because it is a sale from one MINNCOR industry to another, general and administrative costs are not included in the price the laundry pays. However, MINNCOR allocates general and administrative costs to Moose Lakes' sewing industry, thereby reducing its profitability.

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**Profits from MINNCOR's license plate and canteen industries help support its less-profitable private labor arrangements.**

License plates and renewal stickers accounted for only 2 percent of total inmate hours worked in fiscal year 2008, but it contributed about one-half of MINNCOR's reported net income that year. Canteen operations, which accounted for 6 percent of inmate hours worked, contributed 19 percent of 2008 net income.<sup>25</sup> Profits from these two industries allow MINNCOR to operate other industries that, while less profitable, employ more inmates.

MINNCOR officials point out that although the license plate industry is profitable for MINNCOR, it is also a good deal for the state in general. In addition to manufacturing the plates, MINNCOR distributes plates and renewal stickers to deputy registrars around the state and sends out renewal notices to registered vehicle owners. We spoke with representatives from the Driver and Vehicle Services Division of the Department of Public Safety, and they expressed satisfaction with the services they received and the price they paid to MINNCOR.

While industries that employ relatively few inmates had the largest share of MINNCOR's profits, Table 3.4 also shows that:

- **Although labor arrangements accounted for over one-half of the total inmate hours in fiscal year 2008, they contributed only 2 percent of MINNCOR's profits.**

Labor arrangements from all facilities combined earned about \$44,000 in fiscal year 2008, or less than 1 percent of the \$5.2 million of sales revenue that these arrangements brought in. Given the fact that most of the private companies involved supplied the raw materials for MINNCOR inmates to work on, we are concerned that these labor arrangements have not been more profitable.<sup>26</sup> Furthermore, most, if not all, of the \$1.2 million in unreported inmate wages discussed previously involved labor arrangements with private businesses. A correct accounting for inmate wages would have indicated that labor arrangement actually lost money in fiscal year 2008 and prior years as well. We are particularly concerned because, as discussed in Chapter 2, MINNCOR has been increasing its reliance on these arrangements over the last decade.

## Use of Profits

Given its financial success in recent years, MINNCOR has begun to look for ways to use its profits. We examined MINNCOR's current and planned use of profits and found that:

- **MINNCOR has used its profits to develop and support programs that could benefit inmates.**

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<sup>25</sup> We discuss canteen operations and pricing in Chapter 4.

<sup>26</sup> In fiscal year 2008, the combined costs of goods sold for labor arrangements at all MINNCOR facilities were 3 percent of sales compared with 55 percent for all other MINNCOR industries combined.

**MINNCOR has used a portion of its profits to set up a program to help inmates find jobs after their release.**

MINNCOR launched its EMPLOY program in fiscal year 2007, which is designed to help inmates obtain employment upon their release. MINNCOR paid \$82,000 in EMPLOY expenses in fiscal year 2007 and over \$336,000 in fiscal year 2008. MINNCOR spent \$342,000 during the first half of fiscal year 2009 for EMPLOY and other programs to help inmates make a successful re-entry into society after they are released from prison. At the end of fiscal year 2007, MINNCOR also made a one-time transfer of \$240,000 in canteen profits to the social welfare fund at the Oak Park Heights facility.<sup>27</sup>

Since fiscal year 2008, MINNCOR has distinguished EMPLOY costs from other expenditures in its financial statements. However, MINNCOR has budgeted an additional \$2.4 million in fiscal year 2009 for other payments to DOC aimed at improving prison operations and providing services to inmates. For example, in the first half of fiscal year 2009, MINNCOR paid DOC \$562,000 to support programs related to inmate services, including \$384,000 to AMICUS, a nonprofit organization that helps inmates make successful transitions into society after their release from prison.<sup>28</sup> Although these payments have nothing to do with MINNCOR's core businesses, its budget statements treat them as normal business expenditures. These offender-related initiatives are permitted by state law, but by including them as general and administrative costs, MINNCOR will report lower net income in 2009.<sup>29</sup> Department of Corrections officials told us that the department will not transfer all of the money budgeted for offender-related initiatives if the current economic downturn threatens MINNCOR's overall profitability.

## Fund Balance

State law requires that MINNCOR have a balance in its revolving fund sufficient to cover six months of "net operating cash" based on the prior year's revenues and cash flow statements.<sup>30</sup> In our view:

- **MINNCOR has enough cash on hand to meet the statutory fund balance requirement.**

<sup>27</sup> The payment was made pursuant to a report from the Office of the Legislative Auditor pointing out that MINNCOR was statutorily required to do so. The transferred funds involved canteen profits through fiscal year 2006. See: Minnesota Office of the Legislative Auditor Financial Audit Division, *Department of Corrections: Oak Park Heights, Red Wing, and Stillwater Facilities, July 1, 2004, through December 31, 2006* (St. Paul, September 2007), 19-22. The law was subsequently changed to allow MINNCOR to retain canteen profits. See: *Laws of Minnesota* 2007, chapter 54, art. 6, sec. 1; and *Minnesota Statutes* 2008, 16A.72, subd. 7.

<sup>28</sup> MINNCOR created a new account to report these expenditures for fiscal year 2009 called "DOC facility expense."

<sup>29</sup> *Minnesota Statutes* 2008, 241.27, subd. 2, allows DOC to use MINNCOR's revolving fund for "inmate educational training, self-sufficiency skills, transition services, and the inmate release fund."

<sup>30</sup> Net operating cash means "net income minus sales plus cost of goods sold." *Minnesota Statutes* 2008, 241.27, subd. 3.

MINNCOR calculates its net operating cash requirement each month. On December 31, 2008, MINNCOR had \$27.5 million in total equity, of which \$15.4 million was cash.<sup>31</sup> MINNCOR's statutory net operating cash requirement at the end of December 2008 was \$12.4 million.<sup>32</sup>

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<sup>31</sup> MINNCOR Industries, *Rolling 12-Month Balance Sheet as of December 31, 2008* (St. Paul, January 2009).

<sup>32</sup> MINNCOR Industries, *Net Operating Cash Worksheet* (St. Paul, January 2009).



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# Management Issues

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As shown in the previous two chapters, MINNCOR Industries has been successful overall in achieving both high levels of inmate employment and self-sufficiency. This chapter looks more closely at how MINNCOR has done this, including its private labor arrangements, planning and marketing processes, relationships with customers, and pricing policies. It also presents our overall conclusions and recommendations.

## PRIVATE LABOR ARRANGEMENTS

State law authorizes the Commissioner of Corrections to allow private businesses to use inmate labor and prison space to help manufacture, assemble, or package their products.<sup>1</sup> Over the last several years, private labor arrangements have become an increasingly important tool for MINNCOR and the percentage of sales revenue attributable to these arrangements has grown. Indeed, the Department of Corrections' (DOC) 2005 strategic plan and 2008 legislation encourage MINNCOR to attract more private sector business.<sup>2</sup>

Doing work for the private sector can benefit all parties involved. Such arrangements relieve MINNCOR of the risks involved in developing new products, determining their marketability, and selling them. Private companies, not MINNCOR, are generally responsible for buying the necessary supplies and materials. Without having to worry about buying materials and then selling products, it should be relatively easy, at least in theory, for MINNCOR to compute its expenses and price its services accordingly.

Labor arrangements can also benefit the private sector. At times, some businesses have problems finding workers willing to perform tedious, low-skill tasks, such as counting and packing balloons or sticking adhesive tape on the backs of plastic hooks—two of the many jobs MINNCOR does for private companies. In addition, some businesses may not want or have the capital to invest in equipment to automate production, preferring instead to rely on readily available inmate labor. Other businesses can test product ideas without making significant investments in factory infrastructure.

Private labor arrangements benefit correctional facilities in that they satisfy facilities' need to keep inmates busy or provide them with basic work experience. From an inmate's perspective, such arrangements can provide work experience, relief from boredom, and, possibly, future job contacts. There is also a financial

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**Arrangements allowing private businesses to use inmate labor can be beneficial to MINNCOR, inmates, and private companies.**

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<sup>1</sup> *Minnesota Statutes* 2008, 243.88, subd. 2.

<sup>2</sup> Minnesota Department of Corrections, *Focus on Strategic Planning* (St. Paul, March 2005), 9; and *Laws of Minnesota* 2008, chapter 299, sec. 3.

benefit, especially if inmates produce goods for interstate sales. In these instances, inmates must receive at least prevailing wages. Even after mandatory deductions, these jobs are more lucrative than other MINNCOR or facility jobs. The public likewise benefits when money can be deducted from inmates' wages for confinement costs, taxes, dependent support, victim services, or restitution.

## Number of Labor Arrangements

Because of the growing importance of labor arrangements, we asked MINNCOR for a list of all businesses that use inmate labor, the contracts that have been developed with the companies, and the revenues and expenditures from such arrangements. However, we found that:

- **MINNCOR does not systematically monitor its individual private labor arrangements, including the extent to which MINNCOR makes or loses money on each of them.**

MINNCOR does not track the expenses it has incurred under each of its labor arrangements (for example, staff wages, general and administrative costs, utilities, and materials), nor does it systematically monitor what each company has paid for MINNCOR's services over the course of the fiscal year. Without this type of information, MINNCOR cannot adequately evaluate whether it has negotiated a "good" agreement, whether it should amend the terms of its agreement, or whether certain agreements should be cancelled and others expanded.

MINNCOR has a contract management system in place, but, when we asked for copies of all current contracts, it was incomplete. It contained expired contracts that should have been renewed and one contract that was never signed but was being treated as a signed document. Furthermore, the system did not contain all of MINNCOR's contracts with private businesses and contained no information on any of the purchase orders that, as we discuss later, MINNCOR often uses in lieu of contracts.<sup>3</sup>

According to MINNCOR documents:

- **MINNCOR entered into inmate labor arrangements with about 46 private businesses in fiscal year 2008, generating an estimated \$8.1 million in sales revenue.**

During fiscal years 2006 through 2008, MINNCOR had arrangements with at least 45 to 47 private businesses for inmate labor. MINNCOR estimates that revenue from these labor arrangements was about \$7.1 million in 2006, \$9.3

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<sup>3</sup> MINNCOR uses another system to track all purchase orders, regardless of whether the orders were or were not placed under existing contracts.

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**MINNCOR has formal contracts with less than one-third of the businesses that use inmate labor, the others simply use purchase orders.**

million in 2007, and \$8.1 million in 2008.<sup>4</sup> It expects private labor arrangements to bring in about \$10.9 million in fiscal year 2009, with most of the 2009 increase due to increased revenue from existing labor arrangements, not new ones.<sup>5</sup>

## Use of Revenue Contracts

State law does not set forth specific agency requirements when the state is a seller rather than purchaser of goods and services. According to the Department of Administration, agency agreements to provide services that bring money into their accounts “. . . are and SHOULD BE processed as contracts to protect the agency and the state from liability and to clearly define who is responsible for what.”<sup>6</sup> Similarly, DOC’s policy suggests that MINNCOR should use a revenue contract with all private sector customers whenever it agrees to provide specified services in exchange for specified consideration.<sup>7</sup> However, we found that:

- **MINNCOR has used purchase orders rather than revenue contracts when allowing private businesses to use inmate labor—a practice that has placed the state at risk.**

At most, MINNCOR entered into revenue contracts with only 30 percent of the 45 to 47 private businesses that used inmate labor over each of the last three fiscal years; the other 70 percent of the businesses purchased inmate labor through purchase orders. As shown in Figure 4.1, labor arrangements based solely on purchase orders comprised about 24 percent of estimated labor arrangement revenue in fiscal years 2006 and 2007 and 41 percent of revenue from such work in 2008.

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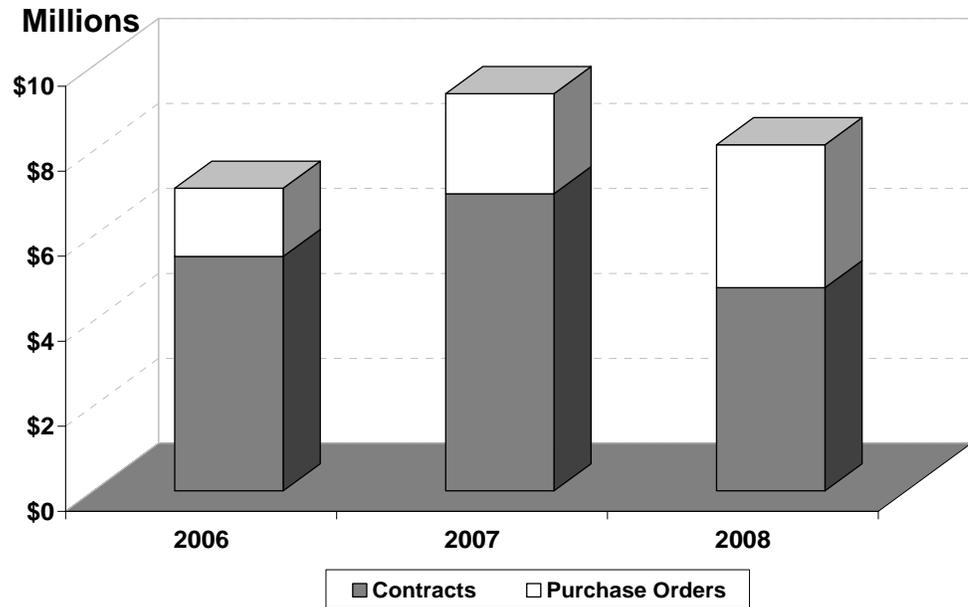
<sup>4</sup> MINNCOR Industries, “FY 06 Business Development Account List,” undated; MINNCOR Industries, “FY 07 Business Development Account List,” undated; and MINNCOR Industries, “FY 08 Business Development Account List,” undated. Revenue data from these lists do not agree with the totals for private labor arrangements shown in Chapter 3. This is because MINNCOR has not adopted a consistent definition of such work for the purposes of reporting revenues and expenditures. Also, these data exclude revenue from MINNCOR’s interagency agreement with the Department of Public Safety to manufacture license plates and stickers.

<sup>5</sup> MINNCOR Industries, “FY 09 Business Development Account Forecast,” undated; and MINNCOR Industries, “FY 08 Account List,” undated. Due to the poor economy, MINNCOR is currently revising its fiscal year 2009 budget to reflect weaker sales overall.

<sup>6</sup> Minnesota Department of Administration, “Section 23: Income Contracts,” *State Contracting* (St. Paul, updated May 2007), 1.

<sup>7</sup> Minnesota Department of Corrections, “Division Directive 403.080: MINNCOR Revenue Contracts,” *Policies, Directives and Instructions Manual* (St. Paul, 2008), <http://www.doc.state.mn.us/DocPolicy2/Documents/403.080.htm>, accessed December 4, 2008. Department of Corrections’ policy refers to such documents as “revenue” contracts while the Department of Administration uses the term “income” contracts. Both terms refer to the same kind of contract and can be used interchangeably. We use the term “revenue” contract. The Department of Corrections does not have a policy that explicitly addresses whether using purchase orders in lieu of revenue contracts is ever permissible.

**Figure 4.1: Estimated Revenue from MINNCOR's Private Labor Arrangements, Fiscal Years 2006-2008**



SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries sales data, 2006-2008.

**Using purchase orders rather than formal contracts places the state at greater risk.**

Although MINNCOR has used purchase orders and revenue contracts for many years, it has not developed any formal criteria regarding when to use a revenue contract versus a purchase order.<sup>8</sup> Informally, MINNCOR tends to use revenue contracts whenever the work involves products sold across state lines. We noted that MINNCOR uses purchase orders for both large and small volume businesses as well as businesses that have been using inmate labor from MINNCOR for years.

Relying on purchase orders rather than revenue contracts places the state at risk in a number of ways. Currently, DOC's policy requires that revenue contracts clearly specify various items to "anticipate and avoid future misunderstandings and conflicts" relating to: responsibility for providing materials, number of inmates involved, delivery turnaround, quality control, record keeping, payment terms and conditions, and other relevant factors.<sup>9</sup> For the most part, these elements are absent from purchase orders—which basically state an agreed upon

<sup>8</sup> In response to our concerns about MINNCOR's use of purchase orders instead of revenue contracts, DOC began revising its policies. The most recent draft of its revised policy would allow MINNCOR to use purchase orders whenever products are manufactured or services delivered on a one-time or sporadic basis. See: Minnesota Department of Corrections, "Draft Division Directive 403.080: MINNCOR Revenue Purchase Orders and Contracts" (St. Paul, December 2008).

<sup>9</sup> Minnesota Department of Corrections, "Division Directive 403.080: Revenue Contracts," *Policies Manual*, 2, <http://www.doc.state.mn.us/DocPolicy2/Documents/403.080.htm>, accessed December 4, 2008.

price for a specific product or service and a due date. More importantly, purchase orders do not routinely contain standard language inherent in all Minnesota contracts, including clauses related to indemnification, cancellation, data privacy, and audits. They also do not contain signatures from MINNCOR or Department of Administration officials and are not reviewed by DOC's central office—as are revenue contracts.

Furthermore, the purchase orders that MINNCOR relies on are not standard forms developed by the Department of Administration or even MINNCOR, but forms developed by the businesses themselves. This can pose additional problems for the state. For example, 3M Corporation (3M) has paid MINNCOR an estimated \$4 million for inmate labor since fiscal year 2006. Rather than using a contract or purchase order developed by the state, MINNCOR has allowed 3M to use its purchase order, which has, in effect, bound the state to certain conditions not allowed by law.<sup>10</sup> By accepting 3M's purchase order, MINNCOR has agreed to "indemnify, defend, and hold harmless 3M, its affiliates...for, from, and against any claim, liability, loss, damage, lien, judgment, duty, fine, civil penalty...."<sup>11</sup> It has also committed the state to maintain the necessary insurance to protect 3M from such risks or claims. According to the Department of Administration's policy manual on contracting, state agencies cannot indemnify contract parties.<sup>12</sup> Its standard income contract clearly states that "each party will be responsible for its own acts and behavior."<sup>13</sup>

## Best Contract Management Practices

**Work under some contracts has continued past their expiration dates.**

Because labor arrangements with private companies involve public resources—prison space and staff—MINNCOR's contract management practices should conform to the highest standards of good government. Although we found that MINNCOR's revenue contracts were generally well-written in that they specified the roles and responsibilities of both contracting parties,<sup>14</sup> we also found that:

- **MINNCOR does not always adhere to best management practices when it enters into revenue contracts with private businesses.**

First, work under some contracts has continued past expiration dates, while work on other contracts has started before all parties have signed the contracts. For

<sup>10</sup> *Minnesota Statutes* 2008, 3.736.

<sup>11</sup> 3M Corporation, "Purchase Order Terms," 3, [http://multimedia.3m.com/mws/mediawebsserver?ffffff5myruf\\_3GfT3Gff2szqRbFFFFd-](http://multimedia.3m.com/mws/mediawebsserver?ffffff5myruf_3GfT3Gff2szqRbFFFFd-), accessed December 3, 2008.

<sup>12</sup> Minnesota Department of Administration, "Section 23: Income Contracts," *State Contracting* (St. Paul, updated May 2007), 1.

<sup>13</sup> Minnesota Department of Administration, *State of Minnesota Income Contract*, 2, <http://www.mmd.admin.state.us/pdf/incomecontract.pdf>, accessed December 3, 2008.

<sup>14</sup> Department of Corrections policy requires that revenue contracts clearly specify the obligations of both parties regarding various items such as materials and transportation, number of offenders involved, turnaround time, quality control, record keeping, and payment terms. See: Minnesota Department of Corrections, "Division Directive 403.080: Revenue Contracts," *Policies Manual*, 2.

example, MINNCOR contracts with a plastics company to help assemble various products. Although MINNCOR's contract with the company expired July 30, 2008, all parties did not sign a new contract until October 20, 2008, during which time MINNCOR continued to accept work from the company.

Second, very few contracts for inmate labor have ever been amended by MINNCOR, even when it would be prudent to do so. Contracts that call for inmates to help produce products for interstate sales contain a standard clause indicating that MINNCOR's prices may change as a result of changes in prevailing wage rates. Although prevailing wage rates can and have changed over the life of some contracts, MINNCOR has not amended them to help ensure that businesses pay MINNCOR enough to cover its costs. For example, MINNCOR contracts with a plastics company to help manufacture and assemble various products for interstate sales. MINNCOR's current contract, which is in effect from July 1, 2005 through June 30, 2010, calls for the company to pay MINNCOR a flat hourly rate of \$6.95 per hour. Although the prevailing wage rate was \$6.70 at the time the contract was signed, it has since risen to \$7.71. Yet, MINNCOR has not amended the contract to reflect cost increases on its part.

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**MINNCOR does not always charge private companies enough to cover its costs.**

This brings us to our third problem: MINNCOR does not always charge private businesses enough to pay prevailing wage rates to inmates when necessary. The contract mentioned above is but one example. In setting contract labor rates, MINNCOR intentionally understates its inmate wage costs because DOC has traditionally returned to MINNCOR the charges it deducts from inmate wages for their confinement costs. As we discussed in Chapter 3, this understates the costs that MINNCOR has incurred. Plus, we think it is counter to the spirit of the federal Prison Industries Enhancement Certification Program (PIECP). According to the U.S. Bureau of Justice Assistance, allowing states to deduct confinement cost charges from inmate wages "reflects a Congressional intent to permit the use of room and board deduction to lower costs otherwise incurred by the public for inmate incarceration."<sup>15</sup>

Because of these failings and MINNCOR's use of purchase orders in lieu of contracts, we have concluded that:

- **The Department of Corrections has not provided sufficient oversight of MINNCOR's private labor arrangements.**

As DOC's designated contract coordinator, the Policy and Legal Services Unit reviews the technical portions of all DOC's contracts to ensure that they meet requirements of the departments of Corrections and Administration. Until we brought the issue to its attention, the unit was unaware that MINNCOR did not have revenue contracts with all the private businesses that use inmate labor. Although MINNCOR routinely submitted all contracts to the unit for its review

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<sup>15</sup> U.S. Bureau of Justice, "Prison Enhancement Certification Program Guideline," *Federal Register*, vol. 64, no. 66, April 7, 1999, 17011.

prior to signing them, labor arrangements worked out via purchase orders were not.<sup>16</sup>

## PLANNING AND MARKETING

Although MINNCOR is expected to work toward a variety of objectives, DOC has not adopted long-range goals for MINNCOR regarding inmate employment rates or profitability. Despite this, we found that:

- **MINNCOR has established a good framework for evaluating its overall performance.**

Each July, MINNCOR develops a yearly budget that sets forth cost and sales goals for each industry at each facility as well as for MINNCOR as a whole. This document serves as MINNCOR's "plan" for the coming year. MINNCOR evaluates its industries against the annual plan on a quarterly basis, paying special attention to the number of inmates employed and profitability. Industry directors at each facility are expected to review their own industries against the plan monthly.

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**MINNCOR evaluates each of its prison industries in terms of the industry's profitability and employment rate.**

MINNCOR expects each industry to employ at least 15 percent of the inmate population or show a minimum net income or profit of 10 percent.<sup>17</sup> Individual industries are given some latitude, though, in that profits from some industries can be used to offset losses in other industries, as long as the unprofitable industries employ a large number of inmates. The opposite is also true in that some industries are permitted to employ relatively low numbers of inmates as long as they are contributing to MINNCOR's profitability.<sup>18</sup>

MINNCOR has been largely successful in meeting the financial goals it has set for itself overall. For example, MINNCOR's 2007 and 2008 annual plans set sales goals of \$38.2 million and \$35.8 million, respectively.<sup>19</sup> As we showed in Chapter 3, actual sales were \$38.4 million in fiscal year 2007 and \$35.8 million in 2008.<sup>20</sup> Net income or profit was close to its projections. MINNCOR's 2007

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<sup>16</sup> The Department of Corrections has since directed MINNCOR to meet with Department of Administration officials to address issues related to purchase orders and revenue contracts. The Department of Corrections is examining the circumstances under which it would be permissible to use purchase orders in lieu of revenue contracts and has proposed changing its policies accordingly. In terms of MINNCOR's work for 3M, staff from the departments of Corrections and Administration and 3M are currently developing a contract that contains language acceptable to all parties involved.

<sup>17</sup> MINNCOR Industries, "Organizational Mission Assessment," *Fiscal Year 2008 Annual Financial Statement* (St. Paul, July 2008), 2.

<sup>18</sup> As we showed in Chapter 3, the most profitable industries tend to employ relatively low percentages of inmates.

<sup>19</sup> MINNCOR Industries, *Fiscal Year 2007 Annual Plan* (St. Paul, August 2006), 1; and MINNCOR Industries, *Fiscal Year 2008 Annual Plan* (St. Paul, November 2007), 3.

<sup>20</sup> MINNCOR Industries, *Fiscal Year 2007 Annual Financial Statement* (St. Paul, July 2007), 3; and MINNCOR Industries, *Fiscal Year 2008 Financial Statement*, 3.

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**Relatively few school districts and higher education institutions purchase products or services from MINNCOR.**

plan projected \$1.4 million in net income, and it made \$1.7 million. In 2008, it projected a profit of \$3.0 million and made \$3.0 million.<sup>21</sup>

Although its annual plan is a good management tool, MINNCOR's planning process lacks other components that could help it reach its goals. We found that:

- **MINNCOR does not have a formal, written marketing plan to help guide its sales activities.**

As we showed in Chapter 3, MINNCOR does not sell to all of its potential customers. For example, MINNCOR captured slightly less than one-third of state agency purchases for printing services and less than one-fourth of state agency purchases for cleaning supplies.<sup>22</sup> In addition, only a small percentage of school districts and higher education institutions purchase products or services from MINNCOR.<sup>23</sup>

MINNCOR's 2009 annual budget sets a sales goal of \$41 million—about \$6 million more than 2008 sales.<sup>24</sup> Yet MINNCOR has not developed a formal, written plan that sets forth specific marketing strategies to increase sales or even maintain sales at its 2008 level—which may be difficult with the state's budget problems. For example, it is unclear the extent to which increased sales revenue means more first-time customers or more sales to existing customers. As public agencies respond to the state's current budget problems, MINNCOR will likely have to expand its customer base to simply stay even. It should have a formal plan or roadmap to show how it will accomplish this. Also, MINNCOR has yet to develop a formal marketing plan to attract private sector businesses to employ inmate labor, as required by the 2008 Legislature.<sup>25</sup> That legislation called for the Commissioner of Corrections, in consultation with the Department of Employment and Economic Development, to develop, implement, and maintain a formal marketing plan to employ inmate services through MINNCOR.<sup>26</sup> The plan is to be reviewed and updated annually.

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<sup>21</sup> Figures for fiscal year 2008 exclude MINNCOR's costs related to EMPLOY, which it paid out of its profits in fiscal year 2008.

<sup>22</sup> Office of the Legislative Auditor, analysis of data from the Minnesota Accounting and Procurement System, 2008.

<sup>23</sup> Office of the Legislative Auditor, analysis of sales data from MINNCOR Industries, 2008.

<sup>24</sup> MINNCOR Industries, *Fiscal Year 2009 Annual Plan* (St. Paul, July 2008), 1. Due to the poor economy, MINNCOR is currently revising its sales goals for fiscal year 2009. To date, MINNCOR has not adopted a final number, but staff told us that its sales goal for 2009 will be less than 2008 sales, which was about \$35.8 million.

<sup>25</sup> *Laws of Minnesota* 2008, chapter 299, sec. 3.

<sup>26</sup> MINNCOR's reading of the 2008 legislation differs significantly from ours. MINNCOR interprets the legislation as referring to DOC's "Transitions" program, which encourages businesses to employ former inmates after their release from prison. Our discussions with legislative staff, however, support our interpretation that the provision refers to arrangements for inmate labor while the inmates are still in prison. Department officials told us that they intend to work with legislators this session to clarify the intent of the law.

Although MINNCOR has not developed any formal marketing plans, it has recently taken steps to expand its marketing efforts, especially for MINNCOR-labeled products. Since the recent economic downturn, staff responsible for selling MINNCOR-labeled products have become more focused on marketing specific product lines. MINNCOR has have met with physical plant officials from the Minnesota State Colleges and Universities to promote MINNCOR's line of office, classroom, and dormitory products. Also, staff began contacting cities and counties throughout Minnesota and the surrounding states to assess whether its recreational products address the needs of local governments. If not, MINNCOR may redesign its products to better align them with local needs. Finally, staff responsible for private labor arrangements have begun making more "cold calls," which involves contacting prospective customers, usually by telephone, who were not expecting a call or did not specifically ask a sales person to contact them.

Other components of MINNCOR's annual planning process also need to be better developed. For example, MINNCOR develops annual sales projections by facility, industry, and product line for all MINNCOR-labeled products. Reports showing the difference between actual cost, projected cost, and sales price for each MINNCOR-labeled product are examined monthly to identify production problems. However, sales and revenue projections for all labor arrangements with private businesses are usually combined at each facility—even though inmate activities involved in each labor arrangement may be different. Sometimes labor arrangements at a facility are combined with a MINNCOR-labeled product because the work is similar (for example, metal work at Stillwater). As we discussed earlier, this creates problems for MINNCOR in trying to evaluate whether individual labor arrangements make or lose money.

We also looked at the extent to which MINNCOR competes with the private sector. As shown in Chapter 3, aside from its private labor arrangements, MINNCOR sells very few products to the private sector. We found that:

- **For the most part, MINNCOR does not compete unfairly with the private sector and, in some cases, provides them with needed services.**

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**MINNCOR focuses most of its marketing efforts on the public sector, not the private sector.**

MINNCOR does not market its products and services to the private sector. Although its industries may produce some of the same products and services available from private vendors, MINNCOR focuses its marketing efforts on public entities—customers that MINNCOR considers "fair game" to all. Aside from MINNCOR's arrangements with private businesses to use inmate labor and prison space, nearly all MINNCOR sales are for products and services related to government functions such as licensing motor vehicles and feeding and clothing inmates and providing them access to canteen services.

On the other hand, MINNCOR does allow private companies to use inmate labor—15 percent of MINNCOR sales, about \$5.2 million, were to private businesses in fiscal year 2008. About one-third of the labor arrangements involve interstate sales under PIECP, which requires that the private businesses

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**MINNCOR  
“farms out” some  
of its printing and  
laundry jobs to  
private  
businesses.**

involved not displace their current workers due to their use of inmates.<sup>27</sup> As we discussed earlier, some businesses that MINNCOR sells inmate labor to may have problems finding workers willing to perform tedious jobs while others may be trying out new ideas. According to MINNCOR staff, offering private businesses a viable alternative to the cheap labor available overseas is good for the state’s economy as well as MINNCOR.

Also, MINNCOR “farms out” some of its printing and laundry jobs to private businesses. For example, in fiscal year 2008, about 60 percent of its printing sales (about \$3 million) were print jobs sent to local printing businesses—generally orders or parts of job orders that MINNCOR did not have the capability of handling, such as orders requiring multiple colors.<sup>28</sup> Regarding laundry services, MINNCOR uses some local laundry companies to wash soiled linens rather than transport them to its Faribault facility, which may be cost-prohibitive. MINNCOR’s laundry services, though, extend beyond simply washing soiled linens in that MINNCOR provides their customers with the linens themselves as well as monthly inventory reports.<sup>29</sup>

## CUSTOMER SATISFACTION

To learn about state agencies’ experiences using MINNCOR as well as their familiarity with the prison industries program, we mailed surveys to nearly 600 state employees certified by the Department of Administration to make purchases on behalf of their agencies.<sup>30</sup> About one-half of survey respondents purchased at least one item for their agencies from MINNCOR or another vendor during fiscal year 2008. Overall, we found that:

- **Most state agency staff doing business with MINNCOR were satisfied with the services or products they received.**

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<sup>27</sup> Although participating industries sign assurances that they will not lay off workers as a result of using MINNCOR, neither MINNCOR nor the federal government follows up to ensure that this does not happen. MINNCOR officials told us that affected employees would complain if businesses displaced workers and MINNCOR would hear about it. To date, this has not happened. MINNCOR’s PIECP industries are periodically audited by the federal government to ensure compliance with federal guidelines, and MINNCOR was last audited in August 2008. At that time, auditors cited MINNCOR for underpaying inmates for a short period of time in one facility. Becky Deeb, “Draft Assessment Report: Prison Industry Enhancement Certification Program Department of Corrections MINNCOR Industries,” September 18, 2008.

<sup>28</sup> Some agencies use MINNCOR for their printing needs because it frees them from having to obtain competitive bids for their jobs. Instead MINNCOR handles this for them, which is reflected in MINNCOR’s charges. MINNCOR Industries, *Fiscal Year 2008 Financial Statement*, 2.

<sup>29</sup> For the most part, MINNCOR provides facilities with two flat sheets, one pillowcase, and one hand and three bath towels per inmate or resident. MINNCOR replaces all damaged and worn linen returned to it for no additional charge. For example, see: MINNCOR Industries and Minnesota Department of Corrections, Moose Lake/Willow River, *Intra-Agency Agreement for Laundry Services*, July 1, 2007-June 30, 2009, 1.

<sup>30</sup> We sent questionnaires to 597 state agency staff and received completed questionnaires from 265 of them, for an overall response rate of 44 percent.

According to the results of our survey, 94 percent of state buyers who reported making purchases bought printing services from MINNCOR in fiscal year 2008 and 80 percent bought furniture. Table 4.1 shows that 86 percent of those buying print services rated the overall quality of MINNCOR’s services as “excellent” or “good;” 82 percent of those buying furniture also said this.

**Table 4.1: Survey Respondents’ Ratings of the Overall Quality of MINNCOR Products, 2008**

Product	Number of Respondents	Excellent	Good	Fair	Poor
Printing	109	43%	43%	12%	2%
Furniture	59	31	51	19	0
Signage	12	33	67	0	0
Clothing/Linens	10	10	70	20	0
Laundry	10	10	50	10	30
Chemicals	9	0	67	11	22
Recreation	5	0	80	0	20

NOTES: Percentages reflect the responses of state buyers who purchased the specific products or services from MINNCOR during fiscal year 2008. Percentages may not total 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of data from survey of state agency staff with purchasing authority, 2008.

**Most state agency buyers are satisfied with the quality of MINNCOR’s products and the timeliness of its services.**

Most state buyers were “satisfied” or “very satisfied” with MINNCOR’s ability to deliver the products or services purchased in a timely manner. As Table 4.2 shows, 85 percent of those purchasing print services and 63 percent of those purchasing furniture were pleased with MINNCOR’s timeliness.

**Table 4.2: Survey Respondents’ Satisfaction with MINNCOR’s Delivery Time, 2008**

Product	Number of Respondents	Very Satisfied	Satisfied	Neither Satisfied nor Dissatisfied	Dissatisfied	Very Dissatisfied
Printing	109	41%	44%	9%	5%	1%
Furniture	59	19	44	20	15	2
Signage	11	27	73	0	0	0
Clothing/Linens	10	0	70	20	10	0
Laundry	10	10	40	30	10	10
Chemicals	9	0	56	22	11	11
Recreation	6	0	33	50	0	17

NOTES: Percentages reflect the responses of state buyers who purchased the specific products or services from MINNCOR during fiscal year 2008. Percentages may not total 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of data from survey of state agency staff with purchasing authority, 2008.

We also asked buyers to rate the overall competitiveness of MINNCOR's prices. As Table 4.3 shows, 71 percent of buyers purchasing print services from MINNCOR during fiscal year 2008 said that MINNCOR's prices were about the same or lower than those of other vendors; 80 percent of those purchasing furniture from MINNCOR said likewise.

**Table 4.3: Survey Respondents' Ratings of the Competitiveness of MINNCOR's Prices, 2008**

Product	Number of Respondents	Much Higher Than Other Vendors	Higher Than Other Vendors	About the Same	Lower Than Other Vendors	Much Lower Than Other Vendors
Printing	88	5%	24%	40%	28%	3%
Furniture	45	4	16	56	20	4
Signage	7	0	14	43	43	0
Clothing/Linens	8	13	25	38	13	13
Laundry	7	14	29	29	14	10
Chemicals	6	33	17	50	0	0
Recreation	4	25	25	50	0	0

NOTES: Percentages reflect the responses of state buyers who purchased the specific products or services from MINNCOR during fiscal year 2008. Percentages may not total 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of data from survey of state agency staff with purchasing authority, 2008.

**Most state buyers agree that MINNCOR provides a good value for the money spent.**

Overall, about 65 percent of state buyers "agreed" or "strongly agreed" that MINNCOR provides good value for the money spent.<sup>31</sup> Furthermore, as Table 4.4 shows, most state buyers rated MINNCOR as "good" or "excellent" in each of the following areas: courteousness (91 percent), product knowledge (87 percent), ability to communicate clearly (79 percent), willingness to resolve complaints (78 percent), responsiveness to agency needs (77 percent), quality of web site (71 percent), and keeping customers informed about the status of orders (64 percent).

<sup>31</sup> Twenty-eight percent of respondents neither "agreed" nor "disagreed" that MINNCOR provides good value for the money spent; 7 percent "disagreed" or "strongly disagreed."

**Table 4.4: Survey Respondents' Ratings of MINNCOR, 2008**

Characteristic	Number of Respondents	Excellent	Good	Fair	Poor
Courteousness	142	46%	45%	8%	1%
Product knowledge	141	35	52	11	1
Responsiveness to agency needs	139	35	42	16	8
Resolve complaints	119	31	47	20	2
Communicate clearly	140	33	46	18	3
Keep agency informed on order status	139	30	34	27	9
Quality of web site	107	21	50	21	7

NOTES: Percentages reflect the responses of state buyers who purchased products or services from MINNCOR during fiscal year 2008. Percentages may not total 100 due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of data from survey of state agency staff with purchasing authority, 2008.

We also examined data collected by MINNCOR regarding product returns and warranty issues, which tend to confirm our survey findings. These data suggest that:

- **MINNCOR customers generally have few problems with product warranties or returns.**

According to MINNCOR's annual financial statements, customers returned about \$280,000 worth of goods in fiscal year 2008, less than 1 percent of total sales. Almost all of the returns (99 percent) were for canteen items purchased by inmates. Returns came to about 4 percent of canteen sales in 2008.

Because MINNCOR operates in a secure environment and is, thus, not able to guarantee delivery dates, we also looked at its delivery record. MINNCOR has a system in place to track the status of all orders, which enables it to address specific customer inquiries as well as systematic problems related to filling orders. These data suggest that:

- **Delivering products and services in a timely manner is a problem for a few industries, most notably upholstery, metal, and furniture.**

According to MINNCOR's data, about 8 percent of MINNCOR's orders (representing 10 percent of sales) were delivered late in fiscal year 2008. Of those late deliveries, the median late time was eight days. Upholstery, metal products, and wood furniture were most likely to be delivered late. In fiscal year 2008, 44 percent of upholstery orders, 36 percent of metal orders, and 30 percent of furniture orders were delivered late. About 12 percent of orders involving

labor arrangements with private industry were completed late, but only 1 percent of printing orders were late in 2008.

It should be noted that not all late deliveries are necessarily MINNCOR's fault. According to MINNCOR staff, some late deliveries are due to customers requesting a delay. While this explanation is plausible, we were unable to determine how often this occurs.

## PRODUCT PRICING

State law does not specifically require that MINNCOR's prices be competitive with prices for similar items available elsewhere.<sup>32</sup> But because state agencies are not required to purchase from MINNCOR, its prices, from a practical standpoint, should be similar to other vendors' prices in order for MINNCOR to successfully market its products and services. MINNCOR does not formally collect data on competitors' prices. Rather, sales staff told us that they keep updated on other vendors' prices through the competitive bidding process—sometimes winning and sometimes losing bids.<sup>33</sup> It is ultimately the responsibility of state agency buyers to ensure that they obtain the best value they can with the purchasing dollars they spend. This section looks at how MINNCOR sets product prices and how its prices for a small number of products compare with those charged by prison industries in other states and local vendors.

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**State agencies are ultimately responsible for ensuring that they obtain the best value they can when making purchases.**

### Determining Prices

We looked at how MINNCOR determines costs and sets prices for three labor arrangements and three items of inmate clothing sold chiefly to DOC.<sup>34</sup> Department policy outlines the process MINNCOR must use to set prices for its products and services, including inmate labor.<sup>35</sup> For the most part, products must

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<sup>32</sup> Until 1998, state law required public entities receiving state funds to purchase products and services from MINNCOR when its items were comparable in price (no more than 5 percent higher than the lowest bid price), quality, and delivery time to items available from other vendors. In 1998, the Legislature removed these provisions from state law. See: *Laws of Minnesota* 1998, chapter 386, art. 1, sec. 2.

<sup>33</sup> Department of Administration guidelines require that agencies purchasing items from outside vendors that are also available from MINNCOR give MINNCOR an opportunity to submit a bid. According to our survey of state buyers, most buyers purchasing products and services from outside vendors also request a bid from MINNCOR. Conversely, many buyers also give outside vendors the opportunity to bid on items purchased from MINNCOR. See: Minnesota Department of Administration, "Section 1.6.4," *Authority for Local Purchase Manual* (St. Paul, 2007), 3.

<sup>34</sup> In 2006, our Financial Audits Division conducted a special investigation into several aspects of MINNCOR's operations. At that time, we noted that, although MINNCOR tracked its product costs, it did not sufficiently document how it arrived at sales prices. See: Minnesota Office of the Legislative Auditor Financial Audit Division, *Department of Corrections Special Review: MINNCOR Industries and Minnesota Correctional Education Foundation* (St. Paul, 2006), 11.

<sup>35</sup> Minnesota Department of Corrections, "Division Directive 405.020: MINNCOR Product Pricing," *Polices, Directives, and Instructional Manual* (St. Paul, 2007), <http://www.doc.state.mn.us/DocPolicy2/Documents/405.020.htm>, accessed March 21, 2008.

be priced to recover all material costs, manufacturing-related costs at the facility level (for example, inmate and staff labor), and a portion of general and administrative costs incurred at the facility and MINNCOR's central office.<sup>36</sup> Although department policy used to require that costs be increased a minimum of 10 percent for profit, the current policy does not set forth a minimum mark-up.<sup>37</sup> We found that:

- **MINNCOR adhered to its product pricing policy for five of the six items examined.**

For the inmate clothing items examined, we found that MINNCOR properly applied all costs and appeared to charge DOC a "fair" price—that is, MINNCOR did not mark its costs up an excessive amount. For example, MINNCOR produces nearly 20,000 white t-shirts each year, most of which are purchased by DOC. In fiscal year 2008, MINNCOR estimated that it cost about \$2.96 to make each shirt, which, in turn, it sold to the department for \$3.50—about 18 percent above cost. Likewise, MINNCOR sews about 7,500 inmate chambray work shirts at an estimated per-shirt cost of \$11.79 (sizes 2XL-5XL) and a selling price of \$13.00, for a 10 percent profit.<sup>38</sup> Inmate denim pants (sizes M-L) cost MINNCOR \$11.80 to make, which are then sold to the department for \$15.00—for an estimated 27 percent profit.<sup>39</sup> Overall, MINNCOR's sewing industry in Moose Lake, where most of the inmate clothing is produced, showed about a 1 percent profit in fiscal year 2008.

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**MINNCOR has not always followed its own policy when determining what it charges private businesses for inmate labor and prison space.**

We also examined how MINNCOR set prices for three labor arrangements that generated estimated sales revenue ranging from \$53,000 to \$3 million in fiscal year 2008. MINNCOR applied its pricing policy correctly for two of the three arrangements examined, and marked its estimated costs up anywhere from about 2 percent to 32 percent, depending on the specific task or product involved.<sup>40</sup> For the third arrangement, though, MINNCOR applied a different pricing methodology. It did this because, unlike all of its other labor arrangements, the work is done in multiple facilities rather than one facility. In this case, the methodology that MINNCOR used did not include all of its costs and resulted in MINNCOR charging the private company a lower price than would have occurred had MINNCOR applied its standard pricing policy.

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<sup>36</sup> Chapter 3 discusses how MINNCOR allocates central office general and administrative expenses to individual industries.

<sup>37</sup> Minnesota Department of Corrections, "Division Directive 405.020: MINNCOR Product Pricing," *Policies, Directives, and Instructional Manual* (St. Paul, 2004). This policy was amended in September 2007, in part to delete the profit mark-up of 10 percent.

<sup>38</sup> MINNCOR produces about 4,600 additional work shirts in sizes S-XL that it sells for \$12.00 and about 450 shirts in sizes 6XL-9XL that it sells for \$14.00.

<sup>39</sup> MINNCOR produces about 2,100 pairs of denim pants in sizes M-L. MINNCOR also produces about 16,000 pairs of denim pants in larger sizes that are priced \$1 to \$2 more.

<sup>40</sup> Some labor arrangements call for MINNCOR to produce a variety of similar products, and MINNCOR calculates a cost and profit margin for each one separately.

Although each of the labor arrangements that we examined should have generated profits of at least 14 percent for MINNCOR, Chapter 3 shows that MINNCOR's labor arrangements as a whole were barely profitable in fiscal year 2008—about 1 percent. We did not examine why MINNCOR fails to show a larger profit in its labor arrangements. As with all of its products and services, MINNCOR uses time studies to estimate the number of hours needed to complete each job. Even though MINNCOR assumes that its industries only operate at a 60 percent efficiency level, underestimating the number of hours needed to complete a job could result in MINNCOR losing money. Conversely, operating an industry more efficiently could result in greater profits.<sup>41</sup>

## Prices Charged by Other States' Industry Programs

We looked at how MINNCOR's prices compare with those charged by prison industry programs in other states. We did this in two ways. First, we looked at the prices that inmates pay for items sold through facility canteens. Second, we looked at the prices charged for some commonly produced products generally purchased by corrections departments and state agencies.

### Canteen Prices

Since 2003, MINNCOR has operated a centralized canteen for the state's adult correctional facilities. The canteen offers a broad range of DOC-approved items for inmate purchase: health care products; paper supplies; service tickets (for items such as haircuts and telephone time); clothing; electronics; and a wide variety of food items. Inmates generally submit their orders to facility staff on a specific day; staff scan and send the orders to MINNCOR's canteen distribution center at Oak Park Heights; inmates fill and pack each order individually; and MINNCOR transports canteen orders back to facilities about four days later. Staff at each facility hand out the individually-packed, sealed orders to inmates at set times; both inmates and staff must verify the contents of each package.

Only eight states, including Minnesota, operate a centralized canteen for their correctional facilities.<sup>42</sup> Of these states, MINNCOR offers one of the most extensive listing of products to inmates. To see how MINNCOR's canteen prices compared with those in other states, we compared prices for (1) the 20 items

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**Minnesota is one of only eight states that operate a centralized canteen for their correctional facilities.**

<sup>41</sup> As we discussed in Chapter 3, MINNCOR believes that its labor arrangements cover a disproportionate amount of central office general and administrative expenditures, which makes them less profitable than other industries. However, we found that MINNCOR's methods for allocating general and administrative costs seem reasonable.

<sup>42</sup> These states are: Colorado, Hawaii, Indiana, Iowa, Minnesota, Montana, Pennsylvania, and Utah. National Correctional Industries Association, *2008 NCIA Directory* (Baltimore, MD: National Correctional Industries Association, 2008), 125.

most frequently purchased by inmates from MINNCOR's canteen and (2) the 20 items that generated the most canteen revenue for MINNCOR.<sup>43</sup> We found that:

- **MINNCOR's prices for popular canteen items were generally higher than the prices charged for comparable items in other states with centralized canteen systems.**

We were able to obtain prices for the same or comparable items for 15 products. As shown in Table 4.5, for most items, MINNCOR charged anywhere from 3 percent to 28 percent more than the average price in comparison states. For example, Ramen Noodles is a popular food item among inmates. The states in our comparison group sold it at prices ranging from \$0.17 to \$0.36 per package, with an average price of \$0.25. MINNCOR's price was \$0.30. Only one state sold Ramen Noodles at a higher price than MINNCOR. Inmates also frequently purchase pre-stamped envelopes. MINNCOR sold stamped envelopes to inmates for \$0.52; prices in comparison states ranged from \$0.46 to \$0.49 per stamped envelope.

In only one instance did Minnesota sell a canteen product for less than the average price in other states. Inmates in Minnesota could buy a 20-ounce bottle of Coca-Cola for \$0.93—about 23 percent less than the average in our sample states.<sup>44</sup>

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<sup>43</sup> The 20 items generating the most revenue for MINNCOR took in about \$1.7 million in sales from September through May 2008—slightly more than one-third of total canteen sales during that period. Office of the Legislative Auditor, analysis of sales data obtained from MINNCOR Industries, July 2008.

<sup>44</sup> We also compared MINNCOR's prices with those charged by Twin Cities' area Cub and Rainbow food stores. We found that MINNCOR's prices were generally higher. We also looked at convenience store prices. Although we were able to compare prices for only a small number of items, MINNCOR's prices were generally lower than what Twin Cities' SuperAmerica and Holiday convenience stores charged. It should be noted that MINNCOR processes, packages, and delivers each inmate's order individually, which may increase its overall cost of doing business. Cub, Rainbow, SuperAmerica, and Holiday do not offer similar delivery services.

**Table 4.5: MINNCOR's Canteen Prices Compared with Other States' Prices, 2008**

Product	MINNCOR's Price	Price Range in Sample States	Average Price in Sample States	Percentage Difference <sup>a</sup>
13" Color TV Stamped	\$196.00	\$158.33-\$199.00	\$177.28	9.6%
envelope	0.52	0.46-0.49	0.47	9.6
Instant coffee	7.40	6.44-7.54	6.79	8.2
Columbian coffee	2.57	1.80-3.05	2.42	5.8
Cheese	3.00	1.72-2.56	2.18	27.3
Flour tortillas	2.35	1.50-1.96	1.70	27.7
Peanut butter	2.52	1.89-2.65	2.17	13.9
Snickers bar	0.74	0.44-0.72	0.60	18.9
Chili	1.72	1.13-1.49	1.30	24.4
Ramen noodles	0.30	0.17-0.36	0.25	16.7
Snack cake	0.67	0.49-0.75	0.65	3.0
White rice	1.05	0.75-1.21	0.98	6.7
Bagel	0.55	0.36-0.45	0.41	25.5
Coca-Cola	0.93	1.09-1.19	1.14	-22.6
Tuna	1.52	1.14-1.32	1.20	21.1

NOTES: Sample states are those states, like Minnesota, that have centralized canteen services: Colorado, Hawaii, Indiana, Iowa, Montana, Pennsylvania, and Utah. Not all products were available in all states.

<sup>a</sup> Percentage difference refers to the difference between MINNCOR's price and the average price in sample states.

SOURCE: Office of the Legislative Auditor, analysis of canteen price lists from sample states, 2008.

### Other Product Prices

We compared the prices MINNCOR charged for a small number of items with the prices charged by prison industry programs in ten other states of roughly comparable size.<sup>45</sup> We looked at prices for: (1) inmate denim jeans, (2) inmate t-shirts, (3) inmate chambray work shirts, (4) institutional foam mattresses, and (5) business cards. Overall, we found that:

- **For the products and services examined, MINNCOR prices were within the range of prices charged by prison industries in other states.**

<sup>45</sup> The states were: Colorado, Illinois, Indiana, Iowa, Maryland, Michigan, Missouri, Pennsylvania, Virginia, and Washington. Not all products were available in all states. Although we tried to compare products of similar size and material, product quality likely differs across the states. We relied on list prices for items for fiscal year 2009, as published in industries' catalogues or their web sites.

Table 4.6 shows MINNCOR’s price for each product, the range of prices for the same or similar products in other states, and the average price charged by industry programs in other states. Although MINNCOR’s prices were sometimes above average, they were not the highest. For example, the price for an inmate t-shirt in the comparison states ranged from \$1.33 to \$3.90, with an average price of \$2.65. MINNCOR’s price was \$3.50—the second highest price in our sample. Denim jeans were sold for slightly less than \$9.00 a pair to just over \$17.00. MINNCOR’s price of \$15.00 was second highest. According to MINNCOR officials, MINNCOR products are generally of better quality than other states, which makes them last longer.

**Table 4.6: MINNCOR’s Prices for Select Products Compared with Other States’ Prices, 2008**

Product	MINNCOR's Price	Price Range in Sample States	Average Price in Sample States	Percentage Difference <sup>a</sup>
Business cards	\$ 25.50	\$17.50-\$34.00	\$ 27.80	-9.0%
Foam mattress	115.50	82.15-185.25	133.17	-15.3
T-shirt	3.50	1.33-3.90	2.65	24.3
Denim jeans	15.00	8.66-17.60	12.91	13.9
Work shirt	12.00	10.50-14.00	12.12	-1.0

NOTES: Sample states include: Colorado, Illinois, Indiana, Iowa, Maryland, Michigan, Missouri, Pennsylvania, Virginia, and Washington. Not all products were available in all states. Although we tried to compare products of similar size and quality, products likely differ across the states.

<sup>a</sup> Percentage difference refers to the difference between MINNCOR’s price and the average price in sample states.

SOURCE: Office of the Legislative Auditor, analysis of on-line price lists from sample states, 2008.

We also compared MINNCOR’s prices for a small number of items commonly purchased by Minnesota state agencies. As noted previously, state agencies are not required to purchase products or services through MINNCOR. To make it easier to do so, MINNCOR has developed 20 master contracts that state agencies and other units of government may use. We looked at the prices MINNCOR charges state agencies for two types of items also available from other vendors through master contracts: desk chairs and “green” cleaning products.<sup>46</sup> We found that:

- **MINNCOR’s prices for the products sampled were generally within the range of prices charged by other vendors under contract with the state.**

<sup>46</sup> “Green Seal Certified” products are independently certified as meeting certain environmental standards. As part of the process, the manufacturing facility is visited to evaluate quality control procedures.

Six vendors, including MINNCOR, manufacture desk chairs for state agencies.<sup>47</sup> Prices for an ergonomically-correct office chair ranged from \$270 to \$555, for an average price of \$376 in 2008. Priced at \$399, MINNCOR's "Encore" chair was about 6 percent more expensive than the average for similar chairs, but it was not the most expensive. Three chairs were priced above the price of MINNCOR's chair and six chairs were priced below it.

Eight vendors, including MINNCOR, offer various green cleaning products to state agencies.<sup>48</sup> Product prices were difficult to compare due to differences in the size of containers, type of measurement system used (liters versus gallons), concentration, and the type of green certification. Prices for three green cleaning products sampled—glass cleaner, floor stripper, and a general cleaner—varied widely among the eight vendors, with MINNCOR's prices, at times, above and, at other times, below other vendors' prices.

## COORDINATION

As part of our evaluation, we visited the state's six facilities that currently have an industry program.<sup>49</sup> In addition to touring the industry areas, we talked with facility wardens, assistant or deputy wardens, industry directors, and other staff. Overall, we found that:

- **Industry programs are well integrated into the operational framework of the state's correctional facilities.**

There appear to be good lines of communication established between facility and industry staff, and both are aware of, and consider, each other's needs. Industry directors serve on the wardens' executive teams. The teams, which meet daily, give MINNCOR's industry directors a facility-wide perspective and allow facility directors for other programs to likewise understand MINNCOR. For example, these meetings alert industry directors to possible security issues and provide them with an opportunity to discuss industry needs with other segments of the facility.

Although we heard concerns prior to our study that facility security was often secondary to industry profitability, we saw no evidence to suggest that this was the case. We learned that wardens have the final say over the type of industries at their facilities, the number of inmates employed, and work hours. Facility wardens and industry directors told us that, while security is never compromised,

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<sup>47</sup> We looked at prices for "Group 1" chairs—the standard desk chair approved by the Department of Administration. Some vendors sold more than one type of Group 1 chair. See: Minnesota Department of Administration, *Master Contract F-379(5), Furniture: Seating, Standard and Ergonomic*, May 1, 2006-December 31, 2008.

<sup>48</sup> We looked at prices for a "Green Seal Certified" glass cleaner, floor stripper, and general cleaner. See: Minnesota Department of Administration, *Master Contract C-252(5), Cleaning Supplies and Floor Care Products*, June 1, 2008-May 31, 2010.

<sup>49</sup> We visited state correctional facilities in Faribault, Moose Lake, Oak Park Heights, Rush City, Shakopee, and Stillwater.

facilities may change security-related routines to accommodate industry needs. For example, facilities now allow inmates who have attorney or health-related visits during the day to return to their work assignments after their appointments. Previously, they were not allowed to return to work, which resulted in lost work time and, consequently, reduced output for MINNCOR. Also, some facilities allow inmates to remain at their workstations rather than returning to their cells for routine morning and afternoon head counts. Other facilities house inmates by job assignment for safer and more efficient work day movement. Although inmate lockdowns and shakedown occur as security needs dictate, facilities try to schedule their planned, routine shakedowns during times that will be least disruptive to industry schedules.

In addition, we found that:

- **MINNCOR provides a safe working environment for staff and inmates at facilities.**

According to facility and industry staff, industry areas are adequately staffed by both security and industry staff. The ratio of inmates to correctional officers, which is a facility, not a MINNCOR, decision, is about 50:1 in industry areas.<sup>50</sup> According to facility staff, this is similar to ratios in other parts of the facilities, such as dining areas or cell blocks, but greater than ratios in education areas. In addition, MINNCOR staff all have some security-related training, and some staff are former correctional officers.

Wardens and industry directors told us that the industry areas are safer than elsewhere in facilities. Data that DOC collects from facility incidence reports suggest that fewer incidents occur in the industry area than in other areas of the facility, especially in the segregation, dining, and cell areas.<sup>51</sup> As discussed earlier, MINNCOR has also paid for improvements to enhance facility security, including security cameras and upgrades to correctional officer stations in industry areas.

We also talked with officials at the Minnesota Department of Labor and Industry regarding workplace safety and health hazards in the industry areas of correctional facilities. Since 2005, the department's Occupational and Health Safety Division received and investigated nine complaints involving state correctional facilities.<sup>52</sup> Investigators found violations in only one facility, but

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**Industry areas are often “safer” than other parts of correctional facilities.**

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<sup>50</sup> The Department of Corrections does not have a policy that sets forth specific staffing ratios for facilities. Wardens set their own staffing levels after considering the unique needs of their facilities.

<sup>51</sup> Office of the Legislative Auditor, analysis of Minnesota Department of Corrections data on inmate incident reports, fiscal year 2008.

<sup>52</sup> “Establishment Search Results Page” (computer printout, U.S. Department of Labor, September 5, 2008), [http://www.osha.gov/pls/imis/establishment.search?p\\_logger=1&establishment=Corrections&State=MN&officetype=State&Office=All&p\\_case=closed&endmonth=09&endday=05&endyear=2003&startmonth=09&startday=05&startyear=2009](http://www.osha.gov/pls/imis/establishment.search?p_logger=1&establishment=Corrections&State=MN&officetype=State&Office=All&p_case=closed&endmonth=09&endday=05&endyear=2003&startmonth=09&startday=05&startyear=2009), accessed September 5, 2008.

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**Correctional facilities are subject to annual inspections by the State Fire Marshal.**

the violations did not specifically involve prison industries.<sup>53</sup> The Department of Corrections has also worked with labor and industry's Workplace Safety Consultation group to help facilities prevent accidents. This service is available upon request and, while no citations are ever issued, the department has to agree to fix whatever violations are uncovered.

Correctional facilities are also subject to annual fire safety inspections by the State Fire Marshal. We looked at fire inspection reports from 2006 through 2008 for the facilities with industry programs at the time; each facility was inspected once in 2006 and 2007; four facilities were inspected in 2008.<sup>54</sup> During that time period, the Fire Marshal issued 150 citations for fire code violations. Of these, about one-fourth were specifically related to the industry areas of the facilities. The correctional facility at Faribault received most of the violations—49 percent of the industry-related violations and 30 percent of all violations.<sup>55</sup> Staff in the State Fire Marshal Division told us that the number and types of violations found in prison industry areas are typical of the number and types found in industries in general. Furthermore, they do not view fire safety as a big problem in either industry areas or other parts of correctional facilities.

## LICENSE PLATES

In May 2008, MINNCOR completed moving its license plate and registration sticker industry from the correctional facility in St. Cloud to the facility in Rush City. St. Cloud inmates had manufactured license plates since the mid-1940s, and MINNCOR's decision to relocate the industry was not entirely popular with some staff. The decision closely followed the filing of a grievance by the union representing MINNCOR employees at the St. Cloud facility over work breaks. Although the grievance was subsequently settled, union officials told us that they believed MINNCOR moved from St. Cloud in retaliation for the grievance. Although we cannot know if MINNCOR had any ulterior motives for closing the operation at St. Cloud, we think that:

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<sup>53</sup> In January 2006, OSHA inspectors cited the correctional facility at Faribault for (1) failing to provide communication devices to employees when walking outside buildings in potentially dangerous areas and (2) exposing employees performing nightly tunnel inspections and maintenance to small pieces of cement that had fallen from ceilings and walls. The state agreed to correct the violations and paid a small fine. James Honerman, Minnesota Department of Labor and Industry, e-mail message to Jo Vos, "DOC and OSHA Visits in Past 10 Years," September 5, 2008; and "Search Results Inspection Detail" (computer printout, U.S. Department of Labor, September 5, 2008), [http://www.osha.gov/pls/imis/establishment.inspection\\_detail?id=309506368](http://www.osha.gov/pls/imis/establishment.inspection_detail?id=309506368), accessed September 5, 2008.

<sup>54</sup> The State Fire Marshal did not inspect the correctional facilities at St. Cloud, Stillwater, and Shakopee in 2008. Inspections were temporarily halted when the interagency agreement between the departments of Corrections and Public Safety expired in July 2008. The agreement has since been renegotiated and inspections were expected to resume in January 2009.

<sup>55</sup> Office of the Legislative Auditor, analysis of fire inspection reports obtained from the State Fire Marshal Division, Minnesota Department of Public Safety, December 2008. During the time frame under study, the correctional facility in Faribault was undergoing significant construction and remodeling.

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**Relocating the license plate industry from St. Cloud to Rush City was a reasonable business move.**

- **MINNCOR’s decision to relocate its license plate industry from St. Cloud to Rush City was reasonable for several business-related reasons.**

First, the relocation was precipitated by the Legislature’s approval for the Department of Public Safety to switch from embossed license plates to flat, digital plates. According to staff at both MINNCOR and the Department of Public Safety, MINNCOR would have preferred to continue to manufacture embossed rather than flat, digital plates.<sup>56</sup> Switching to flat plates required purchasing new equipment and technology that has to be maintained under climate-controlled conditions. Physical plant remodeling would have been necessary no matter where the industry would have been located. Also, because of the advanced technology involved, flat plates could be produced more efficiently—that is, with significantly fewer inmates.

Second, in 1996, DOC decided to make St. Cloud the admitting facility for all adult male offenders.<sup>57</sup> In recent years, manufacturing license plates was the only industry at the St. Cloud facility, employing an average of 37 inmates—only 4 percent of the facility’s inmate population. Producing flat plates would require even fewer inmates—about 20. In addition, St. Cloud’s inmate population has traditionally been a “young” population—one with greater educational, rather than work, needs than inmates in other facilities. As of January 2009, 42 percent of St. Cloud’s inmate population did not have a verifiable high school diploma or general education diploma (GED), compared with an average rate of 25 percent for the other eight adult correctional facilities.<sup>58</sup>

Third, MINNCOR conducted a short study to determine the best location for the redesigned industry.<sup>59</sup> In its assessment, MINNCOR considered a variety of factors, but gave the most weight to security and staffing costs and less weight to relocation costs.<sup>60</sup> MINNCOR gave the St. Cloud facility unsatisfactory security and staff ratings partly because its industry area operated on two floors of the industry building, thereby requiring more staff and security cameras than a single floor operation. Also, St. Cloud’s warehouse for raw materials and finished products was located far from the worksite itself, which increased security concerns. Because the industry area in Rush City is located on one level,

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<sup>56</sup> MINNCOR has had an interagency agreement with the Department of Public Safety to manufacture license plates for the department for many years.

<sup>57</sup> Minnesota Department of Corrections, *History of the Minnesota Department of Corrections* (St. Paul, undated), <http://www.corr.state.mn.us/aboutdoc/history/1984-1999.htm>, 2, accessed November 18, 2008.

<sup>58</sup> Minnesota Department of Corrections, *Inmate Profiles* (St. Paul, January 2009), <http://www.corr.state.mn.us/facilities/default.htm>, accessed January 14, 2009.

<sup>59</sup> The assessment focused on facilities in St. Cloud, Stillwater, and Rush City; the other facilities were deemed unacceptable for a variety of reasons. MINNCOR Industries, *Vehicle License & Related Operations Assessment* (St. Paul, undated).

<sup>60</sup> *Ibid.*, 4.

MINNCOR estimated that relocating there would allow it to operate with three fewer staff, saving about \$188,000 a year in staff salaries and benefits.<sup>61</sup>

Overall, MINNCOR has been satisfied with the relocation. Because MINNCOR has other industries located at Rush City, it can use its staff more efficiently. For example, prior to the relocation, MINNCOR had five staff plus a production supervisor to oversee St. Cloud's licensing program, which employed about 37 inmates. At Rush City, MINNCOR has three staff plus a production supervisor to run the licensing industry, which employs about 20 inmates. According to MINNCOR, though, the license plate/sticker production supervisor can also help oversee the other industries at Rush City that employ about 175 additional inmates.<sup>62</sup>

## INMATE OUTCOMES

As discussed earlier, MINNCOR goals include providing inmates with educational training, meaningful and suitable employment, and good work habits. Yet it is important to note that:

- **MINNCOR's ability to match each facility's industry program to the needs of its specific inmate population is limited.**

There are few links between each facility's vocational programs and MINNCOR's industry programs. Although Moose Lake, Faribault, and Stillwater each have one vocational program linked to an industry program, the reality of operating in a prison setting can make it difficult for inmates to succeed. For example, Faribault receives inmates from Stillwater's vocational cabinetmaking program, but they are generally released from Faribault before the one-year on-the-job training requirement can be completed.

## Post-Release Employment

As noted in Chapter 3, MINNCOR has used some of its profits to help inmates find jobs after their release from prison. Implemented in fiscal year 2007, MINNCOR's "EMPLOY" program is designed to supplement DOC's "Transitions" program, a prerelease program to help reintegrate released offenders into all aspects of society.<sup>63</sup> EMPLOY is specifically focused on employment and requires that MINNCOR staff make individual contacts with offenders before and after their release to help aid in their job search. In fiscal

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**There are few links between facilities' vocational programs and MINNCOR's industry programs.**

<sup>61</sup> *Ibid.*, 7.

<sup>62</sup> MINNCOR employs two additional staff to oversee the other industries at Rush City.

<sup>63</sup> Transitions is classroom based and focuses on (1) developing a post-release plan for each inmate, (2) helping the inmate find a job and place to live, and (3) providing information about community resources that can assist the inmate's transition back to non-prison life.

year 2008, MINNCOR spent about \$336,000 on the EMPLOY program, about two-thirds of which were for staff salaries and benefits.<sup>64</sup>

While we think that it may be difficult to assess the success of the EMPLOY program, we also think that:

- **MINNCOR should be commended for using its resources to provide a service to inmates that, at least intuitively, may help improve the lives of those inmates willing to use it.**

Inmates are eligible to participate in EMPLOY if they: (1) are within five years of sentence expiration; (2) have worked at a MINNCOR job for six consecutive months or completed a vocational program offered by DOC;<sup>65</sup> and (3) were not fired or removed from their MINNCOR job for disciplinary reasons. Early contacts with offenders consist of providing them with information packets detailing EMPLOY services, job-seeking tips, and tasks that offenders are expected to complete prior to their release. These tasks involve identifying specific interests and skills to help offenders focus their job efforts. As inmates' releases near, EMPLOY staff meet with them individually to help them complete a resume, practice filling out job applications, go through a mock job interview, and talk to them about maintaining good work habits.

Upon release, offenders get a personalized portfolio that includes copies of their resume, evaluations from MINNCOR staff, and educational certificates earned while in prison. They are also given a list of employers with job openings matched to the interests and skills of the offender.<sup>66</sup> It is up to the offender to contact employers, set up interviews, and show up for interviews. EMPLOY staff contact offenders several times during the first year after their release to check on their progress and provide advice and assistance.

As of October 6, 2008, 636 offenders had been accepted into EMPLOY since its inception. Of those, 196 (31 percent) were dropped from the program prior to release, either because they were fired from their MINNCOR job, did not complete their vocational program, or were guilty of a disciplinary infraction. In addition, 9 offenders transferred out of Minnesota and 64 offenders either completed their one year follow-up period or had their actual sentence expire (for

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**MINNCOR's  
"EMPLOY"  
program helps  
inmates write  
resumes and look  
for jobs after  
their release.**

<sup>64</sup> Fiscal year 2008 was the first year MINNCOR accounted for EMPLOY as a separate expense category. Although MINNCOR's planning documents show EMPLOY spending will increase to \$1.2 million in fiscal year 2009, as we explained in Chapter 3, much of that increase will be transferred to DOC to help pay for other related inmate programs. MINNCOR Industries, *Fiscal Year 2008 Financial Statement*, unpaginated; and MINNCOR Industries, *Fiscal Year 2009 Plan*, unpaginated.

<sup>65</sup> Vocational graduates became eligible in April 2008.

<sup>66</sup> Two federally funded programs assist employers willing to hire released offenders. Under the Work Opportunity Tax Credit Program, employers who hire ex-offenders for one year can receive a \$2,400 tax credit. Under the Minnesota Federal Bonding Service, employers who hire ex-offenders receive a free six-month policy protecting the employer for up to \$5,000 against employee theft. In addition, the Minnesota Department of Employment and Economic Development operates workforce development centers statewide that post jobs with employers willing to hire ex-offenders.

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**It is too early to tell whether participating in EMPLOY increases the likelihood of inmates' finding and keeping jobs after their release.**

example, they were no longer on supervised released) and were no longer being tracked by the program.<sup>67</sup>

Of the 367 inmates in the program on October 6, 2008, 283 were still in prison and 84 were released. Of those 84, 12 (14 percent) had been released less than one month, 17 (20 percent) had been released at least one month and were not employed, and 55 (65 percent) were employed. Because of the low number of released offenders (13 percent of all enrollees), the short follow-up period, and the absence of a control group (the department does not keep track of the employment status of other released offenders), it is not clear if EMPLOY increases offenders' likelihood of finding and retaining employment.

## Recidivism

Although neither state law nor MINNCOR's mission statement sets reducing inmate recidivism as an explicit goal for MINNCOR, the few studies that have attempted to evaluate the effectiveness of prison industry programs have focused on reduced recidivism rates as the desired outcome. Overall:

- **National studies suggest that inmates participating in prison industry programs are slightly less likely to re-offend after their release than similar inmates not working in industry programs.**

A review of evaluations of adult and juvenile correctional programs in North America over the last 25 years found only three studies that compared inmates who participated in prison industry programs with control groups of similar inmates. On average, these studies found that about 36 percent of inmates who participated in a prison industry were likely to be convicted of a new felony after their release, compared with 40 percent of inmates who did not participate in a correctional industry program.<sup>68</sup>

A more-restricted review of 33 studies measuring the effectiveness of education and work programs in adult prisons found that 40 percent of the inmates who participated in prison industry programs were likely to recidivate, compared with 50 percent of the inmates who did not participate.<sup>69</sup> Adult basic education, GED programs, and postsecondary programs, however, were more effective in reducing recidivism than were prison industry programs. Because of their

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**National studies suggest that inmates participating in industry programs tend to be slightly less likely to re-offend after their release than are non-participants.**

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<sup>67</sup> MINNCOR officials do not think they have the legal authority to track offenders who are no longer under DOC's jurisdiction.

<sup>68</sup> The follow-up periods in the three studies ranged from two to ten years. Aos, Steve, *et. al.*, *The Comparative Costs and Benefits of Programs to Reduce Crime* (Olympia, WA: Washington State Institute for Public Policy, May 2001), 32.

<sup>69</sup> Wilson, David, Gallagher, Catherine, and MacKenzie, Doris, "A Meta-Analysis of Corrections-Based Education, Vocation and Work Programs for Adult Offenders," *Journal of Research in Crime and Delinquency*, vol. 37, no. 4 (November 2000), 347-368. There was no uniform measure of recidivism in these studies.

concerns about the methodologies employed by these studies, the authors were unable to attribute the reduced recidivism to the effects of the programs.<sup>70</sup>

Finally, a study of over 6,500 inmates released from prisons in five states found that inmates who participated in PIECP obtained employment sooner and remained employed longer than either traditional prison industry participants or inmates not participating in prison industry programs.<sup>71</sup> Inmates participating in PIECP were slightly less likely to be convicted of a new offense after their release, but there was no difference in post-release conviction rates between traditional (non-PIECP) prison industry participants and inmates who did not participate in prison industry programs.<sup>72</sup>

## CONCLUSIONS AND RECOMMENDATIONS

Minnesota statutes give MINNCOR broad discretion in how it operates. Although MINNCOR is expected to be self-sufficient, statutes do not require that individual industries be profitable—income from some industries can be used to offset losses in others. Statutes do not specifically require MINNCOR to price its products competitively, nor do they place limits on MINNCOR’s customer base. Finally, while statutes set forth a variety of goals or purposes for MINNCOR, they do not require MINNCOR to set or meet specific targets.

Overall, we think that:

- **MINNCOR has done a good job trying to meet a variety of sometimes conflicting goals.**

In recent years, almost all of MINNCOR’s industries have generated enough revenue to cover their costs and MINNCOR has shown an overall profit. Revenue from sales has risen dramatically over the last decade—without the benefit of a state law requiring agencies to purchase from MINNCOR. In addition, MINNCOR has maintained relatively high levels of inmate employment and provided a wide range of jobs, although inmates’ abilities to fully participate in some of the more skilled opportunities are limited by the reality of being in prison. A number of factors have contributed to MINNCOR’s recent success, including business decisions to eliminate unprofitable industries, consolidate

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**Overall, MINNCOR has been successful in maintaining high levels of inmate employment and generating enough revenue to cover its costs.**

<sup>70</sup> For example, inmates who participated in correctional programs may have been more motivated to stay crime-free after their release than those who did not participate. Thus, differences in recidivism rates may reflect “selection bias” rather than actual program effects.

<sup>71</sup> See Chapter 2 for a discussion of the PIECP program. Cindy J. Smith, *et. al.*, *Correctional Industries Preparing Inmates for Re-entry: Recidivism and Post-release Employment* (Washington, DC: National Institute of Justice, June 2006), 12-13.

<sup>72</sup> *Ibid.*, 17-18.

operations, and reduce overhead.<sup>73</sup> In addition, MINNCOR has worked to increase sales from labor arrangements with private businesses.

At the same time, there is room for improvement. In light of the poor economy, both in Minnesota and across the nation, MINNCOR will need to develop a plan to serve more of its potential customer base to simply stay even in terms of inmate jobs and sales. Also, because MINNCOR is a public entity and not a private business, it must exercise more caution to fully disclose program costs and write fiscally sound revenue contracts that adhere to state requirements.

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### RECOMMENDATION

***MINNCOR should report its full cost for inmate wages and the funds it receives from the Department of Corrections for inmates' confinement costs in its annual financial statements and reports.***

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**MINNCOR  
should be more  
precise when  
reporting its  
finances.**

State government should conduct its business in an open, transparent manner. The way in which MINNCOR records—or, more specifically, does not record—the true cost of inmate labor and the funds it receives from DOC for inmates' confinement costs in its annual financial statements is not accurate. Over the last several years, MINNCOR's financial statements have understated what it actually spent on inmate wages by about \$1 million annually. Furthermore, while the department must deduct confinement costs from certain inmates' wages, it is not required to return this money to MINNCOR. State law only requires the department to spend it “for the purposes of the fund from which the earnings were paid,” which could include inmate education, self-sufficiency skills, and transition services.<sup>74</sup> Remitting these funds to MINNCOR can be thought of as a grant, and MINNCOR should record them as such in its annual financial statements and reports. Rather than reduce inmate wages by the amount that the department returns to MINNCOR, it should adhere to generally accepted accounting principles and record the full amount of inmate wages it pays as a business expense and record the funds returned to it by DOC as a “transfer in” or as “other income.” MINNCOR already does this when submitting data to the Department of Finance for its annual *Comprehensive Annual Financial Report*, which is prepared in accordance with generally accepted accounting principles. Doing so in its own financial statements and reports would bring greater consistency and transparency to MINNCOR's financial reporting practices.

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<sup>73</sup> A number of factors outside MINNCOR's control have also contributed to its success, including an increased prison population, which increases demand for MINNCOR items such as inmate clothing and mattresses as well as state construction projects, which increased demand for MINNCOR furniture.

<sup>74</sup> *Minnesota Statutes* 2008, 243.23, subd. 1; and *Minnesota Statutes* 2008, 241.27, subd. 1.

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**RECOMMENDATION**

*MINNCOR should clearly disclose in its annual report how the funds it receives from the Department of Corrections for inmates' confinement costs affect its profitability.*

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MINNCOR should also be more transparent in showing how confinement cost charges that DOC deducts from inmates' wages and returns to MINNCOR affect its overall profitability. As we showed in Chapter 3, MINNCOR would not have been profitable in two of the last six fiscal years without these funds from DOC.<sup>75</sup> Yet, MINNCOR's annual reports give no indication that it receives these funds and no explanation as to how the funds affect its bottom line.

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**RECOMMENDATION**

*MINNCOR should discontinue allowing private businesses to use inmate labor and prison space through purchase orders and instead enter into revenue contracts with them.*

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Although we were not able to document any problems rising from MINNCOR's use of purchase orders rather than revenue contracts to allow private businesses to use inmate labor, we think that any risk is too great. Contracts provide important assurances to the state regarding audits, data privacy, cancellation notice, and liability that are largely absent from purchases orders. The Department of Corrections should amend its policy on revenue contracts to clearly reflect that MINNCOR must use such contracts when allowing private businesses to use inmate labor, regardless of the dollar value or volume of business involved.<sup>76</sup>

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**RECOMMENDATION**

*MINNCOR should evaluate individual labor arrangements with private businesses yearly, as department policy requires, and collect the necessary data to do so.*

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Because work for the private sector is fast becoming an integral part of MINNCOR, more attention should be paid to the contribution that each arrangement makes toward meeting MINNCOR's dual goals of high inmate participation and profitability. Currently, MINNCOR does not collect the necessary information to evaluate each contract on its own merits. MINNCOR

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<sup>75</sup> MINNCOR officials told us that they would have made additional changes in MINNCOR's operations to become profitable if DOC would not have transferred the confinement cost deductions made from inmates' wages to MINNCOR.

<sup>76</sup> The department is currently revising its policy on revenue contracts. Its most recent draft allows MINNCOR to use purchase orders in lieu of revenue contracts under certain circumstances. As currently drafted, however, MINNCOR's present practices would generally be permissible.

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**MINNCOR should use formal contracts rather than purchase orders when allowing private businesses to use inmate labor and prison space.**

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**MINNCOR needs to collect the information necessary to individually evaluate each of its private labor arrangements.**

should develop a consistent method for facilities to report sales and expenditure data related to labor arrangements with private companies. Also, it should use these data to assess each contract annually, as DOC's policy already requires.<sup>77</sup> MINNCOR is currently looking into developing a new cost accounting package that would allow it to track each contract separately, and we think they should continue to pursue this.

Although we recognize that these arrangements employ the majority of inmates, we also think MINNCOR must scrutinize these arrangements more in order to remain profitable overall. For example, MINNCOR should try to ensure that private sector labor arrangements that fall under PIECP charge companies enough to cover MINNCOR's true wage costs.

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### RECOMMENDATION

***MINNCOR should adhere to best management practices and not permit work to begin on contracts before they have been signed or continue after they have expired.***

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In delineating contract requirements, state law does not distinguish between cases where agencies buy services and those where they sell services. State law simply defines a contract as "any written instrument or electronic device containing the elements of offer, acceptance, and consideration to which an agency is a party."<sup>78</sup> It further states that contracts are not valid and agencies can not begin work on them until all necessary signatures have been obtained.<sup>79</sup> Department of Corrections' policy also states that work under contracts must not begin until the documents are signed.<sup>80</sup> Although we did not document any major problems from performing work before contracts were fully signed, doing so places the state at risk. For example, provisions regarding payment may not apply until a contract is recognized as valid. We think that MINNCOR practices should clearly reflect good contract management principles as well as state law.<sup>81</sup>

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<sup>77</sup> Minnesota Department of Corrections, "Division Directive 405.020: Product Pricing," *Policies Manual*, 2.

<sup>78</sup> *Minnesota Statutes* 2008, 16C.02, subd. 6.

<sup>79</sup> *Minnesota Statutes* 2008, 16C.05, subd. 2.

<sup>80</sup> Minnesota Department of Corrections, "Division Directive 403.080: Revenue Contracts," *Policies Manual*, 1.

<sup>81</sup> For a discussion of effective contract management, see: Minnesota Office of the Legislative Auditor Program Evaluation Division, *Professional/Technical Contracting* (St. Paul, 2003), 28-31.

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**MINNCOR  
should develop  
formal marketing  
plans for both  
public and private  
sector customers.**

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**RECOMMENDATION**

*MINNCOR should develop and implement a formal marketing plan directed at state agencies and other units of government.*

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MINNCOR should take a more systematic approach to marketing its products and services to a wider array of customers by developing a formal, written plan that sets forth specific marketing strategies, goals, and performance measures. Given that our survey of state agency buyers showed most were satisfied with MINNCOR's performance, MINNCOR should be promoting its positive image to a wider array of clients. This takes on heightened significance given the state's budget problems. Current state customers may be cutting back on printing and furniture purchases, and MINNCOR will likely have to expand its customer base just to maintain its current level of sales.

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**RECOMMENDATION**

*MINNCOR should develop a formal marketing plan to attract private sector businesses to employ inmate services through MINNCOR, as directed by the 2008 Legislature.*

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To date, MINNCOR has not developed a formal plan, as required by state law.<sup>82</sup> MINNCOR should comply with statutory requirements and work with the Department of Employment and Economic Development to try to expand MINNCOR's customer labor arrangements with the private sector. Given the state's poor economic outlook in general, MINNCOR should be seeking assistance from other state agencies as well to access whatever contacts they have with businesses seeking some type of state assistance or services.

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<sup>82</sup> As noted earlier, MINNCOR officials intend to work with legislators this session to clarify the intent of the law. Regardless, MINNCOR officials told us that they agree with the need for a documented marketing plan and are in the process of developing one for all types of customers.



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# List of Recommendations

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- MINNCOR should report its full cost for inmate wages and the funds it receives from the Department of Corrections for inmates' confinement costs in its annual financial statements and reports (p. 70).
- MINNCOR should clearly disclose in its annual report how the funds it receives from the Department of Corrections for inmates' confinement costs affect its profitability (p. 71).
- MINNCOR should discontinue allowing private businesses to use inmate labor and prison space through purchase orders and instead enter into revenue contracts with them (p. 71).
- MINNCOR should evaluate individual labor arrangements with private businesses yearly, as department policy requires, and collect the necessary data to do so (p. 71).
- MINNCOR should adhere to best management practices and not permit work to begin on contracts before they have been signed or continue after they have expired (p. 72).
- MINNCOR should develop and implement a formal marketing plan directed at state agencies and other units of government (p. 73).
- MINNCOR should develop a formal marketing plan to attract private sector businesses to employ inmate services through MINNCOR, as directed by the 2008 Legislature (p. 73).



# Additional Data Analysis Tables

## APPENDIX A

**Table A.1: Prison Industry Characteristics by State, Fiscal Year 2007**

	Total Prison Inmates	Prison Industry Inmates	Percentage of Total Inmates in Prison Industries	Total Inmate Hours Worked	Hours Worked Per Inmate	Hours Worked Per Inmate Per Week	Annual Sales (\$000s)
Alabama	29,000	2,034	7%	4,336,000	2,132	41.0	\$17,836
Alaska	3,688	129	3	na	na	na	2,324
Arizona	30,813	1,863	6	3,012,213	1,617	31.1	27,200
Arkansas	12,600	563	4	1,126,000	2,000	38.5	7,000
California	171,000	5,965	3	8,889,307	1,490	28.7	199,400
Colorado	21,521	1,446	7	1,736,171	1,201	23.1	52,724
Connecticut	23,623	337	1	na	na	na	7,542
Delaware	7,365	198	3	300,300	1,517	29.2	2,285
Florida	92,844	2,203	2	4,032,506	1,830	35.2	78,043
Georgia	50,893	1,370	3	1,850,000	1,350	26.0	25,959
Hawaii	5,708	113	2	178,408	1,579	30.4	5,985
Idaho	6,976	410	6	723,770	1,765	33.9	8,612
Illinois	45,000	999	2	na	na	na	37,962
Indiana	25,185	1,848	7	1,746,000	945	18.2	47,393
Iowa	9,000	1,520	17	1,600,000	1,053	20.2	25,000
Kansas	8,872	1,143	13	1,986,621	1,738	33.4	10,112
Kentucky	13,500	720	5	1,545,000	2,146	41.3	12,600
Louisiana	19,300	975	5	1,851,139	1,899	36.5	27,405
Maine	2,000	254	13	300,850	1,184	22.8	2,335
Maryland	22,464	1,293	6	1,700,000	1,315	25.3	48,075
Massachusetts	na	464	na	481,234	1,037	na	10,278
Michigan	51,980	1,083	2	1,485,999	1,372	26.4	39,963
<b>MINNESOTA</b>	7,730	1,380	18	1,900,000	1,377	26.5	38,446
Mississippi	25,318	623	2	950,000	1,525	29.3	9,398
Missouri	30,703	1,509	5	2,354,040	1,560	30.0	31,617
Montana	2,521	389	15	619,549	1,593	30.6	10,400
Nebraska	4,352	724	17	762,683	1,053	20.3	8,871
Nevada	13,500	757	6	865,441	1,143	22.0	6,000
New Hampshire	2,498	314	13	212,345	676	13.0	1,912
New Jersey	27,494	1,282	5	1,310,671	1,022	19.7	19,186
New Mexico	6,741	414	6	753,480	1,820	35.0	4,519
New York	63,000	2,231	4	na	na	na	63,427
North Carolina	38,542	1,969	5	4,320,000	2,194	42.2	84,000
North Dakota	1,431	164	11	na	na	na	3,541
Ohio	49,625	2,104	4	2,804,203	1,333	25.6	36,413
Oklahoma	25,012	1,081	4	1,602,845	1,483	28.5	19,334
Oregon	na	1,170	na	na	na	na	na
Pennsylvania	45,505	1,438	3	2,078,246	1,445	27.8	33,363
Rhode Island	3,700	280	8	na	na	na	8,539
South Carolina	24,000	2,192	9	1,937,540	884	17.0	28,360
South Dakota	3,416	318	9	343,441	1,080	20.8	3,293
Tennessee	19,341	735	4	1,096,643	1,492	28.7	26,438
Texas	152,671	6,635	4	840,811	127	2.4	75,834

**Table A.1: Prison Industry Characteristics by State, Fiscal Year 2007  
(continued)**

	Total Prison Inmates	Prison Industry Inmates	Percentage of Total Inmates in Prison Industries	Total Inmate Hours Worked	Hours Worked Per Inmate	Hours Worked Per Inmate Per Week	Annual Sales (\$000s)
Utah	6,500	727	11	1,244,933	1,712	32.9	21,185
Vermont	2,186	100	5	130,000	1,300	25.0	2,419
Virginia	31,144	1,496	5	2,315,299	1,548	29.8	48,736
Washington	18,471	1,704	9	2,207,140	1,295	24.9	58,217
West Virginia	4,867	235	5	na	na	na	6,922
Wisconsin	22,353	588	3	1,176,000	2,000	38.5	23,138
Wyoming	2,145	46	2	61,440	1,336	25.7	128
State Average	26,835	1,191	6%	1,684,959	1,433	27.7	\$27,952

SOURCE: National Correctional Industries Association, 2008 NCIA Directory (Baltimore, MD: National Correctional Industries Association, 2008), 112-114.

**Table A.2: MINNCOR Reported Revenues,  
Expenditures, and Net Income, Fiscal Years 2005-2008**

	(\$000s)			
	2005	2006	2007	2008
Sales	\$32,327	\$41,542	\$38,446	\$35,779
Costs of Goods Sold	<u>(16,592)</u>	<u>(24,115)</u>	<u>(20,666)</u>	<u>(17,021)</u>
Gross Margin	\$15,735	\$17,428	\$17,779	\$18,758
Facility Manufacturing Costs	(8,884)	(9,882)	(9,674)	(9,571)
General and Administrative Costs	<u>(5,527)</u>	<u>(6,874)</u>	<u>(6,366)</u>	<u>(6,220)</u>
Net Income	\$ 1,325	\$ 672	\$ 1,739	\$ 2,967
Net Income as a Percentage of Sales	4.1%	1.6%	4.5%	8.3%

NOTE: General and administrative costs and net income for fiscal year 2008 exclude \$336,339 of expenditures related to EMPLOY.

SOURCE: Office of the Legislative Auditor, analysis of MINNCOR Industries annual reports, fiscal years 2005-2008.



OFFICE OF THE COMMISSIONER  
*Contributing to a Safer Minnesota*

February 12, 2009

James R. Nobles, Legislative Auditor  
Office of the Legislative Auditor  
Room 140 Centennial Building, 658 Cedar Street  
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

Thank you for your comprehensive program audit of MINNCOR Industries. The Department of Corrections (DOC) appreciates your efforts in this thorough review and evaluation, as well as the overall conclusion that "MINNCOR has done a good job trying to meet a variety of sometimes conflicting goals." We appreciate the opportunity to comment on recommendations in the report.

**MINNCOR should report its full cost for inmate wages and the funds it receives from the Department of Corrections for inmates' cost of confinement in its annual financial statements and reports.**

*Response:* The DOC agrees with this recommendation. In an effort for greater transparency, MINNCOR now lists cost-of-confinement funds as a separate line item on monthly financial statements. This change began with the January 2009 statement.

***Recommendation:* MINNCOR should clearly disclose in its annual report how the cost-of-confinement funds it receives from the Department of Corrections affects its profitability.**

*Response:* The DOC supports this recommendation. To that end, the cost of confinement is displayed separately in MINNCOR financial statements, beginning with the January 2009 statement. DOC Policy 300.100 allows for cost-of-confinement funds. If MINNCOR would not have received the chargeback, other appropriate business decisions would have been made to ensure profitability.

***Recommendation:* MINNCOR should discontinue allowing private businesses to use inmate labor and prison space through purchase orders and instead enter into revenue contracts with them.**

*Response:* The DOC supports the intent of the recommendation and will expand use of revenue contracts. However, to require contracts to completely replace purchase orders may present challenges relating to timeliness and potential loss of business opportunities. The DOC is addressing this recommendation through policy revision that will define the appropriate use of purchase orders and expand use of contracts in daily business.



[www.doc.state.mn.us](http://www.doc.state.mn.us)

James R. Nobles  
February 12, 2009  
Page two

***Recommendation:* MINNCOR should evaluate individual labor arrangements with private businesses yearly, as department policy requires, and collect the necessary data to do so.**

*Response:* The DOC supports this recommendation. Currently, MINNCOR tracks expenses and revenue related to all labor arrangements by business units. MINNCOR is exploring the use of Enterprise Resource Planning (ERP) or other new accounting systems that will provide detail on a per job rather than on a business unit basis.

***Recommendation:* MINNCOR should adhere to best management practices and not permit work to begin on contracts before they have been signed or continue after they have expired.**

*Response:* The DOC supports this recommendation. MINNCOR has implemented an electronic filing and tracking system that will automatically notify the contract administrator prior to expiration.

***Recommendation:* MINNCOR should develop and implement a formal marketing plan directed at state agencies and other units of government.**

*Response:* The DOC agrees with this recommendation and has begun development of a documented marketing plan.

***Recommendation:* MINNCOR should develop a formal marketing plan to attract private sector businesses to employ inmate services through MINNCOR, as directed by the 2008 Legislature.**

*Response:* The DOC agrees with this recommendation and is working with legislators this session to clarify intent of the law as MINNCOR develops its marketing plan.

Thank you again for your review of MINNCOR Prison Industries. Your recommendations will be helpful in our future success.

Sincerely,



Joan Fabian  
Commissioner

Copy: Lynn Dingle, Deputy Commissioner  
David Crist, Assistant Commissioner  
Lisa Cornelius, Assistant Commissioner  
Chris Dodge, Agency Chief Financial Officer  
Guy Piras, MINNCOR Chief Executive Officer

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*Controlling Improper Payments in the Medicaid Assistance Program*, August 2003  
*Economic Status of Welfare Recipients*, January 2002

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*Preserving Housing: A Best Practices Review*, April 2003  
*Managing Local Government Computer Systems: A Best Practices Review*, April 2002  
*Local E-Government: A Best Practices Review*, April 2002  
*Affordable Housing*, January 2001

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*Misclassification of Employees as Independent Contractors*, November 2007  
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*Economic Impact of Immigrants*, May 2006  
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