AGENCY RESPONSES

Appendix 2

- Department of Corrections
- Auditor's Comments

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STATE OF WASHINGTON
DEPARTMENT OF CORRECTIONS
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October 20, 1998

Mr. Tom Sykes, Legislative Auditor
Joint Legislative Audit and Review Committee
PO Box 40910
Olympia, Washington 98504-0910

Dear Mr. Sykes:

Subject: Dairy Farm Cost/Benefit Analysis

This is the Department's formal response to the Dairy Farm Cost/Benefit Analysis Preliminary Report dated October 6, 1998, conducted by the Joint Legislative Audit and Review Committee (JLARC). The following are our comments:

Recommendation 1
"DOC should conduct a cost/benefit analysis on various capital investment alternatives to expand the number of inmate jobs provided by Correctional Industries. The analysis should consider both capital and operating costs and should give greater weight to jobs that provide inmates with skills that are in demand in the private sector."

Recommendation	Agency Position	Comments
Recommendation 1	Concur	See Below

The Department concurs that cost/benefit analysis should be conducted when considering new industries. However, there are a number of additional issues that must be considered. For instance, the Department is legislatively mandated to increase the number of offender jobs, a concept we fully support. Work programs should teach accountability and responsibility in addition to providing inmates with the work ethic, social skills and as much as possible, with skills that are transferable to jobs in the community. Correctional Industries does have constrained markets and must enter businesses where the market supports adequate sales for viable operations, yet does not negatively impact in-state industry. All of these factors must be considered when evaluating new businesses.

Recommendation 2
"Future capital improvements at the dairy should be financed from revenues generated by the operations of the farm."

Recommendation	Agency Position	Comments
Recommendation 2	Partially Concur	See Below

We concur that it would be desirable for the dairy to support the full cost of operations, including capital investment. However, as the study points out, the dairy does not generate adequate revenue to fully support capital investment. Given the constraints of the site, it is probably not possible to expand the dairy at that location to attain economies of scale sufficient to fully support capital improvements on a facility of the dairy's age and condition. Unlike the private sector, Correctional Industries operates under market constraints that deny access to a major portion of the dairy market. The Department is restricted to selling its goods and services to public sector organizations and to nonprofit organizations.

When possible, the operating revenues have supported debt services for specific capital projects. For instance, the loafing shed repairs are being funded using Certificates of Participation (COP). The COP debt service for the loafing shed is being paid for with CI operating revenues. The Department has dual responsibility. A legislative mandate, which we agree with, requires the Department to employ as many offenders as possible to meet statutory goals. There is also an expectation that we operate industries as cost-effectively as possible. Sometimes these dual roles are in conflict.

If you have questions, please call Mr. Bill Phillips, Administrator, Engineering, Facilities, and Capital Programs, at (360) 586-3907.

Sincerely,

Joseph D. Lehman
Secretary

JDL:lsl
Enclosure
cc: Cathy McMorris
Bob Thomas
Larry Brubaker
Patria Robinson-Martin

Auditors' Comments on Department's Response

Recommendation 1: The Department of Corrections should conduct a cost/benefit analysis of various capital investment alternatives to expand the number of inmate jobs provided by Correctional Industries. The analysis should consider both capital and operating costs and should give greater weight to jobs that provide inmates with skills that are in demand in the private sector.

Agency Position and Comments: Concur

Auditors' Comment: None

Recommendation 2: Future capital improvements at the dairy farm should be financed from revenues generated by the operations of the farm.

Agency Position and Comments: Partially Concur. The department agrees it would be desirable to support the full cost of operations, but that the dairy does not generate sufficient revenue to do so.

Auditors' Comment. The report notes that this recommendation does not necessarily mean that the farm must generate sufficient revenue to pay for capital costs. There could be an ongoing subsidy from the Department of Corrections' general fund budget. In addition to creating additional incentives to identify cost-effective capital alternatives, the recommendation would bring greater visibility to the full cost of operating the farm.