



STATE OF MICHIGAN
DEPARTMENT OF CORRECTIONS
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

PATRICIA L. CARUSO
DIRECTOR

September 21, 2009

Mr. Bryan Weiler
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 5th Floor
Lansing, MI 48913

Dear Mr. Weiler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached is a summary table identifying our responses and a corrective action plan to address the recommendations contained within the Office of the Auditor General's audit report of the Bureau of Correctional Industries, Department of Corrections.

Questions regarding the summary table or corrective action plans should be directed to Connie MacKenzie, internal audit liaison, at (517) 241-7342.

Sincerely,

Signature Redacted

Patricia L. Caruso, Director
Attachment
PC/22/cm

c: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House Appropriations Sub-Committee on Corrections
Senate Appropriations Sub-Committee on Judiciary and Corrections
House Judiciary Committee
Senate Judiciary Committee
T. Johnson
C. MacKenzie
J. Southwick
D. Straub
W. Wilson, Jr.

**Bureau of Correctional Industries
Department of Corrections
Summary of Agency Responses to Recommendations
October 2005 through July 2008**

1. Audit recommendations the agency complied with:

4, 6

2. Audit recommendations the agency agrees with and will comply:

1	09/30/2011
2	02/01/2010
3	11/30/2009
5	06/30/2010
7	09/30/2009

3. Audit recommendations the agency disagrees with:

**Bureau of Correctional Industries
Department of Corrections
Agency Responses to Recommendations**

1. Unprofitable Operations

The auditors recommended that BCI initiate further measures to ensure that it operates as a total self-supporting system.

Agency Preliminary Response:

BCI agrees with Finding 1; however, it disagrees that Finding 1 is a material condition. Beginning December 2007, DOC and BCI began engaging a nationally recognized supply chain firm to assist DOC and BCI to fundamentally streamline the BCI comprehensive realignment plan and implement a properly integrated system. This integrated strategy identified 30 plus savings opportunities for BCI. BCI has begun realigning its factories and administration to save \$1M annually. Upon final completion of DOC and BCI's realignment plan, BCI will save an additional \$3 million per year fully regaining self-sufficiency. For example:

- In June 2008, DOC and BCI created a collaborative, integrated, and inclusive supply chain strategy that includes defined continuous quality improvement measures. The plan identifies and implements efficiencies and strategies to reduce operating costs, maintain security, and improve department-wide resource utilization. By the completion of the implementation of the supply chain infrastructure, BCI will reduce distribution costs by \$500,000 annually.*
- DOC and BCI moved the shoe factory to a more efficient building and avoided \$350,000 in costly electrical updates to the former building. The net result of the savings allowed BCI to reduce the cost of producing prisoner shoes for the DOC.*
- DOC and BCI performed a feasibility study during fiscal year 2008 for consolidating the purchasing and accounts payable functions of Grandview Plaza and BCI. This realignment was successfully implemented in March 2009 realizing cost savings to DOC and BCI of \$150,000 annually.*
- Public Act 102 of 2007 expanded BCI's sales market to include being able to sell cut and sewn textiles to the public. The change in the public act immediately created the ability to create strategic alliances between BCI and two private vendors to make cut and sewn textiles for wholesale increasing BCI's market and sales opportunities.*
- BCI adjusted product pricing for fiscal year 2010 to properly reflect BCI's current cost structure. This product pricing realignment will bring an estimated \$1 million to BCI's bottom line while still remaining competitive with outside vendor pricing.*
- In August 2009, BCI closed the Sawmill located at Camp Ottawa. This closure will provide BCI savings of \$180,000 annually.*

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The total of \$1,051,338 in indirect labor expense for prisoner wages accounts for only .004% of the overall BCI operating costs and is not material to the overall cost of the operation. During periods of lower production, BCI continues to strive to put prisoners in work situations providing life skill development and prepare prisoners for the next planned production cycles at the factory.

BCI believes that it provides intrinsic value to prisoner labor in several ways such as prisoners learning how to maintain a job, job skills learned while working for BCI, and the potential for reduced recidivism rates among prisoners that are paroled that worked for BCI. BCI believes that it also enhances safety and security by employing over 1,000 prisoners on any given day.

BCI produces many of the goods and services the DOC needs on a daily basis (e.g., prisoner clothing, officer uniforms, linens, cleaning products, laundry, mattresses, foot lockers). If not for BCI, DOC would have to purchase these goods and services from other suppliers and would not receive the prisoner workforce development benefits, custody/security enhancements, and decreased idleness currently provided through BCI.

2. Business Plan

The auditors recommended that BCI develop and implement a comprehensive business plan.

Agency Preliminary Response:

BCI agrees with the recommendation and is taking steps to comply by drafting a comprehensive business plan. It will include recommendations from the contracted nationally recognized supply chain firm's final report forthcoming in September 2009. The final draft of the comprehensive business plan will be completed by February 1, 2010 and will be updated annually.

3. Scheduling and Utilization

The auditors recommended that BCI improve its scheduling and utilization of trucks and drivers for delivery of products and services.

Agency Preliminary Response:

BCI agrees with the recommendation and has contracted with a nationally recognized supply chain firm to conduct an evaluation of BCI's scheduling and utilization of trucks and drivers.

BCI is currently developing improved scheduling and utilization of its trucks and drivers for delivery of products and services. BCI is also working with the regional facilities to haul additional goods for the facilities where it creates efficiencies for DOC as a whole. The new statewide routing will be finalized by November 30, 2009.

**Bureau of Correctional Industries
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Agency Responses to Recommendations**

4. Price Setting

The auditors recommended that BCI establish comprehensive policies and procedures for setting prices and discounts for products and services.

Agency Preliminary Response:

BCI agrees with the recommendation and has complied. BCI established and implemented a comprehensive policy and procedure for setting product pricing and discounts for fiscal year 2010. The new procedure documents the justifications for product pricing structures and includes steps for continual review of pricing compared to costs using BCI's Enterprise Resource Planning program (ERP).

5. Continuous Quality Improvement (CQI)

The auditors recommended that BCI establish a comprehensive CQI process to evaluate and improve the effectiveness of its operations.

Agency Preliminary Response:

BCI agrees with the recommendation and has contracted with a nationally recognized supply chain firm that specializes in CQI initiatives to assist BCI in establishing a comprehensive CQI process. The final report and recommendations from the firm is forthcoming in September 2009. BCI will use the recommendations to establish a comprehensive CQI process by June 30, 2010.

6. Comprehensive Marketing Strategy

The auditors recommended that BCI develop a comprehensive strategy to effectively market its products and services.

Agency Preliminary Response

BCI agrees with the recommendation and has developed and implemented a comprehensive marketing strategy to effectively market BCI products and services. The BCI marketing plan includes the use of survey instruments to target key potential customers, contains measurable and quantifiable goals for the sales division and staff, contains a comprehensive sales staff training plan, and properly utilizes monitoring controls to evaluate sales and marketing efforts.

The comprehensive marketing strategy will be updated in October 2009 and has resulted in better customer awareness on specific product quality issues which will assist in the CQI initiative. The implementation has resulted in an increase in sales and better customer relations from the visits made by sales staff.

**Bureau of Correctional Industries
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Agency Responses to Recommendations**

7. Customer Surveys of Product Quality

The auditors recommended that BCI actively survey its customers to determine whether its products and services meet or exceed customer expectations.

Agency Preliminary Response

BCI agrees with the recommendation and will work to comply by regularly surveying BCI customers to determine if BCI is meeting customer needs.

In October 2008, BCI surveyed County Sheriff offices on product quality. To follow-up the survey BCI completed a market study in November 2008 regarding ANSI safety standards on BCI vests.

In December 2008, BCI completed a prisoner clothing survey of neighboring states to determine what vendors and suppliers the other states were using and corroborated the other states opinions on the quality of the materials received from the suppliers.

In March 2009, BCI completed a survey on scrubs. The survey compiled crucial data on customer perceptions on quality, delivery, sizing, and other product improvement suggestions. This information will be used in conjunction of implementing a comprehensive CQI process.