



Commonwealth of Virginia
Virginia Department of Corrections
Performance Audit of Virginia Correctional
Enterprises Furniture Program

Report No. 2019-PA-003

June 11, 2019



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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June 11, 2019

Governor Ralph Northam
P.O. Box 1475
Richmond, VA 23219

Dear Governor Northam:

The Office of the State Inspector General (OSIG) engaged SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. to conduct a performance audit of the Virginia Department of Corrections Virginia Correctional Enterprises Furniture Program. Their report, which outlines seven findings and 13 related recommendations for improvement, is attached for your review and information.

OSIG would like to thank Director Harold W. Clarke and staff of Virginia Correctional Enterprises for their cooperation and assistance during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. Westfall".

Michael C. Westfall, CPA
State Inspector General

CC: Clark Mercer, Chief of Staff to Governor Northam
Suzette P. Denslow, Deputy Chief of Staff to Governor Northam
Brian J. Moran, Secretary of Public Safety and Homeland Security
Harold W. Clarke, Director, Department of Corrections
Senator Frank M. Ruff, Jr., Chairman, General Laws and Technology Committee
Delegate Thomas C. Wright, Jr., Chairman, Militia, Police and Public Safety Committee
Martha S. Mavredes, CPA, Auditor of Public Accounts

VCE Furniture Program Performance Audit Summary

Report No. 2019-PA-003

June 2019

Reason for Audit

The Virginia Office of the State Inspector General (OSIG), on behalf of the Commonwealth of Virginia, engaged SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H), to conduct a performance audit (audit) of the Virginia Department of Corrections (DOC) Virginia Correctional Enterprises (VCE) Furniture Program. This audit was selected based on an annual work plan developed by the OSIG Audit Division to identify areas where potential improvements to effectiveness, efficiency, and economy of operations may exist. The annual work plan included input from cabinet secretaries.

Summary Findings

1. Procedures for retail pricing are not formally defined, documented, or adequately controlled.
2. The VCE website (govce.net) does not provide the customer with consistent, up to date product information, and includes inaccurate prices that do not incorporate current costs.
3. A process to ensure customer feedback is obtained timely and considered for incorporation into the furniture catalogue has not been established or documented.
4. The waiver process does not follow VCE's internal policy or the waivers requirements defined by the Code of Virginia (§ 53.1-47 and -48).
5. The certification and training for VCE participating offenders process is decentralized and is not consistently administered across work centers.
6. VCE does not maintain measurable statistics related to recidivism, job training, or employment.
7. VCE's process to provide job references and skills verification is decentralized and is not consistent across work centers.

Recommendations

VCE should formally develop and document procedures and expectations related to pricing, waiver reviews, customer feedback, certifications, training, and job references. Further, VCE should explore information technology systems enhancements to increase functionality, reduce risks, and implement controls for website data and waiver review procedures. VCE should enhance and centralize its certification and training functions to offer more options and provide more consistent participation opportunities to offenders. Additionally, VCE should implement procedures for quantifying and tracking programmatic success factors.

Commendable Actions

VCE management has displayed a commitment to assist the offenders who participate in its Furniture Program through its continued efforts to improve training opportunities. VCE has also taken steps to enhance its customer service function. Through the performance of this audit, VCE proactively recognized the challenges faced and has begun to implement solutions, including an automated waivers process, electronic customer surveys, data tracking for recidivism analysis, and the implementation of registered apprenticeship programs.

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I. Executive Summary

Background

SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H), has been engaged by the Office of the State Inspector General (OSIG), on behalf of the Commonwealth of Virginia, to conduct a performance audit (audit) of the Virginia Department of Corrections (DOC) Virginia Correctional Enterprises (VCE) Furniture Program. The audit was performed in two phases; a planning phase conducted by OSIG (concluding in June 2018) and a testing and reporting phase performed by SC&H. The following is a summary of the overall VCE Furniture Program.

VCE Background

The Virginia General Assembly established VCE as a self-supporting work program to produce goods and services for agencies of the Commonwealth over 75 years ago¹. VCE is a division within the purview of DOC. VCE employs offenders in Virginia's correctional system who work with full-time civilian employees to produce finished goods for sale throughout the Commonwealth. VCE functions similarly to a private business while operating under the controls and constraints of a government agency. VCE administers 28 programs at 14 DOC institutions and employs approximately 1,300 offenders who produce a variety of products and services, including higher education and office furniture.

VCE's mission² is to exist as a self-sustaining program that provides jobs and work skills to enhance post-incarceration employment opportunities for offenders. In addition to the production of goods and services, VCE seeks to achieve two main goals for the offender population. First, a reduction of offender idleness via employment, which increases safety for staff and offenders. Second, a reduction in recidivism through the attainment of job skills and certifications, which increase post-incarceration employability. The attainment of these goals aligns with DOC's mission of enhancing public safety by providing effective programming and supervising offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards.

The Virginia General Assembly established VCE as a mandatory supplier to state agencies for the goods it produces. The Code of Virginia § 53.1-47³ states that "articles and services produced or manufactured by persons confined in state correctional facilities shall be purchased by all departments, institutions, and agencies of the Commonwealth that are supported in whole or in part with funds from the state treasury for their use or the use of persons whom they assist financially. Except as provided in § 53.1-48⁴, no such articles [i.e. goods] or services shall be purchased by any department, institution, or agency of the Commonwealth from any other

¹ <https://www.govce.net/aboutus>

² "VCE provides work opportunities and skill learning programs for offenders incarcerated within the Department of Corrections. These skills and work ethic are transferable to society upon release and have proven helpful in reducing the rate of recidivism." VCE Website, About Us section. Website: <https://www.govce.net/aboutus> (Accessed on March 11, 2019)

³ <https://law.lis.virginia.gov/vacode/title53.1/chapter2/section53.1-47/>

⁴ <https://law.lis.virginia.gov/vacode/title53.1/chapter2/section53.1-48/>

source.” Additionally, any county, city, town, or nonprofit organization may also purchase the goods or services from VCE.

The Code of Virginia § 53.1-48 allows agencies to receive exemptions from the mandatory purchasing requirements. Agencies can receive an exemption if VCE’s products do not meet requirements, are more expensive than a competitor, or are not available timely in a sufficient supply. Customers who request exemptions must prepare and submit a waiver form to VCE, which includes the reason for the request and a quote describing the requested item specifications and price. Exemptions must be approved by VCE management.

VCE Furniture Program

The VCE Furniture Program produces a wide variety of products, including desks, bedding, chairs, and other office and higher education items. Products are sold to customers through the govce.net website, as well as the main VCE offices showroom located at 8030 Whitebark Terrace Richmond, VA. At the time of this audit, 369 furniture items were available on VCE’s website. VCE’s total possible furniture catalogue contains approximately 3,000 items; however, these are not always available for production as a result of process configuration requirements and anticipated customer needs. The items are manufactured entirely, or partially, by the offenders who work in the program. Furniture is produced in multiple locations across seven work centers to provide more offenders with the opportunity to learn job skills. These work centers and their specialties include:

1. Nottoway: Wood
2. Greenville; two work centers at a single location: Wood, systems and panels
3. Coffeewood: Wood
4. Lunenburg: Wood
5. Buckingham: Metal
6. Dillwyn: Metal

The following table provides the revenue, income, and offender compensation associated with each furniture industry segment per the Syteline accounting system for the fiscal year ended June 30, 2018.

Furniture Industry Segment	FY18 Operating Revenues from Furniture Activities	FY18 Gross Profit from Furniture Activities	FY18 Offender Compensation ⁵
Wood	\$ 9,090,187	\$ 1,533,911	\$ 298,662
Metal	3,292,844	1,188,658	122,926
Systems (Panels, Cubicles, Chair Kits)	5,099,715	1,986,671	48,330
Total	17,482,746	4,709,240	469,918

Job and machine proficiency certifications and training are provided to offenders who perform certain tasks at the work centers. The goal of providing offenders with certifications is to enhance their resumes when seeking post-incarceration employment. Individual management teams at the work centers, as well as the main VCE management office, administer these certifications. VCE began offering a formal apprenticeship program in 2019 that has been

⁵ Offender compensation is an operating expense and is included as a component of Net Income.

reviewed and accepted by the Virginia Department of Labor and Industry (DOLI). The first apprentice is expected to complete this program in July 2019.

VCE participant job experience is recorded in employee files, which are maintained by DOC and provided to offenders as they are released. Additionally, VCE staff are available to offer job references to offenders applying for work. Offenders may directly contact work center staff or VCE headquarters to obtain references and confirmation of employment and certifications.

Scope

Fieldwork procedures were initiated in September 2018 and completed in February 2019. The scope of fieldwork focused on the policies and procedures in place at the time of the audit with sample documentation requested for the most recent three years through September 2018.

Objectives

The objectives of this audit were the following:

1. To determine whether VCE's furniture prices are competitive with the market (within five percent) for comparable products. If VCE's prices are not within a reasonable range of market, identify what VCE has done to manage costs or revise its pricing formula to help bring prices closer to market, or ensure that the additional cost adds value to the Commonwealth.
2. To determine whether VCE furniture products meet state agencies' needs, and whether VCE keeps their catalogue up to date. If not, determine what VCE is doing to ensure they are meeting the current needs of their customers, and how are they evaluating the needs of their customers and changes to market demands.
 - a. Determine whether VCE approval of waiver requests appear reasonable and justified and are tracked by the agency. If a significant number of waivers do not appear reasonable, determine why the waivers were approved.
 - b. Determine whether VCE evaluates waiver requests for similar items to determine if products should be added to their catalogue to meet customer needs. If VCE does not assess waiver requests, determine why.
 - c. Determine whether VCE has a process in place to survey customers to determine future customer needs. If not, determine why.
3. To determine that offenders learn current, viable job skills by requiring some element of production or manufacturing for 100 percent of VCE's furniture products produced. If not, determine what VCE needs to do to improve their job skills training to ensure that inmates are learning current trade skills required in manufacturing industries. If so, determine whether VCE's program meets current industry standards and provide offenders with on the job training opportunities compared to private industry.
 - a. Determine whether VCE provides certifications to inmates based on job skills earned, and/or related to operation of manufacturing equipment, and if certifications are not available determine the feasibility of VCE creating internal certification programs.

- b. Determine whether ex-offenders received beneficial training and job experience through VCE that improved their chances of obtaining gainful employment, and determine avenues for improving VCE's training/job program process.
4. To determine whether furniture production training results in improved outcomes for VCE participants, such as increased post-incarceration employment and reduced recidivism rates, versus DOC inmates not in a VCE program. If not, identify the method VCE is using to determine the success of their program for reducing recidivism and improving job opportunities for inmates.
 - a. Determine whether VCE recidivism program results are comparable to other state Correctional Enterprise programs and if so determine process results versus similar programs. If not, determine why.
 - b. Determine whether VCE tracks the skills that each inmate has received by hours of training and manufacturing equipment.
 - c. Determine whether VCE has a process in place to provide proper job references, skills, and experience verification.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In order to obtain the necessary documentation to appropriately perform and conclude upon the objectives of this audit, SC&H conducted the following procedures.

Planning Procedures and Review

OSIG conducted the planning procedures that concluded in June 2018. These procedures resulted in the above listed objectives. SC&H reviewed the applicable planning materials and the proposed audit objectives developed by OSIG. We considered the appropriateness of each objective as well as the perceived risks associated with the VCE Furniture Program. We concluded that the proposed objectives were sufficiently supported and addressed the areas of higher risk identified during planning.

Creation of Project Plan

Based on the understanding of the processes, risks, and related controls, SC&H developed an audit program to achieve the objectives described above. The audit program included detailed steps to address each objective with the goal of verifying the existence of sound internal controls and identifying opportunities for improvement.

Execution of Audit Program

SC&H executed the audit plan by completing the following tasks:

1. Conducting interviews and walk-throughs with VCE and DOC staff;

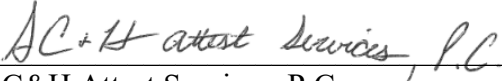
2. Benchmarking and analyzing a sample of VCE furniture product prices against competitors;
3. Reviewing the alignment of current catalogue and website products;
4. Evaluating approved waivers for compliance with regulation and procedures;
5. Assessing the process for identifying and incorporating customer needs;
6. Evaluating current training and certification processes and materials;
7. Performing research on training and certification programs offered by correctional enterprises in other states;
8. Assessing a sample of products to confirm manufacturing was performed, rather than completed goods purchased and passed through;
9. Documenting current success factors and assessing VCE's ability to quantify and monitor progress;
10. Surveying a sample of former offenders to obtain feedback of their experiences within the VCE Furniture Program;
11. Assessing the process for tracking offender training hours and certifications; and
12. Documenting and assessing the current process for providing job references to offenders post-incarceration.

Summary of Work

VCE does not maintain formally developed and documented procedures and expectations related to pricing, waiver review, customer feedback, certifications, training, and job references. Further, opportunities exist for systems enhancements to increase functionality, reduce risks, and implement controls with regard to website data and waiver review procedures. Opportunities also exist to enhance and centralize the certification and training functions to offer greater participation opportunities to offenders and to implement procedures for quantifying and tracking programmatic success factors.

Overall, there are improvement opportunities that can be incorporated into the VCE Furniture Program, which can help reduce risk and increase process efficiency and effectiveness.

The following section provides detailed findings and recommendations regarding seven topics.



SC&H Attest Services, P.C.
Tysons Corner, Virginia
June 11, 2019

II. Detailed Findings and Recommendations

Finding 1

Procedures for retail pricing are not formally defined, documented, or adequately controlled.

Finding Detail

Pricing policy and procedures have not been formally documented. The retail pricing process is performed in one of two methods: through price comparisons against competitors followed by a markdown or through a markup percentage over assigned costs in Syteline, VCE's accounting system of record. Preferred methodology, documentation requirements, and allowable markup or markdown percentages are not defined and may vary from item to item.

The following findings were developed through inquiry and review of pricing documentation:

1. There is no formal pricing formula methodology to meet an expected profit percentage and consider the underlying product costs.
2. There is no goal profit percentage established.
3. Coordination of pricing expectations, cost, and profit analysis does not regularly occur between the pricing function and the business office group, which manages product costs in the system.
4. The Pricing Manager has the ability to change the price of any item and can charge below cost. Current procedure calls for the approval of the Chief Services Officer when pricing items below cost; however, there is no systematic control preventing a markdown without approval.
5. There is no guidance provided to document when setting a price below cost would be allowable or appropriate. For seven of 13 furniture items reviewed, costs were listed on the VCE website for less than the actual costs calculated in the accounting system.

SC&H compared furniture item prices per the VCE website (govce.net) against three competitors. First, prices per the govce.net website did not reflect accurate retail prices (Refer to **Finding 2** for additional detail regarding website accuracy) for all 13 items. When the accurate retail prices per Syteline were compared, VCE's pricing for eight of 13 furniture items were 11 percent to 93 percent higher than competitors. If VCE honored the inaccurate website pricing, the prices varied in comparison to competitors, as described below:

1. Above five percent variance of comparable VCE product: four of 13
2. Within five percent variance of comparable VCE product: four of 13
3. Below five percent variance of comparable VCE product: five of 13

Risk

The lack of a pricing strategy that is defined and documented in policies and procedures may result in inconsistent and/or inaccurate pricing. Further, the lack of clarity and transparency in the price setting strategy and policies may affect the customer's perception of VCE's furniture offerings and their related value.

Prices may not be adequate to cover VCE's production costs and achieve profitability.

The lack of internal controls related to establishing and approving product prices could result in items being sold below cost, which would result in a financial loss for VCE.

Recommendation 1.1

Establish and document a formalized pricing policy and methodology. Management should begin by working with Business Office and Pricing staff to identify VCE's financial needs. Pricing documentation should include, but not necessary be limited to:

1. Profit goals
2. A pricing formula or methodology that includes the input costs from Syteline and establishes retail prices that cover these costs to meet VCE profit goals
3. Requirements for obtaining pricing support documentation (e.g. competitor research, percentage marked down)
4. Approval thresholds based on retail price variance from costs
5. A periodic review of sales between the Business Office and Pricing to analyze the effectiveness of the methodology
6. A process for allowable exceptions from policy, specifically with regard to charging below cost, including appropriate scenarios, necessary management justification, and required approval paths

Management's Action Plan and Implementation Date

Action Plan: VCE has a pricing formula. Memorializing this process into a policy is a planned step, including notation of senior leadership positions that would be required to amend pricing. In addition, the sales team has been challenged to develop sales projections, or what could be termed profit goals. Procedure L.01C.OP.001.06 – Cost & Price Analysis (Cost/Sell) – Effective: 11/2/2016 utilizes the Cost Price Analysis Template. Management will work with the Business Office and Pricing staff to develop a new procedure; that better addresses VCE's financial needs and ensures that both the proper documentation, required approvals and items noted above are included.

Implementation Date: September 30, 2019

Recommendation 1.2

Establish a systematic control that requires approval by VCE management before a product can be listed and sold on govce.net for less than total cost.

Management's Action Plan and Implementation Date

Action Plan: A specific procedure detailing the required approval process and controls before any product can be listed and sold on GOVCE.net for less than its total cost will be developed and implemented. Until the procedure is developed, a Memorandum establishing the required Management Approvals, for listing products on the web, will be issued by the Chief Services Officer.

Implementation Date: September 30, 2019

Finding 2

The VCE website (govce.net) does not provide the customer with consistent, up to date product information, and includes inaccurate prices that do not incorporate current costs.

Finding Detail

The VCE website does not display complete or current product and pricing information for furniture products. VCE maintains its website using two systems: Syteline and Magento web development software. The version of the Magento application in use is limited capability, free to use software. Due to the restrictions of a non-paid version, information does not automatically transfer from Syteline to Magento. VCE must manually update each individual product price and specifications, which results in a time consuming and labor intensive process. Further, VCE considers furniture pricing to be dynamic throughout the year as demand and availability vary. As a result, the Syteline prices may change frequently. The more often a price changes, the more often updates need to be transferred to Magento which could further reduce the accuracy of the information presented on the website.

SC&H reviewed Syteline costing data and the govce.net website listing for 13 VCE furniture products. We also reviewed the full Syteline furniture catalogue data listing. The following findings were identified:

1. Seven of 13 items selected are listed on the website for less than product costs per Syteline.
2. Thirteen of 13 items selected are listed on the website for less than expected retail price in Syteline.
3. Three of 13 items did not provide size specifications; two of which provided no product details on the VCE website. When attempting to access the website's Resources section for these products, links are included which state, "Download the Latest Brochure for this Product" and "Download VCE's Latest Catalog." Both of these links were broken and did not connect the user to additional information.
4. Eighty-two percent of the furniture catalogue items visible to public buyers on the VCE website were last updated in 2015 or prior.

If an item is listed for an incorrect or below cost price, VCE communicated that management notifies the buyer that the price was incorrect but honors the price and corrects the website pricing. Per discussion with VCE, the process of changing pricing on the website to match Syteline began more than a year ago, as of the date of this report. During this time, VCE honored pricing on its website for customers and changed the website price to match the price in Syteline.

Risk

Lack of updated and accurate product information available on the website can negatively impact customer service. This can result in unnecessary waiver requests and an increase in customer questions and calls for assistance.

Inadequate information or a change in the price may result in customers requesting a waiver or purchasing products from an alternative vendor, resulting in a loss of sales.

Customers may attempt to purchase a product with an incorrect price, or a price below cost, resulting in a financial loss to VCE. Alternatively, customers may choose not to purchase an item or submit waiver requests for an incorrect price above the intended price.

Furniture data may be inaccurately updated due to manual data entry, resulting in incorrect website information on the website.

Recommendation 2.1

Consider incorporating temporary staff to expedite the website update process. Prioritize furniture pricing updates when updating the website. These represent a direct financial risk that can result from a customer purchasing items below cost. This will help to ensure that VCE maintains an updated catalog with correct pricing

Management's Action Plan and Implementation Date

Action Plan: VCE believes that current staffing levels will be sufficient to achieve the action steps recommended. VCE has been fortunate to add a new webmaster in the fall of 2018. There was an 8-month delay in filling the webmaster position due to a lack of qualified applicants. We also established a marketing manager in the same timeframe. They have worked closely to refresh the website to improve both appearance and navigation. While links for products are still not exhaustive, much has been enhanced over the past seven months. This improvement is continuing with haste. In addition, pricing updates are continually updated so that the website corresponds with Syteline, eVA and other sources. It should be noted that both Syteline and Magento versions currently utilized by VCE are older applications. In addition, there are over 30,000 individual furniture items that VCE is in the process of updating. Currently, furniture items are given priority in our pricing updates.

Implementation Date: Ongoing with anticipated completion September 30, 2019

Recommendation 2.2

Expand current system integration between Syteline and Magento to enhance the speed, efficiency, and security of item updates on the VCE website. If this is not a possibility, consider a new website software solution.

Management's Action Plan and Implementation Date

Action Plan: VCE IT staff are working with our pricing staff to complete the development of a program that would permit a better way of uploading new pricing to our website. As we become aware of additional items with non-matching pricing, we are addressing them.

The best solution would be to implement a new ERP/MRP system that would permit the pricing to be updated instantly from the ERP/MRP system to the website as well as mass item updates. At this time, VCE is exploring the procurement of a new ERP/MRP cloud based system. We also continue to explore more efficient integration between Syteline and Magento until financial resources are available for new versions of both Syteline and Magento.

Implementation Date: June 30, 2020

Finding 3

A process to ensure customer feedback is obtained timely and considered for incorporation into the furniture catalogue has not been established or documented.

Finding Detail

The process for considering and incorporating customer feedback and needs has not been formalized. SC&H evaluated the steps for obtaining customer feedback in two processes.

- a) Waivers:
 - i. Forty-eight of the 60 (80 percent) waiver examples, reviewed by SC&H, cited the lack of a suitable product offered by VCE as the reason for a waiver. All but one of these waivers were approved by VCE.
 - ii. VCE does not have a systematic method of tracking and quantifying waivers that cite a lack of product availability in order to consider adding new products to the catalogue.
 - iii. The waiver report that compiles all monthly waiver data does not accumulate sufficient product detail to allow for analysis of recurring waiver requests. The waiver report only identifies the product type of the waiver, such as wood, seating, metal, etc., and does not accumulate data for the purpose of assessing customer needs.
- b) Surveys: A customer satisfaction survey was implemented in January 2019 that solicits customer feedback regarding the website, competitors, new products or services desired, and clarity of pricing. Between the survey implementation date and our fieldwork procedures, which concluded in February 2019, there had been less than ten responses to the survey. Our review of the survey resulted in the following findings.
 - i. Respondents are not asked to identify their agency or type of organization.
 - ii. Responses are open-ended and do not provide quantifiable information such as providing a numeric scale to rate the website or catalogue.
 - iii. The survey does not ask respondents to indicate specific VCE products they are interested in (e.g. furniture, printing, clothing).
 - iv. The survey is posted to the main govce.net website and is not directly provided to existing customers or to customers after they make a purchase.
 - v. A formalized process for analyzing customer responses and incorporating feedback into catalogues has not yet been established.

Risk

The lack of waiver request analyses can result in missed opportunities to identify and incorporate customer needs into VCE's catalogue. This could result in reduced customer satisfaction and missed sales.

A survey process that is not proactively communicated and advertised to new and existing customers may result in reduced response rates.

The lack of quantifiable responses may cause survey results to be unclear, misinterpreted, or manipulated.

The lack of respondent identifiers (e.g. agency, organization type, or VCE purchasing interests) reduces the effectiveness of the information received.

Recommendation 3.1

Expand the waiver tracking report to include additional detail as to the specific type of furniture. This will allow VCE to track metrics and trends to identify if there are items consistently granted waivers that VCE does not manufacture. VCE personnel should periodically meet to review these metrics and determine whether they indicate the need to expand catalogue offerings.

Management's Action Plan and Implementation Date

Action Plan: The new Release Request System went live during the OSIG / SC&H review period. All policy protocols have been built into the system, which was developed by the VCE Information Technology team. Potential customers are required to initiate waiver requests via this online process. Each order is tracked and researched by the sales and marketing team. Levels of approval allow low dollar amounts to be determined by the marketing manager. Higher dollar amounts require the approval of an operations manager. All other waiver requests over \$5,000 require review and approval by the Chief Services Officer or the Chief Executive Officer of VCE. All related information must populate various drop-down cells or the waiver cannot be approved or denied. This automated process has improved response times beyond the previous paper process. There are still isolated delays when a potential customer delays providing all required information specific to their waiver request. During the most recent Virginia General Assembly session, the Department of General Services initiated a bill sponsored to remove the Director of Purchases and Supply from the role of reviewing waiver decisions by VCE and the submission of report to the Director of General Services and the Director of Corrections. The bill passed and the Code now allows the final decision to be rendered under the authority of the CEO of Virginia Correctional Enterprises. Since this process is new VCE will continue to monitor and modify it as needed. Information received through the process will be reviewed by staff from Marketing, Sales, Pricing and Product Development on a monthly basis. Staff will analyze release trends and make quarterly recommendations to management on product mix and pricing.

Implementation Date: June 30, 2019

Recommendation 3.2

Consider the following improvements to the survey process:

- a) Include fields requesting the customer identify their organization, type of organization (e.g. higher education), and VCE product interests.
- b) Incorporate questions with quantifiable numeric responses (e.g. how would you rate VCE's catalogue: 1 to 5?).
- c) On a periodic basis, communicate a survey to prior customers, ensuring to include procurement contacts from each state agency, and analyze the results for process improvements.
- d) Provide a survey to customers with each purchase and request feedback.
- e) Accumulate the survey results and periodically convene VCE personnel to discuss survey feedback and identify any catalogue or process updates that should be considered.

Management's Action Plan and Implementation Date

Action Plan: Survey Monkey is now used to capture customer feedback and they are invited to share it. The number and types of questions will be enhanced. Response offerings will allow respondents to quantify feedback so that levels of satisfaction are clearly measurable. The objective will be to ask the right questions, while not causing a survey to be so lengthy that respondents are not willing to complete it. Marketing will make adjustments to current customer survey process to improve information gained for better analysis. This analysis will be reported quarterly to Sales, Pricing, Product Development and Senior Management staff.

Implementation Date: June 30, 2019

Finding 4

The waiver process does not follow VCE's internal policy or the waivers requirements defined by the Code of Virginia (§ 53.1-47 and -48).

Finding Detail

Exceptions from VCE policy and the Code of Virginia were identified in the waivers process. Waivers, which allow purchase from alternative vendors, are permitted for buyers who would otherwise fall under the VCE mandatory sourcing requirements codified in § 53.1-47. Code of Virginia § 53.1-48, Exceptions as to purchases, stated the following at the time of audit:

A department, institution or agency of the Commonwealth may be granted an exemption from the provisions of § 53.1-47 with the consent of both the Director of the Division of Purchases and Supply and the Chief Executive Officer of the Virginia Correctional Enterprises Program in any case where (i) the article so produced or manufactured does not meet the reasonable requirements of the department, institution or agency, (ii) an identical article can be obtained at a verified lesser cost from the private sector, which is evidenced by a verified request for pricing, or (iii) the requisition made cannot be complied with on account of an insufficient supply of the articles or supplies required, or otherwise. In any case where an exemption from the provisions of § 53.1-47 is granted as provided in this section, the Director of Purchases and Supply and the Chief Executive Officer of the Virginia Correctional Enterprises Program shall submit a written justification for the exemption to the Director of the Department of Corrections and the Director of the Department of General Services.

SC&H reviewed furniture waivers processed from October 1, 2017 through September 30, 2018. During this period, all waivers were processed manually. Buyers sent waivers to a VCE central email inbox. Waivers were then accumulated by a VCE staff member who entered the waiver details into a tracking spreadsheet. The staff member then printed the waiver documentation for review by the Sales Manager. The Sales Manager had the authority to approve waivers up to \$5,000.

For waivers greater than \$5,000, the Sales Manager researched the request and discussed further with a Subject Matter Expert (e.g. wood furniture, metal furniture) to determine appropriateness. Upon confirmation that the waiver request was valid, the Sales Manager completed the request form and routed it to the Chief Executive Officer or Chief Services Officer for their approval. The internal deadline to approve or deny the request is 48-72 hours of receipt. Customers requesting waivers may be required to provide additional documentation to support the claim that a similar product is not offered. On a monthly basis, a waivers report was provided to VCE management for review.

VCE implemented an electronic waivers process to streamline and automate waiver procedures as of February 1, 2019. This is an in-house application named VCE Release Request and is incorporated into the VCE website.

In order to receive approval, a waiver must include a price quote, item description, and an appropriate reason that is in compliance with Code of Virginia § 53.1-48. Waivers are expected

to be approved within three business days. SC&H reviewed 60 waivers, of which 56 were approved for exemption. The following findings were identified:

1. In six of 60 waivers tested, the amount listed on the Monthly Waiver file did not agree to the amount of the waiver request provided in the supporting documentation. VCE did approve the waiver based on the correct amount included with the supporting documentation.
2. In six of 60 waivers tested, the waivers were approved in excess of three business days of receipt. The waiver approval decision ranged from four to 15 business days for the exceptions noted⁶.
3. Two of 60 samples were listed as 'NR' (not released) on the monthly reports, indicating that they had not been approved. Upon review of the actual waivers, both were approved and released.
4. One of 60 samples was submitted twice by the same customer.

Further, the following deviation from Code of Virginia § 53.1-48 was identified:

5. Twenty-eight of 60 samples did not include a quoted price from an alternate vendor. All but one of these waivers were approved. Per internal policy and the Code of Virginia, these waivers should have been returned to the customer and a quote should have been provided for review by VCE prior to approval.

SC&H also noted that VCE does not submit written justification for furniture exemptions to the Director of DOC and the Director of the Department of General Services (DGS) as required by the Code of Virginia § 53.1-48 at the time of the audit. However, during the course of the audit, the Virginia General Assembly in its 2019 Session amended and reenacted § 53.1-48⁷, removing the requirement to provide justification of waivers to the Directors of DOC and DGS. While VCE's process deviated from the Code language in place at the time of audit, its procedures for waiver reporting are now in compliance with the current language, which states (including updates):

A department, institution, or agency of the Commonwealth may be granted an exemption from the provisions of § ~~53.1-47~~ with the *written* consent of ~~both the Director of the Division of Purchases and Supply and the Chief Executive Officer of the Virginia Correctional Enterprises Program~~ in any case where (i) the article so produced or manufactured does not meet the reasonable requirements of the department, institution, or agency, (ii) an identical article can be obtained at a verified lesser cost from the private sector, which is evidenced by a verified request for pricing, or (iii) the requisition made cannot be complied with on account of an insufficient supply of the articles or supplies required, or otherwise. In any case where an exemption from the provisions of § ~~53.1-47~~ is *not* granted as provided in this section, ~~the Director of Purchases and Supply and the Chief Executive Officer of the Virginia Correctional Enterprises Program shall submit provide~~ a written justification for the ~~exemption denial~~ to the ~~Director of the~~

⁶ VCE management indicated this is often due to the need for additional research and correspondence with the requesting party. However, this was not indicated or tracked within the spreadsheets.

⁷ <https://lis.virginia.gov/cgi-bin/legp604.exe?191+ful+HB1981ER>

~~Department of Corrections and the Director of the Department of General Services~~ department, institution, or agency that requested the exemption.

Risk

Incorrect waiver information maintained in the waiver spreadsheet can result in inaccurate data regarding amounts released or not released being presented to VCE management for decision-making and approvals.

Waivers approved without complete and accurate information, such as a price quote, may result in inappropriate approvals for products that VCE offers. This can negatively affect VCE through missed sales and lost customers.

Delayed response to waivers may adversely affect the customer experience and timelines for delivery. Additionally, customers may submit waivers more than once resulting in additional administrative effort for both VCE and the customer.

Non-compliance with the Code of Virginia § 53.1-48 could result in legal consequences.

Recommendation 4.1

SC&H is aware that VCE implemented an electronic waivers process during the course of this audit that is designed to increase efficiency, formalize control points, and enhance tracking and analysis capabilities. We recommend VCE consider implementing the following improvements/controls into the waiver process if these have not already been incorporated.

- a) Incorporate required electronic fields for buyers completing a waiver form, which includes the need to attach quote documentation.
- b) Establish a systematic process to pull key waiver information into a combined report that does not require manual data entry.
- c) Establish a systematic workflow to route waivers to the appropriate approver who could then approve electronically.
- d) Establish a waivers dashboard that displays open waivers and days outstanding.
- e) Incorporate automated reminders for assigned approvers, notifying them that an open waiver is approaching the approval deadline of three business days. Associated internal policy for waivers should be updated to allow for additional approval time when research and correspondence is required.

Management's Action Plan and Implementation Date

Action Plan: VCE's new electronic Release Request process has been implemented and incorporates all of the items enumerated in Recommendation 4.1. VCE continues to monitor the new automated process and will modify it as needed. The Code now allows the final decision to be rendered under the authority of the CEO of Virginia Correctional Enterprises and requires no further action or notifications be made.

Implementation Date: July 1, 2019

Finding 5

The certification and training process for VCE participating offenders is decentralized and is not consistently administered across work centers.

Finding Detail

VCE offers certifications and, beginning in January 2019, an apprenticeship to some of the participating offenders. However, these opportunities are not available across all work centers. Further, the procedures for administering certifications are not formalized or documented and the availability of certifications varies between work centers.

The following table provides a summary of certifications and apprenticeships offered within five work centers, as well as the overall agency, related to the VCE Furniture Program:

Work Center	Certifications/Apprenticeships
VCE- All	<ul style="list-style-type: none"> • Warehouse Logistics and Material Handler (Registered DOLI Apprenticeship) • Custodial Maintenance; program is in development and is expected to be offered in summer 2019 • Additional apprenticeships being explored by VCE include optical, dental, and upholstery
Coffeewood	No formal certifications; performance is tracked by individual job designations (e.g. inventory, product assembly, maintenance)
Greenville (two work centers)	No formal certifications; Certificates of Completion have been provided for Touch up Finishing Repair Training
Nottoway	Forklift Safety Certification
Lunenburg	<u>Vendor Certifications</u> <ul style="list-style-type: none"> • Nightingale Certificate of Training • Akzo Nobel Spray Finish Certification (new in March 2019) <u>VCE Certifications</u> <ul style="list-style-type: none"> • Ladder Safety Certification • Forklift Safety Certification • OSHA (Occupational Safety and Health Administration) 10 Certification

SC&H reviewed the certifications offered by six other state correctional industries: Maryland, California, Oregon, Washington State, Georgia, and Tennessee. In each state reviewed, SC&H identified formalized certifications or training that was offered to offenders in the correctional system⁸. While VCE’s recent changes have enhanced certification offerings, additional process improvements exist to provide increased participation opportunities to offenders and to formalize administration of this function.

⁸ SC&H reviewed each respective state’s website for information on certifications and training. Several states had certifications and/or training opportunities that exceeded what is currently available at VCE. This information was provided directly to VCE for consideration in their management responses, but was not included in this report as the specific state agencies were not contacted and the information discovered was not independently validated.

SC&H also reviewed the process for tracking offender training hours by work skills acquired. Overall hours worked by employee are maintained as part of their pay period information and employee file. However, documentation of skills by training hours is not formally or consistently tracked or maintained for all offenders who are employed by VCE. Tracking procedures vary between work centers, with three of five responding working centers indicating that no tracking by hour is performed.

In addition, SC&H found that DOC Career and Technical Education (CTE) offers certifications relevant to work performed at VCE (e.g. upholstery). These certifications cannot be directly obtained through work performed at the VCE facilities. Offenders must participate in both programs separately, which may not be possible due to logistics and distance between facilities.

Risk

Without a formalized, documented process, VCE management may be unable to ensure certification requirements are met.

Further, inconsistent opportunities to participate in certification or apprenticeship programs results in offenders not receiving additional job skills training or marketable certifications for their post-incarceration job search. This reduces VCE's ability to meet its mission of enhancing post-incarceration employment opportunities for offenders.

A lack of a formal process for tracking of training hours reduces VCE's ability to quantify offender experience. As a result, VCE may be unable to provide support for skills earned by offenders during their time in the program, reducing the ability to provide skills references for post-incarceration employment.

Additional opportunities may not be provided to offenders to earn certifications as a result of non-coordination between VCE and CTE. Offenders may be performing job skills that are applicable for CTE credit, however this work does not currently result in a certification.

Recommendation 5.1

Centralize the responsibility for certifications and training oversight so guidance can be applied uniformly across work centers. This role should collaborate with the work centers to understand and document all certifications available and to consider the possibility for incorporating additional training/certification opportunities that would benefit VCE offenders. Further, create and implement a standard expectation and methodology for tracking training hours across work centers. VCE staff tasked with management of certifications and training should be provided with a methodology for VCE to oversee the tracking process and ensure compliance with these requirements at each work center.

Management's Action Plan and Implementation Date

Action Plan: The overall responsibility for certifications and training oversight, as well as the Apprenticeship Program, has been delegated to the VCE Training Manager. The Training

Manager and CEO have developed a format for an Apprenticeship Program, which has been certified by the Virginia Department of Labor and Industry. Initial plans have been implemented within the warehouse and logistics area. Plans are also being formulated with the Dental Lab and several other industries are planned incrementally. In addition, the DOC Division of Education has been engaged with assessing when VCE offenders work as compared to where Career and Technical Education instruction is being provided. Where there is overlap, CTE coordinators are committed to make testing opportunities available to VCE offender employees. Their policy requires offenders to be within 12 – 18 months of release; CTE cannot engage with longer term offenders. A plan is in process that demonstrates Division of Education’s commitment. They are moving the upholstery training to Lunenburg Correctional Center so that it is co-located with the VCE chair manufacturing operation. Oversight of apprenticeships and VCE’s relation with CTE instruction is overseen by the VCE training manager. It is also tracked through the DOC offender management system, VACORIS.

Further, an internal database is being developed to track training hours and certification information for inmates. This internal database will provide additional detail not found in VACORIS such as the details of participants in the programs, completion dates, and status. The database will allow for greater visibility into the current participation in VCE’s apprenticeship and certification programs.

Implementation Date: June 30, 2019

Recommendations 5.2

Implement a process to maintain a VCE training and skills file for each offender who participates in the program. This file should include the training hours, certifications, and job role data earned for each employee. This will assist VCE in quantifying the impact of participation on offender job skills and can be provided to offenders and employers during the post-incarceration job search process.

Management’s Action Plan and Implementation Date

Action Plan: VCE will adopt the current process utilized in our Lunenburg Chair Plant for all VCE plants. Lunenburg works with third party vendors who offer certifications based on the achievement of specific competencies in completing certain manufacturing tasks. These certifications and competencies are based upon furniture industry standards and best practices. VCE will model its internal certification and achievement tracking after the procedures of the vendors associated with the Lunenburg Chair Plant. This process will encompass complete documentation for all offenders in VCE “Job Training Programs.”

Additionally, VCE will develop and implement an internal database for tracking training and certification information as described in the response to Recommendation 5.1.

Implementation Date: September 2019

Recommendation 5.3

Identify areas with potential for shared training with DOC CTE to provide offenders with

additional certification opportunities. Individuals who work in a VCE work center that perform tasks related to DOC CTE certifications would be good candidates for this collaborative arrangement. If feasible, develop a process with DOC CTE that allows VCE offenders to earn all requirements of CTE certifications while working at VCE work centers. This may require flexibility to allow partial classroom time for VCE participants.

Management’s Action Plan and Implementation Date

Action Plan: VCE is currently working with DOC CTE to provide offenders with additional certification opportunities. A plan is in process that demonstrates Division of Education’s commitment to working with VCE. They are moving the upholstery training to Lunenburg Correctional Center so that it is co-located with the VCE chair manufacturing operation. Oversight of apprenticeships and VCE’s relation with CTE instruction is overseen by the VCE Training Manager.

Implementation Date: June 30, 2019

Finding 6

VCE does not maintain measurable statistics related to recidivism, job training, or employment.

Finding Detail

VCE's mission states, "VCE provides work opportunities and skill learning programs for offenders incarcerated within the Department of Corrections. These skills and work ethic are transferable to society upon release and have proven helpful in reducing the rate of recidivism."⁹ Specifically, the VCE indicates that reduction in recidivism and increased opportunity for post incarceration employment are two success factors. However, VCE does not have a methodology in place to measure and report on these goals.

VCE offender data does not meet the level of accuracy and completeness necessary to perform an analysis of the effects of participation on offender recidivism. SC&H discussed the availability of information to perform an analysis of recidivism rates for VCE participants as compared to the general offender population with both VCE management, and the DOC Statistical Analysis and Forecasting Unit. Data has not historically been aligned between VCE and DOC to allow for such a comparison. Further, to analyze this information effectively, DOC would have to work with VCE to establish "matched control groups" sharing similar demographics (e.g. length of sentence, age, education level). These groups would then need to be analyzed over the course of multiple years to identify the effects of participation on recidivism.

While a process is not currently in place, VCE indicated that a solution is being developed to appropriately track data with the goal of performing this analysis. VCE expects data to be available for analysis by April 2020.

In addition, VCE does not have a method to measure the effect of Furniture Program participation in improving post-incarceration employment. VCE refers to anecdotal evidence of the success or praise received from individual offenders post-incarceration, but does not have a methodology to quantify progress to support these assertions.

Risk

VCE is not able to quantify the benefit that it offers to the Commonwealth or directly show its support of DOC's mission to enhance post-incarceration employment and reduce recidivism. This may impact VCE's ability to identify methods to improve offender success factors and public perception of the program.

Recommendation 6.1

Consider establishing and communicating additional performance measures that support VCE's success factors. These may include, but are not limited to:

- a) Number of certifications/apprenticeships offered
- b) Number of offender participants who earned a certification/apprenticeship by type
- c) Total number of training hours provided to offenders
- d) Average training hours per participant

⁹ VCE Website, About Us section. Website: <https://www.govce.net/aboutus> (Accessed on March 11, 2019)

Additionally, following the implementation of recidivism analysis procedures, ensure that progress toward the achievement of success factors is published and periodically refreshed.

Management’s Action Plan and Implementation Date

Action Plan: VCE began to work with the Research Unit of DOC to develop a valid assessment of recidivism or the success of offenders who have worked with VCE. As the process requires tracking an established group of men and women for a full three-year period, the Research Unit will be able to provide feedback in April 2020.

In addition, VCE will develop an internal tracking database and adopt the current process utilized in our Lunenburg Chair Plant for all VCE plants as described in the responses to Recommendations 5.1 and 5.2. This process will encompass complete documentation for all offenders in VCE “Job Training Programs” including the items delineated in Recommendation 6.1. VCE will develop and report on the metrics recommended in 6.1 as additional measures of programmatic success. Furthermore, all plant managers and staff will receive training on the process to ensure optimal efficiency and adherence for required task.

Implementation Date: Reporting on certifications and apprenticeships is expected be implemented September 30, 2019; recidivism analysis will be performed following the completion of the tracking period in April 2020.

Recommendation 6.2

Consider implementing a post-incarceration experience survey for former participants. This should inquire about the job search process, whether VCE participation aided in securing new employment, and perception of their experience. VCE should consider the responses received for potential ways to improve opportunities for offenders. Additionally, these surveys can assist in quantifying whether VCE assisted offenders in obtaining post-incarceration employment.

Management’s Action Plan and Implementation Date

Action Plan: VCE will formulate a means for further follow up with past program participants so that there is some indication of how job training and experience provided by VCE may or may not contribute to securing of employment post incarceration. Exit interviews or surveys for feedback from offenders should also be initiated. As was learned during this audit process, offenders may or may not choose to provide feedback, even if they are still under community supervision for a period of time.

Implementation Date: September 30, 2019

Finding 7

VCE's process to provide job references and skills verification is decentralized and is not consistent across work centers.

Finding Detail

The process to provide references and job skills verification to VCE participants post-incarceration is decentralized. Offenders may contact the headquarters or individual managers and the response procedures may vary. When we inquired about the process to provide job references to former offenders at five of the seven work centers, each of the five centers contacted provided a different response. One location indicated that no process was in place.

Risk

VCE participants may not have access to timely, accurate job references and experience verification, affecting their ability to obtain post-incarceration employment. Further, VCE management is unable to verify that all participants are receiving references as expected.

Inaccurate or prohibited information could be provided to participants or potential employers if requests are not routed to an appropriate individual within VCE. A non-formalized process that does not result in a well-coordinated response may dissuade potential employers from hiring former VCE participants.

Recommendation 7.1

Formalize the process for providing job and skills references. Consider establishing a central phone number and/or email address that can be provided to offenders to be listed on job applications. The individual(s) tasked with responding to inquiries should be knowledgeable of the reference procedures and able to respond appropriately. This may reduce the need for additional communication and questions related to appropriateness and accuracy of response information.

This process may be further enhanced through the implementation of a VCE offender training and skills filing process, as described Recommendation 5.2. The availability of offender VCE training and skills data in a central location will allow the VCE staff member providing the references to quickly and accurately communicate offender accomplishments in the program.

Management's Action Plan and Implementation Date

Action Plan: VCE needs to develop a centralized and consistent means to provide potential employers feedback on a former worker's history of industry involvement and job performance. A published phone number and / or email mailbox can be designated for this purpose. VCE will develop a procedure that formalizes the process for providing job and skills references for offenders.

Implementation Date: September 30, 2019