

MINNCOR Industries

Update to 2009 Evaluation Report

Problems Identified

- **Costs Understated.** The Department of Corrections (DOC) annually transfers to MINNCOR about \$1 million deducted from inmate wages for confinement costs. Rather than reporting this money as income, MINNCOR reduced what it reported for inmate wages by this amount, thereby understating its costs and overstating its net profitability.
- **Contracting Practices Put State at Risk.** MINNCOR used purchase orders rather than formal contracts in 70 percent of its private labor agreements that allow private companies to use inmate labor and space to assemble or manufacture products for the companies' use or resale. Purchase orders placed the state at risk because they were written on forms developed by the companies and did not contain standard provisions to safeguard state interests.
- **No Formal Marketing Plans.** MINNCOR did not have a formal marketing plan with specific goals and strategies for the sale of MINNCOR products. Also, although required by the 2008 Legislature, MINNCOR had not developed a marketing plan to encourage private businesses to use inmate labor to assemble or manufacture their products.

Changes Implemented

- **Accounting Practices Improved.** As required by legislation passed in 2009, MINNCOR now lists as a separate line item on its financial statements the income it receives from DOC deducting confinement costs from inmate wages.
- **Marketing Plans Developed.** MINNCOR developed a formal plan to increase the sales of MINNCOR products, as required by 2009 legislation. In accordance with 2008 and 2009 legislative requirements, it also developed a formal marketing plan to increase private companies' use of inmate labor.
- **Contracting Policy Revised.** The 2009 Legislature required DOC to develop criteria for using purchase orders. DOC revised its contracting policy to allow MINNCOR to use purchase orders for one-time purchases up to \$25,000 or for multiple orders totaling \$25,000 or less in a one-year period. The 2009 legislation also required MINNCOR to use Department of Administration-approved purchase order forms. In 2010, MINNCOR began using revenue contracts instead of purchase orders for all new private labor agreements (after the private company involved approved the product prototype).

Action Needed

- **Monitor Use of Purchase Orders.** Because DOC's revised contracting policy still allows MINNCOR to use company-generated purchase orders under certain circumstances, MINNCOR should continue to monitor its use of purchase orders and, to ensure that state interests are safeguarded, use Department of Administration-approved forms.