



MINNCOR Industries' Contracting Practices for Interstate Commerce

Special Review

June 2025

Office of the Legislative Auditor

State of Minnesota

State of Minnesota
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June 5, 2025

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MINNCOR Industries (MINNCOR), a division of the Minnesota Department of Corrections (DOC), participates in the Prison Industry Enhancement Certification Program (PIECP). This program enables local or state prison industry programs to participate in the production and sale of prisoner-made goods in interstate commerce.

In March 2024, a legislator contacted the Office of the Legislative Auditor (OLA) with concerns that MINNCOR's contracts with two private companies, Anagram International, Inc. (Anagram) and Plastech Corporation (Plastech), were noncompliant with PIECP requirements and negatively impacting private companies and workers in their district. In the same month, DOC notified OLA of additional issues involving MINNCOR's contracts with these private companies.

In response to these concerns, OLA initiated a limited special review to examine the issues in more detail. Our review confirmed many of the observations DOC made in its March 2024 letter to OLA, including that MINNCOR's contracts with Anagram and Plastech were less profitable than they could have been had MINNCOR adopted a more appropriate approach to cost accounting. In short, MINNCOR's contracting practices undermined its self-sufficiency and resulted in less funding for services for incarcerated persons.

This special review was conducted by Lucas Lockhart, Lead Special Reviews Auditor, CFE, CAMS. DOC cooperated fully with our review, and we thank them for their assistance.

Sincerely,



Judy Randall
Legislative Auditor



Katherine Theisen
Special Reviews Director



OLA

Table of Contents

1	Introduction
2	Summary
3	Background
9	Anagram Contract and Pricing
16	Profitability of Plastech Contract
18	Discussion and Recommendations
21	Department of Corrections' Response



OLA

Introduction

Minnesota law authorizes the establishment of a statewide prison industry program known as MINNCOR Industries (MINNCOR).¹ The Minnesota Department of Corrections (DOC), through MINNCOR, may enter into contracts with private businesses for the use of incarcerated persons' (IPs') labor, including for the manufacturing and processing of goods for introduction into interstate commerce.²

To be exempt from the federal prohibition on marketing prison-made goods in interstate commerce, MINNCOR must participate in the Prison Industry Enhancement Certification Program (PIECP).³ As a PIECP participant, MINNCOR must follow numerous requirements, including (1) paying prevailing wages to IPs who are producing goods for interstate commerce, and (2) not displacing private sector workers in the locality in which PIECP operations occur.⁴

In March 2024, a legislator contacted the Office of the Legislative Auditor (OLA) with concerns about MINNCOR's participation in PIECP. Specifically, the legislator expressed concern that MINNCOR was displacing private sector jobs and paying wages to IPs that were lower than the wage rates required by PIECP. The legislator indicated that these issues involved MINNCOR's contracts with two private companies: Anagram International, Inc. (Anagram) and Plastech Corporation (Plastech).⁵



MINNCOR Industries is a division of the Minnesota Department of Corrections that uses the labor of incarcerated persons to provide contracted manufacturing and services to private sector companies, government agencies, and nonprofit organizations.

The **Prison Industry Enhancement Certification Program** is a federal program administered by the U.S. Department of Justice's Bureau of Justice Assistance that exempts local or state prison industry programs from the federal prohibition on the production and sale of incarcerated person-made goods in interstate commerce.

¹ *Minnesota Statutes* 2024, 241.27, subd. 1.

² *Ibid.*, subds. 1 and 7(a); and 243.88, subd. 2.

³ Federal law states "Whoever knowingly transports in interstate commerce or from any foreign country into the United States any goods, wares, or merchandise manufactured, produced, or mined, wholly or in part by convicts or prisoners...shall be fined under this title or imprisoned not more than two years, or both.... [T]his chapter shall not apply to goods, wares, or merchandise manufactured, produced, or mined by convicts or prisoners who...are participating in—one of not more than 50 prison work pilot projects designated by the Director of the Bureau of Justice Assistance" (18 *U.S. Code*, sec. 1761(a) and (c) (2023)). Minnesota's PIECP program is one of the prison work pilot projects authorized by federal law.

⁴ 18 *U.S. Code*, sec. 1761(c)(2) (2023); and Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, pp. 17009-17010 (1999). The U.S. Department of Justice's Bureau of Justice Assistance allows state departments of economic security to define "locality." In Minnesota, for the purposes of determining whether PIECP displaces private sector workers, the Department of Employment and Economic Development defines "locality" as the counties in which PIECP production occurs.

⁵ Anagram International, Inc., manufactures decorative balloons. In 2023 and 2024, Anagram-related production occurred at DOC facilities in Faribault, Moose Lake, Roseville, Rush City, Shakopee, and Stillwater. In 2025, Anagram-related production is occurring at DOC facilities in Faribault, Roseville, Rush City, Shakopee, and Stillwater. In March 2024, Anagram International, Inc., became Anagram International, LLC. Plastech Corporation provides injection molding services and is a contract manufacturer of plastic parts. Between 2020 and 2024, Plastech-related operations took place at the DOC facility in Rush City, Minnesota.

Also in March 2024, DOC notified OLA that it was reviewing concerns related to MINNCOR's contracts with Anagram and Plastech. In its notification and follow-up communications with OLA, DOC identified two additional issues involving its contracts with private companies: (1) MINNCOR's cost accounting practices incorrectly reduced what it charged Anagram and Plastech, and (2) MINNCOR's receipts from Plastech—per its contract with the company—were lower than the costs incurred to provide the agreed-upon services.

In response to these multiple concerns, OLA initiated a limited special review to examine these issues in more detail. Specifically, we reviewed MINNCOR's:

- Calculation of the rates it charged Anagram and Plastech for IPs' labor in recent years.
- Decision to pay some IPs working on the Anagram contract less than the prevailing PIECP wage.
- Cost accounting, including its treatment of general and administrative costs and deductions in its contracts with Anagram and Plastech.

We commend DOC for identifying issues with its cost accounting and profitability and disclosing them to OLA. Further, we are encouraged that DOC and MINNCOR have taken proactive steps to improve their processes in response to these issues. Nevertheless, we recommend that the Legislature clarify the laws that guide MINNCOR's cost accounting and assessments of profitability. As we discuss in this review, such clarification would help ensure that accurate accounting will be implemented, regardless of any DOC leadership and staffing changes in the future.

To conduct this review, we examined state and federal legal requirements for correctional industries, including requirements for the sale of prison-made goods in interstate commerce. We also reviewed U.S. Department of Justice guidelines and documentation of PIECP compliance monitoring sponsored by the U.S. Department of Justice. Finally, we examined MINNCOR's contracts with Anagram and Plastech and reviewed documentation of its pricing calculations and cost accounting.

Summary

Our review confirmed many of the observations DOC made in its March 2024 letter to OLA, including that MINNCOR's contracts with Anagram and Plastech generated less income or were less profitable than they could have been had MINNCOR adopted a more careful and inclusive approach to cost accounting. MINNCOR's contracting practices undermined its self-sufficiency and left it with less income to spend on services for IPs. Additionally, we found:

- **The national organization responsible for monitoring MINNCOR's implementation of PIECP has repeatedly determined that MINNCOR's wage policies were compliant with federal guidelines.** These policies included charging Anagram a standard hourly rate for the labor of IPs based on

the costs of paying some IPs working on the contract prevailing PIECP wages and others substantially lower wages set by DOC policy. Although compliant with federal guidelines, MINNCOR's decision to pay some IPs a non-PIECP wage undoubtedly reduced the standard rate Anagram paid for IP labor. Absent state-specific requirements to do otherwise, MINNCOR indicated that it will continue to charge Anagram a standard rate for IP labor based on the costs of both PIECP and non-PIECP wages.

- DOC deducted costs it incurred to confine IPs from the pay of IPs producing goods for Anagram and Plastech. **Rather than using these deductions to support its self-sufficiency or generate income that could have been directed to services for IPs, MINNCOR passed the value of the deductions to Anagram and Plastech in the form of a reduced standard rate.** In effect, MINNCOR subsidized Anagram and Plastech by absorbing costs that should have been paid by the companies. And, as DOC indicated in its March 2024 letter to OLA, this decision also eliminated MINNCOR's profit margin on its contract with Plastech.
- **According to MINNCOR officials, MINNCOR will no longer use costs incurred to confine IPs to offset other costs in its pricing formula.** This should increase the rate MINNCOR charges private companies for the labor of IPs. Higher standard rates may reduce the competitive advantage that private companies contracting with MINNCOR receive by using IP labor rather than the more expensive private sector labor that their competitors use.

Background

MINNCOR

As stated above, Minnesota law permits a variety of commercial activities within the state's correctional system, including the establishment of MINNCOR.⁶ By law, MINNCOR's primary purpose is:

sustaining and ensuring [its] self-sufficiency, providing educational training, meaningful employment and the teaching of proper work habits to the inmates of correctional facilities under the control of the commissioner of corrections, and not solely as competitive business ventures.⁷

Further, state law directs MINNCOR to use its net profits "for the benefit of the inmates as it relates to education, self-sufficiency skills, and transition services and not to fund non-inmate-related activities or mandates."⁸ Each year, MINNCOR must also assess

⁶ *Minnesota Statutes* 2024, 241.27 and 243.88.

⁷ *Ibid.*, 241.27, subd. 1.

⁸ *Ibid.*

how its revenue contracts with private businesses, both individually and collectively, and the money it receives from DOC for inmate confinement costs, affect its profitability.⁹

Minnesota law does not explicitly authorize nor prohibit MINNCOR's participation in PIECP. Instead, according to MINNCOR, its authority to participate in PIECP results from state statutes that permit it to enter into "revenue contracts... whenever it allows private businesses to use inmate labor."¹⁰ Minnesota law does not contain state-specific requirements for MINNCOR's participation in PIECP.¹¹ Absent specific state requirements, MINNCOR's participation in PIECP is governed primarily by federal laws and guidelines.

Prison Industry Enhancement Certification Program (PIECP)

Most products produced in correctional facilities are prohibited from entering interstate commerce. One program that permits exceptions to this prohibition is PIECP. This federal program exempts local and state correctional agencies' prison industry programs from the federal prohibition on the production and sale of prison-made goods in interstate commerce if the programs meet certain wage and employment requirements.¹²

The U.S. Congress first authorized PIECP in 1979 and extended the program indefinitely in 1990.¹³

The U.S. Department of Justice's Bureau of Justice Assistance (BJA) administers the program. Since 1995, BJA has delegated key oversight responsibilities for PIECP to the National Correctional Industries Association, a nonprofit professional association representing individuals, agencies, and businesses involved in the prison industry. For example, the association conducts reviews of PIECP programs and projects, publishes quarterly statistical reports, and provides technical support to government agencies



National Correctional Industries Association

The National Correctional Industries Association represents federal, state, county, and international correctional industry agencies, prison industry practitioners, and others with an interest in the association's mission. The association exercises key oversight authority over correctional agencies participating in PIECP.

⁹ *Minnesota Statutes* 2024, 241.27, subds. 6 and 7(b).

¹⁰ *Ibid.*, subd. 7(a).

¹¹ Without explicitly mentioning PIECP, Minnesota law requires private companies that lease space at state correctional facilities to pay IPs prevailing wages if IPs manufacture or process goods for interstate commerce (*Minnesota Statutes* 2024, 243.88, subds. 1 and 2). However, DOC does not currently lease any correctional buildings to private companies for business purposes.

¹² 18 *U.S. Code*, sec. 1761(a) and (c) (2023). Federal law also excludes from the prohibition on prison-made goods entering interstate commerce agricultural commodities; parts for the repair of farm machinery; and commodities manufactured in a federal, District of Columbia, or state institution for use by the federal government, the District of Columbia, a state or political subdivision of a state, or not-for-profit organization (18 *U.S. Code*, sec. 1761(b) (2023)).

¹³ Justice System Improvement Act of 1979, Public Law 96-157, December 27, 1979; and Crime Control Act of 1990, Public Law 101-647, November 29, 1990, codified as 18 *U.S. Code*, sec. 1761 (2023).

participating in PIECP. The association also periodically reviews state and local prison industry programs for their compliance with requirements related to wages paid to IPs and non-displacement of private sector workers.

In order for a state or local prison industry program to obtain and retain a PIECP certification, federal law requires the agency administering the prison industry program to:

- Pay IPs a wage rate that is not less than the rate paid for similar work in the locality in which the IPs are working (a “prevailing wage”).
- Deduct, in aggregate and with the agreement of IPs in advance, no more than 80 percent of IPs’ gross wages for federal, state, and local taxes; charges for room and board; contributions to victim compensation funds; and payments to support IPs’ families as determined by state law, court order, or agreement by the IPs.
- Not deny IPs employment benefits (such as workers’ compensation) made available by state and federal government to private sector employees.
- Exclude IPs from unemployment benefits.¹⁴

In 1999, BJA issued a final guideline that provided program requirements in addition to those found in federal law.¹⁵ In the following sections, we discuss requirements related to prevailing wages, non-displacement, and the classification of work for the purpose of setting wage rates.

Prevailing Wages and Non-Displacement

According to federal guidelines, state and local agencies must obtain verification from their state department of economic security, or other similar department, to demonstrate that IPs working on PIECP projects are receiving prevailing wages.¹⁶ Correctional agencies seeking to participate in PIECP must obtain the verification prior to initiating a proposed PIECP project and annually thereafter.¹⁷ The aim of



Prevailing Wage

A wage rate, typically set by a state department of economic security, that is not less than the rates paid for similar work in the locality in which the IPs are working.

¹⁴ 18 U.S. Code, sec. 1761(c)(2) and (c)(3) (2023).

¹⁵ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, pp. 17000-17014, (1999). Additionally, in December 2021, the Bureau of Justice Assistance released a compliance guide for PIECP program participants (U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance, *Prison Industry Enhancement Certification Program (PIECP) Compliance Guide* (Washington, DC: 2021)). The compliance guide did not replace or amend the PIECP guideline but was meant to provide additional information about PIECP compliance for state and local correctional agencies. In this review, we refer to the PIECP guideline as “federal guidelines” and the compliance guide as “BJA guidance.”

¹⁶ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17010 (1999).

¹⁷ *Ibid.*

this requirement is to protect the private sector labor force and private businesses from unfair competition that could occur if low-cost, prison-made goods were to enter the marketplace. In Minnesota, the state department of economic security is the Department of Employment and Economic Development (DEED). In addition to providing verification, DEED sets prevailing wages according to wage and employment data in the locality in which the PIECP project is operating.¹⁸

State and local correctional agencies seeking to participate in PIECP must also obtain written verification from their state department of economic security that their PIECP projects will not result in the displacement of private sector workers.¹⁹ Like the prevailing wage requirement, the prohibition of worker displacement is intended to protect against displacement of non-incarcerated employees of the private business participating in PIECP, as well as all other private sector workers who perform work of a similar nature in the same locality in which the PIECP project is located.²⁰



Worker Displacement

Displacement occurs when PIECP operations result in the (1) inappropriate transfer of private sector jobs or job functions to IPs; (2) employment of IPs in skills, crafts, or trades in which there is a surplus of available private sector labor in the area in which the PIECP project is located; or (3) significant impairment of existing contracts.

Each year, DEED provides MINNCOR a letter that sets the prevailing wage MINNCOR must pay on PIECP projects. DEED also verifies that MINNCOR's PIECP projects will not displace private sector workers. According to DEED, to make these determinations, the department reviews a variety of labor market trends, including:

- Minnesota's unemployment rate and the unemployment rates in each county where PIECP production occurs.
- The number of job postings in Minnesota compared to the number of unemployed workers.
- The education and training required for the occupations involved in PIECP projects.

¹⁸ Throughout the remainder of this review, we will use the terms "PIECP wage" or "PIECP rate" to refer to the "prevailing wage" for PIECP projects.

¹⁹ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17010 (1999).

²⁰ According to federal guidelines, BJA will presume noncompliance with the non-displacement requirement whenever (1) a non-IP worker's job function is replaced by a PIECP IP worker, or (2) when a non-IP worker's job function is eliminated or significantly adversely impacted, and there is an associated assumption of a similar job function by a PIECP IP worker (Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17010 (1999)). Federal guidelines indicate that this presumption may be overcome if the private business participating in the PIECP project can demonstrate that (1) non-IP workers have been retained by the private sector partner in jobs at pay rates equal to or greater than that received in the previous position, (2) non-IP employees have been provided an adequate opportunity for effective training in any new job skills, and (3) non-IP employees are being retained by the private business under reasonably similar or improved employment conditions (*Ibid*).

- Wage information from the occupations and regions involved in MINNCOR's PIECP projects.²¹

For Fiscal Year 2024, DEED concluded:

At this time, because the labor market remains so tight and because the [PIECP] program encompasses so few jobs...*there is little chance that the [PIECP] program will result in the displacement of workers in the counties in which the MINNCOR facilities are located* or the continued unemployment of job seekers in these counties. DEED is not aware of any contracts that would be impaired by this employment program [emphasis in original].²²

Classification of Work

Federal guidelines exempt some jobs from PIECP requirements.²³ For example, MINNCOR is not required to pay PIECP wages to IPs performing services, such as occasional cleaning activities that are not related to the production or transport of goods into interstate commerce. In contrast, IPs who assemble a product for sale in interstate commerce must earn a PIECP wage. Federal guidelines identify several factors corrections agencies should use to determine whether a given activity results in the production of prison-made goods that would require the correctional agencies to pay PIECP wages. The factors are:

- Has a tangible item been produced, manufactured, or mined?
- Has a tangible item been formed or transformed?
- Has the activity resulted in the creation of property or in a new, marketable item?
- Will there be transportation of IP-made goods into interstate commerce?²⁴

²¹ Oriane Casale, Assistant Director, Labor Market Information Office, Minnesota Department of Employment and Economic Development, letter to Joe Winiecki, Industry Director and PIECP Coordinator, MINNCOR Industries, June 22, 2023. In line with BJA guidance, DEED used regional wage data for the four occupations involved in PIECP to calculate the tenth percentile wage rate for each occupation. DEED then averaged the four (tenth percentile) wage rates to set the prevailing PIECP wage rate at \$12.94 for Fiscal Year 2024. For Fiscal Year 2025, DEED set the prevailing wage for PIECP projects at \$12.65.

²² *Ibid.* For Fiscal Year 2025, DEED again determined that “there is little chance that the PIE[CP] program will result in the displacement of workers in the counties in which the MINNCOR facilities are located or the continued unemployment of job seekers in these counties” (*Ibid.*, June 27, 2024).

²³ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17009 (1999).

²⁴ *Ibid.* The PIECP guideline defines “production” as “forming anew or transforming of marketable goods,” but it does not define “services” (*Ibid.*, p. 17008).

In addition to these factors, federal guidelines also explain that IPs who complete “notable tasks” must be paid PIECP wages, even if the task itself does not meet the definition of production found in federal guidelines.²⁵ Specifically, the guidelines state: “if a similarly situated, private sector company is paying wages to obtain services that are necessary to production...then the PIECP [project] must also pay such wages to the inmate provider of like services.”²⁶

When determining whether to classify a particular activity as a “notable task,” the PIECP guidelines direct agencies to consider:

- The amount of inmate time involved.
- The effort and skill necessary to accomplish the task.
- The regularity of task performance.
- Whether the task would have been performed by the inmate absent PIECP production.²⁷

In Minnesota, when IPs perform work that is not eligible for the PIECP wage determined by DEED, they are paid a wage determined by DOC. State law requires the commissioner of DOC and the wardens of DOC facilities to determine compensation according to “the quality and character of the work performed.”²⁸ According to DOC policy, wage rates for non-PIECP IP workers range between \$0.50 and \$2.00 per hour, depending on the IP’s skill, behavior, and job performance.²⁹

²⁵ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17010 (1999).

²⁶ *Ibid.* Stated differently, if private employers not using IP labor considered a particular task as necessary for production, an IP worker completing a similar task should also be paid the PIECP wage. BJA guidance further describes notable tasks as “discreet job functions” that include “indirect work and services such as janitorial, office support, shipping, and equipment maintenance” (U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance, *Prison Industry Enhancement Certification Program (PIECP) Compliance Guide* (Washington, DC: 2021), 19).

²⁷ Prison Industry Enhancement Certification Program Guideline, 64 *Federal Register*, p. 17010 (1999). Tasks that are irregular, require little effort or skill, and/or would be completed even if PIECP production were not occurring would not be eligible for PIECP wages. BJA guidance clarifies that if any IP worker is performing a notable task for two or more hours per week or if multiple workers perform the notable task for more than two hours per week on a cumulative basis, then each worker performing the notable task should receive the PIECP wage for those hours in which they perform the notable task (U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance, *Prison Industry Enhancement Certification Program (PIECP) Compliance Guide* (Washington, DC: 2021), 20).

²⁸ *Minnesota Statutes* 2024, 243.23, subd. 1.

²⁹ Minnesota Department of Corrections, Operating Policy 204.011, *Offender Advancement in MINNCOR Pay Scales*, issued August 18, 2015, 2-3; and Operating Policy 204.010, *Offender Assignment and Compensation Plan*, issued December 20, 2016, 3-5.

DOC policy also requires IPs to be able to advance to higher-wage PIECP work.³⁰ Specifically, IPs must have had two consecutive above-average quarterly job evaluations and had minimal absences from work to be eligible for participation in PIECP.³¹

Anagram Contract and Pricing

Under its contract with MINNCOR, Anagram manufactures decorative balloons at several DOC facilities. Anagram pays MINNCOR a specified rate for the hourly costs of production, including the costs of paying IPs PIECP and non-PIECP wages. MINNCOR assumes day-to-day managerial responsibilities over the production process and IP workers, while Anagram receives the output of IP labor. The specific contractual responsibilities of MINNCOR and Anagram are summarized in Exhibit 1.

On average, Anagram paid MINNCOR a “standard rate” of \$8.68 per hour of IP labor from January 4, 2023, to December 31, 2024.³² According to DOC, the standard rate paid by Anagram reflected direct labor costs, general and administrative costs, and manufacturing costs *less the costs incurred to confine IPs*. MINNCOR seeks a standard contract rate that covers the sum of these costs, plus an additional markup, so that MINNCOR can remain self-sufficient and make a profit.³³ The data MINNCOR uses for cost calculations is historical, typically one-and-a-half years of wage and hour data.³⁴

³⁰ Minnesota Department of Corrections, Operating Policy 204.011, *Offender Advancement in MINNCOR Pay Scales*, issued August 18, 2015, 2-3; and Operating Policy 204.010, *Offender Assignment and Compensation Plan*, issued December 20, 2016, 7.

³¹ Minnesota Department of Corrections, Operating Policy 204.011, *Offender Advancement in MINNCOR Pay Scales*, issued August 18, 2015, 2.

³² This “standard rate” was four different increasing rates, ranging between \$8.30 and \$9.07, each used for a six-month period during the two-year contract.

³³ A MINNCOR official explained that the size of the markup is determined by the business climate and what the market for a product will tolerate. The official said that for the Anagram contract effective January 4, 2023, to December 31, 2024, the markup was 32 percent above the rate required to cover projected costs. For the Anagram contract effective January 1, 2025, to December 31, 2026, the markup is 3.5 percent above the rate required to cover projected costs.

³⁴ For example, for the Anagram contract effective January 4, 2023, to December 31, 2024, MINNCOR used wage and hour data from Fiscal Year 2022 and the first half of Fiscal Year 2023.

Exhibit 1

MINNCOR and Anagram Contract, Effective January 4, 2023, to December 31, 2024

MINNCOR's Responsibilities	Anagram's Responsibilities
<p>MINNCOR invoiced Anagram a standard hourly rate for providing:</p> <ul style="list-style-type: none"> • IP labor directly related to the assembly and packaging of Anagram's decorative balloon products. • "Indirect" IP labor for receiving, staging, inventory counting, and shipping. • IP labor for performing non-typical operational tasks requested by the company. • Adequate workspaces for assembly and packaging operations. • Access to loading docks, warehouses, and loading/unloading equipment at DOC facilities. • Utilities and compressed air. • Routine and preventative maintenance of Anagram balloon folding equipment. • DOC staff to participate in weekly production calls. • Responses to IP wage, benefit, and work policy disputes. <p>MINNCOR also agreed to work with Anagram to determine, document, and periodically review production rates.</p>	<p>Anagram agreed to provide, among other things:</p> <ul style="list-style-type: none"> • Continuous production that employs IP workers. • All equipment and tooling required for the assembly process. • Folding machines and training for the processing of specific products. • Transportation of product to and from DOC correctional facilities. • Assistance with routine and preventative maintenance. • Technical and diagnostic support and all repairs to machines when system or mechanical failures require replacement of parts or machine recalibration or rebuilding. • Weekly production calls. • Documentation of agreed-upon production rates. • Annual production rate adjustments, if needed.

Notes: In December 2024, MINNCOR and Anagram entered into a new contract, effective January 1, 2025, to December 31, 2026. MINNCOR's and Anagram's responsibilities in the new contract are similar to the responsibilities found in the contract that was in effect in 2023 and 2024.

Source: State of Minnesota Income Contract between MINNCOR Industries, acting through the Commissioner of the Department of Corrections, and Anagram International, Inc., effective January 4, 2023, to December 31, 2024.

Direct labor costs reflect the PIECP and non-PIECP wages DOC pays IPs for their labor on the Anagram contract. General and administrative costs are costs such as MINNCOR central office staff salaries, marketing, and depreciation that MINNCOR incurred administering all of its PIECP projects. MINNCOR allocated general and administrative costs to Anagram in proportion to Anagram's share of purchases from MINNCOR as compared to total sales by the MINNCOR program. MINNCOR determined manufacturing costs by calculating the total cost of services, supplies,

repairs, tools, freight, and non-IP labor related to Anagram production over a historical period. To arrive at *per hour* costs, MINNCOR divided the sum of direct labor costs, general and administrative costs, and manufacturing costs by the total number of IP hours worked on the Anagram contract over the same historical period.

As we discuss later in this review, prior to 2025, MINNCOR offset manufacturing costs with “costs-of-confinement deductions.” Both state law and federal PIECP requirements allow corrections agencies to deduct specified expenses from IPs’ wages. State law permits DOC to “make deductions from [IPs’ earnings],” including for expenses related to IPs’ “room and board or other costs of confinement.”³⁵



Costs-of-Confinement Deductions

A deduction from IPs’ wage payments that is returned to DOC to pay for the costs of confining IPs in DOC facilities, including IPs’ law library, laundry, and recreational equipment and supplies.

Exhibit 2 shows how MINNCOR and DOC process the deductions and pay IPs’ wages. In general,

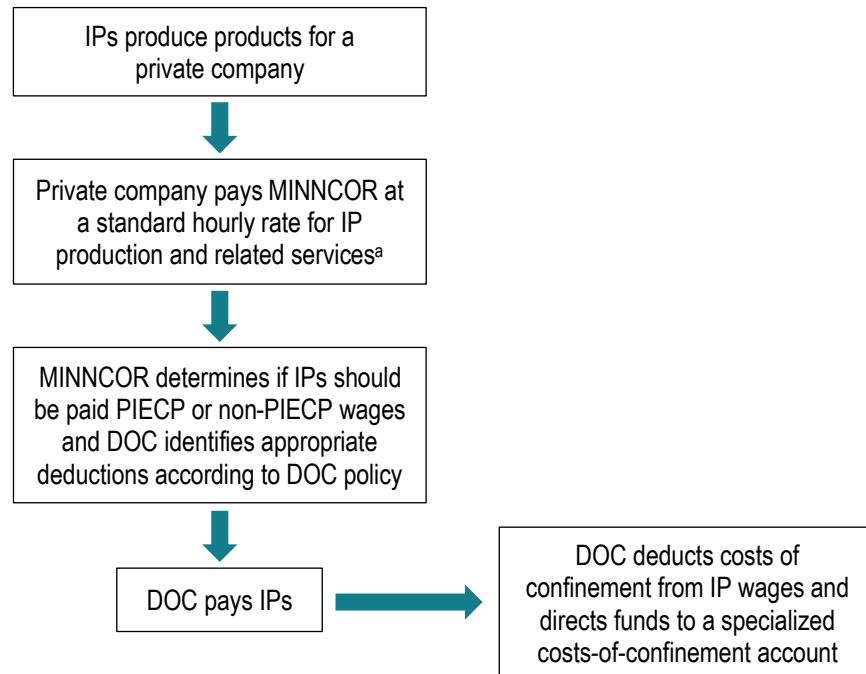
(1) MINNCOR receives revenues from private companies for the goods and services IPs provide; (2) DOC pays IPs’ wages, less costs-of-confinement deductions; and (3) DOC directs costs-of-confinement deductions to a specialized costs-of-confinement account that the department must use for the benefit of IPs (for example, laundry and recreational equipment and supplies).

In the following sections, we compare MINNCOR’s method for calculating the standard hourly rate it charged Anagram under its 2023-2024 contract with the method it recently used to calculate its 2025-2026 contract. Specifically, we discuss DOC’s and MINNCOR’s decisions to (1) pay some IPs working on the Anagram contract less than the prevailing PIECP wage, and (2) deduct the costs DOC incurred to confine IPs from IPs’ wages and then include the savings from these costs-of-confinement deductions in MINNCOR’s calculation of the standard hourly rate.

³⁵ *Minnesota Statutes* 2024, 243.23, subd. 3(6). In addition to these costs-of-confinement deductions, state law permits DOC to make other types of deductions from IP wages, such as those for federal and state taxes; support for families and dependents of IPs; court-ordered restitution to victims; contributions to crime victim reparation funds; and payments of fines and fees assessed by a court (*Minnesota Statutes* 2024, 243.23, subd. 3). Federal law permits many of the same or similar deductions from PIECP wages (18 *U.S. Code*, sec. 1761(c)(2) (2023)). Both federal law and DOC policy limit how much can be deducted from IPs’ wages. Federal law limits deductions to 80 percent of PIECP workers’ gross wages (18 *U.S. Code*, sec. 1761(c)(2) (2023)). DOC policy states that deductions (1) cannot exceed 50 percent of non-PIECP gross wages with some exceptions, and (2) are limited to between 60 and 76 percent of PIECP worker’s gross pay, depending on the IP’s level of experience and job performance (Minnesota Department of Corrections, Operating Policy 300.100, *Offender/Resident Accounts*, effective April 21, 2020).

Exhibit 2

Summary of DOC and MINNCOR's Process to Pay IPs' Wages and Deduct Expenses



^a This revenue is held in a revolving fund dedicated to MINNCOR, as established by *Minnesota Statutes* 2024, 241.27, subd. 2.

Source: Office of the Legislative Auditor, based on communications with MINNCOR's Chief Executive Officer and the Commissioner of the Department of Corrections, DOC policy, and state law.

Wages

As discussed previously, a legislator contacted OLA with concerns that, under MINNCOR's contract with Anagram, IPs' wages were too low to be compliant with PIECP requirements. The legislator was also concerned that these low wages enabled MINNCOR to reduce the standard rate it charged Anagram to a level that disadvantaged a private company competing with MINNCOR to provide Anagram with packaging services.

According to a MINNCOR official, it pays IPs the PIECP wage if they produce a good for interstate commerce or provide a service that is necessary for the production of a good for interstate commerce. When IPs provide services that are not necessary for production, MINNCOR pays IPs a non-PIECP wage.

For example, in Fiscal Year 2024, IPs who added a ribbon or weights to a balloon or connected balloons together were engaged in production and paid the PIECP wage of \$12.94 per hour. Similarly, IPs who packaged balloons produced by IPs at a DOC facility were performing a service in support of production and were also paid \$12.94 per hour. In contrast, IPs who folded or packaged balloons that were *not* produced by IPs at a DOC facility were performing a service, and since this service was not supporting IP production, they were paid the average non-PIECP wage of \$0.90 per hour. A senior MINNCOR official told us that MINNCOR "defaulted" to classifying

job tasks as eligible for PIECP wages whenever there was uncertainty about how a particular work assignment should be compensated.

The national organization responsible for monitoring MINNCOR's implementation of PIECP has repeatedly determined that MINNCOR's wage policies were compliant with federal guidelines.

MINNCOR's classification of job tasks into PIECP and non-PIECP work has been "repeatedly reviewed and approved" during "assessments of MINNCOR's operations by BJA-sponsored assessors."³⁶ We reviewed documentation related to BJA-sponsored assessments of MINNCOR's participation in PIECP conducted between 2012 and 2023 and agree that the National Correctional Industries Association has consistently determined that MINNCOR's wage practices were compliant with PIECP requirements.³⁷

Regardless of the type of wage paid, MINNCOR incorporates wage costs into the standard hourly rate it charges private companies for the use of IP labor. The standard hourly rate MINNCOR charged Anagram for IP labor accounted for both (1) the wage rate DOC paid IPs for all work related to the production of balloon decorations for interstate commerce, as governed by PIECP, and (2) the wage rate DOC paid to IPs for services that were not necessary to the production of balloon decorations for interstate commerce, as governed by DOC policy.

While compliant with federal guidelines, MINNCOR's decision to pay some IPs a non-PIECP wage undoubtedly reduced the standard rate Anagram paid for IP labor.³⁸ Absent state-specific requirements to do otherwise, MINNCOR will continue to charge Anagram a standard hourly rate based on both PIECP and non-PIECP wages.

Costs-of-Confinement Deductions

As stated earlier, Minnesota statutes require MINNCOR to be self-sufficient and to direct net profits to services for IPs.

As DOC disclosed to OLA in March 2024, MINNCOR's practice of offsetting manufacturing costs with costs-of-confinement deductions undermined its ability to meet state requirements related to self-sufficiency and profitability.

In Exhibit 3, we demonstrate using a hypothetical example how the standard rate for the Anagram contract differs depending on MINNCOR's decision to offset, or not offset, manufacturing costs with costs-of-confinement deductions.

³⁶ Paul Schnell, Commissioner, Minnesota Department of Corrections, letter to Lucas Lockhart, Lead Special Reviews Auditor, Office of the Legislative Auditor, *Re: Office of the Legislative Auditor Request for information dated April 22, 2024*, May 20, 2024.

³⁷ During this limited special review, we did not independently observe Anagram-related production at DOC facilities, nor did we audit MINNCOR payroll records to determine whether MINNCOR accurately classified jobs as eligible or ineligible for PIECP wages.

³⁸ Using data from Fiscal Year 2024, MINNCOR's decision to pay both PIECP and non-PIECP wages rather than only PIECP wages reduced the standard rate from \$14.08 to \$6.68 per hour of IP labor. These hypothetical standard rates assume that MINNCOR deducted costs of confinement from contract costs and did not apply a markup over the costs of production.

Exhibit 3

MINNCOR Calculations

MINNCOR calculated **direct labor costs**, **general and administrative costs**, and **manufacturing costs** on an hourly basis for inclusion into the pricing formula it used to determine the standard contract rate charged to Anagram.

1

MINNCOR calculated **hourly direct labor costs** at both the PIECP and non-PIECP wage rate in Fiscal Year 2024 and then combined them for total labor costs for PIECP production:

$$\begin{aligned} \text{Total labor costs of Anagram production in FY2024: } & \$4,607,775 \\ \text{Total hours worked by IPs on Anagram contract in FY2024: } & 831,423 \\ \$4,607,775 \div 831,423 = & \text{\$5.54 per hour of IP labor} \end{aligned}$$

2

MINNCOR calculated **hourly general and administrative costs** using sales data from Fiscal Year 2024:

$$\begin{aligned} \text{Anagram sales as a percentage of total MINNCOR sales in FY2024:} \\ \$6,978,984 \text{ (Anagram sales)} \div \$47,614,956 \text{ (total MINNCOR sales)} &= 14.7 \text{ percent} \\ \text{General and administrative (G\&A) costs allocated to Anagram in FY2024:} \\ \$9,438,222 \text{ (G\&A costs for all MINNCOR sales in FY2024)} \times 0.147 &= \$1,387,419 \\ \text{G\&A costs allocated to Anagram per hour of IP Anagram work in FY2024:} \\ \$1,387,419 \div 831,423 \text{ hours} &= \text{\$1.67 per hour} \end{aligned}$$

$$\begin{aligned} \text{Total direct labor and G\&A costs:} \\ \text{\$5.54} + \text{\$1.67} &= \text{\$7.21 per hour} \end{aligned}$$

3

A

**Previous (Pre-2025) Method:
Cost-of-Confinement
Deductions Included**

MINNCOR determined **hourly manufacturing costs** by (1) calculating total manufacturing costs for all Anagram-related production in Fiscal Year 2024, (2) offsetting those costs with costs-of-confinement deductions from Fiscal Year 2024, and (3) dividing total net manufacturing costs by total hours worked by all IPs at both PIECP and non-PIECP wage rates on the Anagram contract in Fiscal Year 2024.

Manufacturing costs for all MINNCOR PIECP production in FY2024: \$1,923,435

Costs-of-confinement deductions: \$2,361,758

Total manufacturing costs in FY2024:
\$1,923,435 – \$2,361,758 = **\$(438,350)**

Total manufacturing costs per hour worked on Anagram Contract in FY2024:
\$(438,350) ÷ 831,423 hours = **\$(0.53) per hour***

* Negative number means this “cost” will reduce rather than increase the rate MINNCOR charges Anagram.

3

B

**Current Method:
Cost-of-Confinement
Deductions Excluded**

MINNCOR determined **hourly manufacturing costs** by (1) calculating total manufacturing costs for all Anagram-related production in Fiscal Year 2024, and (2) dividing total manufacturing costs by total hours worked by all IPs at both PIECP and non-PIECP wages on the Anagram contract in Fiscal Year 2024.

Manufacturing costs for all MINNCOR PIECP production in FY2024: \$1,923,435

Costs-of-confinement deductions: Excluded

Total manufacturing costs in FY2024:
\$1,923,435

Total manufacturing costs per hour worked on Anagram Contract in FY2024:
\$1,923,435 ÷ 831,423 hours = **\$2.31 per hour**

Exhibit 3

MINNCOR Calculations (continued)

<div>4</div> MINNCOR Pricing Formulas (Previous and Current Methods Compared)			
To determine the standard rate necessary to cover the costs of its contract with Anagram, MINNCOR added together the costs calculated in the previous steps:			
<div>A</div> Previous (Pre-2025) Method: Costs-of-confinement deductions <i>included</i> in manufacturing costs		<div>B</div> Current Method: Costs-of-confinement deductions <i>excluded</i> from manufacturing costs	
IP Direct Labor Costs	\$ 5.54	IP Direct Labor Costs	\$5.54
General and Administrative Costs	\$ 1.67	General and Administrative Costs	\$1.67
Manufacturing Costs	<u>\$(0.53)</u>	Manufacturing Costs	<u>\$2.31</u>
Standard Hourly Rate	\$ 6.68	Standard Hourly Rate	\$9.52

Notes: This exhibit presents hypothetical calculations of the standard rate for the purpose of comparing how the underlying rate differs depending on MINNCOR's decision to offset, or not offset, manufacturing costs with costs-of-confinement deductions. In recent years, MINNCOR has included a markup above the standard rate. Since the size of the markup is determined by negotiations between MINNCOR and Anagram, the business climate, and market conditions, we did not include a markup in the examples above. For the Anagram contract effective January 4, 2023, to December 31, 2024, the average standard rate of \$8.68 per hour of IP labor included a roughly 30 percent markup. For the Anagram contract effective January 1, 2025, to December 31, 2026, the standard rate of \$10.40 per hour of IP labor included a 3.5 percent markup.

Source: Office of the Legislative Auditor, analysis of MINNCOR wage, hour, sales, and cost data.

As shown in steps 3A and 3B of Exhibit 3, if MINNCOR were to include the costs-of-confinement deductions in its calculations, as it did prior to 2025, the deductions would reduce the manufacturing costs of Anagram-related production. For example, based on wage and hour data from Fiscal Year 2024, MINNCOR's roughly \$2.4 million in costs-of-confinement deductions negated its manufacturing costs. Instead, MINNCOR's treatment of these deductions caused manufacturing costs to show up in the calculations as *income* of roughly \$438,000. If MINNCOR had excluded costs-of-confinement deductions from its calculations, manufacturing costs would have accounted for nearly \$2 million in *expenses*. Using costs-of-confinement deductions to offset manufacturing costs reduced the standard rate MINNCOR charged Anagram for IP labor from \$9.52 to \$6.68 per hour (see steps 4A and 4B in Exhibit 3), a decrease of 30 percent.³⁹

Stated differently, when MINNCOR offset its manufacturing costs with costs-of-confinement deductions, as it did prior to 2025, it passed on the value of the deductions to Anagram in the form of a reduced standard rate. In effect, MINNCOR subsidized Anagram by absorbing manufacturing costs that should have been paid by the company.

MINNCOR's use of costs-of-confinement deductions to offset manufacturing costs decreased the standard contract rate it charged to Anagram by 30%, based on Fiscal Year 2024 wage and hour data.

³⁹ This assumes direct labor, general, and administrative costs remain the same and does not account for the markup above required costs that MINNCOR typically negotiates with private sector businesses.

DOC came to similar conclusions when it notified us in March 2024 of its concerns about MINNCOR's cost accounting and profitability. The department stated that MINNCOR's use of costs-of-confinement deductions to offset manufacturing costs for the 2023-2024 Anagram contract "decrease[d] the hourly rate ultimately paid to MINNCOR."⁴⁰ DOC stated that this approach to calculating manufacturing costs appeared "inconsistent with the statutory intent that MINNCOR's industrial and commercial activities sustain and ensure MINNCOR's self-sufficiency."⁴¹ Had MINNCOR not passed on the value of costs-of-confinement deductions to Anagram in the form of a lower standard rate, it could have earned more money through the contract to support its financial self-sufficiency and pay for services for IPs, as required by state law.⁴²

Profitability of Plastech Contract

In its March 2024 notification to OLA, DOC also disclosed that its income from its contract with Plastech was less than the costs it incurred to provide the contracted services. Under the contract, IPs at the DOC facility at Rush City provided Plastech with product assembly and manufacturing services. Plastech trained and supervised the IP workforce and provided production planning. MINNCOR retained responsibility for hiring, firing, and paying IPs. MINNCOR charged Plastech a standard contract rate of \$8.77 per hour of IP labor from January 2022 until the beginning of April 2024.

As DOC reported to OLA, MINNCOR did not account for all of its costs in its contract with Plastech, leading it to believe the contract was profitable when it was not.

MINNCOR calculated the standard rate for its contract with Plastech differently than how it calculated the rate for its contracts with Anagram. Specifically, MINNCOR:

- Calculated labor costs based on the cost of paying IPs only PIECP wages, rather than both PIECP and non-PIECP wages, regardless of the type of work performed.
- Excluded general and administrative costs.
- Did not include manufacturing costs in its pricing formula because Plastech, rather than MINNCOR, assumed the costs of providing supervisory staff for production oversight.⁴³

⁴⁰ Paul Schnell, Commissioner of the Minnesota Department of Corrections, letter to Judy Randall, Legislative Auditor, "Re: Notification Under Minn. Stat. § 3.971, subd. 9," March 8, 2024.

⁴¹ *Ibid.*

⁴² This assumes, however, that Anagram would have remained willing to contract with MINNCOR despite MINNCOR charging a higher standard rate for IP labor.

⁴³ DOC stated that Plastech's provision of supervisory staff for production oversight "dramatically reduce[d] the direct manufacturing overhead costs as compared to those seen [when] MINNCOR provides supervisory staff" (Paul Schnell, Commissioner of the Minnesota Department of Corrections, letter to Judy Randall, Legislative Auditor, "Re: Notification Under Minn. Stat. § 3.971, subd. 9," March 8, 2024). For example, in Fiscal Year 2024, when MINNCOR provided supervisory staff to oversee production on its Anagram contract, non-IP labor costs made up 99 percent of manufacturing costs on the contract.

Similar to the Anagram contracts, MINNCOR deducted the costs of confinement from IPs' wages.

MINNCOR's decision to pay only PIECP wages led it to set a standard rate in its most recent contract with Plastech that was higher than it would have been had it paid both PIECP and non-PIECP wages. However, MINNCOR's exclusion of general and administrative costs—and deduction of the costs of confinement—lowered the standard rate it charged Plastech. A MINNCOR official told us that MINNCOR did not consider general and administrative costs when it set the contract rate because its practice of using costs-of-confinement deductions made the Plastech contract appear profitable.

Exhibit 4

Profitability of Plastech Contract Under Different Cost Models, Fiscal Year 2024

	(1)	(2)	(3)	(4)
	G&A costs excluded and confinement costs deducted	G&A costs included and confinement costs deducted	G&A costs excluded and confinement costs <i>not</i> deducted	G&A costs included and confinement costs <i>not</i> deducted
Plastech contract rate ^a	\$ 8.77	\$ 8.77	\$ 8.77	\$ 8.77
PIECP wage rate ^b	\$(12.94)	\$(12.94)	\$(12.94)	\$(12.94)
Costs-of-confinement deductions ^c	\$ 5.63	\$ 5.63	\$ –	\$ –
G&A costs ^d	\$ –	\$ (1.90)	\$ –	\$ (1.90)
Profit to MINNCOR	\$ 1.46	\$ (0.44)	\$ (4.17)	\$ (6.70)

Notes: According to DOC, Plastech provided supervisory staff and production oversight, which reduced DOC's direct manufacturing costs. As a result, manufacturing costs were excluded from the table above. Profitability figures in the table are based on data from Fiscal Year 2024.

^a MINNCOR charged Plastech \$8.77 per hour of IP labor. "Plastech contract rate" includes an additional markup above the rate MINNCOR needs to cover its costs so that it can remain self-sufficient and make a profit.

^b DEED set the PIECP wage rate using wage information from the five counties in which MINNCOR facilities are located. The weighted average of the tenth percentile wage for the four occupations involved in MINNCOR's PIECP projects was \$12.94.

^c "Costs-of-confinement deductions" represent money deducted from IP wages and retained by DOC to cover costs such as IPs' law library, laundry, and recreational equipment and supplies.

^d "G&A costs" are DOC's general and administrative costs associated with the contract.

Source: Office of the Legislative Auditor, analysis of financial data provided by DOC.

Using contract data from Fiscal Year 2024, we demonstrate in Exhibit 4 above why MINNCOR's cost accounting and treatment of costs-of-confinement deductions led it to draw incorrect conclusions about the profitability of its contract with Plastech.

Specifically, the profitability of the contract depended on two MINNCOR decisions: (1) including costs-of-confinement deductions, and (2) excluding general and administrative costs (see column (1) in Exhibit 4). Absent one or both of these conditions, the Plastech contract was no longer profitable. For example, as shown in column (4), when costs-of-confinement deductions are no longer used to offset costs and MINNCOR recognizes general and administrative costs, the Plastech contract imposes a loss on MINNCOR of \$6.70 per hour. According to a senior DOC official, moving forward, the department will exclude costs-of-confinement deductions and include general and administrative costs when setting standard rates so that the rate covers all contract costs.

The Plastech contract imposed a
loss on DOC of
\$6.70
per hour of IP labor

The unprofitability of the Plastech contract was not isolated to Fiscal Year 2024. MINNCOR's monthly income statements associated with the Plastech contracts show that from fiscal years 2020 to 2024, the value of costs-of-confinement deductions was larger than the net income for each fiscal year, indicating that the Plastech contracts had actually been unprofitable for MINNCOR. Further, in those same fiscal years, MINNCOR's net income calculations did not account for general and administrative costs.

In addition to concerns about MINNCOR's cost accounting, the profitability of its contract with Plastech was also reduced because MINNCOR did not adjust the contract rate in response to an increase in IP wages. A MINNCOR official explained that when DEED sets the prevailing wage each July, MINNCOR should raise PIECP wages to match the prevailing wage. However, according to the same MINNCOR official, MINNCOR should also raise the contract rate in proportion to the increase in the PIECP wage in order to cover the additional labor costs, but this did not always happen for the Plastech contract. The official suggested that income from costs-of-confinement deductions obscured the fact that contract costs were outpacing revenues. The official stated that once the deductions were removed, it became clear that the Plastech contract was not profitable to MINNCOR.

Discussion and Recommendations

In 2009, OLA released a program evaluation report regarding MINNCOR.⁴⁴ The report raised concerns about MINNCOR's profitability and the accuracy and completeness of its financial reporting, including its accounting of IP wage costs and costs-of-confinement deductions. That same year, the Legislature enacted new requirements related to MINNCOR's financial reporting and management, including that MINNCOR must:

- Include the full costs for IPs' wages in its annual reports.
- Disclose how the money it receives from DOC for IPs' confinement costs affects its overall profitability.

⁴⁴ Office of the Legislative Auditor, Program Evaluation Division, *MINNCOR Industries* (St. Paul, 2009).

- Assess how its revenue contracts with private businesses, both individually and collectively, affect its profitability.⁴⁵

Our review of MINNCOR's monthly budget documentation, annual reports, and financial statements for fiscal years 2020 through 2024 indicated that MINNCOR has complied with these requirements. However, after a legislator raised questions with DOC regarding its compliance with federal PIECP requirements, the department reconsidered whether its financial management and contracting practices allowed it to meet its business and policy goals to the maximum extent possible. Specifically, as discussed above, DOC found that MINNCOR's use of costs-of-confinement deductions to offset manufacturing costs and its decision not to consider all contract costs had undermined its self-sufficiency and led it to make inaccurate assessments of contract profitability.

State statutes provide no specific requirements concerning how MINNCOR should set standard contract rates or assess the profitability of individual contracts.

Statutes are silent on (1) which costs must be included in assessments of the profitability of individual contracts, and (2) whether MINNCOR should consider costs-of-confinement deductions when assessing the profitability of individual contracts with private companies. Absent explicit legal requirements to do otherwise, MINNCOR's assessment of the Plastech contracts ignored general and administrative costs and used costs-of-confinement deductions to offset contract costs. Both practices made the Plastech contracts appear profitable to MINNCOR when they were not.

In DOC's March 2024 notification to OLA and follow-up communications with our office, DOC and MINNCOR officials described the actions they and their staff have taken or plan to take to improve their contract management practices. DOC and MINNCOR officials confirmed that, moving forward, MINNCOR will discontinue the use of costs-of-confinement deductions to offset contract costs. Evidence of this change in practice can be found in MINNCOR's new contract with Anagram, finalized in December 2024. In contrast to the \$8.68 average standard rate found in MINNCOR's 2023-2024 contract, the average standard rate for the current contract is \$10.40 per hour of IP labor.⁴⁶ MINNCOR confirmed that this increase in the standard rate is largely the result of its new practice of excluding costs-of-confinement deductions from its manufacturing cost calculations. As mentioned previously, the standard rate in the new contract reflects the payment of both PIECP and non-PIECP wage rates.

MINNCOR's current contract with Anagram will charge the company a standard rate that is **20% higher** than the average rate found in MINNCOR's previous contract with the company

⁴⁵ *Laws of Minnesota* 2009, chapter 83, art. 3, secs. 8 and 9, codified as *Minnesota Statutes* 2024, 241.27, subds. 6 and 7(b).

⁴⁶ MINNCOR's current contract indicates that Anagram should pay it \$10.05 per hour of IP labor from January 1, 2025, to December 31, 2025, and \$10.75 per hour of IP labor from January 1, 2026, to December 31, 2026.

According to DOC, after MINNCOR became aware that its contract with Plastech was unprofitable, it attempted to renegotiate the contract with the company. A MINNCOR official explained that Plastech believed MINNCOR's new proposed standard rate, which accounted for general and administrative costs and excluded costs-of-confinement deductions, was too high, and the company exited its relationship with MINNCOR.

In addition to these changes related to the Anagram and Plastech contracts specifically, a senior DOC official told us that the department has made broader changes to its contracting process, including:

- Placing MINNCOR's financial and procurement activities under the oversight of DOC's chief financial officer.
- Requiring future MINNCOR contract proposals to private companies to undergo a multi-level review for compliance with PIECP requirements and DOC policies.
- Directing DOC's inspector general to assign a fiscal control specialist to review MINNCOR's agreements with private companies.

We are encouraged by the steps DOC and MINNCOR have taken or plan to take to improve their contract management practices and ensure contract profitability. However, the consistent implementation of these updated policies should not be dependent on current leadership and institutional memory. We suggest that the Legislature consider taking steps to codify its expectations concerning MINNCOR's contract profitability and financial reporting in law.

RECOMMENDATIONS

The Legislature should establish requirements for how MINNCOR:

- **Calculates the rates it charges private businesses.**
 - **Assesses the profitability of individual contracts with private businesses.**
-

It would be helpful if the Legislature, in consultation with DOC and MINNCOR, specified how MINNCOR should calculate standard rates to ensure that the contracts it enters into are profitable. For example, the Legislature could require MINNCOR to (1) account for all labor, manufacturing, general, and administrative costs when setting standard contract rates, and (2) not use income from costs-of-confinement deductions to offset contract costs in a way that subsidizes private companies or makes unprofitable contracts appear profitable. Finally, the Legislature could consider requiring MINNCOR to disclose the profitability of each of its contracts with private companies in its annual reports. By clarifying these issues, the Legislature could better ensure that MINNCOR's contracts with private companies support its self-sufficiency and generate income that can be directed to services for IPs, as required by law.

May 21, 2025

Ms. Judy Randall, Legislative Auditor
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155-1603

Dear Ms. Randall:

Thank you for the work that you and your team have done in reviewing MINNCOR Industries' contracting practices for interstate commerce over the past several months. The Minnesota Department of Corrections (DOC) has reviewed your findings and recommendation and we are in substantive agreement.

The DOC appreciates that the report acknowledges that MINNCOR has already implemented procedural changes and policy updates to improve costing accuracy. We also appreciate that your report recognizes that the DOC and MINNCOR have already taken affirmative steps to improve contract management processes and ensure contract profitability.

The DOC appreciates the report's acknowledgement that the national organization responsible for monitoring the implementation of the Prison Industry Enhancement Certification Program (PIECP) has consistently determined that MINNCOR's wage policies comply with federal guidelines – affirming our commitment to meeting operational expectations and legal requirements.

To help fulfill the Department of Corrections' mission to *transform lives for a safer Minnesota*, MINNCOR must maintain market competitiveness in order to offer work readiness opportunities, job training, and meaningful daily activities for the incarcerated persons we serve. We recognize that the need to remain competitive does not overshadow MINNCOR's statutory obligation to operate self-sufficiently. Striking the right balance between these objectives is essential to sustaining the more than 1,100 work assignments currently offered to incarcerated persons served within our correctional facilities. As the report recognizes, there is a need to be mindful of the reality that pronounced increases in the costs charged to MINNCOR customers could impact existing business relationships, thereby impacting available work assignments for the people we serve.

We appreciate your thoughtful analysis and recommendations. Thank you again for the opportunity to provide our response. The DOC values your evaluation, and we look forward to future discussions to enhance clarity on rate calculations and contract profitability in keeping with MINNCOR's self-sufficiency obligation.

Sincerely,



Paul Schnell, Commissioner
Minnesota Department of Corrections



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