



PRIDE Is Tightening Its Business Practices but Needs Greater Transparency

at a glance

PRIDE has increased its sales over the past three years and has improved its product quality. PRIDE has had limited success expanding state government and private sector sales, but has increased sales to local governments and nonprofit organizations. However, due to the growth in the inmate population, the percentage of inmates that PRIDE employs has remained relatively low at 2.5% of the inmate population.

PRIDE has severed relationships with its affiliate and subsidiary companies. However, PRIDE has suffered losses of nearly \$19 million owed by these former affiliated businesses. PRIDE has since added internal risk assessment measures to better control the risk of new business ventures.

To ensure transparency of PRIDE's operations, the Legislature should consider revising s. 946.516, *Florida Statutes*, to require that PRIDE submit an annual internal control report that adheres to national internal audit standards.

Scope

In accordance with s. 11.51(6), *Florida Statutes*, this progress report informs the Legislature of actions PRIDE has taken since our 2003 report.¹

Background

The Legislature created Prison Rehabilitative Industries and Diversified Enterprises (PRIDE) in 1981 as a private, non-profit corporation to lease and manage the state prison industries program.²

PRIDE's mission, as defined in s. 946.501, *Florida Statutes*, is to

- reinforce relevant education, training, and post-release job placement to inmates to help reduce recidivism;
- enhance security by reducing inmate idleness and providing an incentive for good behavior in prison;
- reduce the cost of state government by operating enterprises primarily with inmate labor while not unreasonably competing with private enterprise; and

¹ *PRIDE Benefits the State But Needs to Improve Transparency in Operations*, OPPAGA [Report No. 03-68](#), December 2003.

² Previously, the Department of Corrections operated the state's prison industries.

- rehabilitate inmates by duplicating, as nearly as possible, the activities of a profit-making enterprise.

PRIDE supports the state correctional system in several ways by reducing inmate idleness, providing incentives for good behavior, facilitating payment of restitution, and providing useful vocational skills to inmates that may help to reduce recidivism.

In 2005, PRIDE operated 36 industries, including raising dairy calves, building office furniture, providing printing and document imaging services, and manufacturing service garments.³ (Appendix A describes PRIDE's 36 industries.)

Current Status

PRIDE has made progress addressing the issues raised in our previous reports, although it did not fully implement all of our recommendations. Since our report, PRIDE has increased sales, but has not increased workstations commensurate with increased sales. PRIDE has worked with state agency purchasing officers to identify products and improve customer service. However, PRIDE has not yet successfully worked with Enterprise Florida to find ways to increase business with the private sector. PRIDE has severed its ties with its former subsidiaries to eliminate conflicts of interest, but it lost nearly \$19 million from its association with these entities. PRIDE has added risk assessment and internal control measures to better assess the risk of new business ventures.

While PRIDE has increased sales and improved product quality, it has had limited success expanding private sector sales

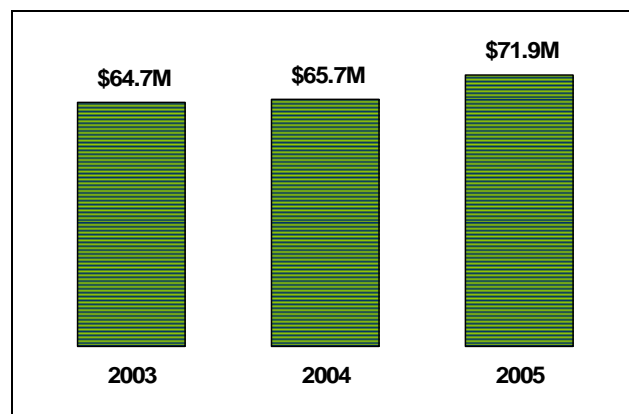
Our 2003 report concluded that PRIDE programs enhance prison security and increase opportunities for inmates to find gainful employment upon release. However, PRIDE

sales had been falling, as had the number of workstations. We recommended that PRIDE

- increase sales to generate funds for more workstations;
- work with state and local government purchasing officers to identify goods and services that PRIDE could produce for them;
- refine customer service and quality control to remedy customer complaints; and
- work with Enterprise Florida to identify ways that PRIDE programs could be used to enhance the attractiveness of the state to business and increase PRIDE sales.

PRIDE's sales have increased but its proportion of workstations to inmates has declined slightly. According to PRIDE's executives, PRIDE's ability to increase workstations is dependent on its sales. Over the last four years, PRIDE has been successful selling its products. As shown in Exhibit 1, PRIDE sales grew 10% between 2003 and 2005. To fulfill these increased product orders, PRIDE increased the number of inmate hours worked during this period by 12%, from 3.6 million hours in 2002 to 4.1 million hours in 2005.

Exhibit 1
PRIDE Sales Have Increased in Recent Years



Source: PRIDE.

³ The required skill and educational levels vary across industries as well as by position, though most PRIDE jobs require at least a sixth-grade education. All industries provide job-specific training.

As shown in Exhibit 2, PRIDE also has increased its inmate workstations slightly in recent years, from 2,049 to 2,117. Workstations are the number of inmates that can be employed at any time. However, due to the growth in the inmate population, the proportion of workstations to inmates fell slightly over this period. Compared to other states' prison industry programs, PRIDE has a lower proportion of workstations to inmates. The National Correctional Industries Association reports that of states with the highest numbers of inmates in 2005, the nationwide proportion of state prison industry workstations to inmates is approximately 3.7%, compared to 2.5% in Florida.⁴

Exhibit 2 The Proportion of PRIDE Workstations to Inmates Has Declined in Recent Years

Calendar Year	Total Inmate Population ¹	Number of PRIDE Workstations ²	Proportion of Workstations to Inmates
2003	77,316	2,049	2.7%
2004	81,974	1,990	2.4%
2005	84,901	2,117	2.5%

¹ The number of inmates who actually work in a year is greater than the number of work stations because more than one inmate may use a workstation during the course of a year.

² Not every inmate is eligible to work in PRIDE industries. Mental or physical illness, lack of skills, and disciplinary problems exclude some inmates from eligibility.

Source: Florida Department of Corrections; PRIDE.

The number of PRIDE's inmate workstations has not grown commensurate to sales for two reasons. First, PRIDE has upgraded its manufacturing technology, which has allowed inmates to produce more products at individual workstations. Second, PRIDE has employed workers at more than one shift at some workstations and increased work hours per shift at other workstations. While these actions improved productivity, they did not expand the proportion of workstations to inmates.

⁴ This ratio is the median calculated for the top 16 states ranked by inmate population. The ratio is approximate because the correctional industries in some states report numbers of inmates employed, while the industries in other states, including PRIDE, report only numbers of workstations.

PRIDE has increased sales to state agencies and addressed product and customer service concerns. PRIDE has increased overall sales by increasing its business in both the state government and non-state/not-for profit market sectors, as shown in Exhibit 3. PRIDE's sales to the private sector have grown slowly.

To increase sales to state agencies, PRIDE has implemented our recommendation to work with the Department of Management Services (DMS) and agency purchasing officers to identify goods and services that it can provide at a competitive price. To aid in this effort, in February 2005, PRIDE entered into a contract with DMS' Division of State Purchasing to oversee quality testing and cost comparability and to approve new product lines and price increases. DMS also acts as a liaison to resolve disputes between PRIDE and state agencies, and it lists PRIDE products on MyFloridaMarketPlace, the state's electronic purchasing system.

Exhibit 3 PRIDE Sales Are Highest to State Government¹

Market Sector	2003	2004	2005
State Government	\$33.7	\$33.5	\$36.0
Non-State/Not-for-Profit	14.2	14.5	18.0
Private Sector	16.8	17.7	17.9

¹ Values expressed in millions of dollars.

Source: PRIDE.

PRIDE also has addressed prior state agency concerns with the quality of its products. In recent years, PRIDE has implemented several initiatives to improve product quality, including strengthening internal quality control processes at each industry, contracting for independent lab quality compliance tests of specific products, modernizing and replacing equipment, and hiring experienced personnel with specialized skills and knowledge in PRIDE industries. DMS reports that PRIDE's performance has improved and that disputes between PRIDE and purchasing authorities are usually resolved quickly. In addition, DMS indicates that PRIDE's prices are usually competitive and its product quality is generally comparable to that of other vendors.

PRIDE faces challenges increasing sales to the private sector. While PRIDE has increased overall sales, it continues to have difficulty expanding sales to the private sector. As seen in Exhibit 3, from 2003 to 2005 PRIDE has increased sales to the private sector by 7% compared to a 26% increase in sales to the non-state/not-for-profit sector.

PRIDE faces several challenges in promoting sales to private sector entities. Some private companies do not see an incentive to do business with PRIDE because of prison industry workforce and production limitations. For example, PRIDE cannot guarantee a stable workforce because the Department of Corrections rotates inmates or transfers them for security purposes. Transfers interrupt production and threaten on-time completion of orders. Also, due to department security priorities, PRIDE cannot guarantee rapid transportation or stock inventory. As a result, PRIDE may not be able to deliver on-time or provide goods as quickly as other private sector businesses, which hinders its ability to expand sales to the private sector.

As we recommended, PRIDE has held discussions with Enterprise Florida to identify ways that it can develop private sector business opportunities in Florida. However, Enterprise Florida and the Governor's Office of Tourism, Trade, and Economic Development (OTTED) have not aggressively promoted PRIDE as they believe that supporting PRIDE conflicts with the Governor's focus on promoting a competitive business climate and creating jobs for Florida citizens. PRIDE should continue to work with Enterprise Florida and OTTED to inform them of the services it can provide to Florida's manufacturing and service companies.

PRIDE is exploring opportunities with the federal Prison Industries Enhancement (PIE) Program, through which PRIDE may be able to supply inmate labor to private companies as an alternative to contracting the labor from foreign

countries.⁵ PRIDE can offer a cost-effective workforce for industries that require labor intensive work. PRIDE holds a PIE certificate, and can subcontract with private companies to provide inmate workers for production that might otherwise be subcontracted outside of the United States. Such an arrangement would benefit the state, as business would remain in the United States and maintain local jobs, as well as provide greater work opportunities for inmates.

PRIDE is tightening its business practices, but lost nearly \$19 million to former affiliated businesses

At the time of our 2003 report, PRIDE had revised its corporate structure to create several subsidiary for-profit and not-for-profit corporations. These included Industries Training Corporation (ITC), a non-profit corporation, which managed PRIDE's prison work programs and provided administrative and managerial support services. ITC in turn created several additional for-profit corporations. Several PRIDE board members also sat on the boards of these subsidiary corporations, and PRIDE had made \$8.7 million in loans to these corporations but had not established terms for repayment. Our 2003 report noted that PRIDE had not sufficiently disclosed its corporate restructuring to the Legislature, and we made several recommendations that it clarify and formalize its relationship with its subsidiary corporations.⁶

⁵ The Prison Industry Enhancement (PIE) program is a certification from the federal Bureau of Justice Assistance that allows state prisons to enter into sub-contracting with private companies to provide labor, services, and/or production resources. Goods made in PIE-certified prison industries may be sold in private markets. PRIDE is the authorized holder of PIE certification for Florida.

⁶ Specifically, we recommended that PRIDE clarify through contract its interests in assets owned by ITC, establish a repayment schedule for the \$8.7 million in loans, develop corporate policies to assess the risk of new ventures including a review function such as internal auditing to ensure that standard operating procedures were followed to protect PRIDE resources, and enhance its annual reports to the Legislature to include all statutorily required information.

Due to ongoing concerns as PRIDE continued to develop its subsidiary operations, Florida's Chief Inspector General audited PRIDE and ITC in 2004. The chief inspector general's report included findings similar to OPPAGA's 2003 report, and also noted that PRIDE's loans to ITC had increased to over \$10 million without written terms and conditions for repayment. Additionally, several of the business ventures for which ITC had borrowed these funds had failed. The chief inspector general recommended that PRIDE sever its relationship with ITC, enhance internal controls, and establish a financially sound policy for evaluating all investments. In addition, the chief inspector general found that executive compensation was excessive and recommended that the board revisit its policy for determining salary increases and bonuses.⁷

While PRIDE has severed ties with affiliated businesses, it lost nearly \$19 million from this association. In December 2004, PRIDE cancelled all contracts and service agreements with ITC and has had no subsequent business relationship with ITC or its affiliates. PRIDE's chief executive officer and chief financial officer, who held identical positions with ITC, resigned from PRIDE but remained in their posts at ITC. Several PRIDE board members also resigned but remained board members of ITC.

When PRIDE cancelled its contracts and service agreements with ITC, it assumed responsibility for all administrative, financial, and inmate placement services previously provided by ITC. PRIDE also assumed all debts that ITC and its related businesses owed to PRIDE. These loans had grown to approximately \$19.2 million as of January 2005 since PRIDE had extended additional loans to ITC and its affiliated business Florida Citrus Partners (FCP). As PRIDE had not adopted our recommendation to formalize its loans to ITC and its interests in assets owned by the subsidiary corporation, it incurred a

substantial net loss when it severed its relationship with its affiliate corporations.

PRIDE's current managers report that they have unsuccessfully pursued formal repayment arrangements with ITC and its affiliates. In September 2005, PRIDE filed suit against these entities for damages, interest, costs and any other just relief. In August 2006, PRIDE and ITC agreed to a confidential settlement. PRIDE's management indicated that ITC and affiliates had minimal assets and could repay at best only a small fraction of the amount owed.

Exhibit 4 **PRIDE Incurred a Loss of \$19.2 Million When It Assumed Responsibility for Debts Owed by Its Former Subsidiary Corporations**

Reported Debt	ITC ¹	FCP ²	Total
Due 2003	\$2,316,289	\$3,448,435	\$5,764,724
Due 2004	7,831,734	211,979	8,043,713
Due 2005	93,721	-	93,721
Total	\$10,241,744	\$3,660,414	\$13,902,158
ITC Debt Restructuring	5,279,190	-	5,279,190
Total	\$15,520,934	\$3,660,414	\$19,181,348

¹ Industries Training Corporation.

² Florida Citrus Partners.

Source: PRIDE.

PRIDE has developed corporate policies to better assess the risk of new ventures and has adopted standard operating procedures. As we and the chief inspector general recommended, PRIDE's new management has taken several steps to increase its internal risk assessment procedures and ensure that its operating procedures are consistent with its Articles of Incorporation and Florida Statutes. These actions include

- implementing standardized procedures for evaluating and approving new business ventures or business expansion that require more than \$100,000 in capital;
- periodically reviewing and monitoring under-performing business units;

⁷ The Office of the Statewide Prosecutor investigated this situation but determined that there was insufficient evidence to bring criminal charges as PRIDE and ITC's board of directors had approved the companies' business transactions, including executive compensation and major capital transfers from PRIDE to ITC.

- employing an internal auditor that reports directly to the board of directors;
- eliminating management positions with a dual reporting structure to any other organizational or government entity;
- including a covenant in its banking agreement that precludes PRIDE from investing funds in any external business or government entity, with the exception of rent payments to the Department of Corrections as specified in lease agreements;
- amending its by-laws to remove PRIDE's president and CEO from the PRIDE board; and
- establishing a code of ethics.

PRIDE also has reduced its executive compensation. Its salary structure is now market-based and reviewed by its board of directors annually.⁸ In addition, PRIDE has eliminated individual management bonus programs and replaced them with a merit-based program.

PRIDE's internal controls should be better monitored. While PRIDE has taken several steps to improve risk assessments and internal controls, these measures should be monitored to assure their continued effectiveness. PRIDE could do so by adopting standards for an internal control framework such as one created by the national Committee of Sponsoring Organizations of the Treadway Commission (COSO).⁹ Many public companies have

adopted COSO standards to conform to new federal audit regulations following high-profile scandals of corporations such as Enron and World-Com. COSO established a common definition of internal controls, standards, and criteria against which companies and organizations can evaluate their control systems. Evaluating risk and internal controls according to COSO standards could help PRIDE preserve its resources and achieve its performance and financial targets.

Recommendations

PRIDE should continue efforts to increase sales to public, private, and not-for-profit organizations and work to increase inmate workstations that provide meaningful on-the-job training. PRIDE should continue to work with the Office of Tourism, Trade, and Development and periodically inform the Office and Enterprise Florida of the services it can provide to manufacturing and service companies in Florida.

PRIDE should continue to strengthen its internal control mechanisms. To do so, PRIDE managers should annually evaluate its internal controls utilizing standards such as those of the Committee of Sponsoring Organizations. Managers should include a report of their evaluation in PRIDE's annual report.

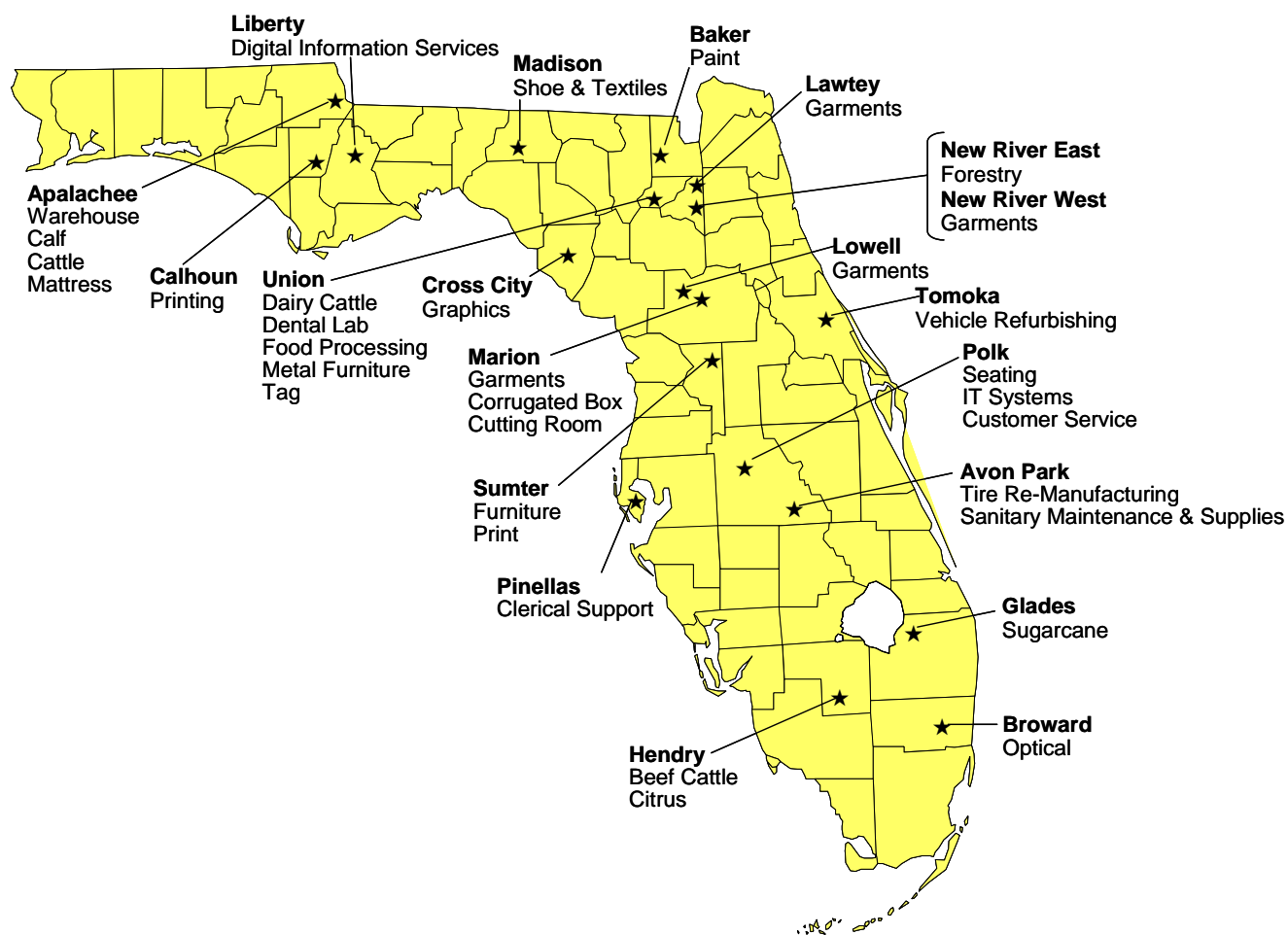
To enhance its monitoring of PRIDE's risk assessments and internal performance, the Legislature should consider revising s. 946.516, *Florida Statutes*, to require PRIDE to annually report on PRIDE's internal controls and to require that such report be subject to an attestation of an independent certified public accountant. This attestation on management's assertions relative to PRIDE's internal controls should be required in addition to the financial audit required in s. 946.516, *Florida Statutes*.

⁸ PRIDE's chief executive officer salary was \$275,573 in 2003 and PRIDE eliminated this position in 2004. PRIDE has reduced compensation for its president from \$231,542 in 2003 to \$179,845 in 2005, and the compensation level for its chief financial officer from \$175,711 to \$101,679.

⁹ The Committee of Sponsoring Organizations is a voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance.

Appendix A

PRIDE Operates Diverse Prison Industries Throughout Florida



Source: PRIDE.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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