

Improving Public Safety by Positively Changing Lives

Financial Operations

Fact Sheet
October 2024



Overview

Historical Financial Activity

Rising Raw Material Costs and Operating Expenses outpaced Sales, resulting in annual Operating Losses and a chronic decline in the Fund 401 cash balance. Corrective actions included the following:

Financial Transparency

CI established internal cost allocations in its financial statements ensuring each industry sees its proportional share of CI indirect costs (e.g., HR, Accounting) and adjusts pricing to allow for appropriate cost recovery.

Full Cost Recovery

CI implemented a full cost recovery framework. This includes adjusting pricing, where possible, to respond to rising costs (e.g., Raw Materials, Operating Expenses), as well as indirect expenses and annual program reinvestment (e.g., equipment replacement).

Cost Avoidance

CI is actively working to drive cost out of operations via operational efficiencies. Recent actions include staffing reductions, realignment or elimination of certain industry operations, and actively working to transition its ERP system to D365.

Enterprise Fund – Fund 401

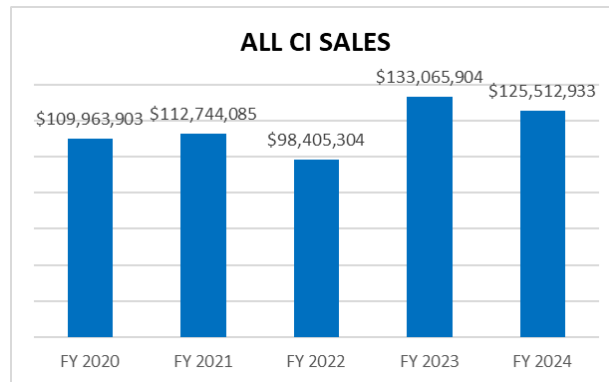
Correctional Industries (CI) is a Reentry program using private industry tools and techniques to provide a public service utilizing Fund 401 (Enterprise Fund). The sale of CI products and services is intended to fully fund all operating and non-operating expenses and ongoing program reinvestment under RCW 72.09.090. Over time, the Fund 401 cash balance has experienced challenges attributable to rising salaries and benefits, raw materials, and overall operating costs. Adding to this has been the transition from an outdated Enterprise Resource Planning (ERP) system (Dynamics Great Plains) to Microsoft Dynamics 365 Finance and Operations (D365). In recent years, CI has received support from the DOC General Fund, including transfers of about \$11M in FY2020, \$10.1M in FY2021, \$7.2M in FY2022, \$ 2.9M in FY2023, and \$4.8M in FY2024. These cash infusions comprised retroactive cost-per-meal (food service) and cost-per-pound (laundry) service amount adjustments, as well as expenditure reimbursements for COVID-19 costs, equipment, administrative salaries and benefits, and support of the D365 project.

CI implemented practices to promote full cost recovery and program reinvestment (e.g., equipment replacement) in support of our programs. CI actively works to drive costs out of agency operations while partnering with stakeholders (DOC Budget, other state agency customers, legislature) to achieve price adjustments where necessary and appropriate.

Historical Financial Trends

CI financial trends reflect rising annual expenses (raw materials, operating costs) outpacing revenue (sales). The following graphs depict key indicators, including:

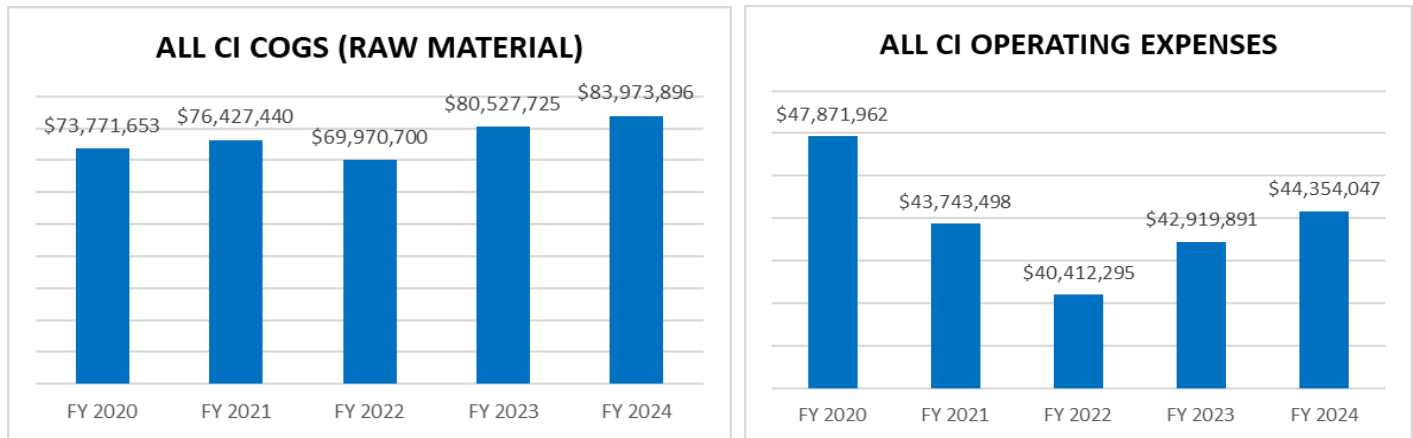
Annual Sales Outpaced by Rising Costs



Annual sales will vary from year to year, with higher sales activity during odd (biennium) fiscal years. During the five (5) fiscal years between FY 2020 and FY 2024, there is an overall upward trend in annual sales; however, FY 2022 sales were significantly reduced in the furniture line of business. This can be attributed to state agencies maneuvering through work-from-home and moving staff back into office

settings and grappling with unknown budget impacts following the economic impacts of the COVID pandemic.

Rising Raw Material Costs and Operating Expenses



Raw Materials Used (RMU) – Represent materials or substances used in the primary production or manufacturing of goods for sale. RMU is derived from an industry’s beginning inventory values, plus raw material purchases, less ending inventory values. Over the last seven (7) fiscal years RMU has increased for CI, which often represents higher (inflationary) costs incurred from CI suppliers. The COVID-19 pandemic significantly impacted RMU, constrained the global supply chain, and caused other inflationary factors that resulted in rising costs from our suppliers.

Operating Expenses – Consist of routine costs within CI program areas, including all manufacturing and service lines of business, all indirect supporting functions (e.g., HQ administration, site administration), Workforce Development, and other program activities (e.g., Advisory Committee). Salaries and benefits, including overtime, represent roughly 79% of operating expenses in FY 2024.

Corrective Actions

Full Cost Recovery – In response to the May 2017 Performance Audit findings (State Auditor’s Office), as well as the trend in annual net losses, CI developed and implemented the Forecasting and Product Pricing framework (attached). Achieving full implementation enhanced transparency and accuracy in CI financials while promoting full cost recovery (both direct and indirect expenses), program reinvestment via phased equipment replacement, and long-term program viability. Over time, these practices assisted CI in making more informed business decisions concerning industry operations (including product/service offerings) and ensured compliance with RCW 72.09.090 provisions.

Enterprise Resource Planning (ERP) Transition – Further cost avoidance is anticipated with the continued transition from Dynamics Great Plains to Dynamics 365 (D365). This will allow the agency to move from disconnected (siloes) financial operations to full connectivity and real-time access to data. Operational and administrative efficiencies are anticipated in addition to improved financial accuracy.

Cost Reduction Measures – Beyond implementing full cost-recovery methodologies, CI continuously works to drive cost out of industry operations. From FY 2020 to present, CI has implemented cost-avoidance measures, including personnel actions (position reductions). CI has also realigned and/or eliminated certain lines of business where necessary:

October 2020	CRCC Food Factory Closure
July 2020	WSP Metal Shop Consolidation to SCCC
July 2021	WSP Field Crops Closure
July 2022	CBCC Textiles Shop
September 2022	AHCC Upholstery Consolidation to SCCC Furniture

March 2023	MCC Print Shop Closure
March 2023	MCC Sign Shop Closure
March 2023	MCC Sock Production Closure
February 2024	WCCW Textiles CISA Abolishment
June 2024	WSP License Plate Shop Opens
August 2024	WCCW & AHCC Textiles Shop Closure

For more information:

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