

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Procurement Audit of the Correctional Industries Program

### Summary

The State Auditor initiated this audit of the procurement of goods and services through the Department of Public Safety's Correctional Industries Program to determine the cost effectiveness of selected practices. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, programs, and performance of all state agencies, and Chapter 103D, HRS, the Hawaii Public Procurement Code, which requires the Auditor to periodically audit procurement practices within government. Our audit was prompted by the program's expanding role in state procurement and the statutory exemptions on its operations.

The Correctional Industries Program was established to provide inmates with the opportunity to acquire marketable work skills while they produce goods and services for the state. To facilitate this mission, the program has been granted certain exemptions from the public bidding requirements of the Hawaii Public Procurement Code. First, those purchases by the Correctional Industries Program used in the manufacture of goods or to provide services to state agencies are exempt. Second, goods and services sold to state agencies that are manufactured and provided through Correctional Industries' training programs are exempt.

We found the program purchased items for agencies without benefit of bids or documented quotes, and simply resold the items to state agencies without using the items to manufacture goods or services. The reselling of another company's products does not fall within the exemptions granted in the corrections statute. This results in the circumvention of the procurement code which was enacted after the Correctional Industries statute. Further, the program added an overhead charge of as much as 37 percent, for the service of simply ordering the items for the state agencies, costing them thousands of dollars unnecessarily.

Another issue that came to our attention was the inefficiency and unnecessary cost resulting from forcing state agencies to buy all printing services from the Correctional Industries Program. Chapter 354D, HRS, requires state agencies to acquire goods and services from the program unless they receive a waiver from doing so. The specific goods and services are identified by the public safety director in consultation with other state agencies. Currently, printing has been so identified. If the correctional program cannot perform a requested printing job, or by the time required, at a better price than that of a private sector vendor, then the agency may request a waiver.



Hundreds of work hours are spent each year processing these waivers, which are routinely granted. Because of its printing capabilities and competitive pricing, the program's strength as a competitor in the printing market has become well established. State agencies' forced acquisition of printing services from Correctional Industries is inefficient and no longer necessary.

---

## Recommendations and Response

We recommend that the Legislature amend Section 354D-6, HRS, to prohibit the Correctional Industries Program from acting essentially as a reseller of another company's products. Its product sales should be limited to those goods actually manufactured or produced by the program. Additionally, we recommend that the director of public safety remove printing services from the goods and services that must be purchased from the Correctional Industries Program.

The Department of Public Safety does not concur with our findings and recommendations. In its response, the department provided information to clarify one point made in our preliminary draft that has been incorporated in our final report. However, most of the response simply defends current practices and does not acknowledge the anomalies that have resulted from the passage of two statutes with differing goals. We stand by our audit evidence.

---

Marion M. Higa  
State Auditor  
State of Hawaii

Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813  
(808) 587-0800  
FAX (808) 587-0830