



DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONAL SERVICES

Maryland Correctional Enterprises Staffing, Programs, and Sales Report

September 1, 2021

Governor Larry Hogan
Lt. Governor Boyd K. Rutherford
Secretary Robert L. Green

INTRODUCTION

The Budget Committees requested the Department of Public Safety and Correctional Services (DPSCS) and Maryland Correctional Enterprises (MCE) submit a report on staffing, programs, and sales. Language found on page 148 of the 2021 Joint Chairmen's Report specifically states:

The budget committees are concerned that COVID-19 and recent trends in sales, employment, and staff vacancies may inhibit the ability of MCE to carry out its mission to improve employability upon release, enhance safety and security, reduce prison idleness, and produce quality goods and services. The budget committees direct the Department of Public Safety and Correctional Services (DPSCS) to submit a report providing the following information:

- a breakdown of regular and special programs, including employment data;
- a review of efforts to address MCE legislative audit findings;
- sales and vacancy data and any steps that can be taken to maximize sales and minimize vacancies; and
- an analysis of the impact of COVID-19 on operations, sales, and employment.

I. Breakdown of regular and special programs, including employment data

Operational Overview

Section 3-502 of the Correctional Services Article of the Annotated Code of Maryland states that MCE:

1. is financially self-supporting, generates revenue for its operations and capital investments, and reimburses the Division at a reasonable rate for services exchanged between the Division and Maryland Correctional Enterprises;
2. provides meaningful work experiences for inmates that are intended to allow inmates to improve work habits, attitudes, and skills for the purpose of improving the employability of the inmates on release;
3. seeks to develop industries that provide full-time work experience or rehabilitation programs for all eligible inmates;

4. operates correctional industries in an environment that resembles as closely as possible the environment of private sector business operations.

In order to successfully meet these mandates, MCE consistently updates operations in accordance with customer and organizational needs. A breakdown of MCE business units, fiscal year (FY) 21 revenues, and inmate employment statistics is provided in Appendix A. Due to the COVID-19 Pandemic, MCE has experienced unprecedented business unit closures and inmate training program participation reductions. These measures were necessary to ensure the safety of MCE employees and the inmates. Although MCE was able to increase inmate participation compared to June 30, 2020, MCE is still operating at approximately 55% of what program participation levels were prior to the pandemic. MCE continues to operate at a decreased capacity in regard to program participation in order to minimize potential COVID-19 exposure to correctional staff and inmates. As vaccination rates increase, MCE is working to safely increase program participation. In addition, due to State budget cuts and spending freezes, MCE anticipates a continued decline in revenues for the upcoming year based on the decrease in incoming orders throughout FY21 (see Appendix C). Despite lockdowns and temporarily idled business units, over the course of the year, MCE provided training and skill development to over 1,000 inmates across the State.

MCE hopes to restore inmate program participation capacity when it is safe to do so. MCE continues to operate under Centers for Disease Control and Prevention (CDC) recommendations to maximize proper social distancing practices and other safety procedures. MCE also utilizes best practices developed by both the National Institute of Corrections and National Correctional Industries Association in order to maintain a civilian to inmate ratio of 1:20 in the plants. This is done in accordance with institutional safety guidelines. MCE participation for June 2021 was 833, an increase of 12 individuals from June 30, 2020.

Unaudited revenues for FY21 exceeded \$50 million in sales. Despite State closures as a result of the health crisis, MCE was still able to meet its sales goal, which can largely be attributed to the conversion of several product lines to create personal protective equipment (PPE) and the delivery of several large, capital projects that had been previously approved. MCE utilizes all earned funding from its sales goal to continue vocational training within the institutions. Overall, MCE allocates over 88% of the budget to raw materials, civilian wages, and inmate compensation. The remainder of MCE's budget is utilized for transportation (including delivery fees), utilities, contractual services and other standard operational costs. MCE also incurred increased, unanticipated expenses during the pandemic to continue successful telework capabilities, startup funds for the hand sanitizer operation, and emergency

PPE acquisition. MCE is also in the process of implementing a long awaited Enterprise Resource Planning (ERP) project with Global Shop Solutions.

Special Programs

To enhance MCE's reentry efforts, MCE offers specialty programming for participants which include formal classroom instruction, registered apprentice programs, and federally regulated work programs. Individuals who are nearing release are eligible to participate in MCE's classroom based Continuing Allocation of Reentry Services (CARES) program. The coursework includes a comprehensive exploration of workforce development, financial literacy and cognitive behavioral training. Some participants are also eligible to participate in certified apprenticeship programming through the Meat Production facility. Since 1992, MCE has been certified by the U.S. Bureau of Justice Assistance for the Prison Industry Enhancement (PIECP) Program, which allows MCE to enter into partnerships and be a sub-contractor to the private industry. Participants in this program earn prevailing wages and make contributions to the State victim restitution fund. MCE currently runs one PIECP program at the Maryland Correctional Institution in Hagerstown.

Despite several business unit closures, MCE was able to successfully continue the PIECP at the Maryland Correctional Institution in Hagerstown. Inmate workers involved in this program earn a prevailing wage rate of \$11.79 per hour while paying taxes in addition to contributing to room, board, and victim compensation. This rate increased to \$15.00 per hour in FY22. The program has been active since July 2018, and seven inmates participated in the program throughout FY21. MCE is working to add five participants to this program in FY22. MCE also has 15 inmates enrolled in the two-year meat cutting apprenticeship program, which is conducted in partnership with the Department of Labor and Hagerstown Community College. Inmates receive on-the-job training and attend classes while employed at MCE's Meat Plant. Upon completion, graduates will be licensed apprentices. Prior to COVID-19 shutdowns, MCE also participated in work release programs with Dorsey Run Correctional Facility and the Maryland Correctional Institution for Women. Inmates enrolled in certain programs were eligible to receive minimum wage for work performed at MCE Headquarters and warehouses. This program is projected to resume in fall 2021, the actual start date will be determined by guidance from MDH and the CDC.

MCE was scheduled to begin a six-month cohort of 18 men for the CARES class in March 2020; however, the program was delayed due to the onset of the COVID-19 pandemic. In May 2021, MCE was able to start classes with 12 participants utilizing a new digital instruction format. The class is scheduled to graduate in September 2021. MCE started the CARES program in 2008 in an effort to enhance employment readiness by conducting courses such as Thinking for a Change and financial literacy for inmates who are within three

years of release. Since its implementation, 369 participants have graduated from the program. MCE's Reentry Director continues to work closely with DPSCS Case Management, the Department of Labor, and various community partners to identify additional resources for returning citizens (formerly incarcerated individuals) who have previous MCE work experience. MCE continues to hire returning citizens at the MCE headquarters office when possible. Returning citizens now account for nearly 20% of MCE's current civilian workforce at headquarters.

II. Review of MCE Audit Findings

The Department of Legislative Services (DLS) submitted an audit report for MCE for the period of February 20, 2015 through March 31, 2019. The legislative auditors reported one finding, which stated:

MCE did not always investigate and resolve variances between its materials and supplies inventory records and the amounts on hand... MCE's fiscal year 2018 reconciliation of its finished goods inventory records with the amounts on hand identified 89 variances in excess of \$5,000, totaling approximately \$1.4 million. Our review disclosed that MCE did not investigate 57 of these variances totaling \$1.1 million; rather, MCE simply adjusted the inventory records without any supervisory review and approval. MCE management advised us that it had not investigated these variances due to staff shortages.

The auditors recommended the following course of action:

We recommend that MCE ensure that:

- a. inventory variances are investigated and resolved, and
- b. the investigations and related inventory record adjustments are reviewed and approved by appropriate supervisory personnel.

MCE agreed with the recommendations proposed by the DLS, noting that with the inclusion of MCE's excess inventory, MCE's total missing inventory variance only equates to \$32,327. As per the legislative auditor's recommendations, MCE fiscal supervisors continue to document and investigate variances in excess of \$5,000. MCE's Inventory Manager is actively involved in the implementation of the new ERP system to ensure adherence to State policies and procedures. MCE has also developed additional training for field staff that includes frequent visits from office staff and an evaluation of practices.

Based on the most recent Office of Inspector General (OIG) report, MCE has been found to be in compliance with this recommendation. Per an email received from Inspector General Joseph Perry on March 3, 2021, "The OIG

has completed our follow-up audit of the Office of Legislative Audits (OLA) October 31, 2019 audit of the MCE's fiscal operations. I am pleased to report that we have found your operation in full compliance with the OLA's recommended corrective action, and as long as this status is carefully maintained, the OLA is likely to find this finding in compliance when they return."

In an effort to eliminate variance issues, MCE has progressed in the acquisition of an updated ERP system to replace the current, antiquated AS400. On May 13, 2020, MCE was able to bring a Project Manager on board to assist in the acquisition of an updated ERP system. MCE is in the process of implementing the new Global Shop Solutions software. MCE anticipates implementation prior to the end of FY22. With the implementation of the ERP, MCE will be able to develop a just in time inventory system to support efficiency and accuracy. The ERP system will automate several inventory functions, decreasing both the need for manual accounting and the rate of error. The OLA auditors, Department of Information Technology (DoIT), DPSCS Management, MCE's Management Council, and MCE staff support the procurement of an updated system.

III. Sales and vacancy data and any steps that can be taken to maximize sales and minimize vacancies

Sales Data

As outlined in Appendix B, MCE has consistently achieved sales in excess of \$50 million in accordance with MCE's Business Plan goal. Although MCE experienced a decrease in revenues, the elevated revenues in 2016 and 2017 do not reflect projected revenues based on its regular business model which typically range between \$50 and \$55 million. MCE had strong sales in the first half of FY20 (pre-pandemic) which led to total revenues exceeding \$55 million, an increase of over 4% as compared to FY19 total revenues. It is likely that MCE would have experienced a record-breaking sales year if not for the detrimental impact of the COVID-19 pandemic. At the start of FY21, MCE was proactive in reimagining its current product line in conjunction with slowing the spread of COVID-19. MCE developed new manufacturing procedures and quickly developed a new business unit (hand sanitizer) in order to meet departmental and State needs for a product in short supply and high demand. MCE repurposed assembly lines to make new products to combat the spread of COVID-19. MCE's new product lines included the items below.

- ***Personal Safety Equipment***

MCEs' newly designed line of safety equipment was designed to minimize exposure risks to harmful pathogens. All of these items are being offered as part of MCE's Quick Ship line which are delivered within 15 days of the order. The line includes:

- Personal cotton sneeze guards (face masks)
- Face shields
- Reusable hospital gowns
- Alcohol based hand sanitizer gel

- ***Protective Workspace Solutions***

MCE is working with industry experts to find the best solutions to keep employees working collaboratively while respecting social distancing protocols. These modern, versatile designs offer a multitude of options that can work in any existing office, lobby, conference room, or lunchroom and include:

- Mobile Barriers (Vinyl and Plastic)
- Cubicle Wall Additions and Stackers
- Rolling Doors
- Countertop/Tabletop Screens and Barriers
- Moveable Walls
- Safety Signage

As the demand for these items continues to decline, MCE is putting more focus on marketing strategies to non-traditional customers such as non-profit organizations, hospitals, and K-12 school facilities. As COVID restrictions were lifted on July 1, 2021, MCE plans to re-establish in-person customer visits and attend additional conferences in FY22 as the majority were cancelled in the previous year. MCE is also looking to additional digital marketing strategies to remain current with virtual trends that are expected to continue in the new, hybrid work environment. MCE has started virtual educational webinars and is in the process of hiring a digital marketing coordinator. This will be a new position for the MCE sales and marketing team.

By implementing new sales and marketing strategies, the goal is to increase revenues so that MCE is able to train as many inmates as possible. MCE would also benefit from the OLA reporting instances where the preferred provider law is not being followed by State agencies. This could be accomplished during their routine fiscal compliance audits of State agencies. As shown in Appendix C, the main hindrance to inmate program participation in the past quarter has been the COVID-19 pandemic. Prior to closures, MCE attained target inmate participation levels above 1,500 inmates as the civilian vacancy rate was projected to decline to under 20%. Although MCE was still able to touch the lives of over 1,000 offenders throughout the course of the year, it is not anticipated that inmate program participation numbers will increase at a rapid rate until normal operations can continue. For the safety of MCEs' staff and inmate trainees, MCE is unable to provide a timeframe for which normal operations will resume.

Vacancy Data

MCE operations have also been negatively impacted by increased vacancy rates in recent years. MCE was experiencing a declining vacancy rate until the start of the pandemic, which has delayed several hiring efforts. As of June 30, 2021, the current vacancy rate was nearly 27%. As MCE is self-supporting, additional staff may only be hired when it is fiscally possible to do so. MCE and DPSCS Human Resources Services Divisions (HRSD) are working together to improve MCE's recruitment efforts and lower vacancy rates.

MCE began to document year-end vacancy rates beginning in FY17 as outlined in Appendix D. As shown in the graphic, an increase in MCE's vacancy rate shows a correlation to decreased sales and inmate program participation. Inmate program participation for FY20 and FY21 are exceptions to this correlation due to COVID-19 operational shutdowns and closures.

In September 2019, the HRSD implemented new hiring practices, which incorporated more MCE involvement in recruitment procedures. MCE was able to have additional input in drafting job postings and is now able to schedule and conduct interviews through an internal process rather than being fully dependent on DPSCS HRSD personnel. From November 2019 through April 2020, MCE was able to hire 17 new employees resulting in a vacancy rate change from 25.8% to 21.4% in just six months. MCE hoped to continue in that downward trend; however, the COVID-19 pandemic has negated that. Prior to the COVID-19 pandemic, inmate program participation numbers were nearing 1,500 and were anticipated to gradually increase as more civilian staff members were hired. All MCE vacant positions are frozen in conjunction with the State hiring freeze; MCE anticipates that the vacancy rate will continue to increase as employees retire or leave state service. MCE's ability to hire will largely correlate to the continuance of regular operations.

MCE maintains a civilian supervisor to inmate ratio not to exceed 1:20 in the majority of its plants. For inmate job functions that require off site transportation, MCE's civilian to inmate ratio is reduced to 1:2. In order to comply with these safety standards, the number of inmate program participants is directly impacted by the ability to hire field staff.

IV. Analysis of the impact of COVID-19 on operations, sales, and employment.

Throughout the course of the pandemic, MCE has been faced with several temporary closures and shutdowns in an effort to reduce the spread of COVID-19 throughout the institutions. Based on positive case data, 10 MCE business units were closed in April 2020 and some did not reopen until

September 2020. As COVID-19 cases began to spike again in Maryland in mid-November 2020, 21 out of 26 business units were idled, the majority of which remained closed well into January 2021.

As a result of closures due to the pandemic, MCE was not able to produce goods for several customers. This led to delivery delays, lost sales, and cancellations of memorandums of understanding, including the end of a 13-year contract. In addition to lost revenues due to business unit closures, other State agency purchasing abilities have been cut dramatically, leading to a decrease in purchases from MCE. MCE experienced a higher than normal increase of waiver requests from state agencies to bypass MCE's purchasing preference, enabling the agencies to purchase the products from other vendors as MCE was unable to provide the requested product within the given timeframe. Estimated individual waiver amounts ranged from \$150 to over \$200,000. An increase in utilization of telework has also decreased the need for office furniture in state agencies. Given that furniture sales typically account for approximately 40% of MCE revenues, the impact has been significant. Due to the reduction in the State prison population, MCE has also experienced decreased sales in inmate items such as clothing, bedding, etc.

In response to the pandemic, MCE has been proactive in reducing costs and trying to realign sales strategies with current trends; however, some accelerated costs have been unavoidable. MCE was forced to increase expenditures early on in the pandemic to ensure that all personnel at headquarters had the necessary equipment to telework. Since the Department limited the movement of the incarcerated population, MCE lost the ability to assign installation services to inmate participants. As a result, MCE has been forced to procure outside installation services for all offsite projects. Inmate trainees are starting to resume this service as of June 2021. Even though MCE was producing PPE, the costs to MCE were exorbitant. This was especially true in the middle of the pandemic. For instance, alcohol prices were 75% higher than normal, but MCE continued to sell hand sanitizer at the average market price. MCE incurred these unanticipated expenses in an effort to save the State costs. This operation was shuttered in March 2021 as MCE would not be able to justify the costs associated with continuing a licensed hand sanitizer operation.

Despite these forced expenses, MCE immediately reduced spending and implemented additional purchasing approval requirements. For example, MCE had \$2.2 million budgeted for vehicle operations & equipment in FY 2021. Using cost avoidance measures, MCE reduced the actual expenditures to \$1.3 million, resulting in a savings of \$900,000, or 43%. MCE has also made efforts to reduce personnel costs by eliminating all outside, temporary employees and reducing hours worked for contractual employees. MCE continues to monitor overtime and only approves if necessary to satisfy critical customer needs.

MCE looks forward to the opportunity to reopen at a full capacity when it is safe to do so. With the implementation of the new ERP system this fiscal year, MCE hopes to revitalize the organization and make it more adaptable in a post-pandemic environment. MCE continues to evaluate operations to ensure it continues to meet all aspects of its multifaceted mission. Overall, MCE was seeing positive progress until the onset of the COVID-19 pandemic. Despite the challenges MCE has faced in recent years, MCE continues to adapt and fulfill its self-funding mandate while offering valuable vocational training to men and women across the State.

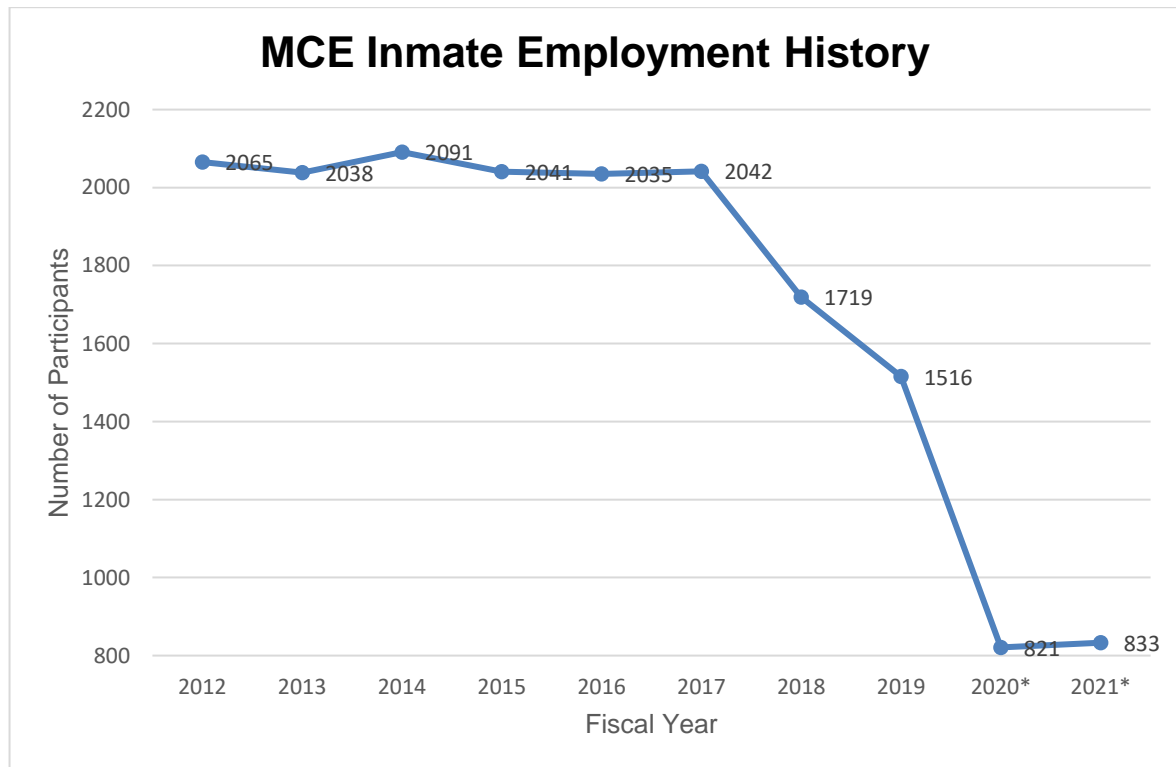
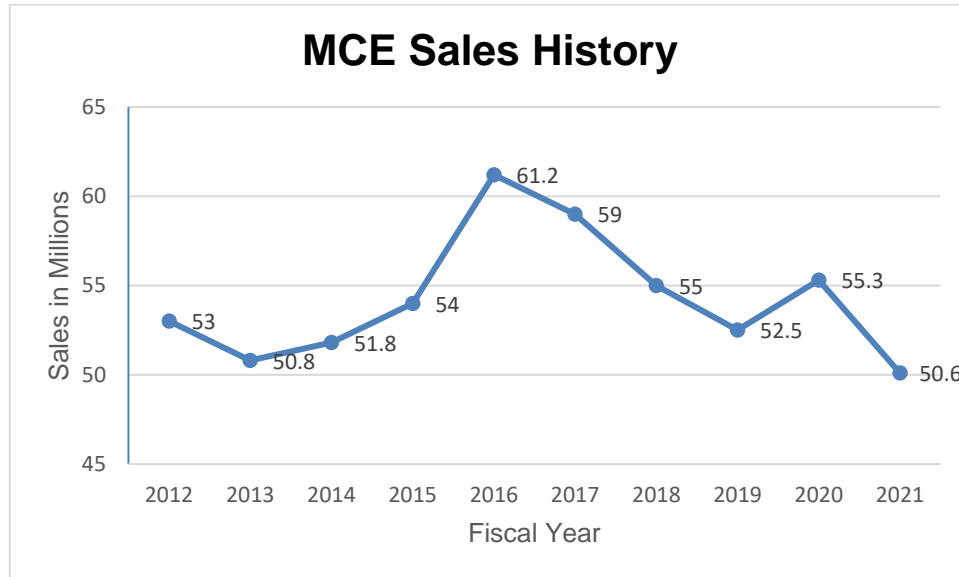
Appendix A

MCE FY21 Business Units	Sales	Inmate Employment
<i>Jessup Correctional Institution</i>		
Wood Furniture	1,562,344	51
Tag/ License Plate	5,613,095	44
Sew	2,215,305	51
<i>Maryland Correctional Institution Jessup</i>		
Graphics I	1,004,613	62
Graphics II	1,548,793	30
Quick Copy Services	419,098	15
<i>Maryland Correctional Institution for Women</i>		
Sew/ Flag	777,155	31
Mailing and Distribution	2,701,867	17
Designing and Planning	0	9
<i>Maryland Correctional Institution – Hagerstown</i>		
Metal ¹	6,038,900	35
Upholstery	6,520,793	25
Meat/ Food Processing	9,328,765	39
Laundry	161,602	17
Hagerstown Warehouse & Recycling	125,188	7
<i>Roxbury Correctional Institution</i>		
RCI Graphics	2,359,907	70
<i>Maryland Correctional Training Center</i>		
Partition	2,023,307	13
Brush, Carton, Chemicals and Hand Sanitizer	1,481,225	13
<i>Western Correctional Institution</i>		
WCI Furniture	2,122,651	44
<i>Eastern Correctional Institution</i>		
Furniture Restoration	657,421	50
Textiles	2,550,966	59
Laundry	141,481	7
<i>Patuxent</i>		
Sign and Engraving	682,001	30
<i>Central Maryland Correctional Facility</i>		
Laundry Operations ²	417,007	106
<i>Jessup Area</i>		
Central Warehouse	129,825	8
Total	\$50,583,059 (Unaudited)	833

¹ Includes seven Prison Industry Enhancement Certification Program (PIECP) workers

² Includes laundry collection workers from Jessup Correctional Institution

Appendix B

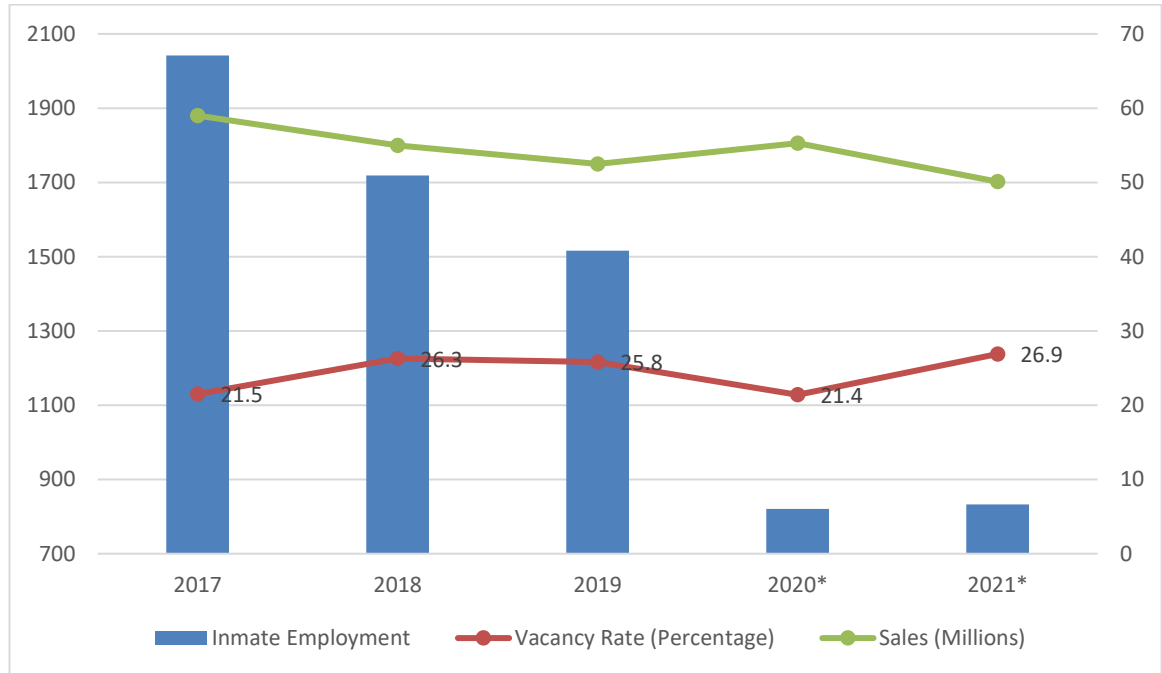


**Due to COVID-19 safety precautions, DPSCS closed several business units periodically throughout FY21 and decreased the workforce to ensure the safety of staff and inmates, which accounts for the continued reduction in FY20 and FY21 inmate employment numbers. MCE intends to rehire inmates as soon as it is safe to do so. When MCE can safely resume normal operations, we anticipate inmate employment to exceed 1,000 if staffing numbers allow. MCE is utilizing lean manufacturing techniques to offset the decline in inmate employment.*

Appendix C

Maryland Correctional Enterprises Monthly Orders for MCE Products and Services FY20 and FY21			
Month	FY20	FY21	Change
July	5,413,550	4,020,030	-1,393,520
August	4,117,673	4,027,641	-90,032
September	3,038,398	3,664,980	626,581
October	4,113,736	4,129,189	15,453
November	5,899,189	2,196,106	-3,703,083
December	4,351,998	1,681,541	-2,670,457
January	6,335,848	3,866,286	-2,469,561
February	3,636,874	3,231,928	-404,945
March	4,938,930	4,300,094	-638,836
April	3,088,742	3,625,505	536,763
May	3,026,141	4,496,013	1,469,872
June	3,512,680	1,900,628	-1,612,052
TOTAL	51,473,759	41,139,942	-10,333,817

Appendix D



**Due to COVID-19 safety precautions, DPSCS closed several MCE business units throughout the fiscal year and decreased the workforce to ensure the safety of staff and inmates, which accounts for the significant reduction in FY20 and FY21 inmate employment numbers. MCE intends to rehire inmates as soon as it is safe to do so. When MCE can safely resume normal operations, we anticipate inmate employment to exceed 1,000 if staffing numbers allow.*