



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Corcraft's Textile Procurement Practices

Department of Corrections and Community Supervision



Executive Summary

Purpose

To assess the procurement practices used by the Department of Corrections and Community Supervision's Division of Industries (Corcraft) to procure textiles.

Background

The Division of Industries, known as Corcraft, is a major component within the Department of Corrections and Community Supervision. Corcraft's mission is to employ offenders in real work situations to produce quality goods and services at competitive prices. Corcraft employs about 2,000 of the State's 55,000 incarcerated offenders in the industry programs it operates at 11 correctional facilities. Sales were about \$49 million for the State fiscal year ended March 31, 2013. We focused our audit efforts on procurement practices related to Corcraft textile operations. Production of textile products accounted for about 20 percent of Corcraft's sales. During the five-year period April 1, 2008 through March 31, 2013, Corcraft had 44 textile contracts that began, were in process, or were completed, with a contract value of \$32.3 million and payments totaling \$16.3 million.

Corcraft contracts with suppliers for the raw materials it uses in manufacturing. Procurement personnel issue an Invitation for Bid with product specifications, followed by bid evaluation, sample testing, award recommendation, and contract execution and performance. Key procurement personnel include an Assistant Director of Operations, a Purchasing Supervisor, a Quality Control Analyst, and three Purchasing Agents.

Key Findings

- Current procurement practices allow one person, the Purchasing Supervisor, to control almost all of the process for the procurement of textiles. This includes providing input on specifications, evaluating bid submissions, and approving the final award recommendation. The inadequate separation of incompatible duties and/or lack of compensating controls increases the risk of favoritism in the award process.
- Corcraft officials awarded contracts without testing all of the required specifications, such as textile shrinkage, yarn, finish and fiber content. Instead of testing all specifications, personnel used their own discretion in deciding whether and which specifications were tested. As a result, they did not adequately ensure open competition, and there was limited assurance that contracts totaling \$32.3 million went to the lowest responsive and responsible vendors.

Key Recommendations

- Strengthen textile procurement controls by segregating duties among procurement personnel and/or by developing compensating controls to mitigate the risks identified in this report.
- Actively monitor the Corcraft textile procurement process to ensure that open competition takes place and only responsive and responsible vendors are awarded textile contracts.
- Develop a process for testing products provided by current vendors to ensure they continue to meet IFB specifications after contracts have been awarded and payments are made.

Other Related Audits/Reports of Interest

[Department of Correctional Services: Seventeen Years of Fraud by the Former Director of the Department of Correctional Services' Food Production Center \(2008-S-176\)](#)

[Department of Correctional Services: Violations of Law, Conflicts of Interest and Other Improprieties at the Department of Correctional Services' Food Production Center \(2009-S-6\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

May 16, 2014

Mr. Anthony J. Annucci
Acting Commissioner
New York State Department of Corrections and Community Supervision
The Harriman State Campus - Building 2
1220 Washington Avenue
Albany, NY 12226-2050

Dear Acting Commissioner Annucci:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Department of Corrections and Community Supervision entitled *Corcraft's Textile Procurement Practices*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

The Division of Industries, known as Corcraft, is a major component within the Department of Corrections and Community Supervision (Department). Corcraft's mission is to employ offenders in real work situations to produce quality goods and services at competitive prices. To fulfill its mission, Corcraft operates industry programs at 11 correctional facilities, where it manufactures a variety of products including license plates and other metal products; textiles, such as uniforms and underwear; office furniture; prescription eyewear; and mattresses. Corcraft employs about 2,000 of the State's 55,000 incarcerated offenders in its industry programs and more than 250 Department personnel. Its customers are public entities and charitable organizations. Corcraft's sales were about \$49 million for the fiscal year ended March 31, 2013. Production of textile products accounted for about 20 percent of sales.

We focused our audit efforts on procurement practices related to Corcraft textile operations. Corcraft's two textile programs are run out of the Clinton and Cocksackie Correctional Facilities. Corcraft contracts with suppliers for the raw materials it uses to manufacture its products. Procurement begins with a request from the industry program that describes the products and raw materials needed. It continues with an Invitation for Bid (IFB) with product specifications, followed by bid evaluation and sample testing, where applicable; award recommendation; and contract execution and performance. Specifications give potential bidders key information they need to decide whether to bid on the contract. For example, textile product specifications may include standards for weight, fiber content, shrinkage and weave.

During the five-year period April 1, 2008 through March 31, 2013, Corcraft had 44 textile contracts that began, were in process, or were completed, with a contract value of \$32.3 million and payments totaling \$16.3 million.

Audit Findings and Recommendations

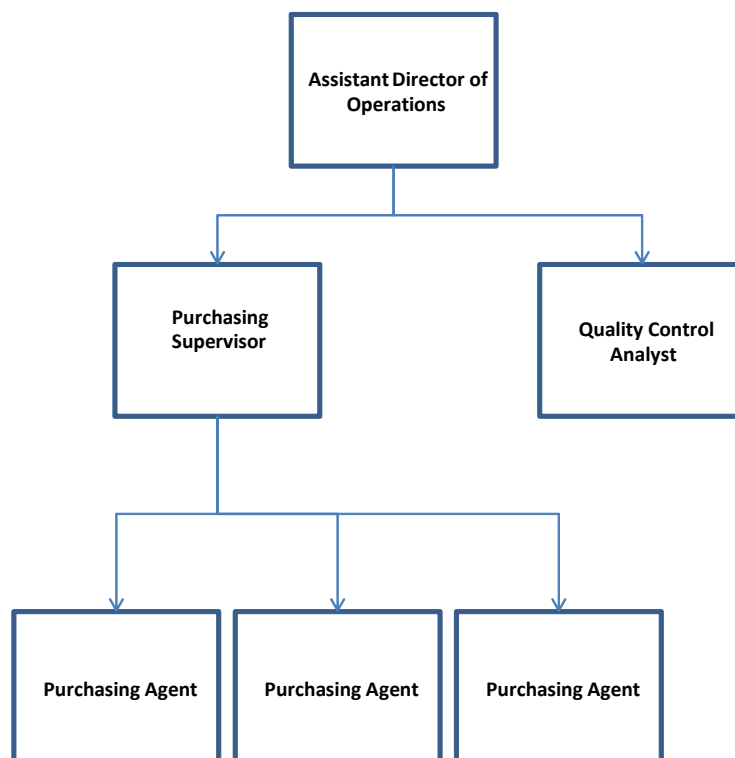
Corcraft's procurement practices allowed one person, the Purchasing Supervisor, to control nearly all of the processes for procuring textiles. This included providing input on specifications, evaluating bid submissions, and approving the final award recommendation. These incompatible duties increased the risk of favoritism in the award process. We also found that Corcraft officials awarded contracts without testing all of the required textile specifications. Corcraft personnel used their discretion in deciding whether and which specifications were tested. As a result, they did not adequately ensure open competition, and there was limited assurance that textile contracts (which totaled \$32.3 million during the audit period) were awarded to the lowest responsive and responsible vendors.

Inadequate Segregation of Duties

Standards for Internal Control in New York State Government (Standards) describe an entity's control environment as an attitude toward internal control established and maintained by management and employees and a product of management's governance style. An entity's control environment is influenced by its organization structure and accountability relationships. When these provide clear lines of authority and effectively delegate and separate duties, the control environment is stronger, and the entity is better positioned to deter and detect activities counter to its mission.

Generally, an entity's procurement activities - such as initiation, authorization, approval, receipt and payment - should be done by different employees or areas. Key personnel in Corcraft textile procurement include an Assistant Director of Operations (Assistant Director), Purchasing Supervisor, Quality Control Analyst (Analyst) and three Purchasing Agents (Agent), two of whom are full time. Agents prepare specifications, schedule bid openings, evaluate bids, and recommend awards. The Purchasing Supervisor reviews the award documentation and recommendation prepared by the Agent and is responsible for final approval and award determination. The Analyst helps develop product specifications and handles quality control, including testing vendor samples and product shipments. According to Corcraft position descriptions, both the Purchasing Supervisor and Analyst report to the Assistant Director, whose responsibilities include, among other areas, purchasing oversight.

The following flowchart depicts Corcraft's procurement reporting structure.



Each of Corcraft's non-textile procurement functions, such as optical products, is assigned to one of the three Agents, or the Purchasing Supervisor. The Agents report to the Purchasing Supervisor. In contrast, for Corcraft's two textile programs at Clinton and Cocksackie Correctional Facilities, the Purchasing Supervisor also functions as the Agent. Thus, the Purchasing Supervisor is involved in nearly all stages of textile procurement, including the development of specifications, evaluation of bid submissions, and approval of the final award recommendation. These incompatible functions increase the risk of favoritism in the award process. Further, at the time of our audit, Corcraft had not established compensating controls to mitigate the risks associated with the lack of separation of duties in the process.

The following illustrates how the textile procurement function worked. For a textile contract of \$261,000 awarded in 2012, documents showed the Purchasing Supervisor: was the contact person; received the bid samples; certified the bid opening; and notified the Comptroller's Office of the final award determination. As such, the Purchasing Supervisor was responsible for multiple procurement duties that were fundamentally incompatible. Corcraft management explained that, due to staffing shortages, the Purchasing Supervisor continued to perform Agent duties after promotion to the position of Supervisor.

There was also a weakness in the reporting relationships for textile procurement. Although the organization structure had the Analyst reporting to the Assistant Director, the Analyst actually submitted product testing results to the Purchasing Supervisor, who made the award decision. This gave the Purchasing Supervisor more control over textile procurement decisions. Corcraft management should address these weaknesses. We recommend they take action to appropriately

segregate the duties of procurement personnel and, where appropriate, implement compensating controls where duties cannot be adequately segregated. Corcraft officials generally agreed with our recommendations and are considering restructuring some positions and duties to better segregate them or developing mitigating controls where applicable.

Testing of Textile Samples Provided by Current and Prospective Vendors

There were deficiencies in the procedures Corcraft personnel used to test the quality of textiles provided by current and prospective vendors. As a result, Corcraft officials did not adequately ensure open competition, and there was limited assurance that contracts totaling \$32.3 million went to the lowest responsive and responsible vendors.

Inconsistencies in Testing Samples Provided by Prospective Vendors

State agencies are expected to establish competitive procurement practices that include a clear statement of need, a description of required specifications, and a reasonable process for ensuring open competition. Standard Corcraft procurement language states that textile contracts will be awarded to the lowest responsive and responsible bidder. A responsive bidder is defined as one that meets product specifications. A responsible vendor has demonstrated financial ability, legal capacity, integrity and good past performance in the delivery of goods or services.

Each Corcraft IFB requires prospective textile contract bidders to provide product samples with their bids. Corcraft personnel told us that all specifications are important. The Analyst emphasized that weight and fiber content are generally the most important specifications. Using generally accepted industry practices, the Analyst tests product samples to assess compliance with specifications. If the Analyst does not have the expertise to test one or more specifications, then an external lab is used. Lab reports document the test results. The IFB states that bids will be rejected if the sample does not meet specifications. The sample provided by the lowest bidder is tested first to determine if specifications are met. If the vendor is deemed responsible and all specifications are met, then the contract is awarded to the lowest bidder and samples from the other bidders are not tested. If the sample provided by the lowest bidder does not meet specifications, then the next lowest bidder is tested and so on.

However, Corcraft officials awarded contracts without testing all of the required specifications. Personnel used their own discretion in deciding whether and which specifications were tested. As a result, they did not adequately ensure open competition, and there was limited assurance that textile contracts were awarded to the lowest responsive and responsible vendor. During the five-year period ended March 31, 2013, Corcraft had 44 textile contracts that were active or completed. These contracts had an aggregate value of \$32.3 million, and their related payments totaled \$16.3 million. We found that 37 of the 44 contracts, or 84 percent, either lacked a lab report or the report on file was incomplete, as follows:

- 24 contracts totaling about \$10 million lacked lab reports supporting the vendor's ability

to meet specifications. Ten of these were not awarded to the lowest bidder.

- 13 contracts totaling about \$15 million had lab reports that were incomplete. These lab reports lacked key information, such as a pass or fail rating for fiber content, one of the most important specifications. Six of these were not awarded to the low bidder.

For example, in 2012, Corcraft awarded a contract for \$749,700 to a vendor who was not the lowest bidder and might not have been “responsive” in relation to the applicable textile specifications. The contract file included test results for only one specification - weight - although the IFB listed six other specifications, including width, weave, fiber content, shrinkage, yarn and finish. Corcraft did not test samples for four specifications (shrinkage, yarn, finish and fiber content). According to the Analyst, fiber content is one of the most important specifications. Further, we determined the Analyst had tested the samples for width and weave. However, all of the samples failed the test for the weave specification. Consequently, all of the bids should have been rejected, and a new IFB should have been issued.

The Analyst told us that he did not provide the weave and width results to the Purchasing Supervisor because he was unsure if the IFB weave specifications were correct and if he tested the material samples properly. Thus, the Purchasing Supervisor had no test results to consider in determining which vendor to award the contract. If the Analyst did not have the expertise to test for weave and width requirements, he could have used an independent lab to test the samples. In addition, we question why four of the specifications were not tested. Ultimately, the Purchasing Supervisor based the award determination on only one specification - weight. By considering only one of the seven specifications, Corcraft officials lacked the necessary information to assess vendor responsiveness. Moreover, Corcraft had insufficient assurance that there was open and fair competition for this and the other 36 contracts for which there were no lab reports or the reports were incomplete.

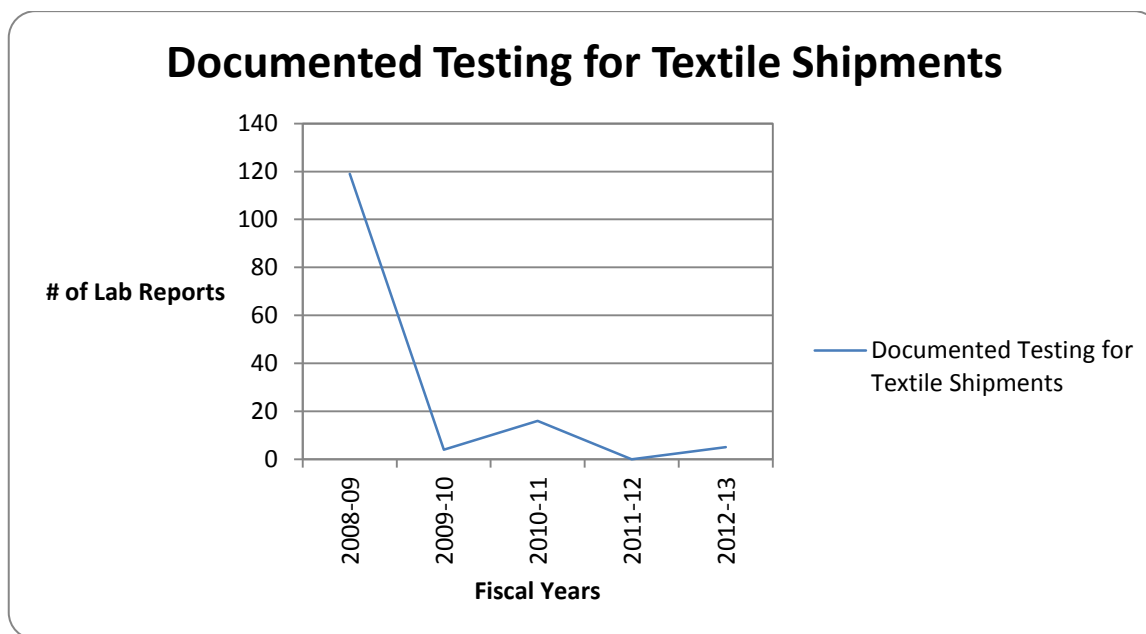
Corcraft management cited personnel reductions as the reason for the deficiencies in the textile procurement function. Management also acknowledged they do not have written textile procurement policies, but will develop policies to help ensure procurement personnel use a consistent and appropriate process to award textile contracts.

Limitations in Testing Samples From Current Vendors

According to Corcraft officials, Corcraft does not require current textile contractors to submit samples when submitting bids for future contracts for the same textile products. Officials added that Corcraft personnel rely on samples they tested during the current contract period. However, we found that Corcraft personnel do very little testing of textiles delivered by current vendors. Also, because of the limited testing, Corcraft officials have limited assurance that textiles bought from current vendors meet IFB specifications and lack sufficient information to assess vendor performance prior to payment.

IFB language states that a vendor’s shipped products must be equal to the samples used to award the contract. To assess this, an agency should have a reasonable method of assessing product quality. However, over the five-year period from April 2008 to March 2013, Corcraft significantly

reduced the number of post-award tests (i.e., lab reports) for existing vendors' shipments (see graph below). Lab reports decreased 96 percent, from 119 in 2008-09 to just five in 2012-13, despite a relatively consistent number of shipments among the years. During the 2011-12 period there were no lab reports.



Because current vendor shipments are not always tested, we recommend that current vendors be held to the same requirements as new vendors and provide a sample when they bid on a new contract. We also recommend that Corcraft officials develop a consistent testing process to ensure that a current vendor's products comply with specifications after contract award, and that payments for textile products are appropriate.

The decline in testing current vendor shipments coincides with the loss of Corcraft's lab technician. According to Corcraft officials, they are awaiting approval to create a laboratory testing facility at an existing industry program. Officials anticipate the facility will use existing staff resources to help minimize the need and related costs for external lab testing.

Recommendations

1. Strengthen controls for procuring textiles by appropriately segregating duties among procurement personnel and/or by developing compensating controls to mitigate the procurement risks identified in this report.
2. Take steps to provide better assurance that open competition takes place and only responsive and responsible vendors are awarded textile contracts. These steps should include, but not be limited to:
 - documenting the procurement process and requiring that it be consistently followed;
 - clarifying in the IFB which specifications are required and will be tested and how the

- results will impact award decisions;
 - properly testing all required IFB specifications and documenting the tests with lab reports;
 - ensuring that personnel can adequately test specifications or using an external lab if Corcraft staff do not have the necessary expertise; and
 - rejecting bidders that fail tests for required IFB specifications.
3. Develop a process for testing products provided by current vendors to ensure they continue to meet IFB specifications after contracts have been awarded and before related payments are made.

Audit Scope and Methodology

We audited selected Corcraft procurement practices. Our audit covered the period April 1, 2008 to October 30, 2013.

To accomplish our audit objective, we reviewed relevant procurement laws as well as Corcraft and Division procurement policies. We reviewed procurement personnel job descriptions to understand the responsibilities of key procurement positions. We visited industry programs, including the two textile programs, to observe the operations and understand their role in contract procurement. We also analyzed the 44 textile contracts that were active during the period April 1, 2008 through March 31, 2013 and their supporting documentation and lab reports. We held numerous meetings with Corcraft personnel at multiple levels to understand their roles and activities and to follow up on questions and discrepancies we identified through testing.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority under Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

Reporting Requirements

A draft copy of this report was provided to Department officials for their review and comment. We considered the Department's response in preparing this final report and have attached it at the end. Department officials agree with our recommendations and have taken steps to address them.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Acting Commissioner of the Department of Corrections and Community Supervision shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



STATE OF NEW YORK
**DEPARTMENT OF CORRECTIONS
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ANTHONY J. ANNUCCI
 ACTING COMMISSIONER

OSBOURNE A. MCKAY
 DEPUTY COMMISSIONER
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May 9, 2014

Mr. Brain Mason, Assistant Comptroller
 Audit Director
 Office of the State Comptroller
 110 State Street, 11th Floor
 Albany, New York 12236

Re: "Corcraft's Textile Procurement Practices"
 2012-S-22 Draft Audit Report

Dear Assistant Comptroller Mason:

This is in response to the Office of the State Comptroller's (OSC) Draft Audit Report 2012-S-22, "Corcraft's Textile Procurement Practices." First, I would like to thank your staff for their professionalism; and their efforts to improve Corcraft's procurement practices and material testing procedures.

Below are the Department of Corrections and Community Supervision's (DOCCS), Division of Correctional Industries' responses to OSC's three recommendations:

1. Strengthen controls for procuring textiles by appropriately segregating duties among procurement personnel and/or by developing compensating controls to mitigate the procurement risks identified in this report.

DOCCS agrees. Corcraft procurement practices have been, and will continue to be reviewed, to ensure appropriate segregation of duties among procurement personnel. The objective is to provide a fair and equitable procurement process for all vendors that will assure appropriate stewardship of State funds, and mitigate the procurement risks as identified in the audit report. Steps have been initiated to develop and implement control activities to include: an Invitation for Bids (IFB) Checklist, which provides for the compensating control of appropriate review by management to ensure that segregation of procurement duties among staff occurs; clarification in the IFB with regard to the specification and testing requirements; and a description as to how the test results will impact IFB award decisions.

Draft Audit Report: 2012-S-22

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2. Take steps to provide better assurances that open competition takes place and only responsive and responsible vendors are awarded textile contracts. These steps should include, but not be limited to:
 - documenting the procurement process and requiring that it be consistently followed;
 - clarifying in the IFB which specifications are required and will be tested and how the results will impact award decisions;
 - properly testing all required IFB specifications and documenting the tests with lab reports;
 - ensuring that personnel can adequately test specifications or using an external lab if Corcraft staff do not have the necessary expertise; and
 - rejecting bidders that fail tests for required IFB specifications.

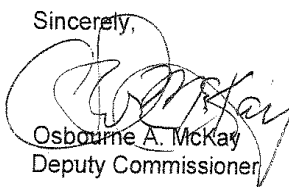
DOCCS agrees. Corcraft has modified existing procurement documents and created new documents to enhance and improve the current procurement process as recommended in the audit report. Modifications include: clear and concise documentation of all required testing as outlined in the IFB specifications, ensuring that personnel can adequately test the required specifications, documentation of the testing processes and any corresponding lab reports, including the use of an external lab if staff do not have the necessary expertise, and award methodologies such as rejecting bidders that fail to meet the required IFB test specifications.

3. Develop a process for testing products provided by current vendors to ensure they continue to meet IFB specifications after contracts have been awarded and before related payments are made.

DOCCS agrees. Corcraft will continue to manage the detailed specifications of materials received. This will include laboratory testing, if applicable, and documentation of the testing process for commodities received from our vendors to ensure required specifications are adhered to. Also, to improve Corcraft's ability to perform laboratory testing; we have submitted a construction request for a new laboratory facility.

If there are any questions, please contact Paul Guenette, Director of Internal Controls, at (518) 485-1394. Thank you.

Sincerely,



Osbourne A. McKay
Deputy Commissioner

cc: Anthony Annucci, Acting Commissioner
Daniel Martuscello III, Deputy Commissioner Administrative Services
Robert Kennedy, Assistant Commissioner
Michael Hurt, Director of Correctional Industries
Paul Guenette, Director of Internal Controls
Jeff Nesich, Director of Internal Audit