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WITNESS LIST

Federal Prision Industries and Small Business

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Panel 1

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Accompanied by:

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ACQUISITIONS

Panel 2

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**TESTIMONY
PRESENTED BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON
PROCUREMENT, TOURISM, AND
RURAL DEVELOPMENT**

**by
JOHN C. FOREMAN**

October 23, 1991



Mr. Chairman and Members of the Subcommittee, thank you for inviting me to testify before you today on matters related to the independent market study on expansion opportunities for Federal Prison Industries (FPI).

My name is John Foreman and I am a principal with the Management Consulting Division of Deloitte & Touche. I am based in Washington, DC and had overall responsibility for the market study. I participated in many of the interviews and briefings we conducted, and was intimately involved in the data analysis and the development of recommendations.

By way of background, I have over fifteen years of experience in general business and management consulting. I joined Touche Ross in 1979, which subsequently merged with Deloitte Haskins & Sells in December 1989, and created Deloitte & Touche. During my professional career, I have served a number of small and large clients in both the public and private sectors. I hold a B.S. from Shippensburg University, an MBA from the University of Maryland and I am a Certified Management Consultant.

Dr. Gerald Miller, who is with me today, was the principal analyst throughout the study. Dr. Miller conducted the interviews, performed the project analyses, and assisted in the development of the recommendations.

Dr. Miller is also from our Washington, DC office and joined us in



1989. Dr. Miller holds a B.A. from Pennsylvania State University, an M.A. from George Washington University, and a Ph.D. in Economics from George Mason University. His dissertation was an analysis of the impact of federal antitrust policies on the economic performance of over 300 U.S. industries.

Prior to joining Deloitte & Touche, Dr. Miller worked for Synergy, Inc., a firm that provides procurement planning and material management consulting services to Defense Department agencies. More currently, Dr. Miller has also been assisting the Virginia Department of Corrections to improve manufacturing operations through the installation of systems and procedures to better manage inventory needs, improve cost accounting procedures and provide more timely management information.

It is important to note that my testimony is based on our perspectives and experience as the professionals who completed the study. Study reports, presentations, and recommendations were reviewed through the internal Deloitte & Touche review process. This review process is designed to ensure the consistent quality, relevance, and practicality of recommendations resulting from a study such as this. However, my statements are not to be interpreted as Deloitte & Touche policy statements, or positions of any of our clients. The collective "we" used in this testimony refers to the project team, not to Deloitte & Touche.

The major thrust of our recommendations is a transition from FPI operating in traditional industries to FPI forming mutually beneficial



partnerships with private sector businesses in existing and new markets. We have developed a four-pronged recommendation to support this transition strategy. Let me describe how we formulated our recommendation.

As you are aware, the Senate Judiciary Committee mandated that an independent market study be conducted prior to further FPI expansion in existing or new markets. Deloitte & Touche responded, along with other potential contractors, to the fixed price solicitation and was selected. Key selection criteria included that potential contractors be independent of FPI and the various interest groups to ensure objectivity. Bidders also needed to demonstrate a knowledge of the issues related to corrections and prison manufacturing, and to possess the depth and breadth of capabilities and experience to perform the market study.

Although Deloitte & Touche has consulted with state agencies regarding corrections and has also provided consulting assistance to implement private business alternatives to public sector correctional facilities, we felt it necessary to include the Criminal Justice Institute (CJI) on our team. We believed the Criminal Justice Institute would help ensure that our analysis and recommendations were practical and would provide the team with timely access to past studies, thoughts and data. The Criminal Justice Institute is nationally recognized for its survey and market research work in the field of corrections focusing on issues such as recidivism, prison crowding and population growth, and state-level prison industry programs.



Dr. George Camp, a principal with the Criminal Justice Institute, actively participated in the study. Prior to forming the Criminal Justice Institute, Dr. Camp served as Director of Corrections in Missouri, First Deputy Commissioner of Criminal Justice in New York, and Assistant Commissioner of Corrections in New York City. Dr. Camp holds an M.A. in Criminology from Florida State University and a Ph.D. in Sociology from Yale University.

Five objectives for the market study were specified in the request for proposal. Let me briefly state each objective and highlight our related findings. Following this, I will provide an overview of the methodology of the study and finish my testimony with a more detailed discussion of our findings and recommendations.

The first objective of the market study was to identify potential new product lines for FPI which would have minimal private sector impact. Unfortunately, we did not identify any new products procured by federal agencies that we felt had significant potential to alleviate the various concerns from interest groups under the current approach to FPI operations and mandates.

The second objective of the market study was to analyze the impact that FPI has had on the furniture, textile, printing, electronics, and apparel industries. In this analysis we found that many factors are impacting these industries. As such, we developed recommendations, that we believe will lessen FPI's impact on the private businesses active

in these industries. The recommendations suggest that future FPI growth come from new markets. We also believe that diversification into new markets will help make FPI operations less dependent upon changing trends in FPI's traditional product industries. These trends are being driven by such factors as imports, new or evolving production technologies, and more unique customer needs.

The third objective of the market study was to estimate the number of private sector jobs displaced by FPI. This was done as part of the impact assessment of FPI to satisfy objective number two.

The fourth objective of the market study was to analyze whether limits should be placed on FPI's market share. Based on our analysis, we believe that access to new markets, not limiting FPI to the government product market or specific market shares for individual products, offers a better opportunity to minimize FPI's impacts on the private sector. We believe our recommendations also help to improve FPI's predictability, a concern expressed by small private sector businesses, and minimize the need to oversee FPI expansion plans and marketing practices. We believe these benefits will result from having FPI focus on the production of a restricted set of products and services in multiple markets, with each product or service having the potential to employ a sizeable number of inmates in its production. The industries in which FPI operates should have as much cross-market commonality for FPI products and services as possible.

The fifth objective of the market study was to determine whether the



current law governing federal procurement from FPI should be retained or revised. We believe changes are warranted. These include regulatory and legislative changes to allow FPI to participate in different markets, as well as changes to how FPI operates within the traditional government product market. Other changes are needed to allow FPI to team with American businesses, both small and large, to provide access to FPI's labor pool and at the same time allow FPI to employ an increasing number of inmates in a stable manner.

In terms of our methodology, within the first week of the study we received numerous telephone calls, both pro and con, regarding FPI's business practices, benefits and mandates. Based on the level and diversity of views expressed, we modified the approach to the study in our original proposal to ensure timely and complete follow-up of recommendations, opinions, and allegations. For example, instead of the planned 50-80 interviews, we conducted over 350 interviews and surveys with:

- o Federal department and agency employees involved in the specification, purchase, and use of products and services provided by FPI;**
- o Private sector businesses that market products and services to the federal government and view FPI as a competitor or, in some cases, a customer;**
- o Bureau of Prisons (BOP) officials who rely on FPI programs to occupy the time of inmates in correctional institutions;**
- o UNICOR's management and Board of Directors who currently oversee FPI's operations, marketing, and expansion initiatives;**
- o Trade associations and special interest groups presenting various views of FPI; and**
- o State and local corrections systems and correctional industry programs.**



We felt it was necessary to expand the interview process to understand the various views and identify any consistent themes among the various constituents.

More importantly, to ensure the credibility of our recommendations, we felt that it was necessary to collect and review as much data as possible to be able to point to a complete set of quantitative data and qualitative information. For example, it became apparent during the initial weeks of the study that many opinions and positions were being advanced with incomplete or missing data or with data that tended to conflict with other data. Many representatives of interest groups made promises that they would provide additional information, both pro and con; however, not all such promises were fulfilled and those fulfilled did not, in our opinion, always support the initial opinions or suggestions advanced.

As a result of not having a consistent set of data, we changed the approach for the interim status report. The original solicitation required that the successful contractor prepare and publish a study methodology by early May that defined the study issues and data to be collected to support the analysis. Because of the need to establish a complete and consistent fact base, we escalated data collection activities to enable us to include as much data/information as possible in the interim status report. Our objective was to ensure that interested parties had the opportunity to see the data we had collected or anticipated to collect, the level of specificity of such data, and to

provide them with the opportunity to begin forming their independent conclusions.

We also held five public briefings to ensure that interest groups had the same access to the project team as FPI management had during our periodic status meetings with FPI. The first meeting was held on March 5, 1991 at a Deloitte & Touche office and provided an overview of the planned study approach and activities. The second meeting was held on April 2, 1991 in the Rayburn House Office Building to describe the data sources assembled and issues encountered by the study team to that date. The briefing on the proposed contents of the interim status report was held May 8, 1991 at the Rayburn House Office Building. Comments received on the interim status report and overall study activities conducted to date were reviewed at a briefing on June 3, 1991 again at the Rayburn House Office Building. The final briefing was conducted on July 25, 1991 at the Rayburn House Office Building, and presented an overview of our findings and recommendations.

From a methodology standpoint, these were the safeguards we undertook to best ensure that our analysis and work activities were comprehensive and visible to interested parties, yet independent, objective and timely.

In terms of the findings and recommendations resulting from the study, let us first focus on the concerns about FPI's impact on the private sector. One major emphasis was on FPI's market share. We obtained statistical data from: the Commerce Department; the Labor



Department; the General Services Administration (GSA) Federal Procurement Data Center; the Small Business Administration, various federal agencies which purchase products and services from FPI, and the Bureau of Prisons and FPI.

Whenever enough product-level data was available at 7-digit SICs and NSNs/GSA SINS to draw conclusions about certain products, we calculated and reported market share and penetration levels at the product level. Our market share related findings include:

- o FPI's share of the federal market across only the products and services that it produces is approximately two percent; and
- o Within product classes which account for much of FPI's revenues, federal market shares range from 10 percent to 60 percent.

In our analysis of labor displacement, we found that FPI production offsets approximately 3,000 private sector workers. In general, FPI operations appear to be increasingly impacting small businesses. Between 1980 and 1990, it appears that small business set asides in many FPI product classes have increased. In 1989, small business produced approximately one third of the products and services purchased by the federal government and also provided by FPI. This compares to a small business penetration of approximately 11 percent for all government supplies and equipment procurement in 1989.

In general, concerns raised in interviews and surveys of private sector



representatives related to: FPI's federal market share; mandatory preference, especially an unclear understanding of what products FPI has a preference for; an inability to predict when FPI would solicit specific contracts; and, whether FPI's products met or needed to meet private sector price and quality standards. Federal agency representatives also expressed concern with the unpredictability of FPI product offerings and with inconsistencies in the availability of information on FPI's prices, costs and product specifications.

In addition to an increasing concentration of small businesses, total procurements of products by government agencies are decreasing. For example, we estimate that total procurements of FPI product classes have decreased by as much as 40 percent between 1987 and 1990. Expectations are that procurements of FPI's primary products will continue to decrease as a result of cuts in Defense Department and other agency supply and equipment budgets. Hence, FPI market share will increase, just by keeping production at current levels.

In addition to decreases in the total purchase of FPI products, the types of products demanded by federal customers are changing, limiting the component of value added that can be provided by inmates in labor-intensive manufacturing. Design and customer service functions are becoming more important in the purchasing decision.

The shrinking and changing federal product marketplace has forced FPI to become more proactive to meet its inmate labor needs. This has included a more stringent enforcement of preference mandates and the

development of alternative methods such as teaming and subcontracting to get at the expanded value-added product market. All of these factors, we believe, contribute to increased attention to FPI and its business practices.

Let us move on to the concept of product diversification. It is our opinion that diversification within only the government product market may not be the best alternative. Continued product diversification will make FPI more complex, both operationally and administratively. Diversification has apparently caused a larger portion of FPI's costs to be allocated to product design, sales, and marketing, as opposed to inmate and management salaries involved in the manufacture of the product. Customer service and sales support also appear to have suffered as a result of diversification. Finally, broadening product lines introduces new interest groups to the expansion guidelines process.

Further, our evaluation of new products for the federal government in which FPI could diversify did not reveal sizable opportunities for FPI to employ large numbers of inmates without continued concerns regarding market share and the displacement of U.S. private sector production and employment. We examined all product classes, focusing on identifying those that FPI could produce in a prison environment. Our research included products with large and increasing procurement volumes and those with evidence of insufficiency in current domestic sources, (i.e., foreign suppliers, contract discrepancies). Most of the products that FPI might produce

are not purchased in large quantities, and procurements are generally decreasing. Furthermore, diversification into new product lines would have negative implications for FPI's cost efficiency and overall effectiveness, due to the introduction of new production, marketing, and customer service requirements.

Viable methods of productively employing the growing federal prison inmate population in a self-sustaining manner were also not found in evaluations of state-level industry programs, an area frequently advanced as a solution. An assessment of state-level Prison Industry Enhancement Certification Programs (PIE programs) indicates that if these programs were emulated in the Bureau of Prisons, they would not generate employment opportunities for a sufficiently large enough number of inmates. Although 50 PIE programs exist in 17 states, they employ less than one percent of the inmates in those states.

Finally, employing inmates in activities such as environmental and recycling programs would be difficult for FPI to perform inside a secure prison environment, since these activities require inmates to go outside the facility. In many cases, the profitable environmental and recycling activities are already performed by private sector businesses. The remaining programs would require capital investment and appropriated funding for their operating costs.

Because we could not find a diversification route for FPI within its traditional federal government product market that we believed had a chance to satisfy some, if not most, of the diverse interest groups, we

started to question the traditional mandates and approaches to FPI operations.

We considered an alternative to focus FPI operations into a restricted set of products, allowing it to grow only within those industries and ban any business, small or large, from these markets. The major concern here is that labor-intensive industries are shrinking in the United States, increasing the likelihood that more businesses will fail. Because of this and other factors, i.e., increasing competition from abroad, FPI may not be guaranteed a stable workload and self-sufficiency could be compromised. Furthermore, this alternative would restrict the flexibility of federal agencies to meet their needs, especially as products become more tailored to the user.

Another alternative considered, and which we believe to be workable, is for FPI to meet future growth requirements through new markets and slowly transition from the government product market. We see this as a four-pronged strategy.

To maintain current levels of inmate employment during the transition, FPI should maintain traditional industry operations which manufacture products for the federal government using well-established, in-house resources. Industries in which it operates should not be expanded, and FPI should limit its market shares to current levels, assuming timely acceptance of the proposed strategy and implementation of various operational and other changes. Changes to FPI's reporting requirements and procedures should also be implemented to alleviate

concerns of unfair practices and improve FPI's predictability.

Secondly, FPI should serve as a subcontractor to private business for government products that increasingly require skilled labor for design, installation and customer service activities, i.e., move from a preference to a required usage mandate. FPI should first focus on subcontracting in those product areas where it currently serves as the prime contractor (e.g., systems furniture, upholstered furniture, draperies). These arrangements are most feasible and easiest to implement for large contracts in central procurement environments such as GSA and DLA. FPI should focus on utilizing inmates in assembly, upholstery, and finishing operations.

Implementation of this recommendation will require addressing numerous concerns such as liability, overall cost, and quality. The approach is based on using cheaper prison labor to offset the increased costs of major contractors to work with FPI. Overall, we believe that if FPI focuses on a smaller number of products, removing itself from the design, sales and marketing functions, FPI would be able to become a more timely manufacturer, improve quality, and realize some cost efficiencies.

Thirdly, FPI should be allowed to team with large businesses to utilize inmates in activities that would otherwise be performed by non-U.S. labor for the non-government market. We recommend FPI leverage off of its current production of electronics, textiles, cables, and fabrics, such as tents, as these are frequently labor-intensive and produced

offshore. Also, since these products generally go through established channels held by the private sector partner, FPI's inefficiencies with marketing and distribution would be minimized. Large businesses would most probably welcome the opportunity to team with FPI if quality and labor costs were better than offshore alternatives. Any additional incentives needed to generate these arrangements could be provided through tax benefits.

Finally, FPI should increase its efforts to employ inmates in services for the federal government and be given a preference for specified services such as printing, computer data entry and equipment repair and maintenance. We see this as a cooperative effort between FPI and government agencies, where there is increasing pressure to outsource unskilled labor tasks because of efficiency and budget considerations.

We believe that the recommended growth strategy has benefits for each major interest group. Private sector businesses will have increased opportunity to compete in the federal marketplace. Within the federal market, the recommended changes to FPI's administrative checks and balances should level the playing field and make FPI more predictable, while reflecting the realities of prison industry production.

We also believe that the recommendation moves toward resolving many of the issues related to small business interests. If they are implemented properly, FPI management can use the time and resources it spends on marketing, sales, and defending its mandate to managing operations and developing mutually beneficial relationships



with the private sector.

Mr. Chairman and Members of this Subcommittee, the central theme of our recommendations is to transition FPI from a competitor of small businesses to a partner with both large and small businesses. Our recommendations also offer government agencies access to FPI labor to perform service functions that are currently being performed in-house.

In closing, we did not expect our recommendations to be non-controversial. FPI corrections and business impacts are a significant and complex issue. However, we believe we did present a complete alternative to current operations. Not only did we suggest what cannot be done and point out problems with the current approach, but hopefully we have provided a new vision and road map to possible new concepts that we believe, in the long term, benefit everyone. In this regard, we suggest that you challenge detractors of the study to address how their recommendations and criticisms not only solve their immediate concerns, but allow everyone to achieve some benefits.

That concludes my prepared statement. Thank you for the opportunity to present these remarks. I would be pleased to answer any questions you, Mr. Chairman, or your fellow Subcommittee Members may have.



Federal Bureau of Prisons

Washington, DC 20534

**Statement
of
J. Michael Quinlan
Director, Federal Bureau of Prisons**

Before the

**Subcommittee on Procurement,
Tourism, and Rural Development**

**of the
House Committee on Small Business**

October 23, 1991

**Testimony of J. Michael Quinlan
Director, Federal Bureau of Prisons**

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear before you and discuss Federal Prison Industries (FPI), the Congressionally mandated Market Study conducted by the firm of Deloitte & Touche (Market Study).

With me today is Richard Selter, Assistant Director of the Federal Bureau of Prisons and Chief Operating Officer of FPI.

Background

Before I discuss the Market Study, I would like to first explain FPI's critical importance to the Federal Bureau of Prisons (Bureau). The Bureau's inmate population is growing at the astonishing rate of approximately 500 inmates per month and is projected to exceed 100,000 by 1995. Employment, particularly industrial jobs, is the key factor in combating the adverse impact of crowding in a prison setting. Work, education, and vocational training not only reduce the debilitating idleness of a crowded institution, but offer important security management benefits such as supervised time out of cells. A major Bureau study, the Post-Release Employment Project, found that inmates who participated in industrial work and vocational training during their imprisonment showed better adjustment while incarcerated, were more likely to be employed upon release, and were less likely to recidivate.

FPI is the Bureau's primary work program, employing approximately a quarter of the Bureau's inmate population. FPI is a wholly owned, non-appropriated Government Corporation within the Department of Justice created by Congress in 1934 to relieve idleness in Federal prisons and to provide employment and training for the greatest number of Federal inmates possible. To ensure a continuous flow of work to FPI prison factories, where sudden "layoffs" might seriously jeopardize the security and orderly running of the prison, Congress requires Federal agencies to purchase their supplies and services from FPI -- but only when FPI can meet price, quality, delivery and product specifications. This procurement preference is not new; it was included in

FPI's enabling legislation nearly 60 years ago. However, in the currently declining Federal market, with competition increasing, and FPI expanding to keep pace with the Bureau's needs, FPI's procurement preference status has become the subject of considerable concern. As described more fully below, the Market Study examined the preference and determined that it should be retained.

By law, FPI's expansion must be accomplished without undue impact on the private sector. FPI is required to complete a public involvement process, overseen by its Presidentially appointed Board of Directors, before it can add a new product line or significantly expand a current line. This process is relatively new, and was fully implemented only last year. The Board takes very seriously its responsibilities to balance the interests of the private sector with the need to keep Federal inmates constructively occupied. Of the 12 FPI expansion proposals reviewed by the Board to date, 3 were denied, after representatives of the private sector persuasively demonstrated to the Board that FPI would, in fact, have an undue impact on the industries involved. I believe that the system is working well and the intent of Congress is being met.

Current law also requires that FPI diversify its product line to avoid placing an undue burden of competition on any one segment of private industry. In accordance with this provision, FPI currently makes 150 products in 83 different product classes across 46 different industries. I doubt that any private manufacturing company has reached this level of diversification, as no company with its eye on economies of scale would want to diversify to this extent because of the inefficiencies inherent in such business practices.

Partnerships with Small Business

Appearing before the Small Business Subcommittee today provides me with an opportunity to emphasize how closely FPI has worked with small business throughout its nearly 60 year history. While it is true that FPI products are often sold by some of these companies, we have also developed close working and mutually beneficial partnerships with many small businesses through FPI's own procurement of supplies, equipment, raw materials and services. We contract with, and serve as a sub-contractor to, many private sector companies, with the majority of our

purchases going to small businesses.

During Fiscal Year 1990, out of 240 million dollars in total procurement, FPI purchased nearly 120 million dollars, or 50 percent, from small businesses. FPI factories purchase most supplies and equipment from businesses in the local community, which also benefit from FPI's presence by the purchases of civilian staff. FPI is considered to be a "good neighbor" to these businesses and to the entire community as well.

FPI's main relationship with the private sector, and especially with small business, is through its purchase of raw materials and component parts for use in FPI's labor intensive manufacturing and assembling operations at its 80 factories. Sixty percent of FPI's sales dollars are returned to the private sector through the purchase of raw materials; in fact, nearly all of FPI sales are returned to the private sector, directly or indirectly. Only three percent of FPI earnings are retained and all of that is used for capital expansion -- again involving private sector architectural, design and construction companies.

These partnerships with the private sector take on many forms, including FPI acting as a sub-contractor to a prime Government contractor, whereby FPI provides the labor as well as access to its extensive testing laboratory facilities. Because FPI can provide access to the Federal market, these kinds of arrangements are increasing, which demonstrates FPI's capabilities to the private sector as a sound business partner.

The network of mutually beneficial business arrangements that FPI has nurtured over its nearly 60 year history is truly impressive and affects many different industries because FPI is so diversified. FPI and industry can work together in mutually beneficial relationships, providing small business with additional Government procurement opportunities and allowing FPI to meet its vital correctional mission.

We fully realize that many of the industries in which FPI operates are comprised of an increasing concentration of small businesses, and that these businesses, particularly, are feeling the impact of the decline in Federal procurement. Yet, to keep pace with the tremendous growth of the

Bureau and to ensure the safe, orderly management of Federal prisons, FPI projects a need for approximately 30 new factories by 1998, the time period looked at by the Market Study. How to achieve FPI's expansion is a subject of concern to the members of this Subcommittee, but I am sure you will agree with me that this expansion must be achieved. I would like to turn now to our preliminary response to the recommendations of the Market Study.

Market Study Evaluation

There were three purposes to the Market Study: 1) to identify products and markets for FPI that will have a minimal impact on private sector industry; 2) to assess the impact that FPI has had on the private sector in the past; and, 3) to determine whether the laws that control FPI's procurement process need to be changed. A Bureau task force is in the process of evaluating the numerous findings and recommendations contained in the Market Study. Although our evaluation is not yet concluded, and while some of the major recommendations still require considerable research, I am happy to share with you our thoughts to date.

In order to appreciate the genesis of the recommendations, it is necessary to understand the backdrop against which they were made. First, as you know, FPI's sole customer is the Federal Government, a market that has been declining and is expected to continue to decline. Second, many of the industries in which FPI operates are increasingly impacted by imports, leading some companies in these industries to a greater dependence on the Federal marketplace. Third, many of these same industries are comprised of an increasing concentration of small business. Fourth, FPI is faced with a correctional program mission to increase its employment of inmates over the next 8 to 10 years to keep up with the dramatic influx of additional offenders committed to Federal prisons.

Before addressing the recommendations in the Study, I would first like to emphasize several findings made by Deloitte & Touche.

More than 70% of FPI customers interviewed or surveyed indicated that the mandatory preference was the primary reason for utilizing FPI products. Yet, the Market Study found that

FPI supplies only a small fraction of the goods and services purchased each year by Federal departments and agencies. In 1990, the Federal government is estimated to have purchased over 191.2 billion dollars worth of goods and services. Of this total, according to the Market Study, only one-sixth of one percent was purchased from Federal Prison Industries.

The Market Study examined the 83 product and service classes in which FPI produces, and concluded that, even in this narrower universe of procurement, FPI's share of the Federal market is only 1.9 percent. Furthermore, since some private firms also have the much larger market outside of the Federal Government available to them, the Market Study also examined FPI's impact in the broader economy and concluded that in the industries in which FPI operates, FPI has less than one-tenth of one percent of total U.S. production, and that its impact on U.S. industries has not been significant.

We are very pleased that the Market Study gave FPI excellent ratings for price, quality, and compliance with specifications. FPI receives its highest ratings for custom products -- those built to the customer's specifications -- but also receives above average quality ratings for items such as electronics assemblies for military equipment. The Market Study concluded that FPI follows product design, testing, and quality specifications across its product lines. Also, FPI prices were found to be comparable to private sector vendors. In general, the Market Study confirms positive results of previous examinations of FPI's price, quality, delivery, and customer service which were conducted by the Judiciary Subcommittee on Courts, Intellectual Property and the Administration of Justice in early 1990 and by a Government Accounting Office (GAO) audit of FPI in 1985.

In spite of these high marks, the Market Study concludes that FPI growth in a declining Federal Government market will continue to create controversy among private sector companies, which could eventually undermine the very reason for FPI's existence -- to operate a correctional program charged with employing and training a substantial percentage of the rapidly growing inmate population at Federal institutions. Put simply, the Market Study concludes that there are no easy answers and there are no sizable opportunities for FPI to meet its growth requirements through continued diversification into new products and services.

To address this dilemma, the Market Study suggests that we complement sales of traditional products and services to the Federal Government through expansion of markets and through some changes in the way in which FPI interfaces with the Federal marketplace. The Market Study recommends three growth strategies:

1. That FPI subcontract with Federal prime contractors, under a mandatory set-aside arrangement, to perform labor-intensive, light manufacturing production functions.
2. That FPI enter into partnerships with the private sector to attempt to repatriate certain segments of American industry by manufacturing product components and performing certain production functions which otherwise could only be accomplished by offshore labor.
3. That FPI substantially increase its provision of services to the Federal Government, through the enactment of a mandatory source procurement preference. The Federal Government's purchases of services are increasing, and this growth offers substantial opportunity for FPI to employ more inmates with little likelihood of adverse impact in the private sector. We note that the law currently provides a mandatory preference for services to the National Industries for the Blind (NIB) and the National Industries for the Severely Handicapped (NISH). We do not believe that any preference for services in favor of FPI should take priority over the preference currently afforded to NIB and NISH. In fact, it is our recommendation that FPI be given a preference that is secondary to these organizations.

The Market Study recommends that by 1998, FPI should generate 50 percent of all sales by these three new strategies. This means about 100 million dollars worth of sales in each strategy. While the report recommends that during the transition period, sales continue to be generated by traditional industries (textiles, apparel, electronics, furniture), at the same time the report recommends that FPI reduce its sales by about 60 percent from what those sales would have been, as currently projected for 1998.

In addition to the growth recommendations, I am interested in following up on several other Market Study recommendations of considerable importance.

1. The mandatory preference should be retained and extended to selected services in which FPI has a small share of the Federal market.
2. The Market Study recommends that FPI's products should be required to comply with the same specifications and meet the same quality and testing standards that private sector vendors to the Federal Government are required to meet. The Market Study and other sources referred to earlier in this testimony, concludes that FPI does meet all such standards. However, this is an issue that sometimes arises and we welcome the opportunity to lay this issue to rest by concurring with the recommendation.
3. The Market Study recommends that FPI should improve its waiver program for its mandatory source offerings by establishing time deadlines, standardizing administrative processing, and collecting information on processing of waivers. We concur and in fact are taking steps to implement this recommendation.
4. The Market Study recommends that the Federal Acquisition Regulations (FAR) should be amended to permit FPI to sell excess materials and inventories and purchase its raw materials more flexibly. We concur that there are important efficiencies and savings that could result from modifications in this area. Revisions to procurement policy should be made in connection with a careful review by FPI of its procurement procedures so as to maximize the advantages of competition while avoiding the inefficiencies under which it is currently required to work.

In addition, we concur with the recommendations involving the Board of Directors, including the recommendations that Directors who are not Government employees should be paid for their services, and that the composition of the Board should provide expertise not now readily available to the Corporation.

As can be seen from the impressive set of appendices you have before you today, Deloitte & Touche collected and analyzed a great deal of information which serves as a foundation for its recommended growth strategies. However, time and resource limitations did not permit a comprehensive feasibility analysis of these new approaches, particularly the sub-contracting set-

aside and offshore production replacement recommendations. Examination of the issues surrounding implementation raises difficult questions: What is the maximum productivity we can realistically expect to reach, without undermining our basic philosophy and statutory mandate to maximize inmate employment? How can we design an industrial operation in a secure prison setting to minimize overhead and maximize efficiency? What types of products lend themselves best to cooperative production with Federal prime contractors? What types of managers and training will be necessary to move into services areas which may be new to FPI? What products and components are currently done off-shore which offer the greatest potential for FPI? The answers to these questions are essential to the implementation of the new growth strategies.

My overall impression, and that of FPI's Board of Directors, is that we are enthusiastic about the possibilities set out by the Market Study. We are eager to work with this Subcommittee and the Judiciary Committee in an effort to draft legislation that will enable FPI to move ahead with the important business of implementation.

However, as the Market Study makes clear, it is absolutely essential that FPI continue product growth among its traditional industries, not only prior to enactment of any enabling legislation but throughout any testing and implementation period, until we are confident about the success of these new market opportunities. The bottom line is simple -- we must continue to employ the burgeoning inmate population of the Bureau.

The task of turning around a corporation like FPI, involving fundamental changes in the way it has done business for almost 60 years, is a difficult and challenging one. During one of our evaluation group's sessions, it was likened to turning around the Queen Mary in the Tidal Basin, and we must be prepared for some immense challenges along the way. However, I can assure you that we are committed to pursuing the recommended growth strategies with all available resources.

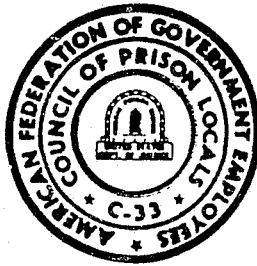
I would caution everyone that this implementation effort should not be accompanied by the imposition of any rigid time limits for the successful realization of any of the growth strategies.

The uncharted waters ahead, coupled with our ongoing correctional program mission, dictates that there be no scaling back of production by FPI, until experience permits us to say with confidence that the strategies are working, and gives us firm guidance on what pace implementation can be accomplished.

Closing

FPI is at the crossroads: It must continue to expand by providing more work opportunities for the rapidly increasing inmate population, but the Market Study concludes that expansion should not be in traditional markets. Many issues remain, but we in the Federal Bureau of Prisons are eager to work with Congress in developing legislation that will allow us to implement the Market Study's recommendations to achieve a modernized, dynamic Government corporation, building on the sound business relationships already developed with the private sector in the past and achieving an unprecedented partnership for the future.

This concludes my formal statement, Mr. Chairman. Mr. Selter and I would be pleased to answer any questions you or your colleagues may have.



**FEDERAL PRISON COUNCIL 33
(AFL - CIO)**



Statement

of

**Mike Grotfend
President
Council of Prison Locals
AFGE (AFL-CIO)**

Before the

**Subcommittee on Procurement
Tourism, and Rural Development**

**of the
House Committee on Small Business**

October 23, 1991

"Gain Strength Through Unity"

Testimony of Mike Grotefend
President, Council of Prison Locals

Mr. Chairman and member of the Subcommittee, I appreciate the opportunity to appear before you to discuss Federal Prison Industries (FPI) and its importance to the safety and security of the correctional workers that I represent.

First and foremost, it is important that this Subcommittee understands that FPI is a *Correctional Program*. Its purpose is not to compete with small businesses in the private sector. Its sole purpose is to employ Federal prisoners in meaningful work activity to minimize the debilitating idleness of Federal inmates confined in Federal institutions throughout the country. Work created by FPI is one of the most effective management tools at the Bureau's disposal. It is my belief, that a reduction in the FPI market and the subsequent downsizing that would occur in the inmate workforce would threaten the safety and security of the Bureau's correctional workforce and the safety of the citizens of the surrounding communities. Likewise limiting the growth of FPI while the inmate population is experiencing unprecedented growth would have a similar effect.

It is also important to understand that inmates employed by FPI learn the concept of work and begin to understand the American work-ethic. Inmates employed by FPI become more responsible about their financial responsibilities in the community. Much of the money earned from FPI employment is sent to their families who remain in the community. FPI salaries are used to pay fines, judgments, and other debts that could not be paid without FPI salaries.

A perfect example is the success of the Inmate Financial Responsibility Program (IFRP). Since its inception in 1987, the Bureau has collected more than \$50 million. It is my understanding that more than 86 percent of the inmates identified as having a court ordered financial obligation, are now making payments toward these obligations.

In addition to helping inmates become financially responsible, employment in FPI gives inmates a sense of pride and accomplishment. They learn skills that are directly transferrable to the work world in the free-world. A world to which nearly all will return. Most importantly, however, is the fact that inmates who are employed in FPI programs adjust better during incarceration in that they are less of a disciplinary problem than inmates who are not employed by FPI. Better inmate adjustment means safer and securer institutions.

It is my belief that FPI has little effect on the displacement of labor in small businesses. Also, FPI currently benefits small businesses with the procurement of raw materials, supplies and services. My understanding is that FPI puts almost half of its procurement dollars back into small businesses.

I feel is also important to note that not all FPI employees are inmates. Nearly 1,280 of the 1,600 FPI staff are factory foreman and warehouse workers who are represented by the American Federation of Government Employees.

This concludes my formal statement, Mr. Chairman. I would be pleased to answer any questions you or your colleagues may have.