DATE: July 14, 2008

TO: Executive Office
Office of the Auditor General
House Fiscal Agency
Senate Fiscal Agency
House Judiciary Committee
Senate Judiciary Committee
House Appropriations Sub-Committee on Corrections
Senate Appropriations Sub-Committee on Judiciary and Corrections

FROM: Julie Southwick, Office of Risk Management

SUBJECT: Auditor General’s Performance Audit of the Prisoner Food Services

In accordance with the State of Michigan Financial Management Guide Part VII, Chapter 4, Section 100, I am forwarding a copy of the response to the Auditor General’s performance audit of the Prisoner Food Services. The attached response has been accepted by the State Budget Office (SBO).

If you have any questions, please contact me at (517) 335-6886.

Attachment

c: SBO, Office of Internal Audit Services, Operations Division
   S. Pike, SBO Analyst
   G. McClellan
   E. Mize
   D. Straub
   B. Wickman
July 14, 2008

Mr. Bryan Weiler
Support Services Division
Office of State Budget
George W. Romney Building
111 South Capitol, 5th Floor
Lansing, MI 48913

Dear Mr. Weiler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached please find a preliminary summary table and corrective action plans to address the recommendations that were directed at the Department of Corrections within the Office of the Auditor General’s audit report of the:

Prisoner Food Services

Questions regarding the preliminary summary table or corrective action plans should be directed to Connie MacKenzie, internal audit liaison, at 517 241-7342.

Sincerely,

DEPARTMENT OF CORRECTIONS

[Signature]

Patricia L. Caruso, Director
Attachment
PC/22/cm

C. MacKenzie
G. McClellan
E. Mize
D. Straub
B. Wickman
1. Findings/Recommendations MDOC complied with:

   5

2. Findings/Recommendations MDOC will comply with by:

   1  12/31/2008
   2  10/01/2008
   3  10/01/2008
   4  09/01/2008

3. Findings/Recommendations MDOC disagreed with:

   None
Prisoner Food Services
Department of Corrections
Preliminary Corrective Action Plan
October 2004 through September 2007

1. Food Services Cost Savings Measures

The auditors recommended that MDOC consider additional ways to reduce the costs of providing prisoner meals.

Agency Preliminary Response:

MDOC agrees with the recommendation and will continue to consider additional ways to reduce food costs while meeting the Dietary Guidelines for Americans. Requesting information from private contractors, explore developing partner relationships with other entities, evaluating a computerized swipe card system, review reducing the daily calorie standard (even though the current standard falls within the recommended range), and moving to a vegan (non-dairy and non-meat) kosher menu are just a few of the options that the MDOC continues to evaluate and had been evaluating even before the audit started.

However, the MDOC takes exception to the auditors’ savings estimates and/or disregard for the following:

- The Florida, Kansas, and Michigan Oakland County contracts only require the contractor to meet the nutrient recommendations of the National Academy of Sciences. The National Academy of Sciences does not specifically address how to obtain the recommended nutrients. Michigan adheres to the Dietary Guidelines for Americans which provide guidelines for obtaining the amount of nutrients recommended by the National Academy of Sciences.

For example, Florida, Kansas, and Oakland County use menus that contain supplements or other fortified or enhanced beverages or food products as substitutes for milk and fruits. One contract menu that the MDOC reviewed contained only a one half serving of fruit per day instead of three servings as recommended by Dietary Guidelines for Americans. Artificial beverages and products cost substantially less than natural foods but do not have the same positive impact on the long term health of individual as natural food. According to the Dietary Guidelines for Americans, “…nutrient needs should be met primarily through consuming foods. Foods provide an array of nutrients and other compounds that may have beneficial effects on health. …dietary supplements, while recommended in some cases, cannot replace a healthful diet.” Long term studies on the positive benefits of serving natural food have been summarized in the Dietary Guidelines for Americans. Their recommendations are based on the preponderance of scientific evidence for lowering risk of chronic disease and promoting health.

Because Florida, Kansas, and Oakland County do not require the contractor to follow the Dietary Guidelines for Americans or the Food Guide Pyramid, comparing the food
cost rates of Florida, Kansas, and Oakland County to Michigan is not a like comparison and may largely explain the cost differential. Nine other states responded to the auditors’ survey regarding prisoner food and each of them reported that they adhere to the Dietary Guidelines for Americans, the Food Guide Pyramid, or a combination of standards. The average daily prisoner food cost rate for the other states who provided data to the auditors was $4.80 while the MDOC’s average daily rate was $4.68.

Being that the average minimum term is approximately eight years and that almost 5,000 Michigan prisoners are serving Life sentences, the MDOC will continue to follow the Dietary Guidelines for Americans as the MDOC believes that it is less costly to properly feed prisoners than to treat chronic diseases.

- The Department of Community Health’s Center for Forensic Psychiatry relies on MDOC to provide food service to its facility. Costs associated with providing food service to the Center are included in the cost figures that the auditors used to compute an average per day per prisoner food cost rate. If the auditors had excluded food costs related to the Center from its calculation, MDOC’s per day per prisoner rate would be less. In addition, the cost figures that the auditors used to compute the average prisoner food cost rate includes costs associated with providing meals to corrections officers. If costs associated with providing meals to corrections officers were excluded from the calculation, MDOC’s per day per prisoner rate would be even less.

- The Oakland County Jail food service contract provides for the contractor to provide employee meals at $5.00 per meal which is almost six times its prisoner meal rate. In addition, the food service contract provides for the contractor to provide bagged prisoner meals for $.33 more per meal than non-bagged prisoner meals.

- The Florida Department of Corrections Inspector General reported that Florida’s “feed rates have declined sharply since the contract’s inception in 2001, creating a windfall for the vendor and reducing the value of the services provided ....” The Inspector General also reported that, “the food service master menu was changed repeatedly, allowing the vendor to substitute less costly meat products such as ground turkey for previously required beef products. This cut the vendor’s production costs with no proportionate decrease in the per diem rates charged to the Department.”

- Florida newspaper articles reported that Florida has fined its contractor for running out of food, insufficient staffing, poor quality food, and slow meal delivery. MDOC believes that the food service program is an integral part of the management of a correctional facility. The service of well prepared food helps to set the morale of a facility and enhances the security of staff and prisoners.

- Qualified and trained staff is the most valuable asset any company or agency has. MDOC is fortunate to have a stable work force that has extensive training and experience in food service and other aspects of safety and security of MDOC prisons. The average MDOC seniority rate for a food service prisoner leader, assistant food service director, and food service director is 11.5 years, 17 years, and 19 years, respectively. MDOC food service staff are trained as first responders in the event of
violence and coordinate and participate on non-food service committees including but not limited to fire safety, energy reduction, prisoner store, ACA accreditation, institutional training, Warden forums and the like. Food service directors also oversee food warehouses, serve as acting facility managers; others have been promoted to facility and business manager positions. This is a direct reflection on their intelligence, training and human relation skills.

In contrast, other agencies have informed the MDOC that there is a high staff turnover rate with food service contractors. High staff turnover rates increase training costs and add security risk in that prisoners would have additional opportunities to manipulate or take advantage of new hires. In addition, there would be a potential need for additional custody assignments in contracted facilities since private employees are not typically trained as first responders which could significantly reduce cost savings.

- By utilizing a private contractor, the economic impact on Michigan businesses and farmers could be substantial. In FY 07, MDOC purchased approximately $43,000,000 of food from Michigan vendors. Attached are several letters of support from Michigan vendors which explain the possible impact privatization would have on them as national food service companies typically buy products to fit their national distribution system.

2. Food Production

The auditors recommended that MDOC effectively monitor food production.

Agency Preliminary Response:

MDOC agrees with the recommendation and will comply by clarifying its statewide operating procedure and by revising applicable forms.

However, it is important to note that regarding item a, one of the reasons that extra quantities of main entrées are prepared is because food service directors have to predict how many of the prisoners will choose one entrée over another entrée. MDOC allows prisoners to choose entrées because this allows the MDOC to avoid preparing more expensive therapeutic diet trays for certain prisoners. As prisoners select menu items, it is necessary to ensure that prisoners at the end of the line have the same food choices as those at the beginning of the line.

Regarding item b., MDOC believes that serving an average of only 19 extra meals per day at any one facility may be attributed to work crews from other facilities, mistakes made in counting prisoner in dining rooms, changes in institutional counts resulting from prisoners transfers in and out, or from time to time – accidents such as trays that are dropped, or spilled during transport to special housing units.

In addition, this figure (19) needs to be put in context. These facilities house approximately 1,100 prisoners and would prepare about 3,300 meals per day. The generation of 19 extra meals out of 3,300 prepared daily amounts to 0.5% excess meals.
Regarding item d., MDOC agrees that the use of leftovers may not have been documented on some production sheets. However, it is MDOC’s practice to use leftovers in snacks or bagged meals, or to incorporate the leftovers into future meals, therefore, the leftovers were not likely wasted. In fact, in virtually every instance the OAG auditors actually observed the leftovers in facility coolers labeled and dated. However, since staff did not document when and for what the leftovers were used, the auditors concluded the leftovers were unaccounted for. While we believe the leftovers were used, we understand that by thoroughly documenting their use on production sheets we will be able to positively confirm this fact.

3. Food Commodity Purchases

The auditors recommended that MDOC’s correctional facilities consistently ensure that they obtain food commodities at the best price.

Agency Preliminary Response:

The MDOC agrees with the recommendation and will comply. The Bureau of Fiscal Management (BFM) has drafted a purchasing memo clarifying spot buy parameters and providing instructions for purchasing all food commodities including produce. As multiple vendors seek to provide MDOC with spot buys an increase of gate activity would occur as deliveries are made within the secure fence perimeter. This increase of activity would be a security issue and could impact public safety. In determining to proceed with a spot buy or not, the facility has to take into consideration the security issues of the facility as well as the safety of the public.

BFM will also take steps to adopt a statewide spot buy tracking system.

4. Warehouse Controls Over Food Inventory

The auditors recommended that MDOC ensure that its correctional facilities implement sufficient controls to safeguard food inventory stored at the warehouses.

Agency Preliminary Response:

MDOC agrees with the recommendation and will comply. The Bureau of Fiscal Management will develop an operating procedure that will be utilized by all correctional facilities.
5. **Prisoner Food Service Wages**

The auditors recommended that MDOC ensure that its correctional facilities correctly and consistently classify prisoner food services wages in the State’s accounting records.

*Agency Preliminary Response:*

*MDOC agrees with the recommendation and has complied. The Bureau of Fiscal Management is conducting a bi-monthly review of food service expenditures to verify expenditures are being recorded accurately.*
November 16, 2007

The Honorable Jennifer M. Granholm
Governor of Michigan
State Capitol
P. O. Box 30013
Lansing, MI 48909

Dear Governor Granholm,

For the past 10-15 years we have been doing produce bid business at the correctional facilities in Coldwater Michigan. Our ability to source product grown in Michigan as well as use our trucks to backhaul product, enables us to supply produce at or above spec at a lower price. As a Michigan only distributor, we always try to work with other Michigan companies.

It has been our experience that when a national foodservice company is awarded a contract for a school or correctional facility, all products are sourced to fit their national distribution system.

While we feel confident we can source quality produce at competitive prices, we do it in such a way as to benefit Michigan growers and local companies. Having a bid procurement system that provides Michigan as well as national companies the opportunity to bid on product, you not only achieve lower prices, but you also help Michigan companies to survive.

We would welcome the opportunity to provide any other information you may require.

Sincerely,

[Signature]

Steven T. Norman
Vice President
Norman Foods
CUSTOM BLENDS, LLC

Food Product Development and Manufacturing

1547 Godfrey Ave. SW * Wyoming, Mi 49509 * Fax/Phone: 616-248-3000 * Cell Phone:
616-260-1598
June 30, 2008

Auditor General:

As a small business owner in the State of Michigan, I am writing to inform you that the discussion of privatizing the Michigan Department of Corrections Food Service Department is of grave concern to me.

For over 14 years, Custom Blends, LLC has worked with the correctional food service managers in the state to develop safe and nutritional soup and sauce products. I have always found them to be of the highest professional quality, with an unwavering dedication to their jobs. Our products have been readily accepted by the prison population, been economical and have increased the safety of the kitchens by alleviated cans and can lids in the production areas.

Over the years, we have overcome a number of obstacles in growing our business in Michigan. The latest being the tax increases placed on small business via the latest version of the small business tax. If the state decides to privatize correctional food service, it may very well put my business out of business.

Research shows that the privatization of correctional food service, in other states, has lead to the decline of food service quality and control. It also shows that when privatization takes place within a state support of small businesses within that state, declines drastically. The decision makers within the contract company are only concerned about their company’s bottom line and not the states bottom line!

All cost ramifications needs to be considered before moving toward a contract management program.

I urge you to attach a very high monetary value to the adverse impact privatization of Correctional Food Service will have on small business in the state.

I urge you to attach a very high monetary value to the adverse impact privatization of Correctional Food Service will have on the loss of jobs in the state.

I urge you to attach a very high monetary value to the adverse impact privatization of Correctional Food Service will have on the loss of tax revenue in the state.

When Michigan is working so hard to attract business to the state, I am perplexed to know the state is considering a decision that will have an adverse impact on the businesses that are already here.

I urge you to maintain the current State of Michigan’s managed and controlled correctional food service department.

Sincerely,

James J. Muth, MBA, CFBE

President
Dear Representative,

My name is Tom Maceri and I am a resident of Macomb County. My family owns a wholesale produce company in Detroit. We currently do business with 29 state correctional facilities throughout the state of Michigan. Lately with all of our states budget problems, I have been hearing about the potential of privatization of prison foodservice. This would greatly affect my business. This will also affect the Michigan based farmers that I do business with. As we try to support our local economy.

By out sourcing the prison foodservice programs, it would cost our company over 2,500,000 dollars in sales a year and I only service 29 of the states facilities. This would result in job losses for our employees along with the impact to our local growers.

The business that we do with the 29 facilities that we currently supply is all done through a bid process. When you have 3-5 local companies bidding for the same business the facilities are already getting the best prices. Now the State is trying to privatize this foodservice business and who is to say that one company after a short period of time is not going to drive there prices up.

A large private firm is not going to source products locally and therefore more than likely money will flow out of Michigan. That is exactly what we do not need.

We are a 3rd generation family owned business that has been operating for over 70 years. We have been supplying most of these facilities for over 20 years.

I am writing this letter to voice my opinion and the concern I have as a local supplier and a tax payer to this Great State. Thank you for taking the time to read this letter. If you have time I would like to know were you stand on this matter.

Sincerely,

Tom Maceri
To: Gatha McClellan

I am writing in concern that the state is thinking about privatizing the food service at Muskegon Correctional Facility and others. We as a local business would be affected greatly by this decision. By doing this we would estimate losing 10% our sales per year. Most of the companies that do food service for institutions do not buy there equipment and supplies locally, or even in the state. I have been told that the service, quality and general attitude of the companies providing these services is not good. If this type of decision is being considered all factors must be looked at and not just the bottom line.

Thank you

Kevin Marshall, President
Jubilee Foods, Inc.
D.b.a. Pats Foods-L’anse
139 Main St.
L'Anse, MI 49946
906-524-6463

To whom it may concern:

We are just writing to inform you of the great importance the Baraga Maximum Prison is to our community and to us as a family-owned business in Upper Michigan. They have had a business account with us for some time now and we really appreciate them spending their money here local with us for the necessities/goods that they need in order to aid in their business for everyday items. We consider them an asset to the community in the respect that they offer many individuals high quality employment and more of the dollar is spent here locally.

Sincerely,

Joe Campioni
Owner/Manager
FYI

One of our local vendors sent this to me... kind of nice to get support from the outside...

>>> "Bob Ebels" <ebelsbobob@hotmail.com> 4/3/2007 3:26:29 PM >>>
Dear Representative Shelton:

My name is Bob Ebels and I am a resident of Missaukee County. My family owns Ebels Family Center in Falmouth. We work with the prison over in Kingsley by supplying them with some meat and produce items. Lately, with all the budget problems, we have been hearing about the potential of privatization of prison foodservice. This concerns me for the following reasons:

A large private firm is not going to source products locally, and therefore more than likely money will flow out of Michigan. That is precisely what we do not need.
Yes, a private firm may eliminate some state jobs that are costly, but what happens when all the people currently running the prison foodservice are out of jobs? I would think the local economy will lose the salaries, and also what is going to stop the private firms from raising prices when the state no longer has trained workers available that could take the system back over?
It seems I heard that the people running the prison foodservice feed the inmates for around $2.00 a day and that seems pretty good to me. How will a private firm do better?
I do not know your position on this issue, but I would appreciate knowing where you stand on this issue and why. Sincerely, Bob Ebels
Exercise your brain! Try Flexicon.
July 1, 2008

To whom it may concern:

This letter is in regard to the email we received from Brad Purves stating the privatization of food service in the prison systems within the State of Michigan.

We at J & M Produce have been doing business with various Michigan prisons for the last 12 years. During the last 12 years, we have established an excellent working relationship with the prison system.

As a Michigan produce supplier, we have provided excellent customer service and home-grown produce during this time. We provide numerous varieties of seasonal home-grown produce, as well as providing delivery of the products in the off season. We maintain communication when planting products in order to supply them with the produce that will best meet their needs.

We have always made our business readily available at all hours of the day and will provide products as needed, even on non-delivery days. We remain flexible in all facets of the business. In addition to the excellent customer service we provide, the quality of our product is top-notch. We provide the best possibly price to the prisons at competitive pricing. In order to remain competitive, we have made every attempt to keep our pricing down even through these difficult economic times. If privatization would occur, pricing to the prisons could increase due to the lack of competition causing the prisons to go over budget.

We work hard throughout the year to provide the best possibly pricing to the prisons. When we are able to get special pricing on products, we contact the prisons and pass the pricing advantage on. This allows the prisons to maintain their budget or even come in under budget. We have been told how much this helps the prison systems with their budgets.

Also, when we provide home-grown products in the season, we are able to provide better pricing that cannot be matched by vendors who buy their product and supply it to the prisons.

If privatization would occur, we would be forced to alleviate employment to our employees and close the business. In the economic state that Michigan is currently experiencing, employment and business is difficult to maintain. Please help us to maintain our business and provide the prisons the quality products and excellent customer service they deserve. Thank you for taking time to consider our request.

Sincerely,

Mary Ramon

TLR/amr

Tom Ramon
To Whom It May Concern:

July 1, 2008

My name is Scott Robertello and I own Kapnick Orchards a family run farm in Britton Michigan. Our farm is only 15 minutes from the Gus Harrison and the Parr Highway Correctional Facilities. We have been selling apples & peaches to these two facilities for 12 years. We usually start selling peaches in August and we typically store apples until Mid-May. We are very disturbed at the possible privatizing of the food service for Michigan’s Correctional Facilities. This move would obviously have a financial impact on our business; we average about $20,000 in sales each year. The biggest impact is the cash flow I receive during the winter months when farm income is at its lowest. To loss this account would force us to remove some of our orchard and cut our work force. In Michigan we are all facing uncertain economic times, as a business man I understand the need to be as economically sound as possible. I do believe that issues such as this are not black or white; the trickle down affect of this would be devastating. Less employees = less tax revenue, fewer trees = less supplies to be purchased, and fruit shipped from far reaching areas of the country are more impacted by rising fuel costs. I honestly can say that I am proud to be a vendor supplying food to the State of Michigan, I always sell my fruit at the best price I can offer to the State, and I often charge $3-$5 more per bushel of fruit to my other wholesalers. We have used the EFT program for payment to save the State money with writing checks. I would be willing to speak to you or anyone else who questions this “Buy Local” program.

Thank you for your time,

Scott J Robertello
Kapnick Orchards
Britton Michigan