DEPARTMENT OF CORRECTIONS

Policy Number:	**405.020**
Title:	**MINNCOR Product Pricing**
Effective Date:	**11/6/18**

PURPOSE: To provide uniform pricing procedures for pricing all Minnesota Corrections Industries Program (MINNCOR) products and services.

APPLICABILITY: All adult facilities with MINNCOR production sites and central office

DEFINITIONS:

Burden rate – the cost, excluding raw material costs, to produce the item in a work center. The costs are direct costs and allocated general and administrative expenses (G&A). G&A is allocated where applicable by the activity-based cost method or other accepted methods. The burden rate does not include raw materials or offender production hours when those hours are derived from the enterprise resource planning (ERP) manufacturing modules and input by those modules to the cost of goods line.

Custom product – items not part of the MINNCOR product family. A one-time production at the request of the customer.

Standard product – items part of the MINNCOR product family.

PROCEDURES:

A. Sales staff and production staff at all facilities and all other MINNCOR staff involved in product pricing must abide by the procedures outlined in this policy. All standard products, custom products, and labor services are priced, where applicable, to recover raw material and raw material waste, offender labor, factory overhead, facility and MINNCOR central office general and administrative expense (G&A), and any other extraordinary expense not covered in historical burden rates. Burden rates are calculated using budgeted numbers. Burden rates are updated in the enterprise resource planning (ERP) system with chief financial officer (CFO) approval. The most recently published burden rates are used in the product pricing calculation.

A. The MINNCOR Pricing Sheet (sample attached) or costs of bills and materials from the ERP system is/are used for all product and service pricing.

B. The burden rates are calculated at 60% efficiency levels, unless the efficiency rated is determined by capacity planning. All pricing calculations must employ this method as a first and mandatory preliminary calculation. Any lowering or deviation from this method must be justified and approved by the MINNCOR chief executive officer (CEO) and CFO. The CFO is responsible for maintaining the burden rate. G&A allocations, where applicable, are allocated by the activity-based cost method, and by the labor and sales based method. The vice president (VP) of operations is responsible for reviewing the efficiency ratings and making recommendations to the CEO and/or CFO.

C. The MINNCOR VPs of sales/business development approve new pricing for products or services. The cost information and standards for the service or product are maintained in the ERP system.

D. Standard pricing is maintained for variance reporting and the initial establishment of the product cost. Price sheets are established for all new products.

E. Larger volume purchases may require reduced quantity pricing. To facilitate the authorization of such discounts, price sheets must indicate quantity break points. Loss leaders may be utilized to move inventory or to sell other products and services. Prices related to loss leaders are approved in advance by the CFO or VP of sales and/or VP of business development.

F. The MINNCOR CFO, and the VPs, review prices for all standard product lines at least once every year. If vendor costs increase more than five percent, the prices are reviewed more often. The VP of business development reviews prices for all contract services yearly. The materials manager is responsible for reviewing and highlighting cost variances and produces reports highlighting negative margin items. The VPs and CFO review these reports and take action to reduce costs, increase prices, or determine if the product is utilized as a loss leader. The VP of business development schedules the review of all contract services.

G. The VP of sales makes changes to catalog literature as a result of price changes. The VP of sales must notify the MINNCOR CFO and materials manager of the catalog changes. The materials manager makes price changes to the ERP system, where the changes are maintained.

INTERNAL CONTROLS:

A. Product pricing and production costs are retained in MINNCOR's ERP accounting system.

ACA STANDARDS: 2-CI-6E-6

REFERENCES: Minn. Stat. § 241.27
Policy 402.080, "MINNCOR Production - Capacity Reporting"
Policy 403.100, "MINNCOR Inventory Control"

REPLACES: Division Directive 405.020, "MINNCOR Product Pricing," 8/5/14.
All facility policies, memos, or other communications whether verbal, written, or transmitted by electronic means regarding this topic.

ATTACHMENTS: MINNCOR Pricing Sheet (405.020A)

APPROVALS:
Deputy Commissioner, Facility Services
Deputy Commissioner, Community Services
Assistant Commissioner, Facility Services
Assistant Commissioner, Operations Support