

Prison Industry Authority

2015 SLAA REPORT

January 11, 2016

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Prison Industry Authority submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Gary Bush, Chief Financial Officer, at (916) 358-1159, gary.bush@calpia.ca.gov.

BACKGROUND

The California Prison Industry Authority (CALPIA) is a self-supporting state agency that works closely with the California Department of Corrections and Rehabilitation (CDCR) and provides approximately 6,500 offender training positions each year in California's adult correctional institutions. CALPIA is self-supporting through its sale of products and services and does not receive an annual appropriation from the Legislature.

CALPIA's mission is to reduce recidivism, increase prison safety, and enhance public safety by providing offenders with productive work and training opportunities. Paroled offenders who participate in CALPIA programs are less likely to return to prison than general population offenders, and this, in turn, contributes to millions of dollars in cost-avoidance savings to the state's General Fund.

CALPIA employs 976 civil service staff and manages over 100 manufacturing, service and consumable factories in 34 CDCR adult institutions. CALPIA offender-participants perform manufacturing, consumable, service, and support functions, including warehouse and administrative services. On average, CALPIA participants return to prison about 26 to 38 percent less often than offenders who do not participate in CALPIA programs. The programs produce trained offenders who have job skills, good work habits, basic education and job support in the community. If the offenders do not already have a General Education Development (GED) degree or high school diploma, they are expected to achieve either within two years of admittance into the program.

CALPIA programs offer nationally recognized accredited certification, including but not limited to optometry, dental technology, food handling, automotive service, laundry, commercial baking, agriculture, welding, metal stamping, industrial safety and health, electrical systems, mechanical systems, and maintenance.

RISK ASSESSMENT PROCESS

CALPIA's risk-assessment methodology included an assessment of its business management systems to ensure their continuing sustainability, adequacy, effectiveness and alignment with the CALPIA Strategic Business Plan and its four strategic goals. For any areas of deficiency, CALPIA identifies any risks and develops a business implementation plan that specifies how it intends to achieve goals and provides a methodology for measuring success.

CALPIA adheres to International Organization for Standardization (ISO) and is ISO 9001-certified. ISO standards are responsive to current international market needs and demands but are also based on global assessments from experts in each relevant industry. Thus, ISO international standards play a vital

role in ensuring CALPIA's products and services are safe, reliable and of good quality. In addition, ISO is the foundation for CALPIA's management systems, ensuring that CALPIA minimizes waste and errors and increases overall productivity at each of its factories while also maintaining the priority of rehabilitating offenders. CALPIA is only one of three state correctional industries in the nation that is ISO-certified.

Risk management is incorporated into the decision-making process throughout CALPIA. In managing CALPIA enterprises as well as its responsibilities to staff, stakeholders, and offenders, CALPIA management adheres to the following risk-management process:

1. Identify, describe and prioritize the risk;
2. Assign responsibility to manage the risk;
3. Identify who the stakeholders are and who is impacted by the risk;
4. Establish controls to mitigate, accept, avoid and transfer the risk;
5. Monitor and assess the effectiveness of the controls; and
6. Develop and implement necessary corrective actions to increase controls over the risk.

CALPIA uses a number of controls to manage and assess risk. The CALPIA General Manager (GM) and the Assistant General Managers regularly meet to establish and discuss the agency's strategic objectives and its progress in achieving those objections. In addition to these regular meetings, CALPIA employs root-cause analysis, SWOT analysis, brainstorming, surveys and facilitated workshops to manage and assess risk.

CALPIA used these decision-making activities to produce the CALPIA 2016-2021 Strategic Business Plan, which sets forth long-term goals for the agency to achieve – including reducing offender recidivism, maintaining self-sufficiency, developing high-performing staff, and increasing customer satisfaction – as well as interim milestones by which to measure the agency's progress.

In addition, pursuant to the SLAA and existing CALPIA ISO 9001 procedures, the above documented activities were used to develop the CALPIA 2015 Risk Assessment Plan (RAP). The following CALPIA executives participated in the risk assessment process from CALPIA: General Manager, General Counsel, Chief Financial Officer, and Assistant General Manager of Operations. After considering the CALPIA organization-wide strategic, operational, compliance, and reporting requirements, the executives identified potential risks deemed likely to occur, both on an inherent and a residual basis. The results were ranked and viewed in relation to the perceived risk severity as it relates to the program's success, opportunities and impact of cost, quality, productivity, etc.

As part of the executive team's analysis of potential risk exposures, executives considered whether existing internal controls mitigated the potential risk impact and if new controls were required. In addition to controls, executives reviewed currently used predictive performance and leading indicators. These indicators enable timely and relevant discussion of risks and provide escalating information on increased risk exposures.

In the future, as CALPIA continues to develop a more robust risk-aware culture, training will be delivered to all staff focused on thinking about risk in real time, and standardizing the risk language across the organization and continuously mapping risks to regulations, controls, processes and strategic objectives.

Throughout these assessments, CALPIA also continues to seek improvements in the management of the agency by seeking input both internally from management and staff and also externally from state agencies and outside third parties by way of audits.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Technology—Data Security

CALPIA's success in achieving its public safety mission in rehabilitating offenders depends, in significant part, on being able to conduct day-to-day business electronically in a reliable, secure and capable

environment. As CALPIA increases its dependency on technology, it also must ensure that the technology it relies upon consistently provides the expected outcomes, is responsive to changing business needs and priorities, and is managed from an enterprise perspective.

While CALPIA's current information-technology infrastructure has provided relatively solid support for the agency's daily operations, as CALPIA's business, enterprises, products, and services evolve to keep up with changes in society and the market, so, too, must the information-technology infrastructure evolve to help ensure offender-participants are well-placed and well-versed in current trends and can more-easily obtain relevant jobs upon release.

Currently, there is some limited risk of physical compromise to CALPIA's information-technology infrastructure.

CALPIA currently is working to strengthen its controls to prevent physical compromise to its physical servers.

CALPIA controls include ensuring that the servers are located in a dedicated space with restricted key-card access and ensuring that physical access to the servers and the system is limited to only essential personnel. In addition, CALPIA has strengthened the separation of duties among its information technology staff to ensure that effective checks-and-balances are in place to control access to the system. Lastly, CALPIA is developing and finalizing an implementation plan by March 31, 2016, to strengthen and implement an information-technology security plan, which will include the goal of completing a new and improved physical structure by June 30, 2017, to contain the Management Information System staff and IT system.

ONGOING MONITORING

Through our ongoing monitoring processes, the Prison Industry Authority reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Prison Industry Authority, Charles Pattillo, General Manager, is responsible for the overall establishment and maintenance of the internal control system. We have identified Gary Bush, Chief Financial Officer, Jeff Sly, General Counsel, Michele Kane, Chief of External Affairs, Randy Fisher, Chief Administrative Officer, Raymond Meek, Assistant General Manager, Marketing Division, Rusty Bechtold, Administrator - Work Force Development, Scott Walker, Assistant General Manager, Operations Division, as our designated agency monitor(s).

Frequency of Monitoring Activities

Monitoring activities, on planned intervals, occur both internally and externally. Internally, since 2005, CALPIA has dedicated quality control auditors responsible to review and assess the effectiveness of existing internal controls established for ongoing ISO certification. Externally, CALPIA is statutorily required to have its financial controls reviewed annually by a certified public accounting firm (CPA) to allow the CPA to render an opinion on the fairness of the reported financial results of the CALPIA operations. In addition, periodic observations and audits by external bodies (e.g., California State Auditor and other professional audit registrars) take place to ensure CALPIA continues to adhere to required laws, rules and regulations. Also, in FY 2015-16, CALPIA established a Regulatory Compliance Section to monitor adherence to regulatory compliance requirements. This includes communicating awareness of developing legislative changes that impacts CALPIA's operations.

Reporting and Documenting Monitoring Activities

The CALPIA Quality Management Section is responsible for ensuring adequate audits of CALPIA operations takes place on planned intervals. The results of these audits are documented and reported to

CALPIA top management and the operational area audited. Operational audit findings are required to be timely resolved, usually within six months after the audit conclusion. Communication of the audit reports is by email. Audit documentation is stored in a digital library. Corrective Action Plans are available to all CALPIA staff. In addition, CALPIA developed and employed an automated compliance tracking system to assist in monitoring adherence by CALPIA operations to regulatory compliance requirements.

Procedure for Addressing Identified Internal Control Deficiencies

Identified internal control deficiencies are communicated to top management at CALPIA via emails and discussed in management meetings. Resolution of all deficiencies are expected to be closed as soon as possible, within 90 days to six months.

Top management regularly meets. At least monthly, members of the management team review and discuss the quality audit results and ways to improve CALPIA business processes. In addition, top management meets every 60 days to review and discuss performance towards achieving the strategic goals identified in the CALPIA 2016-2021 Strategic Business Plan.

CONCLUSION

The Prison Industry Authority strives to reduce the risks inherent in our work through ongoing monitoring. The Prison Industry Authority accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Charles Pattillo, General Manager

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations