March 02, 2020

Keely Martin Bosler, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Ms. Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Prison Industry Authority submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2019.

Should you have any questions please contact Scott Walker, General Manager, at (916) 358-2699, Scott.Walker@calpia.ca.gov.

GOVERNANCE

Mission and Strategic Plan

The CALPIA was created by Chapter 1549, Statutes of 1982 as a semiautonomous state agency to operate California's prison industries in a manner similar to private industry. CALPIA is established to:

- Develop and operate manufacturing, agricultural, and service enterprises that provide work opportunities for offenders under the jurisdiction of the Department of Corrections and Rehabilitation (CDCR).

- Create and maintain working conditions within enterprises, as much like those which prevail in private industry as possible, to assure offenders assigned therein the opportunity to work productively, to earn funds, and to acquire or improve effective work habits or occupational skills

- Operate work programs for offenders that are self-supporting through the generation of sufficient funds from the sale of products and services to pay all its expenses, thereby avoiding the cost of alternative inmate programming by CDCR.

CALPIA is overseen by an 11-member Prison Industry Board (PIB), that works closely with the CDCR in providing more than 7,400 job-training work assignments to offenders in the California state prison system. These job-training assignments are in a wide variety of fields including garment manufacturing, furniture-making, milk dairy operations, metal fabrication, laundry services, and many more. CALPIA is a self-sustaining organization in that its operations are funded by revenue generated through the sales of its products and services, primarily to other governmental departments, and it does not receive an appropriation from the Legislature. CALPIA generates over $250 million in revenue annually to support its operations.

CALPIA currently employs over 1,300 civil service staff in addition to the more than 6,000 offender workers previously noted. These employees work in 35 CDCR institutions across the state, as well as

the CALPIA Central Office location in Folsom, CA. Offenders working in CALPIA programs earn job certifications such as food handling, laundry, welding and agricultural to name just a few. These certifications are nationally recognized and are of great value to the offenders in their search for employment after being paroled from prison.

Mission: CALPIA is a self-supporting, customer-focused business that reduces recidivism, increases prison safety, and enhances public safety by providing offenders productive work and training opportunities.

To achieve its vision, CALPIA has established four main strategic and business goals:

- Reduce Offender Recidivism
- Maintain Self-Sufficiency
- Develop High Performing Staff and Organization
- Increase Customer Satisfaction

Control Environment

As the head of the Prison Industry Authority, the General Manager is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

EXECUTIVE SPONSORS

The executive monitoring sponsor responsibilities include facilitating and verifying that the CALPIA internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsors have been given to:

- Scott Walker, General Manager
- Michele Kane, Chief of External Affairs
- Jeff Sly, General Counsel
- Debi Kamakani, Assistant General Manager – Administration
- Raymond Meek – Assistant General Manager – Marketing Division
- Randy Fisher – Assistant General Manager – Workforce Development
- Bill Davidson – Chief Financial Officer
- Scott Perkins – Assistant General Manager – Facilities Operations
- Rocco Papietro – Assistant General Manager – Facilities Support
- Suzie Changus – Chief Information Officer

Management establishes and demonstrates integrity and ethical values:

- Under the direction of the Prison Industry Board, CALPIA is led by a General Manager and executive team of nine Assistant General Managers/Division heads. The Executive team, along with administrators and managers at the Central Office and institutions across the state are committed and dedicated to ensuring that CALPIA's operations are conducted demonstrating superior ethical values. CALPIA's mission statement "CALPIA is a self-supporting, customer-focused business that reduces recidivism, increases public safety, and enhances public safety by providing offenders productive work and training opportunities" requires the highest of ethical standards to carry out. CALPIA's Core Values are:

- ◦ Leadership
  Have a vision, and inspire others to support that vision
- ◦ Respect
  Treat others the way you wish to be treated
- ◦ Professionalism
  Mutual respect among all levels of staff
- ◦ Integrity
  Do the right thing in all circumstances
- ◦ Teamwork
  Be proactive in soliciting others' opinions
- ◦ Safety
  Be proactive in identifying and preventing safety issues
- ◦ Accountability
  Accept responsibility for the outcomes expected of you – both good and bad

Throughout its history, CALPIA has operated in a highly professional, dignified manner in working with offender populations in all of California's state prisons. Management sets the tone and leads in the efforts to implement CALPIA's mission and implement its core values.

<u>Oversight is provided by a Board, outside entity, or top executive:</u>

The Prison Industry Board (Board) was established in 1983 to oversee the operations of CALPIA, much like a corporate board of directors. The Board sets general policy for CALPIA, oversees the performance of existing CALPIA industries, determines which new industries shall be established, and appoints and monitors the performance of the General Manager. The Board also serves as a public hearing body, charged both with ensuring that CALPIA enterprises are self-sufficient and that they do not have a substantial adverse effect upon private enterprises. The Board actively solicits public input into the decisions it makes with regard to expanding existing or developing new prison industries.

The Board is composed of 11 members. The Secretary of CDCR serves as a Member and Chair of the Board. The Governor appoints four members (two to represent organized labor and two to represent industry). The Speaker of the Assembly appoints two members (representing the general public). The Senate Rules Committee appoints two members (representing the general public). The Secretary of Transportation or designee and the Director of General Services or designee also serve on the Board.

<u>The entity ensures appropriate levels of responsibility and authority, and documentation of internal controls:</u>

CALPIA has dedicated internal auditors responsible for reviewing and assessing the effectiveness of existing internal controls established for on-going International Organization for Standardization (ISO) certification. Externally, CALPIA is required to have its financial controls reviewed annually by a certified public accounting firm that can render an opinion on the fairness of CALPIA's reported financial results. In addition, periodic observations and audits by external entities, such as the California State Auditor's Office, and other professional audit registrars, take place to ensure CALPIA continues to adhere to required laws, rules, and regulations.

CALPIA has also established a Regulatory Compliance Section to monitor adherence to regulatory compliance requirements. This includes communicating awareness of developing legislative changes that impact CALPIA operations.

Each Division has ongoing reviews, risk discussion and monitoring of key performance measures in place; meeting frequency, attendees and items discussed are specific to each Division.

Ongoing Monitoring Compliance

The Prison Industry Authority has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Prison Industry Authority systems of controls and monitoring.

Management recruits, develops, and maintains a competent workforce:

CALPIA's has established a Recruitment and Workforce Planning division within the Human Resources Branch, which works closely with CALPIA Branch Managers, Field Administrators and other key staff to develop and implement creative recruitment strategies, along with identifying vacancies and facilitating position fulfillment for all positions on behalf of CALPIA.

This team develops recruitment and workforce planning materials for the advertising of vacant positions, succession planning and oversees the agency Upward Mobility program. The team hosts and attends hiring and recruitment events throughout the state, networks with non-profit organizations, and works cooperatively with other governmental agencies in an effort to attract, develop and retain the most qualified candidates.

Team members are committed to providing guidance for internal and external candidates in understanding minimum qualifications, application assistance, succession and career planning in accordance with the laws and rules prescribed by State Personnel Board and CalHR.

Management evaluates performance and enforces accountability:

CALPIA holds monthly meetings to review the performance of each enterprise throughout the organization. The focus of these meetings is on the operational and financial performance of all CALPIA enterprises. It is also a forum to identify opportunities and share possible best practices. Executive management, along with management and staff from operations, sales, administration and fiscal participate in these meetings to ensure that all aspects of the enterprises are reviewed and proper support is given to maximize success. Adherence to organizational policies and procedures is also a part of review process to ensure that all areas within CALPIA know and understand these policies and procedures, and that they are following them.

Information and Communication

CALPIA monitors activities through both internal review as well as through external resources. An independent, external audit firm reviews CALPIA's financial statements each year and issues an audit report which includes an opinion as to the accuracy of the financial statements. For the most recent fiscal year audited, FY 2017-18, CALPIA was given an unmodified opinion, meaning that they found that the financial statements for that fiscal year "present fairly, in all material respects, the financial

position of CALPIA as of June 30, 2018, and its cash flows for the fiscal year in conformity with accounting principles generally accepted in the United States of America." In addition, as part of the independent auditor report, they issue an Independent Auditor's Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This report states "… during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses." The report further state "The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*."

In July 2019, CALPIA instituted biennial reviews of each of CALPIA's twenty-seven enterprises, or lines of business. The review is a comprehensive overview of the operational and fiscal performance of each enterprise. As issues or opportunities are identified, action plans are developed and implemented to correct problem areas or to capitalize on opportunities for improvement and efficiency.

CALPIA is currently working with staff, offenders, and other stakeholders to update and revise its Strategic Plan, including strategic goals and objectives to ensure that the focus and direction of CALPIA is in line with its stated mission to reduce recidivism, enhance public safety, and to provide offenders with productive work and training opportunities. It is anticipated that the new Strategic Plan will be completed by June 2020, upon approval by the PIB.

Information requirements are established and met with reliable and relevant sources:

CALPIA's Regulatory Compliance Section monitors its adherence to regulatory compliance requirements. This includes communicating awareness of developing legislative changes that impact CALPIA operations.

30, 60, 90 day reports are generated and shared with Field Administrators, Field staff, Branch Managers, Prison Industry Managers and the Executive Team reflecting what is currently due, as well as upcoming compliance tasks/obligations. Information is then uploaded to the database demonstrating compliance has been met. That uploaded information is available to be distributed to control agencies, if requested. Additionally,

1. QMS maintains the CALPIA "ISO" (International Organization for Standardization) Documents library; monthly an all CALPIA email is sent to communicate additions/revisions/deletions to our online documentation. Documentation includes internal forms, logs, work instructions, procedures, policies and manuals used throughout CALPIA.

2 The ISO 9001 Quality Management Standard requires goals to be established, monitored and communicated at relevant functional levels throughout the organization; to that end, QMS conducts audits to determine conformance to this standard: in the factory, this may take the form of a "goals board" or simply discussing goals at weekly facory floor meetings; evidence in Central Office support departments may include a SWOT analysis, development and monitoring of goals, and communicating goals via departmental meetings; PPAR (Production, Planning, Analysis and Reorting) also maintains statistics on how well factories are meeting on-time production goals and various other metrics.

Quality information is communicated to internal parties within the entity:

CALPIA has a number of methods of communicating quality information to internal parties within the entity. CALPIA executive management schedule and hold regular All-Staff meetings with staff

throughout the state. This provides a venue for the Executive team to share and provide information on all critical issues impacting the organization, as well as provide updates on important projects impacting CALPIA. These meeting also allow staff to ask questions regarding topics that are of interest or concern to them and receive answers from the Executive team.

CALPIA has recently restructured its training for all new employees. In March 2020 CALPIA introduced a newly designed New Employee Orientation (NEO) training that is mandatory for all employees being hired by CALPIA. The new employees begin this course on their second day on the job. In this NEO training, employees learn about all aspects of CALPIA and the important role that they play in helping carry out the mission and vision of the organization. They also have the opportunity to ask questions and receive information on topics that are of interest or concern to them. This training is very comprehensive and covers all aspects of CALPIA and establishes the expectations for all employees of the organization.

Quality information is communicated to external parties:

CALPIA provides a comprehensive Report to the Legislature every year. This report is available to all external parties and is posted on CALPIA's website.   All aspects of CALPIA's operations are discussed and presented through this report. CA Penal Code Section 2808(k) mandates the submission of this report and specifically requires it to report on the following:

- The financial activity and condition of each enterprise under its jurisdiction;
- The plans of the Board regarding any significant changes in existing operations;
- The plan of the Board regarding the development of new enterprises; and
- A breakdown, by institution, of the number of prisoners at each institution, working in enterprises under the jurisdiction of the Authority, said number to indicate the number of prisoners who are not working full-time.

The annual report covers each of these required topics, as well as CALPIA's progress and success in providing offenders with accreditation for job certifications, process improvements and many other details of the overall operations of CALPIA.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Prison Industry Authority monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:
Zoe Burton, Special Assistant; Randy Fisher, Chief - Work Force Development;
Scott Perkins, Assistant General Manager, Operations Division; Michele Kane, Chief of External Affairs;
Jeff Sly, General Counsel; Debi Kamakani, Chief Administrative Officer;
Raymond Meek, Assistant General Manager, Marketing Division;
Rocco Papietro, Assistant General Manager, Operations Support; Bill Davidson, Chief Financial Officer;
and Suzie Changis, Chief Information Officer.

As CALPIA identifies deficiencies in its internal controls, those deficiencies are promptly communicated to executive management, and action is taken immediately to resolve the issues. The General Manager holds regular meetings, at least every other week, with the executive team with the intention

of speaking openly about all known issues and the plan to address them. In addition, the General Manager holds bi-weekly one-on-one meetings with each executive staff member and reviews in detail the status of all projects and tasks assigned to that executive staff.

CALPIA monitors activities through both internal review as well as through external resources. An independent, external audit firm reviews CALPIA's financial statements each year and issues an audit report which includes an opinion as to the accuracy of the financial statements. For the most recent fiscal year audited, FY 2017-18, CALPIA was given an unmodified opinion, meaning that they found that the financial statements for that fiscal year "present fairly, in all material respects, the financial position of CALPIA as of June 30, 2018, and its cash flows for the fiscal year in conformity with accounting principles generally accepted in the United States of America." In addition, as part of the independent auditor report, they issue an Independent Auditor's Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This report states "… during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses." The report further state "The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*."

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RISK ASSESSMENT PROCESS

The following personnel were involved in the Prison Industry Authority risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, consideration of potential fraud, and performance metrics.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/ goals/objectives, timing of potential event, potential impact of remediation efforts, and tolerance level for the type of risk.

CALPIA's risk-assessment methodology includes an assessment of its business management systems to ensure continuing sustainability, adequacy, effectiveness, and alignment with CALPIA's strategic plan and its mission, vision, goals and objectives. For any areas of deficiency, CALPIA identifies risks and develops an action plan to correct the deficiency and improve and strengthen its processes and procedures.

CALPIA continues to adhere to the 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 locations while also maintaining the priority of rehabilitating offenders.

Risk management is incorporated into the decision-making process throughout CALPIA. In managing CALPIA enterprises and 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 the stakeholders and the impact to them as a result of the risk
4. Establish controls to mitigate, accept, avoid and/or transfer the risk
5. Monitor and assess the effectiveness of the controls
6. Develop and implement necessary corrective actions to increase controls over the risk

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

Reports are generated for the Operations Division and are customized to demonstrate potentially critical issues, if compliance obligation is not met. All reports can be customized by enterprise (line of business), locations, or assigned as needed.

RISKS AND CONTROLS

Risk: Implementation of new ERP system

It is imperative that CALPIA's information technology function and perform successfully in order to conduct operations. CALPIA relies heavily on an Enterprise Resource Planning (ERP) system, known as ERPlx, for its day-to-day operations. Staff and offenders at the factory and warehouse locations utilize this system to record the receipt and usage of inventory needed to manufacture products, as well as the tracking of orders. This system is also used on the back-end for all fiscal functions such as recording payments and tracking revenue and expenditures recorded in the general ledger.

It is essential that this system function properly and is secure from any outside intrusion or misuse. Proper information security protocol is followed to ensure that the system infrastructure is safe and all at-rest and in-motion data is properly encrypted. Additional data security measures that CALPIA takes include:

- conducting email exercises to train and teach staff how to identify potential phishing emails
- conduct vulnerability management – actively searching CALPIA's network to identify and catch any vulnerabilities or weaknesses, and mitigate known vulnerabilities
- employs a Security Information and Events Manager (SIEM) – a cloud based tool to query CALPIA's daily activity logs to ensure that there are no intrusions to our network

In addition, CALPIA completed the construction of a new Management Information Systems (MIS) building at its Central Office campus in 2018 which now houses all of the information-technology resources including servers, routers, IT staff and other vital infrastructure.

Control: EPR Steering Committee

CALPIA is in the process of replacing the current ERPlx system. To ensure proper controls are in place to properly select the vendor with the system that most meets the needs of the organization, CALPIA has established a steering committee to oversee the vendor and system selection process. The steering committee consists of executive staff from Operations, Fiscal, Sales/ Marketing, MIS, and Business Services as well as support staff representing each of these areas.

Contract and procurement experts are also on the team as a control to assure that all applicable procurement and contracting laws, policies and procedures are followed. IT experts are part of the team as a control to assure that CALPIA is able to properly implement, maintain and support the system.

CONCLUSION

The Prison Industry Authority strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

CALPIA remains committed to reducing and mitigating risks inherent in the operation of a large manufacturing and service business. As risks and challenges are identified, CALPIA will continue to follow the protocols in place to address these risks and continually improve the efficiency and performance of the organization. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Scott Walker, General Manager

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency