

December 29, 2017

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

Dear Mr. Michael Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Prison Industry Authority submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Terrie Tatosian, Management Consultant, at (916) 542-5633, terrie.tatosian@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 over 7,000 offender-training positions throughout California's adult correctional institutions. CALPIA is self-supporting through the sales of its 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 1,178 civil service staff and manages over 100 manufacturing, service, and consumable enterprises 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 certifications, including but not limited to optometry, dental technology, food handling, automotive services, laundry, commercial baking, agriculture, welding, metal stamping, industrial health and safety, electrical systems, mechanical systems, and maintenance.

ONGOING MONITORING

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

EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Prison Industry Authority internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to:

Charles Pattillo, General Manager, Michele Kane, Chief of External Affairs, Jeff Sly, General Counsel, Randy Fisher, Chief Administrative Officer, Raymond Meek, Assistant General Manager, Marketing Division, and Thy Vuong, Special Assistant to General Manager Charles L. Pattillo.

MONITORING ACTIVITIES

Monitoring activities, at planned intervals, occur both internally and externally. Internally, since 2005, CALPIA has dedicated internal auditors responsible for reviewing and assessing the effectiveness of existing internal controls established for on-going 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.

Also, during 2015-16, CALPIA established a Regulatory Compliance Section to monitor adherence to regulatory compliance requirements. This includes communicating awareness of developing legislative changes that impact CALPIA operations.

CALPIA utilizes a database (Comply on the Fly) to monitor, track, and meet local, state and federal compliance obligations.

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. As for cross-divisional meetings, here are a few;

1. Management Review Team meetings- are held quarterly at a minimum,
2. Marketing and Operations Division- meet bi-monthly to discuss and resolve open customer tickets as tracked via the Green Checkmark System,
3. Large Group Manager Meetings- scheduled meeting chaired by the PIA General Manager at Central Office (headquarters) for all Managers and above to discuss achievements, new programs, risks and opportunities,
4. Weekly Divisional Status reports- provided to the General Manager for all divisions and their respective reporting units/departments,
5. Strategic Goals Objectives tracking

ADDRESSING VULNERABILITIES

Identified internal control deficiencies are promptly communicated to CALPIA's executive management and discussed in management meetings. Resolution of all deficiencies are expected to occur as soon as possible, usually within 90 days to 6 months.

COMMUNICATION

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 factory 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 Reporting) also maintains statistics on how well factories are meeting on-time production goals and various other metrics.

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.

RISK ASSESSMENT PROCESS

The following personnel were involved in the Prison Industry Authority risk assessment process: Executive Management, Middle Management, and Front Line Management.

RISK IDENTIFICATION

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 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 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. CALPIA is only one of three state correctional industries in the nation that is ISO-certified.

RISK RANKING

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. Additionally, the QMS Unit recently held training on the use of SWOT analysis to assess risks and opportunities and develop measures to address them.

RISKS AND CONTROLS

RISK: OPERATIONS -EXTERNAL-TECHNOLOGY—DATA SECURITY

CALPIA's success in achieving its public safety mission in rehabilitating offenders depends, in significant part, on the ability 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 on 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.

CALPIA's technology infrastructure must ensure it consistently provides the expected outcomes, is responsive to changing business needs and priorities, and is managed from an enterprise perspective. Risks may be caused by the compromise of the information technology and infrastructural systems, either physically, internally or externally,

Currently, there is some limited risk of physical compromise to CALPIA's information technology infrastructure. CALPIA is currently working to strengthen its controls to prevent physical compromise to its physical servers.

CONTROL A

CALPIA controls include ensuring the servers are located in a dedicated space with restricted key card access and limiting access to the servers and the system to essential personnel. CALPIA has strengthened the separation of duties among information technology staff to ensure that effective checks and balances are in place to control access to the system.

CALPIA is finalizing an implementation plan to strengthen and deploy an information technology security plan by June 2019, which will include the completion of a new and improved physical structure to contain the Management Information Systems staff and information technology system and infrastructure in 2018. The new physical structure is intended for the exclusive use of information technology staff and equipment and will include a locked and restricted server room that only specific staff will be able to access. The restricted server room will ensure that there will be no physical compromise of CALPIA's information and security systems. CALPIA has also implemented additional National Institute of Standards and Technology security controls for encryption and classification of CALPIA's systems and plans to migrate critical systems to a Fed Ramp certified Government Cloud.

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 controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Charles Pattillo, 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