

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION
CALIFORNIA PRISON INDUSTRY AUTHORITY
PRISON INDUSTRY BOARD

PUBLIC MEETING

THURSDAY, MAY 12, 2016

CALIFORNIA STATE PRISON, SOLANO
2100 PEABODY ROAD
VACAVILLE, CALIFORNIA

REPORTED BY:

ESTHER F. SCHWARTZ
CSR NO. 1564

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ATTENDEES

BOARD MEMBERS:

SCOTT KERNAN, CHAIR
DARSHAN SINGH, VICE CHAIR
ERIC ALEGRIA
DAWN DAVISON
MACK JENKINS
FELIPE MARTIN
JEFF MCGUJIRE
MICHELE STEEB
RAY TRUJILLO

STAFF:

CHARLES L. PATTILLO, EXECUTIVE OFFICER
SCOTT WALKER
RAYMOND MEEK
GARY BUSH
RANDY FISHER
RUSTY BECHTOLD
MICHELE KANE
CAROLINE BIGELOW
THY VUONG
LISA ROEDIGER-HANCE

COUNSEL:

JEFF SLY

MACIAS GINI & O'CONNELL:

SCOTT HAMMON

PUBLIC MEMBERS:

(NO AUDIENCE PARTICIPATION)

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1 **VACAVILLE, CALIFORNIA**

2 **THURSDAY, MAY 12, 2016, 10:00 A.M.**

3 **---oOo---**

4 CHAIR KERNAN: I would like to call this
5 Prison Industry Board to order. It is 10:02 Sorry
6 I'm tardy. Got to get you guys moving today.

7 I wanted to just say, Chuck, how much I
8 appreciate you're having this out at the prison. I
9 think it's -- I want to make some comments about
10 what we're doing across the prison, but I think it's
11 a credit to you to be able to organize something
12 like this out at the prison. So, thank you very
13 much.

14 Would the Board secretary please call the
15 roll.

16 MS. VUONG: Chair Kernan.

17 CHAIR KERNAN: Here.

18 MS. VUONG: Vice Chair Singh.

19 MEMBER SINGH: Here.

20 MS VUONG: Member Alegria.

21 MEMBER ALEGRIA: Here.

22 MS. VUONG: Member Davison.

23 MEMBER DAVISON: Here.

24 MS. VUONG: Member Jenkins.

25 MEMBER JENKINS: Here.

1 MS. VUONG: Member Kelly.

2 Member Martin.

3 MEMBER MARTIN: Here.

4 MS. VUONG: Member McGuire.

5 MEMBER MCGUIRE: Here.

6 MS. VUONG: Member Steeb.

7 MEMBER STEEB: Here.

8 MS. VUONG: Member Trujillo.

9 MEMBER TRUJILLO: Here.

10 MS. VUONG: Let the record show we have a
11 quorum of eight members.

12 CHAIR KERNAN: Thank you.

13 MS. VUONG: Or nine. Correct, it's nine.

14 CHAIR KERNAN: So I would like to start by
15 welcoming a couple new members. One member I have a
16 distinct pleasure of being on a Board with and
17 understand his long and distinguished career in
18 probation. So I would like to welcome Mack Jenkins.
19 He was the probation chief at Orange and San Diego?

20 MEMBER JENKINS: I was chief in San Diego,
21 but I wasn't chief down in Orange. But I worked
22 there a long time.

23 CHAIR KERNAN: Recently retired and doing
24 some great work in the criminal justice field. So,
25 thank you very much.

1 Also, I would like to welcome Jeff McGuire,
2 the Chief Deputy Director at the Department of
3 General Services. Welcome. And we had just a
4 second to chat, and you indicated how interested you
5 are in the prison industry area. So we really
6 appreciate your attendance with us.

7 As I said, I want to talk a little bit about
8 Solano. I worked here for many years and that's why
9 I was a little bit late because I went to the exact
10 wrong place. You can see this is a huge prison, and
11 right next door is CMF. I started here as an
12 officer. I started at San Quentin and came here as
13 an officer in the early '80s when Solano was being
14 built. In this prison, if you just drive around it
15 and see the construction going on. And this is one
16 of the more busy, productive environments. I know
17 we have a very great PIA presence here. So it is a
18 fascinating prison. So I hope you have an
19 opportunity to go in after.

20 Are you taking a tour?

21 MR. PATTILLO: Yes.

22 CHAIR KERNAN: I hope you find it
23 interesting. I just want to talk just a second
24 about really what the meaning of rehabilitative
25 programs is and how it is impacting in my world

1 these days.

2 Many of you may know that the Governor has
3 sponsored an initiative that is attempting to
4 address, not only a durable solution to our
5 population cap in the federal court, but he's also
6 trying to emphasize rehabilitative programs and hope
7 to inmates across the system. More so than any
8 other governor.

9 I don't know if you know this, but this
10 Governor let out 2,500 lifers. I will put that in
11 some context for you. Grey Davis let out 16 and
12 Arnold Schwarzenegger let out 85. He's let out
13 2,500. The recidivism rate for that 2,500 is under
14 1 percent. Compared to 54 percent for the rest of
15 the population.

16 But part of that initiative puts considerable
17 pressure on the Secretary, and I think it impacts
18 this Board and PIA in another way. And that is the
19 need to get meaningful programs and give inmates an
20 opportunity to earn their way out. So there has
21 been a number of very creative things that are
22 happening, including adding substance abuse
23 programing to some of our PIA operations. And I
24 just wanted the Board to know from my perspective
25 things are definitely moving in the right direction

1 in that area.

2 So sorry if I took some opening remarks. I
3 did not follow the script that I was given.

4 MR. PATTILLO: Never do.

5 CHAIR KERNAN: But thank you for that. So
6 with that, Mr. General Manager, can you give us your
7 comments?

8 MR. PATTILLO: I was going to have you open
9 up to the Board Members first.

10 CHAIR KERNAN: I already messed up the
11 script is what you're saying.

12 Any Board Members?

13 MEMBER STEEB: First of all, welcome. I'm
14 excited to work with you. I just want to -- I don't
15 know if this could be possible, but I would love
16 when we go out to the prisons if we could maybe hear
17 from one or two of the PIA participants, kind of
18 kicking off our meeting. Just to give us all
19 context of why we do what we do.

20 MR. PATTILLO: Probably depending on the
21 institution, it will be an easy fill. This
22 institution is a little different. You're going to
23 hear from a whole lot of them this afternoon,
24 actually. We have that set up for you.

25 MEMBER TRUJILLO: Recently in the

1 Sacramento Bee there was an issue where PIA was
2 granting waivers to the Department of - lost my
3 train of thought here - Board of Equalization.
4 Where the chairman spent thousands of dollars to
5 refurbish his office. And I am just wondering why
6 are we giving waivers.

7 MR. PATTILLO: Kind of make three comments
8 on that really quick. So number one, the furniture
9 the elected official was asking for was in a leased
10 building. They already had existing furniture that
11 we wouldn't have been matching, anyway.

12 The second piece of that was they there
13 requesting chairs that we literally don't make.
14 They were white leather, expensive chairs that went
15 for about \$1,200 a piece. If I made a \$1,200 chair,
16 you guys would fire me.

17 The third part is it is an elected official.
18 Let me go back. Production, we wouldn't have fit it
19 in production, anyway.

20 And the last part, with an elected official,
21 that's a losing battle to pick a fight there. It
22 really is. So in this case I know Mr. McGuire and I
23 shared some stories that, you know, we're here to
24 help folks. If they want, for certain reasons to go
25 around us and it's a justified reason, they're an

1 elected official. I'm not going to pick a fight
2 that I'm going to get scarred on. I don't think
3 they'll do it again.

4 MEMBER TRUJILLO: I would hope not. That's
5 ridiculous. Money is being spent. The furniture
6 that we provide should be significant for them. If
7 they're not going to pay \$1,200 for that chair.
8 Anyway, thank you for the explanation.

9 MR. PATTILLO: The majority of the
10 taxpayers would agree.

11 CHAIR KERNAN: Any other comments from the
12 Board?

13 MEMBER JENKINS: I am happy to be here.
14 Particularly appreciate your comments about the
15 election of CDCR, about the focus and emphasis on
16 the rehabilitative programs and the direction that
17 you see the agency going. I just spent 39 years,
18 have spent 39 years working in community
19 corrections. Chuck, you and I talked about a lot of
20 the things I was trying to do in San Diego I think
21 mirror in many respects what I understand CDCR's
22 direction and PIA's goal.

23 Spent a lot of time in San Diego trying to
24 increase the employment rate of the fellows that we
25 had for us in the division. So still learning a lot

1 about your very complex operation, but my expertise
2 is on criminal justice side and in working with
3 offenders and trying to make changes in their
4 behavior. So I'm happy to have the opportunity to
5 serve on the Board, and this Board is trying to make
6 a positive contribution.

7 CHAIR KERNAN: I'm sure you will. You
8 know, I get asked a lot about how you're going to
9 change the culture of the Department. Just a few
10 weeks ago I was at an event here. It was an all day
11 event, where they had a number of business citizens,
12 business members, and they put on a Shark-Tank-like
13 event where the offenders actually prepared business
14 proposals. It was very, very well done. This
15 prison, especially, but across the system there are
16 things like that that are going on, which when I
17 retired you would have never seen.

18 I think the culture is changing in that way,
19 and there are some creative things. And I think PIA
20 can be a big part of that.

21 Thank you for your comments.

22 Let me say to the members of the public that
23 you will have an opportunity to speak after each
24 action item. If in doing so, if you would please
25 fill out one of forms that are at the front of the

1 table for members of the public.

2 With that, Mr. Pattillo.

3 MR. PATTILLO: Thank you, Mr. Chairman. I
4 have to borrow Mr. Walker's readers because I forgot
5 mine.

6 My name is Charles Pattillo. I am the General
7 Manager of the Prison Industry Authority and
8 Executive Officer of the Prison Industry Board.

9 I appreciate being here at Solano and I
10 appreciate Warden Eric Arnold and CDCR as a whole
11 for hosting us here. This is one of our largest
12 operations other than Folsom. Some of you have been
13 through here. I also want to say I appreciate --
14 about half of you I have seen in the last week in
15 prison in some way, shape or form. So I really
16 appreciate the time you've spent with me this last
17 week.

18 Our optical lab is here, and that's one of our
19 most important operations. We do opticianry for
20 Medi-Cal recipients, for children, a whole host of
21 folks here. It's one of the best rehab programs out
22 there.

23 We have a metal fab shop here. We do most of
24 CalTrans' work here for the back-end of trucks,
25 snowplows. Those kinds of things. You will see

1 some of the welding operations that are going here.

2 Things that are going on right now. Secretary
3 Kernan mentioned substance abuse. This comes off of
4 a program that we did at Folsom where we integrated
5 substance abuse treatment - you've seen it already -
6 with our existing workforce. They are basically
7 splitting half time with us and half time with
8 substance abuse, which is kind of like what people
9 do out in the real world.

10 We're moving ahead with identifying 14
11 locations where that can be integrated now
12 system-wide. We're hoping to have that going in the
13 next couple months. It obviously takes a little bit
14 of planning and implementation, but I think we're in
15 the right direction. It won't be a cost to us with
16 the exception of we are furnishing the furnishings
17 and the electronics for the program.

18 Our San Quentin program. A couple of you have
19 been through the future Joint Venture Program 7370.
20 And the Secretary will be coming through on June 14
21 again. That program, which is teaching coding to
22 offenders, is a vocational program under CTE
23 division. We are doing it on behalf of the DRP, and
24 we're looking to expand that program. Triple the
25 size for technology as a joint venture effective

1 July 1. We've already been approved. That's
2 teaching inmates how to do computer coding. Just
3 like the programming has never been done in the
4 world. It's going to done in San Quentin. The
5 joint venture will employ these folks at comparable
6 wages, over \$15 to \$18 an hour, to teach them,
7 actually have them doing coding. Coding, but
8 otherwise, would go overseas.

9 We had a little bit of a setback. We had
10 enough space to get going, but the repairs needed to
11 the facility were a little bit more than
12 anticipated. I can tell you, you open a can of
13 worms at San Quentin you're opening a lot. There's
14 a lot of stuff under layers. We open a wall, we've
15 got some problems. We are up-fronting the costs for
16 the architectural and engineering. We have some
17 savings because of the CTE programs. We hope to
18 expedite that. I know it didn't make it into the
19 May revise because we didn't think it was this big.
20 It was one of the things we thought we could handle
21 internally.

22 We do have an Assemblymember who is hoping to
23 put that in the budget for us as well as a Senate
24 Member. It's about \$1.8 million to repair. I know
25 a couple of you have spoken with the Speaker about

1 it. I really appreciate that. I got a call last
2 night from his budget consultant. So he is very
3 aware of it.

4 Apprenticeship programs. We have problems
5 getting folks in the door. I'm not talking about
6 our inmate apprenticeship programs, but the actual
7 state employees. Mr. McGuire and I have had a
8 couple conversations about this. It is very hard to
9 get some of the industrial supervisors hired because
10 the specifications are so - what's the word -
11 difficult. So we're starting an apprenticeship
12 program where folks can join us with little or no
13 experience because we're going to train them over a
14 two-year period, so the state employee
15 apprenticeship program takes about two years.

16 We're also doing that so we can increase the
17 flow at facilities. As you know, when we took over
18 the healthcare facilities maintenance programming,
19 we had to hire almost 300 people in the custodian
20 field. It's darn near impossible to find that many
21 folks, and we are struggling at every location.
22 Those are the jobs that our offenders, when they get
23 out, they can get employed with DGS. And it's just
24 been a very close circle on this, working on this
25 with DGS, as well as CalHR and the State Personnel

1 Board. We met with Operating Engineers Unit 12.
2 They are supportive.

3 I think that is all I have operational wise.

4 MR. WALKER: Get my glasses back. Chuck
5 mentioned healthcare facilities maintenance, it's
6 going along, it's still a challenge with the
7 operations at 34 institutions. The next thing
8 following behind this is Department of Corrections
9 statewide healthcare facilities' improvement
10 program. Basically, going out and modernizing,
11 adding additional state facilities and institutions
12 to provide medical care. We are talking with the
13 Receiver's office right now about framing up and
14 bringing that under the umbrella as well.

15 At the June 4th meeting there will be an
16 action item talking about that. It will add another
17 \$20- or \$30,000,000 to revenue to the contract and
18 another 200 employees. So it's going to take this
19 monstrosity and grow even more. We are working very
20 hard right now to figure out a good plan on how we
21 can actually do that. The number of inmates we'll
22 probably add, another two or 300 inmates to the
23 program.

24 The other thing is that Mule Creek that's
25 moved frequently in the complex at Mule Creek that

1 we feel positive that is here now ****, project
2 director fabulous job of getting that place up and
3 running. A new PIA space is now activated, soft
4 activated, 15 inmates there. As you guys recall,
5 you authorized that. What that's going to do is
6 take some pressure off packaged food at Mule Creek.
7 We started that. We hope to be fully operational
8 sometime in the mid summer.

9 That's it.

10 MEMBER TRUJILLO: Excuse me, Mr. Pattillo.
11 What is the labor organization that supported it?
12 Local 12, did you say?

13 MR. PATTILLO: Yes.

14 MEMBER TRUJILLO: Operating engineers?

15 MR. PATTILLO: Yes.

16 MEMBER TRUJILLO: That's Southern
17 California, right?

18 MR. PATTILLO: No.

19 MR. FISHER: Operating Unit 12. All civil
20 service employees statewide for California. It's a
21 bargaining unit that has industrial supervisors in
22 it. We are partnering with them to establish a
23 program, a joint union labor, labor management
24 effort.

25 MEMBER TRUJILLO: I heard Local 12. That's

1 Southern California.

2 UNIDENTIFIED AUDIENCE MEMBER: There is a
3 Southern California piece. The Bargaining Unit 12
4 is called, what the state calls, everybody in the
5 trades maintenance groups in California.

6 MEMBER TRUJILLO: Thanks for the
7 explanation.

8 CHAIR KERNAN: Are there any questions of
9 Mr. Pattillo?

10 Hearing none, we will you move to the first
11 action item.

12 MR. PATTILLO: I'm going to start with
13 Action Item B which is Assembly Bill 2061, which is
14 the Supervised Population Workforce Training Grant
15 Program. The bill was introduced by Assemblymember
16 Waldron. It would enable the -- it's going to do
17 two things. It's going to change -- simple thing.
18 It's going to change the name of the Workforce
19 Investment Board to the Workforce Development Board.

20 They did add in is a line item there that
21 folks who want to engage in partnerships with local
22 government, as well as employers at the local level,
23 that they would be eligible for grants if they were
24 including PIA graduates in those grant operations.
25 It would also require that if that occurred, the

1 Workforce Development Board would be having to
2 report that up in their annual report to the
3 Legislature and everyone else. Kind of a simple
4 bill.

5 I think it would be taken up as a spot bill,
6 so it is not a substantial policy issue. But we are
7 recommending a support position on the bill.

8 CHAIR KERNAN: Any questions?

9 MEMBER TRUJILLO: I have a comment. The
10 labor organization that I represent, I have talked
11 to them about both these bills. I understand it is
12 an existing law, but I would urge my colleagues to
13 follow me on this and postpone PIA writing a letter
14 until -- they are in the process of having an
15 amendment, an amendment to the bill that would be
16 okay for us. I will be voting to hopefully table
17 this till the next meeting.

18 MR. PATTILLO: I understand that the trades
19 is having some concerns with it. I did review what
20 the concerns were, and we spoke very quickly there.
21 Their opposition is actually to existing law. So
22 it's -- I don't think the interpretation is correct.
23 I would encourage them to reach out to the Senate
24 Appropriations Committee in both cases because both
25 of these have gone through the house with no

1 negative, no no votes. All the committees have been
2 on consent all the way through. And really, as
3 we've talked, for the Board, their thinking about
4 their support position, and I encourage everyone to
5 really jump in and approve it. I appreciate the
6 comments. Thanks.

7 MEMBER MARTIN: Might I ask, what is the
8 reluctance to approve it?

9 MR. PATTILLO: Two separate bills. On
10 2061, what is the concern on 2061?

11 MEMBER TRUJILLO: They want to postpone
12 both bills until they get an amendment. That was
13 the direction I was given.

14 MEMBER MARTIN: Do you know what they are
15 asking to amend? I'm sorry?

16 MEMBER TRUJILLO: He didn't tell me what
17 they are asking.

18 CHAIR KERNAN: Am I understanding right,
19 that this simply is going to, besides the change the
20 name, it is going to incentivize businesses to hire
21 PIA inmates?

22 MR. PATTILLO: To qualify for a grant, yes.

23 CHAIR KERNAN: Any other comments from the
24 Board?

25 Is there any comments from the public?

1 Hearing none, is there a motion to approve?

2 MEMBER SINGH: I move that.

3 CHAIR KERNAN: Do we have a second?

4 MEMBER MARTIN: Second.

5 CHAIR KERNAN: We have a second. Will the
6 Board secretary please call the roll.

7 MS. VUONG: Member Alegria.

8 MEMBER ALEGRIA: Yes.

9 MS. VUONG: Member Davison.

10 MEMBER DAVISON: Yes.

11 MS. VUONG: Member Jenkins.

12 MEMBER JENKINS: Yes.

13 MS. VUONG: Member Martin.

14 MEMBER MARTIN: Yes.

15 MS. VUONG: Member McGuire.

16 MEMBER MCGUIRE: Yes.

17 MS. VUONG: Member Steeb.

18 MEMBER STEEB: Yes.

19 MS. VUONG: Member Trujillo.

20 MEMBER TRUJILLO: No.

21 MR. VUONG: Member Singh.

22 MEMBER SINGH: Yes.

23 MS. VUONG: Chair Kernan.

24 CHAIR KERNAN: Yes.

25 The motion carries.

1 Mr. Pattillo, will you please introduce Action
2 Item A?

3 MR. PATTILLO: We are going backwards.
4 Yes.

5 This is Assembly Bill 2012, which is the Jail
6 Industry Authority bill. This is something that
7 came out of discussions several years ago when
8 Governor Brown first got into office, was how could
9 we parlay the success that we've had at the state
10 level for the local level. Jail Industry has not --
11 it's really kind of operated out in some of the
12 institutions, but they haven't had the authority of
13 state law statute covering them all the way through.

14 There is a lot of laws about inmate labor we
15 have to follow and what they can do and what they
16 can't do. This gives a standardized authority
17 similar to what we have, but at the local level.
18 It's only authorizing nine counties. It's the major
19 nine with the exception of Tulare and San Joaquin
20 that are in there. This bill was actually developed
21 by Tulare County with our assistance. We basically
22 helped them with the legislation to start it because
23 we think the locals out there could benefit from the
24 authority we have and demonstrate the success we've
25 had at the state level at the local level.

1 We do spend a lot of time out with locals
2 helping them with their programs. And as many of
3 you have gone through Folsom Prison, that is our
4 county model. Just about everything there, with the
5 exception of license plates, will work at the county
6 level. So this would give them basically authority
7 to do this.

8 I think the one comment I've heard from
9 several Board Members is instead of support, it
10 would be support, if amended, to include all 58
11 counties. So if that may be what the Board wishes.
12 I just wanted to tell you what the conversations
13 I've had with other Board Members as well as I had
14 with Secretary Kernan. Just to keep you informed
15 that there was some wish to go in that direction.

16 MEMBER ALGERIA: One clarifying question.
17 This is related to the impact. You mentioned the
18 legislative support. Is there any other operational
19 support that's going to be required from CALPIA for
20 many of the county level programs?

21 MR. PATTILLO: No. There will be no
22 required support in any way. This is similar to
23 what we did two years ago when we got the federal
24 government to authorize the joint venture statute
25 for the local level. We just consult with them when

1 they need help, and we're just doing a lot of hand
2 holding at this point. So, no, it wouldn't impact
3 on our business. That is our position.

4 CHAIR KERNAN: You said the bill only
5 addresses nine counties?

6 MR. PATTILLO: It only has nine counties.
7 We've never really -- I think it was just the first
8 nine that got to sign up by the time it got to
9 print. It's got no no votes all the way through.
10 It's now in Senate Appropriation, and they're going
11 to pass it out on consent because it looks like
12 there's no impact. But I really do think that the
13 other 49 counties should be added into there.

14 Michele, after we have this meeting, will be
15 communicating that with the author, Assemblymember
16 Bigelow, who may be open to doing that.

17 MEMBER DAVISON: Could they be added later?
18 Could we vote on this now and the others could be
19 added later?

20 MR. PATTILLO: That's what I'm saying. If
21 your motion would be to support, if amended, to add
22 the other 49 counties.

23 MEMBER ALGERIA: I make that motion to
24 start with the existing nine counties.

25 CHAIR KERNAN: Hold on one second.

1 Any other comments from the Board?

2 Is there any members of the public that would
3 like to comment on this item?

4 Hearing none, may I have a motion? I have a
5 motion.

6 Do I have a second?

7 MEMBER JENKINS: I want to clarify your
8 motion. It is to as written?

9 MEMBER ALEGRIA: As written.

10 MEMBER JENKINS: I will second that.

11 CHAIR KERNAN: Call the roll.

12 MS. VUONG: Member Alegria.

13 MEMBER ALEGRIA: Yes.

14 MS. VUONG: Member Davison.

15 MEMBER DAVISON: Yes.

16 MS. VUONG: Member Jenkins.

17 MEMBER JENKINS: Yes.

18 MS. VUONG: Member Martin.

19 MEMBER MARTIN: Yes.

20 MS. VUONG: Member McGuire.

21 MEMBER McGUIRE: Yes.

22 MS. VUONG: Member Steeb.

23 MEMBER STEEB: Yes.

24 MS. VUONG: Member Trujillo.

25 MEMBER TRUJILLO: No.

1 MS. VUONG: Vice Chair Singh.

2 MEMBER SINGH: Yes.

3 MS. VUONG: Chair Kernan.

4 CHAIR KERNAN: Yes.

5 The motion carries.

6 Let's move on to informational items.

7 MR. PATTILLO: Our current informational
8 item is our annual audit. With us is Scott Hammon
9 who is the audit lead from MGO, our contract
10 auditors. I am looking --

11 MR. HAMMON: I'm hiding.

12 MR. PATTILLO: Incognito.

13 MR. HAMMON: My turn?

14 MR. PATTILLO: Yes, it is.

15 MR. HAMMON: First of all, welcome to
16 everyone. I'm pleased to see there is yet another
17 addition -- my name is Scott Hammon. Pleased to see
18 there is yet another addition of Scott to this
19 group, so welcome.

20 Those of you who were here last year or prior
21 years, the format that we will be going through
22 today is very similar to what we discussed in prior
23 years. However, I realize that several of you are
24 new to this presentation. It is always a little bit
25 of a guesstimate as to the level of interest. By

1 way --

2 MR. PATTILLO: Exhibit C3 is what you are
3 looking for, Board Members. You've got it there,
4 Mr. Jenkins. It's the one with the doctor's
5 stethoscope which is real catchy.

6 MR. HAMMON: Our marketing people were
7 having fun with that. We're not quite sure why it
8 shows that because they're flying off the health
9 maintenance contract. I guess they thought a mop
10 and a sterilizer wouldn't be as catchy.

11 By way of background, as Chuck said, we are
12 the organization's auditors. Our focus is on the
13 financial statements that the organization has that
14 is issued to the state, as far as its overall state
15 annual report or cap, as it is called. In that
16 role, we focus primarily on the financial
17 statements. As we're going through and performing
18 the audit of the financial statements, to the extent
19 we see areas, whether it be related to internal
20 controls, operational areas, we certainly may
21 comment on them, and that is what I will be talking
22 about today. I think it's important to understand
23 that we are focused on the financial numbers as
24 opposed to the operational numbers, as you might
25 sometimes see in more of a performance audit type

1 situation. So, again, this is a financial
2 statement.

3 We did make this presentation to the Audit
4 Committee Members, so some of you have seen this in
5 advance. So for those of you who have gone through
6 this I apologize to subject you to this twice, but I
7 appreciate your patience.

8 MR. PATTILLO: One second. He mentioned he
9 is the agency's auditors. Actually, he is the
10 Board's auditors. This is one of the things that
11 are required. His contract is with the Prison
12 Industry Board as an independent auditor. So we are
13 not technically employing him directly.

14 Is that correct?

15 MR. HAMMON: The engagement letter is with
16 the Board. We are the auditors of the Board and the
17 organization. So we serve both parties. We are
18 independent of both. So to the extent that you've
19 got issues or questions for us that there was a
20 conflict with management, our role would be to
21 remain independent of both. We would simply be fact
22 communicators, if you will. We are not advocates
23 for either side. Unless, of course, someone offers
24 us more money. I shouldn't joke about that. We are
25 independent.

1 If you could please take a look at the
2 presentation that Chuck referenced, the MGO
3 document. Because I have been told about 15 minutes
4 is the appropriate amount of time. Is that right,
5 Chuck?

6 MR. PATTILLO: Ten.

7 MR. HAMMON: We're down in time.

8 MR. PATTILLO: Five.

9 MR. HAMMON: Down to five. So I will not
10 be going through each page. We do have a small
11 group here. If you see something I do not touch
12 upon that you do have questions about, I encourage
13 you to ask. We're happy to take them.
14 Alternatively, at the end, I will also ask if there
15 are questions. Feel free to interject as we go
16 along. I am going to ask you -- the page numbers
17 are in the lower right hand corner of the document.

18 I'm going to ask you to turn to Page 3, which
19 is titled Status of Audit. The title is in the
20 upper right-hand corner. Here you see several
21 bullet points. I'm not going to read through them,
22 but I do want to emphasize some of these things
23 because our role as your auditor, we're -- there are
24 a couple important things to understand.

25 One, when we perform an audit of financial

1 statements, we're using techniques such as sampling.
2 So when we issue our report, our report contains
3 references like "material in statement" and
4 "reasonableness." We do not offer absolute
5 assurance on the accuracy of the numbers, and the
6 goal is not that the numbers be 100 percent correct;
7 rather that the organization's financial statements
8 be materially correct.

9 That's an important distinction to understand
10 because we are doing a sampling. We cannot offer
11 that higher level of assurance, and this is how all
12 financial statements are done, it's not just for
13 your organization. Even though we express an
14 opinion when we issue a report, the ultimate
15 financial statements remain the responsibility of
16 the organization. So, in other words, the
17 statements that we issue, these are the
18 organization's but not ours. The only thing that
19 are technically ours are the first two or three
20 pages of the report. Again, more of a distinction.

21 One of the things that you will see in the
22 annual report is management's discussion and
23 analysis where management goes through and talks
24 about operations for the past fiscal year, trends,
25 analysis and so forth. We read back, we read for

1 consistency with the audit and financial statements,
2 but we don't issue you a separate report. We are
3 not engaged to do that. If the Board or
4 organization wanted us to, that would be another
5 thing that we could do. It is not something that is
6 currently done by most entities in the state, but it
7 is out there. I want you to just understand what is
8 important to raise questions and provide comments,
9 but we don't issue a separate report on that.

10 Finally, I do want to thank Chuck and Gary,
11 all of his crew. We have a working relationship
12 with the organization as we do have discussions,
13 sometimes intense discussions, about the appropriate
14 treatment conventions. But everybody comes to those
15 discussions with a level of knowledge and
16 understanding of the issue that makes it a very
17 productive discussion, which is what we want. We
18 prefer people that challenge us and the position
19 that we're expressing because that process results
20 ultimately in the best work product. We do not like
21 clients that are passive and just take our report.
22 We want to be engaged and have clients that have
23 their own perspective, which makes the process work.

24 So we thank you for that, Gary, and all his
25 staff.

1 If you turn to the next page, Page 4, entitled
2 "Results of Our Audit." Here and for the next
3 couple of pages we've highlighted some of the more
4 significant line items in the financial statements.
5 Specially those that are large in volume or subject
6 to a high level of estimates.

7 First one we see in this table is revenue
8 recognition. Down the right-hand side, we summarize
9 some of the tasks that we do in overview of the
10 organization's review.

11 So one of things we look at is whether the
12 policy and manner in which the annual reported
13 revenue has changed year over year. That sounds
14 like a very easy process. However, we do need to
15 keep in mind that in an organization like PIA where
16 there are multiple lines of business, there is lines
17 of business that require, in some cases, different
18 methods of recognizing revenue. And within those
19 lines of business there are perhaps multiple
20 options. So you have a multitude of options in the
21 organization's programs, and it's important that
22 those decisions be reasonable and appropriate.
23 There is a level of flexibility in that decision
24 making that could tend to be more aggressive or more
25 conservative. We prefer clients be smack dab in the

1 middle. Usually like [inaudible] accountants. And,
2 generally, the clients are [inaudible] from our
3 perspective.

4 In addition to the testing, we do go over
5 controls of the organization, recognizing
6 transactions in revenue. We also perform an
7 in-depth revenue recognition --

8 I'm sorry, I'm being told to speak louder so
9 I'm not getting through to the audience [inaudible].

10 We also do analytical review procedures where
11 we look at performance compared in a prior year.
12 Key performance indicators are APIs and other
13 measures. Gross margin, percentages. Could be
14 turning lines, other relationships. So there is a
15 lot of heavy analytical work there.

16 The next item here is also a very critical
17 line item or area for the organization, inventory.
18 Again, as I mentioned with revenue, inventory for
19 this organization is a little bit more complicated
20 than you might find in other entities. Simply
21 comprised of the wide variety and breadth of
22 operations. So each of the institutions has
23 different lines of business. Each of those have
24 different inventory issues associated with them.

25 So in addition to observing the organization's

1 annual physical inventory count, we also look for
2 things like slow moving and potentially obsolete
3 inventory that has to be written off. We look to
4 see for testing, to make sure that the cost that an
5 individual item is carried at is correct. So we go
6 back and look at invoices, when we purchased items.
7 We also look to see whether or not the inventory is
8 fairly valued, meaning of market price for something
9 is [inaudible]. We look at transaction pricing at
10 or around yearend to make sure that market pricing
11 is half of what you paid for something. So those
12 are some of the things we do for inventory.

13 Turn to the next page, Page 5.

14 One item I would like to highlight here is very
15 odd. It's called Net Pension Liability to GASB 68.
16 Some of the members of the Board, depending on when
17 you came on and started service, probably received a
18 letter from us back, I think, initially in October
19 and again in the January-February time frame. GASB
20 68 is a new accounting pronouncement that was
21 adopted for this year. It requires a change in how
22 the organization pension liability was presented.
23 It was a radical change in most government employee
24 [telephone]. It created a lot of angst in the
25 accounting community. One of the outcomes of that

1 implementation process was that the state and some
2 of the regulators determined that the initial work
3 had to done.

4 CALPIA receives its numbers for this area from
5 the state. The state determined it had to perform
6 some additional tests. We were originally scheduled
7 to issue the financial statements in the
8 October-November time frame. Because of that
9 additional test, that got pushed back into,
10 initially, January. And then there was a further
11 delay that ultimately led to February, and then
12 there was some additionally questions. So we issued
13 the financial report much later this year than we
14 normally do. I think if you look at the next fiscal
15 year our goal, the organization's goal, is to be
16 issuing it in October, which is consistent with what
17 we tried to do last year. We don't expect any GASB
18 68 issues to surface again this year, but, again,
19 that's outside the control of the organization. So
20 with that behind us, we anticipate that this year
21 we'll be back on track.

22 Any questions about GASB 68?

23 I am going to skip the next page, Page 6,
24 unless you have any specific questions.

25 I am going to ask you to turn all the way to

1 Page 9 in the interest of time. Again, as you're
2 flipping through the document, if you see something
3 I didn't speak to, if you have questions, please
4 feel free to ask.

5 On Page 9, here are some of the comments about
6 internal controls for the operations as you heard at
7 the start of this presentation. Page 9 has current
8 year comments. There is another page behind this.
9 It has an update on comments that were made in prior
10 year. I'm not going to go through all these
11 comments. I'm just going to highlight one or two
12 for your consideration.

13 The first one being the first bullet point on
14 IT Systems. PIA is in the process of moving its
15 data storage and its other operational records to
16 the Cloud. This is a common trend within the
17 private sector. However, government has been a
18 little bit slower to pick up this practice for a
19 variety of reasons. I know Chuck has indicated
20 this. And in talking to our consultants I believe
21 they concur. They'll be one of first few state
22 agencies to move to the Cloud to have storage on a
23 full-time basis.

24 What we are highlighting here is we think it
25 is a good thing. It does come with, I think, like

1 any new operating environment, it comes with a new
2 set of risks and rewards. One of the things we're
3 highlighting, we're recommending, is that the
4 organization, before the start of this process, that
5 they review controls over data storage and data
6 environment because you have different policies.

7 [Inaudible].

8 The other thing we encourage the organization
9 is to make sure that the contract, the storage
10 provider, ultimately includes language, including
11 its ability to do what is called a SOC audit. This
12 is a third party, independent audit of the storage
13 provider's systems and controls to make sure that
14 they're up to snuff. You're relying on their
15 systems and their controls as part of your general
16 controls. So this is the way you get [inaudible]
17 control. The challenge [inaudible] that contractor,
18 the service provider are not obligated to give it to
19 you. We want to make sure that that gets
20 incorporated into the negotiation process.

21 Any questions about this topic?

22 CHAIR KERNAN: May I ask, are you skipping
23 the deferred revenue? You seem to have suggestions
24 on deferred revenue. You reference establishing a
25 policy for refunding customer's deposits after a

1 period of time. I don't -- where are we at on that?

2 MR. PATTILLO: Sometimes we have folks have
3 money on the books for over five plus years,
4 sometimes. So us telling people to use a credit
5 balance. CDCR doesn't have that issue. So we
6 actually -- CDCR is an example where we do have
7 things that are a couple years old that we try to
8 give back. We also try to give back to them in the
9 form of goods and services so there's not a required
10 reappropriation. The policy will be -- I think it
11 needs to be no more than five years. That's
12 actually pretty reasonable.

13 MEMBER ALEGRIA: So it's not material that
14 is given. That would be a problem.

15 MR. PATTILLO: Yes.

16 MR. HAMMON: I would say, again, it's a
17 little bit of a nuance because there is overall
18 numbers. There is a subcomponent of that which is
19 pretty old, I would say. The component that's
20 pretty old, I think, is a million or less. I don't
21 remember the exact number. So that's not material
22 to an organization this size, but it's significant
23 enough that for both reasons, operational and
24 political in nature, particular focus on excess
25 cash, we think it is something to be looked at -

1 \$500,000 or so.

2 MEMBER ALGERIA: Thank you.

3 MEMBER MARTIN: What does the law say about
4 returning deposits that's kind of unclaimed?

5 MR. PATTILLO: We actually operate similar
6 to what the Architect Revolving Fund is. There may
7 be money on books for several years because of a
8 project. It's -- I'm looking at Mr. McGuire because
9 he's the administrator of the Architect Revolving
10 Fund. There is an existing law for that. If the
11 money doesn't go back after a couple years, it will
12 go to reappropriation.

13 In our case a lot of times we try to get folks
14 to use it so we can get the business from them. But
15 there is stuff out there. I can give you a general
16 listing of what it is.

17 MEMBER MARTIN: It doesn't fall into a
18 claim?

19 MR. HAMMON: Again, because it is a
20 government, because you're part of government,
21 you're kind of in a different category. Under the
22 escheat rules, which is what you're referring to,
23 which is, I believe, in the private sector if you're
24 an organization that holds cash or assets for third
25 parties, if it is dormant or inactive for a period

1 of time, approximately two and a half years, if I
2 remember, it has to be refunded to the state. In
3 this case you're already there, if you will. So the
4 rules are a little bit different.

5 The concepts certainly -- some of the reasons
6 for it still apply and we think periodically
7 cleaning it up and having a general policy about how
8 and when it is cleaned up is a good thing.

9 MR. PATTILLO: There's no specific
10 application for PIA for invoices under the current
11 law so --

12 MR. HAMMON: Correct. The other thing I
13 would say is that these deposits in some cases can
14 be quite old. In some cases there may be activity,
15 meaning we'll swap Order A for Order B, but Order B
16 doesn't get executed on. So they'll move to Order
17 C. So there may be changes in color, size, weight,
18 but they never, for whatever reason, get executed.
19 There is activity on the PO or order, but there is
20 not an execution. Again, that gets into a gray
21 area. We are not worried about that as much more
22 the operational aspect.

23 Unless there any other questions, I will refer
24 to Page 10. These are comments that we raised in
25 prior year audits, providing on the status on what

1 the organization has done or where they are in the
2 process of addressing them. I will step through
3 these very quickly, just to highlight. The first
4 two relate to IT issues.

5 The first one has to do with the development
6 of a strategic plan. The other one had to do with
7 training. In both cases, we are suggesting that the
8 organization provide periodic updates to this group
9 as we think these are critical areas. And we think
10 that the Members of the Board need to understand
11 what's being done to maximize PIA's investment in
12 information technology. Our understanding is that
13 management will be reporting to you at some point
14 this fiscal year on those areas.

15 The next one is user access. This is an IT
16 security issue. When this was first raised a little
17 time before -- since user access rights and the
18 ability of different people to get to different
19 layers or levels within the IT system had been
20 evaluated. When this was first communicated, it
21 started a process, kind of what I call a spring
22 cleaning process. That's now evolved into really
23 more what we would recommend of a regular, periodic
24 maintenance type of approach, to be year-round. And
25 so that is now being performed on a periodic basis

1 as opposed to once every two or three years, which
2 is a much better way to go, we think.

3 The next item, Financial Analysis and
4 Reporting. This has to do with the development of
5 internal reporting mechanisms so senior management
6 can really focus on strategic and analytical issues.
7 We are suggesting that this group receive an update
8 from management. For those of you who were not on
9 the Board going back maybe three to four years ago,
10 this was an area of focus where we felt that Chuck
11 and his management team were spending a lot of time
12 having to figure out the answers to financial
13 variations, financial performance variation, and
14 that they were getting dragged into the weeds a
15 little bit. We felt that with the system that they
16 had that they could generate more data in a more
17 meaningful way that will allow management to quickly
18 assess and move on.

19 They have made some changes in that area,
20 including adding various roles to CFO, to help
21 provide additional depth to the financial management
22 team, additional analysis. Here we suggest giving
23 an update of where they stand on that process.

24 The last item is one that's kind of an ongoing
25 issue, simply because PIA has been limited in its

1 ability. There is a state law that mandates a
2 certain cap on carry forward of vacation and leave
3 time. Because of some of the restrictions on doing
4 buybacks, they haven't been able necessarily to get
5 everybody down to those levels. This year, for the
6 first time, they're able to buy back some of that.

7 My understanding is, to the extent that they
8 are allowed to do, they will continue to work on
9 that area. Again, that's something a little bit
10 outside their control.

11 CHAIR KERNAN: Chuck, do you have caps on
12 employee leave balances?

13 MR. PATTILLO: Yes. Just like other state
14 agencies, we have a six-forty. But what drove it up
15 and drove it up in your organization also is when
16 they did the furloughs, everybody built up all that
17 furlough time. So they took the furlough time and
18 then, in our case, we paid back the furlough time on
19 a settlement. So we have these people who have
20 these large vacation balances for three years and
21 didn't use any. It is six-forty. Like yours.

22 MR. HAMMON: The last two or three pages
23 relate to what are called Required Communications.
24 These are things under the standard rule we are
25 required to communicate to you in your roll as Board

1 Members. These are pretty straight forward. So I
2 am going to go ahead and skip discussing them unless
3 someone has a question.

4 I'm bumping up against my ten-minute time
5 limit, if I haven't already passed it.

6 I'm going to direct you to Pages 15 and 16 and
7 17, the last three pages. These are summaries of
8 different misstatements, as we call them. In other
9 words, if you go through and perform procedures, we
10 may find certain errors in the organization's
11 accounting records. If they meet a certain
12 threshold, we present them to you.

13 The first one is labeled Corrected
14 Misstatements. These would be misstatements that we
15 have found and felt were so material or significant
16 that they had to be adjusted before the financial
17 statements could be released. We did not have any
18 of those this year. So that is a good thing from
19 your perspective.

20 Page 16, the next page. These are the
21 Uncorrected Misstatements that were identified
22 during the current year audit. We had one this
23 year. It had to do with recognizing cost of goods
24 sold and classification between overhead expense and
25 cost of goods sold.

1 You can see here, because of the size and
2 nature of where it was, a reclassification type of
3 entry, we didn't feel it needed to be reported in
4 the financial statements.

5 The next page, Page 17. These are entries or
6 adjustments or noted as part of the prior year audit
7 that had an effect on the current year. Because of
8 how the accounting rule worked, in some cases you
9 may find an error in year one, and it has what we
10 call a carry-forward effect on subsequent years.
11 This is highlighting those entries where noted in
12 prior year had some effect on the current year
13 audit. Again, there were not reported because their
14 nature was not significant or material to the
15 financial results.

16 Any questions or comments about that?

17 Again, generally what I would say to you as
18 Board Members, you always want to evaluate the
19 investments kind of contextually. If you never have
20 any adjustments, I would say that's a bad thing. My
21 thought is we are not digging deep enough or the
22 organization itself isn't digging deep enough in its
23 discussions with us.

24 On the other hand, if you have large volumes
25 of adjustments consistently, I would say that's also

1 a bad thing. I would view this as what I would call
2 a normal level of adjustment for a well-run
3 organization. It's very rare that we will go into
4 an organization and have absolutely no adjustments
5 whatsoever. So I give credit to Chuck and Gary.

6 That concludes the formal presentation. Happy
7 to take any questions or comments that you may have.

8 CHAIR KERNAN: Thank you very much for a
9 very thorough report.

10 MR. HAMMON: My pleasure. As always, if
11 you have questions, we are available to Members of
12 the Board throughout the year. So feel free to
13 reach out to us if you have questions.

14 MR. PATTILLO: The IT issues, there are
15 several small ones I talked to several folks about.
16 What we did last year, after the audit was finished,
17 we went out for bid for an independent IT audit.
18 Something that we can let them loose on. And they
19 came up with several recommendations, whether it be
20 security, integration, the Cloud. Also, we looked
21 at reaching out to CDCR to see what we can carry
22 with them, integrated programs, because it doesn't
23 make a lot of sense when we've got 34 locations and
24 they do too, and we're both running separate wires.
25 To be very bland about it.

1 So we've done a couple things, including the
2 IT plan being built right now. If any of you would
3 like a recommendation for an IT audit, I can send it
4 to you. I will send it over to you. I know,
5 Mr. Martin, I already sent it over to you.

6 Also, about training staff and mentoring our
7 IT staff. We have a very small IT group. I will
8 tell you, we have 22 people handling the entire
9 state, and we get it done. I'm pretty darned
10 impressed with them. But going forward, I would
11 like to see if we can hire security performance as
12 well as take care of some of the IT audits that we
13 found. I did bring on a staff from CDCR that I've
14 got on loan. Caroline Bigelow. She's actually one
15 of the experts over EIS. She works for CDCR. She's
16 actually in as a consultant helping us implement all
17 these recommendations.

18 Any questions on that?

19 CHAIR KERNAN: Thank you.

20 MR. HAMMON: Thank you.

21 MR. PATTILLO: The last item, and the
22 reason I wanted Scott to stay because this is
23 actually is very integrated on what they do.

24 Over the last couple of years, you've seen -
25 it's an information item - you've seen several

1 governmental counties standard board rules that
2 really impacted PIA. The two majors were 45 from
3 several years ago, starting in 2006, that we, as a
4 government entity, had to declare what the impact of
5 future benefits were, whether it was medical, dental
6 or vision. Nothing to do with pensions, just the
7 fringe benefits side of it. And as an enterprise
8 fund, we have to record those liabilities when we're
9 putting the cash behind it. If we didn't put the
10 cash behind it, we would have an unfunded liability
11 and eventually we would not be solvent.

12 The whole idea of the Board's number one
13 function is to make sure that we're solvent, that
14 PIA is doing their business. We have been funding
15 that over the last almost ten years now. I will
16 tell you that it's not supported by the Department
17 of Finance at this point in time. We've argued with
18 them a few times over it, because they believe we do
19 not have to keep those funds because we should take
20 everybody's word for it, when pensions come due,
21 that the money will be there state level. But it
22 would still make us insolvent.

23 The second one is the one that just came out
24 on pension liability. So we picked up -- while we
25 had a great year last year, we also picked up

1 pension liability of \$25,000,000, so we're really
2 \$10,000,000 behind what we started the beginning of
3 year. I will tell you, though, we are the only
4 state agency that's got our retirement and fringe
5 benefits funded in the future. I think us and the
6 Lottery are the only two. The Lottery can fund
7 their own war, if they want.

8 So those are the impacts. I want to be very
9 clear that we have some substantial impacts going on
10 right now. What we are looking at is if we're
11 required to have cash behind those, and rather use
12 our current assets, such as equipment or whatnot, to
13 back up those liabilities, so we can free up some of
14 that cash, because cash is what our capital program
15 runs on. If we don't have that, we'll have no
16 equipment fixing anything, and then we'll be serious
17 trouble.

18 It was really just a comment to get it on the
19 record. If you have any questions regarding those
20 financial rules, let me know. I can explain them.
21 I've been practicing.

22 So any questions about our earnings? So,
23 Scott, the auditors have been very involved and
24 actually have been teaching us about what the
25 impacts are. It will raise itself when we have the

1 new healthcare facilities maintenance contracts
2 because, as we do fund our OPEB on a monthly basis,
3 in costing one of our positions, that is in
4 disagreement with Finance. We costed one civil
5 service position; we also include OPEB. They don't
6 believe we should do that, so it will rise again.

7 MEMBER ALEGRIA: Chuck, we touched on this
8 because it recently, but in the case of a cash issue
9 versus other assets, that we can align with this
10 liability; how much of that would you be looking to
11 free up? I guess my question that I am trying to
12 get to: Out of the \$25,000,000, how much of it
13 would you like to free up for other purposes?

14 MR. PATTILLO: Well, if you take the two
15 together, we've got \$79,000,000. So first part of
16 the OPEB, we're looking at trying to, as we did last
17 year, trying to send that over to CalPERS, to get
18 that money over to there in a higher interest
19 bearing account. The remaining \$25,000,000 is what
20 we're looking at to use current assets for, the
21 \$25,000,000 in cash. The likelihood of our pensions
22 coming due in the next week is pretty whirlwind.
23 That is what the likelihood of that happening.

24 MEMBER ALEGRIA: To just add a comment. I
25 worked with a couple governments on this issue, and

1 what he proposes is consistent with what other
2 entities are interested doing.

3 MR. HAMMON: One comment we made is in my
4 understanding was skimming ahead and reading about
5 the September Board items and maybe approve the
6 transfer.

7 One of the things I will share with the Board
8 'cause I don't anticipate we'll be here for the
9 September meeting - we shared with Chuck and Gary -
10 is one of things that we would encourage you to do
11 is have a sensitivity analysis before the funds are
12 transferred, to look at the worst case scenario. So
13 when you transfer funds you are not going to get
14 them back easily, you want to make sure you have
15 sufficient working capital. Not saying it's the
16 first thing to go back in nine, ten et cetera. We
17 do want to make sure that the organization has some
18 kind of sensitivity analysis where if revenues drop
19 by 40 percent, we'll be able to survive without
20 finding ourselves cashless backtracking. That is
21 [inaudible] possible. That is the one thing I would
22 encourage the Board to request of management, to ask
23 questions about. At what level, depending on
24 whether revenues go down 10 percent or revenues go
25 down 40 percent, what is the contingency plan? How

1 we can survive on that kind of worst case scenario,
2 if necessary?

3 MR. PATTILLO: Given that applied analysis,
4 I can see the number being less than what is being
5 put forward for your overview right now.

6 MR. HAMMON: Yes. Kind of risk/reward,
7 which we are not advocating a particular one. What
8 we are advocating is that the Board be aware of
9 management's thought process. The Board has enough
10 information to be able to cautiously agree or
11 disagree about that response.

12 MR. PATTILLO: I think everybody can
13 attest, even the Secretary knows, that having
14 \$80,000,000 in cash sitting in our account makes an
15 attractive target for a lot of folks that believe
16 that we don't need the cash.

17 CHAIR KERNAN: The Governor would tell you
18 the pending downturn is right around the corner.

19 MEMBER MARTIN: If I may make a comment and
20 ask a follow-up question. For accounting purposes,
21 in looking at the assets, is cash, offsetting cash
22 for that, what ramifications would that have on
23 other aspects of the operation, as having more cash?
24 And if we do need to raise capital all of sudden
25 [inaudible].

1 MR. HAMMON: Not a lot from my perspective.
2 From my perspective because the funds are set up,
3 how the funds are structured and set up. So it's a
4 little bit -- PIA has a very unique structure
5 constitutionally and from an accounting fund
6 structure. My answer would be it wouldn't have any
7 significant issues as long as we have some
8 reasonable level of operational working capital on
9 hand.

10 From our discussion with Chuck and Gary, I
11 don't anticipate they are suggesting a [inaudible].
12 I think they are trying to address both the rate of
13 return issue, with higher rate of return on the
14 investment cash and anticipate or avoid, I guess, a
15 political issue that may affect [inaudible]
16 operations down the road. We're certainly
17 supportive of the concept. We just are encouraging
18 the Board that you get enough analysis that you feel
19 comfortable with the decision as well.

20 Thank you.

21 CHAIR KERNAN: Thank you.

22 MR. PATTILLO: With that, Michele.
23 Michele, Come up and do the external affairs update.
24 Then public comment and then we will adjourn.

25 MEMBER STEEB: Do we need to approve the

1 audit?

2 MR. PATTILLO: No, the audit is not
3 accepted for approval or for vote. It is what it
4 is.

5 MEMBER STEEB: Okay.

6 MR. PATTILLO: Luckily it came up positive
7 again. I will tell you that the contract is coming
8 up, I think, this year for bid. I will be reaching
9 out for auditing companies.

10 MS. KANE: Good morning, I am Michele Kane,
11 Chief of External Affairs for CALPIA. CALPIA has
12 received some positive press lately. KABC came out
13 to our graduation, which was held at California
14 Institution for Women in Corona. I want to thank
15 you, Board Member Dawn Davison, for attending that.
16 It was 33 women graduating from our pre-apprentice
17 carpentry and pre-apprentice construction laborers
18 program. We received great press. And we got over
19 10,000 Facebook hits on that, just on that article
20 alone. That is huge.

21 Two weeks from now, on May 26th, we will have
22 one of our largest graduations; and that's going to
23 be at Folsom Women's Facility. More than 70 women
24 will be graduating with certifications, job
25 certifications. These women will be graduating from

1 computer-aided design, healthcare facilities
2 maintenance, pre-apprentice carpentry,
3 pre-apprentice construction laborer. We have our
4 logistics, our warehouse, also our customer service
5 specialists. It's going to be a great, great event.

6 Our Code.7370 program at San Quentin continues
7 to draw a lot of positive press. I will be
8 reporting on that in the next few weeks. Our next
9 Board meeting, write it on your calendar, of course,
10 June 30th at the State Capitol.

11 On another note, the Amgen Tour. The Amgen
12 Tour is coming through Folsom in a couple weeks.
13 And we have been working with the DMV, and the
14 trophy was made by our inmates at Folsom. You will
15 see that on the national news.

16 I look forward to seeing you at the next Board
17 meeting.

18 CHAIR KERNAN: Any questions from the
19 Board?

20 Thank you.

21 Now we will move on to the portion of the
22 meeting reserved for comment regarding items not on
23 the agenda. Under the Bagley-Keene Act, the Board
24 cannot act on items raised during the public comment
25 but may respond briefly to statements made or

1 questions posed, or may request clarification or
2 refer the item to staff.

3 Is there anyone who would like to make a
4 comment or address the Board?

5 Seeing none, I would like to conclude this
6 meeting and thank you all for your services. Have a
7 nice day.

8 (Public meeting concluded at 11:01 a.m.)

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REPORTER'S CERTIFICATE

STATE OF CALIFORNIA)
) ss.
COUNTY OF SACRAMENTO)

I, ESTHER F. SCHWARTZ, certify that I was the official Court Reporter for the proceedings named herein, and that as such reporter, I reported in verbatim shorthand writing those proceedings;

That I thereafter caused my shorthand writing to be reduced to printed format, and the pages numbered 3 through 55 herein constitute a complete, true and correct record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 17th day of August, 2016.

ESTHER F. SCHWARTZ
CSR NO. 1564