

STATE OF CALIFORNIA

DEPARTMENT OF CORRECTIONS AND REHABILITATION

PRISON INDUSTRY BOARD

PUBLIC MEETING

WEDNESDAY APRIL 12, 2017

GREEN VALLEY TRAINING CENTER

995 FOLSOM LAKE CROSSING

FOLSOM, CALIFORNIA

REPORTED BY:

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CSR NO. 1564

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ATTENDEES

BOARD MEMBERS:

RALPH DIAZ, CHAIR
DARSHAN SINGH, VICE CHAIR
DR. ARMOND AGHAKHANIAN
DAWN DAVISON
MACK JENKINS
CURTIS KELLY
FELIPE MARTIN
JEFF MCGUIRE
RAY TRUJILLO

STAFF:

CHARLES L. PATTILLO, EXECUTIVE OFFICER
SCOTT WALKER
GARY BUSH
RANDY FISHER
MILO FITCH
MICHELE KANE
THY VUONG
MELISSA SCHANE

COUNSEL:

JEFF SLY

PUBLIC MEMBERS:

SCOTT HAMMON, MACIAS GINI & O'CONNELL

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1 **Folsom, California**

2 **Wednesday, April 12, 2017, 11:00 A.M.**

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4 CHAIR DIAZ: I now call the meeting of the
5 California Prison Industry Board to order.

6 Good morning. So I will call this meeting of
7 the Prison Industry Board to order at 11:04 a.m. I
8 would also like to note that this meeting is being
9 held at a publicly noticed location, and I will
10 begin by asking the Board Secretary to please call
11 the roll.

12 MS. VUONG: Chair Diaz.

13 CHAIR DIAZ: Here.

14 MS. VUONG: Vice Chair Singh.

15 We will give him a few minutes.

16 MS. VUONG: Member Aghakhanian.

17 MEMBER AGHAKHANIAN: Here.

18 MS. VUONG: Member Davidson.

19 Member Davison.

20 MEMBER DAVISON: Here.

21 MS VUONG: Member Jenkins.

22 MEMBER JENKINS: Here.

23 MS. VUONG: Member Kelly.

24 MEMBER KELLY: Here.

25 MS. VUONG: Member Martin.

1 Member McGuire.

2 Member Trujillo.

3 I know they're around. We'll give them a few
4 more minutes, then I'll call the roll.

5 MEMBER TRUJILLO: My apologies.

6 MS. VUONG: Vice Chair Singh.

7 MEMBER SINGH: Here.

8 MS. VUONG: Member Trujillo.

9 MEMBER TRUJILLO: Here, now.

10 MS. VUONG: Let the record reflect we
11 currently have a quorum of seven members.

12 CHAIR DIAZ: Welcome, Board Members, and
13 thank you for attending the Prison Industry Board
14 meeting. I am serving as the Chair Designee for
15 Secretary Kernan. My name is Ralph Diaz. My first
16 order of business is to fund a nominal stipend for
17 being the Chair Designee for Mr. Kernan today.

18 That's okay. Just kidding.

19 So I currently serve as the Undersecretary for
20 Operations for CDCR, and I oversee the Division of
21 Adult Institutions OVER 35 prisons, the Division of
22 Juvenile Justice, our Parole Division, our Office of
23 Victim Services, Office of Correctional Safety, and
24 our Victim Services that I mentioned, and the
25 Division of Rehabilitative Programs. Prior to this

1 position I have been a warden at the SATF State
2 Prison out at Corcoran. And I do want to say that
3 during my tenure there I enjoyed a wonderful
4 relationship with PIA and all the wonderful programs
5 they brought to SATF.

6 Those are my opening remarks. Before we begin
7 I would like to congratulate Dr. Armond Aghakhanian
8 for his recent appointment to the Board. Welcome.

9 Armond comes to the Board with over 20 years
10 of experience in business, education and public
11 service; working for and with a myriad of
12 governmental and non-governmental entities. He is
13 currently a board member of Burbank Unified School
14 District Board of Education and is the director of
15 Development and Alumni and Corporate Relations at
16 East Los Angeles College Foundation.

17 Please join me in welcoming Dr. Aghakhanian to
18 the Board.

19 Now I would like to open the floor for opening
20 remarks from the Board Members. Any Board Member
21 like to make any opening comment?

22 (Member McGuire enters.)

23 MS. VUONG: I would like the record to
24 reflect that Board Member McGuire is here today, so
25 we have a quorum of eight members.

1 CHAIR DIAZ: Hearing no opening comments.
2 Thank you.

3 At this point I would like to note that to any
4 members of the public who are present right now that
5 there will be an opportunity for public comment
6 after each item is presented to the Board. If any
7 member of the public would like to comment, please
8 fill out a speaker request form and hand it to the
9 Board Secretary.

10 So now I would like -- first on the agenda I
11 would like to turn it over to Mr. Pattillo for any
12 General Manager comments.

13 MR. PATTILLO: Morning, Mr. Undersecretary,
14 Mr. Chairman, Members. For the record, my name is
15 Chuck Pattillo. I am the General Manager of
16 California Prison Industry Authority and the
17 Executive Officer of the Prison Industry Board.

18 I want to also welcome Dr. Aghakhanian. We
19 spent about eight hours last month touring around
20 the institution. I don't think that he realized how
21 much stuff was here until the end of the tour. And
22 I also want to thank Board Member Alegria for his
23 service. He just stepped down. He's actually been
24 appointed to the Film Commission. He had a choice
25 between prisons and film. I understand.

1 (Member Martin enters.)

2 MR. PATTILLO: But thank you, Mr. Diaz, for
3 chairing for us today in place of Secretary Kernan.

4 For today's Board meeting, we're going to have
5 three agenda items, two of which will require action
6 from the Board. Action Item A is for the
7 designation of cash, a combination of two action
8 items. One is to acknowledge the transfer of \$62.6
9 million from the Prison Industry Revolving Fund to
10 the General Fund, which occurred in January when the
11 Department of Finance requested the liquidations of
12 those funds that PIA had appropriated over the past
13 ten years for the purpose of funding our OPEB, or
14 Other Post Employment Benefits, to the tune of \$62.6
15 million.

16 The Department of Finance also proposed
17 legislative language that would prevent, actually,
18 budget language, that would prevent CALPIA or the
19 Board from actually funding those ever in the future
20 again. So, basically, they're saying that the
21 unfunded portion of liability that were allocated
22 every year by State Recorder's Office is neither
23 CALPIA or the Board can propose funding of that in
24 any future budget.

25 The Secretary also followed up with a letter

1 to the Department of Finance clarifying that the
2 position of the Board was that if we're not going to
3 fund it, that by default means that we are not
4 responsible for the proportion not funded. That
5 letter, we provided a copy to everybody, with the
6 assertion in that letter that if they disagreed with
7 anything that was in that letter, they should let
8 the Board and Secretary know. And as of this date,
9 we haven't heard any response, and I doubt that we
10 will.

11 The action also asks PIA to appropriate \$14.4
12 million in funds for investments in infrastructure
13 improvements, including over \$3 million in water
14 reclamation technology. As you may recall, we did
15 five laundries last year. We're talking about doing
16 an additional six, and that will allow us to save
17 the Department about 10 million gallons of water a
18 year. I know that we just called off the drought in
19 all but three counties, but this is good planning
20 and good business. So this is a good cost reduction
21 expense. We still have some water issues including
22 in L.A. County and San Diego County. We have a
23 touch down there.

24 Our focus continues to be partnering with CDCR
25 on a going-forward basis. As you know, over the

1 last ten years we've made substantial investment in
2 partnering with CDCR education, where we have
3 offered to build, basically, a classroom in any one
4 of our facilities, to partnering with CDCR in
5 educating our folks with half-time programming or
6 even full-time programming. I think Folsom here is
7 the best representation where, within the license
8 plate factory, we have GED and college classes that
9 we operate right in there. We've offered to build
10 any one of those anywhere we operate and do
11 business.

12 We're also looking at and making sure that our
13 population demographic is ensuring we're maximizing
14 the use of offender labor or offender training. We
15 also last year shipped in half-time programming in a
16 lot of the areas, and partnering that with drug
17 substance abuse treatment, so folks can choose
18 between education, substance abuse as well as PIA.

19 This year, our focus going forward is also
20 looking for partnering with offenders that are in
21 mental health programs. That is the next step for
22 us. That is a reflection of what is out in the real
23 world. If you need mental health treatment, if you
24 need substance, you need education, you need
25 half-time. So this is a direct reflection of what

1 is out in the real world.

2 While we experience an average vacancy rate in
3 our correctional program of 20 percent, we are
4 actually seeing higher vacancy rates in our CTE
5 programs. Right around 40 percent right now. That
6 I would say is probably one of the most valuable
7 investments that we are making out there. So what
8 we're doing right now is a pilot to make sure that
9 we can fund the CTE programs. We are hiring several
10 former CTE staffers on an hourly basis that are
11 experts in classification. And we are specifically
12 doing it right now in the women's prison in Folsom
13 where we have a high level of CTE programs, to make
14 sure that we are right there in committing when they
15 are doing the Classification of folks, these initial
16 sittings as well as the annual. So we're basically
17 able to grab up that offender before somebody else
18 grabs them up. I mean we are competing for
19 offenders moving in the program. We want to make
20 sure we've got the right offender in the right seat
21 and the right location. It pains me to see any
22 vacancies in those CTE programs.

23 The next meeting that we will be having is a
24 public hearing on e-waste which will occur in May,
25 and then we will have our normal Board meeting that

1 occurs in June.

2 With that, I have no further comments. Any
3 questions?

4 I would like to acknowledge Felipe Martin has
5 arrived.

6 Any questions, Mr. Chairman?

7 CHAIR Diaz: No, I don't, Mr. Pattillo.

8 Any questions from the Board?

9 Mr. Pattillo, we'll move on to Action Item A,
10 Designation of Cash, Fiscal Year 2016-17.

11 MR. PATTILLO: Our first item, as stated,
12 is the acknowledgement of designation of cash. We
13 go to Item A1. That would be the actual chart that
14 we're looking at. It acknowledges the transfer of
15 \$62.6 million from the Revolving Fund to the General
16 Fund. It has \$3.25 million for five reclamation
17 systems for the water system. We have \$7.6 million
18 in infrastructure improvements that are directly
19 related to CDCR. As Mr. Diaz and I were speaking
20 just a moment ago, one of the biggest impediments
21 for our expansion right now is the ability for us to
22 find facilities that work for us. We have plenty
23 of program money, but when it comes down to it, we
24 don't have the space.

25 And to give you an example of how difficult it

1 is: I have a classroom at CIW that I'm helping set
2 up a computer coding program like at San Quentin.
3 Right now, if I just wanted to set up a textbook
4 classroom - furniture and chairs - it would be
5 \$25,000 to run that. The fact that we want to open
6 up a technology program, our lowest bid is \$580,000
7 to bring that classroom into code compliance. It
8 requires only fire and building, but ACA compliance
9 and CDCR compliance. This is not a reflection of
10 CDCR. This is a reflection that CDCR doesn't have
11 the money to do these. The funds haven't been
12 allocated. We have roofs blowing off buildings
13 right now. We don't have the money to repair these.

14 The construction division of CDCR is like PIA.
15 They have a bunch of people who know how to get
16 stuff done. But, unfortunately, there is no funding
17 to get that done. So our second big chunk of change
18 is \$3.95 million for roof replacement down at San
19 Quentin. Once we started doing the initial funding,
20 looked at it, we opened it up, we learned we've got
21 asbestos issues. There are significant issues that
22 we're allowed to do, infrastructure investments for
23 CDCR.

24 Also included in there is two and a half
25 million dollars for the Mule Creek facility that

1 just came online. CDCR, when they opened Facility E
2 at Mule Creek, the new one, they built us a brand
3 new food packaging facility out there. Our
4 discounted rate on it is two and a half million
5 dollars. It's probably about \$5 million worth of
6 improvements they did for us. This was supposed to
7 come in July, a proposal. We've sped it up to this
8 meeting. In addition, there is \$700,000 related to
9 equipment that is inhouse. Very minor amount in the
10 overall term of things.

11 And the last portion, \$2.6 million in offender
12 training opportunities. We have expenditures listed
13 in CTE programs for -- we go to -- we've done it by
14 institution at Attachment A3 and A2 by the type of
15 infrastructure investment. There is water
16 reclamation structure repair for offender education.
17 On the offender education, we are investing a
18 significant amount of funds, a total of \$2.6
19 million, just for the equipment and planning, just
20 so we can bring the programs online.

21 It expands our Apprenticeship Program in
22 Northern California to Southern California,
23 including another foray out to the Division of
24 Juvenile Justice with the Labor Apprenticeship
25 Program, as well as building a coding program down

1 in Ventura for just setting it up down there. In
2 addition, we've expanded the Apprenticeship Program
3 at CIM.

4 For Mr. Diaz's benefit, the Apprenticeship
5 Program, as many of you know, this is our tenth year
6 doing it. It started in Northern California. It
7 was sponsored by the Carpenters, the first program,
8 and immediately followed by Mr. Trujillo's union,
9 the Trade Union, did the second portion of it.
10 There are now Carpenters, Ironworkers and Laborers
11 Program of Northern California.

12 However, in Southern California it took them
13 nearly ten years to make a signatory agreement, the
14 same agreement we have in Northern California. We
15 now have an apprenticeship agreement at CIW and CIM.
16 So that will provide 112 more positions. If we can,
17 when Ms. Davison was the Warden at CIW and was still
18 running today very well and a very successful
19 program. And the recidivism rate alone, while we
20 say it is 7.1 generally, we won't know exactly what
21 that rate will be until probably later this fall or
22 early next year when our Irvine study, which
23 Mr. Jenkins is helping us with, is completed.

24 Other programs that we're investing in is -
25 this may be before you, Mr. Diaz, too. Three

1 industry education. We are going back to investing
2 in vocational programs alongside of our facility
3 programs. At Folsom we have a vocational welding
4 that isn't run by us; it's run by CDCR, right next
5 to our welding facility. So folks that are coming
6 in to Fabrication have already been trained.
7 They've already got their welding certificates, so
8 we're saving up a lot of training time. That
9 program was actually shuttered statewide by
10 Department of Corrections about ten years ago when
11 funds ran low. We're bringing back to life the
12 partnership with DRP where we're up the programs,
13 running them for one year, and then turn it to DPR.
14 Our investments are with the welding program at
15 Solano, a vocational optical program at Solano,
16 potentially a welding program at Pelican Bay,
17 Salinas Valley, and --

18 Scott Walker, Avenal?

19 MR. WALKER: Avenal is in lieu of.

20 MR. PATTILLO: Avenal in lieu of Salinas
21 Valley. That is the content of those expenditures.
22 I think I've spoken to about everybody one-on-one
23 regarding the content of what is in here.

24 If there are any questions?

25 MEMBER MARTIN: A couple of questions that

1 are related to actual income in various sectors that
2 we have through PIA, mainly agriculture that PIA is
3 spending money on the new dairy process. And as we
4 discussed, the dairy or the crops actually are \$4
5 million plus loser per year. And I know you have to
6 have -- you need to keep some of the inmates
7 working. But as we're trying to rehabilitate and
8 change that focus, wouldn't it be more prudent to
9 take a look at something else that we can do within
10 those institutions, such as DVI where we are losing
11 money on the project, losing money on the farming?
12 But yet maybe we can make an investment like you are
13 doing with these capital investments, where we are
14 doing a different type of training that maybe some
15 of those inmates could transfer into and would
16 hopefully develop the skills and keep them out of
17 CDC more so than trying to get a job at a farm,
18 although I would hire a farmer's construction worker
19 any day of the week. They are the hardest working
20 people, believe me.

21 So as I was saying, should we go and invest
22 more money into something that is already a loser
23 rather than trying to focus on creating maybe a
24 different type of job or something different within
25 that institution to train them?

1 MR. PATTILLO: I think the short answer on
2 that is yes. Mr. Martin and I have had extensive
3 discussions on this. This isn't a surprising
4 question for me. We are investing a significant
5 amount of bringing the dairies up to code. We have
6 some issues that have arisen over the year. Most of
7 it because we haven't had this kind of water. So
8 we're bringing a few of our facilities up to code.
9 It is not making money right now. Last year it
10 didn't. Specifically, the Dairy did not make money.
11 That's usually a break-even operation for us. There
12 are some overhead costs that are draining off of it.
13 Mr. Martin and I actually have been working with me
14 on identification of overhead allocation. Actually,
15 he's asked a myriad of questions, and I still
16 haven't the answers to all.

17 He has a valid point. We look at agricultural
18 at a full range of the over one thousand folks that
19 we are working systemwide in our agricultural
20 operations, whether they include packaging and
21 whatnot. The issue on food packaging -- let me back
22 up. The issue on crops is that it is showing a loss
23 and does show as a loss every year. Part of that
24 reason is because we take a profit for the almonds
25 in our Food Packaging. We don't identify the profit

1 as it occurred at the Cost Center. We actually take
2 that profit on the Food Packaging side. We sell all
3 of our almonds ourselves now.

4 Mr. Martin brought up that issue about the
5 appropriateness of taking that revenue, because it
6 does look like we are losing our shorts in that
7 area. And if we move that profit back there, we can
8 show a little better profitability. We actually
9 have been low priced on our milk. We set our milk
10 prices on a quarterly or semiannual basis, just for
11 the purpose of allowing CDCR to budget around us.
12 Because as things happen, fourth quarter, I can tell
13 you right now, there was a significant deficiency
14 report in the fourth quarter. But if we had
15 actually been charging what the valid price was, I
16 think we would have driven that deficit a little
17 deeper.

18 Mr. Martin and I have talked particularly
19 about pricing, appropriate pricing in relation to
20 where the rest of the industry is at. And I agree
21 with him that we shouldn't vary as much as we have
22 in some areas. So I will strive on a going-forward
23 basis that our pricing is appropriate in milk, in
24 dairy, and appropriate profit centers are charged,
25 so that we're not losing as much money.

1 The second part of his question: Should we
2 invest any more in training programs in those areas?
3 Yes, we should.

4 And so those two areas, actually DVI is liked
5 for investment in carpentry and labor programs. And
6 the reason we will need that is because we need
7 somebody to operate or actually fix that facility.
8 So we will be investing that money in our June
9 budget. But his point is a valid one.

10 I probably haven't answered that. I feel like
11 I will be answering that question for the next
12 three months. That is my response to Mr. Martin.
13 And I owe him two pages of documents. I'm still
14 ahead of you right now. But it is an appropriate
15 question.

16 CHAIR Diaz: Any further conversation with
17 the Board and Mr. Martin questions? Any input?

18 MEMBER DAVISON: I have a question. Would
19 that mean getting out of the milk business
20 altogether?

21 MR. PATTILLO: You know, and the question
22 is: Should we get out of the milk business? We
23 have -- as you remember, ten years ago, we had four
24 dairies, and we scaled it down to two based on our
25 population. It's still a viable business for us.

1 It's taking a lot of our cash, contracting costs.
2 It has become unprofitable partially because we
3 don't have enough offenders always to run the
4 program, and our increase in contractor services has
5 gone up. Now we have 9,000 offenders coming back
6 from out of state. We believe that the minimum
7 population at that point is going to expand greater
8 than it has been. We are talking about a wash --

9 CHAIR DIAZ: In looking at the out-of-state
10 population coming back, we're looking for that to be
11 a wash where it wouldn't negatively impact our 3JP
12 numbers, or it wouldn't increase that 137.5 percent.
13 We've been keeping an eye on it real close. But I
14 know in regards to getting a sufficient workforce
15 now that we have had recent classification changes
16 in institutions that will allow a different
17 workforce to be able to go behind vocational and to
18 work where we traditionally did not have.

19 The fact because we had an old policy that
20 wasn't designed for our electrified fencing. Now we
21 have electrified fencing, but we've never really
22 beefed up our classification system to meet those
23 securities. So a workforce that has always been
24 eager to want to go back there haven't been allowed.
25 So now we're having a different group of inmates

1 wanting to go. So I hope that will address some of
2 the workforce issues. But as far as being out of
3 the milk business, this is my first Board meeting,
4 and I can tell you what the milk production and crop
5 production at the institution does. We look forward
6 to having those inmates out there and at the Central
7 and San Joaquin Valley, where we have our profits
8 coming from. For that type of worker and that skill
9 set, there still needs to be that type of training
10 out there. If we have to reexamine our workforces
11 to help get a better number out there to reduce the
12 cost, that's something CDCR can take a look at.

13 MEMBER KELLY: We had some issues with our
14 work delivery up north.

15 MR. PATTILLO: One time there was an issue
16 regarding Pelican Bay. That was we don't sell milk
17 to them or Susanville because we had a conscious
18 effort not to impact a dairy or two that are up
19 there that claim that they would be out of business
20 if we sold milk to our population. And so that is
21 part of the -- that is part of our pricing issue,
22 part of your revenue issue.

23 MEMBER KELLY: Do we have an issue with
24 crops? Didn't we have a loss of a facility to grow
25 crops on the back of -- in Vacaville because the

1 city took over a baseball field, a softball field?

2 MR. PATTILLO: Yes. That was a pruning
3 operation.

4 MEMBER KELLY: I couldn't remember what it
5 was. Water issue, sewer issues. Sort of parlayed
6 that into a --

7 MR. PATTILLO: We do have water issues down
8 in the Central Valley that impacted our almonds.
9 Actually, we're doing a better job now. We have a
10 low water operation everywhere we go. We've
11 invested a significant amount of money involving
12 water in low water operations out there. We do have
13 land that was fallowed also. We are not having that
14 land in production because we don't have folks to be
15 out there. I think that a lot of that is going to
16 change in the next few years as we see the
17 population come back.

18 We didn't talk a whole lot at the beginning of
19 this of Prop 57, which is a significant impact to
20 the State of California. We're talking about
21 possibly 9,500 inmates that may have an expedited
22 departure from prison. You have to take that into
23 consideration. There is about 9,500 folks that are
24 out of state right now. There's going to be a
25 backfill. I think it will be a year before we can

1 really can make a decision.

2 I appreciate all the Board Members that want
3 to ask all the questions. It is appropriate. I
4 think that the expectation should be that when we
5 come back in June as part of our annual budget, we
6 make a recommendation on what we are going to do
7 with our dairy operation and how that would affect
8 everything else. Because if you take one out of the
9 mix, how does that affect the rest of the overhead?

10 I know I didn't answer it a hundred percent.

11 MEMBER MARTIN: I know you said the almond
12 crop impacts a good portion of the crop, but is a
13 minor portion. The Dairy, I think, is about \$2
14 million a year. The dairy business, that's
15 substantial. And when you're underpricing milk to
16 that extent, that means you are subsidizing it,
17 which, in essence, impacts all dairy farmers because
18 they could be selling that milk to the institution
19 for the same price that you are selling it for.
20 Typically, what you price it at is what market value
21 is. That's what the other dairies sell it at.

22 I look at two sides of the coin. Are we
23 subsidizing the dairy, which is really unfair to the
24 small farmers, or are we training the guys for the
25 jobs? As you know, it's a necessary evil to train

1 these people to make sure that they have jobs.
2 We're making sure that they don't come back to the
3 institution. There is two sides to that coin that I
4 am looking at every time that I look at.

5 If we're losing money, why are we losing
6 money? If it's paying off in the long run, I don't
7 necessarily look at the short-term. I don't
8 necessarily look at the dollars that we're losing.
9 I'm looking at where is the benefit to CDCR or to,
10 you know, PIA. Really, ultimately we're helping
11 CDCR by taking money which is saving taxpayers money
12 in the long run.

13 MEMBER DAVISON: And safety overall.

14 MEMBER MARTIN: And safety overall.
15 Anytime you can keep them from coming back, we've
16 done our job.

17 CHAIR Diaz: I think that's an important
18 point, that the offenders who did participate in
19 these programs, some of them recognize that other
20 industries may not be as welcoming. From my
21 experience in talking to the population, they
22 believe that's the add in the dairy industry drum
23 roll, as long as they have a skillset to work at.
24 That contributes to --

25 MEMBER AGHAKHANIAN: I want to emphasize

1 the fact that currently there is a shortage in the
2 workforce when it comes to these industries,
3 especially in farming right now, because of what is
4 happening at the border, the federal level, and with
5 the President. This is an area that is in demand
6 right now because of current immigration concerns.
7 There are tons of articles in the news that people
8 are losing their workforce right now.

9 Is this an area that would also provide good
10 jobs for our inmates?

11 MR. PATTILLO: Both agriculture and
12 construction have significant impacts right now that
13 are caused by current immigration policy. There are
14 folks working in those industries that probably
15 wouldn't normally be able to work there given finite
16 farming, whatnot. The dairy industry is a lot of
17 it. There is an increase in demand. I'm not saying
18 the increase in demand is in construction. I'm
19 pointing to Mr. Martin because he can talk about
20 that impact right now. He knows it very well.
21 Dairy is catching up.

22 One of the other issues I wanted to just
23 mention is the cost going to the dairy. One of
24 things we won't have on a going-forward basis is the
25 OPEB costs. Unfortunately, I can't quote that off

1 the top of my head. It's a chunk of change that
2 comes out there. I will commit to coming back in
3 June with a better idea on a recommendation and
4 whether we need to go to a public hearing to discuss
5 this.

6 MEMBER MARTIN: I have one follow-up
7 question. On all of these contracts that you're
8 issuing for all of the this work who is managing
9 those contracts and how are they being administered?
10 Are they going out to the public for multiple bids?
11 And what is the process for all of these contracts
12 that are being --

13 MR. PATTILLO: So California Prison
14 Industry Authority has their unique, own procurement
15 authority. However, our authority runs directly in
16 line with the State's contracting regulations and
17 the Department of General Services procurement
18 roles. I want to note that we are consistently
19 going out for public works projects. Everything
20 that is public works is being defined as public
21 works. They are being bid out of our house. We
22 handle all procurement on that.

23 There is one at San Quentin. We are deciding
24 whether that is handled by Corrections or us. At
25 this time, we have designated project managers for

1 each area that manages the project, and all of that
2 is done in house. But all the contracts are either
3 through -- we are not even bid safe. What is it?
4 eProcure. Sorry, Mr. McGuire.

5 We've gone through BidSync and now we are
6 eProcure.

7 MR. WALKER: All publicly noticed.

8 MEMBER MARTIN: As far as you know, are you
9 getting certified payroll reports for all the jobs
10 that we're doing?

11 MR. PATTILLO: We are getting certification
12 on the front end that they will pay, and we are
13 getting the certification on the tail end after the
14 job.

15 MEMBER MARTIN: We are not doing
16 progressive process as we make sure they have been
17 paying their certified payroll on a monthly basis?

18 MR. WALKER: What they are required to do
19 is to send in the payroll and certify they are
20 paying the regulations. Some of the jobs are doing
21 -- Modular Furniture, they have to send in their
22 payroll, which I don't really agree with. It takes
23 a lot of time to go through that and audit it. We
24 got it; we own it. The notion we should know what
25 is there. We require them to pay minimum wage. We

1 certainly make them certify they are paying minimum
2 wage. If at some point we get to the point we
3 believe they are not, by whatever means, we will go
4 out and personally audit. It's their responsibility
5 to do that contract, to pay the prevailing wage. We
6 have to do our due diligence to make sure they are
7 doing that.

8 MEMBER MARTIN: Might want to take a look
9 at the actual dual state, as far as verifying what
10 our responsibility is on our end to ensure that they
11 are actually paying prevailing wages. Some of the
12 rules have changed. I believe as part of your
13 payment process you have to verify that the
14 prevailing wage is being paid. The prevailing wage
15 and certification and payroll needs to be provided
16 at time of payment by PIA.

17 MR. WALKER: We just went through that
18 process. We will go back and take a look again.

19 MEMBER MARTIN: That is all --

20 MR. PATTILLO: We will look at that.

21 MEMBER KELLY: We want to make sure we hold
22 that money, hold detention, right?

23 MR. WALKER: We hold bond money. And on
24 major projects we do partial payments.

25 MEMBER AGHAKHANIAN: Mr. Martin, I

1 understand your concern. I also want -- for me what
2 is important is that investing in areas that can
3 generate future jobs. So what you're telling
4 Mr. Pattillo is that there is a shortage right now
5 because of, you know, the immigration rules that are
6 applying. Is this an industry that, you know, not
7 only -- I'm not talking about growth. I'm talking
8 about sustainability and demand for the next two
9 years.

10 MR. PATTILLO: I believe it is
11 sustainability and demand. Mr. Martin pointed out,
12 when you work in the dairy industry, it's a little
13 hard to be in a job in the world. So they ask
14 questions: Why do we still make underwear? At the
15 end of the day our program is here to teach work,
16 and that is what's brought every one of us along in
17 our life. And for that, we are not necessarily
18 trying to teach a guy how to milk a cow, but teach
19 him how to work.

20 It's an exceptionally valid point. If we have
21 a business that is not making enough money, what do
22 you do with it, and how much money do we invest in
23 it? Right now, we are just trying to invest to keep
24 basically code issues at bay. Keep the cows clean.
25 This mud has just been incredible. As Mr. Diaz --

1 right now we're contemplating moving 1,500 cows at
2 Corcoran right now because we've got a low levee
3 problem at this moment. So it's something we've
4 constantly got our noses in. I think it is
5 reasonable for the Board to ask and come back and
6 discuss it.

7 MEMBER AGHAKHANIAN: We should look into
8 the beef and cheese industry.

9 MR. PATTILLO: Lunches. There's a lot of
10 history back on food, necessarily.

11 Is there any other comments? These are all
12 valid questions.

13 CHAIR Diaz: Are there any questions from
14 the public on this subject, on this agenda item? If
15 so, please step to the podium and state your name
16 and your affiliation.

17 If none, is there a motion to approve Action
18 Item A?

19 MEMBER SINGH: I move this, Mr. Chairman.

20 MEMBER TRUJILLO: Second.

21 CHAIR Diaz: Board Secretary, please call
22 the roll.

23 MS. VUONG: Member Aghakhanian.

24 MEMBER AGHAKHANIAN: Aye.

25 MS. VUONG: Member Davison.

1 MEMBER DAVISON: Aye.
2 MS. VUONG: Member Kelly.
3 MEMBER KELLY: Aye.
4 MS. VUONG: Member Jenkins.
5 MEMBER JENKINS: Aye.
6 MS. VUONG: Member Martin.
7 MEMBER MARTIN: Agree.
8 MS. VUONG: Member McGuire.
9 MEMBER McGUIRE: Aye.
10 MS. VUONG: Member Trujillo.
11 MEMBER TRUJILLO: Aye.
12 MS. VUONG: Vice Chair Singh.
13 MEMBER SINGH: Yes.
14 MS. VUONG: Chair Diaz.
15 CHAIR Diaz: Aye.
16 MS. VUONG: Motion passes nine-zero.
17 CHAIR Diaz: Moving on to Action Item B,
18 sensitive positions and designation for CALPIA
19 employees for the purpose of substance abuse
20 testing. Mr. Pattillo.
21 MR. PATTILLO: I'm going to ask our General
22 Counsel, Jeff Sly, to present this item.
23 MR. SLY: Good morning, Mr. Chairman. Good
24 morning to the Board. I am Jeff Sly, General
25 Counsel for the Prison Industry Authority and

1 Counsel for the Board.

2 In December, we brought a sensitive position
3 regulation package to the Board, and you approved
4 it. We submitted that package to the Office of
5 Administrative Law. They came back recently, there
6 are two minor changes they asked us to make, which
7 is set forth in the materials that you have under
8 the Action Item B.

9 Essentially, there was a reference in the
10 regulations and to "policy." That was something
11 that CalHR asked us to put together first prior to
12 moving in this direction. The Office of
13 Administrative Law felt that referencing "policy,"
14 which is essentially without regulations, which is
15 underground regulations, is inappropriate. So they
16 asked us to remove it. We have done that.

17 The other issue they were concerned about was
18 in our Initial Statement of Reasons. There was a
19 couple of areas that support the reason behind
20 30-day notice, which is a prenotice, prior to
21 designating positions, and the 60-day notice, which
22 is after we have considered any comments we received
23 during the 30-day notice. And the General Manager
24 has indicated his designated position being
25 sensitive out for a 60-day notice to notify

1 employees of anything in the 60 days. Their
2 position is now being deemed designated.

3 Essentially the reason for the 30- and 60-day
4 notice is that the 30-day notice is to provide
5 employees and their bargaining units an opportunity
6 to submit alternatives for considerations, things
7 they want to look at with regards to that. One of
8 the things that we mentioned, and was always been
9 part of the reason for these notice is to give
10 employees the opportunity to decide whether or not
11 they want to continue working for an organization
12 that is going to subject them to the reasonable
13 suspicion drug testing.

14 OAL believes that if we're going to have that
15 in our Initial Statement of Reasons as part of why
16 we are having those 30-day prenotice periods and
17 60-day notice period, we need to reference that
18 information in the actual regulation; and to the
19 extent we weren't comfortable doing that, they just
20 asked us to take it out, remove it from the Initial
21 Statement of Reasons, which is done by basically
22 submitting in a Supplemental. We don't go back and
23 actual revise the original Statement of Reasons. We
24 just issue a supplemental, which is what is in your
25 package, Item B2, I believe.

1 That is what we have done. They are the only
2 two changes they asked for. They asked us to go out
3 for a 15-day notice, which we did. That notice
4 period ends this afternoon at 5:00. To date we have
5 not received any public comments with regard to
6 these two changes. All we need now is the Board
7 approval of these two changes so we can resubmit
8 this to the Office of Administrative Law. They've
9 indicated that they are going to approve this
10 regulation package. So if you give us your approval
11 today, we will be resubmitting this probably the
12 first part of next week, and the regulation could be
13 going into effect by July 1st, we anticipate.

14 Anybody have any questions? I will be happy
15 to answer. Otherwise I ask you to approve this
16 package.

17 MEMBER KELLY: One clarification. You
18 reference a lot of these on Page 3, "Employee
19 Rights," California Code of Regulations. Do all of
20 our employees have all those codes so they know what
21 their rights are?

22 MR. SLY: Yes. We have -- everybody is
23 issued Title 15 for both CDCR and Title 15 for PIA.
24 We issue those to every new employee that comes on
25 board. We send it to them along with all the notice

1 of signing process so they have received it. Even
2 though, technically, OAL considered the policy to be
3 underground regulations. Since we are used to
4 giving it on our own, it isn't a problem, but we
5 give them both the policy and Title 15, including
6 this information, when they come on board.

7 MEMBER KELLY: Thank you.

8 MEMBER AGHAKHANIAN: I move approval of the
9 text of the regulation and authorize the General
10 Manager to make any additional, nonsubstantive
11 changes resulting from comments or in connection
12 with discussion with Office of Administrative Law.

13 MEMBER MARTIN: Second.

14 CHAIR Diaz: We have to take some public
15 comments first before we do the vote or point of
16 order. So we've had some questions by the Board.
17 We have to afford the public the opportunity.

18 Is there any comments or questions by the
19 public? If so, come forward and state your name and
20 affiliation.

21 We have a motion by the Board and seconded by
22 Member Martin.

23 MEMBER JENKINS: Just before we call the
24 question, and it's actually for clarification. I
25 intend to vote in favor of the motion, by the way.

1 But do we now and can we -- do we already or can we
2 get reports on drug testing results? I don't know
3 how this even comes up.

4 MR. SLY: In the last 11 years three of our
5 employees have been tested. All three were tested
6 at the request of the Department of Corrections.
7 Prior to us implementing these regulations that we
8 have moved forward on, all drug testing was being
9 done on our behalf by the Department of Corrections.
10 I don't believe that PIA has actually initiated any
11 drug testing.

12 There was one that was done on a random draw
13 for commercial truck driving, DOT testing. And then
14 there was two that ISU staff at two institutions
15 identified someone they believed was under the
16 influence. And they actually conducted the test.
17 It all came back positive and one came back
18 negative.

19 MR. PATTILLO: The only random test we did
20 is DOT testing on our drivers. That's our only
21 random, and the rest of it is under the Reasonable
22 Suspicion Clause.

23 MR. WALKER: It doesn't come up very often.

24 MEMBER JENKINS: That was my question: How
25 often it does come up? I would rather know that it

1 doesn't come up very often than not know at all.

2 MR. PATTILLO: On the offender side, we do
3 offenders randomly. That is part of a CDCR process.

4 MEMBER JENKINS: Thank you.

5 CHAIR Diaz: We have a motion and a second.
6 Secretary, take the roll.

7 MS. VUONG: Member Aghakhanian.

8 MEMBER AGHAKHANIAN: Aye.

9 MS. VUONG: Member Davison.

10 MEMBER DAVISON: Aye.

11 MS. VUONG: Member Kelly.

12 MEMBER KELLY: Aye.

13 MS. VUONG: Member Jenkins.

14 MEMBER JENKINS: Aye.

15 MS. VUONG: Member Martin.

16 MEMBER MARTIN: Approve.

17 MS. VUONG: Member McGuire.

18 MEMBER MCGUIRE: Aye.

19 MS. VUONG: Member Trujillo.

20 MEMBER TRUJILLO: Aye.

21 MS. VUONG: Vice Chair Singh.

22 MEMBER SINGH: Yes.

23 MS. VUONG: Chair Diaz.

24 CHAIR DIAZ: Aye.

25 MS. VUONG: The motion passes nine-zero.

1 CHAIR Diaz: Action Item C. Presentation
2 of CALPIA's financial audit for Fiscal Years ending
3 June 30, 2016 and 2015. Mr. Pattillo.

4 MR. PATTILLO: This is the audit. In case
5 anybody is going to get coffee, this would be the
6 time to get it. Actually, before we move to the
7 audit and introduce the auditor, I was remiss in not
8 introducing a new staff.

9 I have a new team member, Milo Fitch. Milo
10 Fitch just took over the Workforce Development
11 Branch for PIA. That was Rusty Bechtold for the
12 last couple years, and he went back to run our food
13 division. Actually, he was a hog farmer and that's
14 how we got him, and he wanted to go back. He is
15 running the Dairy and everything else.

16 Milo comes to us from the Sacramento County
17 Sheriff's Department where he did 33 years. I had
18 the opportunity to work with Milo for the last ten
19 years. We did a lot of program evaluation and
20 program development in Sac County. I use the term
21 "used Milo" because he used to come out and do a lot
22 of evaluations before he was even with us, when he
23 still was with the Sheriff's Department. He started
24 about -- he reminded me the other day, eight weeks
25 now. This is his eighth week. We got him out of

1 retirement. He was retired for about 18 months or
2 more, I guess. So I'm very grateful that he agreed
3 to come on as one of the executive members.

4 (Members say welcome.)

5 MR. PATTILLO: With that, if I could
6 introduce Macias Gini & O'Connell, Scott Hammon who
7 I think we are somewhat familiar with it, who will
8 come up and do the presentation. I will step out of
9 the way because I don't have a part in this
10 presentation.

11 MR. HAMMON: Thank you. My elbow is tired
12 so I'm going to speak from here so I can rest my
13 elbow on the table for the duration.

14 Good morning, everyone. Hopefully everyone
15 has a copy of presentation in your package.

16 MR. PATTILLO: Item 3.

17 MR. HAMMON: Those of you who were on the
18 Board last year, the format and content of this
19 presentation is relatively similar to the prior
20 year. And my understanding is originally the
21 meeting was scheduled at one, and I have been asked
22 to speak for the next hour and ten minutes. We can
23 keep this as short or as long as the Board members
24 would like. Because it's a relatively short report,
25 the presentation itself is relative short. As we go

1 through it, I will be happy to take questions as
2 opposed to waiting for the end. When we do get to
3 the end, I will also offer an opportunity for the
4 Board to ask any specific questions to cover
5 anything I've gone over up to that point.

6 So without further ado I am going to direct
7 you to the third page of this document, Status of
8 Our Audit which is the title there. I just want to
9 highlight a couple points. Again, these are points
10 some of which are consistent with prior year.

11 I want to highlight the finished process.
12 Too, while we are the auditors, the fact that we are
13 the auditors doesn't relieve the organization of the
14 fact that this is their financial statement. They
15 are not auditors. We issue a report of the
16 financial statements based on the organization's
17 financial statements.

18 One of the things that is different this year,
19 I want to direct your attention to the second bullet
20 point. You can see some of the red print. We did
21 run into an unusual situation this year. Last year
22 was the year, meaning the year ending June 30, 2015,
23 was the first year of the accounting pronouncement,
24 known commonly as GASB 68. It requires changes in
25 how pension liabilities are reported in the

1 financial statements. Because it was a transitional
2 year, because some of the work was done by outside
3 consultants at CalPERS, including some of our own
4 team members, we didn't have to do certain
5 procedures last year related to PIA's GASB 68
6 activities, specifically referred to as pensionable
7 compensation. This year, however, because it wasn't
8 the first year of implementation, it was necessary
9 for us to do that work, or what was planned was to
10 receive a report from CalPERS state auditors that
11 would address those issues and that we could rely on
12 our audit for them.

13 Unfortunately, this wasn't communicated until
14 the CSA actually finished their work. They opted
15 not to look at two plans that were significant plans
16 for the PIA. Those were referred to as the Safety
17 and Industrial Plans. PIA is a little bit unique
18 among state agencies that report stand alone
19 financials. Most of those other state agencies that
20 do have stand alone financials, they participate in
21 this miscellaneous plan, and that plan was audited
22 by the California State Auditors.

23 Industrial and Safety Plans where 99 percent
24 of the PIA employees participate in were not.
25 Therefore, we started the process once we found that

1 out by trying to obtain the census and pensionable
2 comp data for these plans, to do the testing
3 ourselves. What we ran into was a combination of
4 nobody having ownership of that data. There is a
5 lot of confusion at the state level because, again,
6 GASB 68 was relatively new and people were still
7 feeling their way through it in terms of who has
8 responsibility for it. This was a unique situation.

9 By the time we found out who had the
10 responsibility, and this involved multiple calls,
11 meetings, phone calls, not only on our own efforts
12 but also the Finance and Accounting staff at PIA.
13 We then found out where data was. So we had access
14 to the data. We and PIA were limited in our ability
15 to access that data until the earliest in late
16 March, early April. Even then, if we were able to
17 get access to the data, it was unclear to us whether
18 we would be able to get all the necessary
19 information we needed to do the testing.

20 There are some issues about privacy. There
21 are issues -- some of the participants in those two
22 plans are not state employees. There are also
23 nonstate agencies or Joint Power Authority or
24 another entity out there in the community. And
25 there is no guarantee that that entity or agency

1 would cooperate with PIA's efforts to get this
2 pensionable compensation data and/or the census data
3 that is necessary.

4 So at that point in time when we became aware
5 of that, we had delayed the final issuance of
6 financials in trying to resolve this issue.
7 Decision was made by PIA, and we agreed with it, it
8 is better to go ahead and issue the financial
9 statements with what is called a qualified opinion.
10 A qualified opinion simply highlights that we
11 weren't necessarily able to address certain issues
12 regarding what we wanted to do.

13 Sorry for the long back story. That's all a
14 precursor to what you see in red here on this page.
15 It highlights the issue of a qualified opinion and
16 the qualification regarding the ability to test this
17 pensionable comp and census data.

18 Now when we were able to look at the amount of
19 the pension liability, it is obviously quite large,
20 but we felt that the data we weren't able to touch
21 upon was unique to the pension liability. In other
22 words, it didn't affect revenues. It didn't affect
23 the organization's cost of goods sold. So we were
24 able to issue a qualified opinion, and we will just
25 pile right through. With the exception of these

1 areas, we were able to complete our work for all the
2 other areas. This has happened for us. It is not
3 common, but certainly not uncommon in our
4 profession.

5 Before making the decision, we had the
6 organization consider the impact of having a
7 qualified opinion on everything from suppliers.
8 Outside parties usually use the financials, which is
9 literally a relatively small group. And also we
10 determined that the impact of having a qualified
11 opinion was minimal. We tend to agree with that.
12 Having said that, there is no guarantee. The
13 situation could arise in the next six, eight months,
14 nine months where you want to do a transaction, have
15 a contract with a vendor and they object because
16 they have some concerns about this.

17 I don't think there's going to be an issue
18 getting around that, but it may require making them
19 or educating them of the fact that ultimately PIA is
20 backed by some degree by the State of California.
21 Therefore, they could look to the State ultimately
22 if they have any concerns about this kind of
23 qualification. I realize that was a lot of
24 information. I'm going to pause there for a moment.
25 That was probably the single -- without a doubt,

1 that was the single largest issue problem/challenge
2 we had this year. I want to make sure that
3 everybody on this Board feels like they have an
4 appropriate understanding, and then I'll take any
5 questions you have related to that. Yes.

6 MEMBER KELLY: You mentioned vendors,
7 people. So are you saying that they would look at
8 our unfunded liability, if we have it, and we don't
9 have it now, and say we can't take a chance on doing
10 business because of this unfunded liability?

11 MR. HAMMON: Some particular large vendors
12 have perhaps a very process, procedure towards
13 contracting. And they may say, "We won't do
14 business with somebody who has a qualified opinion,"
15 or something like that. Or they may require some
16 additional information.

17 Again, in this circumstance I would be
18 surprised if you ran into any problems. I also
19 think I or the organization would be remiss not to
20 highlight that there is a chance, even if it was
21 relatively small. I think the outcome if somebody
22 raised the issue would be, they would go, "Hmm.
23 That is curious. What is all this about?" They
24 would seek additional information. PIA would be
25 able to clarify, and they would walk away satisfied,

1 particularly with respect to some of the comments
2 that Mr. Pattillo mentioned earlier in terms of the
3 state taking on responsibility and other factors
4 like that. I think that could be clarified
5 reasonably.

6 MEMBER KELLY: So next year's audit, are we
7 going to have this red section here again?

8 MR. HAMMON: That's a good question. We
9 don't know right now. Starting -- in addition to
10 trying to resolve the issue this year, PIA's Finance
11 and Accounting staff, particularly Mr. Bush, the
12 CFO, has been meeting with CSA, Department of
13 Finance, other agencies to try and get this in place
14 for next year. My understanding from PIA everyone's
15 preference on our side, is the CSA's scope at least
16 in these projects end and do the work.

17 Unfortunately, PIA can't force CSA to do that.
18 They are working with them right now. Mr. Bush and
19 I had a sidebar conversation earlier this morning.
20 He was bringing me up to speed on his conversations
21 with them. We expect to have more meetings in the
22 month of April, and the goal is to have something in
23 place by the end of this month, kind of a go/non-go
24 decision from CSA. Because if they're not going to
25 do it, then the next step would be to identify a

1 timeline with the issue is to assess the issue I
2 mentioned a few minutes ago, about whether we can
3 truly get the data from some of the nonstate
4 agencies or whether that is going to be a blocking
5 for us and prohibitive from getting some of that
6 data. Is it a small enough component of the overall
7 data that we could finish our work and conclude
8 favorably without it? Those are all issues, and I
9 don't know if they're definitely going to be able to
10 try to resolve it.

11 However, to your point if we can't get CSA, if
12 we can't get sufficient data for testing, and, yes,
13 you would wind up with this opinion next year. The
14 risk would be at some point down the road if the
15 liability were so large we weren't able to issue
16 what is called a qualified opinion as this year, and
17 then we'd have to take another step in terms of a
18 less favorable opinion, and that would be an adverse
19 opinion. And, again, would that matter to your
20 users? Hard to say. But again it is one step below
21 a qualified opinion. So it's hard to predict at
22 this point. I don't think we're going to wind up
23 with their not using next year's financial
24 statements.

25 MEMBER KELLY: Again, I'm sure you all saw

1 my letter. While we're getting these qualified
2 opinions from the attorney and people who have --
3 they all have insurance to cover them. But if they,
4 oops, we made a mistake, and the Board only has a
5 homeowner's policy, I would sure like to get this
6 pension liability issue settled for us because
7 somebody comes back and says, again, our attorney
8 says we're not fiduciaries. But we sure seem to be
9 spending a lot of money and time on pension issues
10 and liability, and we don't have insurance that I
11 know of to cover it.

12 MR. HAMMON: Right.

13 MEMBER KELLY: We get a knock on the door
14 saying we need a homeowner's policy to cover our
15 losses - \$67 million for our pension fund. It's
16 true I'd feel more comfortable and sleep better at
17 night if we can come up with a final, final on this
18 red block of information.

19 MR. HAMMON: Understood. I would refer to
20 the Board to put that down as an action item. If I
21 understand, the next meeting is June. I certainly
22 think it's fair and rational thinking to get an
23 update at that point in time.

24 If I could make a couple of comments. One,
25 certainly I understand there is direct reliability

1 and would never want to not acknowledge the
2 challenges that come with. In this case the
3 qualification, while it is not something that I want
4 to do, but I think that's minimal impact for a
5 couple of reasons.

6 One, the State is ultimately responsible.
7 With the way the accounting standards are written,
8 I'm not going to go into great detail. PIA falls
9 under this real nebulous space where they're
10 allocated a percentage by the State. The State's
11 ultimately making the decision. And so what you
12 report on is dictated by the State. And what we
13 were trying to do, when we reported on the accuracy
14 of that allocation, is just trying to get sufficient
15 data that says, "Yes, the state has this correctly."
16 Ultimately, the State would have - this is my
17 opinion as a non-attorney - would have ultimate
18 responsibility for it. As highlighted earlier, your
19 PIA employees are ultimately state employees.

20 So what you have here is this weird nexus
21 where for the accounting rules you're required to
22 report it as your liability. However, underlying
23 that there is legality where they are ultimately the
24 responsibility of the State. But because of the way
25 accounting rules are written and you're being asked

1 to contribute through current payroll and other
2 contributions, if you will out of your budget, the
3 accounting rules force you to pick up your share.
4 That was one of the things we actually pursued with
5 the Department of Finance and the SCO was if they
6 were going to make some of the changes that
7 Mr. Pattillo referred to earlier, would they stop
8 taking those funds away or do it in some fashion
9 where they reimburse you or to allow us not to have
10 to report this as an accounting procedure. In other
11 words, we were going to try and change how they are
12 doing payroll, where PIA employees were reimbursing
13 you for your contribution, which would have gotten
14 us out from the accounting requirements. I won't
15 repeat that. We're trying to do some creative
16 things to give a little more practical challenge.

17 MEMBER AGHAKHANIAN: I'm sorry, Mr. Kelly,
18 is it possible that we can get some kind of what you
19 just stated in writing in case, you know, someone
20 asked us? It is ultimately to say --

21 MEMBER KELLY: We got something from the
22 State, but again --

23 MEMBER AGHAKHANIAN: That is not
24 sufficient?

25 MR. HAMMON: So it should be clear. Again,

1 in terms of taking the liability --

2 MEMBER KELLY: We're the State, not the
3 Feds.

4 MR. HAMMON: It wouldn't be appropriate for
5 me to opine on the legality. I hope I made it clear
6 before in my last couple of comments. That I'm
7 speaking as somebody, who based on my research, and
8 I'm certainly not an attorney. I would refer you to
9 the attorneys in this issue. But I was simply
10 trying to clarify that our understanding of what we
11 know about the structure is this ultimately is the
12 responsibility of the State. You've been allocated
13 a portion of that. It really is a bookkeeping
14 entry, and the State's making a decision about how
15 they're choosing to collect or get contributions to
16 reflect the ultimate cost. They can make changes in
17 that such that the liability would be your book.

18 The initial response we got was that they're
19 not going to make those changes because the reality
20 is you're a relatively small part of a much larger
21 organization. Part of this whole problem started
22 which is why the plan didn't pick up.

23 CHAIR Diaz: So if they were to follow up
24 with an action item in June, what action would the
25 action item be?

1 MR. HAMMON: I simply would suggest that
2 the Board get an update on whether CSA is going to
3 scope in the Industrial and Safety Pension Plans in
4 their audit cycle for the year ending June 30, 2017.
5 If not, a status update on PIA's efforts to obtain
6 the pensionable compensation census data will be
7 available for testing on its own.

8 MR. PATTILLO: Need an information item.

9 MR. HAMMON: Again, unfortunately, PIA is
10 not driving the bus. They're pushing hard. But
11 ultimately they relying on other entities and
12 agencies cooperating. So I can't guarantee there
13 will be a final on this. Certainly, there should be
14 progress update. I would urge you to keep that as a
15 reoccurring action item to see what is going to
16 happen.

17 If there are no other questions on that, then
18 I direct you to the last bullet point on Page 3.
19 Simply a reminder that when we do an audit we use
20 sampling and other forms of testing that don't
21 involve 100 percent of all the data. Therefore, we
22 report a reasonable assurance, not complete
23 assurance, that the data is exact.

24 On the next page, first four points talks
25 about the carrier's annual report. Our financial

1 statements are part of the annual report. We
2 audited the financial statements. We did not audit
3 the annual report. We don't issue an opinion on it.
4 However, we do use the annual report to ensure the
5 data is consistent with the financial statements.
6 Highlighting that.

7 Next page. This is to highlight when we do an
8 audit we look at PIA's internal controls. We do not
9 issue a report. We look at those controls in the
10 context of supporting the audit process. We are not
11 engaged to issue a report on the internal controls,
12 specifically. Having said that, when we are looking
13 at these controls to support the audit process, to
14 the extent that we have findings or recommendations,
15 we always report them.

16 The next page breaks out kind of categories of
17 significance of those findings. If you look at this
18 page, it is entitled Internal Control Over Financial
19 Reporting. There are three categories. The first
20 and most significant is material weaknesses. What
21 this really means is that there is a greater than
22 acceptable risk that your internal controls are such
23 that there could be a material error in the
24 financial statements.

25 Significant deficiency is the next most

1 important level. It is not a valid mature weakness,
2 but it's still not good.

3 The third level is just called Deficiency.
4 And just basically you think about it, it is just a
5 recommendation for improvement of internal controls.
6 Something we think would be good to look at, but
7 certainly does not seem to be urgent.

8 If you move to the next page, you will see two
9 bullet points. These are our comments that we had
10 in the prior year, and we're giving you an update on
11 their status. And I do want to point out that both
12 in the prior and the current year the findings and
13 recommendations we've had relate to what we call
14 other deficiencies. None of these were deemed to be
15 significant deficiencies or material weaknesses.

16 The first item from the -- I'm sorry, I
17 described these as a priority. These are current
18 comments, my apologies. The first item relates to
19 getting a disaster recovery plan in place. This is
20 good practice. PIA has a contract in place. It
21 should be done by the end of this calendar year.

22 The second item relates to really, in essence,
23 a staffing, to some degree a procedural issue as
24 well. That at one of the facilities, specifically
25 Solano, due to primarily the staff shortage for a

1 period of time, there was inventory that was being
2 physically received but wasn't entered into the
3 inventory system. That, of course, is never a good
4 thing to have, delays or pieces of risk or errors.
5 We are highlighting that here.

6 Our understanding is that process is fixed,
7 put in place. So we fully expect that will go away
8 next year.

9 Go to next page.

10 MEMBER KELLY: Question. We've confirmed
11 that we have more than one person authorized in
12 every one of our facilities to take inventory? Only
13 one person is authorized to do these?

14 MR. PATTILLO: No.

15 MEMBER KELLY: That is what it sounds like
16 when you read that.

17 MR. HAMMON: So there is a difference
18 between authorized and receipt from shipper or third
19 party, and then a person who is tasked with getting
20 it into the system. At Solano there was really only
21 one person either by practice or by policy that was
22 doing input into the system, and they were gone for
23 a period of time and data got lost in the shuffle.

24 On the next page these are prior comments. We
25 are giving updates as to current year status. The

1 first one relates to the organization's transition
2 to the Cloud. This is the one I'll probably spend
3 most time on. I think the most significant.

4 Number one, we certainly encourage the
5 transition step in the way that the vast majority of
6 organizations would work with, looking for both cost
7 and flexibility. However, having said that, we also
8 want to make sure that everyone is aware that there
9 are significant real issues when you move data to
10 the Cloud. And I'm just going to digress here for a
11 moment and talk about another client that I will not
12 name.

13 It is a public company, and we just finished
14 their audit less than two weeks ago. They ran into
15 significant delays and problems because they got
16 hacked, not in person but a third party service
17 provider got hacked. The data was corrupted and
18 held for ransom, and it took them approximately two
19 to four weeks to get fully operational. This in
20 real time operations, and it took approximately two
21 to three weeks to recover the historical data that
22 had been corrupted. My guess is their costs -- this
23 is a relatively small organization -- their costs
24 are in the hundreds of thousands of dollars. I
25 don't think they get a million. Close to a million

1 dollars for a small organization.

2 So the way I would encourage -- and we had
3 this conversation with PIA, the way we would
4 encourage the Board to think about this is not a
5 question of when you will be hacked or when your
6 service provider will be hacked, but when -- I'm
7 sorry, not if but when you will be hacked. There is
8 no question that someone will make a run at you or
9 your service provider.

10 There are a couple of things we're suggesting
11 that you think about in that context. Number one,
12 you want to make sure you have procedures and
13 policies in place that will maximize your ability to
14 continue to operate if your system is down for a
15 period of time. That involves backup processes. It
16 involves, if nothing else, simply having a plan.
17 How are we going to operate? And that sounds
18 simple, but it's not when you think how reliant we
19 are for some of our systems and processes.

20 Number one is having policies and procedures
21 updated to reflect the change in risk profile as you
22 move to the Cloud, your risk change, your processes
23 and procedures as you change with it. Otherwise you
24 have staff that are exposed.

25 The second issue relates to something referred

1 to as a SOC Audit Report. Some of you may also have
2 heard it referred to as SAS 70 Report. That is kind
3 of the old terminology from a few years ago. This
4 is basically an audit of a third party service
5 provider. In this case it would be an audit of your
6 Cloud service provider, not a financial statement
7 audit. It is System and Organization Controls,
8 hence the phrase SOC, S-O-C, Audit.

9 And we would encourage that if you have not
10 already written in your contract with your Cloud
11 provider, that you are going to receive a SOC Audit.
12 At a minimum you have the right to request it and
13 receive it on a timely basis. We would strongly
14 encourage the former over the latter. We do not
15 understand why an organization would want to
16 contract with somebody that is not getting a SOC
17 Audit. That's a level of risk that we think is not
18 acceptable and desirable. Also, keep in mind that
19 if your current Cloud provider does not currently
20 have a SOC Audit or is in the process of getting
21 one, it can take anywhere from 12 to 18 months to
22 complete the process. It's a three-step process -
23 issue identification, remediation and finally a
24 report. And because some of the controls don't
25 happen on a daily basis, it can take 12 to 18 months

1 to get a clean bill of health, if you will. So
2 emphasizing that one point.

3 MR. PATTILLO: We contract with somebody
4 who has that process in place.

5 MEMBER AGHAKHANIAN: I have to concur with
6 that. My employer -- if you look at the cover of
7 the latest *Economy*, it's called Why Computers Would
8 Never Be Safe. This is a very big issue right now.
9 Forty-one million dollars for hackers. That is an
10 area that I think personally is something that we
11 should have.

12 MR. HAMMON: Would actually agree. This is
13 an area that you may want to have additional
14 discussion in June. It's simple and complicated.
15 At the level we're talking about it's a very simple
16 issue, policies and procedures appropriately address
17 the risk. At a more detailed level, when you think
18 about the complexity of some of the systems we're
19 talking about, some are casually there and some are
20 complicated. And it is almost impossible to design
21 a full-proof system to your point. So that is why I
22 think the practical reality is I want to understand
23 what management views as most critical data.

24 And I want to understand, because the level of
25 effort you take to have backup plans in place should

1 be risk adjusted. Meaning if you have data that is
2 very low importance, there is no reason to spend a
3 ton of time and money with respect to how you are
4 going to deal with it if you lost your access for a
5 week or two weeks or something like that.

6 Then there are also questions that I would
7 want to make sure my Cloud provider gives me
8 appropriate answers to. Like, for example, Have you
9 been hacked? Some of them will not tell you. I
10 don't know if you can under threat of contract get
11 them to legally commit to telling you the truth. I
12 would certainly have as much discussions in that
13 area.

14 MR. PATTILLO: We suggest we not do the
15 audit.

16 MR. HAMMON: Well, the challenge is a
17 little -- I prefer you not be shocked. I would --
18 each one of these providers is under what I would
19 describe as relatively constant attack. So what you
20 should hear is, "Yes, we are attacked all the time."
21 And then what you hope to get is a deeper
22 understanding of the additional software. What are
23 you doing? You're never fully going to get that.
24 They are not going to share that with you for a
25 variety of reasons. Practically, technically and

1 legally. But I think you want to make reasonable
2 efforts as you deem appropriate, that you have done
3 your due diligence.

4 I do that for two reasons. One, it's the
5 right thing to do. Secondly, if there was something
6 that happened that would cause a problem, your point
7 earlier about liability issues, the ability to share
8 that if you've taken appropriate inquiry, due
9 diligence, documented your contemporaneous efforts
10 to address these risks, I think go a long way if you
11 had any liability. I'm not suggesting you would,
12 but that, I think, is the best answer to the
13 potential risk related to liability.

14 MR. PATTILLO: There is not a state agency
15 in the State of California that has not been pinged
16 or attacked. It usually comes in a ping before
17 attack. It usually comes in a ping to see if they
18 can get in. Mr. McGuire's shaking his head. It may
19 not be as significant as it is now, but I know in
20 his old agency, which was Board of Equalization, if
21 one of those wonderful people were trying to figure
22 out how to get in all the time. We've been very
23 fortunate. We have a very good security system and
24 we also partner with the Department of Corrections
25 on a lot of department technology. On a

1 going-forward basis I think we will be even safer on
2 what we're going to if we have less hardware in our
3 backyard than we do now.

4 MR. HAMMON: I do want to make correct on
5 some of the things I said. I may have made it seem
6 like, you know, your current environment is better
7 than going to the Cloud. I'm not sure that's
8 correct, and you're moving to somebody who's focused
9 on this full-time. I think we're really giving to
10 trading a series of risks. You're giving up the
11 risks you currently have for a different set of
12 risks. I think the take-away is to make sure you
13 understand what your risks are and how they are
14 different from your current risks and have your
15 policies and procedure should you move to the cloud.

16 Talking about a couple other items. In prior
17 years there was some deferred balances that were
18 very old or aged out. They were dealt with and not
19 at issue this year. Similar on the approved leave
20 time - there was a somewhat technical issue about
21 how the organization calculated. They made changes
22 in doing that. We think that is a better way.

23 The last item we noted in prior years was an
24 error in some reporting revenue and did not crop up
25 this year, and we did report on it last year. Fixes

1 in processes were made to address it.

2 The next one highlights that, again, when we
3 are doing an audit we look for areas of
4 non-compliance with laws and regulations. We are
5 not specifically tasked with issuing a report on
6 such compliance. But having said that, we didn't
7 find any instances of non-compliance.

8 The next couple of pages -- if the last few
9 pages weren't dry enough -- the next ones are
10 slightly drier. These are required communications.
11 These are things that have to speak to by our
12 professional standards. They are similar to what
13 you saw on prior years. I'll step through them
14 rather quickly because I realize I've talked for
15 quite a while here. But, again, if there are any
16 questions please don't hesitate to interrupt.

17 The first item simply is that the company's
18 accounting policies are disclosed in number two and
19 that there aer several estimates that are disclosed
20 in the financial statements. Some of them are
21 critical. One relates to inventory evaluation, the
22 pension liability issue, reserves, OPEB liability,
23 et cetera. Below we've highlighted some of the
24 critical accounting policies we are required to
25 disclose.

1 Moving to the top of the next page. Material
2 change in accounting principle or adoption of a new
3 accounting principle. An example, last year with
4 the GASB 68. The financials were highlighted, and
5 there were no such items.

6 We need to talk to you about the statements.
7 We will talk about that in a couple pages. There
8 were minimal this year. We will defer that for just
9 a moment. The last item on this page is
10 disagreements with management. To put you at ease
11 or not, this is not talking about technical issues,
12 rather accounting standards. This is more of a
13 knock-down-drag-out-Thanksgiving fight with your
14 family kind of disagreements. We didn't have any of
15 those.

16 Top of the next page. Sometimes we will
17 consult with an organization, consult with other
18 outside auditors. That did not happen this year.
19 We did obtain a management representation letter
20 from the organization. This is just management
21 asserting that they understand the financials, that
22 it is their responsibility and clarifies what their
23 responsibility is. We didn't have any issues where
24 prior to starting on it management came to us and
25 said, "You know, if you guys want to stay as our

1 auditor, you have to be on the right side of this
2 issue, and here is what we want you to say." None
3 of those conversations happened. If they happened,
4 we would have resigned and reported back to the
5 Board.

6 The significant issues discussed with
7 management related primarily to GASB 68 issues that
8 we spent a lot of time talking on. The significant
9 difficulty we were having related to GASB 68. We
10 didn't note any illegal acts involving Chuck or any
11 of his other crew.

12 Which is a nice change, Chuck.

13 MR. PATTILLO: Contract.

14 MR. HAMMON: The next page highlights the
15 current year, what we call, corrected mistakes. So
16 this was an adjustment that was made related to our
17 favorite topic of pension liability, not to put too
18 fine of a point on it. You heard me earlier talk
19 about some of the frustrations we had with lack of
20 communication from certain state agencies with
21 respect to the GASB 68 issue. This adjustment is
22 just another indicator of that. The State
23 Controller's Office, you heard me mention, actually
24 calculates and refers or provides PIA the data for
25 their pension liability. They have all the data.

1 It's actually a two-step process. When they
2 communicated to PIA, when we first started the
3 audit, they only communicated the first step of the
4 process. PIA in good faith wrote the information as
5 received. We accurately said, "Oh, no, no. There
6 is a second part of this." Data given to them as a
7 result with this adjustment.

8 The only reason I share that with you is if
9 it's an error on management's part, or if it's an
10 error on a third party that you're relying on.

11 The last adjustment is one that was there last
12 year. It was a past or uncorrected mistake from
13 last year. However, because it is uncorrected, has
14 kind of a carryover or slough-over effect on the
15 current year. Kind of what the effect would have
16 been if we didn't correct in the current year.
17 Because the numbers are so small, we made the
18 decision not to correct it.

19 That completes the formal part of the
20 presentation. I apologize for taking too long. If
21 there are any question, I would be happy to
22 answer.

23 CHAIR DIAZ: Any questions by the Board?

24 Are there any questions from the public? If
25 so, please step to the podium and please state your

1 name and affiliation.

2 Seeing none, thank you, Mr. Hammon.

3 MR. HAMMON: Thank you.

4 CHAIR Diaz: We're going to move on to our
5 External Affairs update.

6 MR. PATTILLO: Michele Kane, Chief of
7 External Affairs.

8 MS. KANE: Good afternoon. A few
9 highlights that have happened since we last met. We
10 had a successful graduation at San Quentin State
11 Prison with our Code.7370 Program. I would like to
12 thank our Undersecretary Ralph Diaz, Vice Chair Dar
13 Singh, and Board Members Michele Steeb and Ray
14 Trujillo for coming out to the event. We received a
15 lot of national positive media attention from this.

16 Right now I'm working with CNN Tech. We're
17 doing a story about technology programs available to
18 juveniles, and I'm working with Anthony Lucero,
19 Director of DJJ. And we have a date set in May to
20 highlight our Free Venture Program at CHAD. Also,
21 I'm working with KNBC. They want to highlight our
22 coding program as well.

23 Next week the National Correctional Industries
24 Association is going to be hosting its annual
25 conference. Many of us will be attending this.

1 Chuck is going to be receiving the top National
2 Award for Correctional Industries. It's called the
3 Rodli Award. This is such a huge honor because NCIA
4 began awarding this award back in 1978, and never
5 before has a California Director of Corrections
6 Industry received this award. So Chuck is the first
7 one to receive it.

8 He will also be leading a workshop at NCIA on
9 attracting and cultivating technology related
10 programs. For those of you going, we look forward
11 to seeing you there.

12 An upcoming graduation to tell you about is at
13 FWF, and it's going to be held on Wednesday, May
14 24th. It's for all our CALPIA female offenders. We
15 are going to have, I am sure, media attention on
16 that.

17 Mark your calendars on September 1st. That's
18 when we will be hosting this year's Employer Forum
19 down in the San Diego area. We are still in the
20 planning stages. I'm working with Workforce
21 Partnership right now, law enforcement agencies,
22 including Board Member Mack Jenkins who's helping to
23 make this a very successful event. And that is the
24 media and communications update.

25 Now I want to update you briefly on four

1 legislative bills that could potentially impact
2 CALPIA.

3 AB 627 is the Bigelow Bill on prisons and
4 contracts for food. The status on that right now is
5 it is in the suspense file in Assembly
6 Appropriations. AB 627 would require that contracts
7 to supply food to prisons provide at least 50
8 percent of the food to be California grown.

9 MEMBER AGHAKHANIAN: Which bill?

10 MS. KANE: AB 627, Bigelow. This bill is
11 going to take effect January 1st, 2018.

12 The second bill we're tracking is AB 822, the
13 Caballero bill. It's institutional purchasers. It
14 is the sale of California produce. Right now the
15 status on that is it passed last week out of the
16 Assembly Agriculture Committee on the way to
17 Assembly Appropriations. And AB 822, roughly, is
18 going to require all California institutions to
19 purchase agricultural products grown in California
20 when the bid or the price of the California grown
21 agricultural product does not exceed by more than 5
22 percent of the lowest bid or price for an
23 agricultural product produced outside the state. So
24 it's all 5 percent across the Board. And the
25 quality of the produce is comparable. So that is

1 AB 822.

2 Another bill we're watching is AB 1068.
3 That's the Gonzalez-Fletcher bill. That's the
4 Prison Industry Authority bill. We are named in
5 this bill regarding a private employer pilot
6 program. The status has been re-referred to the
7 Public Safety Committee. I just heard it's going to
8 be heard in Public Safety this next Tuesday, so we
9 will be following that. AB 1068 would require the
10 Prison Industry Authority to establish a pilot
11 program to contract with one private employer that
12 employs former offenders to provide goods to CDCR or
13 other state agencies pursuant to a procurement
14 contract with DGS. The bill would require the
15 authority to award, in addition to other bid
16 preferences, a bid preference of 20 percent to an
17 employer that actually hires former offenders.
18 These would be nonexempt workers. If one or more of
19 the employer's nonexempt employees performing work
20 on the contract are full-time employees by the
21 former offenders, they would get the benefit of 20
22 percent.

23 AB 43, the Thurman Bill: Taxation, prison
24 contracts, goods and services. This has been in
25 Revenue and Tax Committee, and this has been since

1 January. Right now there has been no analysis done
2 on this bill. AB 43 would oppose a tax on the
3 privilege of contracting with the state prison, CDCR
4 or DGS to provide a state prison with goods and
5 services in the amount -- there is an unknown
6 percent. There is just a line there. Unknown
7 percent of the final contract entered into or after
8 January 1st. The bill would require all amounts
9 paid less refund to be deposited into a state
10 Incarceration Prevention Fund. So the tax would
11 then, the tax money would go to the Prevention Fund.

12 MR. PATTILLO: There is no percentage of
13 the bill right now. But for every 1 percent that
14 they put into the bill and it passes at \$1.4
15 million, we have to defer \$1.4 million to the fund.
16 There is also a provision in there that says you
17 specifically cannot recover that in your price. So
18 we couldn't raise our price. That's not how our
19 economies work. So I'm not sure. I don't think
20 this bill has a life beyond.

21 MS. KANE: The Thurman Bill.

22 MR. PATTILLO: He's actually just announced
23 he's going forward as Superintendent of Education.
24 Mr. McGuire is shaking his head over there, too.

25 MEMBER KELLY: The first bill, the

1 percentage of the food you have to. You can go from
2 there.

3 MS. KANE: California grown.

4 MEMBER KELLY: With the exception of
5 peanuts.

6 MS. KANE: Peanuts are commercially grown.
7 There's 13 states right now that commercially grow
8 peanuts.

9 MEMBER MARTIN: And California is not one
10 of them.

11 MS. KANE: I see the wheels turning.

12 MR. PATTILLO: We're going to move to soy
13 butter.

14 MS. KANE: Almond butter. Expensive.

15 MEMBER MARTIN: But it's really good.

16 MS. KANE: On another note I will be
17 meeting with the Assembly Appropriations Committee
18 tomorrow to discuss those two bills. I will update
19 you on these legislative issues.

20 If you have any questions, please feel free to
21 reach out to me. The next Board meeting is Thursday
22 June 29th.

23 With that, any questions at all?

24 MR. PATTILLO: These bills, right now we
25 are not bringing them forward for the Board for any

1 position, like we would normally do, which we
2 normally do June or September. We want to see how
3 it plays out. I don't want to have the Board out
4 there on a position when there may be no reason to
5 have us out there.

6 Mr. Jenkins.

7 MEMBER JENKINS: You just answered the
8 question. Appreciate the update. I wanted to get
9 that clarification on what our role as a Board would
10 be on pending legislation. We're going to have
11 conversation around positions that we take. So that
12 isn't happening?

13 MR. PATTILLO: Usually in June when we see
14 how things shake out in the spring. A lot of things
15 change because the appropriations. As you know,
16 most of them don't get past the Appropriations
17 Committee. Most of them die.

18 For us, the normal process is we will bring up
19 some support or oppose recommendation and go from
20 there. I will tell you there has been years when
21 the Board has gone a different direction than the
22 administration on a couple things, which was kind of
23 interesting and kind of painful. So those things
24 can happen.

25 But I think Michele listed four bills. I

1 really think maybe two of them have got legs at the
2 end of the day. And as far as the impact on
3 Corrections, as far as vendors, we are the second
4 largest vendor to the Department of Corrections.
5 And those whole group of vendors that are doing
6 business are actually coalescing with the State
7 Chamber of Commerce to oppose that bill. This is
8 really not a fight for us or the Department of
9 General Services. Nobody wants to get into it. We
10 don't think it's necessary. Yet. You want me to
11 fight, we'll fight.

12 MEMBER AGHAKHANIAN: Go down the street.

13 MEMBER JENKINS: Just one other quick
14 question on the 1068. What is that essence of that
15 bill? I understand that is in front of Senate
16 Public Safety.

17 MS. KANE: That is going to be in Public
18 Safety next week. Pilot program. It would be a
19 pilot program.

20 MR. PATTILLO: For us, the county jail. I
21 didn't see -- sorry, I didn't see the background on
22 the bill. It actually is the brain child of the
23 State Employment Training Panel who actually -- the
24 chair of the Employment Training Panel is also the
25 chief lobbyist for the Teamsters Union. That's how

1 this kind of comes circuit.

2 We give preference already. We are the only
3 ones that give preference to vendors that hire
4 ex-offenders. We already do that in our normal
5 course of business. The 20 percent, I saw
6 Mr. McGuire do math. That's a significant amount,
7 especially if you included with the other
8 preferences that are available. We could be up to
9 35 percent preference.

10 MEMBER MARTIN: Depends on who your
11 partners are, how it is written. There are similar
12 programs federally where, if you hire 35 percent of
13 your employees from a certain area designated as a
14 historically, like a business zone, you get 10
15 percent. There are similar programs out there.
16 None for inmates. Although if you could typically
17 hire historically in a zone, underlying zone, it is
18 a lower economic group there.

19 MS. KANE: With that, any other questions?

20 CHAIR DIAZ: Thank you, Michele.

21 MS. KANE: Thank you.

22 CHAIR DIAZ: We will move to the portion of
23 our meeting for the public to make any comments on
24 items that were not on the agenda. Under the
25 Bagley-Keene Act, the Board cannot act or raise any

1 motions on the matter, but we can answer any
2 questions or impose any clarification if asked or
3 refer the item to staff.

4 Would anyone like to make a comment?

5 Seeing none, this concludes our Prison
6 Industry Board meeting on April 12, 2017.

7 Is there a motion to adjourn the meeting?

8 MR. PATTILLO: Before we close out, I
9 wanted to bring a couple of closing things. We do
10 have lunch in the room. But also, while setting it
11 up, we have a brand new building. If you look over
12 there, we just dropped it three weeks ago.

13 Shouldn't use the word "dropped." We placed it
14 three weeks ago. We haven't dropped one yet. That
15 is a dual; it's a double technology classroom. If
16 anybody wants to walk over while setting up the
17 lunch.

18 The other issue that we were discussing with
19 the Secretary right now is the Standing Audit
20 Committee from three members to five members. So if
21 you're interested in serving, let me know. I have
22 two members that are interested.

23 And then last part is retained earnings.
24 There is an issue about what is the level of
25 appropriate financing that we should be retaining on

1 an annual basis in our accounts. What should we -
2 30 days, 60 days, 90 days? We're going to be
3 looking at it right now because we want to come back
4 and place a policy by the Board. So, literally,
5 when we get challenged by the Department of Finance
6 we have at Board policy that we're hanging our hat
7 on, that the Board has approved. That will be
8 coming back in June. Finance has an opinion, and
9 they are welcome to it. But we will discuss that
10 further.

11 MEMBER KELLY: Fifteen days.

12 MR. PATTILLO: That is it. Mr. Chair.

13 CHAIR Diaz: Motion to adjourn.

14 MEMBER MARTIN: I have one more comment.
15 Imagine that. I do apologize. We discussed the
16 Strategic Business Plan several times in creating a
17 committee within PIA to see whether or not to expand
18 on it. Obviously, people are starting to retire and
19 we want to make sure that they don't take all the
20 knowledge with them, that it's put on papers. So
21 although I have read this Strategic Business Plan,
22 it's more of a brochure. It's not a complete
23 business strategic plan as I would look at it if I
24 was putting one together. We do a business plan
25 that is always short and long-term, that is updated

1 every year and with changes every year.

2 I would like to see something more done on the
3 Strategic Business Plan. I don't know how much
4 longer you are going to be around, Chuck. If you
5 decide to retire two or three year from now. I
6 would like to see a good transition and continue the
7 growth and the processes that you started and keep
8 it going.

9 MR. PATTILLO: We do a reporting
10 requirements that backs that up. There obviously in
11 terms of documents, as we talked about, release all
12 those documents. But I would appreciate the
13 suggestion of what other backups you would like to
14 see on that. We will get that worked out. And as
15 we do when we normally communicate with one Board
16 Member, we actually communicate with all. So you're
17 surprised at something you get and you don't
18 remember asking for that, that's usually how it
19 occurs.

20 CHAIR Diaz: Motion to adjourn?

21 MEMBER KELLY: So moved.

22 MEMBER McGUIRE: Second.

23 CHAIR DIAZ: We adjourned at 12:36.

24 (Meeting adjourned at 12:36 p.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 shorthand writing those proceedings;

That I thereafter caused my shorthand writing to be reduced to printed format, and the pages numbered 3 through 78 herein constitute a record of the proceedings.

IN WITNESS WHEREOF, I have subscribed this certificate at Sacramento, California, on this 30th day of June, 2017.

ESTHER F. SCHWARTZ
CSR NO. 156