

December 31, 2021

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

Dear Director Keely Martin Bosler,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the Prison Industry Authority submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Bill Davidson, General Manager, at (916) 358-2699, [william.davidson@calpia.ca.gov](mailto:william.davidson@calpia.ca.gov).

## GOVERNANCE

### Mission and Strategic Plan

#### Mission:

CALPIA is a self-funded, customer-focused organization that reduces recidivism and enhances prison and public safety by providing incarcerated individuals with life-changing training opportunities for successful re-entry into the community.

#### Strategic Goals & Objectives:

##### **Goal 1: ENHANCE INCARCERATED INDIVIDUALS' LIVES TO REDUCE RECIDIVISM**

- *Objective 1: RE-ENTRY ASSISTANCE*. Life readiness (driver's license, birth certificate, social security card, work history with CALPIA, certificates, outside resources, second chance employers, etc.), essential skills, electronic access to Transitions Packet, post-release services such as housing and transportation identification support, Electronic Records Management System (ERMS), certifications.
- *Objective 2: CAREER SERVICES*. Placement support such as resume, cover letter, application process, interview skills, employment negotiations, Prison2Employment initiatives, etc.

##### **Goal 2: PROVIDE HIGH-QUALITY, SUSTAINABLE PRODUCTS AND SERVICES**

- *Objective 1: MODERNIZATION*. Systems that support the development, production and timely distribution of products and services.

##### **Goal 3: FOSTER CONTINUOUS IMPROVEMENT AS CUSTOMER-FOCUSED ORGANIZATION**

- *Objective 1: PUBLIC OUTREACH*. Awareness campaigns, educational tools, methods to communicate and spread the word of the value CALPIA provides to the incarcerated population and the community.

- *Objective 2: CUSTOMER SATISFACTION.* Processes that impact the customer's experience in ordering, tracking and receiving CALPIA products and services.

## **Control Environment**

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

The agency's executive monitoring sponsors have the responsibility and authority to facilitate and verify that the CALPIA internal control monitoring practices are implemented and functioning as intended. The executive monitoring sponsor are comprised of the following individuals and roles:

- William Davidson, General Manager (A)
- Jeff Sly, General Counsel
- Nicole Collins, Assistant General Manager – Facilities Operations
- Randy Fisher, Assistant General Manager – Facilities Support
- Debi Kamakani, Assistant General Manager – Administration
- Raymond Meek, Assistant General Manager – Marketing Division
- Rusty Bechtold, Assistant General Manager – Workforce Development
- Michele Kane, Chief of External Affairs
- William Davidson, Chief Financial Officer
- Suzie Changus, Chief Information Officer

## **Management's establishment and demonstration of integrity and ethical values:**

- Under the direction of the Prison Industry Board, CALPIA is led by a General Manager and executive team of nine Assistant General Managers/Division heads. The Executive team, along with administrators and managers at the Central Office and institutions across the state are committed and dedicated to ensuring that CALPIA's operations are conducted demonstrating superior ethical values.
- CALPIA's Core Values are: California Prison Industry Authority Strategic Business Plan 2021 - 2024, Page 9
  - Leadership: Have a vision, inspire and empower others to act.
  - Professionalism: Mutual courtesy and respect among all levels of staff.
  - Integrity: Do the right thing in all circumstances.
  - Teamwork: Be collaborative in working towards solutions.
  - Safety: Be proactive in identifying and preventing safety issues.
  - Accountability: Accept responsibility for the outcomes expected of you – both good and bad.

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

## **Oversight is provided by a Board, outside entity, or top executive:**

The Prison Industry Board (Board) was established in 1983 to oversee the operations of CALPIA, much like a corporate board of directors. The Board sets general policy for CALPIA, oversees the

performance of existing CALPIA industries, determines which new industries shall be established, and appoints and monitors the performance of the General Manager. The Board also serves as a public hearing body, charged both with ensuring that CALPIA enterprises are self-sufficient and that they do not have a substantial adverse effect upon private enterprises. The Board actively solicits public input into the decisions it makes with regard to expanding existing or developing new prison industries.

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

**Organizational structure to ensure appropriate levels of responsibility and authority:**

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

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

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

**Maintaining documentation of the control system:**

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

**Establishing and maintaining a competent workforce:**

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

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

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

**Enforcement of accountability:**

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

**Information and Communication**

**Process to collect and communicate relevant and reliable information needed for operational, programmatic and financial decision making:**

CALPIA monitors activities through both internal review as well as through external resources. An independent, external audit firm reviews CALPIA's financial statements each year and issues an audit report which includes an opinion as to the accuracy of the financial statements. For the most recent fiscal year audited, FY 2019-20, CALPIA was given an unmodified opinion, meaning that they found that the financial statements for that fiscal year "present fairly, in all material respects, the financial position of CALPIA as of June 30, 2020, and its cash flows for the fiscal year in conformity with accounting principles generally accepted in the United States of America." In addition, as part of the independent auditor report, they issue an Independent Auditor's Report Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This report states "... during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses." The report further state "The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards." -- MGO Audit...

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

In 2020, CALPIA worked with staff, incarcerated individuals, and other key stakeholders to develop the current Strategic Business Plan, effective 2021 through 2024. The current plan includes strategic goals and objectives to ensure that the focus and direction of CALPIA is in line with its stated mission to reduce recidivism, enhance prison and public safety, and to provide incarcerated individuals with life-changing training opportunities for successful re-entry into their communities. The 2021 - 2024 Strategic Business Plan was approved by the Prison Industry Board on January 28, 2021.

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

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

- QMS maintains the CALPIA "ISO" (International Organization for Standardization) Documents library; monthly an all CALPIA email is sent to communicate additions/revisions/deletions to our online documentation. Documentation includes internal forms, logs, work instructions, procedures, policies and manuals used throughout CALPIA.
- The ISO 9001 Quality Management Standard requires goals to be established, monitored and communicated at relevant functional levels throughout the organization; to that end, QMS conducts audits to determine conformance to this standard: in the factory, this may take the form of a "goals board" or simply discussing goals at weekly factory floor meetings; evidence in Central Office support departments may include a SWOT analysis, development and monitoring of goals, and communicating goals via departmental meetings; PPAR (Production, Planning, Analysis and Reporting) also maintains statistics on how well factories are meeting on-time production goals and various other metrics.

#### **Channels for communicating:**

CALPIA has a number of methods of communicating quality information to internal parties within the entity. CALPIA Executive management schedule and hold regular All-Staff meetings with staff throughout the state. This provides a venue for the Executive team to share and provide information on all critical issues impacting the organization, as well as provide updates on important projects impacting CALPIA. These meeting also allow staff to ask questions regarding topics that are of interest or concern to them and receive answers from the Executive team.

In recent years, CALPIA restructured its training for all new employees. In June 2020, CALPIA introduced a newly designed New Employee Orientation (NEO) training that is mandatory for all employees being hired by CALPIA. The organization completed an analysis in May of 2021 to assess the effectiveness of the NEO pilot program. It was discovered that a portion of the curriculum being delivered during NEO was duplicative of training staff receives upon arrival at the institution to begin work. The CDCR also requires CALPIA staff to complete an annual "block training" that contains similar topics. In addition, some participants and Prison Industries Administrators felt that staff may benefit from a brief in person introduction to working within the institution prior to attending NEO so the scenarios and information presented during NEO may be more relatable as they would have been exposed to the institution. In July 2021, the schedule was changed to a four-day format with 32 hours of training provided.

In this NEO training, employees learn about all aspects of CALPIA and the important role that they play in helping carry out the mission and vision of the organization. They also have the opportunity to ask questions and receive information on topics that are of interest or concern to them. This training is very comprehensive and covers all aspects of CALPIA and establishes the expectations for all employees of

the organization.

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

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

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

**Process for employees to report inefficiencies and inappropriate actions to management and other decision makers:**

During NEO, all staff new to CALPIA are provided with Chain of Command training. In addition to understanding the organizational structure for elevating inefficiencies or inappropriate actions, the training recipients are also introduced to custody versus non-custody issues, exceptions and the TAP (Truth, Assessment, Poise) method of communication.

CALPIA is providing an annual notification to all staff throughout the organization with detailed information on the Whistleblower Protection Act and how employees can report information to the California State Auditor through the Whistleblower Hotline. This notification includes specific information on what to report, how the reports are investigated, protections afforded to whistleblowers, and contact information for reporting including Hotline phone numbers, email addresses, and physical addresses.

**MONITORING**

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the Prison Industry Authority monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to:

Zoe Burton, Special Assistant; Randy Fisher, Assistant General Manager- Operations;  
Michele Kane, Chief of External Affairs; Jeff Sly, General Counsel;  
Debi Kamakani, Chief Administrative Officer;

Raymond Meek, Assistant General Manager, Marketing Division; Bill Davidson, General Manager; and  
Suzie Changis, Chief Information Officer.

As CALPIA identifies deficiencies in its internal controls, those deficiencies are promptly communicated to executive management, and action is taken immediately to resolve the issues. The General Manager holds regular meetings, at least every other week, with the executive team with the intention of speaking openly about all known issues and the plan to address them. In addition, the General

Manager holds bi-weekly one-on-one meetings with each executive staff member and reviews in detail the status of all projects and tasks assigned to that executive staff.

**Confirming effectiveness of internal control systems using:**

In January of 2021, per the recommendation of the Executive Committee, the Prison Industry Board (PIB) approved the establishment of five subcommittees. The subcommittees are as follows:

- Finance and Audit Subcommittee
- Incarcerated Individuals Employability Subcommittee
- General Manager Recruitment, Retention, Evaluation and Compensation Subcommittee
- Legislative Subcommittee
- Enterprise Development Subcommittee

The overall purpose of the subcommittees are to provide oversight for the agency and to serve as an internal control system to efficiently address vulnerabilities. As vulnerabilities are discovered, the appropriate subcommittee members work to develop a recommended course of action to present to the entire PIB.

**Comparison of results to expectations and determination if change is needed:**

In May 2021, the Human Resources Office performed an analysis of the separation rates of the prior 12 months in comparison to the prior two years. Prior to the NEO training implementation, CALPIA had an overall turnover rate (minus service retirements) of 23.7%. As of May 2021, the overall turnover rate for the agency was 13.3%. This percentage reflects an overall reduction in the turnover of staff since the implementation of the NEO training.

**Process to assign ownership for addressing vulnerabilities identified through monitoring:**

As the PIB subcommittees develop and deliver recommendations to the Board and General Manager, ownership is assigned to the appropriate executive(s) and divisions. The assigned individual(s) are held accountable through the entire process of remediating the concern.

As organizational vulnerabilities are identified, the CALPIA executive(s) with responsibility over the impacted division(s) are tasked with implementing solutions as well as updating necessary policies and procedures to ensure the agency is secure and resilient going forward.

**Monitoring of progress to reduce the identified vulnerabilities:**

The ongoing monitoring of CALPIA's twenty-seven enterprises, or lines of business, provides a comprehensive perspective of the operational and fiscal performance of each enterprise. As issues or opportunities are identified, action plans are developed and implemented to correct problem areas or to capitalize on opportunities for improvement and efficiency.

CALPIA monitors fiscal activities through both internal review as well as through external resources. An independent, external audit firm reviews CALPIA's financial statements each year and issues an audit report, which includes an opinion as to the accuracy of the financial statements. Additionally, the agency's financials are reviewed by the PIB, General Manager and executive staff twice annually; during Annual Plan and the Mid-year Revise.

PIB subcommittees meet at least quarterly to review actions decided upon in prior meetings and to assess the effectiveness of those implemented solutions.

CALPIA engages staff, incarcerated individuals, and other stakeholders annually to update and revise its Strategic Business Plan objectives and tasks for the coming year. This enables the agency to take a more agile approach to continued improvement, including reducing vulnerabilities and ensuring alignment with the agency's vision, mission, values and goals.

## **RISK ASSESSMENT PROCESS**

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

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

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

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

CALPIA continues to adhere to the International Organization for Standardization (ISO) and is ISO 9001-certified. ISO standards are responsive to current international market needs and demands but are also based on global assessments from experts in each relevant industry.

Thus, ISO international standards play a vital role in ensuring CALPIA's products and services are safe, reliable, and of good quality. In addition, ISO is the foundation for CALPIA's management systems, ensuring that CALPIA minimizes waste and errors and increases overall productivity at each of its locations while also maintaining the priority of rehabilitating incarcerated individuals.

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

- Identify, describe and prioritize the risk;
- Assign responsibility to manage the risk;
- Identify the stakeholders and the impact to them as a result of the risk;
- Establish controls to mitigate, accept, avoid and/or transfer the risk;
- Monitor and assess the effectiveness of the controls;
- Develop and implement necessary corrective actions to increase controls over the risk.

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

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

## **RISKS AND CONTROLS**

### **Risk: Enterprise Resource Planning (ERP) System**

#### **Risk: Implementation of a new Enterprise Resource Planning (ERP) System**

CALPIA's technical infrastructure, platforms, systems and applications must perform successfully for the agency to effectively conduct its business operations. For more than a decade, the agency has relied heavily on the Infor Lx ERP system. Staff and incarcerated individuals in the CALPIA factories and warehouses utilize this system to record the receipt and usage of inventory needed to manufacture products, as well as the tracking of orders. The back end of the ERP system is also utilized for all fiscal functions such as recording payments and tracking revenue and expenditures recorded in the general ledger.

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

- The Information Security team conducts routine email exercises that engage all staff to ensure they are educated on how to identify potential phishing emails and how to escalate any suspicious communication or activity to CALPIA's Management Information Systems (MIS) division;
- Various cyber security monitoring tools continuously scan the agency's network to identify and isolate potential vulnerabilities or weaknesses.

#### **Control: ERP Core Project Team and Executive Governance**

CALPIA is in the process of replacing the current Infor Lx ERP system. Vendor assessment and selection was conducted in 2021 and is nearing completion. The next phase of this effort is the implementation of the new ERP system. To ensure proper controls are in place as the agency implements the new system, a core project team has been established. This team consists of executive sponsors, project owners, technical owners, a project manager and business analyst.

This team is tasked with ensuring the ERP implementation project stays within scope, budget and the projected timeline of the initiative. Additionally, the team is accountable for business requirements, the development/testing/deployment process, data management and migration, system interfaces, the technology infrastructure, reporting, documentation updates and publication, training development and delivery, change management activities and phasing out the former ERP system.

## CONCLUSION

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

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

**Bill Davidson, General Manager**

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