

California Prison Industry Authority

It Can More Effectively Meet Its Goals of
Maximizing Inmate Employment, Reducing
Recidivism, and Remaining Self-Sufficient

May 2011 Report 2010-118



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The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report covering the operations of the California Prison Industry Authority (CALPIA).

This report concludes that although one of its primary responsibilities is to offer inmates the opportunity to develop effective work habits and occupational skills, CALPIA cannot determine the impact it makes on post-release inmate employability because it lacks reliable data. Specifically, both CALPIA and a consultant it hired were unable to match the social security number of parolees from the California Department of Corrections and Rehabilitation's (Corrections) Offender Based Information System to employment data from the Employment Development Department. We attempted to measure CALPIA's impact using a different source—Corrections' CalParole Tracking System—but could not because we found more than 33,000 instances of erroneous parolee employer information in this system. Our audit also revealed that while CALPIA created a set of comprehensive performance indicators for the entire organization, its opportunity to track its performance is limited because it only recently finalized a tracking matrix in March 2011. Moreover, several of these indicators are either vague or not measurable.

We also noted that CALPIA could improve the accuracy of its annual reports to the Legislature. Although we found that the recidivism rate for parolees who worked for CALPIA were consistently lower than the rates of the general prison population, CALPIA overstated by \$546,000 the savings it asserts result from the lower recidivism rate. Further, CALPIA did not acknowledge that factors other than participating in one of its work programs may have contributed to the lower recidivism rates among its parolees.

CALPIA's closure of more enterprise locations than it has opened has resulted in a decline of work opportunities for inmates. Since 2004 it has established two new enterprises and reactivated or expanded four others; however, during the same time period it closed, deactivated, or reduced the capacity of six other enterprises at 10 locations, resulting in a net loss of 441 inmate positions. Finally, although CALPIA's five largest state agency customers paid more for certain CALPIA products, overall they saved an estimated \$3.1 million during fiscal year 2009–10 when purchasing the 11 products and services that we evaluated.

Respectfully submitted,

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The California Prison Industry Authority (CALPIA) operates under the policy direction of an 11-member Prison Industry Board (board) and exists to reduce the operating costs of the California Department of Corrections and Rehabilitation (Corrections) and to offer inmates the opportunity to develop effective work habits and occupational skills. Designed as a self-supporting agency, CALPIA is to generate sufficient revenue from the sale of products and services to pay its expenses. In fiscal year 2009–10, it recorded \$181.8 million in revenue, almost all of which resulted from purchases of CALPIA goods and services by state agencies. This level of revenue constituted 103 percent of CALPIA’s cost of operations in fiscal year 2009–10, which amounted to \$176.8 million.

Although one of its primary responsibilities is to offer inmates the opportunity to develop effective work habits and occupational skills, CALPIA cannot determine the impact it makes on post-release inmate employability because it lacks reliable data. Both CALPIA and a consultant it hired were unable to match the social security numbers of parolees from Corrections’ Offender Based Information System (OBIS) to employment data from the Employment Development Department. We also attempted to measure this critical aspect of CALPIA’s mission. We obtained employment data from the CalParole Tracking System (CalParole) used by Corrections’ Division of Adult Parole and we attempted to determine the employment success of parolees who worked at a CALPIA enterprise. However, we found at least 33,000 instances of erroneous parolee employer information in CalParole. For example, instead of seeing valid employer names in the database’s field for specifying a parolee’s employer, we found more than 13,000 instances of the designations *TBD* and *TBA* in the employer field. As a result, CALPIA cannot use CalParole to determine whether a paroled or released inmate who worked at one of its enterprises is more employable than one who did not. Additionally, because Corrections will be moving CalParole data into its new computer system—the Strategic Offender Management System (SOMS)—Corrections needs to address the data errors in CalParole before the data are transferred.

Our audit revealed other issues that CALPIA could address to fulfill its responsibilities more effectively. Specifically, although CALPIA created a set of comprehensive performance indicators for the entire organization, its opportunity to track its performance formally in fiscal year 2010–11 is limited because CALPIA only recently finalized a tracking matrix in March 2011. Further, several of these indicators are either vague or not measurable. For example,

Audit Highlights . . .

Our review of the California Prison Industry Authority (CALPIA) revealed the following:

- » *It cannot determine its impact on post-release inmate employability because it lacks reliable data.*
 - *It is unable to match parolees’ social security numbers from the Department of Corrections and Rehabilitation’s (Corrections) information system to employment data from the Employment Development Department.*
 - *In attempting to use another of Corrections’ databases to track employment data, we noted it contained numerous errors— we found more than 33,000 instances of erroneous parolee employer information.*
- » *Although CALPIA created a set of comprehensive performance indicators, several of these indicators are either vague or not measurable.*
- » *Since 2004 it has introduced only a modest number of new revenue-generating enterprises while it has closed, deactivated, or reduced the capacity of six enterprises at 10 locations throughout the State.*
- » *Although CALPIA prepared pricing analyses to support its product-pricing decisions, it did not document the basis for how it determines profit margins and in some instances, we found no analysis of market considerations.*

one indicator stipulates that CALPIA “establish ‘real-world’ performance and participation expectations for CALPIA staff and inmates.” However, this indicator offers no guidance about how to measure performance for this goal. Without proper tracking of clear and measurable performance indicators, CALPIA runs the risk of spending resources that do not provide intended outcomes.

Another issue that CALPIA could improve is the accuracy of its reporting. In its annual report to the Legislature for fiscal year 2008–09, CALPIA claimed that the lower recidivism among parolees who worked for CALPIA enterprises saved taxpayers \$9 million annually. Although our calculation produced recidivism rates that were generally higher than the rates that CALPIA presented in its report, we did find that the recidivism rates for CALPIA parolees were consistently lower than the rates for Corrections’ general-population inmates. However, CALPIA’s recidivism rate calculation indicates that CALPIA overstated the savings by \$546,000. This overstatement was due primarily to errors that might have been detected had CALPIA subjected the savings calculation to a more thorough review. Moreover, CALPIA did not acknowledge other factors, such as some CALPIA inmates’ higher education levels or lack of drug abuse history, which may have contributed to the lower recidivism rates among parolees who had worked for CALPIA. In its annual report to the Legislature for fiscal year 2009–10, CALPIA did not include a similar savings calculation. The general manager of CALPIA explained that he decided not to include a more complete savings estimate because of the difficulty of the calculation and because CALPIA is not required statutorily to include that calculation.

CALPIA could also expand opportunities for inmates to participate in its work programs. Since 2004 it has introduced only a modest number of new revenue-generating enterprises: It has established two new enterprises and reactivated or expanded four other existing enterprises. However, during the same period, it closed, deactivated, or reduced the capacity of six existing enterprises at 10 locations throughout the State, leading to a net loss of 441 inmate positions. Because CALPIA closed more enterprise locations than it opened, there are fewer opportunities for inmates to participate in CALPIA’s enterprises. CALPIA notes that economic concerns, particularly the budget reductions of its state agency customers, have resulted in a decreased demand for its products.

We noted that CALPIA strives to price its products competitively. Our review of a sample of products and services shows that it retained documentation of pricing analyses to support its product-pricing decisions. These pricing analyses generally comply with the board’s pricing policy, which requires CALPIA to consider costs, profit margin, and market considerations when

making pricing decisions. However, for most pricing analyses we reviewed, CALPIA did not document the basis for how it determined profit margins, and in some instances we found no analysis of market considerations. For five of the 11 products and services we evaluated, CALPIA's prices were above the average prices for comparable items that are available from other vendors. Nevertheless, because CALPIA's prices were lower for the other six items, its five largest state agency customers realized an estimated net savings of \$3.1 million during fiscal year 2009–10 by purchasing these 11 items from CALPIA.

Finally, although CALPIA is generally self-supporting overall, in January 2010 it began using an automated process for analyzing the profitability of its enterprises when overhead costs are included. For fiscal year 2008–09, if CALPIA did not include overhead costs in its calculations, only three of its 25 enterprises were unprofitable. However, when CALPIA allocated overhead costs to each enterprise, the number of unprofitable enterprises rose to 11. CALPIA gave us an estimated allocation of its overhead costs for fiscal year 2008–09, but it plans to use its newly created automated process monthly to assess profitability after overhead costs are included.

Recommendations

To improve the reliability of employment data contained in CalParole, Corrections should ensure that parole agents follow procedures related to accurately populating the data fields and maintaining CalParole. Additionally, supervisors of parole agents should conduct periodic reviews of parolee files to verify whether employment fields are completed appropriately and whether employment is documented adequately.

As Corrections prepares to move CalParole data into SOMS, it should modify existing employment-related fields and add to SOMS new fields that are currently not available in CalParole so that Corrections can minimize the opportunity for erroneous data entries and make employment data more reliable.

To allow it to measure progress in meeting the goals in its strategic plan, CALPIA should ensure that all of its performance indicators are clear, measurable, and consistently tracked. It should also continue its efforts to properly measure its performance and to track each performance indicator. Further, CALPIA needs to create a process that will allow its management to review the results of performance tracking and to ensure that the results provided to management can be re-created at least annually.

CALPIA should maintain the source documentation used in calculating the savings it brings to the State as well as ensure that an adequate secondary review of its calculation occurs. It should also qualify its savings by stating that employment at CALPIA enterprises may be just one of several factors that contribute to the lower recidivism of its inmates.

When performing analyses to establish prices for its products, CALPIA should document the basis for each product's or service's profit margin and should also ensure that it always considers and documents market data when making pricing decisions.

CALPIA should continue to ensure that its managers regularly use its automated process that includes the allocation of overhead to review the profitability of each enterprise and to make decisions on how to improve the profitability of those enterprises that are unprofitable.

Agency Response

Although CALPIA generally agreed with our recommendations and some of our conclusions, it disagreed with our conclusion related to measurability of its performance indicators and their tracking. Additionally, CALPIA disagreed with some of our conclusions related to the consistency of inmate assignment guidelines and declining inmate participation in its enterprises.

Corrections disagreed with our recommendation related to improving the reliability of parolee employment data.

Introduction

Background

The Legislature established the California Prison Industry Authority (CALPIA) to employ inmates to reduce the operating costs of the California Department of Corrections and Rehabilitation (Corrections) and to offer inmates the opportunity to develop effective work habits and occupational skills. Ultimately, CALPIA was to support itself by generating sufficient revenue from the sale of products and services to pay for its own expenses. Its administrative offices are in Folsom, California. As of December 2010 CALPIA operated 25 manufacturing, service, and agricultural enterprises within 53 factories and farms located at 20 of the 33 correctional institutions in the State. Figure 1 on the following page shows the locations of CALPIA's enterprise sites at their respective correctional institutions.

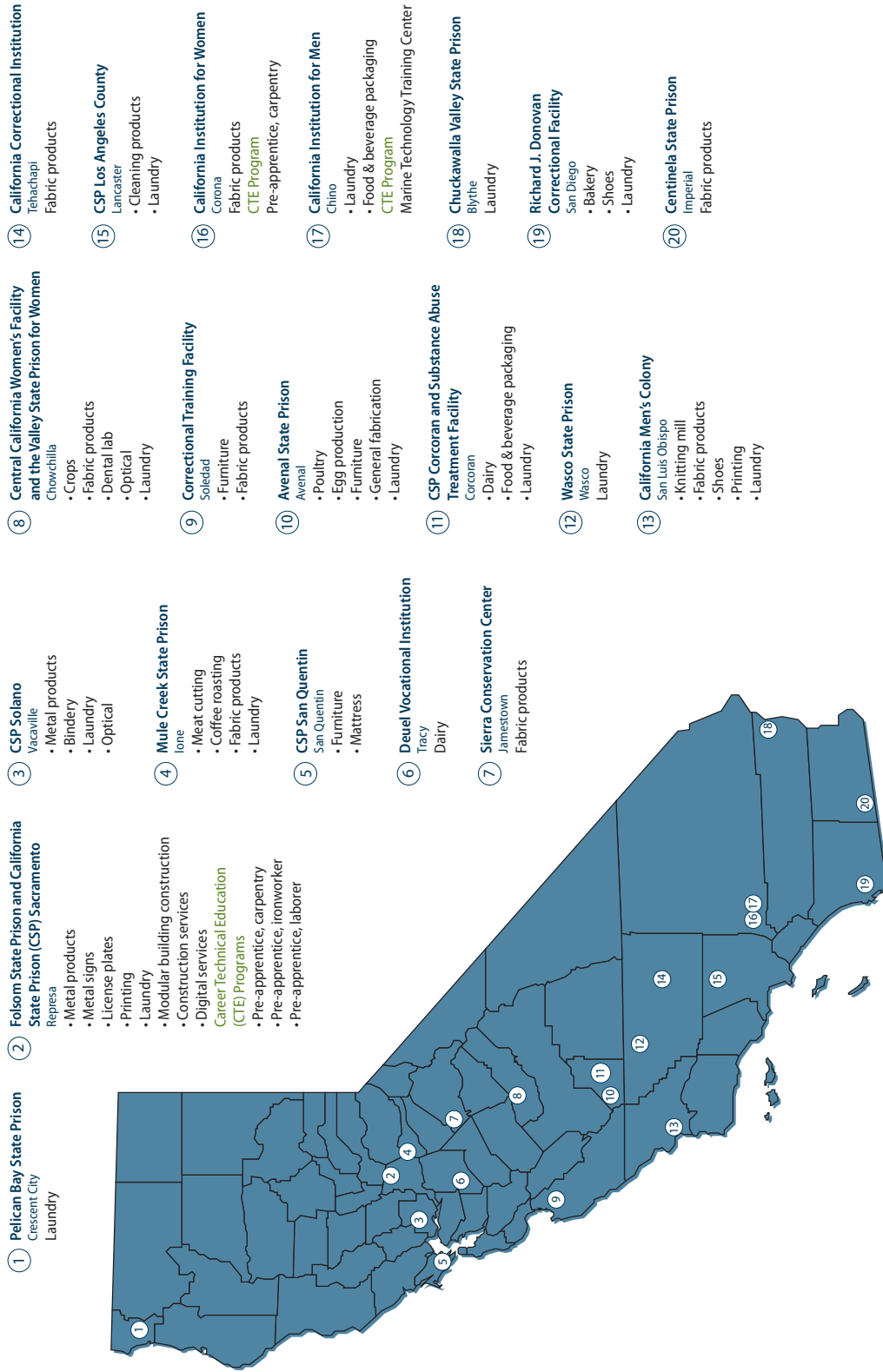
Inmates participating in CALPIA programs produce various products—including license plates, furniture, and agricultural commodities—and they provide such services as laundry and printing. CALPIA reports that as of June 2010 it employed 5,140 male and female inmates statewide, or 3.1 percent of Corrections' total adult inmate population of almost 166,000. Inmates earn 35 cents to 90 cents per hour. During fiscal year 2009–10, CALPIA recorded a net profit of \$3.3 million.

CALPIA operates under the policy direction of an 11-member Prison Industry Board (board), which consists of representatives from industry, labor, state agencies, and the general public. The secretary of Corrections serves as the board chair. CALPIA is financed by the Prison Industries Revolving Fund, which is continuously appropriated for CALPIA purposes, and CALPIA submits its annual budget to the board for review and approval. The board's authority over CALPIA also includes approving new industrial, agricultural, and service enterprises. State law requires the board to hold meetings at the call of the chair or a majority of the board.

CALPIA Sells Primarily to State Agencies

State agencies accounted for approximately 98 percent of CALPIA's revenue in fiscal year 2009–10. California law requires state agencies to make maximum use of CALPIA products and to work with CALPIA to develop additional products to meet agencies' needs. The responsibility for purchasing goods and services for state government generally resides with the Department of General Services (General Services), though General Services may grant this authority to other agencies. State law provides that General Services

Figure 1
Locations of the California Prison Industry Authority's Enterprises and Career Technical Education Programs as of December 2010

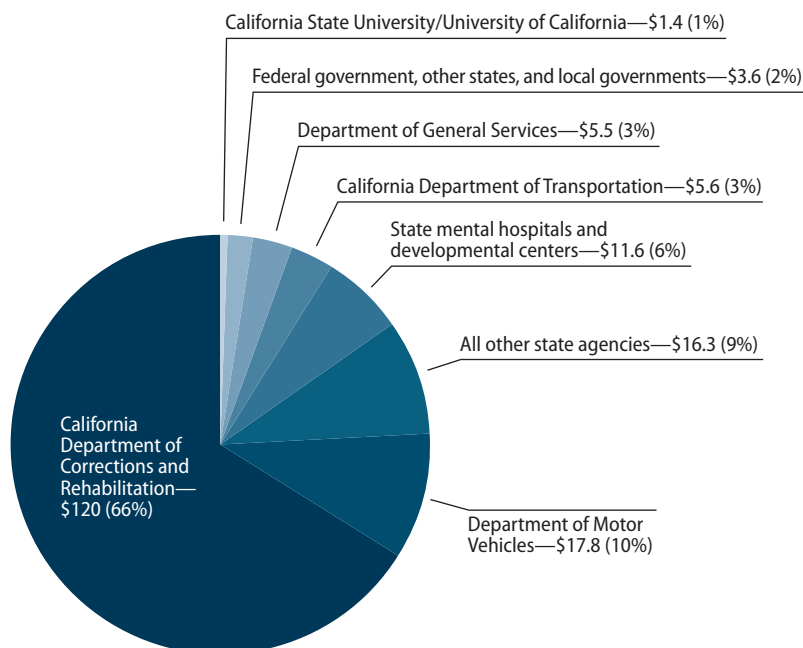


Source: California Prison Industry Authority's annual report to the Legislature for fiscal year 2009–10.

may procure from the private sector the goods that may be available through CALPIA if doing so is cost-beneficial and if General Services continues to include CALPIA in solicitations for quotations for goods. The law instructs state agencies to consider first whether CALPIA can meet their needs. However, state agencies can submit waiver requests to CALPIA to purchase products elsewhere. CALPIA also is authorized to sell its products and services to other entities—such as cities, counties, special districts, and other political subdivisions of the State—as well as to other states and the federal government.

CALPIA recorded \$181.8 million in revenue in fiscal year 2009–10. Corrections, as its largest customer, provided 66 percent of CALPIA revenues. As Figure 2 shows, purchases by the Department of Motor Vehicles—which mainly buys license plates—represent another 10 percent of CALPIA revenues. Further, purchases by state mental hospitals and developmental centers—which mainly buy laundry services—represent 6 percent of CALPIA revenues. The remaining 18 percent of CALPIA revenues represent purchases by various other state agencies as well as by the federal government, other states, and local governmental customers. This level of revenue exceeded CALPIA's cost of operations in fiscal year 2009–10, which was \$176.8 million.

Figure 2
California Prison Industry Authority's Revenue by Major Customer
Fiscal Year 2009–10
(Dollars in Millions)



Source: California Prison Industry Authority's fiscal year 2009–10 revenue data. Total revenue for fiscal year 2009–10 was \$181.8 million.

CALPIA Is One of Several Correctional Programs

In its strategic plan, Corrections asserts that it is responsible for overseeing one of the largest prison populations in the United States. Further, Corrections' strategic plan indicates that it enhances public safety through its safe and secure incarceration of adult and juvenile offenders, effective parole supervision, and rehabilitative strategies to reintegrate offenders into the community successfully. CALPIA is one of several correctional programs available to Corrections' inmates. According to inmate employment data from CALPIA, in June 2010, 5,140 inmates, or 3.1 percent of the inmates in California's correctional institutions, were assigned to CALPIA. Further, according to CALPIA's fiscal year 2009–10 annual report, 1,321 CALPIA inmates each received a certificate of proficiency and another 352 CALPIA inmates completed an accredited certification program. These certifications validate the inmates' skills and abilities in manufacturing, service, and agricultural occupations, which they can use upon release from prison. CALPIA also provides career technical education programs in partnership with trade unions that offer inmates employment upon their release. In addition, as of June 2010, Corrections indicates providing academic programs for 15,400 inmates and vocational education for 3,700 inmates. These correctional programs aim to equip inmates with the relevant knowledge and skills to help them find employment upon release.

Our Previous Audit Reports and Other Reports Offer Various Recommendations for CALPIA

Since 1996 we have performed four audits of CALPIA, while entities such as the California Performance Review team and the Corrections Independent Review Panel provided additional recommendations. In our 1996 audit report, we offered recommendations to help CALPIA better manage the costs and profitability of its products and factories. For example, we recommended that it develop a method to allocate product costs based on the activity that generates the costs and that it increase its efforts to monitor competitors' product prices. In addition, we recommended that CALPIA measure and report its programmatic benefits, particularly with regard to inmates' success following their release. In a follow-up audit in 1997, we found that CALPIA had been slow to implement the recommendations from our 1996 report. In 1998 we reviewed CALPIA's practice of purchasing for resale finished products and services from the private sector and found that this practice was neither well-planned nor cost-effective. In 2004 we reported that CALPIA could improve certain pricing practices, such as maintaining adequate documentation to justify its prices. Moreover, CALPIA had not established participation targets for the number of inmates

it aimed to employ among its various enterprises. Lastly, although CALPIA had embarked on various activities designed to enhance the employability of its participants, it had not established targets or performance measures so that it could track participants' post-release employment to evaluate its performance in successfully preparing its participants for the job market.

In its August 2004 report, the California Performance Review team made two recommendations about CALPIA: It recommended that state law be amended to allow state agencies to purchase goods and services from a commercial supplier if the values and prices are superior to those offered by CALPIA. Secondly, the California Performance Review recommended eliminating CALPIA's authority to purchase finished goods and services from the private sector to resell them to state agencies with little or no value added by inmates. Further, the Corrections Independent Review Panel, which was formed to review the State's youth and adult correctional system, recommended in June 2004 that the board be dissolved and that Corrections absorb CALPIA's administrative functions.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) asked the Bureau of State Audits to provide independently reviewed and verified information related to whether CALPIA provides a positive contribution to the State's General Fund by achieving savings through cost avoidance, increased sales, and savings from reduced prisoner recidivism. In addition to reviewing and evaluating laws, rules, and regulations related to the audit objectives, we were asked to do the following:

- Review any post-employment data and determine whether the data support or refute CALPIA's assertions about its performance in job training leading to released inmates' employment and in reducing recidivism.
- Determine how inmates are selected to participate in CALPIA programs and how CALPIA determines the inmates' training needs.
- Evaluate CALPIA's strategic plan, including goals, objectives, and performance indicators. We were then to ascertain whether the plan aligns with state law, considers all relevant aspects of running an efficient organization, and has performance indicators that are measurable and appropriate.

- Identify how much CALPIA has saved Corrections by allowing inmates to participate in work programs offered by CALPIA and determine the accuracy and reasonableness of CALPIA's savings calculation, if this calculation exists.
- Assess how CALPIA conducts market analyses and price-setting for its products, including whether CALPIA performs periodic analyses of its price-setting practices to ensure that any cost efficiencies are passed on to customers. Further, we were to select a sample of CALPIA's higher-selling products and compare the cost and quality of these products to those of similar products from the private sector and from other correctional industries.
- Identify CALPIA's main sources of revenue and customers and—to the extent possible—determine the degree to which CALPIA's top five customers paid amounts higher than the market value for products.
- Determine whether CALPIA uses appropriate management tools, such as cost accounting systems.

To review any post-employment data and to determine whether the data support or refute CALPIA's assertions about its performance in job training leading to employment and in reducing recidivism, we interviewed staff and reviewed a report that studied the relationship between inmates' participation in CALPIA programs and inmates' post-release success. Additionally, we reviewed CALPIA's efforts to improve inmate employability and the manner in which it evaluates or monitors whether the skills that inmates obtain through job training at CALPIA contribute to inmates' post-release success. Partly to determine the employment success of parolees who worked at a CALPIA enterprise, we attempted to use post-release employment information from Corrections' CalParole Tracking System (CalParole), which it uses to record parolees' activities, including their employment. In addition, as shown in Appendix A, we recalculated the recidivism rate for both Corrections' general-population parolees and CALPIA's parolees. To perform this calculation we obtained and analyzed inmate movement information found in Corrections' Offender Based Information System (OBIS) and inmate job assignment information from Corrections' Distributed Data Processing System (DDPS). Further, the U.S. Government Accountability Office, whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed data. To comply with this standard, we separately assessed each system for the purpose for which we used the data in this report.

To assess an inmates' post-release employment success, we obtained data from Corrections' CalParole. We assessed the reliability of CalParole by performing data-set verification procedures, and electronic testing of key data elements. In addition, to verify anomalies identified during electronic testing and to determine if employment related data entered into CalParole was properly supported by case file documents, we reviewed a sample of hard-copy parolee files. We identified no issues in performing data-set verification procedures. As further discussed in Chapter 1, our electronic testing revealed that CalParole contains a significant amount of erroneous data that precluded us from performing any viable analysis. In addition, our review of hard-copy parolee files further confirmed the limitations of CalParole employment data. Therefore, we determined that Corrections' CalParole data is not sufficiently reliable to assess an inmates' post-release employment success.

For the purpose of calculating Corrections' general-population parolees' and CALPIA's parolees' recidivism rates, we obtained and analyzed Corrections' OBIS inmate movement data. We assessed the reliability of the OBIS by conducting data-set verification procedures, electronic testing of key data elements, and performing accuracy testing. However, we did not test the completeness of the OBIS data due to the lack of a centralized storage location and because the source documents required for this testing are stored at the 33 institutions located throughout the State. We identified no issues when performing data-set verification procedures or electronic logic testing of key data elements. To test the accuracy of the data, we randomly selected a sample of 29 records from the OBIS data files obtained from Corrections and conducted tests to ensure the data contained in those records could be matched to source documents. Specifically, Corrections was unable to provide documentation that supported the entries it keyed into data fields used to specify the type of inmate movement, the date those movements occurred, and the institution reporting the movements for five of our 29 sample items. Based on our analysis and testing, we determined the data obtained from the OBIS to be of undetermined reliability for purposes of tracking inmate movements into and out of Corrections' institutions, which is used when calculating the recidivism rates for both Corrections' general-population parolees and CALPIA's parolees.

In addition, to review the recidivism rate calculation for CALPIA's parolees, we needed to identify those parolees who worked at a CALPIA enterprise for at least six consecutive months while they were imprisoned. To accomplish this we acquired Corrections' DDPS inmate job assignment data. We assessed the reliability of the DDPS by conducting data-set verification procedures and electronic testing of key data elements. We identified no issues

when performing data-set verification procedures or electronic logic testing of key data elements. However, we did not perform accuracy and completeness testing of the DDPS data due to the lack of a centralized storage location and because the source documents required for this testing are stored at the 33 institutions located throughout the State. As a result, we determined the data obtained from the DDPS to be of undetermined reliability to identify those parolees who worked at a CALPIA enterprise for at least six consecutive months while they were imprisoned.

To evaluate how inmates are selected to participate in CALPIA programs and how CALPIA determines the inmates' training needs, we interviewed staff at both Corrections and CALPIA. Specifically, we interviewed the inmate assignment lieutenants or the associate wardens at six institutions with CALPIA enterprises. Further, we inquired about local operational procedures for assigning inmates to CALPIA enterprises at 12 institutions and reviewed the procedures that were available. In addition, we reviewed Corrections' operations manual, CALPIA's proposed amendments to that manual, and the certifications and career technical education that CALPIA offers inmates who participate in its enterprises.

To evaluate CALPIA's strategic plan—including goals, objectives, and performance indicators—and to determine whether the plan aligns with state law, considers all relevant aspects of running an efficient organization, and has performance indicators that are measurable and appropriate, we reviewed CALPIA's strategic plan and its fiscal year 2010–11 performance tracking matrix for its strategic business plan. We also interviewed key staff, including those who were instrumental in the tracking matrix's development and use. Further, we reviewed whether CALPIA was tracking its performance against the indicators it established for fiscal year 2010–11.

To determine how much CALPIA has saved Corrections by allowing inmates to participate in its work programs, we reviewed the accuracy of CALPIA's calculation of the savings that it reported to the Legislature for fiscal year 2008–09. Further, we interviewed staff who were involved in performing the calculation, and we collected relevant supporting documents to verify whether the calculation is adequately supported. Because CALPIA did not include a savings estimate in its fiscal year 2009–10 report to the Legislature, we were unable to review any estimate of savings related to that fiscal year.

To assess how CALPIA conducts market analyses and price-setting for its products, to determine whether CALPIA's products and services are competitively priced, and to understand CALPIA's

pricing policies, we interviewed staff about how CALPIA establishes the prices of products. Additionally, we reviewed the board's pricing policy and CALPIA's pricing analyses procedures. We also selected a sample of CALPIA's best-selling products and services and compared the cost and quality of these products and services with those of three similar products or services from the private sector or from other states' corrections industries. Further, we evaluated the manner in which CALPIA identifies product costs and justifies product prices.

To identify the total amount of revenue that CALPIA received from customers for its products over the past two fiscal years, we reviewed CALPIA's audited financial statements. At the time of our fieldwork, CALPIA's most recent audited financial statements were for fiscal year 2009–10, so we requested supporting revenue and cost data by customer and enterprise for that fiscal year and fiscal year 2008–09. We assessed the reliability of the data by performing accuracy testing for a sample of transactions and by agreeing totals from CALPIA's accounting system to CALPIA's audited financial statements. We determined that these revenue and cost data were sufficiently reliable. Finally, we reviewed each enterprise's proportion of revenues and contributions toward CALPIA's overall profitability in terms of net profit based on its allocation of costs among enterprises. With regard to assessing CALPIA's ability to be self-supporting, our scope was limited to ongoing operations as presented in CALPIA's annual audited financial statements.

To ascertain whether CALPIA uses appropriate management tools, such as cost accounting systems, we interviewed staff, and we reviewed and evaluated CALPIA's procedures for processing claims and invoices. Finally, we tested data from CALPIA's accounting system, which CALPIA also uses to track sales and cost data as well as inventory that it produces. We did not observe any weaknesses with CALPIA's cost accounting system.

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Chapter 1

THE CALIFORNIA PRISON INDUSTRY AUTHORITY COULD IMPROVE ITS ASSESSMENT OF INMATE EMPLOYABILITY AND RECIDIVISM

Chapter Summary

Due to a lack of adequate, reliable employment data for released inmates, the California Prison Industry Authority (CALPIA) cannot determine the impact that its programs have on inmates' employment after they are released from prison. Both CALPIA and a consultant it hired were unsuccessful in matching social security numbers from the Employment Development Department's (EDD) Employment History database with those obtained from the Offender Based Information System (OBIS) of the California Department of Correction and Rehabilitation (Corrections). Further, Corrections' CalParole Tracking System (CalParole), which contains employment information for individuals paroled by the State, contains a significant amount of erroneous data. If its errors are corrected, CalParole may be able to provide CALPIA with a means for measuring the post-release success of parolees who worked for CALPIA enterprises.

Corrections controls the process of assigning inmates to work in CALPIA's enterprises; however, CALPIA has proposed an amendment to Corrections' department operations manual (operations manual) that would change the selection criteria and put in place several procedural changes to the way in which inmate assignments occur. If approved by Corrections and the Office of Administrative Law, these changes will create a standardized selection process, and, more notably, they will allow CALPIA to have a final say on which inmates are placed in its enterprises.

In fiscal year 2010–11, CALPIA developed a set of performance indicators that are more comprehensive than those it used in prior fiscal years. Although many of these indicators are measurable, others are not measurable or are vague. Moreover, CALPIA finalized its indicators late in fiscal year 2010–11, a situation that limits their usefulness in allowing CALPIA to formally track its performance earlier in the fiscal year.

Our calculation of CALPIA's and Corrections' recidivism rates produced rates that are generally higher than the rates calculated by CALPIA and presented in its report to the Legislature for fiscal year 2008–09. Nonetheless, our calculation confirmed that the parolee recidivism rates presented by CALPIA are lower than those of Corrections' general-population parolees. In contrast,

our review of the amount that CALPIA asserts that it saved the State—an amount based primarily on its recidivism rate—found several mistakes that resulted in an overstatement of \$546,000 in the \$9 million of reported savings. Further, CALPIA claimed responsibility for the savings without acknowledging that other factors, such as some parolees having higher education levels or their lack of drug abuse histories, may have contributed to the recidivism rates for CALPIA's parolees being lower than those for Corrections' general-population parolees.

CALPIA Lacks a Reliable Source of Employment Information About Released Inmates

Although CALPIA is able to track parolees with specific training or certifications, it has no reliable source for determining whether an individual secured employment related to that training or certification after parole. Since we last reported on this issue in 2004, CALPIA has begun tracking the enterprises where specific inmates work, the inmates' job titles, and any CALPIA certifications that the inmates possess. However, CALPIA lacks the ability to measure the quantity and types of post-release employment that participants obtain; therefore, CALPIA cannot provide an adequate perspective on the effectiveness of its efforts to fulfill its statutory purpose of offering inmates the opportunity to develop effective work habits and occupational skills.

Using EDD Employment Data Has Proved Futile

In 2004 we reported on CALPIA's inability to measure whether the type of post-release employment that former inmates obtain is related to the specific training or experience they received at CALPIA. Since then, CALPIA has developed a new Inmate Employability Tracking System that allows CALPIA to maintain inmate worker profiles containing information about inmates' assignments, job titles, and enrollment in and completion of certification programs. CALPIA can now identify the training and certificates that a particular inmate received at an enterprise; however, CALPIA has been unsuccessful in finding a reliable source of post-employment information that would allow it to measure the effectiveness of its programs in fulfilling one of its statutory purposes, which is to provide inmates with the opportunity to be productive and to develop effective work habits and occupational skills.

CALPIA has been unsuccessful in finding a reliable source of post-employment information that would allow it to measure the effectiveness of its programs.

CALPIA made two attempts to use employment data maintained by the EDD. In 2003 it entered into a contract with the EDD to collect employment-related data using social security numbers of released

inmates who worked at CALPIA while they were imprisoned. CALPIA intended to match the social security numbers from the EDD's database with those it obtained from Corrections' OBIS to determine whether its vocational programs are successful in preparing inmates for work outside the prison system. However, according to the former chief of CALPIA's Inmate Employability Program who participated in securing this contract, he understood that the social security numbers contained in OBIS were not always reliable. For example, CALPIA staff noticed numerous duplicate social security numbers as well as numbers that did not agree with the appropriate names.

In 2004 CALPIA hired a consultant to conduct a comprehensive review to measure the costs and benefits associated with CALPIA; the consultant based its review on the post-release behavior of parolees who had worked at CALPIA. In 2007 the consultant reported being unable to measure post-release employment using data from the EDD because of an extremely high error rate in social security numbers. For a sample of 2,490 inmates, the consultant, with the EDD's assistance, was able to match less than 1 percent of quarterly earnings records from the EDD's database with parolees' social security numbers and their first and last names in Corrections' records. Even after relaxing the criteria to allow for potential name changes and misspellings, and after allowing for as many as two digits of the social security number not to match, the consultant reported being able to match only about 18 percent of the records from the EDD with those from Corrections. The consultant concluded that even when using the relaxed criteria, measuring post-release employment using data from the EDD was impossible. The consultant's report does not indicate whether the cause of this problem was faulty social security numbers contained in the EDD's data, in Corrections' data, or in both.

CalParole Data, if Reliable, Could Provide Employment Information for Parolees

Another potential source of inmate post-release employment information resides in CalParole, which allows parole agents and other staff to enter information identifying current and past employers of parolees and the dates on which the parolees began their employment. CalParole does not rely on social security numbers as the only inmate identifiers. Rather, it also uses Corrections' inmate identification numbers, which can be matched with Corrections' OBIS. However, before CALPIA can use CalParole to measure its participants' post-release success in securing employment, Corrections will need to correct several problems we found with CalParole.

For a sample of 2,490 inmates, the consultant was able to match less than 1 percent of EDD's quarterly earnings records with parolees' social security numbers and their first and last names reflected in Corrections' records.

Of the nearly 645,000 parolee employment records from CalParole that we reviewed, at least 33,000 records contain erroneous data in the field that is designed to identify a parolee's current employer.

Our review found that the employment fields within CalParole often contained erroneous, inappropriate data even though a memorandum signed by the director of Corrections' Division of Adult Parole (Parole) stresses the importance of entering accurate information into the system. Of the nearly 645,000 parolee employment records from CalParole that we reviewed, at least 33,000 (5 percent of all records) contain erroneous data in the records' field that is designed to identify a parolee's current employer. These errors include the designations *TBD* or *TBA*, which we found in more than 13,000 instances and words that appear less frequently, such as *taxpayers*, which we found in more than 100 instances.

We believe that most of these errors are the result of poor data-entry practices by Parole staff. Available employment fields include two required fields: start date and employer. CalParole also provides eight optional fields: job title, work phone, five employer address fields—street, city, county, state, and zip code—and a field indicating whether the employer is aware that the individual is on parole. Parole staff must enter data in the two required fields but not in the optional fields. The employer, job title, and street address fields allow the user to enter any characters and are limited only by the total number of characters—which varies from 20 to 26—allowed in each of these fields. CalParole does not perform any validation of the optional fields to ensure that they are accurate. Although the CalParole's user guide allows only one of two entries in the employer field—employer name or the word *unemployed*—the parole agent's field book policy states that if parolees are unemployed, the field should contain one of the following designations: *unemployed*, *social security income*, or *school*.¹

The guide also instructs users to enter the start date and other related information if a parolee is employed and to enter in the start date field the date that the parolee was last employed if a parolee is unemployed. However, in many cases in which a parolee was clearly unemployed, the employer field contains words other than those allowed as well as variations of the designations *unemployed* and *social security income*, such as *not employed* and *SSI*. Other employment fields contain extraneous information, such as *123 Unemployed Way* and other variations in the address field, which we found in 310 instances. Moreover, employer address fields for employed parolees often show no information at all, even though Parole staff have been directed to ensure that all available fields, including the employment fields, within CalParole are populated. Specifically, for more than 290,000 records that appeared to contain a valid employer, the employer address fields for more than 20,000 of these records are blank. The large number of errors in CalParole's required field for recording employer

¹ The parole agent field book is a parole agent's record for tracking supervision of a parolee.

information makes it impossible to analyze accurately post-release employment data or to compare the rates of employment among different groups of parolees.

According to its director, Parole has recently initiated a process to improve the quality of CalParole data. One of the targeted areas is the empty employer fields in CalParole. The director also indicated that Parole is currently working on ensuring that parole agents populate the employer field and other employment-related fields with correct and appropriate data. However, Parole was not able to provide any documentation related to this process as its scope is not yet finalized.

Our testing of hard-copy parolee files further confirmed the limitations of CalParole employment data. We reviewed the files of 36 parolees from 12 parole units located across the State whom CalParole listed as employed. For 31 of the 36 parolees, the hard-copy files did not contain pay stubs, letters from employers, or any other reliable documents that would offer proof of employment to support the employment information recorded in CalParole. The associate director of Parole asserts that handwritten notes contained in a parole agent's field book provide a tangible document that can be used as supporting documentation for entries in the CalParole employment field. However, handwritten notes are not always reliable or accurate, and they introduce the opportunity for erroneous entries. The results of our testing suggest that Parole staff often enter information related to parolees' employment without verifying its accuracy by using proper documentation. Entering unverified employment information increases the risk of entering erroneous data into CalParole and lessens the accuracy of the analysis of post-release employment.

CalParole is one of about 40 information systems that Corrections plans to consolidate, along with paper records, into a fully integrated, automated system known as the Strategic Offender Management System (SOMS). According to the business project manager in charge of SOMS development, Corrections implemented the initial phase at some of its institutions in June 2010, and it plans to retire CalParole by May 2013. Two of the objectives that Corrections wants to achieve with SOMS are to provide delivery of accurate offender information and to provide the ability to analyze and report on statewide operational data and trends. To achieve these objectives, Corrections needs to ensure that current and historical data are as accurate as possible before they are converted into SOMS. However, the large number of erroneous records we found, as well as the lack of verified employment data, limits the reliability of CalParole data. Thus, Corrections will need to consider carefully how to best transfer data

Our testing of hard-copy parolee files further confirmed the limitations of CalParole's employment data.

from CalParole to SOMS to minimize the importing of erroneous data. Corrections will need Parole staff to significantly improve their data entry and supporting documentation practices.

In addition, Corrections has an opportunity to devise modifications to SOMS to minimize the opportunity for erroneous data entries and make employment data more reliable. For example, Corrections could add a field in SOMS with a drop-down menu that would show two possible responses to a question about whether a parolee is employed. If the parolee is employed, SOMS would allow the user to select *yes* and fill out the remaining employment fields. If the parolee is unemployed, SOMS would allow the user to select *no*, which would make unavailable all employment fields except the start date when the individual became unemployed. This change would allow Parole staff to clearly determine whether an inmate is employed and minimize the entry of extraneous information once SOMS is in use.

Apart from reliability issues, data contained in CalParole are also limited by the number of inmates that Corrections assigns to active parole supervision upon their release from prison and by the length of their parole terms, which can last anywhere from one, three, or five years to a lifetime. In fiscal year 2009–10, Corrections indicated that it assigned 122,100 released inmates, or 98.5 percent of all released inmates, to parole and that it directly discharged the remaining 1,800, or 1.5 percent. Additionally, because of a law that went into effect on January 25, 2010, low- and moderate-risk inmates without serious, violent, or sex-related offenses are no longer subject to parole revocation, referred to as *non-revocable parole*, and therefore they need not report to a parole agent. Parole agents do not maintain the same set of information, including employment data, about such offenders once they are released. As of March 2011 Corrections reported that 13,500 parolees in California were on non-revocable parole. In spite of these limitations, CalParole currently is the only viable option that CALPIA has to track its former inmate employees and to assess the impact on parolees' employability that employment in CALPIA's enterprises has had.

Corrections reported that 13,500 parolees in California were on non-revocable parole, and therefore did not need to report to a parole agent.

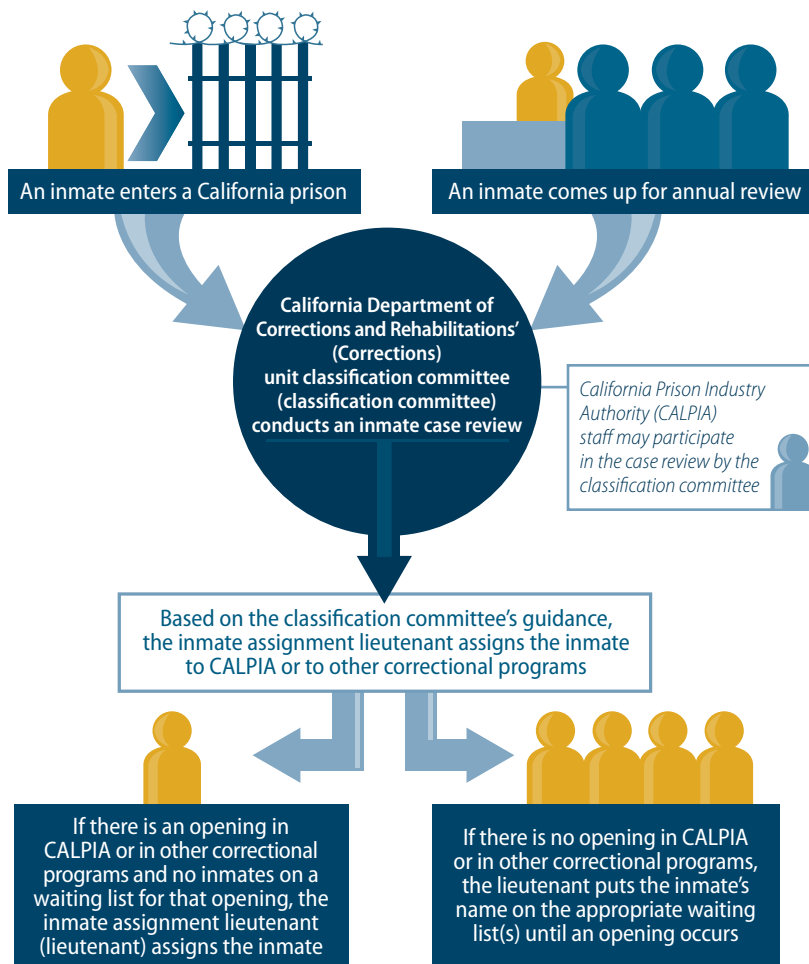
CALPIA Has Inconsistent Guidelines Governing the Assignment of Inmates to Its Programs

CALPIA does not have a uniform set of inmate assignment guidelines that would consistently allow it to have influence in the inmate assignment process currently controlled by Corrections. As of April 2011 Corrections manages the inmate assignment process through a unit classification committee (classification committee) and inmate assignment lieutenant (lieutenant) at each institution. A classification committee reviews cases of newly admitted inmates

and then reviews them again annually. The classification committee may assign an inmate to a waiting list for one or more correctional programs, including CALPIA's enterprises.

Once the classification committee makes its assignments, the lieutenant enters an inmate's assignment information into a system and monitors waiting lists for various programs, including CALPIA enterprises. If the selected enterprise has an opening, the lieutenant assigns the inmate to it directly. Otherwise, the lieutenant places the inmate's name on the waiting list, as Figure 3 shows. Staff from six institutions indicated to us that generally the lieutenant fills each newly vacated position with the inmate on the top of the waiting list.

Figure 3
 California Department of Corrections and Rehabilitation Inmate Assignment Process as of March 2011



Source: Bureau of State Audits' interviews with CALPIA staff and with Corrections' associate wardens and inmate assignment lieutenants at six state prisons.

To compensate for the absence of statewide guidelines, CALPIA staff at some of Corrections' institutions created local operational procedures that sometimes contain inconsistent requirements for inmate assignments. For example, the operational procedures at the Richard J. Donovan Correctional Facility require inmates who are assigned to CALPIA enterprises to possess a high school diploma or a General Educational Development diploma (GED diploma), or they must perform at the ninth-grade education level. However, the operational procedures of the California Men's Colony only require an inmate to perform at the seventh-grade level. In addition, the California Men's Colony requires that to be assigned to a CALPIA enterprise, an inmate must have a minimum of six months before the date of his release or parole. Further, the inmate hiring criteria for the Central California Women's Facility and the Valley State Prison for Women vary the time allowed before an inmate's parole date depending on the enterprise. According to a branch manager in CALPIA's operations division, eight other institutions that we inquired about use state law and generic inmate assignment guidelines contained in Corrections' operations manual to assign inmates to an enterprise.

CALPIA has proposed an amendment to the operations manual that would put in place a set of statewide inmate assignment guidelines, and it will make several procedural changes to the way inmate assignments are presently made. Due to the amendment's regulatory content, CALPIA will have to develop regulations, which means that amendment of the operations manual may take up to a year or more to implement. As of March 2011 CALPIA's general manager had approved the draft amendment, and CALPIA submitted it to Corrections' regulation and policy management branch for review.

According to CALPIA's assistant general manager of operations (operations manager), these changes will create a standardized selection process and, more notably, allow CALPIA to have a final say on the inmates placed in its enterprises. For example, the draft amendment requires an inmate to perform at the ninth-grade level and to obtain a high school or GED diploma within two years of the initial assignment to an enterprise. The draft amendment also states that inmates must have a minimum of two years and a maximum of five years before their earliest possible release date from prison. Additionally, the draft amendment outlines a hiring process that begins with an interested inmate's completing an application. After the initial screening of applications to ensure that each inmate meets CALPIA's intake eligibility criteria, the classification committee will review inmates for placement into CALPIA's candidate pool. CALPIA will fill its vacant positions after interviewing the inmates from the pool, first assigning inmates with

high school or GED diplomas, then those who are enrolled in GED programs, and finally those who do not have either a high school diploma or are not enrolled in GED programs.

With these operations manual amendments, CALPIA wants to ensure inmates' participation in the enterprises as well as the success of its programs. According to its operations manager, under the current system, CALPIA must take the inmate who has been on the list the longest rather than the most qualified candidate. He indicated that CALPIA would like to have stricter selection criteria to reflect the real-world environment in which released inmates will have to compete for jobs. Additionally, under the proposed changes, CALPIA intends to establish a minimum amount of time that inmates must have remaining on their sentence to be eligible for assignment to its enterprises. Currently, inmates are sometimes assigned to enterprises within only a few days of their release dates, and the operations manager believes that such a short period is insufficient time for an inmate to learn new skills and gain the full advantage of an employment opportunity offered by CALPIA. The proposed amendment will require that inmates have at least two years or, in exceptional cases, nine months before their release dates to be assigned to CALPIA enterprises. However, the associate warden at the California State Prison in Corcoran told us that such short assignments sometimes happen because the lieutenant does not have access to the system that shows inmate release dates. If the amendment to the operations manual is adopted, CALPIA and Corrections will need to work together to overcome this issue and any other obstacles that arise.

The proposed amendment will require that inmates have at least two years or, in exceptional cases, nine months before their release dates to be assigned to CALPIA enterprises.

CALPIA Has Not Formally Tracked Its Newly Developed Performance Indicators

CALPIA's approach to measuring performance for fiscal year 2010–11 differs from its approach in the previous two fiscal years in that it expanded and added a number of new performance indicators, many of which focus on measurable outcomes. Conversely, in a summary of its performance indicators for fiscal years 2008–09 and 2009–10, which is the only document CALPIA could provide us showing its previous performance indicators, only one of its strategic plan's five goals had a performance indicator associated with it; the other four goals had no performance indicators. Although the summary of prior-year performance indicators did not specify how CALPIA would monitor these goals, the assistant general manager of administration indicated that CALPIA would track its performance against those goals its staff created and regularly analyze various reports.

California Prison Industry Authority's Strategic Goals

1. Maintain California Prison Industry Authority's (CALPIA) financial self-sufficiency.
2. Increase opportunities to foster inmate success.
3. Improve the customer experience, increase customer loyalty, and garner new customers and market share.
4. Ensure a well-developed, high-quality workforce.
5. Improve internal processes, infrastructure, and information to support organizational stability and growth.

Source: CALPIA's 2010 strategic business plan.

CALPIA has since created a set of more comprehensive performance indicators for fiscal year 2010–11, but it has just begun to track its performance formally. In May 2010 California's Prison Industry Board approved CALPIA's 2010 strategic business plan, which outlines five overarching strategic goals and related objectives that are generally in line with state law. Refer to the text box for CALPIA's five strategic goals. To facilitate tracking of its performance for fiscal year 2010–11, CALPIA created a tracking matrix that lists the performance indicators associated with each goal; staff responsible for performance; and the supporting documents, reports, and data used to measure its performance. However, because CALPIA just finalized the tracking matrix in March 2011, its

opportunity to track performance formally during fiscal year 2010–11 is limited.

Even though many of CALPIA's performance indicators are now measurable, others are either not measurable or appear vague. For example, the indicators it uses to track the success of its goal to maintain financial self-sufficiency are measurable. Specifically, for this goal, it established a target net-profit margin of 1 percent to 3 percent, and it set out to increase its revenue by 2.5 percent and to implement its strategic sales and marketing plan. These indicators set specific targets that CALPIA can use to gauge its performance at the end of a particular period. However, some indicators for other goals do not set specific, measurable performance targets. For example, one of the indicators CALPIA created to track its performance on its goal to increase opportunities to foster inmate success includes a general statement to "establish real world performance and participation expectations for CALPIA staff and inmates." This indicator does not define the meaning of *real-world performance* or *participation expectations*, making measurement of CALPIA's success using this indicator impossible.

Moreover, a number of CALPIA performance indicators are vague or unclear about what CALPIA is trying to achieve. For example, as part of the goal to garner new customers and market share, CALPIA established the following indicator: "revenue trending in correlation with product launch or changes." This statement does not clarify whether CALPIA wants simply to track changes in its revenue or whether it is trying to reach a certain level of revenue when it introduces new products or changes. In another instance, one of the performance indicators that CALPIA created to track its progress in achieving the fifth goal—to improve internal processes, infrastructure, and information to support organizational stability

and growth—lacked clarity. For this performance indicator, which calls for staff “to establish criteria and regularly assess system capabilities,” CALPIA did not define what the criteria would accomplish or to what period *regularly* refers, and CALPIA did not identify the systems to assess. Unless it specifies what it is trying to achieve, CALPIA will be unable to determine its success in reaching such goals. Rather than establish vague or unclear performance indicators, CALPIA should establish indicators that are clear and measurable with intermediate targets that it can reach within the current fiscal year and then revise those targets in future years to ensure that it achieves the overarching goal.

Unless CALPIA specifies what it is trying to achieve, it will be unable to determine its success in reaching its goals.

The Calculation of CALPIA’s Recidivism Rate and Its Savings to Taxpayers Warrant Improvements

State law requires CALPIA to provide the Legislature an annual report. In its annual report for fiscal year 2008–09, CALPIA reported recidivism rates for inmates who worked at a CALPIA enterprise. Although our calculation did not result in the same recidivism rates as the ones CALPIA presented in its annual report, the recidivism rates of CALPIA parolees were consistently lower than the rates of Corrections’ general-population parolees. In addition, CALPIA’s calculation of the recidivism rates included a minor error in which parolees who worked at CALPIA enterprises were counted again in the group of general-population parolees. Even though we found the error immaterial, CALPIA should work with Corrections to make the comparison of recidivism rates more precise. In its report to the Legislature for fiscal year 2008–09, CALPIA also reported that its conservative estimates suggest that it will save California taxpayers up to \$9 million annually. However, we found errors causing CALPIA to overstate these savings by \$546,000. Lastly, CALPIA claimed responsibility for the savings that resulted from a number of parolees not returning to prison but without CALPIA’s acknowledging other factors that may have contributed to lower recidivism rates among its parolees.

The Recidivism Rates for CALPIA Parolees Are Lower Than Those for General-Population Parolees

Although our calculation of CALPIA’s recidivism rates did not produce rates that matched those calculated by CALPIA, our figures confirmed that the recidivism rates of CALPIA parolees were lower than those of Corrections’ general-population parolees. As the Appendix indicates, CALPIA’s analysis shows that parolees who worked at a CALPIA enterprise returned to prison at a lower rate than did general-population parolees. For example, it reported that parolees who worked at a CALPIA

enterprise and who were released in fiscal year 2007–08, returned to prison within their first year of release at the rate of 32 percent compared to a 42 percent rate for general-population parolees. To generate Table A.1 shown in the Appendix, CALPIA calculated the recidivism rates for parolees who were released from prison during fiscal years 2005–06 through 2007–08 and who worked at a CALPIA enterprise for at least six months while they were imprisoned. CALPIA then asked Corrections to use the same methodology to calculate recidivism rates for general-population parolees. At that time, CALPIA's recidivism rate included only those felons who were paroled and then returned to prison because they violated conditions of their parole or because they committed a new crime, as opposed to a more inclusive method that Corrections adopted in 2010.

We followed the methodology used by Corrections and criteria provided by CALPIA to recalculate the recidivism rates CALPIA presented in its annual report to the Legislature for fiscal year 2008–09. We obtained and analyzed inmate movement information found in Corrections' OBIS and inmate job assignment information from Corrections' Distributed Data Processing System to determine which parolees worked at a CALPIA enterprise for at least six consecutive months while they were imprisoned. As shown in the Appendix, overall, our calculation showed higher recidivism rates for both CALPIA and general population parolees. In spite of these differences, the recidivism rates we computed for CALPIA parolees were consistently lower than the recidivism rates for general population parolees.

The recidivism rates we computed for CALPIA parolees were consistently lower than the recidivism rates for general-population parolees.

In 2010 Corrections changed its methodology for calculating recidivism. It consulted with national experts and researchers to produce recidivism measures that could facilitate comparisons across jurisdictions nationwide. As a result, Corrections changed its definition of recidivism to the following: A recidivist is an individual convicted of a felony and incarcerated in one of Corrections' adult institutions who was later released to parole, discharged after being paroled, or directly discharged from Corrections during a defined time period and subsequently returned to one of Corrections' adult institutions during a follow-up period. Corrections uses a three-year follow-up period to monitor the recidivism rates of its inmates. If an inmate returns to prison after the three-year period, he or she is not considered a recidivist. Additionally, Corrections considers only felons in its calculation of the recidivism rates.

By adopting Corrections' new methodology and excluding from the total number of general-population parolees those parolees who worked at CALPIA's enterprises, CALPIA will calculate recidivism statistics that are comparable to those of Corrections. The Appendix shows that in fiscal year 2007–08, Corrections released 116,497 inmates

to parole. This general-population parolee figure includes CALPIA's parolees, which may skew the results of the recidivism rate calculation for general-population parolees. However, when we excluded parolees who worked at CALPIA enterprises from general-population inmates and then repeated our calculation, the resulting recidivism rates were not materially different from the rates that Corrections calculated that counted CALPIA parolees. Nevertheless, because Corrections provided the recidivism rates for the general-population parolees, CALPIA should work with Corrections to make the comparison of recidivism rates more accurate and to avoid the future possibility that this discrepancy between the two calculations could become larger.

CALPIA Can Also Improve Its Savings Calculation

In its report to the Legislature for fiscal year 2008–09, CALPIA included an estimate of the annual savings that it asserts result from a recidivism rate that is lower among parolees who worked at CALPIA enterprises while they were incarcerated. However, we found a number of errors in CALPIA's calculation of the estimated \$9 million that it reported saving the State.

CALPIA based its savings calculation on a one-year difference in rates of recidivism between parolees who had worked at CALPIA enterprises while they were incarcerated and parolees from Corrections' general population. CALPIA applied the recidivism rate of the general-population parolees, which it calculated to be 42.18 percent, to the 1,637 parolees who worked at CALPIA enterprises and who were released from prison in fiscal year 2007–08. CALPIA then compared the resulting 690 parolees with 521 of its parolees who actually returned to prison. CALPIA interpreted the difference between these two figures—169—as the number of parolees who did not return to prison because of their experiences with CALPIA.

CALPIA then divided the 169 individuals into two groups: 121 parolees who returned to custody on parole violations and 48 parolees who returned to custody because of new convictions. CALPIA based the division on the actual proportion of its 521 parolees who returned to custody because of parole violations or new convictions, and it applied this proportion to the 169 parolees. CALPIA's use of the actual proportion from only one fiscal year is problematic because the proportion might not be sufficiently representative. To avoid this possibility, CALPIA should have averaged proportions of parolees who over the course of several years returned to custody because of parole violations or new convictions.

We found a number of errors in CALPIA's calculation of the estimated \$9 million that it reported saving the State.

For each group, CALPIA applied different cost factors to expenditures in the areas of law enforcement, judiciary, parole hearings, and incarceration that would have been incurred if these 169 individuals returned to prison. For example, CALPIA assumed that parolees with new convictions require additional court proceedings and serve longer sentences, which would result in additional costs to the State. Although the division of expenditures into these cost components appears reasonable, our analysis found errors in most of the cost components and a lack of documentation for others.

In reviewing this calculation, CALPIA provided us several work sheets showing the mathematical calculation used to arrive at the estimated savings. Because it lacked certain documentation, CALPIA referred us to a Web site and to a number of individuals to obtain support for parts of its savings calculation. In one case, the individual to whom CALPIA referred us used his experience rather than documented analysis for the estimates he provided CALPIA, so we were unable to verify his estimates.

CALPIA's secondary review of the savings calculation was inadequate for detecting the errors we found, which amounted to \$81,000 in understated costs and \$627,000 in overstated costs. The overstatement was due to various mistakes. For example, we noted a mathematical error that resulted in a \$539,000 overstatement of incarceration costs. This error occurred in CALPIA's calculation of Corrections' expenses to incarcerate parolees who violated their parole. If accurate, the figures on CALPIA's work sheet would show that the calculation is \$2.96 million rather than the \$3.5 million that actually appears on the work sheet. Further, in the calculation of the law enforcement costs, CALPIA inadvertently used the number of hours a police officer spent on one stage of an investigation that was different from the amount in CALPIA's supporting documentation. This error caused CALPIA to overestimate its savings of law enforcement costs by about \$88,000. The net effect of these errors overstated CALPIA's savings estimate by \$546,000. An appropriate secondary review should have detected and corrected these errors. If CALPIA were to account for all errors that we found in the savings calculation, it would have resulted in a lower savings estimate than it reported—a reduction from \$9 million to approximately \$8.5 million.

The net effect of certain errors—including a mathematical error and inadvertently using a different number of hours—overstated CALPIA's savings estimate by \$546,000.

Finally, CALPIA's assumption that the 169 parolees did not return to prison solely because they had worked at CALPIA's enterprises may be flawed. In its report to the Legislature for fiscal year 2008–09, CALPIA states that it estimates conservatively that by lowering recidivism and thus avoiding the costs for law enforcement, the judiciary, parole hearings, and incarceration, CALPIA saves taxpayers up to \$9 million annually. To establish that

inmates' working at CALPIA enterprises lowers their recidivism, CALPIA has to control all other possible factors that might prevent these future parolees from returning to prison. Some of the 169 parolees may exhibit characteristics or have experiences other than their involvement in CALPIA enterprises that may have set them apart from general-population parolees. According to recidivism studies by the University of Washington and the Florida Department of Corrections, factors that may have contributed to parolees not returning to prison following their release include the inmates' older ages and higher education levels as well as their lack of drug abuse histories. Thus, CALPIA needs to qualify the variance between recidivism rates for the two groups by stating that employment with CALPIA is only one of several factors that may have contributed to the lower recidivism rates for these 169 CALPIA parolees.

We also attempted to review CALPIA's savings calculation for fiscal year 2009–10. Although it included in its fiscal year 2009–10 report to the Legislature a table comparing recidivism rates of CALPIA and Corrections' parolees that is similar to Table A.1 in the Appendix, it did not include a similar savings estimate in its report. Instead, CALPIA included an assertion that inmates who participated in CALPIA programs are less likely to return to prison and that they are more likely to become productive workers who pay taxes instead of costing California taxpayers approximately \$49,000 per year to incarcerate an individual. The general manager of CALPIA explained that he decided not to include a more complete savings estimate because of the difficulty of performing a comprehensive savings calculation and because CALPIA is not required statutorily to include that calculation.

Recommendations

To improve the reliability of employment data contained in CalParole, Corrections should ensure that parole agents correctly follow procedures related to populating the data fields of and maintaining CalParole. In addition, supervisors of parole agents should conduct periodic reviews of parolee files to verify whether employment fields are completed appropriately and whether employment is documented adequately.

As Corrections prepares to move CalParole data into SOMS, it should modify existing employment-related fields and add to SOMS new fields that are currently not available in CalParole so that Corrections can minimize the opportunity for erroneous data entries and make employment data more reliable.

To ensure that it has a uniform set of inmate assignment standards, CALPIA should continue its efforts to issue regulations and complete the amendment of Corrections' operations manual. It should then work with Corrections to implement the changes to the inmate assignment criteria and the assignment process when the regulations take effect.

To allow it to measure progress in meeting the goals in its strategic plan, CALPIA should ensure that all of its performance indicators are clear, measurable, and consistently tracked. It should also continue its efforts to measure properly its performance and to track each performance indicator. Further, CALPIA needs to create a process that will allow its management to review the results of performance tracking and ensure that the results can be re-created at least annually.

CALPIA should maintain the source documentation used in calculating the savings it brings to the State as well as ensure that an adequate secondary review of its calculation occurs. It should also qualify its savings by stating that employment at CALPIA enterprises may be just one of several factors that contribute to the lower recidivism of its inmates.

Chapter 2

THE CALIFORNIA PRISON INDUSTRY AUTHORITY SHOULD CONTINUE TO IDENTIFY NEW ENTERPRISES AND MONITOR NET PROFITABILITY

Chapter Summary

Since 2004 the California Prison Industry Authority (CALPIA) has introduced only a modest number of new enterprises in the State. Because CALPIA closed more enterprise locations than it opened, there are fewer opportunities for inmates to participate in its enterprises. CALPIA indicates that economic concerns, particularly the budget reductions of its state agency customers, have resulted in a decreased demand for its products.

CALPIA strives to price its products competitively. In contrast to practices cited in our 2004 audit report on CALPIA programs, CALPIA's retention of documented pricing analyses supports the product pricing decisions that it made for the product sample we reviewed. These pricing analyses complied with most aspects of the pricing policy of the Prison Industry Board (board), which requires CALPIA to consider costs, profit margins, and market considerations when making pricing decisions. However, the basis for how CALPIA determined profit margins was undocumented for most pricing analyses we reviewed, and in some instances we found no analysis of market considerations. For almost half of the products and services we evaluated, CALPIA's prices were above the average prices for comparable items. On the other hand, CALPIA's five largest state agency customers saved an estimated \$3.1 million during fiscal year 2009–10 on the 11 products and services we evaluated. Specifically, for five of the 11 items, the State paid \$2.2 million more than the average comparable price. Nevertheless, the State saved \$5.3 million for the remaining six items. Although in certain instances CALPIA's prices may be higher than those for products available from other vendors, purchasing from CALPIA supports opportunities for inmates to develop effective work habits and occupational skills.

In March 2010 CALPIA, which is generally self-supporting, began using an automated process for analyzing the profitability of its enterprises when overhead costs are considered. When CALPIA did not include overhead costs in its calculations, only three of CALPIA's 25 enterprises were unprofitable during fiscal year 2008–09. However, when CALPIA allocated the appropriate overhead costs to each of its enterprises, the number of unprofitable enterprises rose to 11. Although CALPIA gave us an estimate of how it would allocate

overhead costs for fiscal year 2008–09, in the future CALPIA plans to use its newly created automated process monthly to assess profitability more closely by including overhead costs.

Declining Inmate Participation Is the Result of CALPIA's Closure of Enterprises Due to Economic Concerns and Other Factors

One of CALPIA's statutory purposes is to employ inmates under the jurisdiction of the California Department of Corrections and Rehabilitation (Corrections) in industrial, agricultural, and service enterprises. In its mission statement, CALPIA indicates that employing inmates in these enterprises reduces these individuals' idleness and increases the stability of inmates' living environment, and these factors lead to reduced prison violence and increased stability and safety within Corrections' institutions. State law requires it to provide, in an annual report to the Legislature, the number of inmates employed in each of its enterprises. Figure 4 illustrates the decrease in inmate participation as reported by CALPIA over the last six years relative to Corrections' inmate population.

Participation in CALPIA's enterprises has declined from 5,669 inmates in June 2004 to 5,140 inmates in June 2010, a decrease of 9.3 percent.

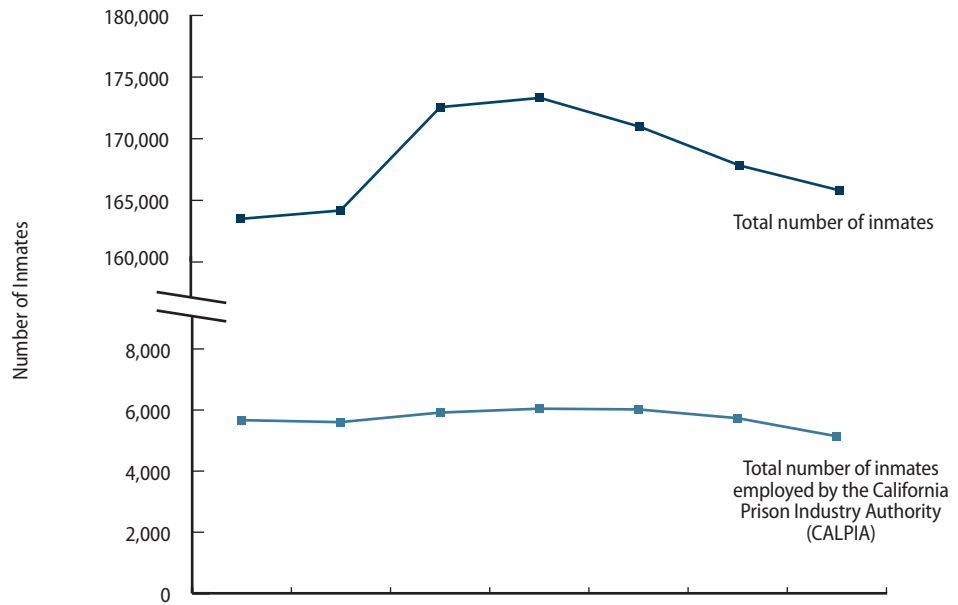
As the figure indicates, participation in CALPIA's enterprises has declined from 5,669 inmates in June 2004 to 5,140 inmates in June 2010, a decrease of 9.3 percent. During the same period, Corrections' inmate population rose from 163,500 in June 2004 to a peak of 173,312 in June 2007, and it declined to 165,810 in June 2010. The reduction in inmates that CALPIA employs is significant, particularly in light of recent reductions to Corrections' budget for academic and vocational programs. According to the California Rehabilitation Oversight Board's biannual report dated September 15, 2010, Corrections had to reduce the services that these programs provide to inmates because of these cuts. Information that Corrections provided indicates that by June 2010 this budget reduction resulted in a net loss of roughly 19,000 participants in Corrections' traditional academic and vocational programs. Because it is generally self-sustaining, CALPIA has the potential to provide employment opportunities to inmates who are no longer served by Corrections' vocational and educational programs.

CALPIA's Enterprise Closures Has Led to a Significant Decline in Inmate Participation Rates

There are fewer opportunities for inmates to participate in CALPIA's enterprises because it has closed more enterprise locations than it has opened. Since 2004 CALPIA has launched only two new enterprises. It established both the modular building

and the construction services enterprises in 2006 and 2010, respectively. Additionally, CALPIA reactivated and expanded four other existing enterprises during this period.

Figure 4
Total Number of State Prison Inmates Compared to the Total Number of Inmates Employed by the California Prison Industry Authority



Point in time	June 2004	June 2005	June 2006	June 2007	June 2008	June 2009	June 2010
Total state prison inmates	163,500	164,179	172,561	173,312	170,973	167,832	165,817
Total CALPIA inmate employees	5,669	5,598	5,917	6,044	6,020	5,733	5,140
Percentage of state prison inmates employed by CALPIA	3.5%	3.4%	3.4%	3.5%	3.5%	3.4%	3.1%

Sources: CALPIA inmate employment data and the California Department of Corrections and Rehabilitation's monthly population report as of June 30 for the years 2004 through 2010.

Part of the legislative intent for CALPIA was to reduce inmate idleness and prison violence. To fulfill these objectives, CALPIA has the authority to establish new industrial, agricultural, and service enterprises when it deems that doing so is appropriate. Although CALPIA includes in its strategic plan an objective for opening new, sustainable enterprises to provide additional inmate employment opportunities, its fiscal year 2010–11 annual plan presented to the board projects a decrease of 198 inmate positions. The chief of marketing services (marketing chief) indicates that CALPIA currently employs four product managers in the marketing department whose responsibilities include ensuring that products meet market needs, screening incoming product ideas, and actively looking for new ideas in the market. The assistant general manager

of operations (operations manager) indicates that in the past, a product approval committee made decisions about whether to add new products. According to the operations manager, CALPIA no longer uses this committee because CALPIA's executive management began making the final decisions about whether to add new products.

Though the weak economy may have made expansion difficult in recent years, CALPIA has recently created a revised product development process and a draft sales and marketing plan to confront the situation. For example, in its fiscal year 2010–11 draft sales and marketing plan, which was still in draft form as of April 2011, CALPIA identified three new enterprise and product development goals—inmate employability, customer need, and profitability. According to CALPIA's revised product development process for fiscal year 2010–11, product success is defined as a product's contributing to the overall mission and goals of CALPIA as outlined in its 2010 strategic business plan. In addition, product managers, in coordination with prison industry managers, are responsible for creating an annual enterprise business plan outlining product development, sales, and manufacturing goals for the fiscal year as well as efforts required to attain the plan's goals.

CALPIA Has Closed More Enterprise Locations Than It Has Opened, Reactivated, or Expanded

CALPIA closed, deactivated, or reduced the capacity of six existing enterprises at 10 locations throughout the State, leading to a net loss of 441 inmate positions.

Since 2004 CALPIA has established two new enterprises and reactivated or expanded four existing enterprises. However, as Table 1 shows, CALPIA closed, deactivated, or reduced the capacity of six existing enterprises at 10 locations throughout the State, leading to a net loss of 441 inmate positions. To establish, expand, or reactivate an enterprise—or to close, deactivate, or reduce an enterprise at one or more prisons—CALPIA submits recommendations to the Prison Industry Board (board) for its approval. In these recommendations, CALPIA includes reasons supporting the change, an analysis of the fiscal impact, and the effects on the employment of inmate employees as well as on CALPIA staff.

In the analyses it submitted to the board requesting approval for its recommendation to close, deactivate, or reduce enterprises at certain locations, CALPIA cited various reasons for these actions at the prisons, including the bad economy, unprofitability, law changes, and other problems. For example, in a June 2009 recommendation to deactivate two furniture factories, CALPIA indicated that the demand for furniture was declining due to various factors, most prominently state budget reductions. Additionally, because of profitability concerns, in April 2009 CALPIA closed one of its three dairies, citing that the existing capacities at the two remaining dairies could absorb customer

demand. This decision eliminated 48 inmate positions, but CALPIA indicated that because of the low security risk of these inmates, Corrections could easily place them in other work assignments.

Table 1
History of the California Prison Industry Authority's Enterprises From December 2004 Through December 2010

ENTERPRISE AND PRISON LOCATION	DATE OF ACTION	ESTABLISHED	REACTIVATED	EXPANDED	CLOSED	DEACTIVATED	REDUCED	NUMBER OF INMATE JOBS ADDED OR (LOST)*
Modular building Folsom	May 2006	•						100
Construction services Statewide	July 2010	•						60
Fabric Centinela	October 2007		•					100
Shoe manufacturing San Luis Obispo	February 2005			•				56
Digital services Folsom	June 2008			•				15 [†]
Printing Folsom	August 2010			•				12
Furniture Tehachapi	February 2005				•			(33)
Chuckawalla	February 2005				•			(60)
Folsom	July 2009					•		(30)
Corcoran	July 2009					•		(74)
Tracy	July 2010				•			(94)
San Quentin	July 2010						•	(100)
Optical lab Pelican Bay	April 2009					•		(250)
San Diego	April 2009					•		
Silk-screening Tehachapi	September 2004				•			(18)
Crops Wasco	January 2009				•‡			(10)
Dairy Soledad	April 2009				•			(48)
Metal fabrication Corcoran	July 2008					•		(67)
Total inmate jobs lost								(441)
Total enterprises established, reactivated, or expanded OR Total enterprises closed, deactivated, or reduced		6			12			

Sources: California Prison Industry Authority (CALPIA) analyses for its recommendations to the Prison Industry Board (board), and board minutes for December 2004 through December 2010.

Notes: The date that the enterprise was established, reactivated, expanded, closed, deactivated, or reduced is the date that CALPIA submitted to the board the analysis for CALPIA's recommendations, the recommendation's effective date, or the date that the board minutes were approved. Although some instances of interim actions occurred, the table reflects the most recent actions.

* The number of inmate jobs added is CALPIA's estimate of the maximum number of jobs that could result from its recommendations to the board.

† Although the board minutes indicate that CALPIA may employ up to 35 inmates at the Folsom State Prison Project for the Visually Impaired (FPVI), 20 of these positions already existed when CALPIA took over FPVI from the California Department of Corrections and Rehabilitation.

‡ A crops program still exists at Wasco; however, it is a component of the Corcoran dairy enterprise and is no longer a stand-alone enterprise.

A state law change prompted a deactivation of two optical enterprise locations and the loss of 250 inmate jobs.

Further, a state law change prompted a deactivation of two optical enterprise locations. A 2009 state law removed the optical benefit coverage under California's Medical Assistance Program (Medi-Cal) for adults 21 years of age or older who do not reside in certain nursing facilities. Because the main client for CALPIA's optical services was Medi-Cal, in April 2009 CALPIA presented the board with an analysis estimating that the law change would reduce demand for CALPIA's optical products by 69 percent and reduce this enterprise's net profit by \$4.43 million annually. In reaction to this change, CALPIA deactivated two optical labs, thus eliminating 250 inmate positions as well as 35 civil service positions. According to CALPIA's operations manager, CALPIA attempted to reopen its silk-screening enterprise in 2008 and again in 2009. However, the reopening did not work due to an inability to reach agreement on correctional officers' hours of work and the process of transporting inmates to the work site. These decisions appear to be appropriate given the circumstances CALPIA described in its analyses to the board.

As Table 1 shows, CALPIA established, expanded, or reactivated six enterprises during this same period. Various opportunities prompted it to recommend these actions to the board. For instance, to meet Corrections' demand for shoe repair services, CALPIA expanded the scope of its shoe manufacturing enterprise in 2005 to include shoe repair at the California Men's Colony in San Luis Obispo after Corrections gave it shoe repair equipment that had been used in a vocational education program. CALPIA's analysis indicates that before it expanded the scope of this enterprise, Corrections contracted with outside vendors for shoe repairs at a cost of \$800,000 per year. CALPIA projected that this expansion of the facility would provide employment for 56 additional inmate workers at full capacity and provide an annual cost savings to Corrections of \$192,000.

Further, CALPIA reactivated the fabric enterprise at the California State Prison in Centinela after it was shut down because of frequent prison lockdowns. According to CALPIA's analysis for reactivating the fabric enterprise, this institution's warden committed to providing the needed support for the fabric enterprise and to working with CALPIA to develop a plan to overcome work disruptions that had previously occurred due to lockdowns. The recommendation noted that the warden had appealed to CALPIA to establish more programs at his institution because of the limited number of viable inmate programs there. CALPIA projected that this reactivation of the fabric enterprise location would provide additional employment opportunities for 100 inmate workers and two civil service positions, and it would supply increased annual revenues of between \$750,000 and \$1 million. In total, these six newly established, reactivated, and expanded enterprises

were projected to provide up to 343 inmate positions, a number that helped offset the 784 positions projected to be lost by closing, deactivating, or reducing the capacity of six enterprises at 10 locations throughout the State.

CALPIA Now Documents Its Pricing Decisions but Could Better Demonstrate How It Determines Product and Service Prices

State law authorizes CALPIA to set prices for the products and services that it sells to its customers. In setting prices for its products, CALPIA follows the pricing policy established by the board, which requires CALPIA to establish prices at levels sufficient to achieve profitability while still being competitive in the open market. Since our 2004 audit, CALPIA has made significant improvements in how it follows the board's pricing policy. In our 2004 audit, we found that CALPIA lacked documentation for product prices and was unable to demonstrate to us how it arrived at the prices for 19 products we reviewed. Since then, CALPIA added procedures to standardize and retain documentation of price reviews. Our current audit showed that price analyses were available for the 25 products we reviewed.

In reviewing these price analyses, we found that CALPIA generally followed the board's policy in setting prices, but it needs to better demonstrate how it arrives at final prices. To assess whether CALPIA complies with the board's pricing policy, we judgmentally selected a best-selling product according to fiscal year 2009–10 revenues from each of CALPIA's 25 enterprises. We then evaluated whether CALPIA complied with the board's policy that requires it to establish price based on a profit margin, cost data, and market data for comparable products and services. For the 25 items we reviewed, CALPIA provided analyses of its cost data and the profit margins. The cost data for these items typically showed each element of CALPIA's costs, including materials, labor, freight, and overhead costs.

Although the price analyses for the 25 items also showed the profit margins charged on the products, in most cases we could not tell definitively how CALPIA arrived at the amounts of the profit margins. An instance in which the determination of the profit margin was clear was for the price of half-pint containers of nonfat milk. In this instance, the price analysis indicated that CALPIA would simply match the lowest comparable vendor price unless that price was below cost; in that instance, CALPIA would price at cost. For the other products we reviewed, the price analyses noted that the profit margins were certain percentage markups over CALPIA's costs to produce the products. Although the marketing chief indicated that a summary of the pricing review

Although the price analyses for 25 items showed the profit margins charged on the products, in most cases we could not tell definitively how CALPIA arrived at the amounts of the profit margins.

Another element of the board's pricing policy is that CALPIA establish prices based on market data for comparable products and services, yet, challenges exist in obtaining price comparisons for certain products.

and final decision is often included in the documentation for the completed analysis, in these instances the price analyses did not indicate how CALPIA determined the amounts of the percentage markup. According to the marketing chief, a pricing analyst collects the information required by the board's policy and makes a price recommendation for the product. A discussion between the analyst and the marketing chief results in a recommended product price that is submitted to CALPIA management for approval.

Another element of the board's pricing policy is that CALPIA establish prices based on market data for comparable products and services. Four of the 25 items that we selected were specialized products, such as custom construction projects, that do not have comparable market data reasonably available. Therefore, CALPIA did not perform a price comparison for these four items. Of the remaining 21 items, CALPIA did not consider any comparable products or relevant market data in determining the prices of seven products: almonds, coffee, license plates, metal stickers, eggs, beef patties, and chicken. According to CALPIA's marketing chief, because he was not working for CALPIA at the time when these prices were set, he does not know why these comparisons did not occur. Further, he explained that challenges exist in obtaining price comparisons for beef and poultry products because they must be produced to satisfy the requirements determined by Corrections. The marketing chief indicated that although CALPIA has found some vendors that can provide beef and poultry products to meet Corrections' requirements, it has been unable to find a vendor that can both produce and deliver the product to each of Corrections' 33 prisons. As noted in the next section, in our analysis of CALPIA's prices, we were able to obtain three comparable prices for license plates, almonds, and coffee. By not assessing market data and comparable prices for all products, CALPIA does not obtain an accurate assessment of the prices actually offered by other vendors to use in determining some of its prices. According to the marketing chief, CALPIA is obtaining price comparisons for all products, where applicable, during fiscal year 2010–11, and he was able to provide us with the price comparisons used for two of three items—almonds and license plates—for which CALPIA had performed a recent pricing analysis.

Although CALPIA's Prices Are Generally Competitive, Its Customers Can Find Lower Prices for Certain Products

CALPIA's prices were below the average prices for comparable products and services for more than half of the products and services we evaluated. To determine how well CALPIA meets the board's expectation that it remain profitable while setting prices that are competitive in the open market, we attempted to

find comparable products or services so that we could compare prices with 12 of the 25 products and services we selected to assess CALPIA's pricing analysis. We compared the price of each product or service with the prices of three products or services available from other vendors—private businesses or other governmental agencies—that met a similar product or service description. To identify similar products and services, we reviewed CALPIA's picture and description of the product or service and compared it to the picture and/or description of other vendors' products or services. We also obtained prices offered by the private sector and prison industries in other states, and for one item—half-pints of nonfat milk—we used the prices paid by three Corrections' institutions that do not purchase milk from CALPIA. At times other vendors' products differed in packaging and appearance, but we could not quantify the effect of those differences on price.

Further, CALPIA does not collect sales tax on products purchased by state entities. However, if state customers were to purchase products from private vendors, they generally would be required to pay the sales or use tax in the county in which the vendors are located. Because state customers account for approximately 98 percent of CALPIA's revenues, we increased other vendors' prices by 8.75 percent, if they were private businesses, to reflect the sales and use tax rate in Sacramento County, which we used for comparison purposes in our calculation. Finally, CALPIA generally includes freight costs in its prices, but figures for vendor freight charges were not readily available from other vendors. Therefore, we generally removed CALPIA's freight costs to better compare the prices between CALPIA and vendors.

We were able to find comparable items for 11 of the 12 products or services in our sample. For the remaining sample product, we were unable to find reasonable comparisons for determining other vendors' prices because this product—CALPIA's beef soy patty—is made to match Corrections' content specifications. Therefore, we were not able to find three vendors with a product that met the same specifications. CALPIA's prices for five of the 11 items with reasonable comparisons—nonfat milk, socks, canvas shoes, cotton core mattresses, and license plates—are above the average prices for comparable items. CALPIA's prices for the remaining six items—coffee, ergonomic chairs, white cotton-polyester T-shirts, bar soap, almonds, and laundry service—are below the average prices for comparable items. Of the 11 items, CALPIA's almonds have the most competitive price, which is 72 percent below the average vendor's price. Its least competitive price is for a mattress product, which is priced 27 percent higher than the average comparable product price. These 11 products and services account for 23 percent of CALPIA's revenue in fiscal year 2009–10.

CALPIA's almonds have the most competitive price—at 72 percent below the average vendor's price—and its least competitive price is for a mattress product—priced 27 percent higher than the average comparable product price.

Because CALPIA's prices are above those of other vendors for five of the 11 items by a range of 7 percent to 27 percent, in some instances customers pay a premium to purchase these five items from CALPIA. We identified CALPIA's top five customers—Corrections, the Department of Motor Vehicles, state mental hospitals and developmental centers, the Department of General Services, and the California Department of Transportation—by determining its top revenue sources for fiscal year 2009–10. For 10 of the 11 items, Corrections was generally the primary purchaser. For the remaining item—license plates—the Department of Motor Vehicles is the sole purchaser. To calculate the amount that these five state agencies could have saved by purchasing the five items from sources other than CALPIA, we multiplied the quantity of these items that the five state agencies purchased during fiscal year 2009–10 by the difference between CALPIA's price and the average of the other vendors' prices. If these customers were able to buy from other vendors at the prices we found and at the quantity the customers purchased in fiscal year 2009–10, they could have saved \$2.2 million. For the remaining six items, CALPIA's prices were below the average prices for comparable items, saving the five state agencies that purchased these items \$5.3 million in fiscal year 2009–10 over what these items would have cost elsewhere. The overall estimated net savings to the State for the purchase of these 11 items from CALPIA was \$3.1 million.

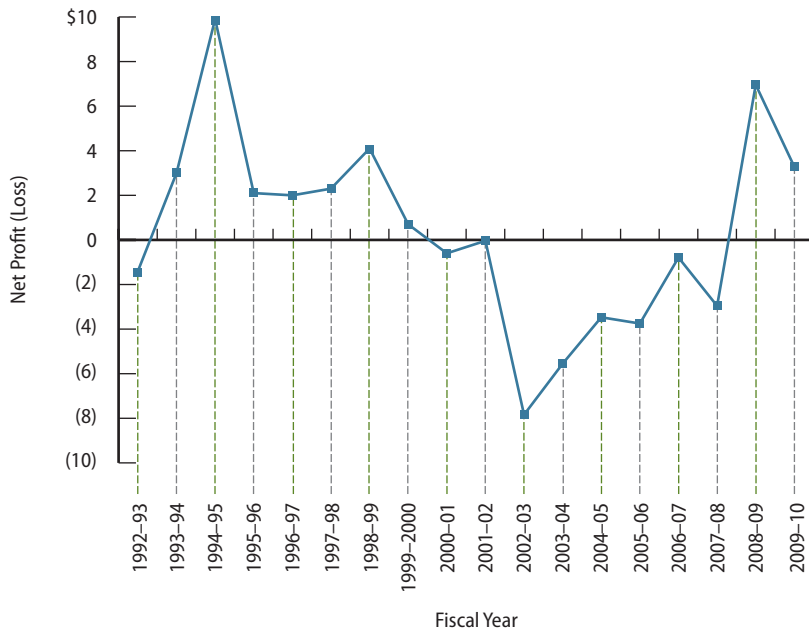
Finally, CALPIA cannot always make price comparisons for some of its products because there are no reasonably comparable products. In some cases, CALPIA makes products to meet a state agency's specific need. For example, CALPIA produces for the California Highway Patrol a metal equipment tray that is specially designed to fit in the trunk of patrol cars. The price of this product is difficult to compare to items from private industry because it is not an item typically sold by other vendors.

Overall, CALPIA Is Self-Supporting

One of CALPIA's ultimate goals is to be self-supporting by generating enough revenue from the sale of its products and services to cover its expenses. CALPIA receives its total inflow of revenue from the sale of its products, services, and contracting with Corrections to assume responsibility for managing various career technical education programs, such as preapprenticeship carpentry and preapprenticeship concrete finishing. CALPIA is not included in Corrections' budget and must acquire sufficient funds to sustain and continue its operations. State law does not provide significant detail as to how and to what extent CALPIA is to remain self-supporting. As shown in Figure 5, according to its audited financial statements, CALPIA has been profitable during

recent fiscal years, but from fiscal years 2000–01 through 2007–08, it had an overall net loss on its operations ranging from \$40,000 to \$7.84 million. However, over the 18-year period from fiscal years 1992–93 through 2009–10, CALPIA profits and losses have resulted in a net surplus of \$7.94 million. According to the chief of accounting services, CALPIA was able to offset its losses using funds it retained from profitable years. If needed, state law allows CALPIA to borrow money for specified purposes from private sources with the approval of the Department of Finance and from the Pooled Money Investment Board. However, the chief of accounting services indicates that CALPIA has not needed to do so during this period.

Figure 5
California Prison Industry Authority’s Net Profit and Loss for the Past 18 Years
 (Dollars in Millions)



Sources: California Prison Industry Authority’s annual financial reports for fiscal years 1992–93 through 2009–10.

Some CALPIA enterprises operate at a profit while others operate at a loss. Although it has been profitable overall from fiscal years 2008–09 through 2009–10, in fiscal year 2009–10, the net profit from 12 of CALPIA’s active enterprises offset the losses from the remaining 13. As Table 2 on the following page displays, during fiscal year 2009–10 the license plate enterprise earned the highest net profit at about \$4.2 million, and the furniture enterprise was the most unprofitable with an almost \$6.6 million net loss. Even though certain enterprises are unprofitable, CALPIA asserts that

they provide job skills and develop good work habits for inmate workers. For example, CALPIA's laundry enterprise had a net loss of \$117,000 for fiscal year 2009–10. However, CALPIA reported that it provided, on average, monthly employment for 830 inmate workers during that fiscal year, which is 15 percent of CALPIA's total inmate employment. Similarly, the furniture enterprise had a net loss of \$6.6 million in fiscal year 2009–10, but, on average, it provided employment to 568 inmate workers during the same period, or about 10 percent of the total inmate employment.

Table 2
Profitability of the California Prison Industry Authority's Enterprises for Fiscal Year 2009–10 Compared to Their Profitability for Fiscal Year 2008–09

ENTERPRISE	FISCAL YEAR 2009–10 NET PROFIT (LOSS)	FISCAL YEAR 2008–09 NET PROFIT (LOSS)
License plates	\$4,174,145	\$3,884,585
Optical	3,533,463	6,868,251
Fabric products	3,395,712	3,918,451
Cleaning products	2,092,349	1,013,638
Printing	2,079,610	2,282,027
Meat cutting	805,057	5,293
Knitting mill	422,802	303,439
Coffee roasting	367,832	623,937
Egg production	243,263	464,336
Metal signs	234,833	329,151
Poultry	171,215	(342,480)
Dental	32,140	19,677
Mattresses	(160)	(88,694)
Bakery	(11,293)	(11,464)
Bindery	(16,304)	693,167
Shoes	(40,897)	(382,644)
Food and beverage packaging	(64,211)	958,089
Laundry	(116,567)	(235,435)
Modular construction	(394,448)	1,757,605
Digital services	(414,163)	(487,617)
Crops	(662,686)	(1,287,973)
Metal products	(710,117)	(2,201,000)
Dairy	(1,480,427)	(3,690,777)
General fabrication	(3,759,618)	(1,116,773)
Furniture	(6,594,281)	(6,319,826)
Silk-screening*	(5,889)	2,174
Totals	\$3,281,360	\$6,959,137

Sources: Fiscal years 2008–09 and 2009–10 draft reports on estimated profits by industry for the California Prison Industry Authority (CALPIA).

* This enterprise closed completely in September 2004, and the monetary amounts shown represent the revenues that passed through this enterprise from an attempt by CALPIA to reopen the enterprise.

In response to the unprofitability of the furniture enterprise, CALPIA has cut inmate positions at four furniture factories since July 2009. The assistant general manager of marketing (marketing manager) indicated that the deactivations and reductions resulted from a continuing decline in demand for furniture primarily due to the poor state of the economy and the budget cuts experienced by state agencies, which are expected to continue. Conversely, fabric products, one of CALPIA's most profitable enterprises, earned a net profit of \$3.4 million for fiscal year 2009–10 and employed an average of 1,300 inmates, providing the highest inmate employment of all its enterprises.

Some enterprises experienced significant changes in profitability between fiscal years 2008–09 and 2009–10. For example, the optical enterprise, with a reduction in net profit of \$3.3 million between these fiscal years, has been affected by a 2009 state law that removed the Medi-Cal optional benefits coverage for adults 21 years of age or older who do not reside in certain nursing facilities. General fabrication saw its net loss increase by \$2.6 million. According to the marketing manager, this enterprise has experienced a revenue decrease and has substantial fixed costs to cover. Dairy, which operated at a net loss during both fiscal years, saw its net loss decrease by \$2.2 million in fiscal year 2009–10. According to the marketing manager, the loss reduction was due to CALPIA's action to close the dairy enterprise at the Correctional Training Facility as well as a decrease in fixed costs.

CALPIA Recently Began Including Overhead Costs When Calculating Enterprise Self-Support

Before January 2010 CALPIA did not routinely allocate overhead cost among its enterprises in evaluating their overall profitability. Specifically, it did not routinely allocate costs for such items as central office and retirement overhead to the enterprise level. Instead, according to the assistant general manager of administration (administration manager), CALPIA allocated these overhead costs only on an as-needed basis. According to the administration manager, if an enterprise's viability needed further analysis, staff would calculate a more accurate estimate of operating income or loss.

Although CALPIA routinely calculated the gross profit of its enterprises, this calculation only included the cost of goods sold and did not include overhead costs. Without allocating all expenditures, some enterprises may appear profitable when they are not. For example, CALPIA's overhead expenditures in fiscal year 2008–09 were \$41 million. Without the allocation of its overhead expenditures, 22 of the 25 CALPIA's enterprises appear

In response to the unprofitability of the furniture enterprise, CALPIA has cut inmate positions at four furniture factories since July 2009.

profitable. However, when the \$41 million is allocated, only 14 of the 25 active enterprises remain profitable. We did note, however, that the price analyses that CALPIA uses to establish prices for products generally included overhead expenses.

According to the administration manager, before 2010 CALPIA assessed enterprise profitability using reports on monthly revenue, statements of operations by enterprise, and comparisons of budget to actual expenses, along with estimated percentages to capture overhead costs—which include central office, distribution and transportation, selling and administrative, and nonoperating revenues and expenditures. She indicated that the operations division branch and enterprise managers conducted extensive analyses of these data but that many anomalies are associated with each enterprise; therefore, it is important to consider underlying factors that are not available from the automated monthly financial reports. Because this process was cumbersome, in January 2010 CALPIA began developing a report, known as an *estimated profit report* that would automatically capture this information.

The administration manager noted that, in response to our request, CALPIA compiled a version of an estimated profit report using audited financial statement data from fiscal year 2008–09 with an allocation of fiscal year 2009–10 overhead costs. She cautioned that this report is not indicative of the operating income or loss that would have been calculated if the report existed in fiscal year 2008–09. Although the estimated net profit report was only recently created, she asserted that historically, CALPIA has used an appropriate and sound measuring methodology to calculate the net profit of each enterprise. The administration manager indicated that in the future CALPIA would use this estimated profit report monthly beginning in March 2010. Table 3 shows how the profitability of CALPIA's enterprises changes when overhead costs are allocated.

If CALPIA does not allocate overhead costs, CALPIA's financial data shows that only three enterprises are unprofitable, rather than the 11 enterprises when such costs are allocated.

If CALPIA does not allocate overhead costs, its financial data shows that only three enterprises are unprofitable. However, when CALPIA does allocate overhead costs, the number of unprofitable enterprises grows to 11. Four of these enterprises—laundry, general fabrication, furniture, and dairy—have significant freight costs; therefore, the true profitability of these four enterprises are the most affected when CALPIA includes overhead in its calculations.

Table 3
California Prison Industry Authority's Enterprise Profitability
With and Without the Allocation of Overhead Costs
Fiscal Year 2008–09

ENTERPRISE	FISCAL YEAR 2008–09 GROSS PROFIT (LOSS)	LESS OVERHEAD COSTS	FISCAL YEAR 2008–09 NET PROFIT (LOSS)
Optical	\$9,855,570	\$2,987,319	\$6,868,251
Fabric products	8,107,086	4,188,635	3,918,451
Laundry	5,155,759	5,391,194	(235,435)
License plates	4,634,422	749,837	3,884,585
Food and beverage packaging	3,478,399	2,520,310	958,089
Printing	3,180,918	898,891	2,282,027
Modular construction	2,496,425	738,820	1,757,605
Cleaning products	1,903,491	889,853	1,013,638
Egg production	1,492,189	1,027,853	464,336
General fabrication	1,385,364	2,502,137	(1,116,773)
Bindery	1,234,430	541,263	693,167
Meat cutting	1,221,185	1,215,892	5,293
Bakery	989,973	1,001,437	(11,464)
Coffee roasting	917,668	293,731	623,937
Knitting mill	728,444	425,005	303,439
Mattresses	584,825	673,519	(88,694)
Metal signs	554,139	224,988	329,151
Poultry	500,304	842,784	(342,480)
Furniture	424,937	6,744,763	(6,319,826)
Shoes	423,539	806,183	(382,644)
Dairy	158,243	3,849,020	(3,690,777)
Dental	151,169	131,492	19,677
Digital services	(257,389)	230,228	(487,617)
Metal products	(485,568)	1,715,432	(2,201,000)
Crops	(909,337)	378,636	(1,287,973)
Silk-screening*	2,733	559	2,174
Totals	\$47,928,918	\$40,969,781	\$6,959,137

Source: Fiscal year 2008–09 draft report on estimated profits by industry for the California Prison Industry Authority (CALPIA).

* This enterprise closed completely in September 2004, and the monetary amounts shown represent the revenues that passed through this enterprise from an attempt by CALPIA to reopen the enterprise.

Recommendations

CALPIA should continue to use its recently improved method of identifying new product ideas and the changing needs of state agencies.

When performing analyses to establish prices for its products, CALPIA should document the basis for each product's or service's profit margin and should also ensure that it always considers and documents market data when making pricing decisions.

CALPIA should continue to ensure that its managers use the estimated net profit report on a regular basis to review the profitability of each enterprise and to make decisions on how to improve the profitability of those enterprises that are unprofitable.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: May 24, 2011

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

Appendix

COMPARISON OF THE CALIFORNIA PRISON INDUSTRY AUTHORITY'S REPORTED RECIDIVISM RATES WITH THE BUREAU OF STATE AUDITS' RECALCULATION OF THOSE RATES

In its report to the Legislature for fiscal year 2008–09, the California Prison Industry Authority (CALPIA) reported that parolees who worked at its enterprises have lower recidivism rates than do parolees from the general inmate population of the California Department of Corrections and Rehabilitation (Corrections). In Table A.1 on the following page, we show the data that CALPIA provided to the Legislature. The column labeled *CALPIA—Total Number of Parolees*—includes parolees who worked at a CALPIA enterprise for at least six months while they were imprisoned, and the column labeled *Corrections—Total Number of Parolees*—includes all inmates, both general population and parolees in the CALPIA column, who were released during each of the three fiscal years represented. Dashes represent data that were absent from the table that CALPIA presented to the Legislature. As Table A.1 shows, in all instances in which comparable data exist, the recidivism rate for CALPIA is lower than that for Corrections.

In Table A.2 on the following page, we recalculated the recidivism rates reported by CALPIA and found that CALPIA's claim of lower recidivism rates than those for Corrections is correct. Specifically, although our calculation did not produce the same recidivism rates that CALPIA calculated, it confirmed that the recidivism rates of CALPIA parolees were lower than those of Corrections' general-population parolees. We used Corrections' methodology and CALPIA's criteria to perform our calculation. This calculation was based on inmate movement information found in Corrections' Offender Based Information System and inmate job assignment information from Corrections' Distributed Data Processing System to determine which parolees worked at a CALPIA enterprise for at least six consecutive months while they were imprisoned. However, we arrived at different numbers than CALPIA reported. For example, CALPIA determined the number of CALPIA parolees released in fiscal year 2007–08 was 1,637, and our calculation showed this number as 2,235. Despite these differences, our calculations also show that in every instance in which comparable data exist, the recidivism rate for CALPIA's parolees is lower than that for Corrections' general-population parolees.

Table A.1
Recidivism Rates as Reported by the California Prison Industry Authority

FISCAL YEAR	CALIFORNIA PRISON INDUSTRY AUTHORITY (CALPIA)	CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION (CORRECTIONS)	CALPIA	CORRECTIONS	CALPIA	CORRECTIONS	CALPIA	CORRECTIONS
	TOTAL NUMBER OF PAROLEES	TOTAL NUMBER OF PAROLEES*	ONE-YEAR	ONE-YEAR	TWO-YEAR	TWO-YEAR	THREE-YEAR	THREE-YEAR
	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE
2007-08	1,637	116,497	32%	42%	40%	—	—	—
2006-07	1,853	115,522	31	43	43	56%	44%	—
2005-06	1,822	108,637	32	45	43	59	44	63%

Source: CALPIA's annual report to the Legislature for fiscal year 2008-09.

* As stated on page 47, the total number in the column showing the number of Corrections' parolees includes both general-population parolees and the parolees in the CALPIA column.

Table A.2
Recidivism Rates as Calculated by the Bureau of State Audits

FISCAL YEAR	CALIFORNIA PRISON INDUSTRY AUTHORITY (CALPIA)	CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION (CORRECTIONS)	CALPIA	CORRECTIONS	CALPIA	CORRECTIONS	CALPIA	CORRECTIONS
	TOTAL NUMBER OF PAROLEES	TOTAL NUMBER OF PAROLEES*	ONE-YEAR	ONE-YEAR	TWO-YEAR	TWO-YEAR	THREE-YEAR	THREE-YEAR
	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE	RECIDIVISM RATE
2007-08	2,235	116,574	41%	47%	52%	—	—	—
2006-07	1,745	115,596	38	47	52	58%	55%	—
2005-06	1,275	108,711	35	49	49	61	55	65%

Sources: The Bureau of State Audits' analysis based on the data retrieved from Corrections' Offender Based Information System and Distributed Data Processing System. As noted in the Scope and Methodology, we concluded that both systems used in this analysis are of undetermined reliability.

* As stated on page 47, the total number in the column showing the number of Corrections' parolees includes both general-population parolees and the parolees in the CALPIA column.

(Agency comments provided as text only.)

Prison Industry Authority
560 East Natoma Street
Folsom, CA 95630

May 4, 2011

Elaine Howle, CPA*
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Dear Ms. Howle:

Attached is the California Prison Industry Authority's (CALPIA) response to the findings and recommendations in the Bureau of State Audits (BSA) draft audit report titled "California Prison Industry Authority: It Can More Effectively Meet Its Goals of Maximizing Inmate Employment, Reducing Recidivism, and Remaining Self-Sufficient".

The CALPIA asked a member of the legislature to request this audit via the Joint Legislative Audit Committee because we were interested to learn how the CALPIA had improved since BSA's previous audit conducted in 2004.

We are pleased that the BSA recognizes the taxpayer benefits of CALPIA through lower prices and reduced recidivism. The report establishes that CALPIA remains self-sufficient despite the global recession. The BSA has confirmed that inmates who participate in CALPIA programs have a lower rate of recidivism after release than the California Department of Corrections and Rehabilitation (CDCR) general population. In addition, the BSA acknowledged that for a majority of product prices tested by the BSA, CALPIA prices were lower than the average price of similar products available, saving taxpayers money. ①

We appreciate the recommendations the BSA has made regarding improvements in the methodology for determining the recidivism rate for CALPIA offender participants and the General Fund savings that accrue via this reduced recidivism rate. We are grateful for the extended time the BSA has taken to conduct the audit and we look forward to your assistance to ensure the areas that require further clarification and/or discussion are addressed before the report is finalized. ②

If you have any questions or need additional information, please contact me at (916) 358-2699.

Sincerely,

(Signed by: Charles L. Pattillo)

CHARLES L. PATTILLO
General Manager

* California State Auditor's comments begin on page 55.

Response to the Assessments and Recommendations
Bureau of State Audits Report

CHAPTER 1 ASSESSMENTS:

1. **CALPIA lacks a reliable source of Employment Information about released inmates.**
CALPIA concurs. CALPIA does not have access to a reliable source of employment data.

2. **Using EDD Employment Data has proved futile.**
CALPIA concurs.

3. **CalParole System Data, if reliable, could provide employment information for Parolees.**
③ CALPIA has not been briefed on CalParole data collection. It is not possible to respond to this assessment.

4. **CALPIA has inconsistent guidelines governing the assignment of inmates to its programs.**
④ CALPIA does not concur with this assessment. CALPIA has established, to the extent possible, guidelines that are aligned with the demographics of the institutions that currently have an established CALPIA program. Given that the primary responsibility for inmate assignments rest with CDCR and not CALPIA, this has proven to be a challenge.

In 2009, CALPIA started the process to establish regulations that governs the assignment of inmates to its programs. This process has taken longer than CALPIA would like, but given the required regulatory review by the Office of Administrative Law, CALPIA can do little to quicken the process. CALPIA expects these regulations to be implemented in the summer of 2012.

5. **CALPIA has not been formally tracking its newly developed organization-wide performance indicators.**
⑤ CALPIA does not concur with this assessment. CALPIA has established a matrix to track the performance related to each goal.

6. **Improvements are warranted in the calculation of CALPIA's recidivism rate and its savings to taxpayers.**

CALPIA concurs with the suggestion to improve the savings calculations related to recidivism and general fund savings, and the BSA acknowledgement that CALPIA provides a savings to taxpayers and CDCR.

Response to the Assessments and Recommendations
Bureau of State Audits Report

7. The recidivism rates for CALPIA parolees are lower than those for general population Parolees.

The BSA has confirmed that inmates who participate in CALPIA programs have a lower rate of recidivism after release than the CDCR general population. While CALPIA concurs with the assessment, we do not agree with the data that was presented in Table A.2. Table A.2 assessment appears to be flawed. The table represents BSA recidivism calculations and is 28% higher in FY 2007-08 than CALPIA's. CALPIA has reviewed our calculations and can not determine the source of this discrepancy. CALPIA stands by its original calculations.

⑥

8. CALPIA's savings calculation can also be improved.

CALPIA concurs, and is pleased that the BSA audit confirmed an \$8.4 million dollar savings to California taxpayers in 08-09 FY alone.

⑦

CHAPTER 1 RECOMMENDATIONS:

1. CALPIA should continue its efforts to issue regulations and complete the amendment of Corrections Operations Manual. It should then work with Corrections to implement the changes to the inmate assignment criteria and the assignment process when the regulation takes effect.

CALPIA recognized the need to establish regulations for assigning inmates to its program and has been working with CDCR since 2009 prior to the BSA audit. Therefore, this assessment is consistent with the current direction of the organization. We appreciate the auditor documenting our efforts.

2. CALPIA should ensure all its performance indicators are clear, measurable, and consistently tracked. It should follow through with properly measuring its organization-wide performance and tracking each performance indicator. Also, CALPIA needs to create a process that will allow its management to review the results of performance tracking and ensure that the results can be recreated at least annually.

CALPIA concurs that consistently tracking performance is important, but some of the assessments are inaccurate and based on a "point in time".

BSA has chosen to identify three (3) performance metrics out of approximately 50 that have been established for the organization and is attempting to come to an over arching conclusion based on this selective and narrow sampling. For instance, BSA uses the following example "establish real world performance and participation expectations for CALPIA staff and inmates" with the assertion that this is not measurable; it should be noted that this performance measure was taken from Goal 2 which has a total of 10 performance measures all of which Goals and Reports are tracked to specific outcomes. A "Real World Work Model" can and will be measured through successful outcomes of the inmates that participate

⑧

Response to the Assessments and Recommendations
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in CALPIA programs. As part of CALPIA's inmate assignment criteria, inmates will be required to "apply" for a position in CALPIA and will not be assigned on the current first come first serve basis. Requiring inmates to apply for position is consistent with "Real World" standards and it is measurable.

CALPIA established a goal of adopting ISO 9000 as the foundation of its statewide quality management system. In 2007, CALPIA completed its first phase of implementing ISO 9000 with the certification of the General Fabrication enterprise. This enterprise produces modular furniture known as Century Systems. Since 2007, the Modular Building Enterprise, Furniture Enterprise, CALPIA's Central Office (includes administration, operations, marketing/sales divisions) and the On-Time Delivery program have been certified. In addition, Phase 1 of the Fabric Enterprise certification began. The Fabric Enterprise, Knitting Mill Enterprise and Mattress Enterprise will complete the certification process by June 2011. CALPIA's plan is to have all Enterprises certified by December 2014.

3. **CALPIA should maintain the source documentation used in calculating the savings it brings to the State, as well as ensure that an adequate secondary review of its calculation is performed. It should also qualify its savings by stating that employment at CALPIA enterprise may be one of several factors that contributed to the lower recidivism of its inmates.**

CALPIA concurs.

CHAPTER 2 ASSESSMENTS:

1. **Declining inmate participation is the result of CALPIA's closing of enterprises due to economic concerns and other factors.**

CALPIA concurs with this assessment. CALPIA has been greatly affected by the economic downturn.

2. **CALPIA's lack of enterprise expansion has led to a significant decline in inmate participation rates.**

CALPIA does not concur with this assessment. To make the general statement that "lack of enterprise expansion has led to a significant decline in inmate participation rates" is an over-simplification of the situation. The BSA audit attempts to convey to the reader that CALPIA has done little or nothing to increase program opportunities. Specifically, the BSA audit infers that CALPIA has closed more programs than it has opened. This is simply untrue. When reviewing CALPIA programs, it is critical to look at the entire array of programs. CALPIA currently operates two different program categories, traditional CALPIA enterprises and Career Technical Education (CTE) programs (CALPIA vocational education). The BSA audit does not acknowledge all of the CTE programs.

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Response to the Assessments and Recommendations
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Given the CALPIA mission to rehabilitate inmates while they are incarcerated, it is inappropriate not to include all of the CTE programs started by CALPIA over the last 5 years. CALPIA currently operates 6 CTE programs throughout the state located at CIW, CIM, FSP (2 Programs), and CSP-SAC (2 Programs). These programs have proven to have a high impact on reducing recidivism, and provide service to inmates that should be included in CALPIA offender counts.

3. **CALPIA now documents its pricing decisions but could better demonstrate how product and service prices are determined.**

As stated in the audit CALPIA retained price analyses for the 25 items reviewed. CALPIA will continue to seek out reasonable and logical comparable market data when completing pricing analyses. As noted in conversations with BSA staff, retrieval of comparable data is often difficult to locate and judge usefulness and validity, however CALPIA continues to recognize the value of collecting and using this data sensibly in that it provides current insight into best value for our customers.

4. **Although CALPIA's prices are generally competitive, its customers can find lower prices for certain products.**

As stated in the audit, CALPIA products were priced lower in 6 out of 11 products and services evaluated, saving the State an estimated \$3.3 million annually for these selected products alone, not including further administrative costs incurred by individual customers' procurement processes. CALPIA will continue to strive to reduce costs and therefore prices, while retaining self-sufficiency and providing job skills to inmate employees.

5. **Overall, CALPIA is self-supporting.**

CALPIA concurs with this assessment. We are pleased that the BSA recognizes that CALPIA remains self-sufficient consistently with our statutory requirement, despite the global recession.

6. **CALPIA recently began including overhead costs when calculating enterprise self-support.**

The overhead costs have always been monitored and documented within the financial statements for CALPIA.

12

CHAPTER 2 RECOMMENDATIONS:

1. **CALPIA should continue to use its recently improved method of identifying new product ideas and the changing needs of state agencies.**

CALPIA concurs with this recommendation.

Response to the Assessments and Recommendations
Bureau of State Audits Report

2. When performing analysis to establish prices for its products, CALPIA should document the basis for each product or services profit margin and should also ensure that it always considers and documents market data when making pricing decisions.

CALPIA concurs with the BSA recommendation that it should continue to document associated costs, market data, prices and margins when completing pricing analyses. Consideration of specific market data should be based on sound business reasons and an explanation of how product and services final prices are determined should be included more systematically.

3. CALPIA should continue to ensure that its managers use the Estimated Profit Report on a regular basis to review the profitability of each enterprise and to make decisions on how to improve the profitability of those enterprises that are unprofitable.

⑬

CALPIA currently utilizes this report on a monthly basis. However, profitability is not the only factor in deciding whether an enterprise within CALPIA is viable or valuable to its overall mission.

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA PRISON INDUSTRY AUTHORITY

To provide clarity and perspective, we are commenting on the response to our audit from the California Prison Industry Authority (CALPIA). The numbers below correspond to the numbers we placed in the margins of CALPIA's response.

It is misleading, at best, for CALPIA to conclude the sole reason that parolees that worked for a CALPIA enterprise return to prison at a lower rate than parolees from the general prison population. As we state on pages 28 and 29, to reach such a conclusion, CALPIA has to control for all other possible factors that might have caused parolees not to return to prison. Unless CALPIA can control for all other possible factors, it needs to qualify the variance between recidivism rates for the two groups by stating that employment with CALPIA is only one of several factors that may have contributed to the lower recidivism rates.

①

CALPIA's comment regarding areas requiring further clarification and discussion is puzzling. We discussed the findings included in our report during a formal exit conference and during the five-day period when CALPIA was reviewing the draft report. We stand by the findings and conclusions contained in our report and believe they are clear and require no further discussion.

②

Because the CalParole Tracking System is under the jurisdiction of the California Department of Corrections and Rehabilitation (Corrections), we did not brief CALPIA on our findings related to it.

③

CALPIA is missing the point. We did not conclude that the inmate assignment guidelines do not align with the demographics of the institutions. Rather we concluded they were inconsistent. Specifically, the four institutions with inmate assignment guidelines had inconsistencies among them as described on page 22. Moreover, because it is making the effort to amend Corrections' operations manual to implement statewide guidelines, even CALPIA recognizes that inconsistencies exist.

④

Although CALPIA established a matrix to track its performance during fiscal year 2010–11, as noted on page 24, the matrix was not finalized until March 2011. Thus, for nine months of the fiscal year CALPIA was unable to formally track its performance.

⑤

- ⑥ We disagree with CALPIA's assertion that our methodology for calculating recidivism is flawed. As we state on pages 10, 11, 26, and 47 of the report, we analyzed Corrections' Offender Based Information System (OBIS) inmate movement data to calculate parolee recidivism rates. OBIS is the system used by Corrections to capture and maintain all adult offender information, including movement data, from the time offenders are committed to Corrections through the time of their discharge. Moreover, as we state on those same pages of the report, we utilized Corrections' Distributed Data Processing System (DDPS) to determine which parolees worked at a CALPIA enterprise for six consecutive months while they were imprisoned. DDPS is the system used by Corrections to track day-to-day inmate job assignments. Our analysis did result in higher recidivism rates than CALPIA's calculation of recidivism rates for inmates working in its enterprises during the three years we analyzed; however, our calculations confirmed CALPIA's assertion that inmates who work in CALPIA enterprises have lower recidivism rates than general population inmates.
- ⑦ CALPIA incorrectly concludes that we "confirmed an \$8.4 million dollar [sic] savings to California taxpayers in 08-09 FY alone." We did review CALPIA's calculations and confirm that it overstated the savings included in the CALPIA report to the Legislature for fiscal year 2008-09. However, as we note on pages 28 and 29, CALPIA claimed responsibility for this savings without acknowledging other factors that may have contributed to the lower recidivism rates.
- ⑧ CALPIA's inference that we reached our conclusions based on a sample of "three performance [indicators] out of approximately 50" is erroneous. To clarify, we identified 75 performance indicators in the tracking matrix that CALPIA provided us, not "approximately 50" as CALPIA indicates, of which we concluded 39 were either not measurable or appear vague. Rather than include our conclusions on all 75 performance indicators in the report, we included six examples to provide a balanced view of our conclusions. Specifically, on page 24 we describe three performance indicators that we believed were measurable and on pages 24 and 25 we describe three performance measures that are either not measurable or appear vague.
- ⑨ Despite our efforts to fully brief CALPIA, it misses the point of our analysis of changes in number of inmates employed at enterprises shown in Table 1 on page 35. Our audit does not infer that "CALPIA has closed more *programs* [emphasis added] that it has opened," rather we conclude that CALPIA has closed, deactivated, and reduced more *enterprise locations* than it has opened, reactivated, and expanded. CALPIA's enterprises attempt to earn a profit by selling goods and services, as opposed to a training or

certification program that may or may not be associated with an enterprise. Table 1 shows that CALPIA's actions have resulted in a net loss of 441 inmate positions at CALPIA enterprises since 2004, which is consistent with the decline of inmate employees shown in Figure 4 on page 33. Therefore, we stand by our conclusion that CALPIA's lack of enterprise expansion has led to a significant decline in inmate participation rates.

As a point of clarification, the career technical education (CTE) programs that CALPIA refers to were established under a contract with Corrections. According to CALPIA's latest report to the Legislature, \$5.4 million of the \$8.4 million cost for these programs between fiscal years 2008–09 and 2010–11 has been reimbursed. Because CALPIA is partially reimbursed to operate the CTE programs—rather than establishing an enterprise that will attempt to earn a profit by selling goods or services—we did not separately consider them in our analysis of changes in inmate positions at CALPIA enterprises. However, we recognize that certain of these CTE programs are included within existing CALPIA enterprises that we show in Table 1 on page 35.

⑩

Contrary to CALPIA's statement, we discuss the career technical education and certification programs on page 8. We also include the three locations that CALPIA offers CTE programs on the map of the 20 CALPIA locations shown in Figure 1 on page 6.

⑪

As noted on page 43, CALPIA informed us that, before January 2010, it allocated overhead costs on an as-needed basis only. As a result, it is difficult to understand how CALPIA can assert that it has always monitored its overhead costs. Moreover, although overhead costs are documented in CALPIA's year-end financial statements, it is important for CALPIA to routinely allocate overhead costs to its enterprises during the year to properly manage those enterprises that may be so unprofitable that they could jeopardize CALPIA's overall self-sufficiency.

⑫

We agree that “profitability is not the only factor in deciding whether an enterprise within CALPIA is viable or valuable to its overall mission.” However, because state law requires that CALPIA must be self-sufficient, CALPIA should be closely monitoring the finances of those unprofitable enterprises that it chooses to continue to operate.

⑬

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(Agency comments provided as text only.)

California Department of Corrections and Rehabilitation
P.O. Box 942883
Sacramento, CA 94283-0001

May 4, 2011

Ms. Elaine M. Howle, State Auditor*
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

The California Department of Corrections and Rehabilitation (CDCR) is submitting this letter in response to the Bureau of State Audits' report (BSA) entitled ***California Prison Industry Authority: It Can More Effectively Meet Its Goals of Maximizing Inmate Employment, Reducing Recidivism, and Remaining Self-Sufficient.***

BSA reviewed CDCR's CalParole database as a measurement of the California Prison Industry Authority's (PIA) impact on post-release inmate employability. However, the purpose of CalParole is to track and store critical parolee data for departmental staff and local law enforcement. It was never designed to collect and analyze post-release employment data to determine if PIA can more effectively meet its goals of maximizing inmate employment. As noted in the report, CalParole is set to be retired in May 2013. As such, it would not be fiscally prudent to undertake the noted modifications to CalParole as recommended by BSA. CDCR will continue with its efforts to formalize the Parole Performance Index reporting system which will greatly improve the integrity of the existing data, without incurring unnecessary expense. ①

In regards to the 645,000 CalParole records BSA reviewed, which included active, revoked, suspended, discharged and pre-parole offenders, we believe it is appropriate to see entries such as "TBD" (To Be Determined) or "TBA" (To Be Announced) in the Employment Field. These entries are often used in the pre-parole phase, which encompasses a period of up to 6 months prior to release. At the time of those entries, parole staff have no way of knowing if the parolee will be employed upon release or unemployed, as it has yet to be determined or announced. By classifying the 13,000 "TBD" and "TBA" entries as erroneous, the report showed the error rate for all records is 5 percent. We respectfully submit that these entries are in fact not errors, and the amended error rate is actually 3 percent. ②

We would like to thank BSA for their work on this report. If you should have any questions or concerns, please contact me at (916) 323-6001.

Sincerely,

(Signed by: Terri McDonald for)

SCOTT KERNAN
Undersecretary, Operations

* California State Auditor's comments appear on page 61.

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

To provide clarity and perspective, we are commenting on the response to our audit from the California Department of Corrections and Rehabilitation (Corrections). The numbers below correspond to the numbers we placed in the margins of Corrections' response.

Our recommendation is not for Corrections to modify the CalParole Tracking System (CalParole) but rather, as stated on page 29, that as Corrections prepares to move CalParole data into the Strategic Offender Management System (SOMS), it should modify the employment-related fields for parolees in SOMS to minimize the opportunity for erroneous data entries. We clarified the text on page 20 to more clearly parallel this recommendation.

①

Our conclusion for what constitutes valid entries into the employer data field of CalParole is based on Corrections' CalParole user guide and the parole agent's field book policy. As we state on page 18 of the report, the user guide indicates that employer names or the word "unemployed" are valid entries into the employer field. Additionally, the parole agent's field book policy states that "social security income" and "school" are also valid entries into the employer data field if the parolee is unemployed. However, neither of these sources indicates that *TBD* (to be determined) or *TBA* (to be announced) are valid entries into the employer data field of the CalParole Job file. Despite several requests, we were not provided with any other documentation providing guidance for acceptable entries into CalParole. If Corrections believes that *TBD* and *TBA* are indeed valid entries, it should update the CalParole user guide and parole agent's field book policy with this information.

②

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press