

oppaga Special Report

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PRIDE Benefits the State But Needs to Improve Transparency in Operations

at a glance

PRIDE programs enhance prison security and increase opportunities for inmates to find gainful employment upon release. However, PRIDE sales have fallen over the past five years, as has the number of inmates it employs. A number of factors contributed to this decline in sales, including reduced state spending, privatization, and private sector concerns about using products manufactured by inmate labor.

PRIDE's new structure provides cost savings, flexibility, and liability protection. However, PRIDE has done a poor job of explaining its corporate restructuring. As a result, concerns have arisen that have hurt PRIDE's business development.

PRIDE should incorporate greater detail in its contract to clarify its relationship with Industries Training Corporation, an affiliate, and develop a repayment schedule for the \$8.7 million it has loaned the company. To protect its resources, PRIDE should also increase internal risk assessment.

The Legislature should revise s. 946.504, *Florida Statutes*, to specify the state's interest in property transferred to, acquired by, and transferred by PRIDE and its associated corporations.

Scope

Pursuant to s. 11.511, *Florida Statutes*, the Director of OPPAGA initiated this project in response to a legislative request to conduct a review of Prison Rehabilitative Industries and Diversified Enterprises.

Background

The Legislature created Prison Rehabilitative Industries and Diversified Enterprises (PRIDE) in 1981 as a private, non-profit corporation to lease and manage the state prison industries program. Previously, the Department of Corrections operated the state's prison industries.

PRIDE's mission, as defined in s. 946.501, *Florida Statutes*, is to

- provide education, training, and post-release job placement to inmates to help reduce recidivism;
- enhance security by reducing inmate idleness and providing an incentive for good behavior in prison;
- reduce the cost of state government by operating enterprises primarily with inmate labor while not unreasonably competing with private enterprise; and
- rehabilitate inmates by duplicating, as nearly as possible, the activities of a profit-making enterprise.

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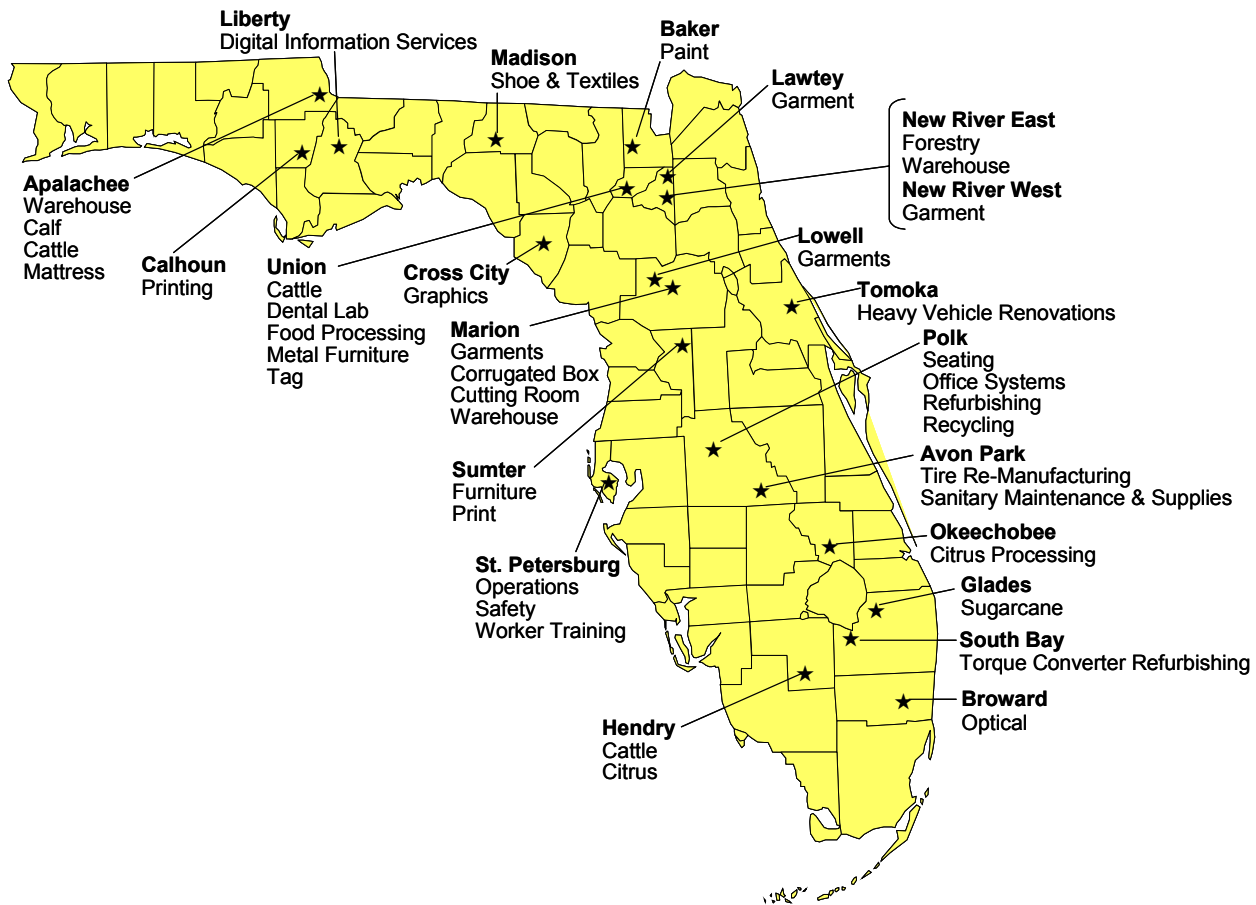
To help PRIDE meet its mission, the Legislature granted it certain privileges. PRIDE has sovereign immunity, which shields it from liability in the same manner as the state, and it is not required to pay unemployment compensation for inmate workers.¹ In addition, PRIDE is not subject to the authority of any state agency, except the auditing and investigatory powers of the Legislature and the Governor. Legislation also granted purchasing preference for PRIDE, meaning that state agencies must buy its products when they are of similar quality and price to those offered by outside vendors.

In Fiscal Year 2002-03, PRIDE provided 1,995 inmate work positions at 21 prisons throughout Florida and generated \$60.9 million in sales. PRIDE operated 38 industries, including raising dairy calves, building office furniture, and providing printing, binding, data entry, and document imaging services.² As shown in Exhibit 1, several correctional institutions have multiple industries located on their grounds. For example, Apalachee Correctional Institution has a mattress factory and a records warehouse, and inmates also raise dairy calves and beef cattle. Appendix A provides a complete listing and brief explanation of all PRIDE industries.

¹In most cases prisoners also are ineligible for workers' compensation.

²The required skill and educational levels vary across industries as well as by position, though most PRIDE jobs require at least a sixth-grade education. All industries provide job-specific training.

**Exhibit 1
PRIDE Operates Diverse Prison Industries Throughout Florida**



Source: PRIDE.

Findings

PRIDE benefits the state by providing vocational training for prison inmates. Its programs enhance security in correctional institutions and increase opportunities for inmates to find gainful employment upon release.

PRIDE faces challenges in seeking to increase the number of inmates it employs, as its sales have declined over the past five years. Federal limitations on the interstate sale of prison manufactured goods, lower state spending, and private sector concerns about using products manufactured by inmate labor present obstacles to PRIDE's growth. PRIDE is attempting to add and expand industries, but its efforts have had limited success.

PRIDE's new structure provides cost savings, flexibility, and liability protection. However, PRIDE needs to improve the transparency of its operations. PRIDE has not adequately maintained the distinction between itself and its related businesses. And, PRIDE has not provided sufficient information to the Legislature regarding its activities and restructuring, which has led to concerns about its operations. PRIDE needs to take steps to improve its accountability and transparency and to adopt standard operating procedures to limit legal risks. In addition, to protect state assets, the Legislature needs to clarify the state's interest in PRIDE property.

PRIDE benefits the state in several ways

PRIDE supports the state correctional system in several ways by reducing inmate idleness, providing incentives for good behavior, facilitating payment of restitution, and providing useful vocational skills to inmates that may help to reduce recidivism.

Reducing inmate idleness. One of the most effective tools for providing prison security is reducing inmate idleness. Occupying inmates in group activities focuses their attention on productive activities and makes it easier for correctional officers to supervise inmates.

In Fiscal Year 2002-03, PRIDE provided 1,955 inmate work positions at 21 prisons throughout Florida.

Providing incentives for good behavior. PRIDE work positions also help the department manage inmates by providing incentives for good behavior. PRIDE industry managers and prison officials assert that PRIDE jobs are highly coveted by inmates because they offer interesting work, paid compensation, and a work environment that is similar to outside employment. Prison officials indicated that because these positions are highly valued, the inmates assigned to prison industries tend to behave better while in prison in order to keep their jobs. The program also has a positive influence on the behavior of inmates who hope to acquire a PRIDE job in the future. Prisoners are not typically placed in program jobs unless they are free of disciplinary reports for six months prior to placement, and they are removed from the program if they receive disciplinary reports for any offense at any time on the facility grounds.

Facilitating inmate payment of restitution. PRIDE generally pays inmates between 20 cents and 55 cents per hour, depending on their skill level and length of service.³ In addition, for every \$1 an inmate earns, PRIDE pays 15 cents on behalf of inmates for victim restitution and transfers these payments to the department for distribution. In calendar year 2002, PRIDE paid \$231,162 in restitution to crime victims.

Providing vocational training. PRIDE enables inmates to gain vocational skills that can help their transition to the outside world and may help reduce recidivism. PRIDE industries provide two types of skills. First, it teaches basic work skills to inmates who may lack workplace experience. These skills include reporting for work, working as a team member, taking directions, and having their work reviewed. Second, it allows inmate workers to develop specific work skills such as operating and repairing complex machinery in various industries such as optical, dental and food

³ Some PRIDE operations are certified under the federal Prison Industry Enhancement (PIE) Certification Program, which requires that inmates be paid the prevailing wage for their work.

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quality laboratories. These skills may increase the likelihood of inmates obtaining meaningful employment after release. This vocational training is not affected by state budget shortfalls, as PRIDE does not receive general revenue to support its programs. In contrast, the department reduced its education and vocational program budget by 29.6% (\$8.3 million) for Fiscal Year 2003-04, which included cutting 42 of its 137 vocational education staff positions.

Exhibit 2 gives examples of the type of vocational training provided in PRIDE industries.

Exhibit 2 PRIDE Industries Provide a Variety of Vocational Skills

Inmates Receive Automotive Training and Certifications at Tomoka Correctional Institution



At the Tomoka Heavy Vehicle Renovation shop, inmates rebuild, refurbish and customize a variety of vehicles. These include emergency vehicles, trucks, and buses for public entities like transportation authorities and school districts. Inmates perform engine repair and body work, finish and detail exteriors, and upholster interiors. In addition, some inmates are trained to install electronics systems needed by emergency vehicles. Inmates who complete the training process can receive Automotive Service Excellence certification. Some inmates obtain higher levels of training and certifications. They assist in training new and less-skilled inmates. The shop can provide a high level of customization. For example, it can convert a truck without a bed into a modern emergency response vehicle. This level of customization generates return customers.

Inmates Learn Marketable Computer Skills At Liberty Digital



Global Digital Services has contracted with PRIDE for inmate labor on several projects. Inmates at Liberty Digital are trained in computer-aided drafting, digital image scanning, and data entry. The projects the inmates work on vary from contract to contract. At the time of the review team's visit, the biggest project was scanning and indexing crash reports for the Department of Highway Safety and Motor Vehicles. Many government agencies have an excess of records in need of storage and retrieval services, and scanning records for electronic storage helps to alleviate this problem. According to the industry managers, the majority of the competition for these services is outside of the United States. Because all information and materials going in and out of a correctional institution are subject to many controls, Global Digital claims that data handled by inmates is safer than data that goes outside of the U.S. Also, because Global Digital is a private business, it can use non-inmates to be more flexible to a customer's needs. For example, Global Digital has a contract with the Department of Corrections to scan and index medical records of released inmates. Current inmates are not permitted to see or handle these records, so that part of the work is done outside of the prison by non-inmate workers. The inmates do quality control on the files, to make sure that indexing numbers match up.

Source: OPPAGA, photo from PRIDE.

PRIDE's effect on recidivism cannot be confirmed. Reducing the likelihood that inmates will be recommitted to prison after release is one of PRIDE's statutory missions, and it reports that the recidivism rate among inmates who worked for its industries is lower than the average recidivism rate for all inmates. PRIDE reported a recidivism rate of 18.1% for inmate workers released during Fiscal Year 2000, which compares favorably to the Department of Corrections reported recidivism rate of 33.8% for

all inmates released since 1993.⁴ PRIDE officials also cite anecdotal evidence of the program's effects by providing examples of inmates who had achieved success after imprisonment and who gave credit for that success to their PRIDE experiences.

However, PRIDE's analysis does not take into account the fact that it uses inmates who are typically less likely to return to prison even before they begin work for the program. PRIDE workers tend to be older, to have been incarcerated longer, to be more likely to be white, and to be more educated; all of these factors are associated with lower recidivism rates according to department and other research. Our statistical analysis of PRIDE's impact on recidivism found no net impact once these factors were held constant. (Appendix C provides a more detailed explanation of our methodology.) However, we were unable to analyze the impact of other factors, such as post-release placement support, family ties and work experience, which may also affect recidivism; PRIDE's statistical data also does not account for these factors. In order to provide the Legislature with accurate information, PRIDE should collect additional data and conduct an in-depth analysis of the effect of the work program on recidivism including those inmates that would most benefit from PRIDE work experience.

To serve more inmates, PRIDE must increase sales

The percentage of Florida inmates working for PRIDE has decreased over time. Although PRIDE produces benefits to the state, the number of inmates that it employs has decreased in recent years, even though the prison population in Florida has substantially increased. The number of PRIDE workstations

has declined 33% since 1994. In contrast, the Florida's prison population has increased substantially due to several factors, including state population growth, new mandatory sentencing, and the implementation of the Florida's Truth-in-Sentencing law.⁵ As a result of a reduction in some business operations and the increase in prison population, the percentage of inmates working for PRIDE has fallen substantially, from 6% in 1985 to 2.7% in 2002. See Exhibit 3.⁶

Exhibit 3 PRIDE Workstations Have Decreased Although the Inmate Population Has Increased

Year	Total Inmate Population ¹	Number of PRIDE Workstations ²	Proportion of Workstations to Inmates
1985	28,310	1,701	6.0%
1986	29,712	1,931	6.5%
1987	32,764	2,194	6.7%
1988	33,681	2,516	7.5%
1989	38,059	2,661	7.0%
1990	42,733	2,887	6.8%
1991	46,233	2,437	5.3%
1992	47,012	2,397	5.1%
1993	50,603	2,663	5.3%
1994	56,052	2,934	5.2%
1995	61,992	2,844	4.6%
1996	64,333	2,605	4.0%
1997	64,713	2,487	3.8%
1998	66,280	2,534	3.8%
1999	68,599	2,659	3.9%
2000	71,233	2,478	3.5%
2001	72,007	1,953	2.7%
2002	73,553	1,955	2.7%

¹ Not every inmate is eligible to work in PRIDE industries. Mental or physical illness, lack of skills, and disciplinary problems exclude some inmates from eligibility.

² The number of prisoners who actually work in a year is greater than the number of work stations; because of turnover, more than one inmate may use a workstation during the course of a year.

Source: Florida Corrections Commission; Bureau of Research and Data Analysis, Department of Corrections; PRIDE.

⁴ The Florida Department of Corrections defines the standard recidivism rate as the percentage of inmates who, within two years of release from prison, commit any crime that leads to another term of incarceration or community supervision with the department. Technical violations are not included. PRIDE uses the same definition.

⁵ Truth-In-Sentencing legislation (s. 944.275, *F.S.*) requires that every person sentenced to prison in Florida who committed his or her crime on or after October 1, 1995, serve a minimum of 85% of his or her sentence.

⁶ Fiscal Year 1985 (July 1, 1984-June 30, 1985) was the first full year of operation for PRIDE.

A number of factors impede PRIDE's ability to increase sales

The number of inmates PRIDE can put to work depends on the revenues generated by sales. PRIDE officials estimated that it takes sales of \$30,000 to support each workstation. Over the last five years, PRIDE sales have fallen by 25%, as shown in Exhibit 4.

Exhibit 4 PRIDE Sales Have Declined Over the Last Five Years

Year	Net Sales
1998	\$81,220,930
1999	78,280,577
2000	63,966,206
2001	62,093,958
2002	60,930,006

Source: PRIDE.

Several factors have contributed to this decline in sales, including federal limitations on the interstate sale of goods manufactured by prisoners, general economic conditions and reduced state spending, state agency resistance to using PRIDE products and services, and private sector concerns about using products manufactured by inmate labor. While PRIDE has taken several steps in recent years to increase sales, its efforts have had limited success.

Federal law limits PRIDE sales. Since 1940, federal law has prohibited the interstate transportation of prison-manufactured goods.⁷ Despite this limitation, PRIDE has been able to expand its out-of-state markets through a limited number of foreign contracts to which federal limitations do not apply, such as producing eyeglasses for a client in Puerto Rico. PRIDE also has developed some service industries, such as data entry, vehicle renovation, and calf-raising, which are exempt from the law.

⁷ In 1940, Congress enacted the Summers-Ashurst Act banning the interstate transportation of prison manufactured goods. The provisions of the law can be found in 18 U.S. C. 1761. The law applies to manufactured goods only. Services are not banned by the act. For example, data entry and repairing transmission parts are considered services not manufacturing and can be sold interstate. However, bills extending the ban to include services have been introduced in Congress.

Nonetheless, the federal law substantially restricts PRIDE's potential markets.

Loss of sales to state agencies. State agency purchases, which used to comprise the majority of PRIDE sales, have been falling. State agency purchases provided 83% of PRIDE sales in 1995, but were down to 55% in 2002. One reason for this reduction has been the general downturn in the economy. For example, due to reduced budgets, agencies are holding off on purchases such as office furniture. Privatization also has had an effect. When the Department of Corrections privatized its food services operations, the new vendor did not continue the department's previous contract with PRIDE because the program lacked the capacity to produce, warehouse, and deliver the quantity of goods that the private contractor desired. The loss of this contract resulted in a loss of \$5.6 million in revenues to PRIDE.

In addition, some agencies have shifted purchases from PRIDE to other sources. Department of Management Services officials who monitor state purchasing cited several reasons for this shift, including agency complaints about delivery times and quality of PRIDE goods and a belief by agencies that they could obtain lower prices or higher quality products from other sources. Although agencies are required by law to purchase items from PRIDE when they are of similar quality and price to those offered by outside vendors, Department of Management Services officials report that this statutory preference has generated resentment and that some agencies do not comply with this requirement.

PRIDE has taken some steps to address state agency concerns by contacting agency purchasing units and refocusing on product quality and customer service to win back state agency business.⁸ PRIDE also is developing new services, such as digital imaging of documents,

⁸ In 2002, PRIDE changed its structure to create strategic business units combining similar businesses in to sales groups. Previously, PRIDE's industries were grouped by regions, which placed disparate industries together. The realignment of these business units appears to be beneficial for PRIDE. Now each group has a sales force attached to its business. This increases accountability by tying sales and production.

to increase its appeal to state agencies.⁹ To increase its state business, it will be important for PRIDE to work with agency purchasing officers to identify goods and services that it can provide that will produce real value and cost savings to the agencies. For example, PRIDE has extensive printing operations that may allow agencies to outsource printing functions.

Section 946.515(2), *Florida Statutes*, provides a preference within state purchasing processes for PRIDE products and services that meet quality and price standards. Agencies may buy from a vendor other than PRIDE based on determinations of need, price and quality. The Department of Management Services no longer requires agencies to submit these determinations to DMS, but to keep them on file. Therefore, the application of the statutory provision for a preference for PRIDE products and services is essentially within the discretion of individual agencies. While it would not be cost-effective to re-establish a statewide review of these decisions, we do believe that PRIDE should provide state-level decision-makers with information on variations in the level of sales to each state agency.

Selling to the private sector has been difficult. PRIDE's efforts to develop private sector markets to supplement the declining state agency market have been hindered by two factors. First, private companies and industries are often reluctant to accept goods produced by inmates. These companies appear to fear a negative public reaction to the perception that a company uses goods produced by prison labor, which may be presumed to be forced labor. For example, corporations such as Coca-Cola and Wal-Mart have policies against using goods produced by forced or prison labor.¹⁰

⁹ We also note that PRIDE has focused on broadening its customer base to include local governments, school districts and universities. It introduced new lines of dormitory furniture to sell to universities. In addition, the majority of vehicles refurbished at the Tomoka plant in Exhibit 2 come from local governments, transit systems, and school districts.

¹⁰ Prison labor in the United States is "forced labor" in the sense that inmates are required to work during their incarceration. The term "forced labor" has many connotations that do not apply within the modern context of corrections in Florida, and specifically to Florida's prison industries program, which is operated on a free enterprise model in which the work environment largely simulates the work environment of a private company outside of prison.

Second, PRIDE's efforts to expand operations into new industries are sometimes resisted by private companies that assert that PRIDE has an unfair competitive advantage due to the low wages it pays inmates. However, PRIDE does not have the capacity to corner the market in its businesses and PRIDE's statutory mission prohibits unreasonable competition with private enterprise.

One state, South Carolina, has enlisted its economic development office to promote its prison industries with some success. The South Carolina Department of Commerce has toured the state's prison industries to gain an understanding of its capabilities. The commerce department seeks to identify opportunities by which the prison industries can aid a business. For example, the commerce department may help broker an arrangement in which a business that might otherwise move to Mexico to reduce packaging costs may instead use the prison industry. Such an arrangement would benefit the state, as the business would remain in South Carolina and its workers would retain their jobs, as well as the prison industry which would have more work for the inmates.

PRIDE would benefit by working to establish similar working agreements with Enterprise Florida, the public/private partnership that provides business recruitment services in Florida. PRIDE offers a reasonably stable and cost-effective workforce for industries that require labor intensive work. PRIDE officials have attempted to interest Enterprise Florida in PRIDE operations in the past, but without success. PRIDE and Enterprise Florida need to work together to reach out to the private sector, establish referrals for business, and contract or subcontract for work in order to expand sales and inmate work opportunities. Thus, if PRIDE had orders it could not fill, the work could be referred out to the private sector. Similarly, if private sector companies had excess orders, PRIDE could subcontract to do the work. In either instance, PRIDE would establish a working relationship that could result in opportunities for PRIDE inmate workers after their release.

Structural changes benefit PRIDE

In 1999, PRIDE began revising its corporate structure to create new related for-profit and non-profit corporations. This corporate structure has produced several benefits for PRIDE.

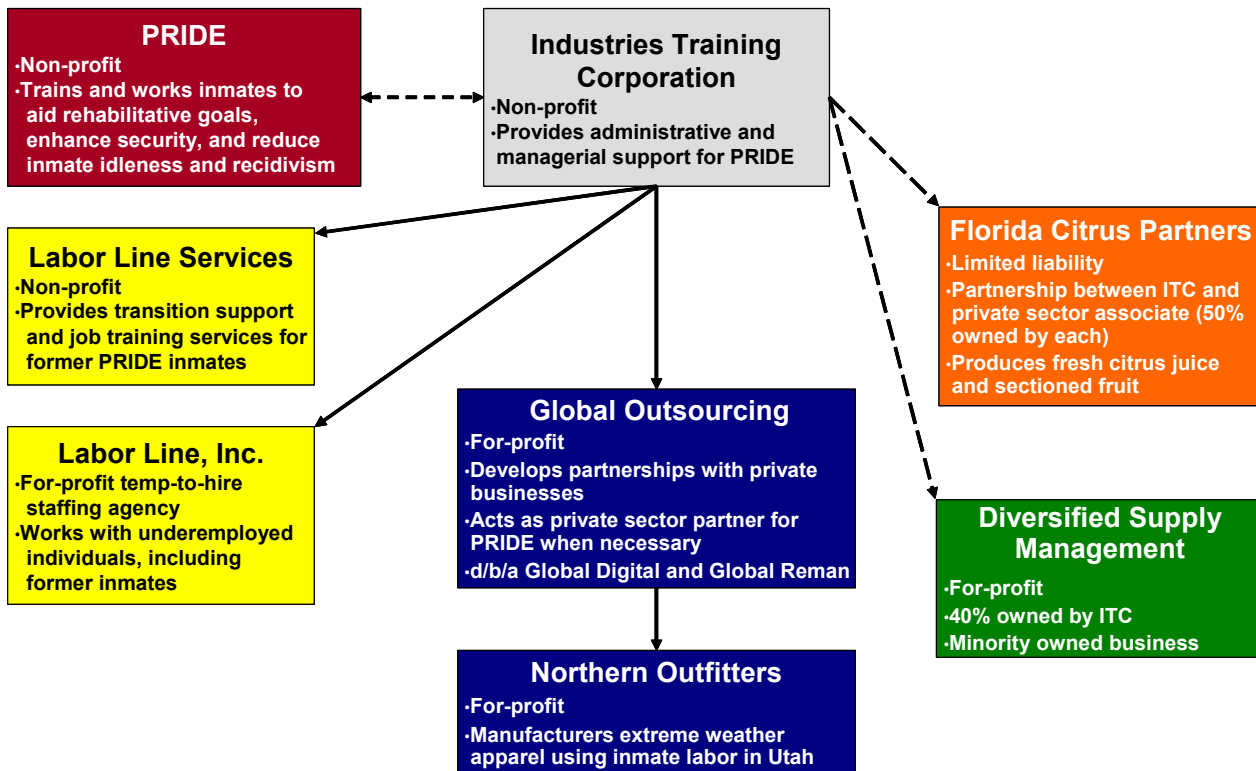
PRIDE has created new related for-profit and non-profit corporations. In its early years, PRIDE provided a number of inmate services including prison work, training, and assistance in finding post-release housing and employment.¹¹ In 1999, with the assistance of a business consultant, PRIDE developed a new structure that spun off some of these services to new entities. PRIDE created Industries Training

¹¹ PRIDE created Renewed for Industries, Services, and Employment, Inc. (RISE), a corporation to help with inmate placement, in 1996. RISE subsequently became Labor Line Services.

Corporation (ITC), a non-profit corporation, to manage its prison work programs and provide administrative and managerial support services. ITC in turn created Labor Line Services; Labor Line, Inc.; and Global Outsourcing, and formed private partnerships to create Florida Citrus Partners and Diversified Supply Management. Exhibit 5 illustrates the corporate structure of PRIDE and related parties. See Appendix B for a detailed description of these related entities.

PRIDE's new structure provides cost savings, flexibility, and liability protection. PRIDE's new corporate structure has produced cost savings. PRIDE and each of the other related corporations contract with ITC for administrative services and each is assessed a pro rata share of these costs. This centralization of personnel, accounting, data entry, and IT functions allows PRIDE and the new corporations to distribute the costs of these services.

Exhibit 5
PRIDE's Corporate Structure Is Complex



Source: Developed by OPPAGA analysts based on information provided by PRIDE.

The creation of Global Outsourcing also gives PRIDE additional options. One of the intentions behind the formation of Global was to provide an insulating layer for businesses which may be interested in working with a prison industry, but have concerns about public reaction as discussed above. Allowing potential partners and customers to interact with Global, which in turn subcontracts with PRIDE, insulates the partners and customers from consumer concerns about using prison labor.¹² Because Global is a relatively new corporation, there is no current data to confirm whether this approach has worked.

Global also has the ability to act as a PRIDE partner in Federal Prison Industries Enhancement (PIE) program. Previously, many of the business ideas and ventures considered by PRIDE were not feasible due to the lack of a for-profit partner that could establish or sustain a PIE. Federal regulations, enacted in 1979, require PIE industries to have a for-profit partner and to pay prevailing wages. The formation of Global may benefit PRIDE in one of PRIDE's industries from which the private partner withdrew. Global Outsourcing may be able to replace the withdrawing partner and serve as the for-profit partner in that venture. If Global was not available to do so, the business which provides work opportunities for more than 100 inmates would be forced to severely cut back or close. PRIDE reports 10 active PIE programs which employ 249 inmates.¹³

The new corporate structure limits PRIDE liability. For example, ITC may enter a lease for equipment or property. If a dispute arises over the lease, ITC will litigate the claim and pay any judgment; PRIDE will not. Global also contracts for production of certain goods. If a dispute arises, it is Global which may be held liable, not PRIDE. The existence of these corporations and

the grant of sovereign immunity to PRIDE help protect PRIDE's assets.¹⁴

The new structure also protects PRIDE's non-profit status. The Internal Revenue Code limits the amount of income PRIDE can produce from business activities that are not directly related to its main charitable purposes because PRIDE is a non-profit corporation. This type of income is called unrelated business income. If PRIDE generates too much unrelated business income, it could lose its non-profit status, or incur increased taxes. PRIDE has used a generally accepted business practice by creating a related company that will allow it to generate unrelated business income, maintain its non-profit status, and avoid tax problems.¹⁵ For example, one of the for-profit entities created when PRIDE moved to the new structure is Labor Line, Inc., which generates income by providing temporary employment to hard-to-place individuals, such as low income or under-employed persons. While the company on occasion places former inmates, it is not integrated into PRIDE's other placement efforts, and is, therefore, not part of PRIDE's charitable mission.¹⁶ The income generated by Labor Line, Inc., could be classified as unrelated business income by the IRS. By creating Labor Line, Inc., as a for-profit entity, PRIDE officials have created a corporate structure that enhances the services that PRIDE previously sought to provide and produces income while preserving its non-profit status.

PRIDE needs to improve the transparency of its operations

While the new corporate structure produces benefits, it also has created accountability concerns. Many of PRIDE's board members also sit on the boards of the new corporations, and PRIDE has made millions of dollars of loans to

¹² Some companies have express policies against using goods produced by prison labor, which is typically equated with "forced labor." Even though modern prison industries are unlike historical images of forced labor, some companies want to avoid public relations concerns that may arise in response to reports that the company is using prison labor.

¹³ The 249 inmates include full-time, part-time, and one-time workers. Nationwide, PIE programs account for approximately 3,800 prison industry workers out of 65,000 total state prison workers.

¹⁴ Although ITC was created by PRIDE neither it nor its related corporations enjoy the protection of sovereign immunity.

¹⁵ See *Guidebook for Directors of Nonprofit Corporations*, 2nd edition, American Bar Association (2002)

¹⁶ PRIDE recognizes that inmates are difficult to place. The hope is that Labor Line can establish a working relationship with employers through referrals of other hard to place individuals in order to build goodwill and trust. Once a relationship is established Labor Line, Inc., would be able to approach the employer about employing former inmates.

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these corporations. PRIDE has failed to adequately explain these actions and its structural changes to the Legislature in its annual reports or to answer questions posed by the Corrections Commission about its new structure.

PRIDE has failed to adequately maintain the distinction between itself and its related businesses. The relationship between PRIDE, ITC and the other corporations is intertwined and difficult to separate. For example, PRIDE and ITC have some common managers, common board members, and use the same offices.¹⁷ The phones are answered, "ITC/PRIDE." PRIDE paid ITC \$6 million in 2002 and \$9 million in 2001 for administrative services. These services have not been placed out for bid on a regular basis to determine if another contractor could provide PRIDE with the same services at a lower cost.

PRIDE also made substantial financial contributions, both in direct contributions and loans, to the startup of ITC and the other new corporations. As of December 31, 2002, the corporations owed PRIDE approximately \$9.7 million. According to PRIDE officials the debt has been reduced to \$8.7 million as of December 1, 2003. PRIDE has not established the terms for repayment of these loans.

The relationship between PRIDE and the new entities needs to be defined in more detail in their contract. The bylaws of ITC provide that PRIDE would in essence inherit ITC's assets in the event of ITC's closure. However, a future ITC board could change its bylaws, sever its relationship with PRIDE, and sell or otherwise dispose of the assets it received from PRIDE. For example, PRIDE gave a cold storage facility in Jacksonville to ITC that was valued at \$2.5 million. If ITC decided to change its operations, PRIDE would have no recourse to regain the value of that asset. Further, PRIDE has not established a contract governing the terms of repayment for loans it has made to ITC, as discussed above.

Confusion over the relationship of PRIDE and ITC created adverse consequences in a recent business dealing. In 2000, ITC entered into a contractual relationship with a private business involving property in the Jacksonville area, but included PRIDE's name in the legal documents. When a dispute arose over that contract, there was confusion over whether the dispute was with the privately held Industries Training Corporation, or with PRIDE, a company which enjoys sovereign immunity from certain legal actions. PRIDE and ITC have received favorable rulings in the case, but only after extended and expensive litigation.

PRIDE has not provided sufficient information to the Legislature, the Governor, and the public. Given the complex nature of PRIDE's new corporate structure, it is important that it clearly communicate with key stakeholders to address potential accountability concerns. However, PRIDE has not taken these steps and has instead provided only incomplete information about its operations; this lack of transparency has been aggravated by its refusal to respond to questions by the Corrections Commission.

PRIDE's required annual report on its operations has been incomplete. Section 946.516, *Florida Statutes*, directs PRIDE to report annually to the Governor and Legislature on the status of corrections work programs, including

- proposed use of profits from such programs;
- amount of non-inmate labor;
- work subcontracted to other vendors;
- use of consultants;
- finished goods purchased for resale; and
- number of inmates working in the correctional work program at the time of the report.

The PRIDE annual reports have not met these requirements. The reports provide only cursory information about the evolving structure of PRIDE, often referring to ITC and the other corporations as "related parties" without further identification or explanation. The reports offer only limited information concerning the other statutory requirements. For example, PRIDE's annual reports do not provide information about the proposed use of profits from the individual

¹⁷ All of the current ITC board members are either current or former board members of PRIDE.

programs, the amount of work subcontracted to ITC and Labor Line Services, Inc., and the amount of finished goods purchased for resale. The reports also fail to communicate the financial and performance information needed to effectively evaluate the program. For example, where statistics are provided in the reports, they are often provided without needed context. The 2002 annual report provides eight charts on various sales, training, and expenditures but provides no explanatory text relating to the charts.

Finally, the language of the annual reports often does not provide needed supporting details. As illustrated in Exhibit 6, the 2002 annual report noted that PRIDE had advanced funds to “certain related parties,” but did not disclose who the recipients were, why they would not benefit from the funding, why PRIDE assumed the cost of the initiatives, and why over \$5 million was forgiven from the related parties. The annual reports also did not disclose the waiver of a conflict of interest signed by its CEO. The CEO of PRIDE, who also serves as the president of ITC, is a private shareholder of Diversified Supply Management, a minority owned business that is partly owned by ITC. While PRIDE waived conflict of interest rules for this situation, it should have disclosed the situation in its annual report.

Exhibit 6 PRIDE Annual Reports Fail to Clearly Communicate Information

Excerpt from 2002 PRIDE Annual Report

In prior years and during the year ended December 31, 2002, PRIDE advanced funds to certain related parties, including ITC, for the funding of certain specific initiatives. During 2002, the parties concluded that the recipients of this initial funding would not benefit from these initiatives as PRIDE had assumed responsibility for administering them. As a result, it was agreed among the parties that PRIDE would assume the initial and certain operational costs of these initiatives. Management identified these initiatives, isolated such costs and adjusted the amount due from the appropriate related party. Accordingly, the amount due from these related parties has been reduced by \$5,279,190.

Source: 2002 PRIDE annual report.

PRIDE should revise its annual report format to be clear about its corporate structure and financial operations, and include all statutorily required information. In addition, as ITC and its related companies are intertwined with and indebted to PRIDE, the reports should include information on those companies as well, including the amount and status of loans and the nature and rationale for gifts.

The annual report also should describe the costs the state incurs to support PRIDE. For example, PRIDE has incurred liability when prisoners or others were injured and filed claims and lawsuits against the state. (Sovereign immunity laws allow claims under limited circumstances.) In some instances the state has paid those settlements; fortunately, most of these suits were settled for modest amounts. In 2001-02, the Division of Risk Management reported that the state paid 12 liability claims related to PRIDE for a total of \$128,888. Similarly, the state pays the medical bills of inmates injured on the job. While it does not appear that PRIDE has any endemic inmate safety problems, there have been a few major accidents, including an inmate who lost a portion of a leg and several who have lost fingers. According to company officials, PRIDE pays the state approximately \$110,000 a year for this coverage. The Legislature cannot adequately assess the financial costs of PRIDE to the state without this information. PRIDE should work with state agencies to determine the cost to the state of claims and injuries filed against PRIDE and paid by the state, and these costs should be included in any report provided to the Legislature and the Governor.¹⁸

Refusal to respond to certain Corrections Commission inquiries led to criticism of PRIDE.

In 2002, the Florida Corrections Commission requested information on PRIDE for its annual review of matters pertaining to corrections. After providing initial information disclosing the existence of ITC and its related corporations, PRIDE refused to provide additional financial information that was requested, challenging the authority of the commission to review

¹⁸ The annual report has a section on pending suits, but it is insufficient to provide the information needed to the state. Even if the annual report provided greater detail, it would be limited to cost borne by PRIDE not by the state.

PRIDE.^{19, 20} As a result, the commission's 2002 annual report described PRIDE's unwillingness to explain the interrelationship between the corporations, questioned whether conflicts of interest exist, and recommended a review by the Auditor General and/or OPPAGA. PRIDE needs to recognize that as a state-created entity it has a fundamental responsibility to provide accountability information on its operations, including those conducted by closely related corporations.

PRIDE needs to address management issues

PRIDE needs to increase internal risk assessment. PRIDE lacks adequate standard operating review procedures to limit legal risks. Several cases have arisen as a result of a lack of standard operating procedures or because employees had excess authority. For example, a former PRIDE manager changed the terms of a lease agreement without the knowledge of PRIDE's general counsel and removed terms in the agreement that protected PRIDE in the case of a default on the lease. This embroiled PRIDE and ITC in extended litigation. In another case, a former employee overstated PRIDE's ability to meet supply demands on a food service agreement, causing the loss of a multi-million dollar contract. In a third instance, a former employee signed an indemnity agreement in a contract and failed to inform PRIDE that it lacked insurance on rental vehicles. PRIDE terminated these employees after these problems arose. However, to avoid further costly mistakes which may lead to litigation, PRIDE should develop a process for reviewing internal operating procedures, potential ventures, and outside partnerships. A more systematic approach to evaluating these opportunities will make PRIDE financially stronger and preserve its resources.

¹⁹ PRIDE officials argued that the Florida Corrections Commission, another board of the executive branch, lacked the authority to review PRIDE. However, we note under s. 946.517, *F.S.*, PRIDE is subject to the oversight and auditing function of the Governor.

²⁰ The Corrections Commission's 2002 annual report is available online at <http://www.fcc.state.fl.us/fcc/reports/02Chapter3R.pdf>.

PRIDE's relationship with Department of Corrections management is strained. At the institutional and operational level, PRIDE employees and prison officials work well together. Problems which arise are usually resolved amicably, and the two work cooperatively to resolve security and other issues. However, the working relationship between PRIDE and the department's upper management is strained at best. PRIDE managers express resentment that while the Secretary of the Department of Corrections is a member of its board, the current and prior secretaries have infrequently attended PRIDE's board meetings. This resentment has impeded the development of a working relationship between PRIDE and department management. PRIDE's expectation that the Secretary of the department will attend all of its quarterly board meetings is unreasonable. The Secretary's responsibilities include oversight of 121 institutions and facilities serving nearly 80,000 inmates. While PRIDE provides valuable services, it serves less than 2,000 of these inmates. Consistent participation of a Secretary's designee should appropriately address this issue.

State property interests in PRIDE assets need to be clarified

The law determining the interest of Florida in PRIDE assets is not clear. Florida law provides the state with an interest in property that was transferred to PRIDE at the time of its creation, as well as some property acquired by PRIDE after that time. However, the law is unclear as to whether, if PRIDE sells or disposes of that property, the state's interest follows the proceeds of the sale into other property. Although PRIDE's corporate documents require PRIDE properties to be returned to the state at the corporation's closure, the law does not require this transfer. It may be in the state's best interest to codify this requirement. Should PRIDE fail, the state would have access to the equipment and assets that would allow it to continue the work program. In addition, some property which was donated to PRIDE was subsequently transferred to ITC. Current law

does not speak to what the state's interest is in this type of property.

For example, bank loan documents of PRIDE demonstrate the lack of clarity in the law concerning PRIDE's assets. At least one document suggests that the state will assume both PRIDE's assets and liabilities should PRIDE fail. Neither statutes nor PRIDE's corporate documents provide for the assumption by the state of PRIDE liabilities. Nor can PRIDE act to bind the state to its liabilities.

The statute should be clarified to ensure that state interests are clearly defined, with an understanding that PRIDE often uses assets as collateral for capital loans.

Conclusions and Recommendations ———

PRIDE's programs enhance prison security and increase opportunities for inmates to find gainful employment upon release. However, PRIDE sales have fallen over the past five years, as has the number of inmates it employs. A number of factors contributed to this decline in sales, including reduced state spending, privatization, and private sector concerns about using products manufactured by inmate labor. To enhance business with state agencies and the private sector, we recommend that PRIDE take the actions described below.

- Work with state agency and local government purchasing officers to identify goods and services that PRIDE can produce that will provide value and cost savings to the agencies and refine customer service and quality control to remedy customer complaints. PRIDE should establish an advisory group of agency and local government purchasing officials to aid in this effort.
- Work with Enterprise Florida to identify ways that PRIDE's programs could be used to enhance the attractiveness of the state to business and increase PRIDE sales.

PRIDE's new structure provides cost savings, flexibility, and liability protection. However, PRIDE has done a poor job of explaining its corporate restructuring to the Legislature and the public. As a result, concerns have arisen that have hurt PRIDE's business development. To address this problem and bolster its business, we recommend that PRIDE implement the steps described below.

- Enhance its annual reports to the Legislature to include a descriptive organizational chart of PRIDE; all statutorily required information; the state costs for claims and injuries filed against PRIDE; and information on related companies as long as they are intertwined with and indebted to PRIDE, including the amount and status of loans, the nature and rationale for gifts and other pertinent information.
- Include comparative information about the level of PRIDE sales to each state agency so that decision-makers can use that information to guide state purchasing policies and practices.
- Conduct a detailed analysis of the effect of inmate participation in the program on recidivism rates, taking into account factors such as post-release placement support, family ties, and work experience which can affect recidivism. This analysis should be communicated to the Legislature as a part of the annual report and would help PRIDE identify particular categories of inmates who best benefit from its programs.

PRIDE should take the steps below to strengthen its business management.

- Formalize its relationship with ITC by establishing a contract between PRIDE and ITC that clarifies PRIDE's interests in assets owned by ITC and a repayment schedule for the \$8.7 million in existing loans.
- Develop and apply corporate policies to assess the risk of new ventures and establish a review function, such as internal audit, to ensure that standard operating procedures exist and are followed to protect PRIDE resources.

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Florida statutes provide the state an interest in property that was transferred to PRIDE at the time of its creation and any subsequently constructed or otherwise acquired facilities. However, the law does not specifically state that all of the corporation's assets would revert to the state if the corporation were to be terminated or dissolved. Since the Industries Training Corporation now presents an alternative party to claim ownership of these assets, we recommend that the Legislature address this issue by taking the action below.

- Revise s. 946.505, *Florida Statutes*, to provide for the reversion to the state of all assets owned by or due to PRIDE in the event that PRIDE should terminate or dissolve.

Agency Response————

In accordance with the provisions of s. 11.51, *Florida Statutes*, a draft of our report was submitted to the Executive Director of PRIDE Enterprises, Inc., for review and response. The Executive Director's response has been reproduced in its entirety in Appendix D on page 20.

Appendix A

PRIDE Operates Industries in 21 Correctional Institutions

PRIDE operates industries in 21 correctional institutions. The number of inmates assigned to each industry varies, depending on how labor intensive the work is. For example, sectioning citrus fruit is very labor intensive, and more than 100 inmates work in the citrus operation at Okeechobee Correctional Institution. Beef cattle require minimal supervision, so only a few inmates are assigned to monitor the beef cattle at Apalachee and Hendry correctional institutions.

Table A-1
List of PRIDE Industries, by Industry Type, as of October 2003

Agriculture			
Location	Operation	Brief Description	Inmates Assigned
Apalachee CI	Dairy calf management	Inmates care for privately owned dairy calves to reduce mortality.	17
Apalachee CI	Beef cattle	Inmates raise privately owned beef cattle.	4
Glades WC	Sugarcane	Inmates plant, maintain, and harvest sugar cane, which is sold to U.S. Sugar.	31
Hendry CI	Citrus	Inmates maintain and harvest citrus groves.	55
Hendry WC	Beef cattle	Inmates raise privately owned beef cattle.	6
New River East	Forestry	Inmates process raw lumber, treat wood, and construct products such as picnic tables and shelters for state parks.	76
Okeechobee CI	Citrus	Inmates process fruit juice and sections for sale by private company.	109
Union CI	Food processing	Inmates process frozen meat products for distribution.	70
Union CI	Dairy cattle	Inmates care for privately owned dairy heifers.	11
Furniture			
Location	Operation	Brief Description	Inmates Assigned
New River East	Warehouse	Inmates receive, store, and ship stocked materials to other industries.	3
Polk CI	Office Systems	Inmates design and manufacture modular office furniture.	32
Polk CI	Refurbishing	Inmates restore used furniture.	12
Polk CI	Seating	Inmates manufacture wood and metal office seating.	71 ¹
Polk CI	Computer Recycling	Inmates dismantle computers for recycling.	8
Sumter CI	Wood furniture	Inmates design and construct wood office furniture.	58
Union CI	Metal furniture	Inmates manufacture metal furniture construction.	96
Graphics			
Location	Operation	Brief Description	Inmates Assigned
Apalachee CI	Warehouse	Inmates maintain and retrieve vehicle registration records for DHSMV; work on projects for private businesses as time permits.	20
Calhoun CI	Printing	Inmates operate full-service paper print shop.	139
Cross City CI	Graphics	Inmates manufacture identification products and signs, including decals, ring binders, signs, and other similar products.	129
Liberty CI	Digital services	Inmates scan records in for electronic storage. Also, inmates do computer aided drafting, data entry, and computer maintenance.	71
Sumter CI	Printing	Inmates operate full-service paper print shop.	80

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Services			
Location	Operation	Brief Description	Inmates Assigned
Avon Park CI and WC	Tire remanufacturing	Inmates retread truck tires.	59
Baker WC	Paint factory	Inmates produce traffic striping paint.	8
Broward CI	Optical lab	Inmates assemble prescription eyeglasses, largely for Medicaid patients and DOC inmates, as well as private insurance companies.	38
Marion CI	Box factory	Inmates produce custom corrugated boxes.	31
South Bay CI	Torque converter remanufacturing	Inmates remanufacture torque converters for resale.	31
Tomoka CI	Vehicle refurbishing	Inmates refurbish emergency vehicles, trucks, cars, and specialty vehicles.	75
Union CI	Dental lab	Inmates construct dental work such as dentures and crowns.	45
Union CI	Tag plant	Inmates make license tags, including motorcycle and specialty tags.	99

Textile			
Location	Operation	Brief Description	Inmates Assigned
Apalachee CI	Mattress factory	Inmates make mattresses and pillows, mostly for correctional agencies.	20
Lawtley CI	Garment factory	Inmates produce apparel for law enforcement and public safety markets.	100
Lowell CI and Annex	Garment factory	Inmates produce apparel for law enforcement and public safety markets.	64
Madison CI	Shoe factory	Inmates cut, sew, and finish shoes and boots for inmate use.	106
Marion WC	Cutting room	Inmates cut pieces for inmate apparel.	11
Marion CI	Garment factory	Inmates produce t-shirts and other inmate apparel.	116 ¹
Marion CI	Warehouse	Inmates store finished products for shipment to customers.	None directly
New River West	Garment factory	Inmates produce various inmate apparel products.	90

Sanitary Maintenance and Supplies			
Location	Operation	Brief Description	Inmates Assigned
Avon Park CI and WC	Sanitary maintenance and supplies	Inmates manufacture sanitary maintenance products, perform product testing, and package products to customer specifications.	30

¹Totals for some industries include inmates assigned to administrative support functions.
Source: PRIDE.

Appendix B

PRIDE Corporate Structure

In 1999, with the assistance of a business consultant, PRIDE created a new structure for the business. PRIDE created Industries Training Corporation (ITC), a non-profit corporation, to perform all the administrative duties associated with prison industries. ITC in turn created Labor Line Services; Labor Line, Inc.; and Global Outsourcing and formed private partnerships to create Florida Citrus Partners and Diversified Supply Management.

ITC's purpose is to manage prison work programs for PRIDE by entering into various business relationships and providing administrative and managerial support. ITC could provide the same services to any other correctional agency or corporation for a fee. PRIDE and ITC have a contractual agreement establishing what services ITC provides. The contract also allows for fees to be determined based on PRIDE's budget. At times, PRIDE and ITC have shared some of the same board members and officers. Currently, there are four mutual board members, and the CEO, treasurer, and secretary of the two corporations are the same.

Labor Line Services (LLS) is a non-profit corporation wholly owned by ITC. LLS offers transitional support and job training to PRIDE inmates upon their release from prison. LLS staff assist the released inmates with finding housing, transportation, and employment, as well as providing general encouragement and support. These services are free of charge for the inmates. PRIDE pays LLS to provide these services.

Labor Line, Inc. (LLI), is a for-profit corporation wholly owned by ITC. LLI is a temp-to-hire staffing company which provides jobs for former PRIDE inmates as well as other underemployed individuals. LLI provides labor to several companies throughout Florida. Inmates who obtain temporary employment with LLI may be hired on permanently by the companies using LLI staffing.

Global Outsourcing (Global) is a for-profit corporation wholly owned by ITC that develops new partnerships with private businesses, the primary purpose of which is to create jobs for PRIDE inmates. When necessary, Global also acts as a private partner for new PRIDE ventures. Global Outsourcing also does business as Global Digital Services, a company which uses PRIDE labor to provide various digital services to private sector and governmental clients. Northern Outfitters is a for-profit corporation wholly owned by Global Outsourcing that manufactures extreme weather apparel using inmate labor in a successful PIE program in Utah.

PRIDE and/or ITC have created two other entities. One, Diversified Supply Management, was a for-profit minority-owned business. The other, Florida Citrus Partners, is a limited liability corporation, 50% of which is owned by ITC, and 50% by a private partner in the citrus industry. Both entities have recently been involved in litigation, and it seems likely that they will both soon be inactive.

To take advantage of privileges granted to minority businesses by the state, ITC created Diversified Supply Management (Diversified). ITC owned 40% of the stock in this corporation. The remaining stock was held by the CEO of PRIDE, a former board member, and relative of a current board member, all of whom are minorities and/or

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women. PRIDE's CEO signed a form to waive conflict of interest. Due to its lack of success, Diversified has closed and is not conducting any business.

Florida Citrus Partners (FCP), a limited liability corporation, was created when ITC partnered with a private company. FCP uses PRIDE labor to make citrus juice and sections, which is then distributed and sold by the private sector partner. Due to pending litigation, the future of FCP is unknown.

Appendix C

Methodology

To assess the affect of participation in PRIDE programs on recidivism, we requested data on former inmates from the Department of Corrections' Bureau of Research and Data Analysis. The data we received included records for inmates who had been released from Florida correctional institutions hosting PRIDE operations from January 1, 1995, to December 31, 1996, including both inmates who had worked for PRIDE and those who had not. Included in the dataset was information on demographic characteristics such as age, race, and gender, as well as other information on length of sentence, prior recidivism events, and educational level. The data set also included two recidivism variables, one at 24 months (two years) and one at 60 months (five years). All of our data analysis was conducted using SPSS 11.0.

We also looked at PRIDE's own recidivism studies to provide some level of comparison. The available corresponding data we had from PRIDE was for Fiscal Year 1996 (July 1995 through June 1996). To match our sample to PRIDE's as closely as possible, we created a filter for inmates released during Fiscal Year 1996 and conducted all of our analyses on that sub-sample. In its own studies, PRIDE looks only at inmates who have worked for PRIDE for at least six months, so the department created a variable for us which tagged the inmates who had been in PRIDE for six months or more.²¹

We first ran crosstabs on the recidivism variables and the PRIDE variable to determine the simple percentage of former PRIDE inmates who recidivated and those who did not. The resulting crosstab tables generated the raw number of former PRIDE inmates and non-PRIDE inmates released during Fiscal Year 1996 who recidivated at two years and at five years. To determine the percentage, we divided the number of former inmates who recidivated by the total number released and multiplied by 100.

The department also provided aggregate data on inmates that suggested PRIDE inmates might be different from the general population based on certain characteristics, such as age, race, gender, education level, and time served. As discussed above, these variables have been shown to be correlated with recidivism. To determine PRIDE's actual affect on recidivism, it was necessary for us to control for these variables. We constructed a logistic regression model that controlled for the variables listed above.

We used logistic regression to measure the probability that participation in PRIDE would reduce the likelihood that a prisoner would recidivate or not. We found that participation in PRIDE for a minimum of six months does not reduce the probability of a prisoner reoffending at two years or five years from the date of release. Our results were statistically significant at the $p < .05$ significance level.

²¹ We later found that PRIDE excludes from study any former inmates who did not work for PRIDE for the full six months prior to their release. Because some inmates are moved away from institutions housing PRIDE operations, such as road prisons and work camps, prior to their release, the sample we examined can be expected to be slightly different from that which PRIDE uses.

Appendix D



December 11, 2003

Mr. Byron Brown
Chief Legislative Analyst
Office of Program Policy Analysis
And Government Accountability
111 W. Madison Street, Suite 312
Tallahassee, FL 32399

Dear Mr. Brown:

The following are the responses to the conclusions and recommendations made in the Special Report of PRIDE dated December 2003:

1. Work with state agency and local government purchasing officers to identify goods and services that PRIDE can produce that will provide value and cost savings to the agencies and refine customer service and quality control to remedy customer complaints. PRIDE should establish an advisory group of agency and local government purchasing officials to aid in this effort.

Concur:

PRIDE will report the levels of state agency purchases annually. The state purchasing process is changing to e-procurement and PRIDE will work with the Department of Management Services to ensure PRIDE is an approved vendor.

PRIDE had a local government purchasing advisory group in the past and will consider establishing a state government purchasing council.

2. Work with Enterprise Florida to identify ways that PRIDE's programs could be used to enhance the attractiveness of the state to business and increase PRIDE sales.

Concur:

PRIDE has met several times with Enterprise Florida over the past five years to establish a working relationship. PRIDE will continue to explore ways to assist Enterprise Florida in positioning PRIDE as an economic development tool similar to the way South Carolina Economic Development Officials promote their prison industry program as a labor source for private sector business.

3. Enhance its annual reports to the legislature to include a descriptive organizational chart of PRIDE; all statutorily required information, the state costs for claims and injuries filed against PRIDE; and information on related companies as long as they are indebted to PRIDE, including the amount and status of loans, the nature and rationale for gifts and other pertinent information.

Concur:

PRIDE will enhance its annual reports to include the proposed information suggested.

4. Include comparative information about the level of PRIDE sales to each state agency so that decision-makers can use that information to guide state purchasing policies and practices.

Concur:

PRIDE will include information in annual reports.

5. Conduct a detailed analysis of the effect of inmate participation in the program on recidivism rates, taking into account factors such as post-release placement support, family ties, and work experience which can affect recidivism. The analysis should be communicated to the Legislature as a part of the annual report and would help PRIDE identify particular categories of inmates who best benefit from its programs.

Concur:

PRIDE will work with OPPAGA, Department of Corrections and any other appropriate entity to develop a new recidivism study for PRIDE workers.

6. Formalize its relationship with Industries Training Corporation (ITC) by establishing a contract between PRIDE and ITC that clarifies PRIDE's interests in assets owned by ITC and a repayment schedule for the \$8.7 million in existing loans.

Concur:

A management agreement currently exists between PRIDE and ITC. PRIDE will formalize the debt agreements between PRIDE and ITC. The \$8.7 million is currently comprised of \$5.4 million due from ITC; and \$3.3 million due from Florida Citrus Partners (FCP) as of October 31, 2003.

7. Develop and apply corporate policies to assess the risk of new ventures and establish a review function, such as internal audit, to ensure that standard operating procedures exist and are followed to protect PRIDE resources.

Concur:

Corporate policies and business development methodologies are currently in place to provide for review and approval by the Board of Directors for any new ventures. The Internal Audit function reports to the Board of Directors Audit Committee and will continue to review current policies and procedures. PRIDE will engage an independent consultant to support its strategic planning process.

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8. Revise s.946.505, *Florida Statutes*, to provide for the reversion to the state of all assets owned by or due to PRIDE in the event that PRIDE should terminate or dissolve.

Response:

PRIDE's articles of incorporation state:

"In the event it becomes necessary to dissolve this corporation, all of its assets remaining after the payment of all costs and expenses of such dissolution shall be distributed to the Department of Corrections of the State of Florida. None of these assets will be distributed by or to any member, officer, or director of this corporation or any other entity."

The Articles and By-Laws are required, by law, to be approved by the Governor. Therefore, no change in either the Articles or By-Laws are effective unless approved by the Governor.

This reversionary interest to the state is further protected by the IRS 501(c)(3) designation, which lists the Department of Corrections as the beneficiary in the event of dissolution.

Other Issues

PRIDE cooperates with all state agencies. However, statutory oversight rests with the Governor, Legislature, and OPPAGA, pursuant to Part II of Chapter 946, Florida Statutes.

If you need any further information, please contact us.

Sincerely,

/s/ Pamela Jo Davis
CEO

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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