



## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

Provide Limited Government – This bill requires PRIDE to create an annual report detailing the effectiveness of its internal control mechanisms.

#### B. EFFECT OF PROPOSED CHANGES:

##### **PRIDE's History**

Prison Rehabilitative Industries and Diversified Enterprises, Inc. (PRIDE) was created by the Legislature in 1981 as a private, non-profit corporation.<sup>1</sup> In 1983, the Legislature authorized PRIDE to lease and manage the state prison industries program which had been operated by the Department of Corrections. Section 946.501(1), F.S., notes that it is essential to the state that the correctional work programs provide inmates with activities that can then “lead to meaningful employment after release” to help reduce the number of inmates who return to the correctional system. Section 946.501, F.S., defines PRIDE's mission as:

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

PRIDE was given several advantages to help offset some of its competitive disadvantages in the marketplace. It has sovereign immunity and is not required to pay unemployment compensation for inmate workers.<sup>2</sup> State agencies are required by statute to purchase products from PRIDE if the products are of similar quality and price to those offered by outside vendors.<sup>3</sup> Also, PRIDE is not under the authority of any state agency, although it is subject to the auditing and investigatory powers of the Legislature and the Governor.<sup>4</sup>

PRIDE currently operates 36 industrial training programs in 20 state prisons and offers 363 on-the-job training programs.<sup>5</sup> In 2005, 3,502 inmates were trained in jobs and worked 4,061,798 hours in the 36 industries.<sup>6</sup> Some of the industries operated by PRIDE are raising dairy calves, furniture manufacturing, agriculture, printing, binding, data entry, and document imaging services.<sup>7</sup> PRIDE does not receive funding from the Legislature and is supported by the revenues it generates from selling its products.<sup>8</sup> The State of Florida is its major purchaser, accounting for 50 percent of its revenues in 2005. Total revenues for that year were \$71,917,200.<sup>9</sup>

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<sup>1</sup> [http://www.pride-enterprises.org/compay\\_info\\_img/pdf/WorkerHistory.pdf](http://www.pride-enterprises.org/compay_info_img/pdf/WorkerHistory.pdf)

<sup>2</sup> ss. 946.5026 and 946.513, F.S.

<sup>3</sup> s. 946.515, F.S.

<sup>4</sup> s. 946.517, F.S.

<sup>5</sup> [http://www.pride-enterprises.org/compay\\_info\\_img/pdf/05%20Annual%20Report\\_ALL.PDF](http://www.pride-enterprises.org/compay_info_img/pdf/05%20Annual%20Report_ALL.PDF)

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

## **Financial and Managerial Issues**

In the late 1990's, PRIDE developed a new business plan which involved the creation of separate but related business companies to help PRIDE find ways to increase the number of inmate jobs and expand its mission. PRIDE formed Industries Training Corporation (ITC) in July 1999, to enter into business relationships and manage work programs for PRIDE. However, the number of inmate workstations declined by more than 500 between 2000 and 2002, and there are no statistics indicating any increase in the subsequent two years.

In its 2002 Annual Report issued December 2, 2002, the Florida Corrections Commission extensively reviewed PRIDE's history and current operations. The report focused attention on PRIDE's fulfillment of its mission, particularly noting that the number of inmate workstations had not kept pace with the growth of the inmate population. The Corrections Commission also raised questions about the new corporate structure and affiliated entities.

In December 2003, OPPAGA issued Report No. 03-68, "PRIDE Benefits the State but Needs to Improve Transparency in Operations." OPPAGA focused on many of the same issues as the Corrections Commission, particularly concerning PRIDE's organizational structure. OPPAGA also noted some of the challenges faced by PRIDE in the current business operating environment, and that PRIDE sales had declined by more than \$20 million over the preceding 5 years. The OPPAGA report prompted Governor Bush to request his Chief Inspector General to conduct an audit of PRIDE and its related entities.

The Office of the Chief Inspector General conducted an extensive and probing inspection of PRIDE's financial and business relationships with ITC and its affiliates (Global Outsourcing, Florida Citrus Partners, and Labor Line Inc). In general, the audit noted the significant financial decline of PRIDE and its affiliates, was critical of PRIDE's internal controls and its business and organizational operation, and noted a breakdown in accountability, as well as Board of Director lack of oversight. As a consequence, all contracts and business relationships with ITC were severed. Further, PRIDE assumed all financial, human resources, and administrative functions from ITC at the end of the year.

The controversy surrounding the relationship between PRIDE and its service provider, Industries Training Corporation (ITC), ultimately led to the resignations of the Chief Executive Officer, the President, and the Chief Financial Officer of PRIDE.

## **PRIDE's Auditing and Reporting Requirements**

Currently, s. 946.516, F.S., requires PRIDE to submit an annual report on the status of the correctional work programs to the Governor and the Legislature. This report must include data on:

- The proposed use of the profits from such programs;
- The amount of non-inmate labor used;
- Work subcontracted to other vendors
- The use of consultants
- Finished goods purchased for resale;
- The number of inmates working in the correctional work programs at the time of such report;
- Post-release job placement; and
- The rate of subsequent contact with the correctional system for those inmates who have participated in the correctional work programs operated by the corporation and by the department.

In addition, PRIDE must have an annual financial audit of its accounts and records by an independent certified public accountant retained by it and paid from its funds.<sup>10</sup> PRIDE must submit the annual

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<sup>10</sup> The Auditor General or the director of the Office of Program Policy Analysis and Government Accountability may also, pursuant to his or her own authority or at the direction of the Joint Legislative Auditing Committee, conduct an audit of the corporation. s. 945.516, F.S.

financial audit report and such other information as may be requested by the Legislature to the Department of Corrections, the Governor, the Legislature, and the Auditor General.

**Effect of Proposed Changes:**

HB 1295 requires PRIDE to create an additional annual report detailing the effectiveness of its internal control mechanisms. The report must be subject to an attestation by an independent certified public accountant that is retained and paid for by PRIDE. The bill specifies that preparation of the attestation of PRIDE's management controls is in addition to, and does not supplant, the annual financial audit already required by s. 946.516, F.S.

C. SECTION DIRECTORY:

**Section 1.** Amends s. 946.516, F.S., relating to corporation status report and annual financial audit report.

**Section 2.** This bill takes effect July 1, 2007.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

PRIDE will incur the cost of preparing an additional annual report detailing the effectiveness of its internal control mechanisms. PRIDE will also be responsible for paying for an independent certified public accountant to attest to the annual report.

D. FISCAL COMMENTS:

None.

**III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable because this bill does not appear to: require the counties or cities to spend funds or take action requiring the expenditure of funds; reduce the authority that cities or counties have to raise revenues in the aggregate; or reduce the percentage of a state tax shared with cities or counties.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

Note: The following comment has been addressed by the amendment traveling with the bill.

The bill does not require that the additional annual report be submitted to any entity (e.g. the Legislature, Governor, etc...).

D. STATEMENT OF THE SPONSOR

The bill sponsor submitted the following statement:

House Bill 1295 directs the Prison Rehabilitative Industries and Diversified Enterprises (PRIDE) to enhance its monitoring of risk assessments and internal performance through an annual report to the legislature, subject to external attestation by an independent certified public accountant. This report does not supplant the financial audit already submitted under s. 946.516, Florida Statutes. This report comes as the suggestion of the Office of Program Policy Analysis and Government Accountability in report no. 06-67, released in October 2006.

#### **IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES**

On March 21, 2007, the Homeland Security & Public Safety Committee adopted one amendment and reported the bill favorably as amended. The amendment specifies that the internal control report be submitted annually on or before July 1, to the Governor, the Legislature, the Office of Program Policy Analysis and Government Accountability, the Auditor General, and the Department of Corrections through the fiscal year ending December 31, 2009. The amendment also changes the effective date of the bill to October 1, 2007.