FPI BOARD OF DIRECTORS MEETING
March 3, 2016
Washington, D.C.

A meeting of the Federal Prison Industries (FPI) Board of Directors was held at FPI Headquarters in Washington, D.C., Thursday, March 3, 2016.

IN ATTENDANCE:

David Spears, Chairman (call-in)
Don Elliott, Member
Frank Gale, Member (call-in)
Audrey Roberts, Member
Lee J. Lofthus, Member

QUORUM: A quorum was present.

ALSO IN ATTENDANCE:

Thomas R. Kane, Acting Director, Bureau of Prisons
Commissioner, FPI
Gary Simpson, Assistant Director, IEVT
Chief Executive Officer, FPI
Judi Simon Garrett, Assistant Director, IPPA
Phil Sibal, Senior Deputy Assistant Director, IEVT
Ken Yeich, Deputy Assistant Director, IEVT
Marianne Cantwell, General Counsel, IEVT
Brad Beus, Chief Financial Officer, FPI
Robert Grieser, Chief, Marketing, Research
& Corporate Support, FPI
Christian Burch, Executive Assistant, IEVT

Chairman Spears called the meeting to order at 8:00 a.m. and thanked everyone for their flexibility in scheduling the meeting and facilitating call-in options for him and Mr. Gale.

I. Approval of the September 2, 2015 Meeting Minutes

The Board of Directors considered the draft minutes from the September 2, 2015 meeting conducted at the Department of Justice (DOJ) headquarters office, Washington, D.C. The Board voted unanimously to accept the minutes, yet noted two typos and requested they be corrected. (These corrections have subsequently been completed.) Chairman Spears expressed his appreciation to FPI staff for ensuring that the last few sets of minutes captured more of the active dialogue during meetings.

Chairman Spears welcomed Mr. Simpson to FPI and his first board meeting. He further noted his assurance on behalf of the Board that everyone is trying to accomplish the same mission--to move FPI in a forward direction.

II. Director's Report

Acting Director Kane thanked the board members for their attendance. He welcomed Mr. Simpson to his first board meeting, and noted that Mr. Simpson's wealth of knowledge and experience should advance a very positive organizational transformation. He also spoke about both former Director Samuels' and former Deputy Director Eichenlaub's retirements in January 2016. He also noted that no permanent Director or Deputy Director had been selected.

Acting Director Kane provided an agency overview, highlighting reform issues and the Smart on Crime Initiatives, which resulted in an inmate population decline of 8,500, and thus a reduction in staff ratios. He also noted that the agency expected a 15,500 reduction in the inmate population over the next two years.

Chairman Spears asked if the inmate population reduction was based on a goal set by the agency. Acting Director Kane indicated that the primary factors involved were tied to the Sentencing Commission (specifically related to drug sentencing). He also highlighted the following factors:

1) DOJ's Report and the President's Memo regarding Restrictive Housing
    a. Changes in functions affecting national correctional standards
    b. Cessation of juveniles in detention
    c. Programs for inmates in restrictive housing

2) Chuck Colson Task Force Recommendations (BOP is still reviewing to determine which recommendations can be adopted)

Acting Director Kane finally noted that FPI's transformation was fully supported by the BOP Executive staff and necessary to ensure its optimal growth. Lastly, he thanked all FPI staff who facilitated the meeting.

III. Chief Financial Officer's Report:

Mr. Beus, Chief Financial Officer, provided the financial update, but first prefaced that his presentation was different from previous board meetings. Using a PowerPoint presentation (Attachment A), he explained that all income figures at the Business Group (BG) level were formulated after General and Administrative Expenses (G&A) were allocated. He explained that this provides a more accurate look at how BGs are actually performing ("real-time" calculations).

Mr. Beus covered FY15 Results, FY16 Operating Plan and FY16 Revised Plan--Corporate Net Income/Loss: The original FY16 plan forecasted net earnings at the end of the year to be $1 million with a $17.9 million loss in FY15. At the end of the 1st Quarter this forecast was revised to a net loss of $200,000 for FY16. He noted the following contributing factors:

1) BGs have revised earnings forecasts based on changes to product mix and sales (which was illustrated in the PowerPoint presentation). He noted that anticipated losses in EBG Group Earnings were less than expected through the 1st Quarter.

2) Other Income has been lower than expected in two areas: Systems Space Planning/Installation and Inter-Agency Solutions (performing contracting services for other agencies).

3) Investment income projections were better than originally anticipated.

Mr. Beus provided an overview of BG Sales: He noted that at the end of the 1st Quarter, BGs adjusted their sales forecasts to reflect changes to their markets, which resulted in a drop in sales of $18 million (from $463 million to $445 million). He noted the following contributing factors:

1) Services Business Group (SBG): had commissary sales built into the original FY16 Plan. Despite SBG anticipating increased sales from Call Center and Print segments, they are still forecasting a $4 million drop from their original forecast.

2) Recycling Business Group (RBG): obtaining long term Defense Logistics Acquisition (DLA) contracts was built into the original forecast; however RBG's bids were unsuccessful. This coupled with a continued slump in commodity pricing resulted in a $16 million downward adjustment to the sales forecast.

3) All other BGs were within an acceptable percentage of their original sales forecast.

Mr. Beus provided an overview of BG Earnings: He noted that we are forecasting an increase in BG losses of $400,000. He added that all BGs, with the exception of Clothing & Textiles (C&T), have negative earnings after G&A allocation. Additionally, all BGs, with the exception of C&T and Electronics Business Group (EBG), are expecting income loss to be more significant than their original plan. The following factors are assumed in the plan:

1) C&T has increased orders of Outer Tactical Vests (OTVs) and Battle Dress Uniforms (BDUs), which have larger profit margins than other products. Additionally, results from the first three quarters in FY15 were used to develop the plan for FY16. RBG also underestimated the increase in overall efficiency gained from mothballing and factory closures.

2) EBG has anticipated stronger fleet orders and is gaining efficiency through the consolidation of cable factories; additionally, EBG has significantly cut G&A costs, which has impacted overall allocations.

3) Office Furniture Group (OFG) is expecting to gain more savings from the contract negotiations than what's currently forecasted. This number will become more definite once the negotiations are concluded and we can anticipate parts/services already received as well as those with revised pricing.

4) RBG not obtaining the DLA contracts and the reduction in commodity pricing are the main factors in the downturn for this group.

5) SBG: Commissary sales had higher margins than most of its work and the loss of this business impacted the group.

6) Agribusiness Group (ABG): The decline in inmate population had an impact on milk sales. Currently, both farms are looking at adding additional milk runs, which could result in an uptick of ABG's forecast. Additionally, beef sales in April/May/June will increase ABG earnings.

Mr. Beus noted that BG sales through January were within forecast except for SBG and RBG. Mr. Beus noted that BG earnings showed losses through January ($3.7 million below plan). This was mainly due to strong earnings from C&T resulting from OTV sales and gains.

Overall, Mr. Beus noted that we were not far away from our original plan of $(400,000).

The Board's Questions and Comments for Mr. Beus:
Mr. Lofthus asked what G&A methodology Mr. Beus utilized for cost allocation. Mr. Beus explained that Corporate G&A and Business Group (BG) G&A overhead were applied.

Chairman Spears asked how far off the commissary margins were. Mr. Beus explained that the call center profit margin was substantially lower than the margin for commissary items.

Mr. Elliott asked about vendor patterns and if there had been a trend of late billing and partial orders. Mr. Beus explained that there were some significant lags in orders which affected overall assumptions. Mr. Beus further noted that we still have to address the overall problem of partial orders/billing, especially given the fact that some customers opt for delayed assembly after delivery.

Chairman Spears asked about current cash levels. Mr. Beus responded that we have $120 million in operating cash. Chairman Spears added that he was interested in hearing more from Mr. Simpson on this matter.

Mr. Lofthus noted that the new approach (PowerPoint slides) was very helpful in illustrating where each BG was with regard to sales/outcomes. He also asked why "freight" is part of corporate costs. Mr. Simpson stated that he and Mr. Beus would take a closer look at this.

IV. KPMG Update

KPMG, the external auditing firm, provided their overview of FPI's FY15 financial statements audit. They began by briefing the group on new accounting standards that would be followed during the upcoming FY16 audit. As part of FY15 findings, they noted the following items that should be addressed:

1) Revenue Recognition
2) Leasing authority: FPI no longer has the authority to operate leases as liabilities. FPI has very minimal involvement in or need for leasing options.

Mr. Simpson thanked the KPMG auditors for their briefing and congratulated Mr. Beus and his staff for a job well done on the audit. Mr. Elliott, Chairman Spears and the other board members also congratulated the group for their efforts in closing out with a clean audit.

V. Chief Executive Officer's Report:

Mr. Simpson thanked all board members, the Director and other members for attending the meeting. He also thanked everyone for facilitating his onboarding and their continued support of FPI. He mentioned that he will be visiting as many factory sites as possible over the coming weeks.

Mr. Simpson began with an overview of FPI's newly proposed Strategic Plan (Attachment B). Mr. Simpson spoke about the symbolic importance of FPI celebrating "wins" in the near future. As such, he noted the importance of establishing a strong strategic plan for optimization of FPI's growth. He noted that FPI's mission was two-fold: making FPI profitable and employing as many inmates as possible.

Mr. Simpson spoke of his goal to achieve a $10 million profit by the end of FY16, indicating that a focus on earnings is key. He outlined several of the various strategies where he envisions focusing.

Mr. Simpson stated there will be several product lines where FPI needs to reassess whether it should be in the business. This will be done as needed after consulting with the Board.

Procurement will be another prime focus area for generating additional cost savings.

He stated that plant overhead would be another area that will be carefully reviewed, and that he will be discussing the custodial work that foremen are now doing with the BOP Executive staff.

Mr. Simpson outlined his plans for maximizing inmate employment opportunities while simultaneously reducing costs. This will be accomplished through enhanced job sharing and other strategies currently being examined.

He discussed his plan to examine any new business initiative in a selective, criteria-driven, manner that would consider profit as well as the number of inmates served.

The Board acknowledged and endorsed this balanced approach for generating inmate employment while bringing costs down at the same time.

During Mr. Simpson's overview of section 3.0 (People), he explained that a task force had been created to address employee satisfaction via a survey/questionnaire. Acting Director Kane noted the BOP periodically surveys the work force through a job satisfaction survey. Mr. Elliott asked that we consider also creating a survey for our inmate work force.

Mr. Simpson noted that FPI would best operate as a contractor in the supply chain as opposed to a finished goods manufacturer. Mr. Elliott commented that Mr. Simpson was doing a great job becoming familiar with the operation so fast and doing so by involving the people in the organization as much as possible. Chairman Spears echoed Mr. Elliott's comments and asked if there were any new developments with the external business assessment.

Mr. Simpson complimented the external firm's work so far, specifically Phase I and Phase II. He informed the Board that during his first meeting with the firm he expressed concerns that FPI had not "earned the right to grow" yet, and until this was the case, we had requested a pause in Phase III of the assessment, and that the remainder of Phase III be refocused on consolidation efforts. Additionally, Mr. Simpson noted that the temporary position of Chief Transformation Officer would now be filled by him and reevaluated at a later time.

Mr. Simpson spoke about the importance of transparency and communication within FPI and across the agency as a whole. As such, he noted his plans of having quarterly recalls with all FPI staff to keep them abreast of transformation developments as well as financial status updates.

Mr. Simpson proposed that board meetings be scheduled for the remainder of 2016 as well as 2017. The group reached a consensus to have four meetings per year (two in DC and two at a field location) during the middle of the month following the end of a quarterly financial closeout cycle. Specifically, the months agreed upon were: April, July, September, and January. The group also reached a consensus that conference calls should be scheduled every other month, but could be rescheduled “as needed.” A proposed meeting and conference call schedule was sent out to all Board members immediately following the meeting.

Mr. Simpson added that a conference call at the end of March would offer a good opportunity to receive the Board’s input/approval on various action items. As such, a teleconference was proposed for March 29, 2016 at 10:30 a.m.

VI. General Counsel’s Report and Summary of Action/Information Items:

Ms. Cantwell provided a legal and legislative update. It was subsequently noted that Congressman Huizenga introduced a new bill in Congress that is of concern to FPI.

Ms. Cantwell spoke about FPI’s bylaws and the need to update them. Mr. Simpson is now the Chief Executive Officer and the Director is now the Commissioner. She also was not aware if there was a seal and whether this section needed to be reviewed or revised.

In reference to the bylaws (seals), Chairman Spears asked if we should explore locating a seal. Ms. Cantwell was not aware whether we could remove this section from the bylaws. Mr. Lofthus and Mr. Gale explained the sensitivity and importance of seals. Mr. Simpson noted that he and his staff would research this topic to determine whether a seal should be located or if the section should be removed from the bylaws. There was also discussion of the 30-day notification requirement to discuss changes in bylaws and a five-day notice requirement for calling meetings. Mr. Simpson noted that both the CEO and seal issues could be further discussed during the March 29 teleconference. Ms. Cantwell agreed to review the bylaws and make suggested “redline” changes for the Board members’ review.

Ms. Cantwell also noted a current issue with AbilityOne on a DLA requirement that will require further discussion with the customer in order to obtain resolution. She mentioned having a Department of Justice (DOJ) representative on the AbilityOne Commission would be helpful.

Ms. Cantwell also mentioned that efforts were underway to fill the vacant FPI Board seat with a representative from the Department of Defense (DOD).

Upon mention of the previously approved action to sign the pilot proposal to manufacture metal containers, Mr. Elliott asked how many jobs would be created in the private sector supply chain from FPI's entry into this pilot. Mr. Grieser indicated that this could be determined, and was tasked with following up to address this question for the Board. It was also suggested that this question be examined as part of any future FPI pilot proposal.

Action Item: Blanket Waiver Threshold Increase from $3,000 to $3,500

Ms. Cantwell and Mr. Grieser presented a paper recommending the Board approve DoD's request to raise its blanket waiver threshold to be consistent with the new micropurchase threshold of $3,500. Ms. Cantwell explained that the DOD Acquisition Office had requested that FPI waive its threshold to be consistent with the recent government-wide micropurchase threshold approved in the Federal Acquisition Regulation. An analysis of the data was presented, with the conclusion that this action would have minimal impact on FPI sales in this dollar range, since most purchases are currently not mandatory, or being placed voluntarily at the customer's choice. The Board approved the staff recommendation to raise the blanket waiver threshold.

Mr. Grieser reviewed several information updates in the Board book, including the Year-end Sales Report, the Production Ceilings Memo, the recent Quarterly Congressional Reports on Foreign purchases, and public notices issued since the last Board meeting. Mr. Lofthus noted the value of the information in the Sales Report, citing the section showing detailed sales by product line at each factory location.

The Board convened into an executive session.

The meeting was adjourned at approximately 12:50 p.m.

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Gary Simpson, Chief Executive Officer