

FPI BOARD OF DIRECTORS MEETING  
February 17, 2021

A meeting of the Federal Prison Industries, Inc. (FPI) Board of Directors was held on February 17, 2021, via teleconference.

**IN ATTENDANCE:**

David Spears, Chairman  
Lee Lofthus, Member  
Audrey Roberts, Member  
Dee Reardon, Member

**QUORUM:** A quorum was present.

**ALSO IN ATTENDANCE:**

L. Cristina Griffith, Assistant Director, Human Resource Management  
Division, Federal Bureau of Prisons  
Patrick T. O'Connor, Chief Executive Officer, FPI  
Greg Burke, Senior Deputy Assistant Director, FPI  
Sean Marler, Deputy Assistant Director, FPI  
Marianne Cantwell, General Counsel, FPI  
Ayima Ido, Controller, FPI  
Valery Logan, Executive Assistant, FPI  
Carlos Davis, Chief, Information Systems Management, FPI (attended  
during discussion of SAP S4/HANA)  
Huba Papp, Project Manager, NTT DATA, Inc. (attended during  
discussion of SAP S4/HANA)

Chairman Spears opened up the meeting.

Ms. Griffith presented on behalf of the Director. The inmate population continues to decline; down over 3,000 this fiscal year to a current population of 152,174 inmates. Staffing remains a high priority. The Bureau implemented a new hiring initiative last week, where we are only filling positions externally for the next 120 days in an effort to increase our base of staffing, particularly in the correctional officer cadre, with a goal of 100% staffing this year. Ms. Griffith expressed thanks to Mr. O'Connor for his help in providing target positions for FPI. Thus far, the Bureau has offered a first dose of the COVID-19 vaccine to all staff at all institutions.

**I. Chief Executive Officer Update**

Mr. O'Connor explained that COVID-19 continues to be a major challenge. In September 2020, FPI had 70% of inmates working, but as the second COVID-19 wave hit a steady decline ensued. In January 2021, there was a lockdown due to the Inauguration and the average number of daily closed factories was 35. Now in February, while FPI is averaging 58% of inmates working, due to the Director's assistance only three factories were paused last week, when the number of inmates working increased to 64%. This is a good trajectory.

The first shot of the Moderna vaccine has been offered to all Central Office staff with the second round of shots starting next week. The Health Services Division anticipates that all inmates will be offered vaccines by April. This will help us limit factory closures and improve our ability to forecast. Right now, it is impossible to forecast the future.

Ms. Ido was selected as FPI's new Chief Financial Officer.

The Clothing and Textiles Group (CTG) is scheduled to tour the FCI Aliceville factory with a potential customer for the subcontracting of sleeping bag covers.

An entrance conference for the KPMG audit was held virtually on February 1, 2021.

We are trying to be more efficient with sharing our resources. In Phoenix, we have an Electronics Business Group (EBG) factory where we are going to add CTG sewing operations. This will allow us to employ 150 additional inmates with minimal staff additions. If this works, we will look at expanding the sharing of resources at other locations.

Mr. O'Connor provided the Board with a review of FPI's key performance indicators (KPI):

KPI 1.0, Mission: We are doing better than where we were this time last year. The COVID-19 pandemic slowed the orientation of new inmates into the BOP, which made it more difficult to hire them. Our total number employed has gone down. We have managed to keep our target of 30% within three years of release.

KPI 2.0, Financial Perspective: We are behind plan. When we were making up the budget, we were on an upward trend and figured at the end of the year, we would be at full capacity, which did not occur due to COVID-19. Net income was lower than target by \$1.8 million. On a positive note, we have been more efficient with operations and are increasing our gross margin.

KPI 3.0, Customer Perspective: The backlog has grown due to the stoppage of deliveries. Delinquencies were up over 4% over last year.

Chairman Spears asked if we going to lose long-term customers. Mr. O'Connor responded that if FPI maintains its recent progress, the risk is low, but if not, the risk is higher. Chairman Spears asked if that would that be true with other customers as well. Mr. O'Connor responded that we have a good relationship with our customers and contact them routinely. We will restart contacting them on a weekly basis.

KPI 4.0, Internal Perspective: The defect rate has increased recently due to COVID-19 resulting in workers performing functions they are less familiar with. For example, we lost three factories worth of inmate employees. They were all trained, so we had to retrain inmate workers while keeping housing units separated. Inventory turns continue to go down, which is a matter of shipping.

KPI 5.0, Learning and Growth Perspective: Last fiscal year, we were on a hiring freeze for most of the year. We loosened up in September and October getting ready for the new fiscal year. When the second wave of COVID-19 hit, we slowed hiring to make sure we only hired what we could support. We are at 76 vacancies now, well above the target of 43. We are on track to meet

our staff training goal. The recordable injury rate is up slightly from last year at 1.0. With this rate, FPI's factories are still amongst the safest factories to work at in the United States.

Mr. O'Connor noted that while we typically have a new forecast for the second quarter at this point, he asked the CFO not to do one due to the visibility being so poor. In April, when we stabilize, we will do a new forecast because the visibility will be improved.

## **II. Chief Financial Officer's Report**

Ms. Ido provided the Board with an update on FPI's financials.

In FPI's fiscal year (FY) 2021 Operating Plan, FPI projected the corporation would close the fiscal year with \$68.3 million in business group earnings before general and administrative expenses (G&A), significantly higher than the \$34.3 million realized in FY20. FY21 G&A is projected to be about \$12 million more than FY20 G&A. We anticipated that other income will remain at the same level as last year and investment income will drop by about \$1.5 million from last year. Overall, the Operating Plan projected that FPI would close the fiscal year with \$17.5 million in net earnings. We expected our FY21 sales to be \$549.4 million vs. \$363.2 million last fiscal year. Given our current performance level, we anticipate an updated forecast is needed and will prepare one in April.

Actual earnings before G&A are lagging behind both FY21 planned and FY20 actual earnings; about 37% and 51% below plan and FY20 respectively. Year-to-date (YTD) G&A is about 12% below plan but 4% over FY20 G&A. Other income is currently at the same level as both planned and FY20 YTD other income; about \$1.6 million. Investment income is below FY20 YTD results but at the same level as planned. Overall, FY21 YTD net income is about 160% below prior year net income and 75% below plan.

FY21 YTD sales are 25% and 29% below plan and prior year sales respectively. The only business groups that are performing better than plan are the Office Furniture Group (OFG) and the Recycling Business Group (RBG). All other business groups are lagging behind both plan and prior year sales at this same period. The lower than anticipated sales numbers have resulted in lower than anticipated business group earnings.

FPI's current account receivables are in good shape but cash and inventory are not as good. Our current inventory balance is about 209% over planned levels. This is mainly due to factory closures because of the COVID-19 pandemic. The Fleet Business Group (FBG) was the most hit by factory closures. FBG alone makes up 60% of the total inventory balance while 18% and 21% belong to OFG and the Clothing and Textiles Group (CTG) respectively. The decrease in cash reflects our high inventory level because cash is tied up in inventories.

Ms. Reardon asked what FPI's long term plan is to address these trends. Chairman Spears added to Ms. Reardon's question asking what FPI is doing to control G&A. Mr. O'Connor responded that some of the things we have been doing include: implementing a hiring freeze to try to make sure we do not expand our G&A faster than we can cover it; utilizing hybrid (multiple business group) plants to minimize the amount of G&A; monitoring cash on hand – we have been keeping it relatively stable; and trying to clear out FBG's inventory. If we can keep factories running, we

should be able to knock our inventory levels down relatively quickly. The Director and Deputy Director have been helpful in encouraging the Wardens to allow FPI's factories to keep running.

### **III. SAP HANA Update**

Mr. Papp provided the Board with an update on the SAP/HANA transition.

System integration testing (SIT) was completed just two days behind schedule with no impact to the remaining schedule. There were three minor defects that were closed out by February 5, 2021.

Mock 3 data migration was conducted from December 14, 2020 – February 1, 2021 and went very smoothly with no major issues.

Super-User Training was completed on February 3, 2021, which went well. Super Users were satisfied with the level of training delivered. Fourteen training sessions were provided over a two and a half week period.

UAT kicked off on February 4, 2021 and will occur for four weeks finishing on March 5, 2021. We are currently on schedule. There are concerns with the tight timeline for deployment planning, so we are refining the plan to identify areas to streamline.

There have been delays in clearances, installations, and scans that will likely impact Syniti's work. Workshops conducted with FPI staff have been very productive.

Project costs are within budget.

The bottom line is that the project is progressing on time. Soft Go Live is still expected for April 12, 2021.

Mr. Lofthus asked Mr. Davis about the Financial Management Branch's (FMB) involvement in the SAP/HANA implementation. Mr. Davis responded that FMB has regularly participated, and when questions arise they frequently go to the Chief Financial Officer for input. Ms. Ido added that FMB has been participating in daily briefings, been assisting with the testing, and are making themselves available whenever they are needed.

Chairman Spears thanked Mr. Papp and Mr. Davis for their leadership on the SAP/HANA transition and asked them to convey the Board's thanks to the entire team.

### **IV. Action Items/Legal Updates**

The Board unanimously approved the meeting minutes from December 16, 2020.

There are no new legislative updates. Ms. Cantwell provided legal updates.

The meeting adjourned.

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Patrick T. O'Connor, Chief Executive Officer