



## Political Transparency and Accountability Profile (2009)

### Cornell Companies, Inc.

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CUSIP: 219141108      Stock Symbol: CRN      Corporate Web Site:  
<http://www.cornellcompanies.com/>

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Cornell Companies, Inc. (Cornell) is a full service private corrections provider. Cornell partners with federal, state, county, and local governments to design, build, and operate community based correctional centers. The company operates in 15 states and the District of Columbia with 711 adult and juvenile facilities that have a 20,000 bed capacity.<sup>1</sup> In its facilities, Cornell provides services such as General Equivalency Diploma programs, job training and placement, recreation and leisure activities, health care, drug counseling and life skills training.<sup>2</sup> Cornell has three primary business lines: adult secure, community based corrections, and youth and families.<sup>3</sup>

#### Political Activity

Companies may financially support the political process in several ways. They may give direct contributions at the state and local level and to so-called 527s. These groups--named for the section of the tax code under which they are organized--may significantly impact federal, state and local elections. Companies also engage in political spending indirectly by supporting trade associations, organized as 501c6 organizations and other tax-exempt groups, which include social welfare organizations known as 501c4s. Trade associations and 501c4 groups gained popularity during the 2008 election cycle in the wake of the Federal Election Commission's crackdown on 527 groups for violating campaign finance law during 2004 elections.<sup>4</sup> Another way companies can contribute to the political process is by supporting events such as Presidential inauguration celebrations and the Republican or Democratic Party conventions, a growing source of corporate support in recent years.<sup>5</sup>

Cornell has contributed approximately \$218,000 in corporate funds to political activities since 2002. The true figure is difficult to determine because reporting at the state-level is incomplete and can be misleading. This estimate also excludes payments Cornell has made to trade associations or other tax-exempt organizations that fund political activities.

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<sup>1</sup> See Hoover's "Cornell Company Description," available at [http://www.hoovers.com/cornell-companies/--ID\\_51921--/free-co-profile.xhtml](http://www.hoovers.com/cornell-companies/--ID_51921--/free-co-profile.xhtml)

<sup>2</sup> Ibid

<sup>3</sup> See "Welcome to Cornell Companies, Inc.," available at <http://www.cornellcompanies.com/>

<sup>4</sup> See *Soft Money in the 2006 Election and the Outlook for 2008: The Changing Nonprofits Landscape*, Campaign Finance Institute, 2007. Approximately \$90 million in 501(c) spending on federal election activities was reported in 2006. T.W. Farnam & Brody Mullins, "Interest-Group Campaign Spending Nears Record", *Wall Street Journal*, February 5, 2008.

<sup>5</sup> See *Inside Fundraising for the 2008 Party Conventions: Party Surrogates Gather Soft Money While Federal Regulators Turn a Blind Eye*, (The Campaign Finance Institute, 2008). See: *The Inauguration: Brought to you by the Few, the Wealthy* (Public Citizen; January 14, 2009 available at <http://www.citizen.org/pressroom/release.cfm?ID=2799>), and *Lawmakers and Lobbyists Celebrate Inauguration* (The Washington Independent; January 20, 2009 available at <http://washingtonindependent.com/26340/lawmakers-celebrate-inauguration-with-lobbyists>).

Cornell does not disclose its political contributions and does not appear to have a policy of board oversight of its political expenditures. Also, Cornell does not disclose its memberships in trade associations and other tax-exempt groups and the payments it makes to them that are used for political purposes. These gaps in transparency and accountability put shareholder value at risk.<sup>6</sup>

## Election Cycle Trends

Cornell has given donations to 527 groups in recent cycles, including \$50,000 in the 2004 election cycle and \$50,000 in the 2002 cycle.<sup>7</sup> The largest recipient of company funds was the Republican Governors Association, was criticized in mid-2008 for raising uncapped donations in the 2008 presidential election.<sup>8</sup> Cornell has given \$65,000 to the RGA since the 2002 election cycle. Another group which received significant company funds was the Republican National State Elections Committee, which received \$15,000 from Cornell in the 2002 cycle.

Company contributions at the state-level were also significant during these years. Cornell gave \$45,000 at the state-level in the 2008 election cycle, \$250 in the 2006 cycle, \$27,000 in the 2004 cycle, and \$45,000 in the 2002 cycle.<sup>9</sup>

Pennsylvania, Texas, and Georgia were the largest state recipients of company funds during the 2002-2008 election cycles. In Pennsylvania, Cornell contributed \$30,000 to Democratic candidates and committees and \$14,000 to Republican candidates and committees.<sup>10</sup> In Texas, the company gave \$19,000 to Democratic candidates and committees and \$8,000 to Republican candidates and committees.<sup>11</sup> Also in Georgia, the Cornell gave \$20,000 to Republican candidates and committees and \$6,000 to Democratic candidates and committees.<sup>12</sup>

The amounts listed for the state-level giving are approximate figures because state campaign finance reporting is often incomplete and in many cases donations from the corporation and its political action committee (PAC) are combined, even though the latter are employee-funded. The Center for Political Accountability does not include donations that appear to come from a company PAC.<sup>13</sup>

Some of the company's donations raise issues of inadequate oversight because the recipients used corporate funds for purposes that may not be in the best interest of shareholders. The company gave \$10,000 to **Texans for a Republican Majority** in the 2002 election cycle, which was used by former House Majority Leader Tom DeLay to fund the change of control of the Texas House of Representatives in 2002. It was indicted in September 2004 for violating Texas

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<sup>6</sup> *The Green Canary: Alerting Shareholders and Protecting Their Investments*, Center for Political Accountability, February 2005. See also *Hidden Rivers: How Trade Associations Conceal Corporate Political Spending, Its Threat to Companies, and What Shareholders Can do*, Center for Political Accountability, May 2006.

<sup>7</sup> See CQMoneyline <http://moneyline.cq.com/pml/home.do>. The CPA used this database to conduct searches on the company's political giving. The search results do not distinguish contributions made with corporate funds from contributions made by the company PAC. Though the CPA made every effort to exclude any PAC contributions, the figure cited in this report might include donations made with employee funds.

<sup>8</sup> Brody Mullins and T.W. Farnam, *The Wall Street Journal*, "McCain Allies Find Finance-Law Holes." Available at <http://www.politicalaccountability.net/files/CPA%20-%20Wall%20Street%20Journal%20-%20McCain%20Allies%20Find%20Finance-Law%20Holes%20-%202007-03-08.pdf>.

<sup>9</sup> The Institute for Money in State Politics, [www.followthemoney.org/](http://www.followthemoney.org/). The CPA used the Institute's database to conduct searches on the company's political giving. The search results do not distinguish contributions made with corporate funds from contributions made by the company PAC. Though the CPA made efforts to eliminate any PAC contributions, the figure cited in this report might include donations made with employee funds.

<sup>10</sup> *Ibid*

<sup>11</sup> *Ibid*

<sup>12</sup> *Ibid*

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campaign law by accepting \$120,000 in allegedly illegal corporate campaign contributions shortly before and after the 2002 elections.<sup>14</sup>

### Trade Association Activity

Trade associations serve a variety of purposes. Some engage in political activity through contributions at the state and local level, grassroots lobbying, and issue advocacy. These activities are funded by dues and other payments from member companies. While not all trade associations are politically active, several major industry groups carry significant political weight.

A complete list of the trade associations or related groups to which Cornell belongs is not publicly available. Most associations only disclose the companies represented on their board of directors, not their entire membership list. Shareholders also do not have access to the amount Cornell pays to trade associations annually or the portion used for the associations' political spending.

### Transparency and Accountability Checklist

#### ***Publicly Disclosed Standards & Procedures Governing Corporate Political Activity***

The CPA derived the following checklist from existing legal standards, best practice standards among leading corporations and policies that ensure protection of shareholder value. A company that fulfills most of the criteria listed below likely has good governance of its corporate political spending. The CPA relied on information that is disclosed on the company website and therefore publicly available to all investors. A company will not get credit for policies or procedures that are not publicly available.

#### **Positive Practices**

Cornell discloses the policies and procedures that regulate its political spending. The company also requires CEO approval of any political expenditure made.

#### **Room for Improvement**

Cornell does not disclose its political contributions or the payments it makes to trade associations and other tax-exempt groups that are used for political purposes. Also, the company does not appear to have a board oversight policy of its political spending.

#### **Basic Disclosure**

#### ***Is this information disclosed on the company website?***

Political contributions policies	<b>yes<sup>15</sup></b>	Political contributions	<b>no</b>	Trade association memberships and affiliations with other tax-exempt organization	<b>no</b>
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#### **Standards & Oversight Procedures**

#### ***Do company policies explicitly include the following items?***

The use of corporate funds for political purposes is prohibited	<b>no</b>
Political contributions permitted only through voluntary employee funded PAC contributions	<b>no</b>

<sup>14</sup> R. Jeffrey Smith, "DeLay PAC Is Indicted For Illegal Donations," *Washington Post*, September 9, 2005.

<sup>15</sup> See "Business Conduct Policy," available at <http://www.cornellcompanies.com/pdf/BusinessConductPolicy071207.pdf>

No contribution will be given in anticipation of, in recognition of, or in return for an official act	<b>yes</b> <sup>16</sup>
Company will not reimburse employees directly or indirectly for political donations or expenses	<b>yes</b> <sup>17</sup>
No employees will be pressured to make any personal political expenditures	<b>no</b>
Political contribution policies are included in Code of Conduct	<b>yes</b> <sup>18</sup>
Political contribution policies are disclosed elsewhere on the company website	<b>no</b>
Political contributions policies include specific criteria for approval of political donations	<b>no</b>
Prior approval required for political contributions	<b>yes</b> <sup>19</sup>
Officer or department must approve political contributions	<b>yes</b> <sup>20</sup>
General counsel or legal department must approve political contributions	<b>no</b> <sup>21</sup>
An executive officer of the company must approve political contributions	<b>yes</b> <sup>22</sup>
Board of directors or board committee oversees political contributions	<b>no</b>
Board of directors or board committee must issue prior approval for political contributions	<b>no</b>
The same standards and oversight procedures apply to trade association payments	<b>no</b>

*This checklist relies on the company's publicly disclosed information and reflects only external company standards and procedures. It does not measure compliance with the company's expressed standards and procedures. Any clear violations of the company's standards and procedures of which the CPA is aware will be included in this report.*

Data last updated on April 17, 2009

<sup>16</sup> Cornell's "Business Conduct Policy" states that "Payments, loans or gifts, to domestic or foreign government officials, political parties, political party officials, or candidates for political office or to any of the Company's customers, contractors or suppliers, regardless of motive, are prohibited,

<sup>17</sup> Cornell's "Business Conduct Policy" states that "no person may be reimbursed, or approve any reimbursement, by the Company for a contribution to a political action committee, political campaign or candidate." Available at <http://www.cornellcompanies.com/pdf/BusinessConductPolicy071207.pdf>

<sup>18</sup> See "Business Conduct Policy," available at <http://www.cornellcompanies.com/pdf/BusinessConductPolicy071207.pdf>

<sup>19</sup> Cornell's "Business Conduct Policy" states that "no Company funds or assets may be utilized in support of any political campaign or candidate unless approved in advance by CEO, or in his absence the General Counsel and CAO, after a determination that such contributions are lawful." Available at

<http://www.cornellcompanies.com/pdf/BusinessConductPolicy071207.pdf>

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> Ibid