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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 7054, FEDERAL BUILDING
300 NORTH LOS ANGELES STREET
LOS ANGELES, CALIFORNIA 90012



DEC 16 1970

Mr. Noyes D. Ellis
Superintendent of Industries
Federal Prison Industries, Inc.
Terminal Island, California 90731

AGC00714

Dear Mr. Ellis:

We have completed an examination of the financial transactions of the Federal Prison Industries, Inc. (FPI), Terminal Island, California, for the fiscal year ended June 30, 1970. The examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Our review revealed that substantially all financial transactions examined were handled in a satisfactory manner. We noted opportunities to improve certain practices which were discussed with you and your staff during our examination. These matters are summarized below for your information and follow-up.

1. The employee responsible for opening the mail and preparing a listing of cash receipts was also responsible for certain accounting functions. You agreed that controls over cash receipts would be strengthened by separating these administrative duties. This change was made during our review.

2. Employees responsible for taking physical inventories had access to balances shown on stock cards. The FPI Manual requires personnel who do not have access to the recorded balances on stock cards to take physical inventories. We feel that the manual requirement is a sound one and contributes to effective internal control. We believe that your memorandum of August 26, 1970, will provide the separation of duties necessary to achieve improved controls.

3. The ending work-in-process inventory for the furniture factory did not include direct labor costs or overhead for partially finished units. It was agreed that a reasonable estimate of the direct labor costs, with applicable overhead, could be made. You advised us that in the future this determination will be made.

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4. Certain costs were allocated between the finished goods and the work-in-process ending inventories in the metal factory without taking into consideration the percentage of completion of the units. Instead, these costs were allocated equally to each unit regardless of the percentage of completion. The effect of this procedure is to overstate the ending work-in-process inventory and to understate the ending finished goods inventory. You agreed to evaluate the feasibility of estimating the percentage of completion of the units for the purpose of making cost allocations.

5. In October 1969 a new furniture repair building was placed into operation but no depreciation was charged until May 1970. The FPI Manual states that depreciation charges shall begin on the first day of the month following the month in which the item is placed into use. Had this procedure been followed, about \$3,390 additional depreciation would have been charged for fiscal year 1970. We also noted that cost of repairs for fire damage to the furniture warehouse in the amount of \$1,314 was capitalized rather than charged as a current expense as provided for in the FPI Manual. We are reporting these items to your Washington office since they must authorize the adjusting entries necessary to correct the accounts.

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We would appreciate your comments as to the final disposition on any open matters discussed above. We wish to thank you for the cooperation and assistance provided our representatives during the examination.

Copies of this letter are being sent to the Assistant Attorney General for Administration, the Commissioner of Industries, and the Warden, Federal Correctional Institution, Terminal Island, California.

Sincerely yours,

H. L. Krieger

H. L. KRIEGER
Regional Manager

cc: Assistant Attorney General
for Administration
The Commissioner of Industries
Warden, Federal Correctional Institution,
Terminal Island, California