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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 204, 161 PEACHTREE STREET, N E
ATLANTA, GEORGIA 30303

JAN 20 1971

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Mr. Donald A. Hutchison, Superintendent
Federal Prison Industries, Inc.
Federal Correctional Institution DLG05791
Tallahassee, Florida 32304

Dear Mr. Hutchison:

During our audit of the Federal Prison Industries, Inc. (FPI), financial statements at the Federal Correctional Institution (FCI), Tallahassee, Florida, for fiscal year 1970, which was made pursuant to the Government Corporation Control Act (31 U.S.C. 841), we noted a number of deficiencies which are presented in detail below for your consideration and appropriate action.

NEED FOR IMPROVEMENT IN ACCOUNTING FOR INVENTORY

At the time of our review, variances between the inventory records and the physical inventory existed for 98, or about 50 percent, of the 195 items of raw materials and supplies; and we were informed by the FPI lead foreman that the variances existed because inmates (1) failed to record issues from the storeroom, (2) incorrectly recorded some issues, or (3) did not record items returned to the storeroom. We counted 20 items, valued at $19,000, and found that the inventory records varied from the physical inventory by $1,600, or 8.5 percent of recorded value. FPI expanded the physical inventory to all 195 items, valued at $36,500, and found variances amounting to $2,300, or 6.2 percent of recorded value.

FPI personnel followed a procedure of counting the raw materials and supplies inventory before the annual physical inventory was taken, and variances found between the inventory records and the count were corrected by preparing requisitions for materials issued to work-in-process without identifying the variances as adjustments resulting from physical inventory.

In order to provide better control and reporting of inventories, we believe that inmate stock record clerks should

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be more closely supervised to assure more accurate recording of inventory transactions, and that all inventory adjustments should be properly identified.

COST DATA NEEDED TO SUPPORT DISBURSEMENTS FOR UTILITIES

The FCI is required by Policy Statement 10572 to compute the actual cost of producing utilities each month and furnish FPI with a copy of the cost computations for verifying the propriety of the utility billings. However, our review of disbursements for utilities for May and June 1970 disclosed that the amounts billed were not supported by cost computations. The FPI Office Manager stated that FPI had not received cost computations from FCI to support the utility billings for the last 2 fiscal years.

We believe that FPI should obtain cost computations from FCI that show the actual costs of producing utilities in order that the propriety of utility billings can be assured.

METERS NEEDED TO RECORD STEAM USED BY FPI

The FCI Chief Engineer informed us that the amount of steam used by FPI was not accurately measured because one of the two lines providing steam to FPI bypassed the meter, and he said that the meter on the other line measured condensate instead of steam flow and some of the steam evaporates or escapes when used and therefore is not measured.

The FCI Chief Engineer stated that FCI would install new steam meters to be furnished by FPI which will accurately measure the steam used.

FPI SHOULD PAY UTILITY EXPENSE FOR VOCATIONAL TRAINING

FPI has the responsibility to pay all vocational training expenses, but it did not receive and pay bills for utilities furnished by FCI for vocational training activities.

The FCI Chief Engineer informed us that FPI was not billed for utilities furnished to vocational training by FCI. The FCI Business Manager said that FPI was not billed for utilities because part of the space for vocational training was occupied by FCI without charge. The FPI internal auditors pointed out in their 1970 audit report that FPI was not being billed for utilities furnished to vocational training, but the internal auditors did not provide a recommendation for correcting the deficiency.

During our exit conference, the FCI Warden agreed that FPI was not billed for utilities furnished to vocational training and he stated that FCI would make a study to determine the feasibility of metering the utilities used by vocational training.

In order to preclude FCI bearing expenses for vocational training, we believe that FPI should be billed for utilities used in vocational training, and if FCI should determine that installation of meters is not feasible, we believe that the FCI engineer should estimate the usage for billing purposes. We also believe that FCI should pay FPI for the vocational training space occupied by FCI; or as an alternative, the billings for utilities furnished to vocational training could be credited by an amount representing cost for the space occupied by FCI.

NEED TO SEGREGATE DELIVERY COSTS FROM MANUFACTURING COSTS

FPI treated the revenue from operation of a delivery truck as "other income" but treated the costs of operating the truck as manufacturing costs. This practice not only failed to match revenue against applicable costs, but also resulted in an overstatement of manufacturing costs.

In order to expedite the receipt and shipment of furniture, FPI operates its own delivery truck and bills customers a transportation fee. Before fiscal year 1970, FPI recorded the revenue from operation of the truck as sales and recorded the costs for operating the truck as manufacturing costs, but pursuant to a recommendation in an internal audit report, FPI recorded the revenue for fiscal year 1970, which amounted to $16,000, as "other income." We were advised by the FPI Office Manager that costs of about $16,000 for operating the truck were treated as manufacturing cost because the FPI internal auditors did not recommend a change in the treatment of such costs.

In order to properly match costs against applicable revenue and correctly state cost of sales, we believe that FPI should treat the costs of operating the delivery truck as "other expense" and treat the revenue as "other income."

NEED TO SURVEY VAN-TYPE TRAILERS FOR CAPITALIZATION PURPOSES

FPI owns and uses two van-type trailers acquired from surplus in 1961 that have not been surveyed for capitalization and depreciation purposes as required by section VIII of the FPI manual. As a result, depreciation expense on the trailers has not been considered in computing income earned by FPI.

Section VIII of the FPI manual requires that a Board of Survey be appointed to establish the value of property acquired from surplus and, when the appraised value is $100 or more, that the property be capitalized. The trailers had an acquisition cost of about $3,000 each and therefore should have been surveyed in accordance with the FPI manual.

This matter was included in our report dated May 31, 1967, to the Superintendent, FPI Tallahassee, and we were informed by the FPI Office Manager that corrective action had not been taken because the FPI Washington office gave verbal instructions not to capitalize the trailers.

We believe that FPI Tallahassee should survey the two van-type trailers and, if the appraised value for each is $100 or more, the trailers should be capitalized and depreciated over the remaining useful lives in accordance with section VIII of the FPI manual.

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We wish to acknowledge the cooperation extended to our representatives during our audit. We would appreciate your comments, including actions taken or planned, on the matters discussed herein.

Copies of this letter are being sent to the Assistant Attorney General for Administration, Department of Justice; the Commissioner of Industries, Federal Prison Industries, Inc.; and the Warden, Federal Correctional Institution, Tallahassee, Florida.

Very truly yours,

R. J. Madison

Regional Manager