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UNITED STATES GENERAL ACCOUNTING OFFICE
DALLAS REGIONAL OFFICE
ROOM 800 1512 COMMERCE STREET
DALLAS, TEXAS 75201

JAN 12 1971

Mr. R. M. Weaver
Superintendent of Industries
Federal Prison Industries, Inc.
Federal Correctional Institution
Seagoville, Texas 75159

Dear Mr. Weaver:

We have completed an examination of the financial statements of the Federal Prison Industries, Inc. (FPI), Seagoville, Texas, 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, which was completed in September 1970, was made in accordance with generally accepted auditing standards and included such tests of accounting records and financial transactions as we considered necessary in view of the nature and volume of transactions and the effectiveness of internal controls. We considered the most recent audit performed by the FPI examiners which was completed in November 1969.

Our findings, which were discussed with you and institution officials at the conclusion of our review, included minor deficiencies on which corrective action had been taken or promised. Other findings concerning matters which are within your authority and responsibility are summarized below for your information and such additional action as you deem necessary.

PROCUREMENT OF FIXED ASSETS AND SUPPLIES

BEST DOCUMENT AVAILABLE

Our review disclosed several weaknesses in the procedures for acquiring fixed assets and supplies both in the Furniture Refinishing Industry and in the Vocational Training Department.

Regulations provide that only authorized contracting officers can obligate government funds by placing orders for goods and services. In addition, although the regulations provide that small purchases which do not exceed \$2,500 do not justify procedures of advertised procurement; they do provide that competition reasonably available should be obtained and the files should document the decisions made and the actions taken.

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During our review we found several instances where purchases were made by unauthorized personnel without going through the proper procedures and two invoices dated prior to the date of the purchase requisition. We found very little indication that available competition was solicited or that the items procured were sole-source items. The business manager, who is also the certifying officer, informed us that this was a common practice. The FPI examiners also commented on this deficiency in their report covering their November 1969 review.

We believe that purchases of the nature cited above are contrary to good procurement practices. Since both you and vocational training officials agreed to take corrective action to comply with the regulations, we are making no recommendations on this matter at this time.

YEAR-END PROCUREMENTS

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Our review disclosed that the Vocational Training Department expended funds at the end of the fiscal year for material to be used in the following year.

We noted that during the month of June 1970, the Vocational Training Department procured materials which apparently could not be used before the end of the fiscal year. These items were expensed when purchased and no inventory records maintained. For example, we noted two purchase orders dated June 29, 1970, totaling \$658.50 for 43 rolls of video tape. The receiving reports showed that the tapes were delivered on that date.

We discussed this matter with vocational training officials who acknowledged that they did stockpile materials that would be needed in the succeeding fiscal year at the end of the year if funds were available.

Annually, the Congress has placed a limitation on the amount of funds to be expended for vocational training. In our opinion, funds limited annually by the Congress should be used only for expenses applicable to that fiscal year and that year-end spending for stockpiling material supplements the following year's limitation.

Since both you and vocational training officials agreed to correct this practice, we are making no recommendation at this time.

NEED FOR IMPROVED TOOL CONTROL IN VOCATIONAL TRAINING DEPARTMENT

Our physical inspection and discussions with vocational training personnel disclosed a weakness in the control of tools used in the automotive repair and machine shop. Some tools, especially those used

in automotive repair, were stored during the day in four unlocked and untended roll-around cabinets which were available to anyone in the area. Each of these cabinets contained valuable tools such as precision instruments and ratchet wrench sets as well as numerous common-use tools.

In addition, other tools, used in the machine shop were to be stored on shadow boards which would reveal at a glance which tools were in use. These tools were to be returned to the shadow board when not in use. We were informed by the shop foreman that in many instances he does not perform a daily check of the shadow board or of the roll-around cabinets.

At other locations in the Institution, tool control was a constant procedure. FPI, for example, made a daily tool count and either located all missing tools or was required to file a report with the Control Department.

Many of the tools cost less than \$100, which according to FPI manual instructions are expensed upon procurement and memorandum stock cards are required to be maintained for such tools. We found that the memorandum cards were not being maintained.

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We recognize the problem of maintaining constant control over the tools, particularly since there are only two civilian employees in the shop and, in automotive repair there was a constant need for using many different tools on one job. However, we believe that the Vocational Training Department should devise such tool controls that are feasible and practical. We believe that memorandum stock records should be established to identify the tools to be controlled and that the roll-around cabinets should be locked when not in use to provide additional controls.

Vocational Training Department officials acknowledged the weaknesses and agreed to establish better control over tools, including the maintenance of memorandum stock records. We are therefore, making no recommendation at this time.

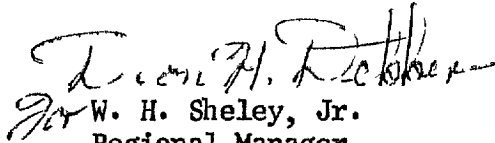
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We wish to acknowledge the courtesies and cooperation shown our representatives during the review. We would appreciate your comments and advice as to any further action taken on the matters discussed herein.

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, Seagoville, Texas.

Sincerely yours,


W. H. Sheley, Jr.
Regional Manager

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