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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 226, 870 NORTH MILITARY HIGHWAY
NORFOLK, VIRGINIA 23502

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DEC 7 1971

Mr. W. G. Haase,
Superintendent of Industries
Federal Prison Industries, Inc.
Petersburg, Virginia 23803

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Dear Mr. Haase:

We have completed an examination of the financial statements of the Federal Prison Industries, Inc. (FPI) at the Federal Reformatory, Petersburg, Virginia for fiscal year ended June 30, 1971. The examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Our review showed that substantially all financial transactions examined were handled in a satisfactory manner. However, we noted several matters which needed attention. These matters, which were discussed with you, are summarized below together with your comments on the actions taken or to be taken.

- The ending work-in-process inventories for the electronic cable shop and the tire reconditioning plant were understated because they did not include charges for direct labor and overhead for partially finished units. In addition, the electronic cable shop work-in-process inventory was overstated by the cost of materials which should have been charged to the raw materials inventory. You stated that the misunderstandings and practices resulting in these mischarges would be corrected.
- Our test counts of the raw materials and supply inventories showed that stock card balances for 37 percent of the items tested were incorrect. We believe improvements are needed to achieve more accurate physical counts of materials; also, that improved internal controls over inventories can be achieved by limiting the number of personnel permitted access to storage areas, segregating duties so that persons not responsible for managing inventories take or check the physical counts and using a locator card system for raw materials and supplies inventories. You agreed to improve each of the matters we observed; also, that consideration would be given to using a locator card system for materials in storage.

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--A total of eight purchase orders were not properly recorded on the report of unliquidated obligations at the year end, resulting in a net understatement of \$1,427.25. The business manager stated the details supporting unliquidated obligations would be more closely reviewed to avoid improper recording of purchase orders in the future.

--The financial statement included amounts for claims against common carriers which were in dispute. The contingent nature of these amounts were not disclosed. You agreed that contingencies such as those discussed should be disclosed by footnote in the future.

In addition, we noted that certain interindustry and intraindustry transactions were incorrectly recorded in the miscellaneous sales and cost of miscellaneous sales accounts. This occurred because no account has been established for such transactions. The following transactions were improperly recorded in these accounts:

--Certain travel costs incurred by FPI, Petersburg, which were later reimbursed by FPI, Washington.

--Rental charged by one department for use of a loading platform by another department.

--Purchases made by one department, but applicable in part to other departments.

You explained that the FPI central office will have to authorize a new account before corrective action can be taken. We accordingly expect to discuss this matter further at Washington.

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We wish to acknowledge the cooperation extended to our representatives during the audit. We will appreciate receiving your comments on any further actions taken or planned on the above matters.

Mr. W. G. Haase

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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 Reformatory, Petersburg, Virginia.

Sincerely yours,


Walter H. Henson
Regional Manager

JGB/bjs