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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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JAN 11 1974

Mr. David C Jelinek, Associate Commissioner
Federal Prison Industries, Inc
HOLC Building
101 Indiana Avenue, NW ~~DL6~~ ^{AGL} 00714
Washington, D.C 20537

Dear Mr Jelinek

Our audit of the Federal Prison Industries (FPI) fiscal year 1973 financial statements is completed and our report to the Congress is in preparation

Accounting discrepancies at the Washington office disclosed in our work were either corrected during our examination or corrective action was promised and we see no need for further comment on our part We would, however, like to share our observations on the corporation's management of its working capital position, particularly cash and inventory, which we are aware has been of concern to you

As you know, working capital, the excess of current assets over current liabilities, constitutes a safety margin for meeting obligations within the normal operating cycle of a business Good business practice is to maintain sufficient working capital to pay current liabilities as they mature and to finance current operations

An analysis of the corporation's total assets since fiscal year 1969 reveals an aggregate growth rate of about 10 percent However, as shown in the enclosure, the corporation over the same time frame has increased its level of inventory at the expense of cash at a rate inconsistent with the overall corporate asset growth Inventory levels have increased about 78 percent from \$13.7 million in 1969 to \$24.4 million in 1973 Concurrently, cash has decreased by 79 percent from \$12.4 million to \$2.6 million Since 1969, corporation sales have not increased significantly as shown below.

<u>Fiscal year</u>	<u>Annual sales</u> (millions)
1969 -	\$52.9
1970 -	58.4
1971 -	47.3
1972 -	54.0
1973 -	58.8

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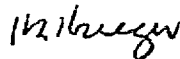
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In discussing this matter with management, we were advised that action has been initiated to prevent any further decline in cash. These actions include canceling a scheduled superintendent's conference, reviewing civilian manpower utilization, declaring a moratorium on filling position vacancies; studying the policy on opportune buying to determine if the corporation can continue to operate under this policy, improving efforts to increase the turnover of raw materials and the efficiency of work in process, reducing finished goods inventory by early shipment, and billing and collecting more promptly.

It is clear that management is concerned with the corporation's working capital position and is proceeding to take corrective measures. We believe that the steps outlined above should contribute to an improvement in your cash position. In view of this, we will defer any further work on this subject and will follow up in more depth in our fiscal year 1974 examination of the corporation's financial operations.

We appreciate the cooperation and courtesies extended to our representatives during this examination. If we can be of any help, please feel free to call on us.

Sincerely yours,



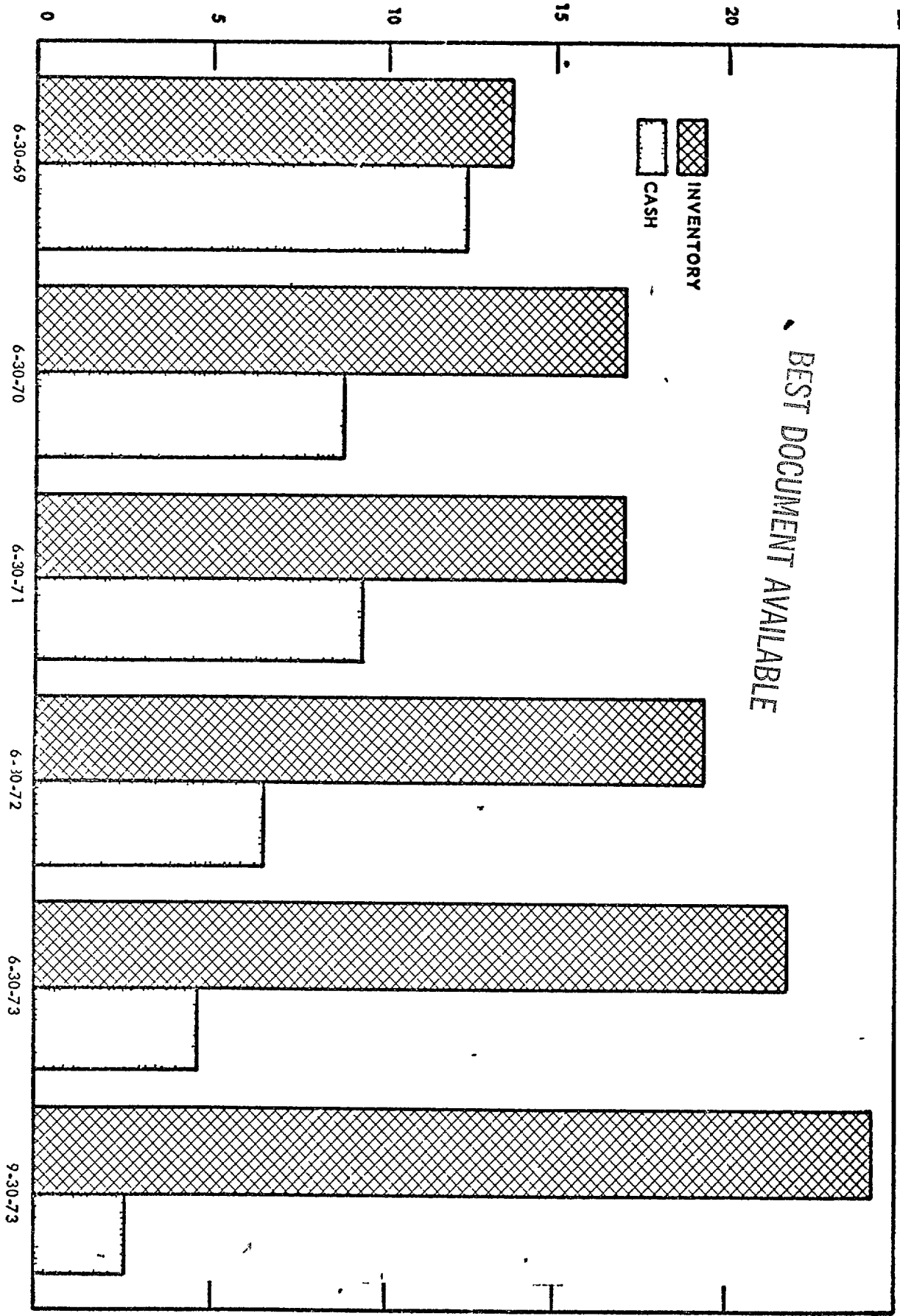
H L Krieger
Regional Manager

Enclosure

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RELATIONSHIP OF CASH TO INVENTORIES

MILLION
25



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JAN 11 1974

Mr. Harry Shephard, Director
Office of Internal Audit
Department of Justice
Washington, D.C. 20004

Dear Mr. Shephard

Enclosed for your information is a copy of our management letter to the Associate Commissioner, Federal Prison Industries, Inc. The letter contains our observations on the corporation's working capital position.

We have enjoyed working with your staff again this year.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger
Regional Manager

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JAN 11 1974

Mr. A. I. McAlear
Assistant Commissioner for Financial Management
Federal Prison Industries, Inc.
HOLC Building
101 Indiana Avenue, NW.
Washington, D.C. 20537

Dear Mr. McAlear

Enclosed for your information is a copy of our management letter to the Associate Commissioner. The letter contains our observations on the corporation's working capital position.

We appreciate the courtesies and cooperation provided our staff again this year.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger
Regional Manager