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Mr. Billy O. Davis
Superintendent of Industries
Federal Prison Industries, Inc.
Federal Correctional Institution
Sandstone, Minnesota 55072

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Dear Mr. Davis:

We have ^{ation of} examined the financial statements of the Federal Prison Industries, Inc. (FPI), Sandstone, Minnesota, for the fiscal year ended June 30, 1974. The examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Our review, which was completed in September 1974, was made in accordance with generally accepted auditing standards. It included such tests of the accounting records and financial transactions and such other auditing procedures as we considered necessary, considering the existing system of internal controls and prior audits.

This year we limited the amount of detailed audit work done on FPI, Sandstone's financial statements, because of the Department of Justice auditors' review of financial activities at your location. Our review placed primary emphasis on FPI, Sandstone's management of its financial resources, specifically inventory management.

Our findings, which were discussed with you and other officials at the conclusion of the review, would have no significant effect upon the reliability of the financial statements for your location. However, certain observations which are within your authority and responsibility, upon which corrective action has been taken or promised, are summarized below for your information.

1. FPI, Sandstone personnel need to comply with their warehouse operating procedures and exercise better controls over raw materials and supplies. For example:

--The glove factory foreman told us his requisitions for raw materials were not prepared until after the materials had been issued from the warehouse.

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--The print shop bindery foreman, who is also the storekeeper, told us that print shop requisitions were not numbered nor signed until the day after the requisitions were filled.

--During our review of stock record card data, one inventory item (chip board sheets) was disclosed which showed 4083 more units on hand on the stock record card than were in the warehouse.

2. More effective use of maximum/minimum inventory levels is needed at FPI, Sandstone to assure that proper levels of supply are maintained. For example:

--Our review of stock record card data as of May 31, 1974, date of physical inventory for raw material items, disclosed 15 items with stock on hand in excess of one-year needs, which were not reported by FPI, Sandstone. The stock record cards showed that balances on hand were in excess of the maximum inventory level indicated for 5 of the 15 items.

--We found seven items with stock on hand under the minimum inventory level indicated on the stock record cards for which procurement action had not been considered.

--We were told by the FPI, Sandstone business manager and the print production foreman that they have not, as a regular practice, reviewed maximum/minimum established inventory levels to identify items requiring procurement, nor have they always considered the inventory levels when determining the quantities of items to be procured.

--No maximum/minimum inventory levels, nor other designation of an inventory level, were shown on the stock record cards for the glove factory raw material items.

3. The need for FPI, Sandstone personnel to take corrective actions and for management to monitor these actions is particularly significant, because the finding areas cited have been included in prior internal and GAO audit reports. For example:

--"Inventory differences disclosed by our August 1971 test counts and a review of storeroom requisitions and procedures indicated a need for better materials and supplies control." (GAO, letter report, dated October 7, 1971, to Superintendent of Industries, FPI, Sandstone)

--"More effective use of stock record cards *** is needed to assure that proper levels of raw material are maintained ***." "We noted that on the basis of annual usage, procurements either were excessive or were late."
(Department of Justice Office of Internal Audit, report, dated October 16, 1972, on FPI financial activities at Sandstone)

We shall appreciate your comments and advice as to the results of further action taken on these matters. We wish to acknowledge the cooperation and courtesy extended to our representatives by both your civilian and inmate personnel during our review.

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

Sincerely yours,

G. F. Stromvall

G. F. Stromvall
Regional Manager

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