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BY THE COMPTROLLER GENERAL

Report To The Chairman, Permanent Subcommittee On Investigations, Committee On Governmental Affairs, United States Senate

OF THE UNITED STATES

Poor Management Identified At The Bureau Of Prisons

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RELEASED

Federal prisons do not adequately plan or control their acquisition and utilization of personnel and property resources.

--Plans for allocating and contolling resources are poor.

--Expenditures are not controlled.

--Property is not safeguarded.

At two institutions, GAO identified $1.4 million worth of unneeded repair and construction projects which were subsequently cancelled. At five institutions GAO identified over $216,000 worth of unnecessary purchases and over $500,000 worth of uncontrolled property.

The Department of Justice internal audit staff should report to the Attorney General on the Bureau of Prisons' progress in implementing its policies for planning and controlling the acquisition and use of personnel and property.

UNITED STATES GENERAL ACCOUNTING OFFICE

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JUNE 6, 1980

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-197926

The Honorable Sam Nunn
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

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Dear Mr. Chairman:

As requested in your October 2, 1978, letter, this report discusses how Federal prisons inadequately managed their procurement, financial, property, services, and personnel activities, primarily during fiscal year 1978. It addresses the Bureau of Prisons' compliance with Federal laws and regulations, the appropriateness of Bureau of Prisons policies, and needed corrective action.

This report makes recommendations regarding the Federal prisons' need to better plan and control the acquisition and utilization of their personnel and property resources.

As arranged with your office, we are sending copies of this report to the Attorney General and the Director, Office of Management and Budget. Copies will also be available to other interested parties who request them.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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COMPTROLLER GENERAL'S REPORT TO THE CHAIRMAN, PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, COMMITTEE ON GOVERNMENTAL AFFAIRS, UNITED STATES SENATE

POOR MANAGEMENT IDENTIFIED AT THE BUREAU OF PRISONS

D I G E S T

The Bureau of Prisons has satisfactory policies for managing its business activities--procurement, financial, property, and personnel--but many were not adequately implemented. The Bureau has an accounting system which meets GAO's standards for internal management control, but its

--plans were not adequate for allocating and controlling resources,

--expenditures were not controlled,

--property was not adequately safeguarded, and

--audit programs did not result in adequate reviews or corrective action.

Bureau managers, therefore, did not carry out all their duties and responsibilities as effectively, efficiently, and economically as possible.

GAO's observations are based on work performed at 5 of the Bureau's 49 institutions in 3 of its 5 administrative regions. Three types of institutions--two penitentiaries, two correctional institutions and one metropolitan correctional center--were visited. Although the bad effects of the management control weaknesses discussed in this report relate to the five institutions where work was performed, the control weaknesses themselves, including the inability of the institutions and regional offices to detect and correct the problems, call for agencywide corrective action.

INADEQUATE PLANS FOR ALLOCATING AND CONTROLLING RESOURCES

The Bureau had a comprehensive system for planning, but neither the central office nor institutional managers adequately planned for the personnel and funds needed to operate the Bureau's institutions. (See pp. 4 and 5.)

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all the goods paid for were actually received. Receiving clerks did not receive and check certain goods obtained by the institutions, which was not in accordance with established policy. (See pp. 27 and 28.)

PROPERTY WAS NOT ADEQUATELY SAFEGUARDED

The institutions' property was not adequately safeguarded to prevent it from being misused or stolen. GAO found that over $500,000 worth of property was not controlled, and that significant amounts of property were missing. (See p. 31.)

Although the approved accounting system required the institutions to record the property they acquired, few records were kept. Even they were inadequate to maintain control over the property.

--Capitalized equipment was not always recorded. At one institution, GAO identified 175 items of capitalized equipment, costing $405,000, which had not been recorded, some after more than 20 years. (See pp. 32 and 33.)

--None of the institutions had complete records for items highly subject to theft. Among the unrecorded items identified by GAO were 43 rifles, 6 shotguns, and 8 handguns. (See pp. 33 and 34.)

--Although the institutions' tools were required to be under strict physical and record controls, tools at three institutions were not adequately safeguarded. At five locations in one institution GAO found that less than 50 percent of the tools were listed and that 20 percent of the listed tools were missing. (See pp. 34 to 36.)

The institutions did not maintain adequate control of supplies. Storekeepers at four institutions did not maintain physical custody and accurate stock record cards for most supplies. At one institution, the Department is investigating the destruction of food supply records before they could be audited by GAO. There were also four institutions which because, while it agreed with GAO's recommendation to conduct periodic audits of the Bureau's corrective actions, it promised very few specific actions. If the Department and Bureau fail to take vigorous management actions on the findings detailed in this audit report, GAO is not optimistic that additional audits will result in the Bureau's managers adhering to sound policies and procedures for managing their resources. (See app. III.)

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CHAPTER 1

INTRODUCTION

At the request of the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, we conducted a review of how well Federal Bureau of Prisons' institutions managed their procurement, financial, property, services, and personnel activities. The request was made because a limited subcommittee investigation at the U.S. Penitentiary, Atlanta, Georgia, revealed serious business management weaknesses at the institution. (See app. I.)

We conducted the review at five of the Bureau's institutions in 3 of its 5 administrative regions:

--U.S. Penitentiary, Atlanta, Georgia;

--Federal Correctional Institution, Ashland, Kentucky;

--Federal Correctional Institution, Englewood, Colorado;

--U.S. Penitentiary, McNeil Island, Washington; and

--Metropolitan Correctional Center, New York, New York.

We reviewed the adequacy of Bureau policies and the institutions' compliance with Federal laws and regulations. We also reviewed the activities of the Bureau's regional and central offices as they related to activities at the five institutions. Although the bad effects of the management control weaknesses discussed in this report relate to the five institutions where work was performed, the control weaknesses themselves, including the inability of the institutions and regional offices to detect and correct the problems, call for agency-wide corrective action. Chapter 6 contains additional details on the scope of the review.

MANAGEMENT OF THE BUREAU OF PRISONS

The Bureau, within the Department of Justice, provides for the custody, care, and correction of Federal law violators sentenced to confinement. The Director of the Federal Prison System is responsible to the Attorney General for the management and direction of the Bureau. Business operations are to be conducted in accordance with the accounting system approved by the General Accounting Office in June 1974 as provided in the Bureau's policies.

$284 million in order to serve an average daily population of 29,347 offenders. The 5 institutions we reviewed obligated about $36 million to serve an average daily population of 5,198 offenders. At the end of fiscal year 1978, the Bureau reported that it had real property and equipment valued at about $267 million and expendable property valued at about $14 million, while the five institutions reportedly had real property and equipment valued at about $32 million and expendable property valued at about $3.7 million. The scope of operations for the Bureau and the five institutions for fiscal year 1978 is shown in the table below.

	Atlanta	McNeil	Ashland	Englewood	New York	Institution total	Bureau total
	(thousands)						
Personnel	$ 7,560	$6,206	$3,891	$3,641	$ 3,549	$24,847	$172,501
Goods and services	3,731	2,693	1,728	1,380	2,069	11,601	111,484
Total obligations	$11,291	$8,899	$5,619	$5,021	$ 5,618	$36,448	$283,985
Value of property (note a)	$ 6,305	$4,165	$4,238	$3,216	$17,725	$35,649	$280,941

a/Since New York did not conduct a physical inventory of its expendable property inventory at the end of fiscal year 1978, the total value of its property is unknown.

were to plan and implement programs to achieve the objectives in line with the policies. The institution plans were supposed to represent the specific types and amounts of resources cost center managers planned to commit to their particular programs and goals.

The Bureau designed its financial management, management-by-objectives, and other systems to be used together by its managers to help them develop comprehensive plans for effectively using the Bureau's resources. The management-by-objectives system was designed to specify the resources needed to accomplish established program objectives. The financial management system was designed to record the resulting financial plans for the programs and the costs associated with them during the fiscal year. These and other planning systems were to be used by the institutions to prepare program plans, budget submissions, and performance evaluations by having managers evaluate the results and costs of programs, consider alternative courses of action for achieving the Bureau's mission, and provide sufficient evidence that present resources were being optimally utilized in order to justify requests for additional resources. According to Bureau policies, the comprehensive planning system was supposed to help cost center managers make conscious, explicit, and systematic planning decisions.

The institutions were required to prepare annual and quarterly financial plans for each of their cost centers (i.e., programs) which were supposed to represent a detailed and rigorous examination and justification of what personnel and other resources the cost center managers needed to achieve their program objectives. The specific types and amounts of resources were supposed to be identified and justified in the institutions' personnel, procurement, facilities, and equipment plans. The budget and planning committees were supposed to integrate all the various plans in a manner which made maximum effective use of the available resources and predicted needed changes in resource levels. The committees were also responsible for monitoring the implementation of the plans in order to identify needed adjustments to them.

At the same time, the Bureau recognized that its comprehensive planning system was not just a system for preparing plans, but also one for decisionmaking. Since institution plans were prepared under conditions of uncertainty, the Bureau made them subject to revision by the wardens in response to changing conditions while they were being implemented. Major changes were supposed to be justified to higher management.

If the Bureau had required the institutions to plan and budget for such things as promotions, part-time employees, and new positions, it would have had a more complete picture of the funds required to meet its personnel needs.

Institutions had no personnel plans before the start of fiscal year 1978

None of the institutions had prepared manpower purchase and utilization plans in accordance with Bureau policies as a basis for their fiscal year 1978 funding requests, although three institutions prepared some type of plan during the year. As a result, the institutions could not be sure they had a balanced financial plan for salaries as provided for in the Bureau's policies.

The Bureau expected each institution to have a rational basis for estimating its personnel requirements on the basis of projected workloads by establishing

--a continuous and objective position management program;

--a planned short- and long-range staffing program based on planned recruiting, placement, and promotion activities;

--an employee development program;

--a coordinated budget and personnel management effort; and

--an annual manpower utilization plan projecting immediate and long-range personnel requirements on the basis of an annual evaluation of staffing.

Also, each institution's planning committee was to have a salary subcommittee--the warden, associate wardens, business manager, and personnel officer--that was responsible for preparing the manpower purchase and utilization plan in order to develop a balanced financial plan for salaries. Since salaries consume around 70 percent of an institution's Salaries and Expenses funds, this is an especially important financial plan.

None of the institutions prepared manpower purchase and utilization plans as a basis for their fiscal year 1978 funding requests, but three institutions did examine their current position requirements during fiscal year 1978.

Inadequate planning of annual requirements for goods and services

The central office did not request complete annual plans, and the institutions had developed little or no information with which to prepare realistic plans. Consequently, the Bureau did not have complete and realistic estimates of its requirements for goods and services to operate the institutions in fiscal year 1978.

In July 1977, the central office essentially instructed the institutions to limit requests for funds for goods and services to fiscal year 1977 levels. In effect, institutions were told that the central office did not plan to allocate the Bureau's total resources among institutions on the basis of their relative needs for good and services during the next fiscal year.

In addition, the annual plans submitted by the institutions were not based on reliable cost information for the projected programs and workloads of the cost centers as required by Bureau policies. The cost center managers had accumulated little or no information on how they used their fiscal year 1977 resources and therefore did not know which and how much of those resources would be needed in fiscal year 1978. The managers merely requested lump sum dollar amounts with no supporting details.

Quarterly plans could not be used to plan or control procurements

The institutions generally did not follow Bureau policy for planning procurements for each quarter of fiscal year 1978. Although cost center managers were required to prepare lists of the items they intended the business office to purchase during the ensuing quarter, most usually listed only the total amount of funds they planned to spend. Consequently,

--budget and planning committees could not evaluate the relative needs of cost centers, predict what they would spend, or control performance, and

--contracting officers could not adequately plan procurements.

None of the reports prepared by the five institutions in fiscal year 1978 accurately showed the current and projected status of cost centers' plans. The known requirements for the current quarter were to be determined by adding the supplies and services, as listed on the cost center planning documents, which were to be ordered or obligated during the remainder of the quarter. The requirements for the ensuing quarter were to be obtained from the cost center planning documents for that quarter. Since the supplies and services to be ordered were not listed on most forms, it was impossible for the budget committees to accurately estimate the institutions' funding requirements for the remainder of the current quarter and for the ensuing quarter.

The incomplete cost center planning documents also could not be used by the institutions' contracting officers to adequately plan and make purchases using the most competitive procurement methods. For example, the McNeil Island construction and mechanical services cost center manager submitted two separate purchase requests for building steel in the same month--one for $5,700 and the other for $4,700--instead of listing the total $10,400 procurement on the quarterly planning document. The two individual procurements were made from a firm with whom the institution had a charge account, instead of being combined tc obtain competitive bids or offers from additional potential suppliers. Other examples occurred at Atlanta where two purchases of socks totaling $14,580 were made 13 days apart and two purchases of sheets totaling $16,000 were made 6 weeks apart on the basis of individual purchase requests. Had the responsible cost center manager listed the total requirements for socks and sheets on the planning document submitted for the fourth quarter of fiscal year 1978, the contracting officer would have known to formally advertise the procurement to obtain maximum competition instead of using the negotiated small purchase procurement method.

The lack of information on what goods and services the cost centers actually needed also allowed them to purchase unneeded items with Salaries and Expenses funds, particularly near the end of the fiscal year. As discussed in chapter 3, we identified $216,828 worth of procurements at the five institutions which did not appear to meet the valid needs of the institutions. Had the cost center planning documents been properly prepared, the cost center managers and the business office would have known that the quarterly requirements were not high enough and/or the quantities on hand and on order were not low enough to justify the procurements.

Facilities repair and construction projects were not well planned and controlled

The institutions planned and executed repair and construction projects without developing the detailed documentation required by the Bureau to demonstrate the need for the projects and to accurately estimate and control the work involved and its cost. As a result, many projects were unneeded or of low priority and not completed as planned. Also, few projects could be monitored. Unneeded projects, totaling $1.4 million, were cancelled or curtailed after we questioned the need for them.

Inadequate planning to identify need for repair and construction projects

The institutions did not plan well enough to avoid approving and implementing unneeded repair and construction projects. Approved projects totaling $1.8 million had been planned or implemented which could have been avoided with adequate planning.

--Although McNeil Island and Atlanta were scheduled to close in 1981 and 1985 respectively, several approved projects were underway or planned which would have extended the institutions' useful lives beyond their closing dates. Officials cancelled or curtailed unneeded projects, saving $1.4 million, after we questioned the need for them.

--Ashland could have avoided a $220,000 project to renovate its sewage treatment plant if it had checked with the city and learned of plans to build a new interceptor sewer line to the institution. Also, the improvements accomplished by a $100,000 dormitory rehabilitation project had to be removed in 1978 because they were inappropriate for a prison, according to Bureau officials.

--Englewood undertook projects totaling over $92,000 in fiscal year 1978 which were not recommended by a recent study of the institution's repair and construction needs.

Since there was no documentation to show that the institutions held the required special annual sessions of the budget and planning committees to prepare master plans for the facilities

Estimated cost	Actual cost	Overrun (percent)
$3,900	$12,965	332
1,990	12,882	647
525	4,881	930
1,850	3,671	198
1,000	2,378	238
1,200	2,463	205
1,400	2,253	161

--Monthly construction reports submitted by Atlanta to the regional office on projects costing over $2,000 did not contain information required to monitor the projects. Reports on two projects totaling $31,000, for example, did not adequately describe problems, reasons for delays, and the amount of work completed.

--New York undertook major projects without having materials and costs lists. One project, for example, had no material list or cost estimate to support the original $278,600 authorized for it or for an additional $158,900 authorized later.

--Monthly construction reports submitted by New York to the region were not accurate or complete enough to indicate that projects were being adequately monitored by the institution. For example, the reports on one project did not explain the substantial cost increase, describe the work accomplished until the eighth month, and reported the same amount of obligations as shown on the financial reports.

Without the required information on major projects, institution managers could not adequately estimate the scope and costs of all projects or control their implementation.

Maintenance activities were not documented and plans were not prepared

Maintenance planning at four institutions was inadequately documented to assure that the usefulness of the facilities would be preserved and prolonged, and that major repairs would be prevented.

although it agreed that promotions should be included in institution plans. The Department was correct in stating that the Bureau was not authorized to include anticipated pay raises in its annual plans.

The Department overlooked the principal problem, however. None of the five institutions had prepared detailed personnel plans to support their funding needs as required by Bureau policies. Until the Department overcomes this problem, the other issues are moot. However, the Department gave no indication of what, if anything, would be done to insure that institutions prepared plans based on rigorous reexamination of their personnel needs.

The underlying premise of the Bureau's planning policies is to insure an appropriate match between institution personnel resources and known and anticipated workloads. When, as advocated by the Department, institutions omit personnel needs because they represent new positions not yet approved and part-time positions because these are controlled by regional offices, the Bureau does not get a complete picture of what the institutions think they need to fulfill their mission nor the alternative ways the needs could be met.

The Department stated that because the size of pay raises and the amount to be absorbed are unknown when plans are developed, planning for pay raises would be speculative. The inclusion of pay raises would make institution managers more aware of the financial implications of their personnel planning and provide added motivation to seek less costly alternatives. The resulting plans would be complete and serve as a sound basis for holding managers accountable. This would be in sharp contrast to the situation we found where personnel plans were known to be grossly understated and served neither as an accepted management goal nor a basis to measure management performance.

Planning, by its nature, always deals with forecasts of future conditions which may or may not materialize and which may require changes to plans. Thus we see little merit to the exclusion of pay raises or other factors, simply because they represent less than a certainty.

The Department misconstrued our statement that the Bureau required institutions to limit their 1978 requests to 97 to 98 percent of 1977 authorized positions to mean that institutions were prevented from achieving full staffing. Our point is that, the Bureau never learned what personnel needs the institutions had, and the Bureau could not allocate personnel resources among institutions according to need.

the recommendation presupposes that vigorous management action will be taken to insure that the Bureau adheres to sound policies and procedures and institution managers exercise adequate supervision over their operation and subordinates. If the Department and Bureau fail to act on the findings detailed in this report, and very few specific actions are promised, we see little reason to be optimistic over the Department's and the Bureau's reactions to additional audits.

Institutions made unneeded procurements

At the five institutions, we identified $216,828 worth of procurements, mostly made near the end of the fiscal year, which were not for valid needs of the institutions at the time purchased. For example:

--In June 1978, Ashland purchased various roofing materials for $5,300 for a project which was not approved until November 1978 (fiscal year 1979) and not scheduled to begin until Spring 1979.

--In September 1978, Atlanta purchased 44,000 pairs of inmate socks for $14,580 when it had 33,759 pairs on hand and only used 13,217 pairs each quarter.

--On September 18, 1978, Atlanta purchased 9,000 pounds of coffee for $17,640 when it had 9,200 pounds on hand or on order, and only needed 5,394 pounds for the next quarter.

--On September 28, 1978, Atlanta purchased 2,810 reams of copy paper for $4,432 when it had 2,639 reams on hand or on order, and only needed 359 reams for the next quarter. Officials said the extra paper was needed for a new program begun in fiscal year 1979.

--On September 22, 1978, McNeil Island purchased 400 pairs of Khaki trousers for $2,480 when it had 1,454 pairs on hand or on order and only needed 270 pairs for the next quarter.

--On September 20, 1978, McNeil Island purchased 400 pairs of shoes for $5,780 when it had 632 pairs on hand or on order and only needed 289 pairs for the next quarter.

--On July 17, 1978, Englewood purchased 40 cases of soap bars for $1,366 when it had 18 cases on hand or on order and only needed one case for the entire year.

In addition, near the end of fiscal year 1978, New York purchased two ice-making machines for $2,355, four calculators for $700, and a van truck for $7,000 without having any documented need for the items.

--450 gallons of paint, costing $2,891, to paint 20 cells when only 140 gallons were needed;

--$14,000 in materials which were not on the approved materials list for a project, including about 1,104 gallons of paint--about 6 times the amount required for the project; and

--$21,817 in materials and equipment purchased but not used on another approved project and which appeared questionable on the basis of approved budget justification documents, specifications, and cost estimates. Included were a $1,089 paint spray gun and a $10,652 garbage pulverizer. Also, over $2,000 in paint and related materials were obtained after the institution reported only $500 worth of painting remained.

Ashland officials agreed that the purchases we identified were not used on the projects. Atlanta officials, however, disagreed with us concerning their projects although knowledgeable staff maintained that the items were not used on the projects.

INADEQUATE COMPETITION FOR OPEN MARKET PROCUREMENTS

The procurement methods and procedures used by the institutions did not always assure full and adequate competition. Because inadequate efforts were made to solicit bids, offers, and price quotations from potential suppliers, there was no assurance that the institutions always obtained the most advantageous procurements for the Government.

Federal procurement laws and regulations state that, if competition is feasible, proposals must be solicited from enough qualified sources of supply to assure competition and obtain the most advantageous contract for the Government. Although procurements may be negotiated, formal advertising is preferred when feasible because it better assures adequate competition.

The institutions, however, did not always give their procurements sufficient advance publicity--formal advertising where required, and seeking price quotations and offers from a sufficient number of qualified suppliers for negotiated procurements. Consequently, they did not secure the necessary competition or assure that reasonable efforts were taken to secure the most advantageous contracts for the Government.

Procedures used for large procurements did not assure fully competitive offers

The procedures used by McNeil Island and New York to solicit competitive proposals were not always adequate to ensure full and free competition.

Institutions are required by Federal regulations to establish bidders mailing lists that assure access to adequate sources of supplies and services for formally advertised procurements to provide meaningful competition. All eligible and qualified concerns which have submitted bidders mailing applications or which are considered capable by the institution are to be placed on the appropriate list. The names of firms failing to respond to an invitation should be removed from the list. If this procedures results in a limited list, the contracting officer should obtain explanations from firms which did not respond before removing their names. In addition, a synopsis of all proposed purchases over $5,000 and the award of contracts over $25,000 should be published in the Commerce Business Daily.

McNeil Island used bidders lists which did not assure meaningful competition for its formally advertised procurements. About two-thirds of the firms on the bidders lists used in fiscal year 1978 did not respond to invitations. When we contacted the nonrespondents for five invitations, we learned that they were either not interested, not qualified, or had not received invitations.

--On four consecutive invitations for food, one group of five firms never responded. Four nonrespondents should not have been on the list because one could not be located and three had never expressed interest in bidding. The fifth nonrespondent wanted to remain on the list, but did not want to bid at the time.

--On September 29, 1978, McNeil Island awarded a $43,345 negotiated contract as authorized by a statement of determinations and findings which found that the needed repairs to its docking facilities required immediate attention and that firms had been solicited without any responses. We contacted eight firms sent invitations for proposals according to the bidders list, and were told by seven that they had not received invitations--most were

$10,000), and only limited attempts were made to do business with minority firms. Adequate documentation of the vendors contacted was not maintained. Only Atlanta had attempted to publicize proposed small purchases.

The institutions did not always attempt to obtain reasonable competition for purchases between $501 and $5,000 each. Reasonable competition for such purchases means obtaining a sufficient number of quotations from qualified sources of supply to assure that the procurement is competitive and fair to the Government. Our examination of all such purchases made during the last 2 months of fiscal year 1978 revealed that, depending on the institution, anywhere from a few at two institutions to as many as 48 percent at the others were made without obtaining more than one quotation from qualified sources of supply.

The institutions generally did not attempt to increase competition for their proposed small purchases by (1) posting them in public places, (2) listing them in the local mass media, (3) informing local trade associations, and (4) publishing a synopsis of all proposed procurements of over $5,000 in the Commerce Business Daily as provided in Federal regulations. Generally, the institutions called only one or two vendors. One exception was Atlanta which submitted a form describing the types of goods and services it needed to the Small Business Administration. Also, few small purchases were made from minority firms, and most purchasing agents did not have a list of minority firms in their trade areas.

Blanket purchase arrangements were used inappropriately at Englewood and McNeil Island. Federal regulations allow institutions to establish blanket purchase arrangements with local firms from whom they will likely make numerous individual purchases within stated dollar limitations in a stated time period. Individual purchases may not exceed $5,000, and the arrangements may not be used to avoid the $10,000 small purchase limitation or the requirements to purchase from government supply sources. Englewood exceeded monthly purchase limitations 14 times in amounts ranging from $47 to $2,829. McNeil Island made only a few purchases under each of two arrangements, made purchases totaling $10,400 in 1 month under another arrangement, and made $24,000 worth of paint purchases from a vendor who was not a Government source.

ACTUAL RECEIPT OF ITEMS NOT ASSURED

The institutions did not control expenditures by always assuring that all the goods paid for were actually received not determined whether the usable items were still needed, and if not, whether anyone else could use them. Inoperable items had not been declared scrap. In addition, some items were not disposed of after being declared excess or surplus.

Ashland's dairy barn contained equipment the institution apparently did not need, including unused drill presses, sludge pumps, electrical transformers, lathes, and assorted pipe, plumbing supplies, and insulation. Also, shoe repair equipment that was supposed to have been salvaged and/or scrapped in May 1978 was still on the premises. Though an Ashland employee certified that the equipment was disposed of as recommended by the Report of Survey, it was still in storage.

There were substantial amounts of idle property in Atlanta. We identified 40 items of equipment valued at about $54,000 that had not been used for periods ranging from 6 to 46 months. In addition, there was other equipment in the institution's warehouses and storerooms for which no one knew the value or the period of idleness.

Numerous unneeded items were in Englewood's warehouse, some for more than 2 years. These items included 19 stenorettes, 10 typewriters, 2 executive dictation machines, and 1 adding machine. Also, two items of automobile equipment--an alignment machine and automobile frame straightening machine--purchased in 1970 were never installed. A portable frame cutting machine purchased in July 1978 was still in its original carton in March 1979. In addition, 8 of 15 items surveyed in February 1977 had not been disposed of as provided in the survey reports.

We identified 29 property items at New York which appeared idle, including 10 body alarms, 2 microwave ovens, and a tape recorder. Other pieces of equipment were apparently disposed of without survey reports. For example, there were no reports for a barber chair which we were told had deteriorated beyond repair and had been junked, an automobile sold at auction, and kitchen equipment that was sent to another institution.

McNeil Island's scrapyard contained two tractors valued at $9,000 and other items which had not been surveyed. Also, there were items in the warehouse which were not tagged to indicate whether they were to be used by the institution or surveyed.

CHAPTER 4

PROPERTY WAS NOT ADEQUATELY SAFEGUARDED

The institutions did not adequately safeguard all their property to prevent its misuse, misappropriation, and unwarranted waste, deterioration or destruction. Over $500,000 worth of property was not under accountable control, and much of it was missing. Specifically,

--few records were kept of the institutions' property,

--cost center managers were not held accountable for property in their custody,

--property inventory programs did not provide effective internal controls,

--general ledger accounts and property record cards were not regularly reconciled, and

--employees used Government property for private purposes without Bureau policy guidance.

Control over property reduces the possibility of, and helps detect, theft. Property losses can be detected by physical inventories and other means, but it is more important to guard against the possibility of loss in the first place by following sound principles of property control. The Bureau implemented such principles by designing a property control system that was supposed to provide accurate and reliable information on the value and location of its property by assuring that property is properly classified and recorded upon receipt and when it changes location. This system is part of their approved accounting system.

The institutions, however, had poor records that provided inadequate information on what was owned, and made it difficult to fix responsibility for the care and protection of property. Control was also lost by employees who were careless in performing their work and did not follow the required procedures.

EQUIPMENT AND TOOL RECORDS WERE NONEXISTENT OR INADEQUATE

The institutions kept few records of the property they acquired, and even those records were inadequate to maintain control over the property.

--Capitalized equipment was not always recorded in the accounting system and on property record cards.

New York did not record all capitalized equipment. No property record cards were prepared for over $100,000 in equipment out of a total equipment inventory of $560,000.

During our physical inventory of items in several Englewood cost centers, we found that 385 of 794 items were not recorded. Examples of the unrecorded property were a machine lathe, a 14-inch radial arm saw, two cement mixers, and four trucks.

Although Ashland recorded most equipment it received in fiscal year 1978, a few items were not recorded. These included a $492 amplifier, a $219 welding set, a $316 water cooler, and a $235 film dryer. Ashland conducted its first complete inventory in 10 years during fiscal year 1979 and identified 553 items of unknown value previously not recorded. It could not locate 212 listed items originally acquired at a cost of $100,478.

McNeil Island did not have all capitalized equipment under accounting and property record control, primarily because

--some equipment was not recorded in the accounting system and on property record cards, and

--some equipment was incorrectly accounted for as expendable items.

The following equipment purchased during fiscal year 1978 was not entered into the general ledger equipment account and had no property record cards:

Item	Cost
Dishwashing machine and attachments	$29,375
Electric drills (3)	1,592
Portable tile cut-off machine	418
Rotary drilling system (2)	794
Portable electric drill and anchor set	425

Controlled noncapitalized property was not recorded as required

None of the institutions had complete records for items highly subject to theft, although the chief property officers are to maintain property record cards on all items of controlled noncapitalized property. These items, valued under $200 in 1978 and considered very desirable and subject to theft, include firearms, binoculars, and radios.

According to the Bureau's Custodial Manual, tools that are most likely to be used in an escape or for manufacturing weapons are designated Class A tools, subject to stringent physical and record controls. Tools of a less hazardous nature are classified Class B, with correspondingly less rigid, but no less important, controls. Although each institution is required to issue its own tool control policy and procedures, the Bureau requires that all tools be recorded in the institution's inventory records before they are issued. In addition, the Custodial Manual makes the department heads and foremen responsible for maintaining tool lists at each work location.

Englewood

During our physical inventory at 4 of the 40 tool rooms in Englewood, 41 of the 1,354 tools listed on the tool lists could not be located. Also, we counted 159 unlisted tools, but there were many more. Included were electric sanders, sabre saws, drills, and circular saws. In addition, inmates were in two tool rooms at the time of our inventory, a breach of institution security. The warden told us that tool control procedures would be greatly revised to improve receipt, issuance, and inventories.

McNeil Island

During a physical inventory of tools at five locations on McNeil Island, we found that less than 50 percent of the tools were listed and that 20 percent of the listed tools were missing. The five locations had been inventoried by McNeil Island staff only 2 and 3 months previously. In addition, many tools in the print shop, dairy farm, outside storehouse, and control room were not kept on shadowboards 1/ or in locked cabinets, in violation of Bureau policy. Also the control room operator did not know where four missing hacksaw blades were located. We did find four other small hacksaw blades in an unlocked container, but these four blades had marine shop markings and were not on the control room tool inventory list.

McNeil Island's policy statement on tool control required the central toolroom supervisor to make periodic, unannounced

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1/A shadowboard is attached to a wall and has the outline of tools painted on it. When a tool is removed, the outline or "shadow" visibly indicates what is missing.

Control of inventories of expendable noncapitalized property is to be maintained using the accounting system and stock record cards. The storekeepers and food service supervisors are supposed to maintain stock record cards for each item showing receipts, issues, and the balances on hand. At the end of each quarter, they are supposed to run adding machine tapes of all the balances and forward them to the accounting supervisor for entry into the store's inventory general asset account.

Accounting system provides no control

The Bureau's accounting system general ledger account for supplies does not control the inventory shown on the storehouse subsidiary records. The main purpose for having the supplies account in the financial records, according to Bureau policies, is to provide a check on the detailed subsidiary records. At the end of each quarter, the storekeeper and food administrator add the balances shown on their stock record cards, and the totals are recorded in the stores inventory account. At the start of the following quarter, the amounts recorded are deducted from the account, leaving a zero balance until the end of the next quarter. Consequently, the balance in the control account at the end of each quarter depends entirely on the accuracy of the physical inventories.

To provide accounting control over storehouse inventories, all receipts and issues should be recorded in the general ledger account, as well as in the subsidiary records.

Inadequate control of supplies by storekeepers

Storekeepers at four institutions did not maintain physical custody and accurate stock record cards for most supplies. Instead of issuing supplies to cost centers only as needed, storekeepers issued most supplies upon receipt.

- --Ashland's storekeeper did not maintain control of most items since they were usually issued directly to the cost center managers after being received at the institution.

- --McNeil Island's storekeeper had numerous errors in his records, as did the cost center managers who had custody of large inventories.

Item	Stock card quantity	GAO inventory count	Overage (shortage)
White shorts (pairs)	7,086	5,302	(1,784)
Shoes (pairs)	547	560	13
Starch (pounds)	1,250	6,000	4,750
Anti Freeze (gallons)	249	234	(15)
Cleaning solvent (55 gal. drums)	0	3	3

Because of inadequate records, McNeil Island has accumulated large quantities of items which may deteriorate before being used. On the basis of issue rates, the institution had a 41-year supply of pillows, a 61-year supply of nylon raincoats, a 46-year supply of anti-freeze, and a 6-year supply of 20-weight motor oil. Bureau policies require storekeepers to conduct systematic and continuing review of supplies to identify overstocked, surplus, and obsolete items, and to report all items without issues during any 12-month period to the business manager. The last issue of the items listed above ranged from 13 to 33 months.

Controls over gasoline at McNeil Island were poor. Although the motor pool stock record card had a 12,878 gallon balance, only 5,541 gallons were on hand. The variance apparently occurred because the storekeeper failed to correctly maintain the records and take monthly physical inventories during a 3-month period. In addition, a 475-gallon delivery to the farm was not recorded, a usage report for February 1979 was not prepared, and the March 1979 usage report was inaccurate because the gasoline was not measured. Also, physical controls over farm gasoline were poor since nonfarm personnel were obtaining gasoline from the farm instead of from the motor pool.

Inadequate physical controls were maintained over other supplies at McNeil Island. In March 1979, the institution received 3,030 gallons of floor wax valued at $2,184 which was stored in an unsecured area. At least one box had been opened and several gallons of wax taken, although no issues were recorded. In the same unsecured area, we found that 6 of 11 55-gallon drums of 30-weight oil were missing, and that 2 55-gallon drums of lubricating grease were not recorded in the stock record cards. Many of the grease and oil containers in the outside area had deteriorated because of prolonged exposure to the weather.

--In May 1978, the institution mistakenly purchased 120 sheets of cabinet grade (A/A) plywood for almost $2,000. It later purchased more suitable plywood. However, in April 1979, only 3 sheets of the cabinet grade plywood could be found, and there were no records to account for the missing 117 sheets.

Atlanta was an example where the construction and mechanical mechanical services cost center directly received its supplies and did not maintain adequate controls. During fiscal year 1978, it purchased $716,500 worth of materials for Building and Facilities funded projects, which were not recorded on stock record cards or properly identified by project number. Institution staff assisted us in identifying $44,000 worth of material stored in various locations. Additional material was apparently mixed in with routine maintenance and operation material and could not be separately identified. This included lumber, sheet rock, cement mix, and paint. Atlanta officials agreed that project materials should be properly identified.

Inadequate control of food supplies

At four institutions, inadequate records were maintained for food supplies. In addition, Ashland maintained inadequate physical controls. Indications that donated commodities could be subject to theft were provided to the Department of Justice.

Ashland

Ashland's food was stored in a warehouse under the physical and record control of food service personnel. During physical inventories in November 1978 for 56 items and in March 1979 for 98 items of food, we found errors in 62 and 58 percent, respectively, of the stock record cards. The new food service administrator, who was attempting to correct the problems, said the errors were caused by failure to record all withdrawals from the warehouse, posting errors in the records, and untimely posting of requisitions.

Physical inventories of Ashland's food supplies were also inadequate. The annual business office inventory scheduled for May 1978 was not completed. The quarterly food service inventories were conducted, but no reports of survey were prepared to document investigations of inventory differences.

Food	Stock card balance (pounds)	GAO count (pounds)	Difference Pounds	Difference Cost
Ground beef	4,465	2,600	1,865	$1,772
Beef patties	3,865	2,550	1,315	1,315
Ham	960	360	600	930
Chicken	3,860	1,950	1,910	1,222

McNeil Island

McNeil Island had significant problems with its food records. An initial test of the records showed that 36 of 48 records were incorrect. We attempted to reexamine them, but the records had been destroyed. 1/ When the regional food administrator reconstructed the records using the inventory balances from the prior year, receiving reports, food usage reports, and a physical inventory, he found that $77,643 worth of food was missing from storage and unaccounted for. In his report of survey, the regional administrator wrote off the missing items to inmate usage even though his investigative report stated that at least one item, coffee, was being issued to the staff.

Less than 2 months later, McNeil Island conducted a physical inventory and found errors in the records for 51 food items. According to institution staff, some items had been stolen, including 83 cases of frozen French fried potatoes.

Inadequate control of drug supplies

Four institutions did not maintain complete records of medical supplies, including controlled drugs.

--Ashland did not properly maintain its storeroom and daily use logs for controlled drugs.

--A Drug Enforcement Administration (DEA) audit at New York discovered that a shortage of controlled drugs had not been reported.

--Atlanta maintained inadequate physical and record control of the pharmacy working stock of controlled drugs and

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1/This matter is under investigation by the Department of Justice.

Also, stocks of two controlled drugs, darvocet and phenobarbital, were routinely kept on the pharmacy shelf rather than in the daily use safe as required.

There were discrepancies in the control ledgers for issues of phenobarbital from the storeroom safe to the daily use safe. In November and December 1977, the phenobarbital stock was contained in 24-pill bottles, but hospital personnel were unable to explain issues of 124 and 126 pills (i.e. 5 bottles of 24 equals 120 pills). They also could not explain why the transfer of 500 pills to the daily use safe was recorded 8 days late. The warden later explained that the discrepancies were basically mathematical errors.

Our check of drugs in the daily use safe showed that it contained 601 phenobarbital pills, while the log showed 705. An additional 87 pills were on the pharmacy shelf, with an informal record showing that 18 pills had been dispensed since the log was posted. If these issues were posted and the shelf stock returned to the safe, the inventory record would show 687 instead of the quantity on hand, which was 688. Though the issue of 18 pills was accounted for by informal record, hospital personnel could not accurately account for other issues during the year. This did not comply with DEA and Bureau policies.

During our review, the hospital administrative officer took corrective actions as follows:

--The storeroom log for controlled substances was changed to provide the required information.

--The daily use log now documents the disposition of controlled drugs.

--The controlled drugs on the pharmacy shelf were returned to the safe.

--The storeroom was remodeled to increase physical controls over stock.

This should solve the problems noted in our review if the corrective actions are properly implemented.

<u>DEA found problems at New York</u>

A January 1979 DEA audit at New York found that a shortage of 25 methadone pills had occurred in January 1978, but the shortage was never reported to higher level New York officials or to DEA, as required. The Report of Inventory

We also found that stock record cards for medical supplies were not properly maintained. A physical inventory of 16 medical supplies showed that the on-hand balances of 12 did not agree with stock record card balances. Hospital officials acknowledged that the storeroom supplies were not under record control. They planned to completely inventory the storeroom and update the stock record cards.

McNeil Island had some discrepancies

A limited physical inventory at McNeil Island's hospital indicated some supply management problems. We checked 10 of the 29 controlled drugs stored at the hospital. The on-hand balances of two drugs did not agree with the stock record card quantities, namely a 0.9 gram overage of codeine powder and a 2.11 gram shortage of cocaine crystals. In addition, 4 of the 10 items inventoried were being held beyond their expiration date and should have been destroyed. Institution officials suggested the shortages might have been caused by atmospheric changes and previous errors in weight evaluations. They also stated that all expired medications have been destroyed.

MANAGERS WERE NOT ACCOUNTABLE FOR PROPERTY IN THEIR CUSTODY

Cost center managers were not held accountable for the capitalized and controlled noncapitalized property in their possession because most had not verified and signed registers of property in their custody, and not all transfers of property between cost centers were documented. Consequently, the institutions could not fix responsibility for the care and protection of all property as provided for by the approved accounting system.

Managers did not verify and sign property registers

The institutions had not fully implemented Bureau policies which require institution property officers to maintain a "Register of Controlled Property" for each cost center manager who has custody of capitalized and controlled noncapitalized property. The registers are to show a complete description of each item of capitalized and controlled noncapitalized property. Each cost center manager is required to sign and date the original register, which the property officer must keep on file. The register must be updated monthly to account for changes in cost center managers, property acquisitions or disposals, and transfers of property between cost center managers.

Property transfers were unrecorded

The institutions were not always following Bureau policies which require that movements of capitalized and controlled non-capitalized property from one location to another be reported to the property officer and business manager on an accounting form showing the old and new locations, and that all withdrawals of supplies and materials from the warehouse be shown on the same accounting form. These policies are designed to ensure the accuracy of the cost center registers for equipment and the stock record cards for supplies.

Atlanta

At Atlanta, we identified 32 items of capitalized equipment for which the property officer did not have any accounting forms. The storekeeper had the forms for 13 of the items, but these were not signed by the cost center managers who had custody of the items. The cost center managers were, however, making proper use of the forms when making withdrawals of supplies from the warehouse.

Ashland

Large quantities of items were moved around Ashland without being documented on the accounting forms. Some new items of equipment purchased by Ashland were sent to cost centers other than the purchasing cost centers upon receipt without the required documentation. The property officer simply filed the equipment cards in the using cost center's section of the property book. The following table shows examples of such movements.

Item	Cost	Purchased by	Received by
Security cabinet	$1,348	Case Management	Drug Abuse
Psychology equipment	2,335	Employee Training	Mental Health
Typewriters	527	Financial Mgmt.	Mgmt./Adm. Support
	528	Financial Mgmt.	Mgmt./Adm. Support
	556	Financial Mgmt.	Correctional Svc.
	556	Financial Mgmt.	Unit Mgmt.

The property officer explained that he could distinguish the receiving cost centers from those that actually purchased the items but filed them in the using cost centers without the supporting documentation. However, a December 1978 inventory identified a total of 47 items costing $12,512 which were not in the cost centers indicated by the records.

four of the scheduled inventories were conducted, but there was no supporting documentation in the business office.

During December 1978 and January 1979, Ashland conducted a complete physical inventory of all equipment--the first complete inventory in 10 years. During the physical inventory, Ashland

--located 533 items which were not recorded,

--located 47 items of capitalized equipment costing over $12,000 which were not in the accountable cost center, and

--could not locate 212 recorded items originally costing over $100,000.

At the conclusion of the inventory, the business office started taking corrective action by preparing the necessary records to bring its capitalized and controlled noncapitalized property under accounting and property record control.

Atlanta

The Atlanta business manager established an approved inventory schedule in April 1977 for conducting physical inventories during fiscal years 1977, 1978, and 1979. However, to determine the status and results of the program, we had to examine individual property record cards and schedule the inventory date stamps on them to arrive at the following table showing the status of the inventory program as of April 30, 1979.

Inventory cycles	Completion dates Scheduled	Completion dates Actual	Cost centers inventoried Scheduled	Cost centers inventoried Actual
1 year	April 1977	April 1977	19	19
1 year	April 1978	Incomplete	19	15
3 years	April 1978	Incomplete	19	15
1 year	April 1979	Incomplete	19	1

The business manager and chief property officer said the physical inventories were not completed because there were not enough staff in the business office, and management emphasized higher priorities.

Englewood

Englewood had a physical inventory program for most property which it generally implemented as scheduled during 1978. However, no inventories were scheduled for shelf registers so it could be brought under accounting and property record control.

At McNeil Island, for example, we observed several items that appeared to be capitalized property which were not listed on the medical services property register. These included a microscope, three refrigerators, an operating room lamp, and several couches. Later, officials emphasized to their staff the importance of recording unlisted items.

A considerable amount of property was not added to the Englewood registers. For example, we found 65 items in the education cost center, 40 items in food service, 26 items in construction and mechanical services, and 15 items in the motor pool which had not been added to their respective registers. Subsequently, the institution planned to implement procedures whereby an independent person will investigate all items found during physical inventories which are not listed on the appropriate property register.

Problems disclosed by physical inventories were not investigated

None of the five institutions had fully implemented the Bureau's policies for reporting inventory differences and investigating missing items.

--Atlanta did not prepare reports of inventory differences for all cost centers inventoried and did not investigate all missing items.

--McNeil Island reported inventory differences for equipment and tools but not other items, and investigated very few differences.

--Englewood prepared reports of inventory differences, which were not always accurate, and did not always adequately investigate the differences.

--Ashland and New York did not prepare reports of inventory differences.

At the conclusion of each physical inventory, Bureau policies require the person who performed the inventory to prepare a Report of Inventory Differences for each cost center even if no differences were disclosed. The cost center manager is then required to determine and explain the reasons for each difference--each listed item which was missing and each unlisted item which was found. In cases where property is missing, the chief property officer must immediately missing items included 6 transcribers, 3 stenorettes, and 2 typewriters.

Another 18 missing items valued at $6,700 were eventually located by cost center managers. Most of the 18 were missing because cost center managers failed to prepare and provide the chief property officer with documentation at the time transfers occurred.

Instead of investigating why five items valued at about $2 700 were missing, as required by the Bureau, institution officials simply prepared reports of survey to show that the equipment had "deteriorated in value due to unable to locate during annual inventory". No apparent attempt was made to find out and document why the items were missing and to fix responsibility. Another 14 items were surveyed as unserviceable, from 11 days to 15 months after being reported missing.

Two items--a stenorette and a typewriter--were surveyed and certified as destroyed, but were found again during physical inventories and were again surveyed.

In April 1979, we examined a Report of Inventory Differences prepared and signed by the employee who had conducted the July 1978 physical inventory of the medical services cost center but for which there was no survey report or board of survey. The report of inventory differences, which we verified by checking selected items, showed that 45 items valued at over $22,000 were missing and that 48 items of unknown value had not been recorded in the property records. The 45 missing items included air conditioners, electric typewriters, dictating machines, respirators, EKG machines, bone saws, syringe destroyers, photometers, and several other expensive medical instruments and machines. The 48 unrecorded items included 6 air conditioners, 2 typewriters, 3 electrocardiograph machines, 4 stenorettes, a dictating machine, a blood counter, a diluter, a dental x-ray machine, and a portable x-ray machine.

McNeil Island

The reports of inventory differences at McNeil Island did not always result in adequate investigations of missing equipment. The fiscal year 1977 physical inventory of the construction and mechanical services cost center resulted in 44 items valued at $22,338 being surveyed as missing. Two years later, five lawnmowers included in the survey were located and recorded again in the property records. Another survey report, which resulted from a fiscal year 1978 inventory, reported that a camera lens was missing because it had been stolen 2 years before, although it had been found during the fiscal year 1977 inventory.

show all differences or include explanations for the differences. In addition, survey reports did not always describe the extent of any resulting investigations.

The May 1978 equipment inventory resulted in 9 survey reports which removed 18 items from the records, in many cases because they could not be located. Some survey reports stated that a thorough search had been made for the missing items, while others did not describe the extent of the search. In addition, five transfer documents were prepared for items which had been moved between cost centers. The appropriate reports of inventory differences did not list 15 of the items which were surveyed or transferred. The reports for two cost centers stated that no differences were noted even though there were differences. Omitted differences included 10 .38-caliber revolvers which were not recorded on the controlled property register.

The fiscal year 1978 inventories of expendable items resulted in 7 survey reports for adjustments to 38 items. The reports did not discuss the extent of any investigations. Instead of a board of survey conducting an independent investigation of the inventory differences, the employee having custody of the items (i.e., storekeeper) recounted the stock and in some cases changed the amounts of the reported differences to agree with his count. The survey reports were based on the storekeeper's figures. The inventory files did not show that the person who took the inventory or any individual signing the survey report had verified the storekeeper's investigation. In effect, the inventory differences were established by the individual having custody of the property rather than the person who performed the inventory.

Property was not always disposed of as reported on survey reports. Two survey reports prepared in February 1977 stated that 15 items of kitchen equipment were to be removed. In March 1979, however, we found that eight of the items were still in use or storage.

Ashland and New York

Ashland and New York did not prepare reports of inventory differences.

GENERAL LEDGER AND PROPERTY RECORDS NOT RECONCILED

The accounting supervisors at Ashland, Atlanta, and New York did not perform the required monthly reconciliations of their capitalized property record cards with their general ledger fixed asset accounts. Consequently, there

Excessive renovation work to benefit Englewood employees association without written authorization

The staff at Englewood performed excessive work to convert a dairy barn to a staff training center which was also used by individuals and employee groups for private social purposes. Much of the renovation work appeared to be unrelated to staff training since it included a fully equipped kitchen, a fireplace, decorative lighting, a carpeted entryway with moss rock planter, and an outdoor patio. Government furnished materials were used for the renovation.

Since the renovation, the building has been used for private social gatherings of individuals and groups of employees, as well as for staff training. Records for the period January 1 to April 28, 1979, showed that seven scheduled activities were for official business and nine were for private social purposes. We were told later that the building was used more frequently for official business than the log indicated--22 days during the period January 1 to April 28, 1979.

The renovation was apparently performed without written authorization since we and institution officials could not find any authorizing documents. Also, no records were made of the amount of materials used on the project but it appears the costs may have exceeded $2,000. We were told that the conversion was accomplished by the volunteer labor of staff members working after normal duty hours. However, the Bureau absorbed the full costs of utilities, materials, and equipment.

McNeil Island Employees Association extensively used Government property

The McNeil Island Employees Association provided employees with recreational and social activities and facilities for purchasing food and gasoline because of the institution's isolated location. In several cases, association activities have involved the use of Government-furnished property.

There are 53 residences on the island which may be rented from the Government by employees and their families. The mainland is about 3 miles away and accessible only by passenger boats which make about 20 trips a day. The McNeil Island Employees Association was formed in 1950 to help ameliorate the isolation of the island residents.

are made by inmates and their visitors, 86 percent of the profits are used by the employees' association to help finance its activities, while only 14 percent of the net profits are given to inmate benefit programs. During the year ended January 31, 1977, the vending machines returned a net profit of $6,893 after operating expenses of $2,664 for salaries, $407 for taxes, $2,152 for depreciation, and $262 for rent.

Lack of Bureau guidance on use of its facilities

The Bureau had no policy guidance concerning employee association use of its facilities, and no procedures for authorizing the expenditure of its funds for such uses. Also, although the Federal Property Management Regulations authorized the use of its meeting places (e.g., staff training centers) by employee associations when justified to promote the social, health, welfare, or employment interests of the Bureau, the two institutions could provide no evidence that officials had evaluated the propriety and need to use other facilities and services for such purposes and for producing revenue.

CONCLUSIONS

Much of the institutions' property was or could have been lost or stolen because they did not maintain adequate records, hold personnel accountable for property in their custody, and make employees follow the required procedures. Also, employee associations used Government property without guidance from the Bureau concerning the circumstances justifying its use and the extent such use was allowable.

RECOMMENDATIONS

We recommend that the Attorney General require the Director of the Federal Prison System to instruct all institutions which have not done so in fiscal years 1979 or 1980 to immediately conduct physical inventories of their capitalized and controlled noncapitalized property, including tools, in order to fully update their general ledger accounts, property record cards, property registers, and tool lists, and to hold cost center managers fully accountable for the property in their custody. The results of these inventories should be reported to the Bureau's central and regional offices for possible audit, and to the U.S. Treasury to correct the financial reports previously submitted.

--The Department said the report is misleading concerning the control of drugs at the Atlanta Penitentiary because it implied that drugs not in daily use were lost or unaccounted for.

Although we agree with the Department that general ledger control of supplies inventory may involve added clerical costs, the lack of control over these inventories and the attendent risks have been amply demonstrated in this report. Until the Bureau can demonstrate that it can achieve proper control through alternative means, we continue to believe that general ledger control is necessary. The Bureau's task force should consider how to provide adequate control over supplies inventories, if the Bureau remains opposed to general ledger control.

Concerning drugs, the Department correctly points out that we found no evidence that controlled drugs were misplaced at Atlanta. But the required controls were not exercised, and it should be noted that such drugs could have easily been subject to unauthorized consumption because of the manner in which they were handled.

The Department concurred in our recommendation to follow up on the progress the Bureau was making in correcting the deficiencies we noted. It stated that periodic audits would be scheduled.

At the conclusion of each audit, the auditors were to prepare written reports to the warden. In addition, a separate section was to be prepared summarizing all deviations reported in previous audits on which no corrective action had been taken, and naming the responsible employee.

The business manager and assistant business manager were encouraged to discuss completed audits with the employees audited and the auditors in order to provide them training and to evaluate the adequacy of the audit. In any event, the employee responsible for the area audited was required to respond in writing to the warden within 30 working days after receiving the written audit report. The business manager could not close the audit until all items requiring corrective action had been satisfied.

INSTITUTIONS DID NOT ALWAYS ACCOMPLISH THEIR AUDIT SCHEDULES

Englewood was the only one of the five institutions which accomplished its annual schedule of internal audits for 1978. It completed 13 audits during calendar year 1978. New York did not have a schedule for 1978. 1/ The remainder of the institutions did not complete their schedules.

--Ashland completed four of the seven scheduled audits.

--Atlanta conducted four of the five audits scheduled for fiscal year 1978, but one was incomplete since no response was written for it by the employee audited. An additional two audits were done in fiscal year 1978 which had been scheduled for fiscal year 1977.

--McNeil Island conducted 8 of the 11 scheduled audits, but since written responses were prepared for only 6 of the audits, the other 2 were incomplete.

1/The regional comptroller told us that institutions' internal audits in his region are not conducted by personnel from that institution but by personnel from institutions other than the one being audited. The central office audited New York in April 1978.

corrective action on all the identified problems, even though responsible officials reported the deviations corrected. Some of these deviations had been reported more than once over the last several years. Such practices hampered the Bureau's ability to improve its operations.

Ashland

Although Ashland officials corrected a number of identified problem areas, they allowed some serious problems to go uncorrected for a long time. The April 1978 central office audit report disclosed that 7 of the 35 deviations reported had been found in 1 or more prior audits, including inadequate food services stock record cards which were reported in 1976 and serious property management problems dating back to fiscal year 1974.

Ashland officials scheduled internal audits and required substantive replies to all audit reports. Furthermore, we found that the institution had made improvements on problems identified in a 1976 Department of Justice audit. While the audit report criticized the institution for not involving cost center managers in controlling financial resources, we found that substantial improvements had been made by 1978. The audit report also criticized Ashland for not properly obligating indefinite procurements, but we found that this was no longer a problem.

Corrective action was not taken, however, on problems identified in the food service records. The 1976 Department and April 1978 central office audits found problems with the food service stock record cards--a 75-percent error rate for the records tested by the central office auditors. We tested the stock record cards twice and found error rates of 62 and 58 percent, although the institution had told the central office that the problem was corrected.

The same internal audits reported that Ashland had serious property management deficiencies dating back to fiscal year 1974. The institution had not completed an inventory of capitalized and noncapitalized property since fiscal year 1974 according to the 1976 Department and 1976 and 1978 central office audits. The property registers were not prepared properly according to the 1976 Department and 1978 central office audits. The cost center managers had not signed their property registers according to the 1976 Department, 1976 and 1978 central office, and 1978 institution audits. It was not until December 1978 that the institution took corrective action on these problems.

addressed in four of the eight audit reports, and there were no written responses to two of the reports to indicate whether corrective action had been taken.

New York

The central office conducted a financial review at New York in April 1978--the only internal audit conducted there in fiscal year 1978--and found 106 deviations. There were 25 repeat deviations of a central office audit conducted in June 1976. Among the deviations which were still uncorrected by the time of our review were the following:

--Inadequate preparation and use of cost center and institution budget forms.

--The business manager was not a member of the salary subcommittee, and no minutes were kept of its meetings.

--Monthly proof checks of general ledger account balances to check their accuracy were not being accomplished. None were prepared from March through July 1978 and February through July 1979.

--Purchase orders and receiving reports were not promptly entered into the computerized financial management system.

--Store inventories were not being taken and posted to the general ledger.

--Stock record cards for expendable property were inadequate.

--There were no inventory schedules for property.

--Purchase orders were prepared improperly.

--Procurements were made by unauthorized employees.

CONCLUSIONS

The performance of all duties and functions at Bureau institutions was not subject to effective internal audit review and control. The internal audits conducted at five institutions did not provide adequate reviews of all their activities and corrective actions on all identified deficiencies.

CHAPTER 6

SCOPE OF REVIEW

We performed audits of the management of procurement, property, financial, and personnel activities at the Federal prisons located in Ashland, Kentucky; Atlanta, Georgia; Englewood, Colorado; McNeil Island, Washington; and New York, New York. We reviewed activities conducted primarily during fiscal year 1978.

Procurement activities were reviewed to evaluate how well the procurement of goods and services was planned and conducted, and internal control was maintained. We examined each institution's procurement activities in terms of the reasonableness and appropriateness of its actions and its compliance with Bureau policies, Federal Procurement Regulations, and Federal Property Management Regulations. As a result of the procurement audit, we issued a report to the Director, Federal Prison System, "Inadequate Management of Procurement Activities at Five Federal Prisons," (GGD-79-93, August 24, 1979). The Director responded by appointing a task force of senior staff from the central and regional offices to review the Bureau's overall property management program.

Property management was reviewed to evaluate whether property was safeguarded to minimize loss or damage by being (1) properly classified upon receipt, (2) recorded accurately to show quantity, cost and location, (3) independently inventoried with proper reconciliation of the records, (4) promptly reported and adequately investigated if found missing, (5) properly used, or correctly disposed of if idle, and (6) adequately maintained and repaired to serve its intended purpose.

Financial management was reviewed to determine the adequacy of financial planning and execution, fund control, accounting operations, internal controls, financial reports, and internal audits. We were primarily concerned with learning the extent to which institution managers were properly using the financial management system to plan, execute, and control their operations, and provide a clear picture of the institutions' financial conditions and operations. Except as otherwise noted in the report, we generally found insignificant problems with their fund control, accounting operations, and financial reports.

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
WASHINGTON, D.C. 20510

October 2, 1978

Honorable Elmer B. Staats
Comptroller General of the
United States
General Accounting Office
441 G Street
Washington, D.C. 20548

Dear Mr. Staats:

The Permanent Subcommittee on Investigations has been conducting an inquiry into allegations of corruption at the United States Penitentiary at Atlanta. Hearings were held on September 29 and October 2, 1978, on the subject. In preparation for the hearings three members of your staff were detailed to the Subcommittee to conduct a limited review of certain expenditures of the Mechanical Services Department of the Penitentiary. The three General Accounting Office staff members are: Bob Taylor, Fred Mayo and Paul Rhodes.

While their audit did not uncover evidence of corruption in maintenance and construction activities, it did uncover management practices which could allow such corruption to happen. Records were poorly kept and there was a failure to adhere to Bureau of Prisons policy statements with regard to expenditure of funds for appropriated purposes. Your staff members also found that the Bureau of Prisons Southeast Regional Office was authorizing these expenditures. In interviews with Regional Office and Penitentiary officials, the staff was told these practices are common throughout the Bureau of Prisons system, in part because the Bureau's policies are incomplete.

Because of the volatility of the situation in the Penitentiary and because of the management practices your auditors found seem to apply throughout the Bureau of Prisons and not uniquely to Atlanta, I decided not to make their detailed findings public at this time.

Honorable Elmer B. Staats
General Accounting Office
Page Three/October 2, 1978

I suggest that this project can be broken down in phases, so that incremental parts of it can be reported as they are completed, in a timely manner. I suggest that the GAO consider issuing a series of Staff Studies and that at the end of the review, a report, including the information contained in staff studies, be issued with findings, conclusions and recommendations. My suggestion is based upon my desire to have the elements of your review disseminated as quickly as possible.

Again, I wish to thank you for the outstanding assistance provided the Subcommittee by your staff.

Sincerely,

Sam Nunn
Vice Chairman

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d. Maintenance and Operations: FY 78 request contains a 13% increase for utilities cost escalation. This increase was computed on the rate of spending for FY-76 and, as such, only addresses the increases experienced during FY-77. Depending on requirements submitted by institutions, a request for supplemental funding may be required. Prior to submission of the 5905 report, it is recommended that utility companies be contacted to determine any significant pending rate increases which would affect funding levels.

During this year, there have been several requests to the Central Office for equipping and furnishing completed B&F projects for which the expenditures of B&F funds would be inappropriate. In order that we may anticipate similar needs during FY-78, institutions should review each B&F project that is scheduled for completion during FY 1978 and determine whether S&E funds will be required. If so, a detailed listing of requirements, by project title, should be furnished the Regional Comptroller by August 10, 1977 for consideration in the development of Bureau requirements.

e. Medical Services: No increase in program except to continue conversion of P.H.S. positions. In consideration of the impact upon medical programs by population increases, quarterly per capital adjustment will be made within this budget activity. Revised budget report 5912 reflects this reporting requirement.

f. Drug Abuse: No increase requested.

g. General Administration: No increase requested.

As in prior years, this planning guidance is furnished in an effort to inform all managers as to the levels of resources we expect to become available for the forthcoming fiscal year and to assist in the development of institutions annual requirements.

4. THIS OPERATIONS MEMORANDUM IS CANCELLED SEPTEMBER 30, 1977.

Norman A. Carlson

NORMAN A. CARLSON
Director
Bureau of Prisons

Our total care funds have increased significantly with the acquisition of resources for Contract Detention and Contract CTC's which were previously included within the Support of Prisoner appropriation. The distribution of these resources have been made, in part, on the basis of expenditures incurred during FY-1977. In view of our continuing efforts to monitor closely the expenditures within these programs, reprogramming actions into or out of Contract CTC's and Detention must be coordinated with the Assistant Director, Community Programs and Correctional Standards Division.

Bus and airlift transfer costs will be reimbursed quarterly.

c. Inmate Education - Educational programs are basically at the previous level with a continuation of additional funding for the transfer of vocational programs and new facilities. As in prior years, Project One Million will be a part of our educational resources.

d. Maintenance and Operations - Increases have been provided which will offset anticipated utility rate escalations above the base level of spending during FY 1977. In addition, it is our intention to continue the funding of actual utility costs in the same manner as last year. However, regional offices are reminded that supplemental funding requests will only be considered if the total regional projected expenditures exceed the regional base allocation.

Each Regional Office shared in an increase for non-delegated transfer expenses. Reimbursement for these expenses will be in the same manner as last year.

Equipment funding will be at the same base level as last year with consideration given to annualization of new activatations. A spending limitation on capitalized expenditures will be imposed again in FY 1978. Separate instructions will be provided by Operations Memorandum.

e. Medical Services - The medical consultant budget has been increased to defray cost escalation and permit an increase in the rate of consultant usage. In addition, those funds previously included in the Support of Prisoner appropriation for the medical treatment of federal offenders by local medical facilities are now included in the salaries and expense appropriation and have been allocated to each regional office.

f. NARA - Increases have been provided which should permit greater program participation and offset escalating costs.

g. General Administration - Nominal increases have been approved for regional office operations.

3. NEW PROGRAMS - New positions authorized in the FY 1978 approved budget were reviewed during the July and September executive staff meetings and a redistribution, based on changing priorities, was approved. A separate memorandum will be issued outlining the distribution.

UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

Address Reply to the
Division Indicated
and Refer to Initials and Number

Mr. Allen R. Voss
Director
General Government Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Voss:

This is in response to your request to the Attorney General for the comments of the Department of Justice (Department) on your draft report entitled "Federal Prisons Need to Better Plan and Control the Acquisition and Use of Their Personnel and Property."

While the Bureau of Prisons admittedly has some problems in the areas of personnel and property management, we do not believe the findings reported and the extent of the corrective actions needed are supportive of the overly critical tenor of the report. The report implies that the Bureau of Prisons mismanaged resources and prepared totally inadequate financial management plans. We take exception to the allegation that the planning process is inadequate, particularly for personnel resources, and believe the comments are both inaccurate and misleading.

The General Accounting Office (GAO) report specifically identified promotions, part-time employees, new positions and pay raises as being excluded from institutional financial management planning. Part-time positions, which are used primarily for trainees or for emergency situations involving unanticipated workloads, are purposely controlled by the central and regional offices. Consequently, institutions do not plan for this expenditure in advance since they have no control over the assignment or utilization of these positions.

With respect to pay raises, financial plans developed in July and August of each fiscal year are based on anticipated appropriations, which by regulation exclude amounts for pay raises not yet enacted, other than wage board raises. Because the percentage increase of the pay raise and the required amount of pay cost absorption are unknown when financial plans are developed, prior financial planning for pay raises would be speculative, at best.

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Prisons appointed a task force to study, evaluate and make recommendations concerning real and personal property management accountability and procedures in the Federal Prison System. Members of the task force include institutional, regional, and central office personnel. The work of the task force is covering such areas as capitalized and controlled noncapitalized property, tools, and related accountability records. Certain preliminary recommendations from the task force have been presented to BOP management officials, including the Director, for implementation approval. Others are in the process of being developed. The Department will be able to address more specifically the corrective actions to be taken when responding to the final report.

Deficiencies in institutional internal audit procedures also are identified in the draft report. During recent months, the Bureau of Prisons has reviewed the utility of internal institutional audits. The conclusion was that they were unnecessary in light of regularly scheduled central and regional office audits, and institutional internal financial management audits have since been discontinued.

The report recommends that the Department of Justice Internal Audit Staff assess, at appropriate intervals, the progress of the Bureau of Prisons in (1) better implementing its policies for annual and quarterly resource planning, (2) insuring that institutions follow established procedures for acquiring, using, and disposing of property, (3) better implementing its policies for safeguarding property, and (4) better implementing effective internal audits. The Department agrees that follow-up reviews should be made. Accordingly, selected Bureau of Prison institutions will be subjected to periodic review by scheduling such reviews in the Department's Annual Internal Audit Plans.

We appreciate the opportunity given us to comment on the report. Should you desire any additional information, please feel free to contact us.

Sincerely,

Kevin D. Rooney

Kevin D. Rooney
Assistant Attorney General
for Administration

(182610)

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The report correctly states that the Bureau of Prisons did not incorporate promotions into financial management plans. We have since changed our policy and will do so in the future. Proposed new positions, however, cannot be included by institutions prior to an appropriation act from Congress authorizing such positions.

The report also infers that institutions were prevented from achieving full staffing in fiscal year 1978 and states that institutions were to limit their annual request for salaries for the year to 97-98 percent of fiscal year 1977 authorized positions. To the contrary, planning direction given the institutions advised them not to limit, but to anticipate, sufficient funding to achieve the 98 percent employment level. During prior years, institutions generally had been unable to reach even a 97 percent employment level.

Chapters 2 and 3 of the report concerning the control of expenditures and property management state that little attention was given these important areas. In some cases the report does not provide the degree of detail necessary to adequately review or respond to those charges. For instance, the allegation that modifications of the Ashland Sewage Treatment Plant could have been avoided by linking the institution plant with city lines is misleading. Neither the Environmental Protection Agency requirement for immediate modifications to the institutional sewage treatment plant, nor the inability of the city to fund the extension of city lines to the institution at the time the repairs were necessary were cited in the report.

Concerning the accountability of supply item inventories, we do not agree with the recommendation to establish general ledger control accounts to control supply inventories. The present system was approved by the Comptroller General on June 26, 1974, and we believe the costs associated with a general ledger control account system would far exceed the benefits to be gained from it.

As for the control of drugs at the Atlanta Penitentiary, the report is misleading to those unfamiliar with the issues. The implications are that drugs "not in the safe" were lost or unaccounted for, but as GAO pointed out in a Statement of Facts to the Warden of the Federal Correctional Institution, Atlanta, Georgia, dated May 1979, these drugs were being stored improperly and no evidence existed that any were misplaced. Also, in June 1979, the procedure for storing drugs at Atlanta was revised to improve accountability.

There are a number of shortcomings identified in the report concerning property management that we agree need to be addressed. In July 1979, the Director of the Bureau of

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10-7-77

4. ACTION. Upon receipt of each regional allocation (See Attachment A), regional offices will provide institutions with annual allocation letters which confirms the approved allocations by programs, institutional personnel complement, the procurement advance deduction, and the amount of reimbursements included in the allocation. Allocation letters should be forwarded to institutions in sufficient time so as to permit the formulation of financial plans for input into the Financial Management System prior to October's close of business.

5. SUMMARY. We believe that FY 1978 allocations addresses the major needs of the Bureau and provides a level of funding which will enable us to accomplish our objectives during the forthcoming year. However, we must continue to emphasize resource conservation and cost consciousness among all levels of staffing.

Another important issue is our gratuity program for released offenders. During FY-1977, we anticipate that the average amount of gratuity paid to a released offender will be about $42.27. This represents an increase of about $5.00 over the average of FY-1976. However, with the additional resources allocated for this purpose in FY-1978, we will expect this average to increase to about $95.71.

Institutions and Regional Offices must develop sufficient monitoring procedures to insure that this objective is reached.

It may also be timely to remind each regional office and institution that the resources allocated are determined primarily by overall Bureau priorities and are subject to redistribution as needs and priorities change

6. Attachment A (Regional Allocations) will be furnished to Regional Directors Only.

7. THIS OPERATIONS MEMORANDUM IS CANCELLED SEPTEMBER 30, 1978.

Roy Gerard
for NORMAN A. CARLSON
Director
Bureau of Prisons

FEDERAL PRISON SYSTEM **WASHINGTON, D.C. 20534**

Operations Memorandum

NUMBER 5900.90

DATE 10-7-77

SUBJECT: S&E FINANCIAL PLAN - FY 1978

ACTION DATE(S)

1. PURPOSE. To transmit fiscal year 1978 regional allocations of personnel and fund resources (Attachment A) and to provide information regarding the current financial plan. The financial plan was approved by the Executive Staff during their September meeting. Regional Offices will develop allocation letters for their regions, furnishing a copy of the letter to the Central Office.

2. BACKGROUND - FY 78 FINANCIAL PLAN.

   a. Salaries - Salary allocations will be at 98% of the full-time permanent positions covered on the 5906-C Personal Services requirements, less rental deductions. This amounts to the same level of funding as in FY 77. Personnel benefits will be funded at the rate experienced by each region for the first nine months of FY 1977. This amount has been projected at 10.8% bureau-wide and will represent an additional .8% increase over last years level. Other premium pay, with exception of overtime, will be funded based on requirements projected on exhibit 5906-C. Overtime allocations will be determined by the regions. Overtime expenditures directly related to emergencies and major disturbances which exceed $5000.00 may be requested from the Central Office. Requests must be supported by a listing of staff involved and overtime hours worked and submitted through the respective Regional Director for approval. Central and Regional Office approved PTI positions will be funded quarterly in accordance with Policy Statement 3300.3. Funding for new positions approved during FY 1978 will be allotted upon receipt of a written request citing name, entry on duty date, and salary level. Requests should be directed to the Chief, Office of Financial Management.

   Lump sum payments directly related to the mandatory retirement provisions of Public Law 93-350 will be financed from the Central Office. This will include all staff retiring who will attain their 55th birth date prior to October 1, 1978.

   b. Care - Increases have been approved amounting to about .05¢ per capita for the purpose of providing a greater amount of gratuities to released offenders. Institution Chief Executive Officers should insure that these resources are directed to that program. Additional increases in institutional bases, over prior year levels, may be realized as a direct result of higher projected population levels for FY-78. Population adjustments will be made quarterly. Requests for additional funds due to increased population may be submitted at any time.

   Full year funding has been provided for the continuation of the Narcotic Surveillance Program.

FEDERAL PRISON SYSTEM **WASHINGTON, D.C. 20534**

Operations Memorandum

NUMBER 5900.87

DATE 7-12-77

SUBJECT: S&E PLANNING GUIDANCE FY 78

FPI MI- -9 10 76 2M 6135

ACTION DATE(S)

1. PURPOSE. To provide planning guidance for the fiscal year 1978 Annual Fund requirements (5900 Exhibits).

2. BACKGROUND. The Bureau of Prisons FY 78 budget request has not received final Congressional approval. However, these planning guidelines should enable institutions to develop annual fund requirements based on the anticipated approved level of funding. These guidelines are subject to approval of the appropriation, needs of the Federal Prison System and other priorities.

3. PLANNING GUIDANCE

a. Salaries: We expect to be able to continue funding salaries at the normal level (97-98%) and benefits at 10%. We recognize that, in some instances, benefits have escalated to a greater percentage. The impact and alternatives for funding will be discussed during forthcoming Comptrollers' Conferences.

Personnel roster printouts for preparation of Personal Services Requirements (5906) have been prepared and will be furnished institutions shortly. Instructions for preparation and submission will be transmitted by a separate Operations Memorandum.

We have requested an additional 429 positions of which 295 are for expansion of newly established institutions; 20 for improvement of institutional security; 20 for further implementation of unit management; 10 for extension of medical coverage; 25 for conversion of vocational training programs; 20 for conversion of PHS officer positions; and 39 for conversion of commissary inmate trust fund positions.

b. Custody, Care and Treatment: We will not provide any additional increase above FY-1977 levels in Care except for about 5¢ per manday which will be for the purpose of increasing gratuities for released offenders. Population adjustments will be made in the same manner as in FY-1977.

CCC products are anticipated to continue through FY 1978 and we would expect the existing range of commodities to be available.

c. Inmate Education: No increase in program. Continued conversion of vocational training positions.

Honorable Elmer B. Staats
General Accounting Office
Page Two/October 2, 1978

I am deeply concerned about what was learned at Atlanta and the Subcommittee will continue investigating similar problems elsewhere for future hearings. At the same time, I wish to see the Bureau start taking immediate corrective action. For these reasons, I request that the General Accounting Office expand the work begun in Atlanta to a detailed audit of a cross section of Bureau of Prisons institutions, including those in Atlanta, Ashland, Englewood, McNeil Island, and New York, and the appropriate Regional Offices and Headquarter departments.

The audit should examine in detail how well the Bureau is managing its procurement, financial, property, services, and personnel management functions. In doing so, the auditors should determine (1) Bureau of Prisons compliance with Federal laws and regulations; (2) the appropriateness of Bureau of Prisons policies; and (3) needed corrective action. Because of our concern about the lack of management and training provided Bureau of Prisons managers and staff, including correctional officers, I request that this area be thoroughly examined as part of your review of personnel management.

I realize that my request will require a significant expenditure of your resources. However, I understand that Mr. Taylor is also responsible for examining Federal assistance provided State correctional agencies and I feel that the experience gained in this audit of the Bureau of Prisons can be made available to State correctional agencies to help them develop proper management, accounting and auditing procedures.

The Subcommittee staff will work closely with Bob Taylor to work out the details for reporting the results of the audit and providing further assistance to the Subcommittee. Mr. Taylor has assured me that he will design the audit in such a way that the Bureau of Prisons will be able to take corrective action as each phase of the audit is completed rather than having to wait until formal reports are ready for issuance.

It is my hope that Messrs. Mayo and Rhodes will have the time and can be assigned to the review. Based upon the precision and speed with which they completed their initial survey and the quality of the their work product, I personally would feel comfortable knowing that Messrs. Taylor, Mayo and Rhodes were working on this project.

We conducted a limited audit of personnel management at the five institutions. Except for the lack of personnel planning discussed in chapter 2, we were unable to draw any clear conclusions from the data we gathered during the short time available. We do plan, however, to examine this area in greater depth during the next year as part of our continuing examination of the Federal involvement in corrections.

In conducting the audits, we examined

--purchase requests, purchase orders, receiving reports, and vouchers for samples of purchases made primarily during fiscal year 1978;

--all blanket purchase agreements for fiscal year 1978;

--certain contract files;

--all budget forms and allotment status reports and certain other financial reports for fiscal year 1978;

--material and price lists, drawings, purchase orders, and authorizations for certain maintenance, repair, and construction projects;

--minutes of budget committee meetings, and planning committee and subcommittee meetings;

--stock and equipment record cards, property registers, general ledger property accounts, and reports of physical inventories, inventory differences, and surveys;

--obligation documents and files, and related accounting transactions, general ledger accounts, and trial balances; and

--internal audit reports.

We also reviewed Federal laws and regulations, Bureau policies, and the institutions' procedures and practices related to the activities examined. We conducted unannounced physical inventories of selected property at the institutions. We held discussions with staff and officials at the institutions, and regional and central offices.

RECOMMENDATIONS

We recommend that the Attorney General require the Director of the Federal Prison System to enforce and improve the Bureau's policies on conducting internal audits by

- --requiring institutions to accomplish their internal audit schedules,
- --developing more detailed audit programs to help ensure that auditors will conduct intensive enough audits, and
- --revising the Bureau's policies to require that the responsible staff members must promptly correct the problems identified by internal audits and must sustain those corrections.

We also recommend that the Attorney General direct the Department of Justice internal audit staff to assess, at appropriate intervals, the Bureau's progress in better implementing effective internal audits, and to report their findings to him.

AGENCY COMMENTS

The Department stated that the Bureau has discontinued the practice of performing institutional internal audits and that it will instead rely on regularly scheduled central and regional office audits. Also, the Department concurred in our recommendation that its internal audit staff assess at periodic intervals the progress that the Bureau of Prisons was making in correcting the deficiencies noted. The Department stated that such reviews would be scheduled in its annual internal audit plans.

Englewood

Managers at Englewood did not always correct deficiencies disclosed by internal audits. The October 1977 central office audit revealed that 8 of the 35 deviations found had been reported in 1 or more prior audits. In addition, we found that several of the deviations reported by the central office auditors had not been corrected by the time of our review, although Englewood had reported them corrected by January or February 1978. These uncorrected deviations included failures to

--prepare material and price lists for repair projects,

--prepare a manpower purchase and utilization plan for the fiscal year,

--code purchase orders accurately,

--place open market orders for items available from government supply sources, and

--prepare accurate stock record cards.

Atlanta

The central office conducted no audits at Atlanta during fiscal year 1978, but the institution conducted four audits which identified deviations that were not corrected by the time of our review. Among the uncorrected deficiencies we found were failures to

--prepare an annual manpower purchase and utilization plan,

--list maintenance repair projects on the quarterly budget forms and to support them with cost estimates as required by Bureau policies,

--complete stock record cards accurately, and

--adequately screen excess property.

McNeil Island

There were no central office audits of McNeil Island during fiscal year 1978, but the institution conducted eight audits. Deviations reported in previous audits were not

By not accomplishing their audit schedules, the institutions limited their ability to find and correct problems.

INSTITUTIONS' INTERNAL AUDITS WERE NOT ALWAYS INTENSIVE ENOUGH

Institution auditors did not always follow Bureau policy by conducting their audits with the same intensity as outside auditors. While auditors are not expected to be infallible, they are required to exercise due professional care by

--obtaining a good working understanding of the operations audited and the criteria (e.g., laws, regulations, policies) used to evaluate performance; and

--being alert for improper expenditures or operations, inefficiency, waste, and ineffectiveness.

The institutions' audit reports did not always disclose significant problems in the areas audited indicating that the audits were not intensive enough and that the auditors had not exercised due professional care.

The institutions' auditors did not test the institutions' procedures and controls adequately enough to determine whether they were in compliance with laws, regulations, and policies, and were preventing improper practices. For example:

--Procurement and budgeting audits did not reveal that procurement planning documents did not list what was to be purchased, cost center managers did not have support for the amounts budgeted, unneeded items were purchased, and procurement methods did not ensure maximum feasible competition.

--Property management audits did not disclose that records were lacking for large quantities of property, and physical inventories were inadequate.

Since the auditors did not address these deficiencies in their audit reports, they either did not understand the operations audited and how to evaluate them, or they were not alert for internal control problems.

PROBLEMS IDENTIFIED BY INTERNAL AUDITS WERE NOT ALWAYS CORRECTED

Internal audits conducted at the five institutions were not as effective as possible because officials did not take

CHAPTER 5

INTERNAL AUDIT PROGRAMS DID NOT RESULT IN ADEQUATE REVIEWS OR CORRECTIVE ACTION

Internal audits conducted at the institutions did not provide adequate reviews of all institutional activities, and problems identified by internal audits were not always corrected. Consequently, internal audits were not fully effective in helping improve institutional operations.

BUREAU INTERNAL AUDIT PROCEDURES

The Bureau's policy is to have central office auditors conduct periodic comprehensive reviews of management activities at its regional offices and institutions. In addition, institutions are required to conduct their own internal audits every fiscal year.

The central office audits are supposed to be similar to the Department of Justice internal audits. The primary purpose of the audits is to assist officials at all management levels in improving programs and functions by focusing attention on conditions where improvements may be made and by recommending changes or other actions.

The Bureau initiated its program of institutional internal auditing to enable institutions to find and correct their own errors, insure day-to-day supervision over work performance at the institutions, and provide follow-up review of prior central office and Department of Justice audits. Each regional comptroller and institution business manager was responsible for jointly identifying which areas of institutional operations required internal audits. The identified areas were to be listed on a Schedule of Internal Audits to be prepared within the first 60 days of a fiscal year and maintained on file after approval by the associate warden for operations. The schedules were to identify the employees responsible for conducting audits and the dates the audits were to be performed.

Institution business managers were also responsible for reviewing the appropriate audit procedures with auditors, supervising their work, and insuring that the audits were accomplished as scheduled. Furthermore, the Bureau emphasized that the audits were to be conducted with the same intensity as would be expected from outside auditors.

We further recommend that the Attorney General require the Director to enforce the Bureau's policies for safeguarding property and to establish policies for the employees' use of that property, including as appropriate, any necessary reimbursement to the Government. We also recommend that the Director revise the Bureau's policies to

--establish control accounts in the general ledger for controlled noncapitalized property and for supply inventories so that independent total figures can be established against which the totals shown on the property and stock record cards can be reconciled;

--include a more comprehensive list of controlled noncapitalized property so that additional items such as office equipment can be brought under accountable control; and

--require that cost center managers, who are directly issued supplies, maintain the same records as the storekeeper and report the same data to the accounting supervisor.

We also recommend that the Attorney General direct the Department of Justice internal audit staff to assess, at appropriate intervals, the Bureau's progress in better implementing its policies for safeguarding property, and to report their findings to him.

AGENCY COMMENTS

The Department, in commenting on a draft of this report, agreed that a number of shortcomings concerning property management need to be addressed. It said that a Bureau task force is developing recommendations concerning real and personal property management, including capitalized and controlled noncapitalized property, tools, and related records, and that it would be able to more specifically address actions to be taken when it comments on our final report.

However, the Department disagreed with certain of our findings and recommendations:

--It believes that the costs associated with establishing a general ledger control account for supply inventories would far exceed the potential benefits.

Recreation and social activities

The institution staff training center is the location for most of the employees' recreation and social activities. Its facilities include:

--A swimming pool, wading pool, and bathhouse.

--A four lane bowling alley with automatic pin setters and ball returns.

--A gymnasium which is also used as a theater for showing popular films without charge to the employees. The films are rented by the institution for the inmates.

--Two kitchen areas which are equipped with Government property and used during such social activities as dances, picnics, and parties.

The employees' association does not reimburse the Government for its use of these facilities.

Services to employees

The employees' association also operates a food store, gasoline station, and mainland parking lot for employees, and vending machines for inmates and their visitors. Although the association derives income from providing these services, it does not reimburse the Government for the use of Federal property and utilities, except that it does pay rent for the space occupied by the vending machines. This contradicts the requirement that the inmate commissary pay rent and utilities out of its sales proceeds.

The store provides groceries and sundry goods to employees, and a nearby gas station operated by the storekeeper provides them with gasoline. The buildings, part of the equipment, and all utilities are provided by the Government without charge to the association. Although the store and gas station had gross sales of over $69,000 for the year ended January 31, 1977, they paid nothing to the Government.

The storekeeper, whose salary is paid by the association, was not charged for the house, garage, electricity, water, and heating oil provided to him by the Government. However, employees living on the island had to pay rent and utilities charges for their residences.

The association did, however, pay rent for the space occupied by the nine vending machines in the penitentiary visiting room. Although most purchases from these machines was no assurance that all the capitalized property had been brought under accounting and property record control as provided for by the approved accounting system.

Ashland

The required reconciliations were not performed during fiscal year 1978 at Ashland. The employee responsible for property records computed the total value of the capitalized equipment for 11 months, but the property book totals agreed with the general ledger equipment account for only 3 of the months.

Atlanta

At Atlanta, no reconciliations were performed after September 30, 1978, when the accounting supervisor was transferred to the regional office. The new accounting supervisor, who was also the property officer, said he did not have the time to do the reconciliations and lacked sufficient personnel to delegate the responsibility. With staff members recently added to the business office, the accounting supervisor planned to have all records current at the end of fiscal year 1979.

New York

When we began our review at New York in December 1978, officials did not know when the last reconciliation had been done. When they attempted a reconciliation, there was a difference of more than $100,000 between the general ledger account and subsidiary equipment cards, out of total equipment worth $560,000. We found that the difference was primarily caused by New York's failure to prepare subsidiary property record cards for many new purchases.

USE OF GOVERNMENT PROPERTY BY EMPLOYEE ASSOCIATIONS WITHOUT POLICY GUIDANCE

Bureau employees at Englewood and McNeil Island used Government property for private purposes without evidence that such use had been justified to higher authorities and without guidance from the Bureau. Although Government meeting places such as conference rooms and auditoriums may be used on a nonreimbursable basis by employee associations to promote the social, health, welfare, or employment interests of agency employees, the Bureau had no criteria and the institutions had no documented justification for employee association use of other types of Government property and services.

The McNeil Island business office did not always prepare reports of inventory differences after expendable property had been physically inventoried. We found that 4,750 pounds of starch was not recorded on the stock record cards, although an inventory of the starch had been conducted. The additional starch was not reported on a report of inventory differences.

When the institution inventoried farm service supplies, it adjusted shortages on the stock record cards by writing a requisition instead of preparing a report of inventory differences, based on the rationale that the supplies had been used. Also, the farm manager did not file a report of inventory difference or a survey report for 53 missing cattle that were written off after a physical inventory in November 1977. He simply adjusted his records without notifying the business office. An allegation that meat was being illegally consumed by families residing on the island and sold to a butchershop on the mainland was provided to the Department of Justice.

The food service administrator was acting associate warden when he submitted and approved a survey report for the inventory differences on 196 items found during the fiscal year 1978 physical inventory of the food services cost center. No investigation was performed.

After the food stock record cards were destroyed in January 1979, a complete physical inventory of food items was conducted. As a result, inventory differences for 127 items were written off on a survey report attributed to poor bookkeeping--although it was known that at least one item was being consumed by the staff. A later physical inventory resulted in inventory differences for 51 food items attributed to improper posting of food requisition forms although it was known that one item was stolen. No investigation was made.

McNeil Island officials also did not search for or investigate lost tools, even after they were reported missing. The chief correctional supervisor told us that no effort was made to investigate lost tools unless the written report was accompanied by a verbal report from the responsible supervisor, and this only occurred in reference to "Class A" tools. For example, the farm manager reported 360 missing tools after his 1978 inventory, none of which were investigated.

Englewood

Reports of inventory differences were prepared for each cost center by the individuals who performed the physical inventories at Englewood. The reports on equipment did not always initiate a Report of Survey, and a Board of Survey must conduct an investigation and fully document on the survey report the circumstances surrounding loss of the property, efforts to locate it, statements from employees on its last location, and the board's recommended disposition. The approving official--an associate warden or business manager--can hold the responsible employee financially and/or administratively accountable. These procedures were not followed at the five institutions.

Atlanta

During 1978, reports of inventory differences were prepared for only 6 of the 15 cost centers inventoried. The 6 physical inventory reports showed differences between the property records and physical inventory for 58 items of equipment--49 items valued at $18,545 were missing from the assigned cost centers. The table below shows Atlanta's disposition of the 49 missing items as of April 30, 1979.

Disposition	Number of items	Acquisition value
Still missing and not surveyed	11	$ 3,067
Found	18	6,763
Surveyed as missing	5	2,722
Surveyed as unserviceable	14	5,682
Surveyed and transferred to another institution	1	311
Total		$18,545

Atlanta did not process Reports of Inventory Differences in accordance with Bureau policies. Only two of the six reports prepared for the fiscal year 1978 inventory had been approved by the warden and returned to the property officer. Although the warden had copies of five of the reports on file, there was no record to indicate he had signed the reports before they were forwarded to the chief property officer for survey action. In addition, one report had been prepared after the July 1978 physical inventory of the medical services cost center, but it had been retained in the property officer's files without being sent to the warden and cost center manager.

As of April 30, 1979, Atlanta officials had not investigated or surveyed 11 items of equipment valued at $3,067 found missing during the 1978 physical inventory. The 11 stock supplies not kept in the storeroom, which constituted most of Englewood's supplies, or for some items in the storeroom.

Physical inventories were not properly conducted

Three institutions conducting some form of physical inventories did not conduct them properly.

--New York inventories were not conducted by independent staff,

--McNeil Island inventory registers were incomplete, and

--McNeil Island and Englewood staff who took physical inventories did not add the unlisted items they found to the inventory registers.

New York did not conduct independent physical inventories

New York did not follow the Bureau policy which requires that persons taking physical inventories must not have control or custody over the property or the property record cards. The food and hospital administrators conducted physical inventories of their storeroom areas even though they had custodial responsibility for the items inventoried. In addition, the accounting clerk participated in a physical inventory of capitalized equipment even though he routinely worked with the property record cards.

McNeil Island inventory registers had incomplete descriptions of property

The property registers we checked at McNeil Island did not have accurate serial numbers or descriptions for some of the property. For example, we checked 69 items listed on 5 cost center registers and found that the registers had inaccurate serial numbers for 9 items and inaccurate descriptions for 2 items. As a result, we could not be sure that the listed items were the same ones checked, although institution officials said they were the same.

Unlisted items were ignored at McNeil Island and Englewood

The people taking physical inventories at McNeil Island and Englewood generally ignored the property they found which was not listed on the registers, rather than listing it on the

New York

Accounting forms were not generally being used at New York to record the physical movement of capitalized property from one location to another. Although we noted that the chief property officer had several such forms on file, they were useless since he did not maintain the equipment cards nor did he forward the forms to the person who kept the equipment cards.

McNeil Island

A sample check of property items in five McNeil Island cost centers showed five equipment items listed as being under the control of one cost center but physically located in another. For example, velour stage curtains valued at $1,088 were listed as being in the warden's residence but were actually in the inmate auditorium as part of another cost center. In addition, a boring machine and a calculator listed under the education cost center were instead located in the construction and mechanical services and financial management cost centers, respectively. Cost center managers, the warden stated, have since been instructed to submit the appropriate transfer documents to the business office.

Englewood

At Englewood, 9 of a sample of 159 items which we physically inventoried had been transferred without documentation.

PROPERTY INVENTORY PROGRAMS DID NOT PROVIDE EFFECTIVE INTERNAL CONTROLS

Physical inventories of property at the institutions were not always scheduled nor completed as scheduled. When inventories were conducted, they were not always done adequately enough to identify all property items and the result of the inventories were not used effectively to bring all property under accountable control. Consequently, the institutions' inventory programs provided no assurance of preventing or discovering unauthorized, fraudulent, or otherwise irregular activities involving property as provided for by the approved accounting system.

Ashland

The Ashland business manager did not prepare and maintain a fully documented inventory program, but he had scheduled physical inventories for 17 of the 20 cost centers during calendar year 1978. The property record cards indicated that

New York had no registers

New York did not prepare Registers of Controlled Property until March 1979. Even then, however, the registers did not list controlled noncapitalized property, and they had not been signed by the cost center managers.

Most Ashland registers were unsigned

Only 5 of 20 registers at Ashland had been signed by responsible cost center managers. Moreover, the five cost centers had custody of less that $50,000 of the total $700,000 in capitalized property recorded at Ashland.

Atlanta had inadequate registers

At Atlanta, four of 19 cost center managers had not signed registers for property costing over $437,000. Unauthorized employees--someone other than the responsible cost center manager--had signed six registers for property valued at over $272,000. On six of the signed registers, the cost center managers had not dated their signatures to show when they had taken responsibility for the property.

As of March 31, 1979, over 15 months had elapsed since the property officer had thoroughly updated and maintained the registers. There were no registers for three cost centers. Of the 19 registers on file, 6 had not been updated since November 1977, 9 since February 1978, and 1 since June 1978. The property officer blamed the problem on higher priority duties.

Englewood had inadequate registers

The property officer at Englewood had not maintained current and complete registers. Two registers were missing from the files, and two registers in the files were unsigned. Changes in property had not been recorded, signed, or dated between September 1978 and March 1979. The warden said the records would be corrected after all the property was inventoried.

McNeil Island

Of the 24 cost center managers at McNeil Island, 6 had not signed registers. Institution officials attempted to get all the registers signed after the problem was brought to their attention.

Differences was not completed to document the methadone shortage, as well as shortages and overages of several non-controlled drugs and other supplies. According to the institution's hospital administrative officer, the shortages had occurred under a previous officer, and the security violations noted in the DEA report had been corrected. The security violations were corrected, but drugs placed in dosage envelopes were not controlled through the use of perpetual inventory records in accordance with DEA and Bureau policies.

Atlanta had no control of controlled drugs in the pharmacy and little control of other medical supplies

The Atlanta pharmacist did not comply with Bureau policies for maintaining physical and record control of controlled drugs, and the stock record cards for other medical supplies in the storeroom were not always accurate.

The pharmacist was not following Bureau requirements that he keep controlled drugs in the daily use safe until they were required for immediate consumption, and that he record the required consumption information in the narcotic dispensing record. Instead, the pharmacist had removed large quantities of controlled drugs from the daily use safe, placed them on the pharmacy shelves, and merely charged them to "consumption" in the narcotic dispensing record. No record was made when the drugs were dispensed to patients such as the patients' names and the dosages they received. The quantities of controlled drugs not in the pharmacy safe on April 6, 1979, are shown in the table below.

Controlled drug	Tablets not in safe
Valium 10 mg	2,350
Librium 10 mg	525
Tylenol #3	300
Darvon - N. 100 mg	560
Phenobarbital 30 mg	500
Talwin 50 mg	85
Lomotil	275

The pharmacist told us that, in order to save time, he did not follow Bureau requirements. He agreed that he would not know the quantity of controlled drugs not kept in the safe without counting them. In addition, the hospital administrative officer did not know that the pharmacist's procedures presented a control problem.

inaccurate stock record cards for medical supplies in the storeroom.

--McNeil Island had inaccurate stock record cards for two controlled drugs.

Medical supplies received at the institution are to be delivered immediately to the hospital administrative officer, or assistant, to be examined and counted by one of them and the receiving clerk. The receiving clerk is supposed to prepare a receiving report for both their signatures. The supplies are then to be requisitioned from the hospital storehouse as needed.

DEA requires complete records for all controlled drugs from receipt until consumption or destruction. Bureau policies place this responsibility solely on the hospital administrative officer, who is required to store all controlled drugs in a storeroom vault or safe and maintain perpetual inventory records of all additions and withdrawals. Quantities for daily use may be stored in a daily use safe or lock box in the pharmacy, but may not be removed until required for immediate use. Separate, complete, and balanced inventory records are to be kept in two ledgers--the storeroom record of receipt and issue of narcotic drugs, and the narcotic dispensing record. At the time a controlled drug is administered to a patient, medical staff are to chronologically record in the dispensing record the date, hour, patient's full name and number, drug, dosage or narcotic content, drug log number and manufacturer, reason for administration, amount remaining in the daily use safe, and initials of the officer(s) responsible for the safe or ledger and for administering the drug. Consequently, a complete record of controlled drugs is to be maintained from the time received until administered to patients or destroyed.

Ashland improperly maintained ledgers

The Ashland storeroom and daily use ledgers for controlled drugs were not properly maintained. The storeroom log recorded only receipts, issues, and remaining stock on hand. The log did not have a separate section for each drug. Instead, all drugs were grouped on the same page by class. The daily use log, rather than containing the extensive information required concerning the actual administration of drugs to specific patients, only included the on-hand quantities of drugs on the days that inventories were taken.

Ashland did not maintain adequate record controls over the donated commodities it received, most of which were stored away from the institution at a commercial facility. For example, at least 6 to 11 tons of donated fats--butter, peanut oil, and shortening--were missing and not accounted for by Ashland's records. The institution had about 92 tons of fats available during the 18 months ending March 31, 1979. It reported that about 54 tons were consumed and another 4 tons were questionably written off due to bookkeeping errors. This should have left 34 tons on hand. On March 15, 1979, we and Bureau staff could only locate 27.5 tons of fats, leaving 6.5 tons missing and unaccounted for. The 4 ton write-off was questionable because the receiving reports did not support the reason given in the report of survey--that some of the fats were recorded upon receipt at their gross weights instead of net weights--meaning that 10.5 tons were not adequately accounted for. The reported consumption figures are also suspect since inventory differences were sometimes charged to consumption, and the amount reportedly consumed was 58 percent higher than standard rations. Consequently, there was inadequate accountability for the items. All donated items are now stored at the institution, and stock record cards have been corrected.

Englewood

A test of 78 subsistence stock record cards at Englewood revealed that 6 balances were less than the stock on hand, and 11 balances were greater than the stock on hand. We were advised that the overages resulted from food being charged out on the records but not removed from the storerooms, and the shortages by food being removed without being charged out on the records. No stock record cards were prepared for an additional five items. There were also unexplained reductions in stock balances in the records. We were told these represented shortages discovered during spot inventories; however, no reports of survey were prepared to document investigations of the shortages. The warden attributed the problems to clerical errors made by inexperienced staff which would be corrected by policy enforcement and better staff familiarization with procedures.

New York

Our physical inventory of 48 food items revealed discrepancies in 37 stock record cards. The quantities on hand of some items were substantially below the balances shown on the stock record cards as shown on the next page.

New York

The New York storekeeper maintained no stock records during fiscal year 1978. Consequently, the storekeeper could not provide quarterly inventory balances for posting to the general ledger account. The storekeeper was maintaining 91 stock record cards for fiscal year 1979, but 62 had no opening balances, 60 had no issues, 53 had no receipts, and 22 cards did not specify if the first entry was a receipt or on-hand inventory.

Englewood

Englewood's records of diesel fuel and regular gasoline could not be verified because the institution did not have measuring sticks for these tanks. Furthermore, the institution did not have a chart to convert the measurement of fuel in the unleaded gasoline storage tank into gallons.

Inadequate control of construction and mechanical services supplies

Institution storekeepers generally did not follow Bureau policies and maintain physical and record control of supplies for the construction and mechanical services cost centers. Instead, the supplies were shipped directly to the cost centers without passing through the storehouses.

Strict controls were required for items used in construction and mechanical services work, regardless of how the work was funded. Items for Buildings and Facilities funded projects were to have their own stock record cards, be tagged or otherwise identified by the project number, and stored separately from other such supplies under the control of the storekeeper. When such storage was impractical because the items were bulky or needed for immediate use, they could be delivered directly to the project site, but the items had to retain their project number identification to insure they would be used only on the project for which they were purchased. The institutions did not maintain the prescribed controls.

For example, the Ashland construction and mechanical services department received its supplies and materials directly from the shippers and stored them in various places inside and outside the perimeter fence. No records of these supplies were prepared. The following is an example of what happened as a result of these practices.

--New York's storekeeper maintained no stock record cards for fiscal year 1978, except for officers' clothing which had substantial errors. The cards for fiscal year 1979 were incomplete. Also, only two of the four cost center managers having custody of significant inventories maintained adequate inventory records.

--Englewood could not account for some supplies.

Ashland

Although Bureau policies prescribe that physical and record control of supply inventories be maintained at the warehouse by the storekeeper, only items for inmates were under such controls at Ashland. Most of the institution's supplies (e.g., tools, maintenance and construction materials, copy paper) were not stored in the warehouse and were not under any records control. Such practices were also contrary to the Bureau policy that the direct issue of supplies to cost centers immediately upon receipt be limited to unusual circumstances. It was also impossible for the storekeeper to monitor the utilization of supplies not under his control as required by the Bureau.

Examination of the records of supplies of inmate items such as clothing, towels, washcloths, and bedding which were under the physical and records control of the storekeeper revealed that many were inaccurate. Our physical inventory of 27 items revealed errors on 10 of the stock record cards. The more significant discrepencies are shown in the table below.

Item	Underages	Overages
Washcloths	1,200	
Pillowcases	200	
Shirts		894
Jackets		128
Rain coats		115

McNeil Island

McNeil Island did not maintain adequate physical and record control of supplies. A sample of 39 stock record cards maintained at McNeil Island revealed 28, or 72 percent, with incorrect balances, like those shown in the following table.

spot checks of tool inventories in the various shops and work details. But, according to the central toolroom clerk, such checks were not made. Comparisons were made of each shop's current inventory with the previous year's inventory after each shop supervisor completed his annual tool inventory. Though differences sometimes resulted in a missing tool report, no investigations were conducted to determine why the tools were missing and how such incidents could be avoided. For example, in 1978, the farm shop reported in its annual inventory that 360 tools were either lost or missing. A toolroom official requested the farm shop to recount its tools and submit the appropriate "turn-in" or "lost item" reports to account for the variance. However, an investigation was not conducted to resolve the matter. As of April 1979, the farm shop's 1978 tool inventory had not been approved, nor had its 1979 tool inventory been performed.

Officials at McNeil Island later informed us that efforts were being made to correct all tool inventories.

Ashland

At Ashland, the tools that were supposed to be on the shadowboards were generally present. We did find, however, that some tools received by the institution were issued without first being listed and marked. Eighteen small hand tools, received a day or two before our inquiry, had been issued to mechanical services by the storekeeper without notifying the security officer. According to the warden, the 18 tools were issued to mechanical services to be secured until marked and issued to a specific work detail. He also stated that the institution's tool control policy needs revision since Ashland does not have a central tool room.

INADEQUATE RECORDS AND PROCEDURES FOR CONTROLLING SUPPLIES

The institutions did not maintain adequate control of supplies.

--The Bureau's accounting system provided no control for supply inventories.

--Storekeepers did not always maintain physical custody of most supplies and accurate stock record cards.

--Cost centers maintained no records of supply inventories.

Except for firearms, Atlanta had no records of controlled noncapitalized property. The property officer had not

--maintained and provided to the storekeeper and receiving clerk a list of items to be controlled,

--prepared memorandum records of such items, and

--listed the items on cost center registers.

We attempted to locate 39 items but could only account for 33. Missing were a portable tape recorder, two tape and stereo systems, an adding machine, and two calculators. The business manager told us that the institution does not control such items because it is not worth the cost, and it requires too much time, unnecessary paperwork, and manpower.

On June 17, 1977, Englewood removed numerous custody items from property record control on the basis that it was administratively impractical to itemize them on the cost center registers. These items included handcuffs, leg irons, bulletproof vests, helmets, gas masks, and binoculars. Our physical inventory revealed that 5 of the 13 binoculars were missing, and 6 shotguns were not recorded.

McNeil Island maintained record control only for firearms and binoculars. However, the records were incomplete, and our physical inventory disclosed that

--8 handguns were not listed;

--7 listed binoculars could not be found, but 3 unlisted binoculars were located; and

--43 rifles belonging to the regional office were not listed.

Over 100 items of controlled noncapitalized property were not under record control at Ashland. In addition, the property officer did not provide the storekeeper with a list of items to be controlled until March 1979.

New York had no records of controlled noncapitalized property.

<u>Tools were not always safeguarded at three institutions</u>

Although the institutions' tools are required to be under strict physical and record controls, tools at Englewood, McNeil Island, and Ashland were not adequately safeguarded.

--Items highly subject to theft were not always recorded in the records of controlled noncapitalized property.

--Tools were not always safeguarded.

Consequently, the institutions did not know what property they owned and were not in a position to protect it.

Capitalized equipment not adequately documented

Capitalized equipment was not always recorded in the approved accounting system and on property record cards when received at the five institutions as required by Bureau policy. Accounting and property record controls are to be maintained for real property and capitalized personal property (i.e., major equipment items valued at $200 or more in 1978). Such property is to be recorded upon receipt in the appropriate general ledger fixed asset account by the accounting supervisor and on individual subsidiary property record cards by the chief property officer. The cards are supposed to show the description, value, and location of the property. Each month, the property officer is to prepare and send to the accounting office adding machine tapes of the total values shown on the cards, and the accounting supervisor is to compare them to the totals shown in the general ledger. Differences in the totals are to be reconciled to ensure that all such property is brought under accounting and record control.

Atlanta did not record capitalized equipment until after it was paid for, contrary to Bureau policy, and sometimes not even then. We identified 175 items of capitalized equipment, costing $405,000, which had not been recorded, some after more than 20 years. Examples of unrecorded items follow.

Item	Value	Date Received
Video cassette recorder	$ 1,439	3/04/77
Paint spray gun	1,096	8/31/77
Scaffolding	3,990	2/22/78
Oscilloscope	1,383	4/13/78
Trailer	4,000	5/01/78
Blood counter	5,577	7/14/78
Ice cream makers (4)	18,000	7/27/78
Garbage pulper	10,600	8/22/78
Orthopedic table	1,100	8/23/78
Metal detector	7,500	9/11/78
Wire welder	1,543	12/05/78

CONCLUSIONS

The institutions did not maintain adequate control over expenditures to ensure that they (1) acquired only the goods and services they needed, (2) made the best procurement bargains for the Government, (3) received what they paid for, and (4) made effective use of all the Government's property.

The Bureau has issued revised policies which, if properly implemented, can prevent the purchase of unneeded items. However, more attention to following Bureau policies is required to control expenditures.

RECOMMENDATIONS

We recommend that the Attorney General direct the Department of Justice internal audit staff to assess, at appropriate intervals, the Bureau's progress in controlling its expenditures by insuring that each institution follows its procedures for acquiring, using, and disposing of property, and to report their findings to him.

AGENCY COMMENTS

The Department offered no specific comments on the matters discussed in this chapter; however, it agreed that its internal audit staff should assess the Bureau's progress in insuring that institutions follow established procedures for acquiring, using, and disposing of property.

and that the quality, quantity, and prices were as specified in contracts and other authorizations. The institutions did not follow the Bureau policy which requires that the receiving clerks receive and check the quantity and quality of all goods obtained by the institutions.

Receiving clerks did not receive and check certain goods obtained by the institutions, which was not in accordance with the Bureau's policies and approved accounting system. When an employee picked up items from local vendors, the goods were delivered directly to the cost center which ordered them without being checked by the receiving clerks. Likewise, goods received in the mail were delivered directly to the ordering cost center. Also, the institutions normally did not have the receiving clerk present at the hospital when medical supplies were delivered.

Two institutions allowed employees to select suppliers and directly receive the goods. In New York, employees simply phoned vendors, ordered and directly received what they wanted, and then waited for the business office to request a certification of receipt after the invoices arrived. The McNeil Island farm manager did the same thing. For example, feed grains ordered by the farm manager from a supplier he selected were received on November 15, 1978, without the receiving clerk present to count the goods. When the invoice arrived in December, the farm manager prepared a memorandum of receipt at the cashier's request. The receiving clerk then prepared an official receiving report dated December 28, 1978.

The receiving clerks at two institutions were unable to weigh all goods, purchased by weight. There were no weight scales at New York, and the McNeil Island receiving clerk did not have a large scale to weigh heavy items.

UNNEEDED ITEMS WERE NOT IDENTIFIED AND REPORTED FOR USE ELSEWHERE

The institutions were not promptly and properly identifying and reporting items they no longer needed which could be used elsewhere or sold as surplus or scrap. When property becomes excess to the needs of an institution, it should be reported on a survey report and disposed of by the property officer in accordance with the instructions of the Board of Survey. Usable items are to be reported to other Bureau institutions and Government agencies, while unusable items are to be sold as scrap.

Large quantities of idle property at the institutions had not been identified and reported. The institutions had not willing or able to do the work 1/--and the eighth had notified the prison of its inability to bid before receiving the invitation. The institution awarded the contract on a sole source basis to a firm which was not on the bidders list.

Little competition existed at McNeil Island for five of the seven negotiated purchases over $10,000 each executed during fiscal year 1978. Two purchases of building steel in 1 month totaling $10,400 were made through a blanket purchase arrangement without soliciting proposals or quotations from other firms. On two procurements totaling $24,200 for installing pilings, only one firm was contacted because, according to prison officials, the institution was familiar with its work. In another case, there was some evidence that more than one firm was contacted, but a firm which had asked the procurement officer to be put on the bidders list was not sent an invitation. The cost center manager had prepared the bidders list.

At New York, little competition was solicited for three procurements exceeding $10,000 each. Only 3 of a possible 60 firms were contacted for one procurement involving partitions and another for duct work. The third procurement for about $20,000 in canned and dry food had no bidders list in the file although there were four responses. This seems like a small response since there are 89 wholesale grocers listed in the Manhattan telephone directory alone. The development and use of a bidders list might have improved the competition for these procurements.

McNeil Island did not publicize a synopsis of all awards of over $25,000 in the Commerce Business Daily. We could not find notices for three contract awards exceeding $25,000 each. The procurement officer said he was not aware of the requirement to publicize Government procurements.

Institutions made inadequate efforts to solicit suppliers for small purchases

The institutions made inadequate efforts to solicit suppliers for some types of small procurements (i.e., under

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1/One firm did not deal in such small quantities, one preferred not to deal with the Federal Government, one was a small firm that dealt with homeowners, one was a shake mill which did not supply the requested product, and one was a supplier of oil and gas, not lumber.

Inadequate competition for some negotiated procurements

Three institutions made negotiated procurements for which additional proposals or offers could have been solicited to assure better competition. In some cases, these procurements were made on a sole source basis.

At McNeil Island, limited or inadequate efforts to secure competition typified five procurements totaling $61,355 which were made using sole source or other negotiated procurement methods.

--Two purchases of building steel totaling $10,400 were made in the same month from the same source without soliciting offers or obtaining quotations from other sources.

--Only three of a possible 81 firms were solicited with requests for price quotations for two meat procurements of over $10,000 each.

--A sole source contract costing $16,500 was negotiated, as authorized by a statement of determinations and findings, on the basis of the "emergency nature of the repairs" needed for the port dolphin. The work was scheduled to start nearly 2 months after the statement was prepared, which was enough time to have solicited other suppliers.

There were similar shortcomings for two New York negotiated procurements--one for over $10,000 for partitions, and another estimated at $15,000 for duct work. Institution officials justified negotiating the latter procurement as a small purchase because the contract was awarded for $9,600. Federal regulations, however, state that small purchase methods cannot be used for procurements initially estimated to exceed $10,000, even though the awards are less than $10,000.

Atlanta negotiated four sole source procurements costing $30,580. Two purchases of socks totaling $14,580 were made 13 days apart, and two purchases of sheets totaling $16,000 were made 6 weeks apart. We found no statement of determinations and findings justifying this procurement method, nor evidence that offers were solicited or quotations obtained from sources other than the awardees.

Bureau subsequently revised policies to prevent unneeded procurements

After these findings were provided to the Bureau, it issued a new policy on May 15, 1979, that established new criteria for year-end procurements. Obligations for the fourth quarter of the fiscal year are not to exceed obligations for the third quarter. With certain exceptions, procurement actions are not to be taken on purchase requests between September 15 and the end of the fiscal year unless needed or put in use before the end of the fiscal year, and inventories are to be kept at normal levels.

In addition, on May 16, 1979, the Bureau issued a revised policy for the preparation of the quarterly budget forms. Before the policy revision, the cost center manager had the option of not listing the quantities of stock on hand or on order. The revised policy statement requires cost center managers to provide this information for all items in order to prevent the procurement of unneeded items and to identify slow moving and unutilized items.

Building and Facilities funds spent for items not used on projects

Ashland and Atlanta did not always follow the Bureau's policies which require that Building and Facilities funds be used for the purposes intended, and that material be used only on the projects for which they were purchased.

Ashland purchased $19,697 worth of items which were not used on approved projects. For example,

--Part of the $27,000 allotted for rehabilitation of domestic water supply lines was used to purchase a $10,000 backhoe, a $625 tractor blade disc, a $119 chain saw, a $215 calculator, and a $910 handball court. These items were not used on the project.

--Part of the $7,500 allotted for safety measures in the powerhouse and tunnel was used to purchase a $1,030 work platform, $445 in paint and $173 in steel grating not used on the project.

Atlanta used about $42,000 in Building and Facilities funds to purchase materials and equipment not used on the four projects charged for the items. For example, Atlanta purchased

CHAPTER 3

EXPENDITURES WERE NOT CONTROLLED

Federal prisons had no effective control over expenditures because their procedures did not provide assurance that they

--acquired only the goods and services needed,

--made procurements which ensured the best bargain for the Government,

--received what they paid for, and

--made effective use of Government property.

Consequently, institutions could not restrict their expenditures to only the amounts needed for efficient operations.

QUESTIONABLE PROCUREMENTS

The five institutions purchased, particularly near the end of the fiscal year, $216,828 worth of items they did not need at the time. Two institutions used Building and Facilities funds to purchase items not needed for approved projects.

During our review, the Bureau issued two revisions to its policies which, if properly implemented, can prevent the purchase of unneeded items with Salaries and Expenses funds.

Salaries and Expenses funds used to purchase unneeded items

The general rule for lawfully obligating a fiscal year (e.g., Salaries and Expenses) appropriation is that the obligating contract be made within the fiscal year to be charged to meet a bona fide need of that fiscal year. The Bureau's policy is that purchases of an item should be for only the amount needed during a quarter of the fiscal year and that items should not be stocked beyond the institution's quarterly needs. The planning documents discussed in chapter 2 take this policy into account in determining the quantity of an item to be purchased each quarter.

The Bureau's planning policies recognize that institution workloads and resource needs are dynamic rather than static, but this was disregarded. Although the Bureau must ultimately operate within its congressional appropriation, this should not prevent it from obtaining a realistic picture of its institutions' needs through internal planning processes.

The Department did not comment on (1) the $1.4 million in repair and construction projects cancelled when we questioned their need, (2) the use of project funds for unapproved purposes, (3) the repair and construction projects undertaken even though not identified as institution needs, nor (4) the unneeded goods and services purchased by the institutions.

It did, however, maintain that, in some cases, the report does not provide the degree of detail necessary to respond to charges that little attention was given the control of expenditures and property management. To support its position, the Department provided additional details about the $220,000 spent to modify Ashland's sewer treatment plant, which we stated could have been avoided with better planning.

The Department's lack of a detailed response is unwarranted. First, each institution was given a detailed statement of our findings and an opportunity to comment thereon. Second, a detailed report on procurement problems was given the Bureau in August 1979. Lastly, the Department has had this report for comment since February 1980 and could have obtained additional details on any of the matters discussed, had it desired to do so.

With regard to modification of Ashland's sewer treatment plant, the Department fails to note that an engineering study conducted before the modifications were made concluded that operational changes could have been made to control the plant's problems. Two years after being modified, the plant was closed and the Bureau spent $82,500 to connect the city sewer line.

Although presented in as brief a form as possible, the report details in this and remaining chapters the widespread breakdown in administrative controls designed to insure that the Bureau operates as efficiently and effectively as possible. Thus, the Department's comment that the nature of the problems and the corrective actions needed did not support the overly critical tenor of the report is particularly disturbing. Although the Department agreed with our recommendation calling for periodic internal audits to keep the Department advised of the status of corrective action, Bureau policies require institutions to develop adequate inspection and preventative maintenance programs to ensure that each facility is checked at least twice each year. Adequate records of such inspections are required to verify implementation of the plan and record all defects noted.

Although staff at the institutions told us they inspected and maintained the facilities, there was no way to tell if this was true or if the inspections were as comprehensive as prescribed by the Bureau. There were no inspection and preventative maintenance program plans to help ensure that regularly scheduled inspections of all structures and major equipment were made. Also, almost none of the four institutions' equipment record cards had entries to show that equipment had been regularly inspected and maintained.

CONCLUSIONS

The Bureau and its institutions did not follow the Bureau's policies and adequately plan their resource needs. The Bureau did not request or obtain comprehensive and realistic resource plans for fiscal year 1978 before it started, and the institutions generally did not adequately plan for and control their property, facilities, and personnel resources.

The Bureau subsequently made policy changes designed to improve planning for obtaining property, but like the Bureau's other policies, these changes need to be properly implemented by the institutions to be effective.

RECOMMENDATIONS

We recommend that the Attorney General direct the Department of Justice internal audit staff to assess, at appropriate intervals, the Bureau's progress in better implementing its policies for annual and quarterly resource planning, and to report the extent to which Bureau managers develop comprehensive, realistic, and adequately supported resource plans, and use these plans for controlling their operations.

AGENCY COMMENTS

The Department of Justice commented on a draft of this report by letter dated April 11, 1980 (see app. III). With respect to personnel planning, the Department presented reasons why institutions should not include part-time employees, new positions, and pay raises in annual plans, and priority lists of projects, they were not able to engage in effective facilities planning by considering current requirements, management objectives, and long-range plans.

Insufficient information to plan and control projects

Institutions did not have enough information to adequately estimate and control the work and costs of major projects. Although Bureau policy required that each project have complete records including material and price lists, drawings, purchase requests and orders, receiving reports, and progress reports sent to the region, few project files had complete records and some had none.

--Only 54 of 307 projects examined at the 5 institutions had material and price lists.

--Ashland had no documentation of any kind for its fiscal year 1978 projects.

--McNeil Island project files were too incomplete for controlling projects--rough material quantity and price lists used for planning were usually thrown away and all procurement documents were not kept on file. For example, one project with a $55,000 obligation limit only had $36,172 worth of purchase orders on file at the cost center. Business office records showed total obligations of $54,197, while our audit revealed that actual expenditures were $56,732. Another project had a $7,000 overobligation.

--McNeil Island officials did not pay enough attention to inmate productivity and institution staffing levels when planning projects. The reasons generally given for projects taking more than two and one-half times longer than planned were inefficient inmate laborers and an insufficient number of supervisors for the inmates.

--Material lists and cost estimates were not in the Atlanta files because the facilities manager said they were not needed, and not all purchase orders were on file. Projects involving extensive modification of buildings did not have working drawings. The institution had significant cost overruns as shown in the examples below.

Bureau has issued new instructions to improve procurement planning

In May 1979, the Bureau issued revised policies on formulating annual and quarterly procurement plans and budgets which included new instructions to cost center and business managers that could, if properly implemented, make such plans more realistic and usable.

Cost center managers are now responsible for:

--Providing written justifications for continuing or modifying programs.

--Including sufficient information in their budget forms to permit management to determine that every phase of their operation has been considered.

In addition, business managers are now responsible for:

--Assisting cost center managers in preparing their budgets, when requested.

--Providing training to all staff responsible for formulating and executing budgets.

--Furnishing financial management expertise to the budget and planning committees.

If these changes force cost center managers to determine and justify their procurement needs based on reliable cost information for projected programs and workloads, then the institutions should be able to develop more realistic annual procurement plans.

Institutions were also told that proper utilization of the cost center planning documents not only aided in projecting annual and quarterly funding needs, but also facilitated and expedited procurements. They were instructed, therefore, to list on the documents all stock in the warehouses and all supplies kept at the cost center and used on a recurring basis. In addition, institution business offices were told to train and assist cost center managers in developing realistic requirements for supplies. If these changes force cost center managers to develop realistic requirements for goods and services, institutions will be better able to project funding needs and improve management of procurements.

This situation allowed cost center managers to order unneeded items and prevented contracting officers from using the most competitive procurement methods, as discussed in chapter 3.

Cost center managers generally did not prepare quarterly plans for purchasing supplies and services as required by Bureau policies. They were provided planning documents on which to list the quantity of all supplies and services they would need, the quantity of each supply item that was on hand, on order, and to be ordered during the remainder of the current quarter, and the resulting quantity and estimated cost of the supplies and services which needed to be ordered during the next quarter. Of the 142 cost center quarterly planning documents we examined at the 5 institutions, only 16 contained the detailed information. Most of the remainder contained only total dollar amounts for a cost center or activities within a cost center.

The inadequate cost center planning documents submitted to the budget and planning committees effectively prevented them from carrying out their responsibilities for planning the institutions' quarterly requirements for funds. The committees were responsible for preparing the institutions' quarterly program plans and allocating the funds received among cost centers. Without detailed information, the committees were not in a position to assess whether the cost center estimates represented their actual requirements for each quarter as required by Bureau policy.

The inadequate cost center planning documents also prevented the budget committee from effectively administering and controlling the institutions' quarterly program plans. The budget committees were supposed to prepare two monthly budget reports at the start of the third month of each quarter to help them assess the current and projected status of the institutions' quarterly plans.

- --The first report was to show the current status of each cost center's obligations and remaining requirements compared to the amount of funds allocated to them for the quarter. It was also to show the planning committee's decisions for utilizing the fund balances during the remainder of the quarter--carrying any surpluses into the next quarter or returning them to the region, and resolving any deficits.

- --The second report was to show the planning committee's decisions concerning the cost centers' requirements for the ensuing quarter.

INADEQUATE PLANS AND CONTROLS FOR GOODS AND SERVICES

The institutions prepared unrealistic plans for obtaining goods and services because they did not closely examine their future needs. Cost center managers generally did not follow Bureau requirements that they prepare lists and estimate the cost of the property they needed. Instead, they simply submitted the total amount of funds they expected to spend without providing any supporting data. Such plans could not be used to adequately plan, monitor, and control performance because the cost center managers had not documented what they planned to spend the funds for.

In addition, the central office requested incomplete annual plans by instructing the institutions to limit their total fiscal year 1978 requests of expenditures for property to fiscal year 1977 levels (see app. II). This indicated that the central office expected that no institution would need more funds for goods and services in fiscal year 1978 than they received in fiscal year 1977. In effect, this discouraged institutions from developing realistic budget estimates.

Furthermore, after the institutions acquired property, they had no maintenance plans. Consequently, there was little documentation to indicate if the property was maintained in a manner that assured its preservation and continued usefulness.

Acquisition of goods and services to operate institutions was inadequately planned

Institutions did not prepare plans which were adequate for planning and controlling the acquisition of goods and services for operations. The central office instructed the institutions to limit their total requests to fiscal year 1977 funding levels, which assumed that the need for funds would remain constant through the next fiscal year. The institutions developed their annual and quarterly plans without knowing what property the cost center managers planned to obtain and at what estimated cost. Consequently, the plans were not complete, realistic, or controllable. In May 1979, the Bureau issued revised policies for planning the procurement of goods and services which, if properly implemented, could result in adequate plans.

INADEQUATE PERSONNEL PLANNING

The central office did not request realistic and complete annual personnel plans for fiscal year 1978, and the institutions had little or no support for their annual and quarterly plans for personnel utilization.

--The institutions were essentially instructed to limit their annual requests for salaries to 97 to 98 percent of their fiscal year 1977 authorized positions, plus 10 percent for personnel benefits even if it were known to be higher.

--The institutions had not prepared the required manpower purchase and utilization plan before fiscal year 1978 to provide a rational basis for estimating personnel requirements based on projected workloads.

Since personnel consumed about 70 percent of the institutions' Salaries and Expenses funds in fiscal year 1978, this was a particularly significant planning failure.

Central office requested unrealistic and incomplete personnel plans

The Bureau allocated fiscal year 1978 funds to institutions without knowing their relative needs and without the benefit of the rigorous reexamination of needs called for by its planning system. The Bureau disregarded its own policies for personnel planning by telling the institutions to only request the amount of personnel resources for fiscal year 1978 that was authorized for fiscal year 1977 (see app. II). Promotions, part-time employees, new positions, and pay raises were not to be anticipated. The institutions only had to provide justificaton for the differences in authorized positions between fiscal years 1976 and 1977. Pay raises were not anticipated because the Bureau was not authorized to include them in its annual plans.

As a result, a large portion of the supplemental funds the institutions received during fiscal year 1978 were for unplanned personnel expenditures as shown below.

Institution	Total supplemental funds received	Unplanned personnel expenditures	Percent
Atlanta	$1,245,700	$642,200	52
Ashland	623,873	313,928	50
Englewood	551,009	242,019	44
McNeil Island	885,677	638,356	72
New York	573,200	408,000	71

CHAPTER 2

PLANS WERE NOT ADEQUATE FOR ALLOCATING AND CONTROLLING RESOURCES

Institutions did not adequately plan for their use of personnel and property resources in fiscal year 1978. Although the Bureau had a comprehensive system for developing complete and supported plans for the resources needed to meet its program objectives, the plans developed in fiscal year 1978 provided no firm basis for allocating resources among and within institutions, or for monitoring and controlling the institutions' operations.

--The central office did not request realistic and complete annual personnel plans, and the institutions had little or no support for their annual and quarterly plans.

--Institution plans for obtaining property were unsupported. This deficiency was a factor in our identifying $1.4 million worth of unneeded repair and construction projects which were subsequently cancelled, and $216,828 worth of unneeded procurements, which are discussed in chapter 3.

The Bureau's policies recognized that all its activities should begin with planning so that it could be prepared for changing conditions, make the most effective use of its limited resources, and measure its progress in achieving its objectives. The Bureau's policies expected that its managers, by thinking through what was desired and how to achieve it, would be able to develop plans which involved the commitment of specific types and amounts of resources to specific courses of action for achieving established objectives. For fiscal year 1978, however, institution managers either failed to develop the required plans or prepared plans which were unrealistic, incomplete, and unsupported.

BUREAU HAD COMPREHENSIVE SYSTEM FOR PLANNING

The Bureau had established a comprehensive system for planning how resources would be used to meet its objectives. Under the Bureau's comprehensive planning system, higher management developed objectives and policies for carrying out the Bureau's mission, while institution managers

The Bureau's central office is responsible for developing, executing, and monitoring the Bureau's financial plans (i.e., budgets), controlling the funds it receives from its Salaries and Expenses appropriation and Building and Facilities appropriation, and operating the computerized financial management system.

The central office allots funds from the appropriations to the five regional directors on the basis of the regions' proposed financial plans and prior year's costs as modified by central office program managers. The regional directors are responsible for reallotting those funds to the wardens and for monitoring, accounting, and controlling them. The directors are supposed to reallot the funds--on a quarterly basis for Salaries and Expenses funds and on a project basis for Building and Facilities funds-on the basis of the institutions' proposed financial plans, prior costs, and central office and regional restrictions.

The wardens are required to manage their institutions within the resources made available to them. The wardens are to be assisted in developing, executing, and monitoring the institutions' financial plans by a budget committee (warden, associate wardens, and business manager), planning committee (warden, associate wardens, and cost center managers), and various subcommittees of the planning committee (work programming, salary, subsistence). They are aided by reports from the Bureau's computerized financial management system on the status of their funds, as well as reports they prepare themselves.

Each institution is responsible for its own business operations, including developing resource requirements, executing financial plans, controlling funds and property, and conducting and accounting for procurement, receiving, disbursement, and cash transactions. Cost center managers are required to develop and implement programs in their own areas of institution operations, identify and request the resources needed for those programs, and manage the resources made available to them.

SCOPE OF OPERATIONS FOR THE BUREAU AND THE FIVE INSTITUTIONS

During fiscal year 1978, the Bureau operated a central office, 5 regional offices, and 49 penal institutions, and employed about 8,637 staff at a total cost of about

ABBREVIATIONS

DEA	Drug Enforcement Administration
GAO	General Accounting Office

did not maintain complete records of medical supplies, including controlled drugs. A Drug Enforcement Administration audit at one institution discovered that a shortage of 25 methadone pills had not been reported. GAO found that the pharmacist at another institution kept large quantities of controlled drugs on the pharmacy shelves instead of in the safe. (See pp. 36 to 47.)

Physical inventories of property at the institutions were not always scheduled or completed as scheduled. During the GAO review, one institution conducted its first complete inventory of equipment in 10 years. It located 533 items which were not recorded, but could not find 212 recorded items originally costing over $100,000. None of the institutions fully investigated problems disclosed by physical inventories, such as 53 missing cattle at one institution. (See pp. 50 to 57.)

The five institutions did not conduct effective internal audits to help improve their operations. In addition, management did not correct many of the problems identified by the audits that were conducted. (See pp. 64 to 69.)

RECOMMENDATIONS

The Attorney General should direct the Department of Justice internal audit staff to assess, at appropriate intervals, the Bureau of Prisons progress in better implementing its policies for planning and controlling the acquisition and use of personnel and property, and to report their findings to him. Additional recommendations are made for modifying Bureau policies to improve its internal management controls.

AGENCY COMMENTS

The Department of Justice commented that the nature of the problems and the corrective actions needed do not support the overly critical tenor of the report. The Department's attitude is very disturbing

The Bureau's central office instructed the institutions to request essentially the same amount of funds for personnel and the procurement of goods and services for fiscal year 1978 as were authorized for the previous fiscal year. The Bureau therefore allocated fiscal year 1978 funds to institutions without knowing their relative needs and without the benefit of the rigorous reexamination of needs called for by its planning system. (See pp. 6 and 9.)

The institutions disregarded the Bureau's policies by inadequately determining and justifying their needs for the personnel, goods, and services to be used in fiscal year 1978. (See pp. 7 to 11.)

For example, GAO identified $1.4 million worth of unneeded repair and construction projects which were subsequently cancelled. (See p. 13.)

Furthermore, the approved plans could not be used for monitoring and controlling operations and for assessing management performance. Inadequate procurement plans, for example, made it possible for cost center managers to make unneeded procurements. (See pp. 10 and 11.)

EXPENDITURES WERE NOT CONTROLLED

Prison managers disregarded Bureau policies and did not maintain effective control over expenditures.

GAO found that the five institutions purchased, particularly near the end of the fiscal year, $216,828 worth of items they did not need at the time. Two institutions used construction funds to purchase items not needed for approved projects. (See pp. 20 to 23.)

Procurements were not always made in a manner which assured full and adequate competition. Many procurements were made after soliciting price quotations from only one capable source of supply. (See pp. 23 to 27.)

GAO also found that the institutions did not control expenditures by always making sure that