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General Government Division

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July 7, 1993

The Honorable Jim Sasser
Chairman, Subcommittee on General Services,
Federalism, and the District of Columbia
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This letter responds to your request for information on Federal Prison Industries, Inc.'s (FPI) production and sales of systems furniture to federal agencies. FPI's production and sales were explored during congressional hearings held between 1988 and 1991, and some private sector vendors continue to allege that FPI's systems furniture prices are higher than prevailing commercial prices. Accordingly, you asked for information on the status of FPI's efforts to (1) increase federal prison inmates' involvement in systems furniture production and (2) ensure that its systems furniture prices are competitive with those charged by private sector vendors under the General Services Administration's (GSA) multiple award schedules program.

Since beginning its systems furniture efforts in 1986, FPI has increased the number of inmates used and expanded the type of work they do. FPI has plans over the next year aimed at further involving inmates in systems furniture production. FPI's systems furniture prices are higher than those of some GSA schedule vendors but are within the market price range required by law. FPI's systems furniture prices could become more competitive as a result of planned changes in its production process, lower raw material costs, and the use of negotiated discounts and/or less expensive design options.

BACKGROUND

FPI is a government-owned corporation managed by the Department of Justice's Bureau of Prisons (BOP). It was created by Congress in 1934 to serve as a mechanism for managing, training, and rehabilitating inmates. Under the trade name UNICOR, FPI markets more than 250 products in five major categories: (1) clothing and textiles;

GAO/GGD-93-51R, FPI Systems Furniture

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(2) electronics, plastics, and optics; (3) metals; (4) graphics and services; and (5) furniture. In the year ended September 30, 1992, UNICOR employed about 16,000 inmates at 89 factories in 47 prisons nationwide and had sales to federal agencies totaling \$417 million.

Congress recognized that FPI would be competing directly with private sector vendors for the federal government's business. However, FPI's operations were not intended to impose a hardship on private industry, force private vendors out of business, or have a significant adverse effect on private sector employment. Aspects of the law aimed at achieving these ends were that FPI could sell only to the federal government and had to produce a diversified line of products so that no single industry would face undue competition.

By law and under the Federal Acquisition Regulation (FAR), UNICOR is a mandatory source of supply for federal agencies. This means that federal agencies are expected to try to satisfy their supply needs by purchasing products marketed by UNICOR. Agencies are required to obtain clearance waivers from UNICOR before purchasing any products from other sources. UNICOR's policy is to approve requests for waivers when there is (1) a documented price disparity, (2) an inability to meet reasonable delivery dates, or (3) an incompatibility between agencies' requirements and UNICOR's products.

Also by law, UNICOR's price is not to exceed current market price. Our November 1985 report on federal agencies' satisfaction with FPI's products emphasized that the only limit the law imposes on FPI's price is that it may not exceed the upper end of the current market price range.¹ However, neither the law, the FAR, nor FPI policy defines market price or specifies how it should be established.

Further, the law requires that UNICOR employ the greatest number of inmates reasonably possible. In this regard, it specifies that UNICOR produce only items that permit employing the greatest number of inmates possible, thus maximizing inmates' opportunities to earn a living after release. UNICOR's goal is to train and employ 25 to 30 percent of the inmate population in secure federal facilities. Its program has grown rapidly over the last several years as the federal prison inmate population has increased to over 70,000.

¹UNICOR Products: Federal Prison Industries Can Further Ensure Customer Satisfaction (GAO/GGD-86-6, Nov. 1, 1985).

UNICOR began its systems furniture efforts in 1986. Systems furniture differs from traditional office furniture in that it contains panels of varying widths, shapes, and heights that are used to form individual or group workstations. UNICOR's sales of systems furniture have grown steadily over the past several years. In fiscal year 1992, UNICOR's systems furniture operation was carried out at 5 prisons; employed about 725 inmates; and had sales of over \$40 million, which represented almost 10 percent of UNICOR's total product sales to federal agencies.

NATURE AND EXTENT OF INMATE INVOLVEMENT
IN SYSTEMS FURNITURE PRODUCTION

When UNICOR first entered the government systems furniture market, it purchased components from a private sector vendor, used inmates to assemble and package them into systems furniture workstations, and marketed them as a UNICOR product. As time passed, however, UNICOR increased inmate involvement in production operations. Today, UNICOR continues to purchase systems furniture components from a private manufacturer and has a contractual arrangement granting it the right to totally or partially manufacture and market, as a UNICOR product, any or all items in this manufacturer's product line without penalty or payment of royalties.

According to UNICOR, prison inmates currently perform some of the manufacturing on virtually all systems furniture products except mobile and fixed file components. However, the costs of purchased systems furniture parts, components, and finished assemblies from a private sector manufacturer still account for most of the costs of UNICOR's systems furniture. In fiscal year 1992, for example, UNICOR's records show that purchased materials represented about 85 percent of its total systems furniture production costs.

As indicated earlier, UNICOR employs about 725 inmates in its systems furniture production process at 5 prisons. On average, each of these inmates is employed about 1,900 hours per year. Some of the tasks that they perform include welding panel cores together, installing fabric on the core panels, cutting worksurfaces to proper sizes and shapes, installing laminate on the worksurfaces, packaging orders, and other warehousing duties necessary to ready systems furniture for shipment to federal agency customers. Available UNICOR cost data for 1992 indicated that these inmates spent about one-third of their total paid time on tasks directly chargeable to systems furniture production. As noted in our recent report on prison inmate wages, inmates earn

much less than the minimum wage.² Consequently, this one-third represented only about 1 percent of UNICOR's total cost of producing systems furniture. The remaining two-thirds of these inmates' paid time involved either clerical or janitorial duties or work that was not directly attributable to a specific order and was charged as indirect labor.³

UNICOR has no specific inmate employment goals for systems furniture or any other product line, and we do not know how much inmate involvement is appropriate or enough for its products. However, we noted that UNICOR used less inmate labor in its systems furniture operation than in its other operations. As table 1 shows, in fiscal year 1992 UNICOR used at least 50 percent less inmate labor, as a percentage of total production costs, for systems furniture compared to other furniture and its four other major product lines.

Table 1: Inmate Labor Cost as a Percentage of Total Production Costs, FY 1992

Product line/ division	Direct labor	Indirect labor	Total
Furniture Division:			
Systems	1.07%	2.10%	3.17%
Other	3.70	3.90	7.60
Graphics Division	5.22	5.66	10.89
Electronics Division	2.28	5.45	7.74
Metals Division	2.04	6.66	8.70
Clothing Division	4.54	4.62	9.16

In a congressionally mandated study completed in 1991, Deloitte and Touche, Certified Public Accountants, concluded that UNICOR's use of inmate labor added little value to systems furniture and

²Prisoner Labor: Perspectives on Paying the Federal Minimum Wage (GAO/GGD-93-98, May 20, 1993).

³FPI cost accounting data available to us did not quantify the amount of inmate labor that was in each indirect labor category.

two other product lines because of its heavy reliance on purchases of finished or nearly finished goods from private sources. Instead of continuing to market its own product lines in these areas, Deloitte and Touche recommended that UNICOR work toward changing the law and regulations so that it could function as a subcontractor to private sector companies who would be required to use prison inmate labor in manufacturing these products.

According to Deloitte and Touche, such a subcontracting arrangement would be preferable to the existing arrangement since it would (1) enable UNICOR to reduce its operating costs and streamline its operations and (2) provide federal agencies with more product options and price competition among multiple suppliers. As of May 1993, FPI officials said that UNICOR will pursue the subcontracting option for other product lines, but not systems furniture because it believes that further expansion of the systems furniture production process is the better way to go.

FPI officials said that UNICOR has always realized the need to increase inmate involvement, worked towards this end since getting into systems furniture, and will be implementing some additional changes over the remainder of this year aimed at having inmates do more of the production and manufacturing now being done by the private sector manufacturer from whom it buys parts, supplies, and component assemblies. Specifically, UNICOR plans to begin manufacturing mobile and fixed file components in July 1993 and do much more metal fabrication in-house by the end of the year. If successful, these efforts could result in the employment of additional inmates and also increase inmates' direct labor opportunities.

COMPETITIVENESS OF UNICOR'S SYSTEMS FURNITURE PRICES

As noted earlier, federal law and procurement regulations require that UNICOR's prices not exceed current market prices for identical or similar products. However, the law and regulations do not specify where in the range of market prices UNICOR's prices should be. In view of the lack of definitive criteria, UNICOR's price for a product does not have to be the lowest price available or even in the lower range of market prices. The only limit is that UNICOR's price may not exceed the upper end of the market price range.

UNICOR's practice has been to price its systems furniture in the middle of the price range charged by private sector vendors under GSA's multiple awards schedules program. UNICOR's most recent assessment of prevailing systems furniture market prices that was available when we did our work was dated January 1991. It found

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that the prices charged by 11 GSA schedule vendors ranged from \$2,315 to \$3,507 per systems furniture workstation. Accordingly, UNICOR concluded that its 1991 basic workstation price of \$2,804 was within this market price range. However, UNICOR's stated \$2,804 price included a 10-percent discount that was not offered or provided in 1991. Thus, UNICOR's actual 1991 price was \$3,115.

Although within the market price range, UNICOR's price was higher than the prices charged by 9 of the 11 GSA vendors. For example, the schedule prices charged by 3 of the 11 GSA vendors--who had the third, fifth, and sixth lowest prices and accounted for about 60 percent of total 1992 GSA systems furniture schedule sales--averaged about 15 percent lower than UNICOR's price of \$3,115. FPI estimated that about 50 percent of the workstations it sold in 1992 were discounted an average of 5 percent. Given its sales price, discounts, and 1992 systems furniture sales of \$40 million, buying systems furniture from UNICOR could have cost federal agencies about \$5 million more than buying it from the three GSA vendors.

Besides charging higher prices for its systems furniture, UNICOR's limited product line may also contribute to higher costs for federal agencies. Basically, UNICOR has only one line of systems furniture, and its standard workstation accounts for about 90 percent of its total systems furniture sales. In contrast, GSA vendors typically have several systems furniture product lines, which enables them to offer federal agencies a variety of product options in terms of price as well as design features. Some federal agencies we contacted viewed these vendors' product design and price options as a way of reconciling their systems furniture needs and tight budgets.

FPI recognizes that UNICOR's current systems furniture prices are higher than those of several GSA vendors and has efforts underway that may lead to decreases in its systems furniture prices. UNICOR expects that its new contract for systems furniture parts and supplies, mentioned earlier, will enable it to reduce the purchased cost of systems furniture parts and supplies by 10 to 15 percent. If the federal agency customer insists on a lower price, FPI officials said that UNICOR can and will negotiate its systems furniture prices to meet current market price and conditions and/or provide less expensive design options.

These and other factors contributed to UNICOR'S decision to reduce systems furniture prices by 5.5 percent effective July 1, 1993. Collectively, these changes could make UNICOR's systems furniture prices more competitive with those of GSA's schedule

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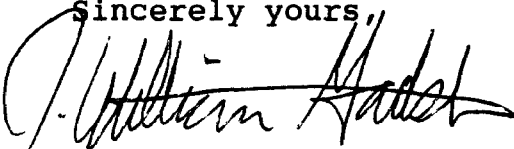
vendors and its systems furniture product line more attractive to federal agencies.

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We discussed a draft of this letter with responsible FPI officials, who said that UNICOR will continue to look for ways to increase the number of inmates used and make its systems furniture prices more competitive. These officials also provided a number of specific suggestions that we considered in preparing the final version.

We are sending copies of this letter to the Attorney General, Director of BOP, Administrator of GSA, Director of the Office of Management and Budget, and other interested congressional committees and subcommittees. Copies will be made available to others upon request.

If you have questions or need additional information on this subject, please call me on (202) 512-8387 or Gerald Stankosky or Robert B. Mangum of my staff on (202) 501-0550.

Sincerely yours,



J. William Gadsby
Director, Government Business
Operations Issues

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