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REPORT TO THE CONGRESS ³⁰/₅



Examination Of Financial
Statements Of Federal Prison
Industries, Inc.
Fiscal Year 1972 B-114826

Department of Justice

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

~~701488~~

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APRIL 10, 1973



COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

B-114826

To the President of the Senate and the
Speaker of the House of Representatives

This is our report on our examination of the financial statements of the Federal Prison Industries, Inc., Department of Justice, for the fiscal year ended June 30, 1972.

We made our examination pursuant to the Government Corporation Control Act (31 U.S.C. 841).

We are sending copies of this report to the Director, Office of Management and Budget, and the Attorney General.

James B. Atchey

Comptroller General
of the United States

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D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires the Comptroller General to examine annually the financial activities of the Federal Prison Industries, Inc.

Background

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/ The Federal Prison Industries, Inc., a wholly owned Government corporation created June 23, 1934, functions within the Department of Justice 37 under the general direction and supervision of the Attorney General. The primary goal of the corporation is to offer inmates in Federal prisons training and work experience in skills that provide opportunity for employment upon release.

OPINION ON FINANCIAL STATEMENTS

In the opinion of the General Accounting Office (GAO), the corporation's financial statements included in this report present fairly its financial position at June 30, 1972, and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles which were applied on a basis consistent with that of the preceding year--except for the change noted below, with which GAO concurs--and with applicable Federal laws.

To agree with current accounting theory, in fiscal year 1972 the corporation revised its method of computing working capital by reflecting changes in inventories of \$2.3 million. The working capital position at yearend showed a decrease of \$560,434. If the corporation adhered to its previous method of calculation, the decrease would have exceeded \$2.8 million (See p. 7.)

OTHER MATTERS OF INTEREST

During fiscal year 1972 the corporation conducted 51 industrial operations at 20 Federal prisons to provide industrial work experience to inmates. These operations ranged from the production of metal and wood furniture to furniture refinishing and tire recapping. The corporation also has interagency agreements with the Departments of Agriculture and the Navy for establishing new industries. (See pp. 3 and 4.)

The corporation supports a vocational training program and an employment placement service for inmates. These activities are administered by the Bureau of Prisons. Vocational training was offered in 109 courses during the fiscal year covering such subjects as welding, auto mechanics, and building trades. Employment placement services were rendered to over 5,500 inmates. (See p. 4.)

During the year the Bureau of Prisons participated in a pilot study designed to collect information about postrelease job placement and employment stability. Preliminary findings indicated that about 25 percent of inmates who had received vocational training and 6 percent who had received industrial training were presently employed in areas related to that training. (See p. 5.)

The corporation's sales for the year amounted to about \$51.3 million. Net industrial profits resulting from these sales totaled \$6.4 million, an increase of \$1.4 million over the previous year. An analysis of distribution of profits shows that over \$5 million, including depreciation of buildings, machinery, and equipment, was used to support vocational training programs. (See p. 6.)

Profits retained amounted to \$395,048, an increase of about \$57,000 over the previous year. (See p. 6.)

During the year the corporation donated two buildings, valued collectively at \$478,000, to the Bureau of Prisons. The donation was never approved by the Board of Directors because the corporation has no writ-

ten policy to bring such matters as donations of real property, whose acquisition had required the Board's approval, to the attention of the Board. (See pp. 6 and 7.)

RECOMMENDATIONS

The corporation should establish a written policy whereby all legal donations of real property are approved by the Board of Directors. This policy would be consistent with existing corporation policy governing approvals of proposed construction authorizations and cancellation of any approved authorization. (See p. 7.)

AGENCY COMMENTS

The corporation agreed with our recommendation and will present a written resolution to the Board of Directors to secure the necessary approval of this donation and any future donations of real property. (See p. 7.)

MATTERS FOR CONSIDERATION OF THE CONGRESS

This report is submitted to the Congress as required by the Government Corporation Control Act.

CHAPTER 1

INTRODUCTION

The Federal Prison Industries, Inc., a wholly owned Government corporation created pursuant to the act of June 23, 1934 (48 Stat. 1211, 18 U.S.C. 4121), functions within the Department of Justice under the general direction and supervision of the Attorney General. The primary goal of the corporation is to offer inmates in Federal prisons training and work experience in skills that provide for employment opportunities upon release.

During fiscal year 1972 the corporation conducted 51 industrial operations at 20 Federal prisons to provide employment for Federal inmates. Total inmate employment for the fiscal year ended June 30, 1972, averaged over 5,000, or about 23 percent of the total inmate population.

The Federal penal system's training, education, and industrial programs are conducted by the Bureau of Prisons and the corporation under the auspices of the Department of Justice. The Bureau of Prisons operates from appropriated money, whereas the corporation generates its own funds through industrial operations. Certain Bureau functions, such as the vocational training program, are financed from corporation profits.

The operating policies of the corporation are prescribed by a board of directors comprised of six members representing the Attorney General, retailers and consumers, labor, industry, the Secretary of Defense, and agriculture. These members are appointed for indefinite terms by the President of the United States and serve without compensation. The current board members are:

<u>Members</u>	<u>Representative of</u>
(Vacant) President	Attorney General
James L. Palmer, Vice President	Retailers and consumers
George Meany	Labor
Berry N. Beaman	Industry
John Marshall Briley	Secretary of Defense
William E. Morgan	Agriculture

CHAPTER 2

TRAINING AND EMPLOYMENT OPPORTUNITIES

AVAILABLE TO FEDERAL PRISON INMATES

The corporation strives to achieve its goal through a network of diversified industries. Its products and services range from metal and wood furniture, sophisticated electronic cable systems, and automated data processing services to furniture refinishing and tire recapping.

The corporation also provides financial support for a vocational training program and an employment placement service for inmates. The Congress establishes an annual expense limitation on these activities which are administered by the Bureau of Prisons.

During fiscal year 1972 vocational training was offered in 109 courses covering such subjects as welding, auto mechanics, carpentry, and masonry. Over 7,600 inmates enrolled in these courses and about 77 percent completed the training. Employment placement services were rendered to over 5,500 inmates during the fiscal year.

DIVERSITY OF INMATE TRAINING OPPORTUNITIES

The corporation is attempting new approaches to industries through agreements with other agencies. The corporation is training inmates to meet specific agency needs. The inmate receives work experience which will allow him to effectively compete for a job with that agency after his release.

The first such project, the Ships Electronics Configuration Accounting System, undertaken jointly with the Department of the Navy, involves making inventories of equipment on all Navy ships.

In August 1972 the corporation and the Agricultural Stabilization and Conservation Service (ASCS) of the Department of Agriculture agreed to train inmates for 1 year and to use their services to write computer programs for the ASCS data processing center in Kansas City, Missouri. As part of this project, the corporation established an automated data processing programming service at Leavenworth, Kansas, prison.

The aim of this new service is to increase educational and on-the-job training programs in computer sciences by

providing training in systems development, programing and software languages, and computer operations.

RELATIONSHIP OF POSTRELEASE EMPLOYMENT
TO INDUSTRIAL EXPERIENCE AND VOCATIONAL
TRAINING PROGRAMS

To measure the accomplishments of the corporation in achieving its primary goal, adequate data must be compiled and correlated to determine whether a direct relationship exists between postrelease employment and prior work experience or vocational training received in prison.

Before fiscal year 1972 little, if any, data on this relationship was compiled by the corporation or the Education and Vocational Training Branch of the Bureau of Prisons. During 1972 the Bureau of Prisons participated in a pilot study designed to collect information on postrelease job placement and employment stability of Federal offenders. A byproduct of this study was feedback data relating post-release employment to prison program participation, including both vocational training offered by the Bureau of Prisons and industrial experience offered by the corporation.

Preliminary findings indicated that about 25 percent of inmates who had received vocational training and 6 percent who had received industrial training were presently employed in areas related to that training.

We are currently reviewing the effectiveness of these programs.

CHAPTER 3

INDUSTRIAL OPERATIONS

In fiscal year 1972 industrial profits exceeded \$6.4 million, an increase of \$1.4 million over profits of the previous year. These profits resulted from sales of about \$51.3 million.

An analysis of the distribution of profits showed that over \$5 million, including depreciation expenses, were spent to support the vocational training programs. Although the Congress set a \$5.6 million limitation on vocational training programs for the fiscal year, the corporation limited expenditures to \$4.7 million to adhere to the President's economic policy. Actual expenses for fiscal year 1972 were \$4.6 million exclusive of depreciation charges which are not subject to the limitation.

Profits retained in the corporation amounted to \$395,048 after distributions for vocational training costs, accident compensation, and meritorious compensation to inmates. This represents an increase of about \$57,000 over the previous year.

Of the 51 industries in operation during the year, 29 showed increases in sales volume; the largest was \$4 million at the textile factory in the Atlanta prison.

During fiscal year 1972 the corporation added a custom furniture industry at Lompoc, California, and a glove industry at Safford, Arizona. The furniture industry had sales and profits of \$702,534 and \$177,185, respectively. The glove industry had sales of \$55,855 but an operating loss of \$16,797.

During the fiscal year four industries (a brush industry, a cot repair industry, a tire-reconditioning industry, and an instructional system industry) were discontinued. They had aggregate sales of \$263,956 and losses exceeding \$100,000. Also the clothing factory at Leavenworth's disciplinary barracks was relocated to Atlanta.

BUILDINGS DONATED TO THE BUREAU OF PRISONS

During the year the corporation donated two buildings, constructed with corporation funds, to the Bureau of Prisons without the approval of the Board of Directors. These buildings with related improvements were valued collectively at about \$478,000.

We believe that the donation of the buildings was not handled in a manner consistent with corporation policies governing other major actions. Although the corporation has no written policy to bring such matters as the donation of real property to the Board's attention, construction authorizations or cancellations must be approved by a two-thirds vote of the Board. It would seem logical therefore that the Board would approve any disposal of completed construction projects.

Recommendation

The corporation should establish a written policy whereby all legal donations of real property are approved by the Board of Directors. This policy would be consistent with existing corporation policy governing approvals of proposed construction authorizations and cancellation of any approved authorization.

Agency comments

In a letter dated December 1, 1972, the Associate Commissioner of the Federal Prison Industries, Inc., acknowledged the corporation's failure to secure the Board's approval of the donation. He said that a written resolution to secure the necessary approval would be presented to the Board at its next meeting. This resolution would also apply to any future donations of real property of the corporation.

CHANGE IN COMPUTATION OF WORKING CAPITAL

To agree with current accounting theory, the corporation revised its method of computing changes in working capital by reflecting changes in inventories. The combined inventory balance increased about \$2.3 million during the fiscal year. The working capital position at yearend showed a decrease of \$560,434. Had the corporation adhered to its past policy, the decrease in working capital would have exceeded \$2.8 million.

CHAPTER 4

SCOPE OF EXAMINATION

Our examination of the financial statements of Federal Prison Industries, Inc., for fiscal year 1972 was made in accordance with generally accepted auditing standards and included such tests of the accounting records and financial transactions and such other auditing procedures as we considered necessary in view of the nature and volume of the transactions and the effectiveness of the internal controls, including the internal audit function.

The Office of Internal Audit, Department of Justice, reviewed fiscal year 1972 financial operations at 19 industrial locations. We relied greatly on the work of the internal auditors when rendering an opinion on the financial statements.

Our examinations were made at the central office in Washington, D.C., and at the prisons in Leavenworth, Kansas; Marion, Illinois; and Lompoc, California.

CHAPTER 5

OPINION ON FINANCIAL STATEMENTS

In our opinion, the accompanying financial statements present fairly the financial position of the Federal Prison Industries, Inc., at June 30, 1972, and the results of its operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for its method of computing working capital with which we concur, and with applicable Federal laws.

SCHEDULES

FEDERAL PRISON INDUSTRIES, INC.

STATEMENT OF FINANCIAL CONDITION
FISCAL YEARS ENDED JUNE 30, 1972 AND 1971

A S S E T S					
	Fiscal year <u>1972</u>		Fiscal year <u>1971</u>		Increase or decrease (-)
FUNDS WITH U.S. TREASURY:					
Available for operations	\$ 6,433,649		\$ 9,262,202		-\$2,828,553
Special deposits (bond and tax deductions)	47,716		46,852		864
ACCOUNTS RECEIVABLE (principally from Government agencies)	5,883,911		4,766,687		1,117,224
INVENTORIES (at cost):					
Materials and supplies	11,709,745		9,470,167		2,239,578
Work in process	3,704,113		3,450,825		253,288
Finished goods	<u>4,018,650</u>		<u>4,186,428</u>		-167,778
Total inventories	19,432,508		17,107,420		2,325,088
PLANT EQUIPMENT:					
Machinery and equipment	\$19,504,954		\$18,240,106		
Less allowance for depreciation	<u>8,370,205</u>	11,134,749	<u>7,466,415</u>	10,773,691	361,058
Buildings and improvements	^a 22,748,977		22,107,222		
Less allowance for depreciation	<u>5,708,436</u>	17,040,541	<u>5,202,835</u>	16,904,387	136,154
Constructions in process		<u>1,878,907</u>		<u>1,595,095</u>	283,812
Total plant equipment		30,054,197		29,273,173	781,024
SUNDRY ASSETS		<u>98,530</u>		<u>142,917</u>	-44,387
Total assets		<u>\$61,950,511</u>		<u>\$60,599,251</u>	<u>\$1,351,260</u>

^aDuring fiscal year 1972 the corporation donated two buildings valued collectively at about \$478,000 (book value), to the Bureau of Prisons.

^bTo provide for anticipated price adjustments on items sold during the year and default claim against a supplier.

^cExclusive of \$17,129 representing adjustments affecting prior years' transactions.

BEST DOCUMENT AVAILABLE

LIABILITIES AND CAPITAL

	Fiscal year <u>1972</u>	Fiscal year <u>1971</u>	Increase or decrease (-)
LIABILITIES:			
Accounts payable	\$ 2,611,492	\$ 1,468,740	\$1,142,752
Accrued liabilities	1,210,244	1,025,284	184,960
Employees' accrued annual leave	1,083,744	1,031,203	52,541
Deposit fund liabilities (bond and tax deductions)	<u>47,716</u>	<u>46,852</u>	<u>864</u>
Total liabilities	4,953,196	3,572,079	1,381,117
CONTINGENT LIABILITIES	^b 25,687	276,134	-250,447
INVESTMENT OF U.S. GOVERNMENT:			
Initial capital	4,176,040	4,176,040	
Property received from other Government agencies, net	<u>2,562,365</u>	<u>2,719,694</u>	<u>-157,329</u>
Capital	6,738,405	6,895,734	-157,329
Total retained earnings	<u>50,233,223</u>	<u>49,855,304</u>	^c377,919
Total investment of U.S. Government	<u>56,971,628</u>	<u>56,751,038</u>	<u>220,590</u>
Total liabilities and investment of U.S. Government	<u>\$61,950,511</u>	<u>\$60,599,251</u>	<u>\$1,351,260</u>

SCHEDULE 2

FEDERAL PRISON INDUSTRIES, INC.

STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS ENDED JUNE 30, 1972 AND 1971

	Fiscal year <u>1972</u>	Fiscal year <u>1971</u>	Increase or decrease (-)
Total sales of products and services	^a \$53,995,326	\$47,332,317	\$6,663,009
Less sales between industries	<u>2,717,828</u>	<u>2,861,054</u>	<u>-143,226</u>
Sales to Government agencies	51,277,498	44,471,263	6,806,235
Cost of goods and services sold	<u>42,527,523</u>	<u>37,469,620</u>	<u>5,057,903</u>
Gross profit	8,749,975	7,001,643	1,748,332
OPERATING EXPENSES:			
Sales expenses:			
Outgoing freight	86,442	67,779	18,663
Shipping	331,919	245,731	86,188
Catalog, samples, and sundries	<u>56,716</u>	<u>12,712</u>	<u>44,004</u>
Total sales expenses	475,077	326,222	148,855
Administrative expenses:			
Salaries and related	792,023	714,812	77,211
Travel	74,806	46,341	28,465
General Accounting Office audit	25,000	35,000	-10,000
Department of Justice audit	97,000	77,836	19,164
Rent for Washington office	27,160	23,936	3,224
Telephone	28,221	22,446	5,775
Printing and reproduction	21,389	20,528	861
Building repairs	21,866	-	21,866
Freight	12,739	-	12,739
Reimbursable salaries (construction)	35,404	-	35,404
Other	<u>19,264</u>	<u>13,381</u>	<u>5,883</u>
Total expenses subject to limitation set by Congress (1971--\$1,003,000) (1972-- 1,164,000)	1,154,872	954,280	200,592
Depreciation:			
Machinery and equipment	3,074	3,063	11
Building and improvements	<u>1,511</u>	<u>1,511</u>	-
Total administrative expenses	1,159,457	958,854	200,603
NET OPERATING EXPENSES	1,634,534	1,285,076	349,458
OTHER INCOME:			
Add:			
Miscellaneous sales income	211,837	140,821	71,016
Sundry income	<u>64,996</u>	<u>120,837</u>	<u>-55,841</u>
Other income	276,833	261,658	15,175
OTHER EXPENSES:			
Survey of inventory	119,130	-	119,130
Reimbursable salaries and related	636,819	614,642	22,177
Loss on disposition of assets	101,695	134,273	-32,578
Christmas packages to inmates	28,400	28,173	227
Factory closing expense	21,856	9,136	12,720
Other expense	92,770	105,685	-12,915
Organization expense	20,735	87,655	-66,920
Incentive awards to civilians	<u>6,295</u>	<u>6,960</u>	<u>-665</u>
Other expenses	1,027,700	986,524	41,176
NET INDUSTRIAL PROFIT	^a 6,364,574	4,991,701	1,372,873
Less:			
Accident compensation	125,101	97,422	27,679
Vocational expense	5,074,182	3,853,737	1,220,445
Meritorious compensation to inmates	<u>770,243</u>	<u>702,905</u>	<u>67,338</u>
NET PROFIT TO RETAINED INCOME	<u>\$ 395,048</u>	<u>\$ 337,637</u>	<u>\$ 57,411</u>

^aSales and profits have been reduced by \$13,746 and a reserve established to provide for anticipated payments for price adjustments on items sold during the year under tentative prices.

FEDERAL PRISON INDUSTRIES, INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FISCAL YEAR ENDED JUNE 30, 1972

FUNDS PROVIDED:

Sales of products and services		\$51,277,498
Miscellaneous sales		1,653,822
Materials and supplies received without exchange of funds		343,681
Sundry income current year		64,996
Sundry income earned in prior years		11,868
Decrease in working capital		<u>560,434</u>
Total funds provided		<u>\$53,912,299</u>

FUNDS APPLIED:

Cost of goods and services sold	\$42,527,523	
Less production depreciation	<u>1,503,532</u>	\$41,023,991
Vocational training and place- ment expense	5,074,182	
Less depreciation	<u>438,772</u>	4,635,410
Administrative expense	1,159,457	
Less depreciation	<u>4,585</u>	1,154,872
Acquisition of fixed assets		3,228,923
Cost of miscellaneous sales		1,441,985
Other operating expense		1,401,082
Inmate compensation for meri- torious or outstanding service		770,243
Accident compensation		125,101
Loss on disposal of assets		101,695
Operating expenses incurred in prior years		<u>28,997</u>
Total funds applied		<u>\$53,912,299</u>

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