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UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
502 U.S. CUSTOMHOUSE, 2D AND CHESTNUT STREETS  
PHILADELPHIA, PENNSYLVANIA 19106

NOV 22 1971

Mr. Billy J. Clendening  
Superintendent of Industries  
Federal Prison Industries, Inc.  
United States Penitentiary  
Lewisburg, Pennsylvania 17837

Dear Mr. Clendening:

The General Accounting Office has examined financial transactions of the Federal Prison Industries, Inc. (FPI), United States Penitentiary, Lewisburg, Pennsylvania, for the fiscal year ended June 30, 1971. The examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841).

Our review, which was completed in September 1971, was made in accordance with generally accepted auditing standards and included such tests of accounting records as we considered necessary in view of the nature and volume of transactions and the effectiveness of internal controls. We considered the most recent audit performed by the Department of Justice examiners which was completed in October 1970.

At the conclusion of our review, we discussed with you certain matters which required attention. Those items for which your central office has control will be considered for reporting to that office. Our findings are summarized below for your information and follow-up.

INVENTORIES

1. The ending work-in-process inventory for the metal furniture factory did not include sufficient labor and overhead costs. As a result, the inventory value was understated and the net loss was overstated at June 30, 1971. Of the 83 jobs in process at June 30, 1971, only five had labor and overhead costs, estimated at \$757.30 and \$5,217.80 respectively.

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Our analysis of the five jobs showed that labor and overhead costs of \$1,433.22 and \$9,874.88 respectively were charged on these jobs during the first 5 workdays in July 1971. Of the remaining 78 jobs which had only material costs recorded at June 30, 1971, 17 were transferred to finished goods during the same 5-day period. Labor and overhead costs of \$414.52 and \$2,919.04 respectively were charged to these jobs after June 30, 1971. In view of the foregoing charges recorded early in July, you and your staff concurred that the estimated labor and overhead costs were too low for the work-in-process at June 30, 1971. We were advised that emphasis would be placed on making future estimates more realistic.

2. The raw materials and supplies inventory for the clothing factory was overstated \$2,432.73 at June 30, 1971, due to an error in computing the unit price for nickel gray twill. The overstatement was increased by \$57.00 for transactions recorded after June 30, 1971. Adjustments were made to correct the inventory records.

3. The inventory certificates submitted to the central office by FPI, Lewisburg indicated that finished goods for the metal furniture factory and the clothing factory were priced at current manufacturing cost. However, we found that finished goods were priced on a moving average cost basis instead. Letters were submitted to the central office to correct the certificates.

4. Physical inventories at FPI, Lewisburg were being taken as required; however, they were taken by individuals who were responsible for maintaining the inventory records. This is contrary to FPI Manual section 34848 which requires that annual physical inventories be taken by civilian personnel who are not responsible for maintaining the inventory records. This condition was brought to the attention of FPI personnel during our audit in 1967 and by the Department of Justice audit in 1970. We were advised that action would be taken to comply with the prescribed procedures.

5. Our physical count of 19 various inventory items in the metal furniture and clothing factories disclosed that 11 items, or 58 percent, were either over or under the recorded stock balance. Eight items were short \$432.95 and three items were over \$539.85. The net overage of \$106.90 is relatively insignificant in comparison to the inventory value of \$132,405.62 for the items counted. However, the discrepancies found in physical counts made by Department of Justice auditors in November 1970 and by local FPI personnel required substantial adjustments in some instances. These discrepancies evidence a need to improve inventory controls and procedures.

## FIXED AND OTHER ASSETS

1. The disposal of certain equipment was not properly recorded because a report of survey was not processed. Four punch presses were sold for \$3,800 in November 1970 but were still on the records in August 1971. At the time of the sale, cash proceeds of \$3,800 were recorded as a gain on the sale of fixed assets, but no entry was made to clear the books of the recorded value of the fixed assets and related reserve for depreciation. At June 30, 1971, therefore, the machinery and equipment account was overstated \$8,701.34, the reserve for depreciation account was overstated \$8,354.42, and the difference of \$346.92 represented a reduction of the gain previously recorded. Adjustments were processed in August and September 1971 to correct the records.

2. Typewriters acquired after May 1970 were depreciated at a higher rate than authorized. In May 1970, the central office instructed field offices to use Internal Revenue Service Publication Number 456 which provides for depreciating typewriters over a 10-year period. Lewisburg officials continued to use the 5-year depreciation period in effect prior to the change. As a result, the equipment depreciation account and the related reserve account were overstated \$145.16 for the metal furniture factory and \$14.42 for the clothing factory at June 30, 1971. Adjustments were processed in August 1971 to correct these overstatements and others totaling \$20.02 recorded after June 30, 1971.

3. FPI officials at Lewisburg failed to obligate \$2,155.70 of fiscal year 1970 vocational training funds for vocational training equipment received by the Kennedy Youth Center, Morgantown, West Virginia, as required in FPI Manual section 34660. The equipment was received during fiscal year 1970 but did not meet specifications, and Morgantown officials did not process a receiving report. At the request of Lewisburg officials, Morgantown submitted a receiving report, but it was not recorded due to an administrative error. Lewisburg filed the receiving report in suspense with the purchase order until the vendor complied with specifications. As a result, the receipt was not recorded in the equipment account, and fiscal year 1970 funds were not obligated at June 30, 1970. On January 19, 1971, the central office authorized Lewisburg to use fiscal year 1971 vocational training funds to pay for the equipment after the vendor met specifications.

4. The metal furniture factory manufactured a notching die at a cost of \$2,017.90 for its own use without obtaining a special authorization from the central office as required by FPI Manual section 34525. Such authorization is required for the manufacture of machinery, jigs, dies, and tools which cost in excess of \$200.

ACCOUNTS PAYABLE

Accounts payable at June 30, 1971, were understated \$4,839.50 for the metal furniture factory and \$385.48 for the clothing factory because FPI failed to record certain year-end liabilities. Materials and supplies, mostly on local open charge accounts, were received before June 30, 1971, but were not recorded until receipt of vendors' invoices after the end of the fiscal year. As a result, the year-end financial records and statements did not include operating costs of \$2,404.65 for the metal furniture factory and \$385.48 for the clothing factory and assets of \$2,434.85 for the metal furniture factory. Adjustments for fiscal year 1971 costs were processed in September 1971.

CASH

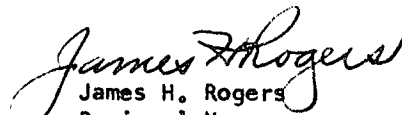
Checks received from successful bidders on sales of waste and scrap material by the clothing factory were not recorded in the special deposit cash account as required by FPI Manual section 34813. The checks were held until final shipments had been made and then were recorded in the regular cash account. We were advised that the prescribed procedures would be followed in recording such transactions in the future.

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We would appreciate your comments as to the action taken or planned on the matters discussed above. We wish to acknowledge the cooperation extended to our representatives by both your civilian and inmate personnel during our review.

Copies of this letter are being sent to the Assistant Attorney General for Administration, the Commissioner of Industries, and the Warden, United States Penitentiary, Lewisburg, Pennsylvania.

Sincerely yours,

  
James H. Rogers  
Regional Manager