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REPORT TO THE CONGRESS ⁰⁹⁹³⁴⁷



BY THE COMPTROLLER GENERAL ^{JF}
OF THE UNITED STATES



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UNITED STATES
GENERAL ACCOUNTING OFFICE

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Examination Of
Financial Statements Of
Federal Prison Industries, Inc.
Fiscal Year 1975

Department of Justice

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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 the examination of the financial
statements of the Federal Prison Industries, Inc., Depart-
ment of Justice, for the fiscal year ended June 30, 1975.

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 to the Attorney
General.

A handwritten signature in black ink, reading "James A. Stacks".

Comptroller General
of the United States

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COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF FINANCIAL STATEMENTS
OF FEDERAL PRISON INDUSTRIES, INC.
FISCAL YEAR 1975
Department of Justice

D I G E S T

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

The Federal Prison Industries, Inc., a wholly owned Government corporation created pursuant to the act of June 23, 1934, functions within the Department of Justice under the general direction and supervision of the Attorney General. The corporation's primary purpose is to employ inmates in Federal prisons so as to keep them busy and at the same time give them an opportunity to obtain training in marketable skills. During fiscal year 1975 the corporation operated 52 industries at 23 Federal institutions.

In GAO's opinion the financial statements included in this report present fairly the financial position of Federal Prison Industries, Inc., at June 30, 1975, and June 30, 1974, and the results of its operations for the years then ended, and changes in its financial position for the year ended June 30, 1975, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

The internal audit staff, Department of Justice, makes detailed audits annually of financial operations at selected industrial locations. A comprehensive audit program was used at each location visited. GAO reviewed the work of the internal audit staff and found it to be both accurate and reliable, and as a result, GAO was able to reduce the scope of its work. Further, GAO believes the internal audit staff, through its timely and comprehensive reports, provided a major contribution toward improving overall industrial operations.

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CHAPTER 1

INTRODUCTION

The Federal Prison Industries, Inc., a wholly owned Government corporation created pursuant to the act of June 23, 1934 (18 U.S.C. 4121), functions within the Department of Justice under the general direction and supervision of the Attorney General. The corporation's primary purpose is to employ inmates so as to keep them busy and at the same time give them an opportunity to obtain training in marketable skills. A-2 0 637

The operating policies of the corporation are prescribed by a six-member board of directors appointed by the President. The directors are appointed for indefinite terms and serve without compensation. These members and the principal officials responsible for administering the day-to-day operations of the corporation are listed in appendix II.

Government agencies are required to purchase such industry products from the corporation as meet their requirements and as may be available at prices not exceeding current market prices. The board of directors has established the policy that prices shall not be materially below current market prices.

During fiscal year 1975 the corporation operated 52 industries at 23 Federal institutions. The types of industries ranged from the manufacture of gloves, brushes, and brooms to automatic data processing and printing services. (See app. I.) Total employment for the year averaged 5,207, or about 22 percent of the total inmate population.

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CHAPTER 2

INTERNAL AUDIT

The internal audit function is one of management's most essential tools, complementing all other elements of management control. The overall objective of internal auditing is to assist management in attaining its goals by furnishing information and recommendations pertinent to management's duties and objectives. The internal audit function uniquely supplements routine management checks through its independent approach and methods of review. Effective internal auditing can benefit management with timely information on problems so that remedial measures can be taken before the functioning of the organization is impaired. These problems, once they have been examined and appraised, often lead to opportunities for achieving lower costs, increased efficiency, and faster ways of getting things done.

The internal audit staff, Department of Justice, makes detailed audits annually of financial operations at selected industrial locations. A comprehensive audit program was used at each location we visited. The basic audit objective is to evaluate the effectiveness of the administrative practices, procedures, and internal controls over financial activities. Each audit includes such tests of financial transactions and related documents as are considered necessary to accomplish the objective. This year's audits included 10 field locations having 26 industrial operations. A report of each audit is made to the Commissioner of Federal Prison Industries, Inc.

We reviewed the work of the internal audit staff and found it to be both accurate and reliable, and as a result, we were able to reduce the scope of our work. Further, we believe the internal audit staff, through its timely and comprehensive reports, provided a major contribution toward improving overall industrial operations.

CHAPTER 3

SCOPE OF AUDIT AND

OPINION ON FINANCIAL STATEMENTS

We have examined the statements of financial condition of Federal Prison Industries, Inc., as of June 30, 1975 and 1974, and the related statements of income and expense for the years then ended and the statement of changes in financial position for the year ended June 30, 1975. We made our examination in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements (schs. 1, 2, and 3) present fairly the financial position of Federal Prison Industries, Inc., at June 30, 1975 and 1974, and the results of its operations for the years then ended and the changes in its financial position for the year ended June 30, 1975, in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

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FINANCIAL STATEMENTS

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SCHEDULE 1

FEDERAL PRISON INDUSTRIES, INC.

STATEMENT OF FINANCIAL CONDITION

FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

ASSETS

	Fiscal year 1975		Fiscal year 1974	
FUNDS WITH U.S. TREASURY:				
Available for operations -----	\$ 4,794,579		\$ 5,833,419	
Special deposits -----	6,182	\$ 4,800,761	19,094	\$ 5,852,513
ACCOUNTS RECEIVABLE (principally from Government agencies) -----				
		5,648,918		7,421,784
INVENTORIES (at cost):				
Finished goods -----	5,798,925		5,148,475	
Work in process -----	6,242,502		5,052,098	
Materials and supplies -----	21,285,098	33,326,525	17,113,310	27,313,883
PLANT AND EQUIPMENT (at cost or appraised value)				
Operating:				
Machinery and equipment -----	19,419,113		18,225,983	
Less accumulated depreciation --	10,363,230	9,055,883	9,081,030	9,144,953
Buildings and improvements ---	20,871,102		19,649,795	
Less accumulated depreciation --	6,468,963	14,402,139	5,798,755	13,851,040
Construction in process -----		620,202		507,951
Vocational training:				
Machinery and equipment -----	2,070,014		2,314,738	
Less accumulated depreciation --	1,283,354	786,660	1,339,980	974,758
Buildings and improvements ---	4,717,257		5,708,556	
Less accumulated depreciation --	1,237,425	3,479,832	1,206,261	4,502,295
Construction in process -----		4,690		—
Total plant and equipment --		28,349,406		28,980,997
SUNDRY ASSETS -----				
		334,369		299,719
Total assets -----		\$72,459,979		\$69,868,896

LIABILITIES AND CAPITAL

	Fiscal year 1975	Fiscal year 1974
LIABILITIES:		
Accounts payable -----	\$ 2,038,288	\$ 3,125,118
Accrued payroll and other liabilities -----	2,155,385	1,482,837
Employees' accrued annual leave ----	1,262,036	1,184,729
Estimated liability for price adjustments (note 2) -----	421,888	560,752
Deposit fund liabilities -----	6,182	19,094
Total liabilities -----	5,883,779	6,372,530
CAPITAL:		
Initial investment of U.S. Government -----	4,176,040	4,176,040
Property received from other Government agencies, net -----	3,811,818	3,380,899
Net income since inception -----	\$140,588,342	\$137,939,427
Less dividends paid into U.S. Treasury -----	82,000,000	82,000,000
Retained earnings (note 1) -----	58,588,342	55,939,427
Total capital -----	66,576,200	63,496,366
Total liabilities and capital -----	\$72,459,979	\$69,868,896

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FEDERAL PRISON INDUSTRIES, INC.

STATEMENT OF INCOME AND EXPENSE

FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	Fiscal year 1975	Fiscal year 1974
TOTAL SALES OF PRODUCTS AND SERVICES		
(note 2) -----	\$72,748,784	\$67,446,956
Less sales between industries -----	3,910,522	4,524,234
SALES TO GOVERNMENT AGENCIES -----	68,838,262	62,922,722
Cost of goods and services sold -----	57,546,856	49,879,733
GROSS PROFIT -----	\$11,291,406	\$13,042,989
OPERATING EXPENSES:		
Sales expenses:		
Outgoing freight -----	72,679	97,928
Shipping -----	417,169	418,899
Samples and sundries -----	36,482	16,616
	526,330	533,443
Administrative expenses:		
Salaries and related -----	1,080,153	909,114
Travel -----	96,077	60,582
General Accounting Office audit -----	25,000	25,000
Department of Justice audit -----	150,000	125,000
Rent for Washington office -----	54,416	33,801
Telephone -----	32,993	75,808
Printing and reproduction -----	46,337	30,516
Freight -----	15,854	12,439
Other -----	58,031	40,080
Total administrative expenses subject to limitation set by the Congress (1975—\$1,804,000) (1974—\$1,631,000) -----	1,558,861	1,312,340
Depreciation:		
Machinery and equipment -----	3,969	3,541
NET OPERATING EXPENSES -----	2,089,160	1,849,324
OTHER INCOME:		
Miscellaneous sales income -----	344,381	411,551
Sundry income -----	36,204	61,823
	380,585	473,374
OTHER EXPENSES:		
Extraneous losses on inventories -----	83,624	194,719
Reimbursable salaries -----	5,666	6,384
Loss on disposition of assets -----	114,850	189,145
Christmas packages to inmates -----	42,444	—
Factory closing and organization expense -----	2,034	21,543
Workman's compensation -----	310,399	150,477
Incentive awards to civilians -----	7,625	8,805
Miscellaneous -----	159,145	79,952
	725,787	651,025
NET INDUSTRIAL PROFIT (note 2) -----	8,857,044	11,016,014
Less:		
Accident compensation -----	101,751	100,939
Vacational expense -----	4,833,528	4,734,318
Meritorious compensation to inmates -----	1,085,995	987,272
	6,021,274	5,822,529
NET PROFIT TO RETAINED EARNINGS -----	\$2,835,770	\$ 5,193,485

FEDERAL PRISON INDUSTRIES, INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FISCAL YEAR ENDED JUNE 30, 1975

FUNDS PROVIDED:

Sales of products and services		\$68,838,262
Miscellaneous sales		2,572,162
Materials and supplies received without exchange of funds, net		418,200
Sundry income current year		36,204
Sundry income earned in prior years		43,394
Total funds provided		\$71,908,222

FUNDS APPLIED:

Cost of goods and services sold	\$57,546,856	
Less production depreciation	1,783,387	\$55,763,469
Vocational training and placement expense	4,833,528	
Less depreciation	418,542	4,414,986
Administrative expense	1,562,830	
Less depreciation	3,969	1,558,861
Acquisition of fixed assets		1,561,588
Cost of miscellaneous sales		2,227,781
Other operating expense		1,137,267
Inmate compensation for meritorious or outstanding service		1,085,995
Accident compensation		101,751
Loss on disposal of assets		114,850
Operating expenses incurred in prior years		230,249
Increase in working capital		3,711,425
Total funds applied		\$71,908,222

NOTES TO FINANCIAL STATEMENTS:

1. Prior year adjustments amounted to \$186,855. The majority of this represents the Atlanta Textile factory which had a prior year adjustment of \$154,687.76. (The selling price for cloth shipped before July 1, 1974 was reduced 12 cents per yard.)
2. Sales and profits have been reduced by \$421,888 and a liability established to provide for anticipated payments for price adjustments on items sold during the year under tentative prices.

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APPENDIXES

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SUMMARY OF INDUSTRIAL OPERATIONS

FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

Industry	Institution	Sales		Profit or loss (-)		Average inmates employed 1975
		1975	1974	1975	1974	
Manufacturing:						
Basket	Atlanta	\$ 2,168,211	\$ 2,536,968	\$ 264,880	\$ 245,880	45
Broom	El Reno	622,847	849,731	62,238	127,109	71
Brush	La Tuna	834,063	842,156	204,729	208,252	60
Brush	Leavenworth	5,885,925	4,055,142	715,101	992,204	138
Canvas specialty	Atlanta	3,178,717	3,865,931	240,715	524,296	76
Canvas specialty	Terre Haute	797,014	314,771	62,019	-70,628	65
Clothing	Leavenworth	-	574,958	-	-19,308	-
Clothing specialty	Lewisburg	592,836	677,521	87,464	144,757	97
Dairy	La Tuna	221,164	236,316	23,552	24,346	28
Drafting	Oxford	-	-	267	-	8
Electronics	Danbury	1,838,681	1,086,123	320,707	201,988	128
Electronics	McNeil Island	3,914,486	4,090,276	678,563	1,011,630	171
Electronics	Petersburg	1,194,094	660,940	103,438	120,093	80
Electronics	Oxford	416,658	-	92,175	-	47
Electronic cable	Lompoc	3,012,390	2,819,230	762,704	604,146	208
Furniture, custom	Allenwood	938,566	685,577	165,249	120,119	115
Furniture, metal	Lewisburg	4,572,185	3,356,661	355,013	409,578	350
Furniture, metal	Marion	1,912,946	1,682,136	-16,955	28,659	103
Furniture, wood	Leavenworth	1,499,681	1,134,569	259,080	178,260	107
Furniture, wood	Lompoc	739,762	982,514	39,603	206,378	82
Furniture, wood	McNeil Island	700,417	808,657	53,144	-18,401	131
Furniture, wood	Tallahassee	317,258	468,225	-58,830	40,699	72
Furniture, wood	Terminal Island	551,797	321,347	-145,353	-69,532	56
Furniture, wood	Terre Haute	432,351	393,080	51,863	60,602	27
Furniture, wood	Texarkana	1,190,873	943,093	281,382	268,901	105
Garment	Alderson	1,871,769	1,698,387	507,133	409,628	139
Glove	Danbury	198,092	234,977	16,728	4,262	94
Glove	Safford	396,396	514,965	49,980	135,432	70
Glove	Sandstone	370,216	466,896	92,453	145,776	50
Machine, tool and die	El Reno	1,303,504	2,305,655	134,552	464,685	108
Machine, tool and die	Marion	118,063	12,003	11,470	-	10
Mattress	Atlanta	2,467,306	1,325,278	813,569	380,409	32
Metal	Milan	1,603,645	1,816,719	88,806	310,113	108
Metal	Terminal Island	1,385,249	1,636,698	-226,492	413,252	132
Printing	Lompoc	368,998	476,124	117,042	90,777	47
Printing	Marion	850,053	652,422	90,981	46,355	58
Printing	Sandstone	425,767	345,121	39,223	57,166	34
Shoe	Leavenworth	3,428,014	6,391,030	794,887	844,500	429
Sign	Atlanta	1,121,267	1,195,743	150,609	270,601	52
Sign	Lompoc	1,007,357	573,698	230,469	107,901	61
Textile, cotton	Atlanta	12,354,417	8,690,719	2,523,055	2,340,244	729
Textile, wool	Terre Haute	3,710,575	3,748,642	463,459	947,470	318
Total		70,513,610	65,470,999	10,500,672	12,308,299	4,841
Services:						
Automated data processing	Alderson	296,885	318,357	59,692	92,208	49
Automated data processing	Ft. Worth	103,138	73,830	30,014	5,031	31
Automated data processing	Leavenworth	351,493	301,936	48,919	36,629	44
Keypunch	Terminal Island	183,288	201,854	8,657	-1,221	31
Auto	Tallahassee	9,813	-	3,357	-	9
Auto repair	Ashland	15,385	16,060	-26,114	-24,458	6
Auto	Petersburg	4,564	-	-15,298	-	2
Furniture repair	La Tuna	503,422	527,192	110,283	145,746	93
Furniture repair	Seagoville	223,932	164,881	29,715	5,968	39
Plastics--lifeboat repair	Oxford	36,918	-	-6,619	11	24
Tire reconditioning	Petersburg	506,336	371,847	75,185	16,480	38
Total		2,235,174	1,975,957	317,791	276,394	366
Total		\$72,748,784	\$67,446,956	\$10,818,463	\$12,584,693	5,207

PRINCIPAL MANAGEMENT OFFICIALS
RESPONSIBLE FOR THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Date appointed</u>	<u>Representative of</u>
BOARD OF DIRECTORS:		
James L. Palmer, President	Sept. 1951	Retailer and consumers
John Marshall Briley, Vice President	Jan. 1960	Secretary of Defense
George Meany	Dec. 1947	Labor
Berry N. Beaman	Jan. 1954	Industry
William E. Morgan	May 1966	Agriculture
Peter B. Bensinger	Apr. 1974	Attorney General

Tenure of office
From To

**COMMISSIONER OF INDUS-
TRIES:**

Norman A. Carlson	Mar. 1970	Present
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**ASSOCIATE COMMISSIONER
OF INDUSTRIES:**

David C. Jelinek	Jan. 1974	Present
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SECRETARY:

Paul Plein	Aug. 1970	Present
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