

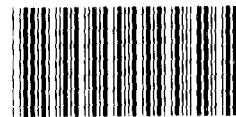
GAO

Report to the Congress

May 1986

# FINANCIAL AUDIT

## Federal Prison Industries, Inc., Financial Statements for FY 1985



129980

035536

---

11

---

1

**Comptroller General  
of the United States****B-198500**

May 29, 1986

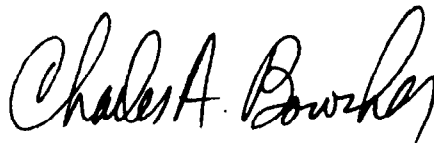
To the President of the Senate and the  
Speaker of the House of Representatives

This report presents the results of our examination of the Federal Prison Industries, Inc.'s, financial statements. We have expressed an unqualified opinion on the Federal Prison Industries' balance sheet for the year ended September 30, 1985. However, we are unable to express an opinion on the statements of income and cumulative results of operations or of changes in financial position for fiscal year 1985 because we did not observe the physical inventories as of September 30, 1984. The amount of the inventories enters materially into the determination of income and changes in financial position for the year ended September 30, 1985.

This report contains a separate report on the Federal Prison Industries' system of internal accounting controls. It discusses a material weakness in internal accounting controls concerning the reconciliation of Federal Prison Industries' cash balances with Department of the Treasury records and makes a recommendation for corrective action. This report also contains a separate report on the Federal Prison Industries' compliance with laws and regulations. It discusses a legal matter which we have referred to our office of General Counsel. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

The Federal Prison Industries, Inc., is responsible for conducting industrial operations in federal penal and correctional institutions for the purpose of providing employment and training to inmates.

We are sending copies of this report to the Director, Office of Management and Budget; the Attorney General; and the Board of Directors, Federal Prison Industries, Inc.



Charles A. Bowsher  
Comptroller General  
of the United States

---

# Contents

---

Opinion Letter		4
Report on Internal Accounting Controls		6
	Recommendation	7
	Other Opportunities for Improvement	8
Report on Compliance With Laws and Regulations		9
Financial Statements		10

---

---

## Abbreviations

FPI Federal Prison Industries



**Comptroller General  
of the United States  
B-198500**

To the Board of Directors  
Federal Prison Industries, Inc.

We have examined the balance sheet of the Federal Prison Industries, Inc., as of September 30, 1985, and the related statements of income and cumulative results of operations, and changes in financial position for the year then ended. Our examination was made pursuant to 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As a result of the work performed during our examination of Federal Prison Industries' financial statements, we have also issued reports on internal accounting controls and compliance with laws and regulations.

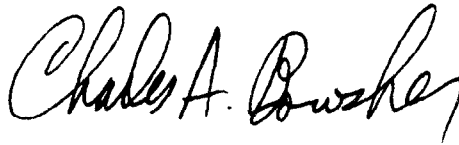
The financial statements were not audited for the fiscal year ended September 30, 1984. We did not observe the physical inventories taken for that date, nor did we satisfy ourselves by means of other auditing procedures concerning the inventory quantities. The amount of the inventory at September 30, 1984, enters materially into the determination of income and changes in financial position for the year ended September 30, 1985. Therefore, we do not express an opinion on the accompanying statements of income and cumulative results of operations, or of changes in financial position for the year ended September 30, 1985.

In our opinion, the accompanying balance sheet presents fairly the financial position of the Federal Prison Industries, Inc., as of September 30, 1985, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change, with which we concur, in the method of accounting for the disposal of assets used in operations. This change is described in note 1 to the financial statements.

The accompanying balance sheet of the Federal Prison Industries, Inc., as of September 30, 1984, and related statements of income and cumulative results of operations, and changes in financial position for the year

---

then ended were not audited by us and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher  
Comptroller General  
of the United States

March 26, 1986

# Report on Internal Accounting Controls

We have examined the financial statements of the Federal Prison Industries, Inc., (FPI) for the fiscal year ended September 30, 1985. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on FPI's financial statements. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- treasury,
- expenditure,
- payroll,
- conversion,
- revenue, and
- financial reporting.

Our study included all of the control categories listed above, except that we did not evaluate the accounting controls over treasury, payroll, and financial reporting because it was more efficient to expand our substantive audit tests. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above.

FPI management is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.



Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of FPI taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following condition that could result in errors or irregularities in amounts material to future financial statements, which may not be detected within a timely period.

Reconciliations of the cash accounts with the Department of the Treasury were not performed monthly as prescribed by FPI's procedures. The failure to perform periodic reconciliations resulted in an adjustment to the financial statements, decreasing cash by \$471,887 at year-end. Although accounting department personnel performed monthly cash analyses that identified a difference between FPI cash balances and the monthly cash balance reported by Treasury, FPI did not attempt to explain the causes of these differences. At the end of fiscal year 1985, FPI's cash balance was required to be adjusted downward by \$471,887 in order that it conform with the amount reported by Treasury. This write-down was posted to the Production Expenses Not Allocated to Field Locations account. While the adjustment was necessary to complete the financial statements for fiscal year 1985, FPI officials stated that they will attempt to identify the cause of the difference after the financial statements have been issued and the accounting staff has the time to pursue the unexplained difference. FPI officials stated that because of a shortage of accounting staff and because of other higher priority items, they were unable to pursue the differences identified by the monthly cash analyses.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1985 financial statements. FPI made the necessary adjustments in order to present fairly its cash balance. Our study and evaluation of internal controls disclosed no other condition that materially affected our opinion on the balance sheet.

---

## Recommendation

We recommend that the Commissioner of Federal Prison Industries, Inc., direct the Controller to identify the cause of the difference in cash balances between FPI and Treasury and to perform a monthly cash reconciliation as prescribed by FPI's procedures.

---

## Other Opportunities for Improvement

During the course of our examination, we did identify a number of opportunities for improvements in internal controls and procedures. Through separate management letters, we have communicated these suggestions to the FPI field locations we visited, and we will communicate other suggestions to FPI headquarters.

---

# Report on Compliance With Laws and Regulations

---

We have examined the financial statements of the Federal Prison Industries, Inc., (FPI) for the fiscal year ended September 30, 1985. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, FPI, except for the unresolved matter discussed below, complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected FPI's financial statements.

Nothing came to our attention in connection with our examination, except for the unresolved matter discussed below, that caused us to believe that FPI was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The Government Corporation Appropriations Act, 1947 (Public Law 75-519, July 20, 1946) established an annual limit on FPI's administrative expenses. In fiscal year 1985, the congressionally established limit was set at \$2,074,000. During fiscal year 1985, certain costs totaling \$852,057 were moved from the Corporate Administrative Expense account to the Production Expenses Not Allocated to the Field Locations account, resulting in those costs not being considered by FPI as subject to the statutory limitation. In prior years, those costs were included in the Corporate Administrative Expense account, which was subject to the statutory limitation. If all the reallocated costs remained in the administrative expense account, Corporate Administrative Expenses would have totaled \$2,618,878, thus exceeding the limitation by \$544,878. While this issue does not necessarily affect our opinion on the balance sheet, we have referred this matter to our Office of General Counsel and, if necessary, we will issue a supplementary legal opinion on this matter.

# Financial Statements

## Balance Sheet September 30, 1985 and 1984

### Assets

	1985	(Unaudited) 1984
<b>Current Assets</b>		
Cash	\$ 11,154,129	\$ 7,223,573
Accounts Receivable (Note 2)	30,732,110	26,501,958
Inventories (Note 3)		
Finished Goods	11,350,000	12,890,835
Work In Process	12,392,658	13,187,835
Materials and Supplies	35,481,004	42,428,702
Other	5,231,800	1,934,222
<b>Total Current Assets</b>	<b>106,341,701</b>	<b>104,167,125</b>
<b>Plant and Equipment (Note 4)</b>		
Machinery and Equipment	46,305,456	40,062,510
Accumulated Depreciation	(19,968,905)	(17,861,954)
Buildings and Improvements	47,356,703	35,039,953
Accumulated Depreciation	(13,407,273)	(12,579,278)
Construction in Progress	15,845,551	15,540,556
<b>Total Plant and Equipment</b>	<b>76,131,532</b>	<b>60,201,787</b>
<b>Other Assets</b>		
Prepaid and Deferred Expenses	2,916,968	2,552,220
<b>Total Assets</b>	<b>\$ 185,390,201</b>	<b>\$166,921,132</b>

### Liabilities and U.S. Government Equity

<b>Current Liabilities</b>		
Accounts Payable	\$ 16,139,422	\$ 11,680,042
Accrued Expenses		
Salaries and Wages	2,740,979	2,430,835
Other	2,435,878	2,719,596
<b>Total Current Liabilities</b>	<b>21,316,279</b>	<b>16,830,473</b>
<b>Employee Accrued Leave</b>	<b>2,535,721</b>	<b>2,375,220</b>
<b>Total Liabilities</b>	<b>23,852,000</b>	<b>19,205,693</b>
<b>U.S. Government Equity</b>		
Initial Capital	4,176,040	4,176,040
Donated Property	660,372	608,712
Cumulative Results of Operations	156,701,789	142,930,687
<b>Total U.S. Government Equity</b>	<b>161,538,201</b>	<b>147,715,439</b>
<b>Total Liabilities and U.S. Government Equity</b>	<b>\$ 185,390,201</b>	<b>\$166,921,132</b>

The accompanying notes are an integral part of these financial statements.

Statement of Income and Cumulative Results of Operations  
September 30, 1985 and 1984

	1985	(Unaudited) 1984
<b>Sales</b>	<b>\$239,409,258</b>	<b>\$200,164,586</b>
Returns	499,931	684,905
<b>Net Sales</b>	<b>238,909,327</b>	<b>199,479,681</b>
Cost of Goods and Services Sold (Note 5)	193,395,607	158,062,403
<b>Gross Profit</b>	<b>45,513,720</b>	<b>41,417,278</b>
Other Operating Income, net	703,332	640,210
<b>Sub-Total</b>	<b>46,217,052</b>	<b>42,057,488</b>
<b>Other Operating Expenses</b>		
Production Expenses Not Allocated to Field Operations (Note 6)	3,634,962	2,278,273
Inventory Write-offs and Adjustments (Note 7)	3,661,659	1,529,712
Loss on Disposal of Operations Assets	1,525,774	1,559,423
Selling and Samples	602,192	581,855
Product Division Expenses (Note 8)	4,331,948	3,646,165
Support Division Expenses (Note 9)	4,637,010	3,275,997
Corporate Administrative Expenses (Note 10)	1,828,419	1,649,055
<b>Total Other Operating Expenses</b>	<b>20,221,964</b>	<b>14,520,480</b>
<b>Income Before Non-Operating Expenses</b>	<b>25,995,088</b>	<b>27,537,008</b>
<b>Non-Operating Expenses (Note 11)</b>		
Inmate Performance Pay	5,699,940	5,369,641
Vocational Training Expenditures	6,524,046	7,132,675
<b>Total Non-Operating Expenses</b>	<b>12,223,986</b>	<b>12,502,316</b>
<b>Net Income</b>	<b>13,771,102</b>	<b>15,034,692</b>
<b>Cumulative Results of Operations, Beginning</b>	<b>142,930,687</b>	<b>127,895,995</b>
<b>Cumulative Results of Operations, Ending</b>	<b>\$ 156,701,789</b>	<b>\$142,930,687</b>

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Financial Position  
September 30, 1985 and 1984

	1985	(Unaudited) 1984
<b>Sources of Cash:</b>		
Operations:		
Net Income	\$ 13,771,102	\$ 15,034,692
Items Not Requiring Use of Cash:		
Depreciation	4,515,408	3,146,678
Amortization	835,095	500,785
Loss on Disposal of Assets	1,525,774	3,645,473
Cash Provided by Operations	20,647,379	22,327,628
Decrease in Inventories	9,283,709	-0-
Increase in Current Liabilities	4,485,806	5,929,609
Increase in Employee Accrued Leave	160,501	213,965
<b>Total Sources of Cash</b>	<b>34,577,395</b>	<b>28,471,202</b>
<b>Uses of Cash:</b>		
Increase in Accounts Receivable	\$ 4,230,152	\$ 3,808,405
Increase in Inventories	-0-	6,364,919
Increase in Other Current Assets	3,297,578	1,670,964
Construction Expenditure	13,652,886	14,036,362
Equipment Expenditure	8,266,380	9,528,093
Charges to Prepaid and Deferred Expenses	1,199,843	1,483,349
<b>Total Uses of Cash</b>	<b>30,646,839</b>	<b>36,892,092</b>
<b>Increase (Decrease) in Cash</b>	<b>3,930,556</b>	<b>(8,420,890)</b>
<b>Cash at Beginning of Year</b>	<b>7,223,573</b>	<b>15,644,463</b>
<b>Cash at End of Year</b>	<b>\$ 11,154,129</b>	<b>\$ 7,223,573</b>

The accompanying notes are an integral part of these financial statements.

Federal Prison Industries, Inc. (UNICOR) financial statements are subject to triennial examination by the General Accounting Office, and an examination was performed for Fiscal Year 1985. Location audits and Corporate-wide program audits are performed by the Department of Justice Audit Staff annually.

The Corporation has a unique relationship with the Bureau of Prisons in that the nature of our respective missions requires the sharing of facilities and responsibilities regarding the custody of federal inmates and the management of related programs for training and employment. The result of this relationship is that the Corporation receives and provides some services and resources such as building space and equipment without recognizing revenue or cost. The benefits received by each organization are both tangible and intangible and offset each other as nearly as practicable. A summary of relationships between the Bureau of Prisons and Federal Prison Industries, Inc. is as follows:

1) Services or facilities which the Bureau of Prisons provides the Corporation without recognition of cost:

The Director of the Bureau of Prisons serves as the ex-officio Commissioner of the Corporation.

The Corporation does not pay rent for land use where there is an industrial operation.

The Corporation does not pay rent for buildings used by the Corporation but owned by the Bureau of Prisons.

The field locations of the Corporation utilize personal services provided by the Bureau of Prisons such as legal counsel, personnel, architectural and construction contracting. These services are available through the Bureau of Prisons as needed.

2) Services and facilities provided to the Bureau of Prisons without recognition of revenue:

The Associate Commissioner of Federal Prison Industries, Inc. also serves as an Assistant Director of the Bureau of Prisons.

The Bureau of Prisons does not pay rent for buildings used by the Bureau of Prisons but owned by the Corporation.

The Corporation pays for positions in Central Office within the Bureau of Prisons for legal counsel, personnel, cashiering, safety and mail room services which provide joint service to each organization.

The Corporation is responsible for the custodial care of inmates during their work day and employees are responsive to institutional emergencies under the direction of the warden.

**Note 1: Summary of Significant Accounting Policies**

This summary is presented to assist in understanding the Corporation's financial statements.

**Statement Presentation** — The financial statements include the Central Office accounts and the accounts of the industrial facilities at 41 penal and correctional institutions. Inter-industry transactions, including corresponding profits or losses, have been eliminated in consolidation. Financial statements and notes for Fiscal Year 1984 have been restated to reflect changes in presentation of Other Expenses.

**Plant and Equipment** — Plant and equipment are capitalized at cost or appraised value for donated property and include expenditures for new facilities and those which substantially increase the useful lives of existing plant and equipment. Maintenance, repairs, and other minor renewals are expensed as incurred. When properties are disposed of through

the General Services Administration, the related cost and accumulated depreciation are removed from the respective accounts with any gain or loss included in the determination of income. The straight-line method of depreciation is used for all depreciable assets. Rates of depreciation are generally based on the useful life guidelines established in the Revenue Procedures 62-61, issued by the Internal Revenue Service.

In accordance with 18 U.S.C. 4126 machinery, equipment and buildings are purchased for vocational training programs. Such expenditures are deducted from income after operations.

Property donated to the Corporation by other government agencies is recorded in the appropriate asset account at fair market value. As this property is used, both expense and revenue in equal amounts are recognized on the Statement of In-

come, as well as accompanying adjustments reducing the applicable asset accounts and equity accounts for the amount used.

**Inventories** — Finished goods inventory is valued at the lower of cost or market. Raw materials and supplies inventory is valued using the moving average cost method. Work in process inventory includes material, labor and applied overhead costs based on a standard for each operation. These costs are determined by using either process or job order cost systems.

**Prepaid and Deferred Expenses** — These are organizational expenses involved in starting new factories or product lines and prepayments of patent rights and product design expenses. Generally, costs up to \$15,000 are amortized over two years; costs over \$15,000 are amortized over five years.

**Disbursements in Transit** — Disbursements in transit to U.S. Treasury at year-end are recorded when vouchers are approved for payment by The Corporation.

**Pensions** — Employees of The Corporation are covered by the Civil Service Retirement and

Disability Fund. Consequently, The Corporation has the responsibility for withholding 7% (normal retirement) or 7½% (hazardous duty retirement) of each employee's salary and for contributing a matching amount to the fund. Permanent employees who were employed after January 1, 1984, are covered under the F.I.C.A. and the contributory retirement programs.

**Other Operating Income** — This represents income derived from other than the regular operations of The Corporation, including sales of excess materials to Federal agencies and scrap sales.

**Accounting Change** — During Fiscal Year 1985, the method of accounting for the disposal of assets from closed factories was changed. Losses incurred in the disposal of such assets are now charged as other Operating Expenses on the Statement of Income. In prior years, our accounting practice was to treat these losses as expenses of discontinued operations, thereby reducing net income from continuing operations. This is not consistent with the criteria established by Accounting Principle Board Opinion 30. The effect of this change is to reduce net income from operations by \$1,333,948 in fiscal year 1985 and \$1,295,419 in fiscal year 1984.

**Note 2: Accounts Receivable**

Accounts receivable consist of amounts due principally from government agencies and all are considered collectable. Accounts receivable from commercial vendors is merchandise paid for and returned to vendors for replacement or credit and in-

cludes prepaid items for production materials. Accounts that were 120 days or more overdue totaled \$1,137,525 (3.7%) as of September 30, 1985, as compared with the September 30, 1984 amount of \$643,000 (2.4%).

	FY 1985	(Unaudited) FY 1984
Government Agencies	\$ 29,808,513	\$ 25,745,328
Commercial Vendors	923,597	756,630
<b>Total Accounts Receivable</b>	<b>\$ 30,732,110</b>	<b>\$ 26,501,958</b>

**Note 3: Excess Inventory**

Included in Raw Materials and Finished Goods are slow moving inventories and items in excess of nor-

mal operating requirements. The following is a summary of those items by type of inventory.

	1985	(Unaudited) 1984
Raw Materials and Supplies	\$ 1,557,612	\$ 1,575,938
Finished Goods	589,813	335,921
<b>Total</b>	<b>\$ 2,147,425</b>	<b>\$ 1,911,859</b>



**Note 4: Idle Plant and Equipment**

Included in Machinery and Equipment and Buildings and Improvements is idle plant, equipment and improvements which have not been utilized for a significant period of time and for which there is no immediate use planned. The only idle buildings are those at the United States Penitentiary in Marion, Illinois, which resulted from an

institution mission change. The idle equipment is comprised of items pending trade-in on newer models, functional items pending periodic orders for items in our product line, and items in temporary storage pending completion of factory renovations. The following is a summary of the capitalized value and accumulated depreciation of these items.

	1985	(Unaudited) 1984
<b>Machinery and Equipment</b>	<b>\$ 4,375,368</b>	<b>\$ 898,310</b>
Less: Accumulated Depreciation	(2,312,103)	(358,702)
<b>Net Book Value (M&amp;E)</b>	<b>2,063,265</b>	<b>539,608</b>
Buildings and Improvements	1,860,783	1,860,783
Less: Accumulated Depreciation	(713,435)	(663,715)
<b>Net Book Value (B&amp;I)</b>	<b>1,147,348</b>	<b>1,197,068</b>
<b>Total Net Book Value</b>	<b>\$ 3,210,613</b>	<b>\$ 1,736,676</b>

**Note 5: Cost of Goods and Services Sold**

These costs consist of direct material, direct inmate labor, and overhead related to finished goods sold during the year.

	1985	(Unaudited) 1984
Material	\$127,903,175	\$112,495,023
Labor	7,523,716	6,706,619
Overhead	52,666,014	44,812,310
Work In Process, Beginning	13,187,835	9,199,403
Less: Work In Process, Ending	(12,392,658)	(13,187,835)
<b>Cost of Goods and Services Produced</b>	<b>188,888,082</b>	<b>\$160,025,520</b>
Finished Goods, Beginning	12,554,914	8,646,068
Outside Purchases	2,712,798	1,945,729
Less: Finished Goods, Ending	(10,760,187)	(12,554,914)
<b>Cost of Goods and Services Sold</b>	<b>\$193,395,607</b>	<b>\$158,062,403</b>

**Note 6: Production Expenses not Allocated to Field Operations**

This amount represents costs not charged directly to production.

	1985	(Unaudited) 1984
<b>Audit Services:</b>		
General Accounting Office	\$ 300,000	\$ -0-
Department of Justice	312,357	273,779
Internal Audits (Contracted Out)	239,700	-0-
Unreconciled Cash Differences	471,887	-0-
Permanent Change of Station (Staff)	349,537	363,839
Workmen's Compensation	72,000	75,425
Building Repairs	57,708	39,633
Rents	13,339	33,203
Utilities	21,517	76,843
Supplies	49,973	122,350
Lab Expense (Net of Reimbursement)	21,852	-0-
Sundry Expenses	955,858	730,565
<b>Inmate Programs:</b>		
Accident Compensation	226,323	225,358
Christmas Packages	117,541	115,990
Pre-Industrial Training	425,370	221,288
<b>Total</b>	<b>\$ 3,634,962</b>	<b>\$ 2,278,273</b>

**Note 7: Inventory Write-Offs and Adjustments**

In prior years, an allowance for potential write-offs was established in consolidation in recognition of accumulated obsolete inventories at many factories. The Corporation initiated a non-recurring (amnesty) program in June 1985 to identify and write-off obsolete inventories to a Corporate level account by the end of FY 1985. The Superintendents of Industries at all locations were encouraged to initiate disposition actions, and under this program \$3,768,306 was charged directly to a Corporate ex-

pense account rather than to individual factory or product division accounts. In addition, \$789,777 was written off at the lower organization levels. The balance of \$2,518,653 in the allowance account represents obsolete items still physically on hand, pending disposition in coordination with the General Services Administration. The inventories of Raw Materials and Finished Goods are shown net of this allowance on the balance sheet.

	1985	(Unaudited) 1984
<b>Corporate-Level Write-Offs:</b>		
Raw Materials and Supplies	\$ 2,331,610	\$ -0-
Finished Goods	1,436,696	-0-
<b>Sub-Total</b>	<b>\$ 3,768,306</b>	<b>-0-</b>
<b>Factory Level Activity:</b>		
Write-Offs	789,777	1,740,301
Reversal of Prior Year Allowance	(896,424)	(210,589)
<b>Sub-Total</b>	<b>(106,647)</b>	<b>1,529,712</b>
<b>Total Inventory Write-Off</b>	<b>\$ 3,661,659</b>	<b>\$ 1,529,712</b>

**Note 8: Product Division Expenses**

The Product Division expenses are those related to product development, production management and marketing of products and services.

	1985	(Unaudited) 1984
Data/Graphics	\$ 873,513	\$ 735,471
Electronics/Plastics/Optics	1,230,459	853,413
Metal and Wood Products	1,590,817	1,481,393
Textiles and Leather Products	637,159	575,888
<b>Total Product Division Expenses</b>	<b>\$ 4,331,948</b>	<b>\$ 3,646,165</b>

**Note 9: Support Division Expenses**

This amount represents costs of administrative functions which directly support industrial operations. Examples of support provided are industrial design of products, development and support of automated management systems, and identification of new product lines.

	1985	(Unaudited) 1984
Industrial Design	\$ 408,681	\$ 239,960
Information Systems	2,044,350	1,553,864
Marketing	301,499	298,163
Quality Assurance	672,320	80,248
Resources Division	1,210,160	1,103,762
<b>Total Support Division Expenses</b>	<b>\$ 4,637,010</b>	<b>\$ 3,275,997</b>

**Note 10: Corporate Administrative Expenses**

This amount represents costs associated with Central Office Corporate Management, and they are not allocated to product divisions, support divisions or factory operations.

	1985	(Unaudited) 1984
Congressional Limitation	\$ 2,074,000	\$ 1,954,000
Civilian Salaries and Benefits	\$ 1,372,940	\$ 1,262,111
Contracting Services	62,867	37,255
Travel	74,900	90,509
Permanent Change of Station (Staff)	38,947	14,795
Rent	56,519	37,071
Communications	14,816	11,105
Printing and Reproduction	25,948	28,862
Freight	5,195	2,125
Sundry	114,689	112,689
<b>Total Subject to Congressional Limitation</b>	<b>\$ 1,766,821</b>	<b>1,596,522</b>
Add: Depreciation of Plant & Equipment	61,598	52,533
<b>Total Corporate Administrative Expense</b>	<b>\$ 1,828,419</b>	<b>\$ 1,649,055</b>

**Note 11: Non-Operating Expenses**

The Corporation is authorized by charter to provide funds for Inmate Vocational Training Programs and Inmate Performance Pay (non-industrial employment of inmates in other work details). The Vocational Training Program includes operating expenditures and machinery and equipment. Operating expenditures of permanent programs are subject to Congressional limitation, as are total costs of experimental programs.

	(Unaudited) Prior Periods	Current Year	(Unaudited) Cumulative Since Inception
Inmate Performance Pay	\$ 40,456,050	\$ 5,699,940	\$ 46,155,990
Inmate Vocational Training:			
Permanent Programs	\$ 85,686,992	\$ 4,354,968	\$ 90,041,960
Experimental Programs	4,729,559	2,169,078	6,898,637
<b>Total Vocational Training Expenditures</b>	<b>\$ 90,416,551</b>	<b>\$ 6,524,046</b>	<b>\$ 96,940,597</b>

	FY 1985	(Unaudited) FY 1984
Congressional Limitation on Vocational Training	\$ 6,920,000	\$ 6,613,000
Operating Expenditures of Permanent Programs	\$ 3,705,611	\$ 3,502,405
Operating Expenditures and M & E for Experimental Programs	2,169,078	2,771,543
<b>Total Subject to Congressional Limitation</b>	<b>\$ 5,874,689</b>	<b>\$ 6,273,948</b>
Machinery and Equipment/Buildings and Improvements Purchased for Permanent Programs	\$ 649,357	\$ 858,727
<b>Total Vocational Training</b>	<b>\$ 6,524,046</b>	<b>\$ 7,132,675</b>

Summary of Remuneration to Inmates, and Income Before Remuneration — In addition to the gratuitous allowances provided to the inmates employed in the factories, UNICOR also provides the funds for the gratuitous allowances for those inmates assigned to other institution work details, commonly referred to as Inmate Performance Pay.

	1985	(Unaudited) 1984
Direct Inmate Labor (Incl. in Cost of Sales)	\$ 8,372,165	\$ 7,022,637
Indirect Inmate Labor (Overhead)	8,549,679	7,134,101
Sub-Total Industrial Wages	16,921,844	14,156,738
Inmate Performance Pay	5,699,940	5,369,641
<b>Total Remuneration to Inmates</b>	<b>22,621,784</b>	<b>19,526,379</b>
Income Before Non-Operating Expenses	25,995,088	27,537,008
Add Back Total Industrial Wages	16,921,844	14,156,738
Income Before Remuneration to Inmates	\$ 42,916,932	\$ 41,693,746
<b>Percentage of Remuneration to Income</b>	<b>53%</b>	<b>47%</b>

---

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office  
Post Office Box 6015  
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are \$2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States  
General Accounting Office  
Washington, D.C. 20548

Official Business  
Penalty for Private Use \$300

First-Class Mail  
Postage & Fees Paid  
GAO  
Permit No. G100