

PS 8510.02 INTERNAL CONTROL FINANCIAL MANAGEMENT BRANCH, FPI



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# Program Statement

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**OPI:** FPI  
**NUMBER:** 8510.02  
**DATE:** 1/21/2003  
**SUBJECT:** Internal Control  
Financial Management  
Branch, FPI

1. **PURPOSE AND SCOPE.** To establish internal control procedures for the Financial Management Branch(FMB).

- This is associated with the accountability of assets, property, revenue and expenditures within **Millennium**, the automated information management system utilized by Federal Prison Industries (FPI).

The Budget and Accounting Procedures Act of 1950 makes each executive agency head responsible for establishing and maintaining adequate systems of internal control. It also prescribes that accounting systems conform to the accounting principles, standards, and related requirements the Comptroller General of the United States prescribes and the systems he or she approves.

- Those principles, standards, and related requirements include criteria for effective internal control systems.

2. **SUMMARY OF CHANGES.** This directive incorporates changes required to implement the integrated financial management information system, **Millennium**. It replaces requirements currently contained in Section 8503 of the UNICOR Accounting Manual.

- This directive only covers internal controls for the FMB.

3. **PROGRAM OBJECTIVES.** The Federal Managers' Financial Integrity Act of 1982 requires that each executive agency head designated by the Office of Management and Budget submit an annual report to the President on the adequacy of the agency's system of internal accounting and administrative controls. This report is designed to provide reasonable assurance that the following control objectives are achieved:

- a. all obligations and costs were in compliance with applicable

law;

- b. all funds, property and other assets were safeguarded against waste, loss, unauthorized use or misappropriation and were properly accounted for; and
- c. all revenues and expenditures applicable to agency operations were properly recorded in appropriate accounts and summarized to permit the preparation of reliable financial and statistical reports.

#### 4. **DIRECTIVE REFERENCED**

PS 8340.07      Quality Program Manual (1/14/00)

#### 5. **STANDARDS REFERENCED**

a. American Correctional Association 3<sup>rd</sup> Edition Standards for Adult Correctional Institutions: 3-4406

b. American Correctional Association 3<sup>rd</sup> Edition Standards for Adult Local Detention Facilities: 3-ALDF-5A-17

6. **DEFINITION.** FPI's **system of internal control** is a management tool used in achieving its goals and objectives. The system consists of all methods used for:

- encouraging and measuring compliance with FPI policy;
- safeguarding assets against waste, fraud and mismanagement;
- promoting accuracy, reliability and timeliness of accounting and operational data; and
- judging the efficiency of operations in all areas of the Corporation.

As indicated by the definition, the internal control system is more than a method for preventing fraud or detecting accounting errors.

- The scope of the internal control system extends beyond accounting and financial functions to encompass all Corporate operations including production, warehousing, shipping, quality assurances, and various training programs.

7. **GENERAL RESPONSIBILITY.** The Chief Operating Officer, FPI has delegated authority to the Corporate Controller who is ultimately responsible for the reliability of accounting and financial data for both the Central Office and field locations as summarized and reported internally and externally.

The Controller is also responsible for implementing the necessary internal controls procedures to safeguard corporate assets and ensure the validity and integrity of the financial data generated via the information system.

- Commensurate authority is delegated by the Associate Commissioner, through the Deputy Associate Commissioner.

Generally, these responsibilities are discharged through processes, such as:

- issuing accounting policies;
- establishing systems and procedures;
- reviewing submitted reports;
- coordinating training for Financial Management Branch staff; and
- overseeing the assignment of positions and the selection of personnel for these positions.

## 8. **STAFFING STRUCTURE OF THE FINANCIAL MANAGEMENT BRANCH**

a. **Central Office.** The headquarters component located in Central Office is comprised of a Controller, Deputy Controllers, and a support staff of Accountants and other administrative personnel.

FMB is primarily responsible for:

- providing policy guidance,
- maintaining the corporate general ledger, and
- preparing the consolidated financial statements and statistical reports for internal and external reporting.

The headquarter component is also comprised of a Central Accounts Receivable Section (CAR) located at the Federal Medical Center (FMC) in Lexington, Kentucky.

This section includes a Deputy Controller, Accountants and other administrative support staff responsible for FPI's centralized billing and collection efforts.

b. **Field Locations.** There is an FPI Financial Management Office or Business Office located at each respective Bureau facility.

- Each Business Office is under the direct supervision of a Business Manager.
- The size of the support staff for each location varies commensurate with the workload of the specific factory.
- At most locations, the staff is comprised of at least an Accountant or Accounting Technician, Contracting Officer, and warehouse personnel.
- In addition, civilian staff within the office assign and supervise inmate clerks. These clerks perform both clerical and accounting functions within the realm of internal control.

The Business Office is responsible for the factory's daily financial operations. All support documentation for accounting transactions of FPI's production factories and service shops is maintained primarily at the location where the industrial activities occur (i.e., FCI Tucson, Arizona).

In some instances, it may be more economical or efficient to maintain these records at a remote location, usually another FPI Business Office.

In June 2000, FPI implemented a Systems Application Product (SAP), commonly referred to as **Millennium**, as the official record keeping system.

- This system is an integrated manufacturing and accounting software package that allows access to all FPI Business Office personnel.

The FPI Business Managers and Deputy Controllers are the professionals responsible for financial matters and the financial implications of proposed courses of action.

In this capacity, they advise operating management officials on cash availability, accuracy of cost allocations, and other related financial matters. This advice is designed to avoid complications and help apply efficient management and operating techniques.

The Superintendent of Industries (SOI) is also responsible for Business Office activities as part of his or her overall responsibility at FPI field locations. Those responsibilities include periodic performance evaluations of the Business Manager, with input from the Controller.

#### 9. **SPECIFIC TRANSACTIONS REQUIRING CONTROLLER'S APPROVAL**

- a. Authorization and termination of designated certifying officers at Central Office and sub-certifying officers at field locations.
- b. General concurrence with selection of all non-delegated Financial Management Branch positions at the field level as well as Central Office staff.
- c. Control of vocational training and Central Office Administration expenditures within the parameters established by Congressional annual appropriation legislation.
- d. Control of Central Office expenditures for machinery and equipment items, approval of special authorizations (\$5,000 or more per line item) for acquiring non-production type equipment and providing quarterly reports on the status of planned machinery and equipment acquisitions.
- e. Approval of factory Board of Survey valuation of surplus property acquisitions involving line items valued in excess of \$5,000.

10. **FINANCING FPI OPERATIONS.** FPI operations are financed by the sale of its manufactured products rather than allocations from appropriated funds.

- While FPI's budget process is used to estimate sales volume and related costs for the year, it does not control procurement action to the same extent as operating budgets control Congressional allocations.

FPI's pre-validation process for procurement action is concerned with the availability of a sales order rather than fund allocation. Sales generate the funds required to pay for operating costs and expenses.

- There are exceptions. Vocational training expenditures and administrative expenses for Central Office activities are limited by Congressional appropriation language. FPI establishes its own limitations, frequently based on Congressional mandates, in such areas as travel expenses,

meritorious pay for Bureau inmates, and major equipment and facility expenditures. Pre-validation procedures are required for expenditures in these areas.

While pre-validation procedures are not generally appropriate for UNICOR financial activities, effective control of FPI's cash balances is a necessity. Since FPI is required to be self-supporting, sophisticated plans are developed to ensure that production activity generates sufficient cash to meet operating needs.

- Vendor invoices should be paid promptly, but consistent with current Federal cash management policies;
- Good relations must be maintained with desired sources of supply;
- Adequate facilities and equipment must be available;
- Payrolls must be paid promptly; and
- Sufficient quantities of raw materials must be on hand to keep production lines operating.

All monetary receipts of UNICOR factories are deposited to a Corporation account with the U.S. Treasury and are subject to use by corporate entities in accordance with laws generally applicable to Government agencies.

There is only one account for the Corporation. Deposits and disbursements are identified by two separate Treasury accounting station codes. Monthly deposits and disbursements are subject to reconciliation with the Treasury. In addition the UNICOR cash account balance with Treasury is subject to monthly reconciliation. Cash availability for a UNICOR location is controlled at the Central Office level.

11. **BUDGET PROCESS.** UNICOR's budget activity is an annual process to project corporate expectations. The process is not designed as a basis for obtaining funds as with most Government agencies.

- The process does provide a basis for controls, coordination, communication and motivation, features of any effective budget process.
- Each factory and management unit identifies its objectives and projected financial activity which is incorporated into corporate goals and objectives and financial projections.
- Minor appropriation controls are established for corporate administrative expenses, vocational training expenditures, and merit pay.

The remaining financial projections are related to production estimates.

12. **PAYROLL FUNCTION.** The payroll function for UNICOR is segregated into two categories, civilian payroll and inmate payroll.

a. **Civilian Payroll.** Civilian payroll is processed entirely by the National Finance Center (NFC) at the Department of Agriculture based upon information given them by UNICOR's time and attendance clerks.

Bi-weekly, NFC provides UNICOR employees with earnings statements and support documentation for each payroll and the Department of Justice (DOJ) provides the Accounting Station Posting Media(ASPM).

This documentation supports the actual payments produced by Treasury per the NFC payroll. The ASPM is the document which provides the payroll information for UNICOR's official set of accounting records.

b. **Inmate Payroll.** Inmate payroll is prepared within each location's Business Office. Pay for inmates working within the industries are based on their experience and longevity within UNICOR institutions.

13. **REPORTS.** The UNICOR accounting system is designed to enable the prompt preparation of all needed financial reports. UNICOR reports disclose significant financial facts about UNICOR operations and activities clearly. They are prepared and issued as often as necessary to be of maximum use to management officials and to meet prescribed external requirements. Both external and internal reports are prepared from the same source data and should be in agreement.

External reports are designed to meet the requirements of control agencies, including requirements for audited financial statements consolidated at the Department level as required by the Chief Financial Officers Act of **1990** (CFO). Internal reports are designed to meet the needs of UNICOR's management. The Reports include:

- Balance Sheet - statements of assets and liabilities and
- Income and Expense - statements concerning the results of operations at the Program level.

a. **Type and Content of Reports.** The following discussion addresses the major categories of UNICOR accounting reports.

(1) **Financial Position** (Balance Sheet). The Central Office prepares statements of assets and liabilities relating to Business Areas (representing Program Areas) for their activities. Such statements should disclose:

- the major categories of assets,
- the amount and nature of significant contingent liabilities, and
- such explanatory information on the assets and liabilities as is necessary to disclose the reporting area's financial position fully and clearly.

(2) **Results of Operation.** Applicable costs incurred to produce revenues from sales of materials or services is compared or matched with the amount of such revenues to prepare financial reports on revenue-producing operations.

- The difference between revenues and applicable costs and expenses represents the financial results of these operations as measured by the increase or decrease in the net assets of each factory or activity down to the factory level.

(3) **Sources and Application of Funds.** Annual corporate statements of financial position and results of operations the FMB prepares are accompanied by statements of sources and application of funds. All significant items must be shown separately, as either a source or application of funds.

(4) **Treasury Reports.** The FMB prepares reports and information relating to financial condition and operations as required by the Department of Treasury. UNICOR accounts relating to cash and other financial transactions are maintained in such a manner to facilitate the reports' prompt and accurate preparation.

(5) **Other.** Each UNICOR field location enters the financial and costing data at the transaction level and maintains all supporting documentation for the financial statements. UNICOR's automated system provides reports by which program management may analyze production activity.

b. **Reports to Other Federal Agencies.** The FMB compiles additional periodic reports to submit to the Office of Management and Budget (OMB). Annual reports are provided concerning:

- analysis of other income,
- miscellaneous sales,
- other expense,
- use and disposal of excess and surplus property,
- real property,
- motor vehicle,
- postal volume,
- inmate industrial pay, and
- sundry assets.

Annual operating plans are submitted to the Bureau and DOJ.

14. **UNICOR'S ACCOUNTING SYSTEM.** UNICOR's Accounting System is designed to meet the requirements of the Budget and Accounting Procedures Act of 1950 as well as the accounting principles, standards, and all other prescribed requirements set forth by DOJ and the Comptroller General. The UNICOR system features accrual basis and cost accounting methodology.

Sales are accounted for when invoiced. Material and labor costs and major expense items are charged to operations when used rather than when obligated, received, or paid. Raw materials are recorded as an asset when received with an offsetting liability established pending payment.

Major expense items that are paid for, but not used at the end of an accounting period, are reported as prepaid expenses. Major expense items that are used, but not paid for at the end of an accounting period, are reported as an accrued liability. Property items are recorded as assets when received, and the costs of such items are charged to operations through periodic depreciation or amortization entries.

Effective property and inventory controls are essential elements of the UNICOR accounting systems. Property responsibility assignments are enforced and effective maintenance programs are required. Inventory stock levels are established and used in the procurement process. Periodic physical inventories provide data on the effectiveness of procedures and internal controls.

UNICOR's cost accounting system provides for analysis and evaluation of each production job or process. Cost variances can be promptly and specifically identified.

When customer orders are received, estimates are revised or cost levels based on prior experience standards are used to establish cost and quantity expectations.

- A production order with control number identification initiates the production cycle.
- Material and activity cost are charged to production orders when placed in production and transferred to finished goods when the production cycle is completed.
- Upon the sale of items produced, the applicable asset value in finished goods inventory is charged as the cost of goods sold to be applied against the dollar value of the sale.

Each production effort's actual cost is compared with the predetermined estimate or expectation. Analysis and evaluation of any significant deviations from prior estimates discloses production efficiencies or deficiencies, effectiveness of controls, and profitability of the work effort.

- As a result, personnel evaluations can be made, production improvements recommended, or decisions made to emphasize or de-emphasize further involvement with a specific product.
- The tie-in of cost data with the financial accounting data provides an additional internal control feature.

15. **ACCOUNTING FUNCTIONS.** Sound financial planning and execution in UNICOR is accomplished through the accounting and internal control system. The purposes of the accounting system and internal control procedures are as follows:

a. **Accounting.** UNICOR's accounting system provides essential and reliable information on assets, liabilities, disbursements, revenues, costs, and expenses. The accounting system provides for identifying classifying, recording, controlling, summarizing, reporting, analyzing, and interpreting financial data. The system is a management tool designed to:

- show the cost of producing each job or process;
- evaluate performance on each job or process by comparing actual cost with pre-determined estimates;
- provide a basis for financial and production planning;
- show the status of financial condition and results of operations;
- safeguard public funds and other resources; and
- ensure compliance with applicable laws and regulations.

b. **Internal Control.** UNICOR's internal control system comprises the plan of organization and coordinated methods adopted to:

- safeguard assets,
- check the accuracy and reliability of accounting data,
- promote efficiency and economy of operations, and
- encourage adherence to prescribed managerial policies.

UNICOR's internal control system encompasses:

- internal administrative control;
- internal accounting control; and
- internal checks (accounting procedures or statistical, physical, or other controls which safeguard assets against waste, loss, fraud or other improper or unwarranted use).

16. **OBJECTIVES OF THE UNICOR ACCOUNTING SYSTEM.** UNICOR's accounting system is designed to meet all internal needs for cost and other financial data for planning, programming, budgeting, controlling, and reporting of UNICOR operations. The following specific areas are covered:

- obligations,
- liabilities,
- expenditures,
- costs, and
- revenues.

a. Accurate and reliable bases for developing and reporting costs of performance by:

- organizational unit,
- job or process, and
- program structure.

b. Flexibility in accommodating new and revised program structures to support programmatic management.

c. Full and prompt disclosure of the financial condition and results of operation and support of each major program or activity through reports based on an orderly system of controlling and recording financial transactions on an accrual basis.

d. Production of adequate and timely financial reports and related information to meet the needs and objectives of internal management and to comply with external requirements, including

the furnishing of financial data as required by statutory and other law, Congress, or congressional committees.

e. Producing reliable financial and cost data to be used for:

- preparation and support of UNICOR's budgets,
- controlling the execution and administration of those budgets, and
- reporting to the Bureau, DOJ, and others as required.

f. Developing cost data for use in measuring results of operations and performance of assigned functions.

g. Suitable integration of UNICOR accounting with Bureau and DOJ accounting.

17. **IMPROVEMENTS AND UPDATING.** The UNICOR accounting system is reviewed continuously and revised as necessary to ensure maximum effectiveness and usefulness to management. Officials of all organizational entities are expected to propose changes to improve and update the accounting systems. Such proposals should be directed to the Controller.

Automated systems and cross-servicing with other government agencies are considered whenever feasible and economical.

Applications for automation are developed and/or purchased with due consideration for both potential cost savings and increased efficiency. Corporate Management and the Board of Directors review such applications.

18. **BASIC ACCOUNTING APPLICATIONS.** This section details the general application of the UNICOR accounting system.

a. **Business Office Locations.** UNICOR's Business Offices conduct operations which are responsible for recording/posting and reporting financial data as related to that location. There is a Business Manager or Plant Controller, including Central Office, for each office who fulfills this function.

b. **Accounting Mechanism.** Financial and costing information is captured at each Business Office and the Central Office through posting at the transaction level to an automated financial system. Ultimately, each transaction is recorded and classified in UNICOR's Chart of Accounts.

c. **Processing Cycle.** The steps involved in the accounting cycle performed in UNICOR field Business Offices and in the Central Office Business Office are as follows:

- UNICOR's Chart of Accounts complies with the United States Standard General Ledger's requirements.
- Responsible UNICOR staff receive or create source documents to provide the first record of transactions.
- Transactions are documented and entered into a journal by UNICOR's automated system on the basis of these documents which are referenced to provide an audit trail and support for the entries entered into the general ledger.
- Accruals and other month-end adjusting entries are prepared and posted to the general ledger.
- Financial statements/reports are prepared from the adjusted ledger accounts.

19. **OBJECT CLASSIFICATIONS.** UNICOR captures cost information by uniform object classifications as required by OMB Circular A-11.

- The object classifications are based on the nature of the goods or services as distinguished from the purpose for which such liabilities are incurred.
- Each record is coded with the appropriate general ledger code, which relates to an object classification
- An object classification report is prepared monthly. Monthly accruals and adjusting entries complete the accounting for object classifications.

20. **GENERAL LEDGER ACCOUNTS.** The UNICOR accounting systems maintain financial information in specific general ledger accounts (assets and liability accounts). The general ledger accounts classify in summary for each appropriation all the accounting transactions of UNICOR and provide a permanent record of the financial position and results of operations.

The FMB establishes and maintains general ledger account numbers. The accounts are updated each month and are maintained on an accrual basis.

21. **RELATIONSHIP TO THE DEPARTMENT OF AGRICULTURE PAYROLL SYSTEM.** The NFC Payroll System processes the UNICOR civilian payroll.

- The general procedure begins when time and attendance records going from UNICOR to NFC where all processing occurs. The results of that processing then returns to UNICOR and includes Electronic Funds Transfer (EFT) and the necessary data for accruals, disbursement, and management review.
- This occurs each pay period.

The manual interface of payroll input into the UNICOR accounting system is provided via the Accounting Station Posting Media (ASPM) report which is generated from DOJ's reporting system. Field Business Offices and the Central Office prepare entries to enter the payroll data into the UNICOR accounting system based upon:

- object classification,
- nature of transactions,
- accounting period, and
- method of payment from the ASPM.

The ASPM provides a timely mechanism to verify that all civilian payroll transactions have been recorded accurately and reported.

22. **PERSONNEL LEADERSHIP AND TRAINING.** UNICOR requires and demands positive dynamic leaders and qualified personnel for its financial management system. Responsible staff are expected to:

- challenge existing procedures;
- precisely identify management needs and establish priorities;
- plan and schedule program activity in substantive detail;
- train and motivate all personnel;
- direct the actions of subordinate staff effectively;
- provide adequate resources; and
- coordinate financial activity with the production effort effectively.

Financial staff training and development features accrual, cost, and Automatic Data Processing techniques. Organized training in these fields provides an understanding of current concepts, processes and problems, and the more skillful and economic application of modern practices.

Training activities are not limited to financial management techniques per se, but also include efforts to convey to operating officials the financial service available under the integrated systems and how to use those techniques efficiently.

Financial management training opportunities are affected by the use and availability of Government-wide training facilities, DOJ facilities, and UNICOR's own training facilities.

**23. RELATIONSHIP TO OTHER SYSTEMS.** Inmate activity is integrated with the Bureau's SENTRY system as a feature of inmate control. UNICOR's inmate payroll system is integrated with the Bureau's Inmate Trust fund activity. Because financial and cost accounting have been developed as a single system, field personnel must ensure that accurate cost data is entered into the financial accounting system.

**24. COMMON CONTROL TECHNIQUES.** The following control techniques are common to any effective internal control system and must be a part of all UNICOR internal control systems:

a. **Documentation.** Internal control procedures, policies, authorities, and responsibilities must be clearly and adequately documented. Once documented, they should be available to personnel involved in their execution. Documentation usually takes the form of operations manuals and organization charts which describe and depict the roles and responsibilities of all individuals engaged in the control system.

Proper documentation provide assurance that the method of, and responsibility for, the following procedures is communicated clearly and used as a valuable tool in training new employees. Effective documentation must include a process for incorporating system changes and communicating those changes to user personnel. The process must include management approval of all system changes.

b. **Organizational Structure.** Segregation of duties is accomplished through well documented and communicated organizational structures. Clearly established lines of authority and responsibilities should be provided for each operating activity (i.e., UNICOR corporate, program and field location program/entity).

Position descriptions must be designed to define those authorities and responsibilities clearly. Assigned authorities and responsibilities should include requirements for complying with UNICOR regulations and policies and should establish the basic requirements for acceptable performance. The planned

process for evaluating the performance quality should be described effectively in position descriptions.

To provide an effective internal control system, the organizational structure must be designed to keep personnel from taking advantage of their assigned responsibilities and authority.

- Control and granting of transaction permissions within FPI's automated system must be compatible with sound internal control principles.
- No individual or small group of individuals should be in a position to control all aspects of a transaction.

Responsibilities should be segregated and tasks so structured that one individual or group of individuals does not perform more than one "key" processing function or activity such as authorizing, approving, certifying, accounting, or disbursing.

This involvement of various knowledgeable individuals in processing transactions is essential to ensure the system's integrity and reliability.

- Staff assigning the permissions within the automated system must maintain documentation supporting these permissions.

c. **Qualified Continuous Supervision.** Qualified and continuous supervision is essential to an effective system of internal accounting and administrative control. Strict adherence to established procedures is necessary to ensure agency management that desired internal control procedures are being applied to safeguard the agency's resources.

d. **Competent Personnel.** Personnel should be competent, by education, training, and experience, to execute the control responsibility which they have been given. Unless personnel are technically qualified to execute the responsibilities of their positions in accordance with agency qualification standards, agency heads cannot expect the effective execution of control policies and procedures.

25. **PLANNING.** An agency's planning process should provide an effective internal control element. Goals and objectives which are well defined establish the parameters within which agency personnel must operate and include clearly identifiable and measurable performance expectations for evaluation purposes.

In addition, cash projections, inventory stock level requirements, facility and personnel projections, and sales order planning provide a basis for evaluating the effectiveness of internal controls in those areas.

- It is essential that plans challenge operating personnel effectively without being unrealistic or unreasonable.
- The planning process must include requirements for management review and evaluation of accomplishments in relation to expectations.

Such analytical reviews should lead to recommendations for corrective action and follow-up to ensure responsiveness and to prevent recurrence of any noted deficiencies.

UNICOR planning must be so devised that actual operating results can be measured against predetermined expectations.

- Analysis and evaluation of resultant deviations may disclose breakdowns within the internal control system. Such deviations must be investigated and breakdowns corrected as necessary in a timely fashion.
- Effective managerial reactions depend upon sophisticated development of meaningful and realistic expectations.

**26. PRESERVATION AND SAFEKEEPING OF PROPERTY AND RECORDS.**

Policies and procedures must be developed and implemented to prevent theft and loss or misuse of Government property and records. Generally, procedures should include physical security of accounting records, negotiable instruments or securities, and other agency assets.

- Procedures will be employed to ensure that appropriate record keeping and adequate retention procedures exist and are followed for both paper and electronic records.

**27. SYSTEMIZED FINANCIAL AND COST ACCOUNTING.** Financial and cost accounting systems design includes requirements for adequate control over assets, liabilities, revenues, costs, and expenses. The design must be predicated upon accrual basis accounting with revenues, costs, and expenses charged to periods of usage, such as the cost of capital assets allocated to periods during which their use produces revenues.

Properly completed forms, reports, and analyses of the cost accounting system provide an additional internal control feature in that operating results are further summarized by specific jobs

or processes. Pre-determined standards are established for each job or process and must be compared subsequently with actual costs upon completion. Such comparisons will disclose variances.

Analysis and evaluation of significant variances should identify the causes of any breakdown in internal controls. Cost accounting provides the detailed information for this purpose. Corrective action can then be taken to prevent recurrence.

Audit trails are essential to good system design. Entries for all transactions should be traceable from the originating document to financial report data. Similarly, total amounts in financial reports should be traceable back through the General Ledger accounts and original entry of source documents.

**28. FINANCIAL AND COST REPORTS.** Periodic financial and cost reports should provide supervisors and operating managers with data that can be used to evaluate the internal control system. The dollar amounts in cost variance accounts are indicators of the degree of breakdown in planning, assembly of costs, or management efficiency. Inventory write-offs provide indicators of the degree of breakdown in inventory controls.

Accuracy is essential in all these reports, and top management officials must ensure that the data received can be and is used to evaluate the internal control system.

- Management officials should review report format design periodically to ensure that reports meet management needs and obsolete reports are eliminated.

**29. QUALITY ASSURANCE.** Quality Assurance programs should be designed to identify deficiencies in materials received or deficiencies occurring in the production process.

- Appropriate recommendations will be made for correcting production deficiencies and preventing their recurrence.

Faulty materials from suppliers should be rejected and returned promptly. Each location superintendent must establish an effective quality assurance program and continually review its operational effectiveness as referenced in the Program Statement on Quality Assurance.

**30. INTERNAL AUDIT AND MANAGEMENT REVIEW PROGRAMS.** Continuous monitoring of policies, procedures, and practices related to production, fiscal, and accounting activities through internal audit and management reviews is essential to an effective internal control system.

- When appropriate, reviews should include examining and testing of transactions. Follow-up procedures should exist to ensure compliance with audit and management review recommendations.
- Timely corrective action is essential to an effective internal control system.

31. **UNICOR INTERNAL CONTROL SYSTEM.** UNICOR's system of internal control is designed to include the common control techniques noted above. Since UNICOR industrial activities are so varied, each location must devise its own system of internal control incorporating to the extent possible the following common control techniques:

a. **Document Control.** An effective internal control system must include effective procedures for document control throughout the origination development, approval, review and recording process. Document control includes:

- accuracy of figures,
- prevention of oversights, and
- an assurance of propriety of all actions being taken.

The principle of double check of all work accomplishments must be used to the fullest extent possible.

b. **Segregation of Duties.** Organizational structures must be designed so that no individual is in a position to control all aspects of a transaction. For example:

- Accounts receivable personnel should not be involved in the receipt of cash items.
- Procurement personnel should not be involved in the disbursement or receiving process.
- Production personnel should not participate in inventory storage or issue activity.
- Receiving personnel activities should be separated from the procurement function, stock control record keeping, and receipt of supplier invoices.
- Accounts receivable personnel should not have an authority to write-off accounts receivable.

- Stock record personnel should not have an authority to adjust inventory records without supervisor approved documentation.
- Physical inventories should not be taken by personnel who are immediately responsible for physical or record keeping control of the inventory. However, when necessary, knowledgeable personnel may be used to identify inventory items.
- Inmate-to-inmate handling of accounting documents should be avoided if at all possible.

Segregation of duties among available personnel is designed to provide integrity and reliability of results in processing UNICOR transactions.

c. **Classification of Transactions.** Classification of transactions as to accounting code and object class must be noted on all procurement documents in accordance with an established chart of accounts. The originator of the transaction makes the annotations. Accounting personnel then review and verify such annotations.

The established chart of accounts must be designed to meet management needs for information and be well-communicated among operational personnel to ensure consistency in the classification of transactions.

d. **Journal Entries.** Standard journal entries are compiled automatically from transaction level entries and manual journal entries are prepared by local accounting personnel. Business Managers must review the results of these entries and make corrections, if required.

e. **Reconciliation of Subsidiary Records.** A process of periodic reconciliation of control accounts or financial records with documents or other support records produced externally to the automated system must be included as part of UNICOR's internal control system. The following are examples of the type of reconciliations that should be made:

- Accounting personnel are responsible for monthly reconciliation of cash and OPAC transactions in the general ledger with the monthly Statement of Transactions (SF-224).

- Accounting personnel must make postings to general ledger accounts after a double check of amounts against two or more sources, if possible.
- Accounting personnel must review posted inventory amounts and values daily for accuracy. Test counts are performed periodically, documented, and compared with inventory records.

f. **Undistributed Expenses.** Procedures must be established for the accumulation of temporarily undistributed expenditures and a process developed for timely and fair distribution of those expenditures to appropriate programs, functions, or activities.

For example, the SOI's salary can rarely be assigned to a specific job or process. Therefore, that salary along with other items is initially recorded as an undistributed expense. Accumulated totals of such expenditures are then distributed monthly on a predetermined allocation formula to operating activities.

g. **Financial and Cost Statements.** Accurate and meaningful financial and cost statements and reports must be supplied periodically and be responsive to management needs. All reports and financial statements must be examined, and initialed by the Accountant and signed by both the SOI and the Business Manager, or designee.

- Requirements must be established for using these statements and reports effectively and UNICOR supervisors must ensure that staff comply with such requirements.

h. **Estimates or Standard Cost Comparisons.** UNICOR managers must make timely and periodic comparisons of estimates or standard costs with actual expenditures to:

- identify variances,
- analyze and evaluate those variances for internal control breakdowns, and
- identify the causes of those breakdowns and recommend and implement corrective action as appropriate follow-up.

Recommended corrective action must be a part of each UNICOR location's internal control systems.

32. **SPECIFIC CONTROL REQUIREMENTS.** The following represent specific control requirements for identified segments of accounting and procurement activity:

a. **Cash Receipts.** Controls include requirements for safe-keeping facilities that will prevent unauthorized access to cash items and other cash control documents received or on hand. Procedures should ensure that staff processing incoming mail are not involved with the recording or deposit of cash items.

- Prompt recording by accounting personnel and deposit of cash items by the accounts receivable manager should be ensured.
- Procedures must be established to ensure proper recording and documentation of all transactions involving billings. The accounts receivable manager must ensure that the billing has been properly signed and recorded, and that all charge-backs are promptly investigated and resolved.

b. **Cash Disbursements.** Controls include identifying the specific documents required to support each disbursement action including the procurement actions leading to the cash disbursement.

- Accounting personnel should verify the transactions involved in the disbursement action are proper.
- Accountants should review and approve voucher schedules and support documents for accuracy, adequacy of document support, and propriety of payment.

The sub-certifying officer(s) are responsible for final review of all vouchers prior to certification. UNICOR will not adopt a statistical sampling method of review due to the low volume of vouchers processed at each location. Post payment sampling of paid vouchers is required of UNICOR's management and by internal program review staff.

c. **Accounts Receivable.** Accounts receivable staff must ensure that all receivables are recorded accurately and promptly. Such recordings should be based upon pre-established documentary support such as shipping transactions and sales invoices.

- Finance staff must ensure that all receipt recordings have adequate support documentation and all receipt deviations from amount set-up are reconciled and adjusted satisfactorily.

- Accounts receivable staff should provide periodic reports of aged receivables and ensure that timely collection activity has been taken. Specific collection problems should be noted in the report.
- Accounts receivable staff and, when necessary, Business Managers, SOIs, and Program Managers should review the aged receivables report, the collection action taken, and provide recommendations to solve noted collection problems.
- Accounts Receivable staff should process write-offs, conversions, and settlements or forgiveness of receivables subject to delegated approval.
- Invoicing staff must ensure that all electronic billings, including charge-backs, are recorded and documented properly.
- Accounts receivable staff must ensure that all electronic billings that are paid during a billing cycle are recorded clearly as paid for the month's business in which they are accomplished.
- Accounts receivable staff must ensure that prompt billings occur when a shipment is made.

d. **Capital Assets and Materials Inventories**

- The FMB should provide instructions that distinguish between a capital asset and operating expenditures for accounting purposes.
- SOIs should ensure that only authorized and needed property is ordered.
- Accounting personnel should ensure that all receipts of property are timely and recorded accurately. Such recordings should be based upon pre-established document support requirements and adequate control identification and responsibility assignment.
- Accounting personnel must ensure the detailed master asset records are maintained for individual capital assets. These records must be compared periodically and reconciled to physical inventory.

- Business Managers must ensure that periodic physical inventories are performed to verify the existence and condition of property and inventories. The physical count must be performed by UNICOR personnel who are not involved in the record keeping, physical control, or management of the property or inventory. These counts must be timely, accurate, and complete.
- The Business Manager must ensure that the accounting records are adjusted to conform with the results of the physical inventories.
- SOIs and Branch Managers must ensure physical security measures are commensurate with the size, type, and value of property.
- Business Managers must ensure the timely reporting of all issues, transfers, retirements, losses, and other variances.
- The warehouse person must inspect all goods received and report the receipt in the automated system. A quality assurance employee is responsible for formally inspecting the goods received noting his or her findings on the material receipt document.

**e. Payables**

(1) Accounting personnel must ensure that all payables and other claims against the Government are recorded promptly and accurately. Prompt recording is based upon effective implementation of UNICOR's accrual accounting system.

- Liabilities are established when goods or services are received whether accompanied by an invoice.

While inmate payrolls do not become a part of the accounting records until month-end, they are considered to be encumbrances if all amounts owing whether or not paid are recorded at that time. Similarly, utility bills, civilian payroll accruals compensation, etc. are limited to month-end recording to facilitate the recording process while assuring that all existent payables are recorded for financial statement presentation purposes.

(2) Accounting personnel must ensure that recorded payables have necessary support documentation (i.e. requests for purchases, purchase orders, material documents, and invoices.)

(3) Accounting personnel must ensure that all payables are liquidated promptly assuring that cash discount terms are met and discounts taken or justification for not taking discounts is effectively annotated on payable documents.

**f. Finished Goods**

(1) A quality assurance employee must ensure the quality of goods are maintained during the production process.

(2) Factory Managers have the primary responsibility for controlling finished goods. They must process transactions moving goods from production to finished goods inventory promptly. Generally, the Factory Manager is responsible for communicating when an order is ready to ship.

However, there are instances when the Factory Manager is not in a position to advise whether a shipment should be made:

- items are produced for stock;
- the contract with the customer requires that shipments be made in large quantities.

Then, the responsibility for directing a shipment is placed on the local employee having knowledge when the shipment should be made (i.e., Business Manager or Shipping Supervisor.)

(3) Products must be packed properly to avoid shipping damage. Instruction labels should be attached advising the need for prompt inspection, handling of noted damage or product defects, and identification of the unit responsible for payment.

(4) The shipping supervisor processes shipping transactions and accounts receivable staff must review them daily for invoicing.

**33. PAYROLL**

a. Superintendents must have the authority to recommend appointments, changes, or termination of factory personnel including inmate laborers. Requirements should be established for the documentation required to support recommendations for personnel actions.

b. Business Managers must ensure that all compensation of employees complies with current statutory, regulatory, or agency limitations.

c. Department foremen, managers, and timekeepers must ensure timely, accurate, and complete attendance reporting.

d. When the payroll process is completed, the Superintendent or Acting Superintendent will sign the inmate payroll document. This task **cannot** be delegated.

#### 34. **TRAVEL**

a. An accountant's review of travel vouchers and certification of travel vouchers by certifying officers must be designed to ensure compliance with the Government Travel Regulations. The Bureau's Relocation Section processes all permanent change of duty station vouchers.

b. Financial Managers must ensure that controls are established and observed for issuing, recording, verifying, processing, reconciling, accounting for, and reporting obligations, expenditures, and disbursements for travel and transportation.

#### 35. **RESPONSIBILITIES, COORDINATION AND INTERNAL CONTROLS.**

Corporate, branch, program and site location management are responsible for providing an effective internal control system. Financial Managers must ensure that the internal control system functions effectively in financial areas. Records and procedures must be reviewed periodically for accuracy and for compliance with UNICOR guidelines.

Factory Managers must ensure that accurate and reliable operating data is reported on a timely basis and that factory personnel implement all internal control features related to factory operations effectively.

The SOIs are responsible for internal controls at their locations and for coordination between the factories and the Business Office to ensure timeliness of data flow and communications.

36. **AUDIT PROGRAM.** It is Bureau policy to maintain a review program that provides management at all levels with information to help achieve efficient administration and operations control.

This program is concerned with all phases of financial, operational, and program activities in UNICOR rather than being limited to financial matters. A brief commentary concerning audit activity as related to internal control follows:

a. **External Audits.** The OMB, through the DOJ, oversees audits of UNICOR's financial statements, as directed in the Chief Financial Officers Act of 1990. These reviews are directed in part to the adequacy of internal controls. Their appraisal and associated recommendations provide meaningful contributions to the process of maintaining an effective internal control system.

b. **Internal Audits.** The Bureau's Program Review Division reviews each location cyclically and concentrates on policy compliance.

c. **Operating Management's Review Program.** Operating management has a responsibility to review its areas of responsibility continually to ensure compliance with UNICOR operating procedures. They will evaluate the efficiency and effectiveness of operations in meeting stated goals and objectives, and ensure the validity and meaningfulness of financial and production reports.

- Review of program activities (i.e. field, program or corporate) includes evaluating all personnel accomplishment.

37. **EVALUATION AND IMPROVEMENT OF INTERNAL CONTROL SYSTEMS.** OMB Circular No. A-123, establishes standards for internal controls and directs each agency to review and update its internal control system on an ongoing basis. Congress requires each agency head to report to the President annually on these controls.

Therefore, Corporate management must methodically:

- assess its vulnerability to fraud, waste, and abuse in each program and administrative area within each organizational component and
- identify the controls deemed most vulnerable and ensure that such controls are effectively meeting their desired function.

OMB has published applicable guidelines for control elements that must be included in any Governmental Accounting system.

Specific indications of improprieties or allegations within UNICOR are referred to the Office of Internal Affairs, Bureau of Prisons, for investigation. Such information should be relayed to that office with any evidence of waste, fraud, or abuse duly noted and made available.

/s/

Kathleen Hawk Sawyer

Director