U.S. DEPARTMENT OF JUSTICE
Federal Bureau of Prisons

PROGRAM STATEMENT
Federal Prison Industries Excess and Obsolete Inventory

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DPI	FPI
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Summary of Changes

Program Statement Rescinded: ▪ 8561.04 Excess and Obsolete Inventory, FPI (03/20/2015)
Changes: ▪ Removes references to Associate Warden, Industries, Education and Vocational Training (AW I&E) and the Superintendent of Industries (SOI) as Federal Prison Industries (FPI) does not currently have these positions ▪ Replaces the term "Prime Business Manager" with "Business Manager" ▪ Improves the description of procedures

1. **PURPOSE AND SCOPE**

To establish procedures for identifying, reporting, writing off, and disposing of excess and obsolete inventory (EXOB) and evaluating alternative uses for this inventory.

Inventory values may become inflated when excess and obsolete items are allowed to accumulate to such an extent that the utility of that inventory is no longer as great as its cost.

When this situation exists, this program statement provides a method for establishing an allowance to adjust for that inflated value. In addition, various levels of approval authority are established for writing off EXOB.

a. **Program Objectives**.

- Management will be more effective in identifying and disposing of EXOB.
- Warehouse space will be better utilized as a result of reduced EXOB.

- The value of inventories will be fairly stated on Federal Prison Industries' (FPI) financial statements.

b. **Institution Supplement**. None.

2. RESPONSIBILITY

The General Manager and Operations Manager overseeing each field location, and the FPI Controller, ensure procedures in this program statement are performed promptly and efficiently.

3. EXCESS AND OBSOLETE INVENTORY ITEMS

Excess and obsolete items may be found in raw materials, work in process (WIP), subassemblies (SA), and/or finished goods (FG) inventories.

a. **Excess Inventory.** Excess inventory items are items on hand in far greater volume than needed to meet known production schedules or anticipated needs for the next 12 months. These may include items that have had very little or no production usage in the past 12 months.

b. **Obsolete Inventory.** Obsolete items relate to products:

- No longer produced.
- That have become unusable because of changes in customer specifications.
- For which a more desirable substitute has been found.
- That have an expired shelf life.
- Not used in production for greater than two years.

Note: The acquisition of inventory materials for factory operations must be tied to customer demand as found in the FPI financial information system. Inventory materials not driven by customer demand (i.e. safety stock) may only be purchased following the approval of a Request for Special Authorization (RSA).

4. ESTABLISHING ALLOWANCES

The FPI Controller establishes an allowance percentage for slow-moving inventory (raw materials, subassemblies, and finished goods) for each factory annually based on a historical three-year average of EXOB write offs as a percentage of total EXOB per factory location.

a. **Estimating Slow-Moving Inventory Allowances.** The Business Manager or Field Financial Administrator (FFA) determines the monthly slow-moving inventory allowance as follows:

- Using the FPI financial information system Dead Stock Report at the end of each month, potential slow-moving inventory is the inventory value not previously identified as excess and obsolete during the annual review process. See Section 7 of this program statement for the annual review of excess and obsolete inventory.

- The Dead Stock Report includes items with a quantity other than zero as well as those marked for deletion.
- The report is compiled for the previous 12-month period, ending with the current month-end close-out.
- The report is produced separately for each material type and converted into a slow-moving inventory analysis in the format mandated by the FPI Financial Management Branch (FMB).

The allowance is determined by multiplying the dead stock inventory value at the end of the month by the applicable business group's percentage rate, as established by an annual Controller's Directive published by the FMB. Inventory previously identified as excess and obsolete awaiting disposal, and having an allowance previously established, is deducted from the value of the Dead Stock Report value before multiplying by the applicable percentage rate. This represents the value of slow-moving EXOB each month.

The Business Manager or FFA records the allowance by crediting the applicable account (151900 for raw materials, 153000 for finished goods, 158700 for subassemblies). The offsetting account is the applicable damaged/obsolete expense account (613600 for raw materials, 613700 for finished goods and subassemblies).

Example: A factory has a raw material (ROH) dead stock value of $100,000. Of this amount, $10,000 worth of inventory is isolated as EXOB and is awaiting disposal. Given the additional information provided below, the slow-moving raw material allowance is computed as follows:

Total of Dead Stock Report value:	100,000.00
Less inventory isolated in storage location EXOB and awaiting disposal:	10,000.00
Adjusted slow-moving EXOB value:	90,000.00
Business group percentage rate (varies by business group):	20%
Estimated slow-moving EXOB allowance:	18,000.00

Adjustment to allowance account example:

Journal Entry

DEBIT

613600 Damaged/Obsolete Property Raw Materials	$18,000.00

CREDIT
151900 Allowance for Obsolete $18,000.00
Inventory Raw Material

The text field in the FPI financial information system must contain the following description for the entries for inventory allowance accounts:

- RM SLOW MOVING (for Raw Materials).
- FG SLOW MOVING (for Finished Goods).
- SA SLOW MOVING (for Subassemblies).

Note: Do not include the parenthetical guidance listed above in the actual text field when making entries.

The prior month's entry should be reversed immediately prior to the posting of the current month's entry. The actual expense for the month is the net effect of the current month's entry and the reversal of the prior month's entry.

5. **IDENTIFYING EXOB**

The Operations Manager ensures all inventory, including raw materials, finished goods, work in process, and sub-assemblies, is reviewed monthly. Procedures for obtaining approval to write off EXOB resulting from the annual review are in Section 7 of this program statement.

a. **Work In Process Inventory.** Generally, excess and obsolete items are not found in work in process inventory because of the constant flow of inventory in and out of the production process. However, any job that remains in work in process for more than 120 days (excluding Agribusiness) must be inventoried and any excess and obsolete items written off and disposed of immediately.

b. **Board of Survey.** When there is sufficient evidence that any raw material, work in process, subassembly, or finished goods item is excess or obsolete, the Operations Manager appoints a board of survey to:

- Physically inspect the items.
- Determine their actual value (if any).
- Recommend disposal.
- Complete a Report of Survey.

c. **Approval of Report of Survey.** The report of survey must be approved prior to any disposition. Approval thresholds for FPI Form 30, Report of Survey, are found in the Program Statement **Disposition of Personal Property and FPI Form 30, Report of Survey**.

6. **TRANSFER OF EXOB**

Before writing off EXOB, the Operations Manager, first determines if it can be used at another FPI operation. Upon request, the General Manager helps identify locations that may need the inventory.

Inventory transferred to other locations is shipped at the moving average for raw material items or the standard value for sub-assembly and finished good items on a stock transfer order. If the fair market value is less than book value, the sending and receiving locations negotiate an acceptable valuation. The FFA is included in any negotiated value transfer. The FFA makes the required changes to the moving average cost. Finished goods, subassemblies, and work-in-process inventory are always transferred at standard cost. The receiving location bears shipping charges resulting from the transfer.

7. **ANNUAL REVIEW OF EXOB**

Each July, the FFA provides a workbook using the June dead stock balances for the Operations Manager to conduct a thorough review of all raw materials, work in process, subassemblies, and finished goods inventories to determine which items are excess and/or obsolete. This review, at a minimum, is conducted using the following reports in the FPI financial information system:

- MC50 - Dead Stock Report.
- MB24 - Material Reservations Report.
- MCBZ - Current Requirements/Stock Report.
- MB51 - Material Document List.

a. **Identifying EXOB.** Annual review reports used to determine EXOB as a result of the annual review must be compiled using a June 30 report date. Unused and slow-moving items identified on the reports are considered excess or obsolete.

b. **Reporting Requirements.** The Operations Manager reviews the Dead Stock and Slow-Moving reports and recommends disposition of each item by annotating the report with one of the following codes:

- **Code 1 - Retain for future use.** This recommendation must include a written justification if there has been no production or sales usage within the last six months. If an item that hasn't moved in over two years is marked as Code 1, the Operations Manager must approve via a memorandum justifying the inventory being retained for future use.

- **Code 2 - Transfer to another FPI location.** This recommendation must include the location to which the items are to be transferred and that location's current requirements. The transferring location must contact the receiving location to obtain the information and provide documentation of the approved transfer request (e.g., email approval and stock transfer order number).

- **Code 3 - Trade-in, re-stock, sell to another government agency, or sell to the public.**
- **Code 4 - Sell for scrap.** This recommendation must include a written justification, e.g., shelf life of item expired, certificate of conformance no longer available, etc.
- **Code 5 -** Intentionally left blank and reserved for future use.
- **Code 6 - Write off and dispose.**

c. **Submission Procedures.** The Controller issues an annual memorandum outlining these requirements and providing deadlines for field submissions, including negative reports, to the FFA, as well as FFA requirements and deadlines for reporting to the General Manager. The memorandum also outlines requirements for the General Manager to return approved inventory dispositions back to FMB through the FFA.

d. **FMB Review**. Upon receiving the approved inventory reports from the General Manager, the Controller provides final approval. After receipt from the Controller, the FFA advises each field location concerning dollar amounts and procedures for setting up allowances and writing off EXOB. Any allowances authorized by FMB as a result of the annual review are in addition to the monthly allowances previously established.

8. WRITE-OFF OF EXOB

a. **Disposition.** Items approved as Code 6 are moved to a separate physical location in the warehouse. They are moved in the FPI financial information system to the EXOB location pending disposition, using the FPI financial information system goods movement 311 transaction.

Concurrently, the Business Manager or the Accountant records the movement through a ledger entry by debiting the Damaged/Obsolete expense account (613600 for raw materials, 613700 for finished goods and subassemblies). The offsetting account is the allowance account (151900 for raw materials, 153000 for finished goods, 158700 for subassemblies).

Example:
Journal Entry

DEBIT
603600 Damaged/Obsolete Property $5,000
Raw Materials

CREDIT
151900 Allowance for Obsolete Inventory $5,000
Raw Materials

The FPI financial information system text field contains the following description for the entries for the EXOB movements:

- RM EXOB (for Raw Materials).
- FG EXOB (for Finished Goods).
- SA EXOB (for Subassemblies).

Note: Do not include the parenthetical guidance listed above in the text field when making the entries.

The total value of the EXOB locations (ROH, FERT, and HALB) must reconcile to the corresponding general ledger values (151900, 153000, and 158700), which are designated with the appropriate text for EXOB. While individual values may fluctuate due to rounding or moving average pricing, the total EXOB value per location must not exceed the Controller-approved EXOB total.

9. DISPOSAL OF EXOB

Once EXOB has been identified and approved for write-off, either as a result of an approved report of survey or an approved Code 6 write-off not requiring a report of survey, disposal procedures begin immediately in accordance with the Program Statement **Disposition of Personal Property and FPI Form 30, Report of Survey**.

If there is no commercial value to the items, the Business Manager or Accountant takes steps to either scrap for salvage value (i.e. recycling), or abandon or destroy in accordance with Federal Property Management Regulations.

As EXOB is disposed, it is removed from the EXOB storage location using the FPI financial information system goods movement 551 transaction. The value of the transaction is recorded against the Damaged/Obsolete expense account (613600 for raw materials, 613700 for finished goods and subassemblies).

Concurrently, the Business Manager or Accountant records the movement through a reversal entry by debiting the allowance account (151900 for raw materials, 153000 for finished goods, 158700 for subassemblies). The offsetting account is the Damaged/Obsolete expense account (613600 for raw materials, 613700 for finished goods and subassemblies).

Example:
Journal Entry

DEBIT
151900 Allowance for Obsolete Inventory $5,000
Raw Materials

CREDIT
613600 Damaged/Obsolete Property $5,000
Raw Materials

The text field in the financial information system for this entry is annotated per Section 8 of this program statement.

REFERENCES

Program Statements
Disposition of Personal Property and FPI Form 30, Report of Survey

Federal Regulations
Federal Property Management Regulations

ACA Standards
None

Records Retention Requirements
Requirements and retention guidance for records and information applicable to this program are available in the Records and Information Disposition Schedule (RIDS) on the Bureau's intranet site.