
BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Honorable William Proxmire
United States Senate

UNICOR Products: Federal Prison Industries
Can Further Ensure Customer Satisfaction

Federal Prison Industries (trade name UNICOR) is a profitable government owned corporation which sells many different products to federal agencies and employs thousands of federal prisoners. GAO was asked to determine if improvements were needed in UNICOR's efforts to (1) set and maintain prices, (2) stay abreast of and deal with customer problems, and (3) grant clearances for agencies to buy elsewhere.

The customers GAO included in its review reported few problems with UNICOR. Overall, UNICOR customers appeared satisfied with its prices, although some believe the corporation's prices are too high. Because UNICOR is not doing market checks as required, neither GAO nor UNICOR knows to what extent UNICOR is complying with the law to price its products and services within current market prices. UNICOR is taking actions to stay abreast of customer satisfaction and does respond to customer complaints. Overall, UNICOR's clearance process seems to be working well. However, the process could be avoided in many instances by improving UNICOR's product catalogs. GAO recommends actions which UNICOR should take to ensure its prices comply with the law and to improve its customer clearance process.

UNITED STATES

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-217204

The Honorable William Proxmire
United States Senate

Dear Senator Proxmire:

As you requested, we examined the efforts made by Federal Prison Industries to provide satisfactory goods and services to other federal agencies. This report addresses corporate efforts to provide quality and timely products at market prices and to be responsive to customer complaints and requests for clearance to buy elsewhere.

As arranged with your office, we are providing copies of this report to the Attorney General and the Director of the Office of Management and Budget. In addition, we will provide copies to the House and Senate Committees on Appropriations, the House Committee on Government Operations, the House Committee on the Judiciary, the Senate Committee on Governmental Affairs, and the Senate Committee on the Judiciary.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director

NGC 100

FEB 28 1968

ACQUISITIONS

2021-2022

2021-2022

2021-2022

EXECUTIVE SUMMARY

Federal Prison Industries (trade name UNICOR) is a profitable government owned corporation with estimated fiscal year 1985 sales of about \$248 million and earnings of \$19 million. Federal agencies, UNICOR's only customers, are generally required to buy the corporation's products but can request a clearance from UNICOR to procure elsewhere. Senator William Proxmire was concerned about allegations that agencies were receiving overpriced and poor quality products and accepting this because of nonresponsive or cumbersome complaint and clearance systems. As requested, GAO reviewed UNICOR's operations to determine if improvements were needed in (1) setting and maintaining prices, (2) staying abreast of and dealing with customer problems, and (3) granting clearances for agencies to buy elsewhere.

BACKGROUND

Established in the 1930s, UNICOR is located organizationally within the Department of Justice. UNICOR provides a variety of services, such as data entry (e.g. key punching) and furniture refinishing. It manufactures such products as furniture, electronics, mattresses, clothing, and road signs. It employs federal prisoners to reduce their idleness and provide job training. As of September 30, 1984, UNICOR had 75 factories at 41 prisons and employed about 9,000 prisoners. (See pp. 1 and 27.)

RESULTS IN BRIEF

The customers GAO included in its review reported few problems with UNICOR. Corporate management, however, can strengthen ongoing efforts to insure customer satisfaction and to provide competitively priced, quality, and timely products.

UNICOR is not doing market checks as required by its policy to ensure compliance with the law that its prices not exceed market prices. As a result, neither GAO nor UNICOR knows to what extent UNICOR is complying with the law to price its products and services within current market prices. Overall, UNICOR customers appeared satisfied with its prices, although some believe

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the corporation's prices are too high. (See p. 8.) Also, UNICOR has not implemented a reliable job cost accounting system. (See p. 10.)

Although some problems occur, customers appear generally satisfied with the quality of UNICOR's products and services. (See p. 15.) UNICOR is taking actions to stay abreast of customer satisfaction and does repair, replace, or otherwise deal with complaints about broken items, defective workmanship, missing parts, etc. (See pp. 17 and 19.)

Overall, UNICOR's clearance process seems to be working well. However, the process could be avoided in many instances by improving UNICOR's product catalogs. (See p. 24.)

**PRINCIPAL
FINDINGS****Pricing**

Most UNICOR prices GAO checked were not supported by documentation showing that a market check was done and that the market price was not exceeded. (See p. 5.) Neither the UNICOR law, UNICOR policy, or the Federal Acquisition Regulation defines what a market price is and how it should be determined. (See p. 4.) UNICOR officials cited various reasons why those checks were not made, such as no management emphasis to perform market checks and difficulty in finding prices for comparable items. (See p. 6.) Officials from the agencies GAO contacted had varying opinions about UNICOR's prices. Five agencies were generally satisfied or had not experienced any recent problems, one had mixed views, and two thought some prices were too high. Ninety-five percent of the customers contacted by Justice Department auditors in their review of factory operations had no complaints with UNICOR's prices. (See p. 8.) Information available for ninety-five percent of the prices for 82 products GAO reviewed in a limited check showed that prices UNICOR charged GSA did not exceed the highest price charged or quoted. (See p. 6.)

UNICOR continues to have problems implementing its cost accounting system. Job cost data are needed to facilitate setting/assessing prices as well as evaluating factory performance. (See p. 10.)

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Quality and customer satisfaction

Customers included in GAO's review are generally satisfied with the quality of UNICOR's products and services. (See p. 15.) Some complaints do occur and UNICOR, for the most part, fixes problems customers report. (See p. 19.)

UNICOR's factories and divisions recorded 642 customer complaints for the year ending August 31, 1984, which GAO estimates to be less than a 2 percent complaint rate when compared to the number of jobs shipped. (See pp. 16 and 17.) UNICOR is improving complaint reporting and will be contacting more customers about their satisfaction or problems with the corporation's products and services. A standard complaint form will be used to facilitate reporting by product divisions and factories, staying abreast of the level of complaints, and identifying recurring or systemic problems. (See p. 17.) Also, as a result of GAO's suggestions, a customer survey card will be included with all corporate products and services provided customers. Previously, the card was used for 6 of the corporation's 21 product/service lines. (See p. 18.)

Clearances

During fiscal year 1984 UNICOR gave about 2,800 clearances for agencies to procure certain products elsewhere. That amounted to about 1 clearance for every 16 customer orders UNICOR accepted. (See p. 22.) Officials GAO contacted were generally satisfied with UNICOR's clearances. (See p. 24.) Two-thirds of the clearances GAO sampled were issued within 10 calendar days of the date UNICOR received the agency's order. UNICOR officials also told GAO that customers are given clearances verbally by telephone with the formal documentation following later. GAO's limited check for clearance documents taking longer than 30 days confirmed that verbal notifications are given. (See pp. 22 and 24.)

About 27 percent of the clearances granted by the three product divisions GAO sampled were given because UNICOR did not make the product requested. (See p. 24.) GAO believes the clearance process could be avoided in many, if not all, of these instances by improving corporate catalogs to note specific products

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within existing product lines which the corporation does not make and to note that clearances are not required for such items. For example, clearances were issued because UNICOR did not make pallet rack shelving which is not one of eight different types of shelving listed as available in UNICOR's catalog. (See p. 25.)

RECOMMENDATIONS

UNICOR should define market price, provide guidance on supporting documentation required, and direct the product divisions to comply with corporate policies. (See p. 13.) Also, UNICOR should clarify corporate catalogs to describe, wherever feasible, product types not manufactured but which are frequently requested by customers. The catalogs should also contain a statement indicating that items not manufactured do not require a clearance. Also, UNICOR staff should be told not to prepare clearances for items UNICOR does not make. (See p. 26.)

AGENCY COMMENTS

GAO did not obtain official comments from the Justice Department but obtained the views of directly responsible officials and incorporated them into the report where appropriate.

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ABBREVIATIONS

GAO	General Accounting Office
GSA	General Services Administration
UNICOR	Federal Prison Industries
VA	Veterans Administration

CHAPTER 1

INTRODUCTION

Federal Prison Industries (trade name UNICOR) is a wholly owned government corporation created in 1934 by the Congress (18 U.S.C. 4121 et seq.). UNICOR employs federal prisoners in federal prison factories to produce goods and services which are sold for profit to other federal agencies. UNICOR employs physically fit inmates in order to reduce their idleness and to help the inmates acquire occupational knowledge and skills that will enable them to earn a livelihood upon release. As of September 30, 1984, UNICOR had 75 shops and factories in 41 of 45 federal penal institutions and employed about 9,000 inmates, 38 percent of the federal inmate working population.¹ The corporation expects to open more factories and employ more inmates over the next few years because of expected increases in the prison population.

UNICOR is located organizationally within the Department of Justice and operates under the general direction and supervision of the Attorney General. UNICOR is administered by a board of directors representing industry, labor, agriculture, retailers and consumers, the Secretary of Defense, and the Attorney General. The Director of the Federal Bureau of Prisons serves as the Commissioner, the chief executive officer of the corporation. The Associate Commissioner is responsible for overseeing UNICOR's daily operations.

UNICOR is organized into four product divisions--Data/Graphics; Electronics; Metal/Wood/Plastics; and Textiles/Leather. Each division is responsible for a number of products (e.g., furniture, clothing, mattresses, towels, brushes, electronics, and signs) and services (e.g., data entry and furniture refinishing) and for several factories.

Generally, federal agencies are required by the UNICOR law and the Federal Acquisition Regulation to procure products which are listed as being manufactured by UNICOR in the corporation's catalog or schedule of products unless UNICOR grants the agencies a clearance to procure the product elsewhere. Agencies are not required to procure services provided by UNICOR but are encouraged, by the Federal Acquisition Regulation, to use UNICOR for services and to contact UNICOR about the feasibility of making any products which are not listed but which are of the

¹The 62 percent not employed by UNICOR work at prison maintenance and operation jobs such as cooking, laundry, and yard work. Their earnings, however, are funded from UNICOR's profits.

type manufactured by UNICOR. Federal agencies buy hundreds of standard and custom made products and services from the 21 product lines offered by UNICOR. The corporation's major customers are the Department of Defense, General Services Administration (GSA), U.S. Postal Service, and the Veterans Administration (VA).

UNICOR's objectives are to provide quality and timely products at competitive prices and to be responsive to customer problems by resolving complaints about specific products. UNICOR defines quality as providing products or services free of any defects and exactly as required by agreed-upon specifications. Disputes over quality, prices, or timeliness can be submitted for arbitration by designated representatives of GAO, GSA, and the Office of Management and Budget.

For the 10-year period ending September 30, 1984, UNICOR had sales of about \$1.2 billion and earnings of about \$227 million (19 percent) before nonmanufacturing expenses. Net earnings for this 10-year period amounted to about \$84 million (7 percent). During fiscal year 1984, UNICOR sales and net income were about \$200 million and \$15 million, respectively. Record sales of \$248 million and a net profit of \$19 million are expected for fiscal year 1985. Appendix I shows UNICOR's fiscal year 1984 sales and earnings, by division and product line.

OBJECTIVES, SCOPE, AND METHODOLOGY

In a July 20, 1983, letter, Senator William Proxmire asked us to review UNICOR's operations. He was concerned about allegations that agencies were receiving overpriced and poor quality products and were accepting this because of nonresponsive or cumbersome complaint and clearance systems. During subsequent discussions with his office, we agreed that our objective would be to determine if improvements were needed in UNICOR's efforts to

- set and maintain prices for the corporation's products and services,
- stay abreast of and deal with customer problems with its products and services, and
- grant clearances for agencies to buy elsewhere.

Also, we agreed to obtain, and include in our report, information on UNICOR's efforts to deal with problems in completing customer orders on schedule.

Our audit was conducted in accordance with generally accepted government auditing standards. The views of directly responsible officials were sought during the course of our work and are incorporated in the report where appropriate. In

accordance with Senator Proxmire's wishes, we did not request the Department of Justice to review and comment officially on a draft of this report.

Work was performed from October 1983 to March 1985. We conducted our work principally at UNICOR's headquarters in Washington, D.C., where we interviewed officials and reviewed various headquarters and factory-supplied records and reports on the corporation's policies and operations. We also visited the electronics factory in Petersburg, Virginia; the metal factory in Lewisburg, Pennsylvania; the furniture factory in Allenwood, Pennsylvania; and the towel, signs, and furniture refinishing factories in Otisville, New York. We also reviewed Justice Department and UNICOR internal audit reports for findings on UNICOR's prices, cost accounting, quality, timeliness, and customer complaints, including their findings on contacts with customers who had firsthand knowledge about UNICOR's products and services. Further, we interviewed top level procurement officials in various federal agencies to obtain their overall views on UNICOR's performance and their comments on any problems with pricing, quality, timeliness, clearances, and the handling of complaints.

The agencies we contacted were major UNICOR customers--the Defense Logistics Agency and its Defense Personnel Supply Center and Defense General Supply Center; GSA; the U.S. Postal Service; and VA. We also spoke with officials in the Department of the Air Force, the U.S. Forest Service, and the Administrative Office of the U.S. Courts.

A detailed description of the scope and methodology for each of our review objectives is contained in appendix II.

CHAPTER 2

BETTER SUPPORT ON MARKET PRICES AND JOB COSTS ARE NEEDED TO INSURE REASONABLE AND DEFENSIBLE PRICES

UNICOR's overall policy is that its products and services are to be sold at prices that (1) will keep the corporation financially self-sufficient and (2) are not in excess of market prices. UNICOR's prices have been sufficient to generate net profits. UNICOR, however, did not conduct market checks or document price determinations for most of the prices we reviewed. Also, problems we and others previously reported about the use and reliability of individual job cost data continue, and profitability of individual products and services is not known. UNICOR can strengthen efforts to set, maintain, and defend prices if it defines market prices, takes actions to ensure market checks are done and documented, and corrects the longstanding problems with individual job cost data.

UNICOR PRICES SHOULD NOT EXCEED MARKET AND SHOULD BE DOCUMENTED

UNICOR's goal is to price its products and services so that UNICOR's prices (1) do not exceed current market prices for identical or similar items and (2) are sufficient to sustain the operations of the corporation. Federal agencies by law (18 U.S.C. 4124) cannot buy products from UNICOR at more than current market prices; however, neither the UNICOR law, UNICOR policy, or the Federal Acquisition Regulation has defined current market prices. For example, there is no guidance on how many prices have to be checked to constitute a market or how frequently prices should be checked. Similarly, the law and regulations do not specify where in the current market price range UNICOR's prices should fall. For example in a dispute between a procuring agency and the Justice Department over UNICOR's prices, we expressed the view (11 Comp. Gen. 75, 77 (1931)) that UNICOR did not have to set its prices at the lowest bid price to comply with the current market price requirement. The only true limit the law imposes on UNICOR's price is that it may not exceed the upper end of the current market price range.

UNICOR policy requires that market checks be made to set prices. If a market price cannot be determined, UNICOR's general policy is to set prices at 15 percent over expected manufacturing costs unless negotiations or other factors warrant a higher or lower price. UNICOR does not have overall

information on the extent to which its products are priced using market prices or using estimated costs plus mark up. Regardless of how its prices are determined, UNICOR policy requires that its price determinations be documented.

UNICOR NOT DOING MARKET CHECKS
NOR DOCUMENTING THAT PRICES
ARE WITHIN MARKET PRICES

In 1980, we reported that UNICOR did little to determine market prices for its products, and we recommended that UNICOR act to ensure the use of such prices.¹ Our current review showed that some problems still exist. The prices for most of the customer orders we reviewed for signs and textiles/leather products did not have any documentation showing that market prices had been checked or used in setting prices.

To determine if UNICOR was performing market checks and documenting price determinations, we reviewed randomly selected samples of signs orders in the Data/Graphics Division and various product orders in the Textiles/Leather Division which were initiated during the period January 3, 1984, through August 15, 1984. We found that the prices for 28² percent of the signs orders and 14³ percent of the textiles/leather orders were supported by documentation showing that some sort of market check was done and that UNICOR's price was less than the highest of the market prices. However, the prices for 72 percent⁴ of the signs and 86 percent⁵ of the textiles/leather orders did not have any documentation showing that a market check was done or attempted.

To assure that we did not overstate the situation, we gave credit for a market check when UNICOR officials could provide us with any data showing some form of a market check or a change to a previously established price based on increased raw material costs. For example, the signs staff had worksheets showing private sector prices for signs included on UNICOR's August 1981 catalog price list for standard traffic control signs. The staff told us that the prices shown on the worksheets were

¹Improvements Needed in the Management of Federal Prison Industries' Factories (GAO/GGD-80-67, June 9, 1980).

²The sampling error is ± 8.8 percent at a 95 percent confidence level.

³The sampling error is ± 7.4 percent at a 95 percent confidence level.

⁴See footnote 2 above.

⁵See footnote 3 above.

reconfirmed on the basis of phone calls made in August 1983. We gave credit for a market check for all orders in our sample involving products listed on the worksheet even though the quantities involved may have differed from the quantities used in obtaining market prices.

Officials in the Data/Graphics and Textiles/Leather Divisions acknowledged that market checks were not being performed in many instances. They and other officials cited various reasons, such as (1) lack of time or staff to perform the market checks, (2) difficulties in finding comparable items and identifying any differences in product specifications, and (3) difficulty in getting data from some private sector firms which view UNICOR as a competitor. We were also told that market checks may have been done but not documented and that some prices which had been established in prior years were simply updated on the basis of inflation.

We did not review specific prices set by UNICOR's Electronics and Metal/Wood/Plastics Divisions; however, discussions with officials from these divisions indicated that they are not, in many instances, performing market checks or documenting their price determinations. Officials in UNICOR's Electronics Division told us that market checks are not done because their products are custom made and a market price cannot easily be found. They said, however, that stock price lists of the Defense Logistics Agency are used as a guide in determining or negotiating prices.

The Associate Commissioner of UNICOR acknowledged that a lack of management emphasis was a reason for many market checks not being done. He said there were only so many matters which could be given priority and that over the last few years corporate management has emphasized efforts to employ more inmates, insure quality products, and complete more customer orders on time. He agreed that efforts are needed to assure that market checks are done and price determinations are documented.

LIMITED CHECK INDICATES MOST PRICES ARE WITHIN MARKET

Because most of the prices we checked had no documentation showing that market checks were done, we performed a limited review of UNICOR prices to determine if UNICOR's price exceeded the current market price for the products. Because neither the law nor UNICOR policy defines current market price, we compared prices UNICOR charged GSA to prices that private sector firms had quoted or charged GSA for identical items. Our check was limited because it was done for only one of UNICOR's customers (GSA) and involves only those specific products which GSA could identify as having purchased or obtained a price quote from at least one private source and UNICOR. The results are not

necessarily indicative of the overall extent to which UNICOR's prices are within market.

As shown in table 2.1, UNICOR's unit price did not exceed the highest quoted or charged unit price in 62 (76 percent) of the 82 individual products which we could specifically identify from the data GSA supplied for fiscal year 1984.

Table 2.1:
Comparison of UNICOR Prices

<u>Product type</u>	<u>Number of different products^a</u>		<u>Total</u>
	<u>UNICOR unit price does not exceed the highest^b</u>	<u>UNICOR unit price is the highest</u>	
Bags	1	1	2
Brushes	-	3	3
Clothing	3	8	11
Desk trays	1	1	2
Industrial furnishings	13	1	14
Furniture	3	-	3
Light extension cords	3	-	3
Office furniture	33	5	38
Storage cabinets	2	-	2
Waste receptacle	-	1	1
Other	<u>3</u>	<u>-</u>	<u>3</u>
Total	<u>62</u>	<u>20</u>	<u>82</u>

^aWe did not adjust either UNICOR or private sector prices to factor out differences in quantities purchased or shipping costs.

^bIn 4 of the 62 cases, UNICOR's price was equal to the highest.

UNICOR's price was the highest in 20 of the 82 cases, and we discussed these cases with officials from GSA or UNICOR's product divisions to obtain their views. We found that for 16 of the 20 cases either GSA or UNICOR had other price quotes or listings available which showed that UNICOR's price was within the range of private sector prices or quotes for the same items. Thus, for 78 (95 percent) of the 82 items checked, UNICOR's prices were within the range of market prices.

For the remaining four products, neither GSA nor UNICOR officials could provide us with any evidence that UNICOR's prices were within market. Two cases involved furniture refinishing, and UNICOR's price was about \$7 higher than the price charged by a private sector firm to refinish each item.

UNICOR factory officials told us that their refinishing prices are based upon negotiated contracts with GSA. A GSA official told us that UNICOR's refinishing price was usually lower and that the higher price probably was the result of some modification or extra work.

The third case involved mattresses GSA procured from both UNICOR and the National Institute for the Blind. The GSA-supplied data showed that for two of three procurements UNICOR's prices were the same or less than the highest price charged by the other source; UNICOR's unit price was higher by about \$2 for one of the procurements. A UNICOR marketing official said its price was higher probably because of an increase in the price of cotton which increased their manufacturing costs. The fourth case involved wood desk trays. UNICOR's unit price was \$8.75, or about \$1 more than the other supplier, which also was an organization associated with the Institute for the Blind. Neither UNICOR nor GSA officials could explain why UNICOR's price was higher.

PROCUREMENT OFFICIALS AND COMPLAINT
AND CLEARANCE RECORDS INDICATE
FEW PRICING COMPLAINTS

Agency procurement officials contacted by Justice's internal auditors and us and UNICOR's complaint and clearance records indicate that some customers have a problem with UNICOR's prices, but most do not.

Some procurement officials we contacted about UNICOR's prices believed UNICOR's prices were too high, others did not. For example, the general impression of officials we contacted at the Administrative Office of the U.S. Courts, Air Force, Defense General Supply Center, Defense Personnel Supply Center, and the Postal Service was that UNICOR's prices were reasonable or competitive with other sources of supply. A Defense Personnel Supply Center official, however, along with Forest Service and VA officials said they had encountered some prices which they thought were too high. A GSA official told us that it had not experienced any recent problems with UNICOR's prices.

As of May 1985, Justice internal auditors had completed six UNICOR audits where, among other things, they obtained and reported customer views on UNICOR's prices. One hundred (95 percent) of 105 customers contacted did not identify any problems, were generally satisfied, or said that UNICOR's prices were reasonable.

We also reviewed UNICOR records of customer complaints and UNICOR survey cards returned by customers for an indication about customer's views of UNICOR's prices. Although these systems are not designed to solicit or record pricing complaints, customers are not precluded from including such

comments. Our review of a random sample of complaints received for the year ending August 31, 1984, revealed one recorded complaint about pricing. The customer complained that UNICOR's price was higher than UNICOR's established price list; UNICOR agreed and gave the customer credit for the overcharge.

We also reviewed tabulations made for customer survey cards on UNICOR's metal and wood products which customers returned during the period October 1983 through February 1985. These cards, which have preprinted questions about acceptability of product quality, include space for any other comments the customer may have. We noted that of the 715 cards returned with an unfavorable response or comment, 5 (.7 percent) dealt with pricing.

UNICOR's clearance practices and the lack of arbitration cases also indicate few pricing disputes. Federal agencies can request clearances from UNICOR to procure products and services elsewhere or arbitration if they believe UNICOR's prices exceed current market prices. The Federal Acquisition Regulation provides that UNICOR will not normally give an agency a clearance to procure from another source because of a lower price unless UNICOR's price is found to exceed the market price and the matter cannot be resolved in discussions between UNICOR and agency officials. Also, by law, (18 U.S.C. 4124) any disputes on price or on other matters relating to the suitability of the product can be submitted to an arbitration board consisting of officials from GAO, GSA, and the Office of Management and Budget.

UNICOR officials told us that clearances are usually given if customers can get a lower price elsewhere and insist on a clearance. They said, however, that few pricing clearances are actually given because customers usually accept UNICOR's prices or a negotiated revised price. Our review of a randomly selected sample of clearances showed that price was the reason for about 7 percent⁶ of the 1,997 clearances given during fiscal year 1984 by UNICOR's Electronics, Metal/Wood/Plastics, and Textiles/Leather Divisions.

UNICOR's Associate Commissioner also told us that he was not aware of any price dispute being considered by the arbitration board. They believe that any disagreements with customers can be negotiated or otherwise settled. The arbitration procedures have not been used since the 1930s.

⁶The sampling error is ± 3 percent at a 95 percent confidence level.

PROBLEMS CONTINUE WITH RELIABILITY
AND USE OF ESTIMATED AND ACTUAL
JOB COST DATA

We and others have previously reported that UNICOR has not developed and used reliable job cost data to aid in setting/assessing prices as well as evaluating production efficiency. Our current review showed that UNICOR's cost accounting problems continue to exist.

UNICOR's cost accounting procedures require the preparation of unit cost estimates for all products, accumulation and recording of actual costs, and a comparison of estimated and actual costs. Where variances of more than 10 percent occur, the procedures require determining why and taking corrective action, such as improving production efficiency or adjusting prices.

In our 1980 report,⁷ we recommended that UNICOR act to insure that job costs are accurately and completely recorded and that variances between expected and actual job costs are analyzed. Later audits by Justice Department and UNICOR internal audit staffs have frequently found cost accounting problems. Of the 30 reports issued on factory operations by Justice or UNICOR audit staffs during 1983 and 1984 (see app. III), 21 noted problems, such as incomplete or inaccurate job cost records; lack of unit cost estimates; and the failure to determine, analyze, and explain variances between estimated and actual job costs. Similar problems were reported during audits conducted in 1981 and 1982. The reported problems involve factories and product lines from all of UNICOR's product divisions.

We used our randomly selected samples of signs and textiles/leather orders to determine the extent to which cost data was used or available in setting prices. We found that about 99 percent⁸ of the signs orders and about 21 percent⁹ of the textiles/leather orders which were processed during the period January 3, 1984, through August 15, 1984, were not supported by documentation showing that cost estimates were prepared or that prior job costs were available and used for setting prices. UNICOR officials identified various reasons for the limited use of cost data. They noted the absence of any

⁷GAO/GGD-80-67.

⁸The sampling error is between +1 and -3 percent at a 95 confidence level.

⁹The sampling error is \pm 8.5 percent at a 95 confidence level.

real management push to get and use cost information as well as problems with the reliability of the data.

PRICES SUFFICIENT TO PROVIDE
OVERALL PROFIT

Because of the lack of adequate cost data for many of its products, we did not perform detailed analyses of UNICOR's profits on individual products and services. Overall, however, UNICOR's prices are sufficient to generate net profits. Table 2.2 shows UNICOR's sales and gross and net profits for fiscal years 1980 through 1984 and the estimates for 1985.

Table 2.2:

UNICOR Sales and Profits

	<u>FY 1980 Amount</u>	<u>FY 1981 Amount</u>	<u>FY 1982 Amount</u>	<u>FY 1983 Amount</u>	<u>FY 1984 Amount</u>	<u>FY 1985 (estimated) Amount</u>
	-----\$millions-----					
Sales	\$117.0 (100%)	\$128.0 (100%)	\$147.6 (100%)	\$153.6 (100%)	\$199.5 (100%)	\$248.1 (100%)
Gross Profit	\$ 17.9 (15%)	\$ 24.0 (19%)	\$ 33.3 (23%)	\$ 29.3 (19%)	\$ 41.4 (21%)	\$ 61.5 (25%)
Net Profit	\$ 6.7 (6%)	\$ 9.3 (7%)	\$ 15.5 (10%)	\$ 6.7 (4%)	\$ 15.0 (8%)	\$ 19.0 (8%)

As shown in table 2.2, UNICOR's sales have increased each year, its gross profits have ranged from 15 to an estimated 25 percent of sales, and its net profits have ranged from about 4 to 10 percent of sales. UNICOR officials expect the corporation to continue to be prosperous.

There are no statutory or regulatory limits imposed on the amount of profit UNICOR can make overall, for a specific product, or on an individual customer order. In establishing UNICOR, the Congress chose to place a limit on prices (i.e., cannot exceed current market price) rather than profit. Consequently, even if the current market price in the private sector is so high that it would generate a very large profit margin, UNICOR still may price its products at that market price. On the other hand, UNICOR is not prohibited from charging less than the current market price or from selling at a loss.

Before 1971, UNICOR returned \$82 million of its earnings to the U.S. Treasury. However, since then, UNICOR's policy has been to retain all earnings to fund prison system vocational education programs, provide inmate accident compensation, acquire and repair plant facilities and equipment, and maintain a reserve for future uses. With the exception of an annual ceiling set by the Congress for the vocational training program, corporate officials determine the amount of earnings to be spent or allocated to these activities.

The President's Private Sector Survey on Cost Control in its January 1984 report recommended that UNICOR return a portion of its profits to the U.S. Treasury. According to UNICOR officials, they prefer to use any profits for the betterment of the federal prison system rather than reducing its prices or returning funds to the Treasury. They also believe that this approach gives management incentives for generating profits by providing them with a voice in determining how the funds will be used. UNICOR does not plan to return any earnings to the Treasury during the next few years. The earnings are to be used for capital improvement and other prison system activities.

CONCLUSIONS

UNICOR's prices have generated net profits which fund capital improvement efforts and federal prison system activities. However, because UNICOR is not doing market checks or documenting its price determinations as required by its pricing policy, neither we nor UNICOR know to what extent UNICOR is complying with the UNICOR law to price its products and services within market prices. Neither the law, UNICOR policy, or the Federal Acquisition Regulation defines market price.

In a limited review involving GSA procurements, 95 percent of the items we checked showed that UNICOR's prices were within the range of prices quoted by other suppliers for identical products. Agency officials we contacted had mixed views about UNICOR's prices; however, customers contacted by Justice auditors and a review of complaint and clearance records identified few complaints about UNICOR's prices.

We believe that UNICOR management officials need to emphasize compliance with the corporation's pricing policies. UNICOR needs to develop its own working definition of market price and prescribe methods by which it can insure that its product divisions set prices at or less than the market price. Also, UNICOR needs to assure that all divisions document price determinations whether based on market checks or mark up over expected costs. This will help UNICOR defend its prices with customers and assure compliance with the law.

UNICOR also needs to take action to deal with the continuing failure of factories and product divisions to develop and use reliable job cost data to aid in setting/assessing prices as well as evaluating factory efficiency. Although overall the corporation is in a good financial position, without good cost accounting it does not know how profitable individual products and services are.

RECOMMENDATIONS TO THE
ATTORNEY GENERAL

We recommend that the Attorney General direct the Commissioner, UNICOR, to treat the pricing support problems as a corporatewide concern. The Commissioner should:

- Direct the product divisions to comply with the corporate policy of checking market prices for its products and services for which comparable market products exist and documenting price determinations. Consideration should be given to having the corporation's internal auditors periodically check to assure compliance with corporate policy. Also, guidance should be provided on the type of documentation required so that prices will be supported in a standard manner. The documentation should include the basis or support for any determination that no comparable market products exist for a specific UNICOR product or product line.
- Define current market price for its products and services. UNICOR should provide guidance on such things as how many prices need to be checked or attempts made to check prices, how frequently prices need to be checked, and what factors should determine where within the price range UNICOR's price should fall.
- Require each division and factory to follow UNICOR's cost accounting procedures.

CHAPTER 3

CUSTOMERS HAVE FEW QUALITY COMPLAINTS

AND ACTIONS ARE BEING TAKEN TO BETTER

IDENTIFY AND DEAL WITH CUSTOMER PROBLEMS

Overall, UNICOR's customers seem satisfied with the quality of the corporation's products. Agencies do encounter some quality problems, such as defective workmanship and missing parts, etc., but most agency procurement officials contacted by us and Justice's audit staff consider UNICOR's quality to be satisfactory. Also, our review of corporatewide data on recorded customer complaints indicates that UNICOR's customers are not experiencing significant quality problems. UNICOR does repair, replace, or otherwise deal with complaints from customers about its products and services.

We also noted that actions are being taken or planned by UNICOR which, if implemented, will improve existing efforts to stay informed about customer problems. Also, a corporate commitment exists to reduce the number of late orders. Consequently, we are not making any recommendations to improve UNICOR's complaint system or its handling of late orders.

UNICOR MANAGEMENT COMMITTED TO PROVIDING QUALITY PRODUCTS AND SERVICES

UNICOR officials told us that efforts are being made to instill, throughout the corporation, an attitude of "zero defects" and "do it right the first time." Training is being provided to all staff on the need and the ways to pursue these goals. Efforts are also being made to design a cost of quality recording and reporting system to facilitate management of the quality assurance efforts and to monitor success in providing problem-free products.

UNICOR's ongoing quality assurance program includes having product division and factory staff function as quality assurance managers; developing drawings or specifications for all corporate products; setting forth policies, procedures, and responsibilities in division and factory quality assurance manuals; maintaining an inspection system using factory quality assurance managers and inmate inspectors; warranting the corporation's products; and recording customer complaints.

UNICOR's quality assurance efforts are also being checked by the Justice Department's internal audit staff. The audit staff each year reviews the financial activities of several UNICOR factories. These reviews have sometimes entailed a check on factory compliance with quality assurance policies. During our review, the audit staff expanded their audit objectives to include contacts with customers about their satisfaction with the factory's performance. We were told that this was an experimental program to involve audits of factories at 10 federal prisons. When completed, a decision will be made on whether to regularly include customer contacts in the internal audits.

CUSTOMERS CONTACTED GENERALLY
SATISFIED WITH PRODUCT QUALITY

Customers contacted by Justice internal audit and GAO audit staff indicated that they were generally satisfied with the quality of UNICOR's products and services. However, a few complaints were noted.

Since August 1984, Justice internal auditors, as part of their audits of UNICOR factories, have been contacting UNICOR customers to obtain their views on the quality of UNICOR's products and services. As of May 1985, 8 of the planned 10 audits had been done and the customers, for the most part, were satisfied with the quality of the products. For example, of the 18 customers contacted about gloves manufactured by one of UNICOR's factories, all expressed general satisfaction with the products they received. One customer, however, did indicate problems with electronics products obtained from another factory. UNICOR management is aware of the problems with electronics products and has been monitoring the extent of defects being found by the customer.

The general impression of procurement officials we contacted at GSA, Defense General Supply Center, and the Postal Service was that the quality of UNICOR's products and services was acceptable. Air Force and Forest Service officials gave us mixed comments. They had experienced some problems with the quality of UNICOR's signs but had found UNICOR's furniture to be good quality. VA officials noted that they had experienced problems with pajamas, shoes, and signs in the past. These views are similar to those we reported on in an earlier review of federal prison system work programs.¹

¹Improved Prison Work Programs Will Benefit Correctional Institutions and Inmates (GAO/GGD-82-37, June 29, 1982).

RECORDED COMPLAINTS INDICATE NO
EXTENSIVE PROBLEMS WITH
CORPORATION'S PRODUCTS

Customer complaints are an indication as to whether major problems exist with product quality. We determined that the number of complaints UNICOR received for a 1-year period when compared to total customer orders did not indicate any extensive problem with product quality, although the Electronics Division did have a higher percentage of complaints than the others.

UNICOR policy requires that customer complaints about product quality be recorded. However, UNICOR does not assemble all of the complaints received for any given period. The complaint logs, reports, and other data we assembled from UNICOR's factories and product division records revealed 642 recorded complaints for the year ending August 31, 1984. On the basis of our review of a randomly selected sample of 225 complaints, we estimated that at least 586 (91 percent)² of the 642 complaints dealt with quality problems, such as product not manufactured in accordance with specifications, product received in a damaged condition or missing parts. The other recorded complaints either dealt with nonquality-type problems such as timeliness or did not have sufficient recorded information to identify what the complaint actually was.

We could not directly compare, for any given period, the number of customer orders involving quality complaints to the actual number of completed customer orders because UNICOR does not assemble corporatewide data on completed jobs. Also, many complaints concerned a prior year's shipment. However, using available data on the number of assigned orders and estimates provided by UNICOR officials on the percentage of jobs closed without any customer shipments, we estimate that about 40,500 jobs were shipped during fiscal year 1984.³ Based on that

²The sampling error is ± 3.2 percent at a 95 percent confidence level.

³Our time frame for computing shipped orders differs by 1 month from the period used to assemble complaint data. We used a fiscal year period to calculate shipped orders because more reliable data was available. Indications are that had the other period been used, the rate of complaints would still be less than 2 percent.

estimate, recorded quality complaints amounted to less than 2 percent of jobs closed corporatewide.⁴

Three of the four product divisions had complaint rates under 2 percent.⁵ The Electronics Division, however, had a complaint rate of about 10 complaints per 100 shipped jobs.⁶ UNICOR management is aware that a large percentage of electronics orders receive complaints and is working to reduce the complaint rate. UNICOR officials advised us that this division principally makes custom-type products, such as cable assemblies, which are typically subject to rigorous and frequent customer testing and inspection.

COMPLAINT REPORTING TO BE IMPROVED

Actions are being taken and planned to promote uniform reporting on customer complaints and to centrally collect and analyze reported complaints. These actions, along with efforts to improve reporting of all received complaints and various other activities, will enhance the corporation's capacity to stay abreast of customer complaints and to identify and solve recurring or systemic problems.

Factory quality assurance managers are required by corporate policy to keep a log of complaints, assess the impact on current products, and take steps to prevent recurrence of similar problems. The procedures and reports used by each factory vary depending upon the requirements of the applicable product division and the discretion left to the factory staff. In assembling and reviewing records provided us on recorded customer complaints, we noted various problems with the reliability and use of the data. Overall information was lacking on the number of complaints received. No corporatewide count was made, and the four product divisions varied as to the amount and type of information they had on the level and types of complaints. The Data/Graphics Division which had not maintained overall information on signs complaints began--in response to our review--to tabulate and analyze the customer complaints (and customer survey card responses) it previously referred to factories for their information and use.

⁴The sampling error is $\pm .05$ percent at a 95 percent confidence level.

⁵The sampling errors for a 95 percent confidence level are ± 0.08 percent (metal/wood/plastics); ± 0.06 percent (textiles/leather); and ± 0.03 percent (data/graphics).

⁶The sampling error is ± 0.8 percent at a 95 percent confidence level.

We also noted discrepancies in the complaint data for the two divisions which (1) maintained their own complaint logs and (2) required their factories to notify them of complaints received or to submit the complaint reports. One of these divisions had at least 22 listed complaints not included in factory records, and its factories had at least 39 complaints not included on the division's log. A similar situation existed at the other division.

Also, indications were that not all customer complaints were recorded. In discussing the information factories provided us on complaints for the year ending August 31, 1984, officials in three product divisions told us that they did not believe that all complaints had been recorded. We also noted that 29 (45 percent) of the 64 factories which operated during the year ending August 31, 1984, did not maintain required complaint logs for all or part of the year. Justice's internal auditors have also found indications that not all customer complaints are recorded.

We were advised by corporate officials that action would be taken to enhance monitoring of customer complaints. The corporation's marketing division has been assigned the responsibility of staying abreast of customer complaints on a corporatewide basis. The division director told us that UNICOR will use a standard complaint report to facilitate uniform reporting by product divisions and factories. He also said that the problems we noted will be addressed when the policy guidance and instructions for the new complaint reporting system are prepared.

Customer survey system being expanded

UNICOR, like private sector firms, uses customer return cards to encourage feedback about satisfaction with product quality, timeliness, pricing, or other matters. In the past UNICOR used the return cards for 6 of its 21 product lines.⁷ As a result of our suggestions to get feedback on additional product lines, UNICOR is developing a standard survey card to be used for all of its products and services.

The new survey card will solicit customer information on (1) whether the item was provided on time and (2) the condition or quality of the provided item. There will be space for the customer to provide additional comments if desired. Besides being used to reach more customers and to solicit feedback on

⁷Customer return cards were included in orders shipped to customers for the following six product lines: metal furniture, wood furniture, furniture upholstery, printing, shoes, and signs.

more products, the new card will be an improvement in other ways. For the first time all cards will be returned to the same place which will facilitate a corporatewide count of customer responses and the identification of recurring or systemic problems. Also, cards will have sections for identifying the specific product, factory, and job as well as the responding customer. These redesigned cards will facilitate identification of problem areas and any needed follow-up with the customer--a problem with prior customer cards. For example, about 5 percent of the metal and wood furniture cards customers returned during fiscal year 1984 did not have sufficient data to identify the related factory. Also, acting on our suggestion, UNICOR plans to sequentially number all cards and have the factories maintain logs on the cards distributed to customers to better assure that factories include customer cards with the product.

ACTIONS ARE TAKEN TO DEAL WITH CUSTOMERS' COMPLAINTS

UNICOR's policy is to repair or replace defective products in a timely manner at no cost to the customers. The agency procurement officials we contacted agreed that UNICOR was responsive to complaints. The complaint logs and reports we reviewed indicate that UNICOR is responsive to customer complaints about defects, damage, missing parts, or other problems with the products they receive. Most complaints resulted in some type of corrective action even, in some cases, where the customer or the shipper may have been at fault.

To determine how complaints were handled, we reviewed a sample of 225 of the 642 complaints recorded for the year ending August 31, 1984. The extent to which we could determine who was at fault, the action taken, and the time taken to resolve the complaint varied depending upon the information recorded by the division or factory.

We were able to determine who was at fault for 129 (57 percent) of the 225 cases in our sample. Inadequate records precluded us from determining who was at fault for the remaining 96 cases. Where we could identify fault, 104 (81 percent) of the complaints were UNICOR's fault, 14 (11 percent) were the customers' fault, 6 (5 percent) were the shippers' fault, and 5 (4 percent) no actual problem existed.

We also noted that at least 165 (73 percent) of the complaints in our sample resulted in some type of UNICOR corrective action. That percentage is probably understated because corrective actions were likely taken for some of the complaints which had not been acted upon as of August 31, 1984, or for which we could not determine what was done. UNICOR took corrective action for 95 (91 percent) of the complaints in our sample where UNICOR was at fault. Moreover, UNICOR took

corrective action for 9 (64 percent) and 2 (33 percent) of the complaints where the customer or the shipper respectively were at fault. Eight percent of the complaints in our sample were closed without any actions by UNICOR. Actions were not taken because no actual problem was found, UNICOR was not at fault, or the customer accepted the product as is or made the repairs.

We also analyzed the amount of time UNICOR took to resolve the 165 complaints where corrective action was taken. Of these, 156 had dates available. UNICOR does not have any time frame goals; however, we found that 72 percent of the 156 complaints were resolved within 60 days or less, and 85 percent were resolved within 90 days or less. Fifteen percent took more than 90 days to resolve.

A CORPORATE EFFORT EXISTS TO
COMPLETE MORE JOBS ON TIME

UNICOR management is attempting to eliminate or substantially reduce the percentage of customer orders not shipped on time. Early in fiscal year 1984, UNICOR adopted a performance standard of zero late orders. For fiscal year 1984 the average percentage of late jobs decreased in three of the four UNICOR product divisions compared to fiscal year 1983. For the first 7 months of 1985 the average percentage of late jobs decreased in all four product divisions when compared to fiscal year 1983. Table 3.1 shows UNICOR's job delinquency rates for fiscal years 1983 and 1984 and the first 7 months of fiscal year 1985.

Table 3.1:
UNICOR Delinquency Rates

<u>Division</u>	<u>Average number of delinquent orders per month^a</u>			<u>Average percent delinquent per month</u>		
	<u>FY83</u>	<u>FY84</u>	<u>FY85^b</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85^b</u>
Data/Graphics	138	74	26	11.5	5.9	2.5
Electronics	108	100	126	14.5	11.4	11.0
Metal/Wood/ Plastics	253	1,024	113	6.4	14.3	1.7
Textiles/ Leather	<u>42</u>	<u>37</u>	<u>46</u>	<u>4.6</u>	<u>3.3</u>	<u>4.5</u>
Corporate- wide	<u>541</u>	<u>1,235</u>	<u>311</u>	<u>8.0</u>	<u>12.0</u>	<u>3.2</u>

^aUNICOR's delinquency average is based on jobs in process as of the end of the month. The average would not include jobs due and shipped late during the same month.

^bIncludes first 7 months only (October 1984 to April 1985).

The corporatewide delinquency percentage for fiscal year 1984 was 50 percent higher than for the previous year. This change was caused by a significant increase in Metal/Wood/Plastics Division delinquencies. If that division was excluded, the overall corporate rate would have improved from a 1983 delinquency rate of 10.1 percent to a 1984 rate of 6.6 percent.

Corporate officials told us that various problems (e.g. too many jobs, antiquated equipment, poor quality raw materials) caused the increased delinquency rate in the Metal/Wood/Plastics Division. To deal with this problem, the Metal/Wood/Plastics Division purchased additional equipment, opened an additional factory to handle some of the workload, hired more staff, and is manufacturing some standard furniture in advance of expected orders. UNICOR officials expect the rate to improve during fiscal year 1985. Over the first 7 months of fiscal year 1985 the delinquency rate improved to an average delinquency rate of 1.7 percent versus a rate of 17 percent for the same period in fiscal year 1984.

CHAPTER 4

UNICOR CLEARANCE PROCESS RESPONSIVE

BUT SOME IMPROVEMENTS CAN BE MADE

Federal agencies generally must purchase needed products from UNICOR unless the corporation grants them a clearance to buy elsewhere.¹ Agencies do not have to procure UNICOR services, therefore, they do not have to obtain a clearance from UNICOR to procure services from another supplier. During fiscal year 1984, UNICOR gave about 1 clearance for every 16 accepted orders. Senator Proxmire wanted to know if any improvements were needed to assure a responsive and noncumbersome clearance process. Our review indicates that customers are generally satisfied with UNICOR's clearance process and that agencies are generally given clearances within a short time. Clearances were granted for a variety of reasons, including the order quantities were too small, UNICOR's price was not competitive, UNICOR was unable to meet the customer's delivery date, or the order did not entail sufficient inmate labor time to warrant production. We believe, however, that the number of clearances could be reduced if UNICOR better defined in its product catalogs what is available or not available and stopped issuing clearances to agencies if the product is not manufactured by UNICOR.

NO INDICATION OF MAJOR PROBLEMS WITH TIME TAKEN TO ISSUE CLEARANCES

To assess UNICOR's clearance process we counted the number of clearances issued by UNICOR's four product divisions for fiscal year 1984. UNICOR does not consolidate clearance information or statistics, but we identified a total of about 2,800 clearances. During the same time period UNICOR accepted about 44,000 orders. Thus, during fiscal year 1984 UNICOR cleared about 1 order for every 16 orders it accepted. UNICOR officials told us they generally do not maintain information on denied clearances, therefore, we were unable to determine the proportion of requested clearances that were denied. However,

¹Clearances are not required (1) for purchases of less-than-carload lots of common-use items when they are purchased from the Federal Supply Service of GSA; (2) when immediate delivery or performance is required by public exigency; (3) when suitable used or excess property can be secured; (4) when products are procured and used outside the United States; or (5) when orders are for listed items amounting to \$25 or less that require delivery within 10 days.

the officials said few, if any, requests are denied; instead, UNICOR prefers to negotiate the procurement with the customer or grant a clearance.

We randomly selected a sample of 229 of the 1,997 clearances from three divisions--Electronics, Metal/Wood/Plastics, and Textiles/Leather--and reviewed the overall time taken to issue clearances. Table 4.1 shows for fiscal year 1984 how long it took these divisions to grant clearances.

Table 4.1:

Percentage of Clearances Granted By the Divisions^a Within the Specified Time Frames

<u>Maximum days until clearance granted</u>	<u>Metal/wood/ plastics</u>	<u>Elec- tronics</u>	<u>Textiles/ leather</u>	<u>Total^b</u>
1 day	6.2%	10.8%	31.6%	15.8%
3 days	15.4	23.4	42.1	27.5
5 days	21.5	37.8	47.4	38.6
10 days	46.2	65.8	78.9	67.1
14 days	64.6	76.6	89.5	78.7
21 days	76.9	87.4	100.0	89.6
30 days	86.2	91.0	100.0	92.9
over 30 days	100.0	100.0	100.0	100.0

^aDivision samples and their total clearances are as follows:
Metal/Wood/Plastics 87 samples of 243 clearances, Electronics 112 of 1,051, and Textiles/Leather 30 of 703.

^bThe sampling error from 1 day to 14 days does not exceed ± 8.3 percent and from 21 days to more than 30 days does not exceed ± 3.8 percent at a 95 percent confidence level.

As shown in table 4.1, about 39 percent of the clearances were granted within 5 days of UNICOR's receipt of the customer's purchase request; about 67 percent were issued within 10 days; about 79 percent were issued within 14 days; and about 93 percent were issued within 30 days. Also, as shown, the Textiles/Leather Division granted a greater percentage of clearances faster than the other two divisions. The marketing specialists for the Electronics Division told us that most of its products are custom-made and they must sometimes obtain and review technical drawings before deciding to make or clear an item. Officials in the Metal/Wood/Plastics Division told us that some of its clearances took over 30 days because of its practice of asking its metal factories for a price estimate or for an indication that the order should be cleared. Now,

however, requests are reviewed and quoted or cleared at the division level.

UNICOR officials told us clearances are also issued verbally to customers over the telephone with the formal documentation following later. We contacted 8 of the 12 customers in our sample of clearances that took longer than 30 days. All but one customer said UNICOR advised them orally of the clearance before the documentation arrived and reported no problems in arranging procurement with alternative sources resulting from the delay of documentation. The other customer could not identify our clearance case in his records.

CUSTOMERS GENERALLY SATISFIED WITH THE CLEARANCE PROCESS

We obtained comments from procurement officials in seven agencies about UNICOR's clearance process. Representatives from five of the seven agencies indicated general satisfaction with the process. Officials of GSA, Postal Service, Forest Service, Defense General Supply Center, and the Air Force said they had no problems obtaining clearances. However, VA officials said they had difficulty obtaining clearances for sheets and signs and only after VA headquarters intervened were the clearances granted. An official from the Defense Personnel Supply Center said UNICOR seemed to be reluctant to grant clearances for kevlar helmets and this led to protracted negotiations.

IMPROVING UNICOR'S CATALOGS COULD REDUCE THE NUMBER OF CLEARANCES NEEDED

From our review of randomly selected clearances granted during fiscal year 1984 by UNICOR's Electronics, Metal/Wood/Plastics, and Textiles/Leather divisions, we identified several reasons why UNICOR granted clearances. About 27 percent² of the clearances granted by these divisions were given because UNICOR did not make the product requested. We believe customer contacts and clearances in this instance could be reduced by improving the information included in product catalogs.

Federal agencies are provided information on UNICOR's products and services through a catalog which includes a schedule of products with individual sections or brochures on the major product classes. The schedule of products contains a listing of the categories of available products and services and notes that clearances are required for procurement of the listed products from other sources unless the procurement meets one of

²The sampling error is ± 6.5 percent at a 95 percent confidence level.

the exceptions included in the Federal Acquisition Regulation. If a product is not listed, but is similar to a product normally produced by UNICOR, agencies are encouraged to ask UNICOR to manufacture it.

The individual catalog sections contain descriptions of available products and services, the item stock number, prices, and ordering instructions. UNICOR's product divisions are responsible for preparing and maintaining the individual catalog product sections. UNICOR's marketing division provides overall guidance for the catalog and maintains a mailing list of federal agency purchasing offices which receive the catalog or specific catalog sections. As of October 1984, the mailing list included about 18,000 purchasing offices.

Clearances issued when UNICOR
does not make the product

About 27 percent of the clearances we reviewed were issued because UNICOR did not make the product. For example, UNICOR's shelving catalogs identify eight different types of shelving made and various dimensions available. However, clearances were issued because UNICOR did not make pallet rack shelving or because UNICOR did not make steel rack shelving to the dimensions the customer wanted. Neither of these items were listed among the available products in UNICOR's catalog section on steel storage shelving. In another case, while UNICOR makes sofas, it does not make a sofa bed which one customer requested.

We discussed with UNICOR officials the feasibility of modifying UNICOR's catalogs to describe product types within its product lines that it does not make. For example, under steel shelving the catalog could state that UNICOR does not make pallet rack shelving. The corporate marketing head agreed with the idea in view of the large number of clearances involved and as long as agencies were not precluded from inquiring about possible UNICOR production. The marketing official from the Metal/Wood/Plastics Division agreed that this was a good idea and might cut down on the need for clearances. This division accounted for 47 (71 percent) of the 66 clearances in our sample of the clearances granted because UNICOR did not make the product. The marketing official from the Textiles/Leather Division disagreed. He said that he would prefer to have the customer contact the division to facilitate maintaining a mailing list. A marketing official from the Electronics Division advised us that this would probably not be useful for the division because most of its products are custom made.

UNICOR's Associate Commissioner also disagreed with listing in the catalogs items UNICOR does not manufacture. He agreed that the paperwork could be reduced and the clearance process improved by not issuing clearances for products UNICOR does not make. He told us, however, that these customer contacts

represent one way to identify new products that the corporation may want to start producing.

In our opinion, having customers contact UNICOR about products not listed in the corporation's catalogs seems appropriate where UNICOR would, if workload permits, make the requested product. However, such contacts are not necessary for those products UNICOR has decided it will not make for the foreseeable future. UNICOR can use its regular marketing contacts with agencies to identify those potential products.

CONCLUSIONS

On the basis of our interviews with customers and review of clearance records, UNICOR seems to be responsive in issuing clearances to customers. Two-thirds of the clearances granted during fiscal year 1984 by three divisions were issued within 10 calendar days of the date UNICOR received the customer's purchase order or similar document. However, UNICOR could enhance its responsiveness to customers by reducing the number of clearances requested for products that UNICOR does not manufacture. Currently, UNICOR catalogs do not inform customers of the specific products within its product lines that it does not produce or plan to produce. While doing this may not be feasible for all UNICOR divisions, adding such information to its catalogs wherever possible would facilitate customer procurement from both UNICOR and other sources and reduce the number of clearances issued. Further we believe that to reduce administrative burden, UNICOR should stop issuing clearances for products it does not make.

RECOMMENDATION TO THE ATTORNEY GENERAL

We recommend that the Attorney General direct the Commissioner of UNICOR to reduce the number of situations requiring clearances by adding to UNICOR's catalogs, wherever feasible, a description of product types it does not manufacture or plan to manufacture but which are frequently requested by customers. The catalogs should contain a statement indicating that items identified as not manufactured do not require a clearance. Also, UNICOR should notify its employees that clearances should not be prepared for items UNICOR does not make.

UNICOR'S FISCAL YEAR 1984 PRODUCT
AREAS, SALES, EARNINGS, AND MAJOR CUSTOMERS

TABLE I.1:
Product Areas, Income, and Customers

<u>Division/product line</u>	<u>FY 84 sales</u>	<u>Earnings</u>	<u>Earnings as percent of sales</u>	<u>Major customers</u>
<u>-----millions-----</u>				
Data/Graphics Division:				
1. Signs	\$ 4.54	\$.25	5.5	Departments of Agriculture, Commerce, Defense, Interior, Justice, Labor, Transportation; GSA; Postal
2. Printing ^a	6.25	.64	10.2	
3. Data Entry ^a	1.32	.43	32.6	
Total	12.11	1.32		
Less Division Expenses		-.74		
Division Net Income		.58	4.8	
Electronics Division:				
4. Cable	42.19	9.22	21.8	Defense and GSA
5. Equipment	.89	.10	11.2	
6. Vehicular	1.37	.46	33.6	
Total	44.45	9.78		
Less Division Expenses		-.85		
Division Net Income		8.93	20.1	
Metal/Wood/ Plastics Division ^b				
7. Brush	8.60	2.85	33.1	Defense, GSA, Postal Service, and VA
8. Wood Furniture/Parts	16.44	.36	2.2	
9. Helmet/Plastics	4.45	(.67)	(15.1)	
10. Metal Furniture	33.60	8.01	23.8	
11. Furniture Refinishing ^a	1.51	(.13)	(8.6)	
12. Furniture Upholstery ^a	4.06	.27	6.6	
Total	68.66	10.69		
Less Division Expenses		-1.48		
Division Net Income		9.21	13.4	
Textiles/Leather Division				
13. Broom	1.52	.28	18.4	Defense, GSA, Postal Service, and VA
14. Cut & sew	46.22	10.00	21.6	
15. Garment	6.35	2.34	36.9	
16. Gloves	3.98	.02	.5	
17. Mattresses	12.05	2.66	22.1	
18. Optics ^a	.04	(.02)	(50.0)	
19. Shoes	3.34	.60	18.0	
20. Textiles	10.03	2.01	20.0	
21. Towels	1.54	.33	21.4	
Total	85.07	18.22		
Less Division Expenses		- 1.35		
Division Net Income		16.87	19.8	
Total for Divisions	\$210.29 ^c	35.59		
Less Other Expenses ^d		-20.56		
UNICOR Net Income		\$15.03	7.1	

^aThese product lines, except for optics, are services and it is not mandatory that agencies buy them from UNICOR. Optics is not considered mandatory because it is under development as a new product line with sales now restricted to the federal prison system. All other items represent mandatory purchase categories.

^bEffective October 1, 1984, the name of this division was changed to Metal/Wood Products Division. The plastics product line was transferred to the Electronics Division.

^cIncludes about \$11 million in inter-UNICOR sales and sales returns.

^dThis category includes other expenses such as Corporate Administration, Nonoperating expenses, Returns and Allowances, and expenses from discontinued operations.

DETAILED DESCRIPTION OF REVIEW
OBJECTIVES, SCOPE, AND METHODOLOGY

PRICING

Our objectives were to determine if improvements were needed in UNICOR's efforts to set and maintain prices for its products and services. We (1) examined UNICOR's authorizing legislation, the Federal Acquisition Regulation, and UNICOR's written policies on pricing and cost accounting; (2) reviewed UNICOR and Justice Department audit reports and earlier GAO reports¹ which addressed, in part, problems with UNICOR's pricing or cost accounting practices; (3) reviewed recorded customer complaints and UNICOR-granted clearances to identify complaints about pricing; and (4) reviewed the supporting documentation for prices set for a random sample of work orders initiated during the period of January 3, 1984, through August 15, 1984, for 8 of UNICOR's 21 overall product/service lines. We used this time period because it provided the most current information available when the audit was done and because the work orders are filed on a calendar year basis. The eight product lines included signs, which represent one of three product lines handled by UNICOR's Data/Graphics Division. We selected signs because pricing is done by the headquarters staff and because of indications from congressional hearings and discussions with UNICOR officials of pricing and other problems. The other product lines included in our sample were cut and sew, garment, gloves, mattresses, optics, textiles, and towels, which represent seven of nine product lines handled by UNICOR's Textiles/Leather Division.

For each sampled work order, we sought to determine if any documentation existed to show how the price was determined, if the product was on a price list, and if an estimate existed of expected costs and profit. We also looked for any evidence to show that comparable market prices had been determined and used in setting or assessing the UNICOR price or that comparable private sector products could not be identified. We interviewed UNICOR officials and examined available UNICOR price lists, workpapers, or other documentation which indicated market prices of identical or similar products; cost estimates; reports on actual costs; and any other documents which we could determine were relevant to the prices included in our sampled work orders. When the work orders we sampled included two or more different products, we included only the first listed item because of the extensive time needed to research UNICOR's records.

¹A listing of audit reports is included in appendix III.

We also reviewed data supplied us by GSA on prices charged by UNICOR and other suppliers for like items during fiscal year 1984. For those procurements where UNICOR's price was the highest, we interviewed UNICOR and GSA officials to determine whether UNICOR's price was in excess of comparable market prices.

We also reviewed UNICOR's financial position and the July 1983 report of the President's Private Sector Survey on Cost Control on UNICOR's profits and interviewed UNICOR officials about profit policy.

CUSTOMER SATISFACTION/PROBLEMS

In examining UNICOR's efforts to stay abreast of customer satisfaction, our objectives were to determine if (1) improvements were needed in the information or feedback mechanisms used by UNICOR to identify and deal with problems and (2) UNICOR was responsive to customer-reported problems. We obtained and analyzed information relating to (1) the existence of problems with UNICOR-supplied products and services, (2) UNICOR's overall efforts to get feedback on problems, and (3) UNICOR's handling of customer-reported complaints. We recognize that customers may not report all problems they find with UNICOR's products, and the corporation's factories may not record all complaints they receive from customers. Nevertheless, recorded complaints provide an indication as to whether major problems exist.

We reviewed available records regarding the use and reliability of customer return cards, factory prepared reports on customer-reported problems, and customer survey studies. Also, we reviewed the Justice and UNICOR internal audit reports to determine the extent and results of any customer contacts or inspections of finished goods which had been approved for shipment. We also interviewed the president of a company which performs customer opinion surveys to obtain views on the likelihood of problems going unreported and on how other manufacturers stay abreast of customer satisfaction and problems.

We reviewed corporate and division policies concerning the handling and recording of complaints and obtained information on the actions UNICOR took and the time those actions took. We examined complaint logs and reports for the 12-month period ending August 31, 1984, (1) maintained by UNICOR's four headquarters product divisions and (2) provided--at our request--by the 64 factories which produced items for sale to other agencies during the 12-month period. This information showed that UNICOR had recorded 642 complaints for the 12-month period. We selected a random sample of these complaints to

determine the problem; whether the fault, as reflected in the complaint records, rested with UNICOR, the customer, or the shipper; how the problem was resolved; and the elapsed time from the date the complaint was received (if that date was not available, we used the earliest date shown in the complaint records) and the date repaired or replacement items were shipped, or the date of any other action which ended UNICOR's involvement.

CLEARANCES

To determine if UNICOR's clearance practices were responsive, we reviewed a random sample of clearances granted during fiscal year 1984 by UNICOR's Electronics, Metal/Wood/Plastics, and Textiles/Leather divisions. We selected these three divisions because in recent years they have had the highest dollar sales. We established the total universe of clearances in all four divisions before we made our selection. Then we selected a statistically projectable sample in two divisions, Metal/Wood/Plastics and Electronics, and a smaller sample in Textiles/Leather which, while less reliable, provided additional information on granted clearances. We reviewed the reasons for giving clearances; the types of clearances given, and the time taken to provide the clearance document. We also reviewed the requirements and guidance set forth in the Federal Acquisition Regulation and UNICOR's product catalogs.

JOB DELINQUENCIES

Early in our review, UNICOR undertook an effort to reduce the number of jobs completed late. Consequently, we limited our work in this area to obtaining information on the extent of delinquent orders for fiscal years 1983 and 1984 and the first 7 months of fiscal year 1985. We also interviewed UNICOR officials about the actions being taken and the corporation's progress in reducing delinquencies.

SAMPLING PLAN FOR THE REVIEW OF UNICOR CUSTOMER COMPLAINTS, PRICING, AND CLEARANCES

To facilitate the collection of data for our customer complaint, pricing, and clearance review objectives, we used three data collection instruments to schedule information obtained from randomly selected samples. We chose a sample of sufficient size for our results to be statistically significant and reliable, although the sampling errors for each division vary according to the actual sample sizes.

We randomly selected samples from all four UNICOR divisions for complaint data, three divisions for clearance data, and two divisions for pricing information. Since the complaint data samples were randomly selected from all UNICOR divisions, we can discuss UNICOR-wide findings. For the three-division clearance data sample, we limit our findings to division-specific situations or the aggregate of the three divisions. Our pricing data sample did not involve all UNICOR divisions or all of any division's products; therefore, our discussion of pricing data is limited to product-specific situations within these two divisions. The sample population universe and the number of random samples drawn from each UNICOR division are shown in Table II.1.

Table II.1:

Samples Used In GAO's Audit

<u>Data collection instrument</u>	<u>UNICOR division</u>	<u>Population universe</u>	<u>Actual sample size</u>
<u>Clearances</u>	Electronics	1,051	112
(10/1/83-	Metal/Wood/Plastics	243	87
9/30/84)	Textiles/Leather	703	30
<u>Pricing</u>	Data/Graphics (signs)	2,177	97
(1/3/84-	Textiles/Leather	2,345	83
8/15/84)			
<u>Complaints</u>	Data/Graphics	151	55
(9/1/83-	Electronics	115	49
8/31/84)	Metal/Wood/Plastics	324	73
	Textiles/Leather	52	48

LISTING OF AUDIT REPORTS GAO REVIEWED FOR FINDINGS
ON UNICOR'S PRICES, COST ACCOUNTING, QUALITY,
TIMELINESS, OR CUSTOMER COMPLAINTS

GAO Reports

Examination of the Financial Statements of the Federal Prison Industries, Inc. for the Year Ended September 30, 1982
(GAO/AFMD-83-59, March 30, 1983).

Improved Prison Work Programs Will Benefit Correctional Institutions and Inmates (GAO/GGD-82-37, June 29, 1982).

Improvements Needed in the Management of Federal Prison Industries Factories (GAO/GGD-80-67, June 9, 1980).

Examination of Financial Statements of the Federal Prison Industries, Inc. for the Fiscal Year 1979 (GAO/GGD-80-48, May 27, 1980).

Internal Audit Reports (UNICOR
Internal Audit Staff)

Otisville, New York: furniture, signs, and towel factories
(July 27, 1984).

Sandstone, Minnesota: glove and print factories (June 4, 1984).

Butner, North Carolina: cut and sew factory (May 3, 1984).

Lexington, Kentucky: ADP, cable, canvas, and print factories
(May 2, 1984).

El Reno, Oklahoma: metal factory (March 20, 1984).

Atlanta, Georgia: broom and cut and sew factories (January 27, 1984).

Danbury, Connecticut: electronics and glove factories
(December 23, 1983).

Inventory management audit of various textiles and leather
factories at 5 prisons (September 13, 1983).

Lewisburg, Pennsylvania: drafting, furniture refinishing, and
metal factories (May 27, 1983).

Ft. Worth, Texas: ADP, publications distribution, print, and
signs factories (May 9, 1983).

Terminal Island, California: metal and furniture factory
(March 25, 1983).

Seagoville, Texas: furniture upholstery factory (February 17,
1983).

Internal Audit Reports (Justice
Department Internal Audit Staff)

Lexington, Kentucky (Draft Report as of July 1985): ADP,
canvas, cable, and print factories.

Seagoville, Texas (Draft Report as of July 1985): furniture
upholstery factory.

Texarkana, Texas (Draft Report as of July 1985): furniture
factory.

Danbury, Connecticut (Draft Report as of July 1985):
electronics factory.

Allenwood, Pennsylvania: furniture and upholstery factories
(June 1985).

Milan, Michigan: metal/basket factory (June 1985).

El Reno, Oklahoma: Machine, die, and tool factory (May 1985).

Terminal Island, California: metal factory (November 1984).

Leavenworth, Kansas: brush, computer programming, furniture,
mattress, shoe, and textile factories (August 1984).

Lewisburg, Pennsylvania: metal and wood/plastics factories
(July 1984).

Lompoc, California: cable, furniture, print, and signs
factories (July 1984).

Alderson, West Virginia: ADP, decal, and garment factories
(June 1984).

Oxford, Wisconsin: cable and drafting factories (June 1984).

Petersburg, Virginia: cable factory (March 1984).

Big Spring, Texas; San Diego, California; and Tucson, Arizona:
cable, clothing, parachute, and towel factories (February 1984).

Atlanta, Georgia: textile, cut and sew, and broom factories
(January 1984).

Tallahassee, Florida: auto body/repair and furniture factories (December 1983).

Talladega, Alabama: furniture factory (October 1983).

Pleasanton, California: ADP and furniture factories (October 1983).

Terre Haute, Indiana: canvas, cotton duck fabric, and textile factories (October 1983).

Otisville, New York: signs and towel factories (October 1983).

Englewood, Colorado: ADP and vehicular component factory (July 1983).

Boron, California: vehicular component factory (July 1983).

Allenwood, Pennsylvania: furniture factory (March 1983).

Memphis, Tennessee: cable and electronic equipment factories (March 1983).

El Reno, Oklahoma: broom and machine, die, and tool factories (February 1983).

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