

**Federal Prison System
Federal Prison Industries, Inc.
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I. Overview for Federal Prison Industries, Incorporated

A. General Overview

1. Introduction

It is the mission of Federal Prison Industries, Inc. (FPI) to employ and provide job skills training to the greatest practical number of inmates confined within the Federal Bureau of Prisons; contribute to the safety and security of our Nation's Federal correctional facilities by keeping inmates constructively occupied; provide market-quality products and services; operate in a self-sustaining manner; and minimize FPI's impact on private business and labor. Electronic copies of the Department of Justice's Congressional Budget Justifications and Capital Asset Plan and Business Case exhibits can be viewed or downloaded from the Internet using the Internet address: <http://www.justice.gov/02organizations/bpp.htm>.

FPI was created by Congress in 1934, and is a wholly owned Government corporation that operates at no cost to the U.S. taxpayer. The Corporation is authorized to operate industries in Federal penal and correctional institutions and disciplinary barracks (18 U.S.C. 4121-4129). UNICOR is the trade name for FPI. The Director of the Federal Prison System (FPS), who has jurisdiction over all Federal penal and correctional institutions, is the Chief Executive Officer. FPI reduces inmate idleness by providing a full-time work program and continually strives to attain the goal of employing approximately 25 percent of the eligible inmate population. Many inmates enter prison with no marketable job skills. FPI provides a program of constructive work and services wherein job skills can be developed and work habits acquired. Earnings from the Corporation's activities are used for all operating costs of the Corporation, including purchase of raw materials and equipment, staff salaries and benefits, compensation to inmates employed with FPI performing in work details, and compensation to former inmates for injuries they received while employed with FPI.

A board of six Directors, appointed by the President, reviews and approves the policies of the Corporation, long-range Corporate plans, establishment of new industries, and bylaws and capital investments in excess of \$500,000. The Board also makes annual reports to Congress on the conduct of the business of the Corporation and the condition of its funds. General management of the Corporation is vested in an Assistant Director of the FPS, who serves as Chief Operating Officer, and is carried out by a staff of 11 Corporate Management employees located in Washington, DC. Expenses for this administrative function are subject to congressional limitation.

As of September 30, 2010, there were 15,907 inmates employed in 98 FPI factories. Inmates manufacture items such as furniture, clothing, electronics, vehicular and metal products, and provide such services as printing, data processing and laundry. Products and services of the Corporation are sold primarily to Federal Agencies. The Departments of Defense (DOD), Department of Homeland Security (DHS), Department of Justice (DOJ), General Services Administration (GSA), and the Social Security Administration (SSA) are FPI's largest customers. The growth of the BOP inmate population and the corresponding need to increase inmate employment while minimizing FPI's effect on private labor and business continue to be FPI's major challenge.

2. Issues, Outcomes, and Strategies

Strategic Goal 3: FPI's performance goals are part of DOJ's strategic goal to ensure the fair and efficient administration of justice. Inmate reentry skills and population management are FPI's primary goals to proactively manage the offender population through meaningful work programs.

Strategic Objective 3.4: Provide services and programs to facilitate inmates' successful reintegration into society consistent with community expectations and standards.

FPI meets this objective by reducing undesirable inmate idleness through full time work programs that provide constructive work wherein job skills can be developed and work habits acquired. Inmate idleness is one of the causes of inmate unrest and violence in prison. FPI employs approximately 16,000 inmates and provides skills training to help ensure the safe and secure operation of BOP institutions. FPI plays a vital role in the management of inmates, and also improves the likelihood that inmates will remain crime-free upon their release from BOP custody. A 2005 study, to establish a baseline was conducted of 15,406 FPI participants and an equal number of comparison subjects released between 1994 through 1998. Results indicate that inmates who participate in FPI are significantly less likely to recidivate.

For FY 2012, a total of 1,950 positions and 1,806 workyears are requested for FPI. This request represents no change in positions from the FY 2011 request. Further \$2,700,000 is included as the administration limitation.

3. Full Program Costs

FPI operates as a revolving fund and does not receive an annual appropriation. This budget reflects the full value of anticipated orders received (Revenue) less the associated costs to produce the products ordered and maintain the facilities for manufacturing. FPI maintains a proprietary, full accrual accounting system. The revenue and costs presented in the budget are based upon historical data, market trends of FPI's sales of products and services. FPI monitors the following program's activities, Sales Volume, Number of Factories and Inmate Employment. These activities directly relate to FPI's goals of population management and inmate reentry success.

FPI sales have been negatively impacted by the passage of Sections 811 and 819 of the National Defense Authorization Acts of 2002 and 2003, and Section 637 of the FY 2004 and FY 2005 Omnibus Appropriations Bills, which changed the nature of FPI's mandatory source status. More recently, Section 827 of the National Defense Authorization Act of 2008 further eroded FPI's procurement preference.

The following chart shown below illustrates FPI's Sales, Earnings, and Net Income for the period of FY 2007 through FY 2010:

	FY 2007	FY 2008	FY 2009	FY 2010
Sales	852,724,000	854,279,000	885,265,000	772,895,787
Earnings	96,787,000	60,347,000	37,614,000	5,633,737
Net Income	\$45,789,000	\$3,119,000	(\$35,869,000)	(\$56,328,000)

During FY 2010, total revenue decreased by \$129.2 million while total cost of revenue decreased by \$96.3 million. In FY 2010, FPI incurred setbacks to its progress as a whole, including the loss of a major contract with the DOD for the sale of helmets, a delay in obtaining contracts for the newly developed solar panel product line and a significant decline in cable orders. The aforementioned factors contributed to a \$45.4 million loss for the Electronics business segment and a corporate net loss of \$56.3 million. The higher cost to revenue ratio is due primarily to write-offs for inventory in the Electronics business segment. These write-offs involved a \$17.8 million write-off of military helmets and a write-down of solar cells and panels to market value in the amount of \$17.3 million. A majority of these solar cells were sold through GSA in FY 2011. In FY 2010, five of seven business segments achieved increases in their earnings as a percentage of sales which gives a positive reflection of cost containment and factory capacity reductions. The Industrial Products and Recycling business segments achieved the most remarkable changes with 29.4 and 29.7 percent increases respectively.

4. Performance Challenges

External Challenges

FPI does not receive appropriated funding for operations and maintains itself through the results of operations. Historically, FPI operates on a very low margin. The margins are much below that which would be seen by a non-government corporation of similar size and longevity. FPI has been able to sustain itself despite unprecedented growth in the number of inmates. The inmate growth demands of the BOP are expected to continue for the foreseeable future.

The delicate balancing act between self sufficiency and growth create a sizable challenge for FPI. Additionally, FPI is faced with challenges that may impact this balance. These challenges include changes to FPI's position as a supplier to the Federal Government (preference provided to FPI) and increases in costs not directly controlled by FPI (Federal staff pay schedule and benefits costs).

Internal Challenges

FPI faces challenges similar to that of a non-government corporation. These challenges include: control of costs, collection of accounts receivable, control of raw materials inventory levels, and stability of sales.

During FY 2010, FPI incurred a net operating loss of \$56.3 million; the loss was driven by the write-off and write-down of inventories of \$35.1 million. Total Cash increased \$36.9 million, \$35.6 million of which was a result of an increase in cash advances. Other major factors in the overall change in cash include a \$56.3 million loss, a decrease in Accounts Receivable of \$21.7 million and decrease in Inventories of \$60.9 million.

To guard against future losses, FPI began reorganizing operations in FY 2009 which continued into FY 2010 to reduce overhead expenses, inmate employment, delaying factory activations at new federal prison facilities, consolidating operations, downsizing and closing some existing factories. Despite these efforts to create additional savings and efficiencies additional adjustments were needed to ensure FPI's ability to sustain itself in the future. In July 2010, FPI announced the closure or downsizing of additional factories. These factory closures and cost containment efforts are expected to show substantial improvement in earnings by the end of FY 2011.

5. Environmental Accountability

The BOP has implemented an Environmental Management System (EMS) policy. UNICOR is also covered by this EMS policy. UNICOR integrates environmental accountability in its day-to-day decisions locally through membership and representation from each UNICOR factory on BOP's institution EMS Committees, which consist of staff responsible for environmental concerns for that institution. Each institution has now self certified that an EMS has been implemented -- this includes UNICOR factories within those facilities. A UNICOR factory representative also participates on the National Environmental Management and Occupational Health and Safety Committee (EMOHSC), which oversees EMS policy and agency-wide environmental concerns. In addition, an all-UNICOR Central Office Environmental Discussion Group, which discusses all environmental issues facing UNICOR, also contributes to environmental accountability in decision making.

The BOP developed a three-year audit cycle schedule to second party certify each BOP institution's EMS. The three-year audit cycle recently commenced and all initial audits are planned to be completed by mid-year 2011.

In addition, UNICOR continues to be proactive in its environmental accountability and towards that goal is taking measures such as plans to manufacture and sell solar panels to the Federal government in furtherance of its greening initiatives.

IV. Appropriation Language and Analysis of Appropriation Language

Appropriation Language

Federal Prison Industries, Incorporated

The Federal Prison Industries, Incorporated, is hereby authorized to make such expenditures, within the limits of funds and borrowing authority available, and in accord with the law, and to make such contracts and commitments, without regard to fiscal year limitations as provided by section 9104 of title 31, United States Code, as may be necessary in carrying out the program set forth in the budget for the current fiscal year for such corporation, including purchase (not to exceed five for replacement only) and hire of passenger motor vehicles.

Limitation on Administrative Expenses, Federal Prison Industries, Incorporated

Not to exceed \$2,700,000 of the funds of the Federal Prison Industries, Incorporated shall be available for its administrative expenses, and for services as authorized by section 3109 of title 5, United States Code, to be computed on an accrual basis to be determined in accordance with the corporation's current prescribed accounting system, and such amounts shall be exclusive of depreciation, payment of claims, and expenditures which such accounting system requires to be capitalized or charged to cost of commodities acquired or produced, including selling and shipping expenses, and expenses in connection with acquisition, construction, operation, maintenance, improvement, protection, or disposition of facilities and other property belonging to the corporation or in which it has an interest.

Note.—A full-year 2011 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 111–242, as amended). The amount included for 2011 reflect the annualized level provided by the continuing resolution.

Analysis of Appropriation Language

No substantive language changes proposed.

Note: The FY 2012 President's Budget uses the FY 2011 President's Budget language as a base so all language is presented as new. Though Federal Prison Industries does not receive appropriated funds, a limitation on administrative expenses is included in annual appropriation language. The amount in the note above refers to the administrative expenses limitation of \$2,700,000.

IV. Decision Unit Justification

A. Federal Prison Industries

<i>Federal Prison Industries</i>	Perm. Pos.	FTE	Amount
2010 Enacted with Rescissions	2,075	1,931	841,868
2010 Supplemental	0	0	0
2010 Enacted w/Rescissions and Supplementals	2,075	1,931	841,868
2011 Continuing Resolution	2,075	1,931	948,681
Adjustments to Base and Technical Adjustments	(125)	(125)	0
2012 Current Services	1,950	1,806	948,681
2012 Request	1,950	1,806	948,681
Total Change 2011-2012	0	0	\$0

<i>Federal Prison Industries</i>]-Information Technology Breakout (of Decision Unit Total)	Perm. Pos.	FTE	Amount
2010 Enacted with Rescissions	109	93	20,282
2010 Supplemental	0	0	0
2010 Enacted w/Rescissions and Supplementals	109	93	20,282
2011 Continuing Resolution	109	93	20,282
Adjustments to Base and Technical Adjustments	(13)	0	0
2012 Current Services	96	93	20,282
2012 Request	96	93	20,282
Total Change 2011-2012			\$0

1. Program Description

Federal Prison Industries, Inc. (FPI) reduces inmate idleness by providing full-time work programs, and continually strives to attain the goal of employing approximately 25 percent of the eligible inmate population. Many inmates do not have marketable skills when they enter prison. FPI provides a program of constructive work wherein job skills can be developed and work habits acquired.

FPI's operations are self-supporting. Revenues are derived from the sale of products and services to other Federal departments, agencies, and government institutions which purchase products listed on FPI's Schedule of Products. FPI provides services on a non-mandatory, preferred source basis. Operating expenses such as the costs of raw materials and supplies, inmate wages, staff salaries, and capital expenditures are applied against these revenues, resulting in operating income or loss, which is reapplied toward operating costs for future production.

Institution factories and shops are operated by civilian supervisors and managers responsible for training and overseeing the work of inmates. The factories utilize raw materials and component parts purchased from the private sector to produce finished goods. FPI's major Government customers include the Departments of Defense (DOD), Department of Homeland Security (DHS), Department of Justice (DOJ), General Services Administration (GSA), and the Social Security Administration (SSA). Institution factories manufacture such items as furniture, clothing, electronics, vehicle retrofit and metal products, and provide such services as printing, data processing, laundry and recycling activities. Orders for goods and services are obtained through marketing and sales efforts by civilian staff. A portion of the earnings realized by these operations is reinvested to improve and build new facilities and purchase equipment, maintain the existing equipment base, and provide working capital.

Extensive testing and product development procedures are required to operate modern factories that produce products which meet Government specifications. Inmate training is also extensive because most of the inmates have no previous training, experience or skills. Most training is on-the-job, with the civilian supervisors and experienced inmates explaining and demonstrating the work to newly assigned inmates. Where skills require more formal training, such as soldering, classroom instruction is provided by FPI staff.

FPI makes capital investments in buildings and improvements, machinery and equipment as necessary in the conduct of its operations. Other expenses charged to the manufacturing program include inmate accident compensation.

In 1988, Congress amended FPI's statute regarding the production of new products and significant product expansion (18 U.S.C. 4122). Before any significant product expansion or new products are manufactured, a review process is conducted, which includes full notice to and input from the public and interested parties. Implementing guidelines were first promulgated in 1990 and updated in 1997, with input from the private sector.

As required under the Federal rules, commonly referred to as the Guidelines process, when FPI proposes to produce a new product or expand its market share of an existing product, they first must conduct a market impact study. This study must identify and consider the number of vendors currently meeting the requirements of the Federal government; the proportion of the Federal market for the product currently served by small business, small disadvantaged businesses, or businesses operating in labor surplus areas; the size of the Federal/non-Federal markets for the product; the projected growth in the Federal government's demand for the product; and the projected ability of the Federal market to sustain both FPI and private vendors. FPI then must announce in the Federal Business Opportunities (Fed Biz Opps) its proposal and invite comments from private industry. FPI must also directly notify those trade associations affected and allow them to provide comment.

FPI's Board of Directors is appointed by the President, and by statute is composed of six members representing Industry, Labor, Retailers and Consumers, Agriculture, the Secretary of Defense, and Attorney General. The Board is provided copies of the market impact study, the comments received, and FPI's recommendations. The Board also holds hearings that the public can attend and provide testimony.

At the conclusion of the above process, the Board renders its decision, which is also published in the Federal Business Opportunities (Fed Biz Opps). Parties can appeal to the Board if and when market conditions change or new facts could impact the decision.

2. PERFORMANCE AND RESOURCES TABLE

Appropriation: 15X4500

Decision Unit: Federal Prison Industries

DOJ Strategic Goal/Objective: 3.4

Workload/Resources		Final Target		Actual		Projected		Changes		Requested (Total)	
		FY 2010		FY 2010		FY 2011 Continuing Resolution		Current Services Adjustments and FY2012 Program Changes		FY 2012 Request	
Workload											
Base number of factories		98		98		95		0		95	
Number of Inmate Jobs added		0		0		0				0	
Inmates employed at year-end		20,038		15,907		16,066		0		16,066	
Total Costs and FTE <small>(reimbursable FTE are included, but reimbursable costs are bracketed and not included in the total)</small>		FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
		1,931	857,541	1,931	857,541	1,931	983,723	(125)	0	1,806	948,681
TYPE/ STRATEGIC OBJECTIVE	Performance	FY 2010		FY 2010		FY 2011 Continuing Resolution		Current Services Adjustments and FY2012 Program Changes		FY 2012 Request	
Program Activity		FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000	FTE	\$000
	Sales Volume	1,931	857,541	1,931	857,541	1,931	983,723	(125)	0	1,806	948,681
Performance Measure	Comparative Recidivism for FPI inmates vs. non-FPI inmates (3 yrs.)	15%		18%		15%		0		15%	
	Comparative Recidivism for FPI inmates vs. non-FPI inmates (6 yrs.)	10%		19%		N/A		0		N/A	
Efficiency Measure	Number of Inmates Employed	20,038		15,907		16,066				16,066	
OUTCOME	Number of inmates employed as a percentage of inmates housed in low, medium, and high security institutions.	25%		9%		9%		0		9%	

Data Definition, Validation, Verification, and Limitations:
 Base number of factories equal the number of factories at the beginning of the year and prior year's base number of factories adjusted to agree with prior year-end results.
 Current inmate employment targets are based on recent results due to FPI's current financial conditions; however FPI continues to strive toward the goal of 25%.
 Sales volume is equal to gross revenues for the fiscal year.
 Decreases are the result of reduction of costs, delayed activations and restructuring.
 In FY2005, a Baseline was established for comparative recidivism rates for FPI inmates vs. non-FPI inmates who are less likely to recidivate 3 years after release and less likely to recidivate 6 years after release. In addition, FY 2011 – FY 2012 targets have been developed for the 3 year measure only. The 6 year measure has been eliminated.

PERFORMANCE MEASURE TABLE

Decision Unit: Federal Prison Industries

Performance Report and Performance Plan Targets		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010		FY 2011	FY 2012
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target	Actual	Target	Target
Performance Measure	* Comparative Recidivism for FPI inmates vs non-FPI inmates (3yrs.).	N/A	N/A	N/A	Baseline Established	23%	39%	34%	22%	15%	18%	15%	15%
Performance Measure	* Comparative Recidivism for FPI inmates vs non-FPI inmates (6yrs.).	N/A	N/A	N/A	Baseline Established	10%	23%	42%	12%	10%	19%	N/A	N/A
Efficiency Measure	Number of Inmates Employed	21,778	20,274	19,337	19,720	21,205	23,152	21,836	18,972	20,038	15,907	16,066	16,066
OUTCOME Measure													

N/A = Data unavailable

* Denotes inclusion in the DOJ Annual Performance Plan

3. Performance, Resources and Strategies

a. Performance Plan and Report for Outcomes

Inmate Employment: Federal Prison Industries (FPI) actual inmate employment for FY 2010 was 15,907. FPI estimates inmate employment at 16,066 at the end of FY 2011. Due to several factors external to the work environment, FPI has encountered a decline in customer orders during FY 2008 thru FY 2010. During the same time frame FPI has encountered the impact of rising costs, legislation restricting its mandatory source and imposing limits on its output in certain product classes, and the impact of the decline in the economy. In order to maintain itself as a going concern, FPI implemented considerable cost reduction measures which included the closing of factories and therefore unavoidably reduced the number of inmates it employs. FPI continues to seek employment opportunities through marketing efforts and proposed legislation to open new markets.

Recidivism: Baseline data for the recidivism measure was established in FY 2005 by the BOP Information Policy and Public Affairs Branch (IPPA). In establishing a baseline, IPPA completed a study conducted of 15,406 FPI participants and an equal number of comparison subjects released between 1994 through 1998. Results indicated that inmates who participate in FPI training and employment are significantly less likely to recidivate. With the baseline data established, the BOP (IPPA) began targeting and collecting data to report in out years against a long-term and annual Program Assessment. FPI began reporting actual results in FY 2006. FY 2009 actual recidivism rates for FPI inmates vs. non-FPI inmates less likely to recidivate three years after release was 22 percent and less likely to recidivate six years after release was 12 percent. During FY 2010, in an effort to refine the measurement process to be more inclusive, the BOP redefined recidivism for out years beginning in fiscal year 2011. Beginning FY2011, the new definition of recidivism for the performance measure has been established as “return to BOP custody for a supervised release violation or a new arrest”. Adoption of the more inclusive definition for the 6 year measure would require extensive resources for obtaining and coding FBI NCIC Criminal History Records. Resources are unavailable to allow the more resource intensive recidivism definition for both the 3 and 6 year follow up periods. As a result, beginning in FY 2011, the BOP will begin measuring and FPI will begin reporting on the 3 year period only. The FY 2011 and FY 2012 targets will remain at 15 percent less likely to recidivate 3 years after release. Actuals for FY 2010 were 18 percent less likely to recidivate 3 years after release and 19 percent less likely to recidivate for 6 years after release.

Resources: The FY 2011 resource requirements presented are as reflected at the FY 2011 Continuing Resolution level. FPI has since revised its estimate for new obligations for FY 2011, reducing the estimate by \$52 million. The planned FY 2012 obligations, totaling \$948 million, will remain at the revised FY 2011 level. FPI is a revolving fund that receives no annual appropriation and therefore the new requirements are generated from its revolving fund. The effect of increasing the available fund balance through cost cutting measures gives the appearance of increased requirements.

b. Strategies to Accomplish Outcomes

FPI's performance goals support the DOJ strategic goals. FPI's primary goal for population management is to proactively manage the offender population through meaningful work programs.

FPI meets this objective by reducing undesirable inmate idleness through full time work programs that provide constructive work wherein job skills can be developed and work habits acquired. Inmate idleness is the number one cause of inmate unrest and violence in prison; at the end of FY 2010, FPI employed 15,907 inmates and provides skills training to help ensure the safe and secure operation of BOP institutions. FPI plays a vital role in the management of inmates, and also improves the likelihood that inmates will remain crime-free upon their release from BOP custody.

For FY 2012, a total of 1,950 positions and 1,806 work years are requested for FPI. Further, \$2,700,000 is established as the Administrative Expenses limitation.