



Program Statement

OPI: FPI
NUMBER: 8400.03
DATE: 7/31/2003
SUBJECT: Prison-Made Products
and Services,
Definition of

1. **PURPOSE AND SCOPE.** To advise all Bureau staff of the definition of "Prison-Made Products and Services." The use of these definitions is encouraged whenever Federal Prison Industries, Inc. (FPI) considers proposals to manufacture products or assemblies, in whole or part.

Staff are encouraged to use these definitions when making a determination whether a given activity or process constitutes a prison made product or an inmate service.

In October 2002, the FPI Board of Directors resolved to terminate the practice of "pass-through" of finished good items that would otherwise be manufactured by FPI; and that customers be given the right to accept late delivery, or be granted an immediate waiver to purchase that portion of the order elsewhere. These transactions will be tracked and documented.

The definition of "pass-through" and the procedures for the termination of "pass-through" are contained in Section 5.d. of this PS.

2. **SUMMARY OF CHANGES.** This Program Statement incorporates the definition of "pass-through" and the procedures to be used to eliminate this practice.

It also includes language that clarifies "value added" in the definitions of prison-made products.

3. **DIRECTIVE RESCINDED**

PS 8400.02 Prison-Made Products and Services, Definition
of (8/10/00)

4. **STANDARDS REFERENCED.** None

5. **DEFINITIONS.** The following definitions apply to products produced and services performed in FPI factories:

a. **Prison-made products** refer to products manufactured and/or assembled in whole or in part by inmates.

- **Manufactured** refers to the process of fabricating products from raw or prepared materials. Manufacturing results in new forms, qualities, properties, and combinations.
- **Assembled** refers to the process of uniting or combining items or components. Assembly results in added value and a change in form or utility. Added value is defined under UNICOR's Enterprise Resource Planning system as the difference between the selling price and the value of raw materials consumed. Assembly, as defined by the Department of Commerce, Bureau of Census industry codes, is associated normally with manufacturing processes which result in a product, not a service.
- **Components** refer to products or items ancillary to "prison-made products" obtained from a commercial source and may or may not be physically attached to the end product. In determining whether such components, subassemblies, accessories, or supplemental items are prison-made products and FPI may supply them to the customer, consideration will be given to:
 - How closely the item is linked to the basic product by use or function.
 - Whether separate purchase of the item involves significant inconvenience, delay, and/or expense to the customer.
 - Whether FPI's inability to meet an agency's full contract requirement will lead to justifiable waiver requests for related component items and result in inmate idleness.
 - Whether commercial suppliers provide the item routinely in connection with the sale of the end product.

- Whether the item is relatively minor in relation to the end product.

Components and subassemblies are not considered finished goods, therefore they are not subject to subsection 5.d.

b. **Services** refers to activity which may or may not culminate in a tangible product. For example, services may include inmate labor that improves a given product's usefulness without increasing the value from its original state. In such cases, a service does not result in a new product.

Another example is repair or maintenance work, which involves an object's restoration. A service is performed by renovating a non-functional or unused item into one which is fully serviceable. The item's owner supplies it to FPI with expectations that the item will be returned to its prior condition or rendered fully functional.

Additional examples are laundry service, furniture refinishing or restoration, and engine and forklift rebuilding services. Repair and maintenance services, performed using inmate labor, increase a product's useful life and/or utility, but do not add value beyond that of the original product.

Other services, such as data conversion, optical scanning, or call centers, may not involve a tangible product. The packaging of various items into bags or cartons, and/or the distribution of items, may also be considered a service.

c. **Finished Good** refers to commodities that will not undergo further processing and are ready for sale to the final demand user.

d. **Pass-through** refers to the occasional practice of fulfilling a customer's order by buying the finished goods that FPI would otherwise manufacture directly from one of FPI's business partners and supplying it directly to the customer without any inmate labor involved. This has been exercised when FPI has experienced events such as work strikes, lock downs, inclement weather, or equipment failure, which would effect an order's timely delivery to a customer.

6. **TERMINATION OF PASS-THROUGH.** Effective immediately, factories will no longer be able to obtain any finished good item from our vendors that we manufacture.

All settings within SAP have been modified to re-identify all finished goods as manufacture only. This will prohibit purchasing an item that is identified as a manufactured product for our plants.

a. **Production Disruptions.** When a plant experiences inclement weather, disturbances, lockdowns, major equipment failure, or any event that will disrupt production the AW/SOI must, within one business day:

- Determine the event's duration or expected duration.
- Determine which order(s), if any, may be affected by the disruption in production.
- Determine if the disruption in production will have an impact on an order (s)' on-time delivery, and, if so, further determine the plant's ability to "make-up" the lost production time.

If, after completing this analysis, the AW/SOI determines that the disruption to production caused by one of the events listed above can be mitigated in such a manner to ensure on-time delivery of a customer's order(s), the AW/SOI will e-mail this assessment to the appropriate General Manager.

If, however, the AW/SOI determines that the factory will not be able to deliver the order on-time, the AW/SOI will e-mail this determination to the responsible General Manager immediately. This determination must include:

- the event causing the disruption in production;
- the mitigation that can, in fact, be facilitated by the plant for each customer order; and
- the customer orders that will be impacted negatively due to the local plant's inability to mitigate by "making-up" the lost production.

b. **General Manager Response.** Upon receiving reports by an AW/SOI that an event has occurred which will cause a factory not to be able to achieve an on-time delivery, the General Manager will determine immediately if capacity exists within other factories to produce the product on time.

If it is determined that another plant can "make-up" the lost production, the General Manager will transfer the affected portion of the work to that factory to ensure timely delivery of the customer order.

If the General Manager concludes that neither the affected factory nor any other factory can "make-up" the lost production capacity in a manner that will ensure an on-time delivery of the customer order, the General Manager will ensure the customer is contacted within two business days after he or she receives the analysis from the AW/SOI. The customer will be advised of the delay in delivery and the revised delivery date. The customer will also be advised that they may either:

- receive an immediate waiver on the affected portion of the order or
- may decline the waiver offer and authorize late delivery.

If the customer requests a waiver, the General Manager must ensure it is granted immediately and in writing. If the customer authorizes late delivery, they will be asked to confirm this by e-mail to the General Manager.

- If the customer authorizes late delivery, UNICOR will be responsible for all additional costs resulting from the late delivery, including late delivery penalties or negotiated liquidated damages.

c. **Reports.** Notwithstanding the type of determinations made above, the General Manager must document in writing any event causing a disruption in production as listed above and forward it to his or her respective Deputy Assistant Director for forwarding to FPI's Board of Directors.

This reporting will be provided to the Board of Directors at least semi-annually in writing. Negative reports are required. This notification must include:

- A description of the actual event causing the disruption and the affected factory;
- The specific customer order(s) affected, including dollar value of the order(s);
- The customer determination to accept either the waiver or late delivery; and
- The customer's name and phone number.

7. **NON-APPLICABILITY OF PASS-THROUGH RESTRICTIONS.** FPI offers products via "Packaged Solution," wherein FPI coordinates the provision of certain ancillary items contained within the customer's order from GSA schedule vendors, to fulfill a procurement convenience the customer requires.

The items are not sold under FPI's mandatory source and the customer identifies which ancillary products they desire from the private sector vendor(s). This practice is not affected by the pass-through elimination and continues to be authorized.

8. **ASSISTANCE.** Any questions related to these definitions should be directed to the Central Office, Research, Activation, and Corporate Support Branch.

/s/
Harley G. Lappin
Director