



U.S. Department of Justice
Federal Bureau of Prisons

PROGRAM STATEMENT

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Excess and Obsolete Inventory – FPI

/s/

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1. PURPOSE AND SCOPE

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

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

When this situation exists, this Program Statement provides a method for establishing an allowance to adjust for that inflated value. In addition, various levels of approval authority are established for writing off excess and obsolete inventory.

a. Summary of Changes

Policy Rescinded:

P8561.03 Excess and Obsolete Inventory - FPI (7/23/02)

- Establishes a monthly allowance for Excess and Obsolete Inventory.
- Updates required inventory transactions required to manage Excess and Obsolete Inventory.
- Updates the financial information system text descriptions for general ledger entries associated with Excess and Obsolete Inventory.

b. **Program Objectives.** Expected results of this program are:

- Management will be more effective in identifying and disposing of excess and obsolete inventory.
- Warehouse space will be better utilized as a result of reduced excess and obsolete inventory.
- The value of inventories will be fairly stated on the financial statements of Federal Prison Industries.

c. **Institution Supplement.** None required. Should local facilities make any changes outside the required changes in the national policy or establish any additional local procedures to implement the national policy, the local Union may invoke to negotiate procedures or appropriate arrangements.

2. RESPONSIBILITY

The Associate Warden, Industries, Education and Vocational Training (AW I&E) and the Superintendent of Industries (SOI) at each field location, or the business manager at locations that do not have an AW/SOI, and the Controller, Central Office, ensure procedures in this Program Statement are performed promptly and efficiently.

3. EXCESS AND OBSOLETE INVENTORY ITEMS

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

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

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

- That are no longer produced.
- That have become unusable because of changes in customer specifications.
- For which a more desirable substitute has been found.
- That have an expired shelf life

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

4. ESTABLISHING ALLOWANCES

Apart from any authorized Central Office allowance resulting from an annual review of inventory, the AW/SOI, or the business manager at locations that do not have an AW/SOI, establishes an allowance for slow-moving inventory (raw materials, subassemblies, and finished goods) for each factory and adjusts it monthly as necessary.

a. **Estimating Slow-Moving Inventory Allowances.** The prime business manager or remote accountant determines the monthly slow-moving inventory allowance as follows:

- Using the financial information system Analysis of Dead Stock report at the end of each month, potential slow-moving inventory is the inventory value not previously identified as excess and obsolete during the annual review process. (See Section 7 of this Program Statement for the Annual Review of Excess/Obsolete Inventory.)
- The Dead Stock report includes items with a quantity other than zero as well as those marked for deletion.
- The report is compiled for the **previous 12-month period, ending with the current month-end close-out.**
- The report is produced separately for each material type and converted into a slow-moving inventory analysis in the format mandated by the Financial Management Branch (FMB).

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

The prime business manager or remote accountant records the allowance by crediting the account (151900 for raw materials, 153000 for finished goods, 158700 for subassemblies). The offsetting account is the applicable Damaged/Obsolete expense account (613600 for raw materials, 613700 for finished goods and subassemblies).

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

Total of dead stock report value:	100,000.00
Less inventory isolated in storage location EXOB and awaiting disposal:	<u>10,000.00</u>
Adjusted slow-moving excess and obsolete inventory value:	90,000.00
Program Percentage rate (varies by program):	20%
Estimated slow-moving excess and obsolete inventory allowance:	18,000.00

Adjustment to allowance account

Journal Entry

613600	Damaged/Obsolete Property Raw Materials	\$18,000.00
151900	Allowance for Obsolete Inventory Raw Material	\$18,000.00

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

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

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

Using the financial information system auto reversal transaction, the entry from the prior month is reversed, and a new entry made (if applicable). The actual expense for the month is the net effect of the current month's entry and the reversal of the prior month's entry.

5. IDENTIFYING EXCESS AND OBSOLETE INVENTORY

The AW/I&E or SOI, or the business manager at locations that do not have an AW/SOI, ensures that all inventory, including raw materials, finished goods, work in process, and sub-assemblies, is reviewed periodically during the year. Procedures for obtaining approval to write off excess and obsolete inventory resulting from the annual review are in Section 7 of this Program Statement.

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

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

- Physically inspect the items.
- Determine their actual value (if any).
- Recommend disposal.

c. **Approval of Report of Survey.** The report of survey must be approved prior to any disposition. Approval thresholds for Report(s) of Survey are found in the program statement on Disposition of Personal Property and FPI Form 30, Report of Survey

6. TRANSFER OF EXCESS AND OBSOLETE INVENTORY

Before writing off excess and obsolete inventory, the AW/SOI, or the business manager at locations that do not have an AW/SOI, first determines if it can be used at another FPI operation. Upon request, the factory's general manager helps identify locations that may need the inventory.

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

Note: In no case will the negotiation of shipping costs prevent the transfer of excess inventory between locations.

7. ANNUAL REVIEW OF EXCESS AND OBSOLETE INVENTORY

Each July, the AW(I&E)/SOI at each field location, or the business manager at locations that do not have an AW/SOI, must conduct a thorough review of all raw materials, work in process, subassemblies, and finished goods inventories to determine which items are excess and/or obsolete. This review, at a minimum, is conducted using the following reports in the financial information system:

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

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

b. **Reporting Requirements.** The AW/(I&E) or SOI, or the business manager at locations that do not have an AW/SOI reviews the Dead Stock and Slow-Moving reports and recommends disposition of each item by annotating the report with one of the following codes:

- **Code 1 - Retain for future use.** This recommendation must include a written justification referenced to the item in question if there has been no production or sales usage within the last six months. The quantity to be retained is limited to no more than two years of expected usage.
- **Code 2 - Transfer to another FPI location.** This recommendation must include the location to which the items are to be transferred and that location's job or customer order number. The transferring location must contact the receiving location to obtain the information.
- **Code 3 - Trade-in, re-stock, sell to another government agency, or sell to the public.**
- **Code 4 - Sell for scrap.** This recommendation must include a written justification, i.e., shelf life of item expired, certificate of conformance no longer available, etc.

■ **Code 5 - Write off the value only and retain items.**

■ **Code 6 - Write off and dispose.**

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

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

8. WRITE-OFF OF EXCESS AND OBSOLETE INVENTORY

a. **Disposition.** Items approved as Codes 5 and 6 are moved to a separate physical location in the warehouse. They are moved in the financial information system to the EXOB location pending disposition, using the financial information system goods movement transaction.

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

Journal Entry

613600	Damaged/Obsolete Property	\$5,000.00
	Raw Materials	
151900	Allowance for Obsolete Inventory	\$5,000.00
	Raw Materials	

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

- RM EXOB (For Raw Materials).
- FG EXOB (For Finished Goods).
- SA EXOB (For Sub Assemblies).

Note: Do not include parenthetical guidance in the “text” field when making the entries.

The value of the EXOB location(s) (ROH, FERT, and HALB) must reconcile to the corresponding general ledger values (151900, 153000, and 158700), which are designated with the appropriate text for EXOB.

9. DISPOSAL OF EXCESS AND OBSOLETE INVENTORY

Once excess and obsolete inventory has been identified and approved for write-off, (either as a result of an approved report of survey or an approved Code 6 write-off) disposal procedures begin immediately in accordance with the Program Statement **Disposition of Personal Property and FPI Form 30, Report of Survey**.

If there is no commercial value to the items, the Prime Business Manager or Accountant takes steps either to sell them as scrap or abandon or destroy them in accordance with Federal Management Regulations (<http://www.gsa.gov>).

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

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

Journal Entry

151900	Allowance for Obsolete Inventory Raw Materials	\$5,000.00
613600	Damaged/Obsolete Property Raw Materials	\$5,000.00

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

REFERENCES

Directives Referenced

8562.01 Disposition of Personal Property and FPI Form 30, Report of Survey (1/18/00)

ACA Standards

None.

Records Retention Requirements

Requirements and retention guidance for records and information applicable to this program are available in the Records and Information Disposition Schedule (RIDS) system on Sallyport.