U.S. Department of Justice
Federal Bureau of Prisons

P R O G R A M   S T A T E M E N T

OPI:	FPI/FMB
NUMBER:	8531.14
DATE:	March 20, 2015

Revenue Recognition – FPI

/s/
Approved: Charles E. Samuels, Jr.
Director, Federal Bureau of Prisons

1. **PURPOSE AND SCOPE**

To establish procedures for recognizing and reporting revenue as it relates to activities involved in delivery or production of goods, rendering of services, and other activities that constitute Federal Prison Industries' (FPI) ongoing or central operations.

Federal Prison Industries, as a wholly-owned Government corporation, must adhere to accepted accounting principles and presentation of data on its financial statements. Accurately capturing financial data is critical to prevent misrepresentation of FPI's financial position.

a. **Summary of Changes**

Policy Rescinded
P8531.11 Revenue Recognition, FPI (12/13/05)

The following significant changes have been incorporated in this Program Statement:

- More accurate definition of transit time estimates for Free on Board (FOB) Destination sales orders.
- Changes to procedures for estimating transit times for FOB Destination sales orders.

b. **Program Objectives**. The expected results of this program are:

- Revenue recognition will be consistent and accurately reported, in accordance with accepted accounting principles.
- Contractual agreements will contain language to apply appropriate revenue recognition requirements.
- FPI will comply with applicable statutes, regulations, and policies concerning revenue recognition.
- The revenue recognition process is represented adequately, as indicated by approval/disapproval by the Controller.

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 Controller, along with the Deputy Controller responsible for accounts receivable, ensures that the requirements of this program statement are followed. The Associate Warden/ Superintendent of Industries (AW/SOI) ensures that local financial management staff provide information necessary for effective administration of revenue recognition for the Corporation. If a location does not utilize an AW/SOI, the Deputy Controller, responsible for accounts receivable, the Field Financial Administrator (FFA) and the Prime Business Manager will establish procedures for ensuring the necessary information is provided.

3. **REVENUE RECOGNITION CONCEPTS**

Generally, industry practices recognize revenue at the point of sale. However, if a right of return exists, there is a risk that ownership (title) will not pass to the buyer and will be reacquired by the seller. Therefore, revenue is recognized if the following four criteria are met, or after the earning process has been completed and an exchange has taken place (however, exceptions to each criterion may apply):

- Persuasive evidence of an arrangement exists.
- Delivery has occurred or services have been rendered.
- There is a fixed or determinable price.
- There is assurance or reasonable expectation of collection.

a. **Considerations.** In addition, FPI also considers the following specific items when determining when revenue can be recognized:

- The price between the seller and the buyer is substantially fixed or determinable.
- The seller has received full payment, or the buyer is indebted to the seller and the indebtedness is not contingent on resale of the merchandise.
- Physical destruction, damage, or theft of the merchandise would not change the buyer's obligation to the seller.
- The buyer has economic substance and is not a front, straw party, or conduit, existing for the benefit of the seller.
- No significant obligations exist for the seller to help the buyer resell the merchandise.
- A reasonable estimate can be made of the amount of future returns.
- Evidence of agreement.

b. **Methods of Recognition**. FPI primarily uses four methods for recognizing revenue. These methods may be combined, based on the customer's requests or needs.

- Free on Board (FOB) Origin.
- Free on Board (FOB) Destination.
- Bill and Hold.
- Multiple Element Contracts.

Note: FOB is used in conjunction with a physical point to determine:

- The responsibility and basis for payment of freight charges.
- Unless otherwise agreed, the point where title for goods passes to the buyer.

c. **Negotiation Issues.**, When negotiating price, terms, and conditions, the following must be considered:

- Impact on the Corporation's cash flow.
- Plant and warehouse capacity.
- Reliability of transportation or distribution methods.
- The customer's creditworthiness.
- The best interests of FPI.

4. **FOB ORIGIN**

This method recognizes revenue when merchandise is shipped to, or picked up by, the customer at origin. The price is fixed, determinable, and does not depend on any additional performance requirements.

a. **Pricing.** Pricing for goods and services is calculated per the Program Statement **Pricing Procedures, FPI**.

b. **Delivery.** The buyer is responsible for the cost of shipping and risk of loss. In addition, the title of goods passes to the buyer once the seller places the merchandise on the conveyance, or it is picked up by the buyer, unless a contract specifies otherwise.

5. **FOB DESTINATION**

This method recognizes revenue when the merchandise is delivered to the customer or designated location (i.e., dock), unless the contract provides otherwise. The price is fixed, but dependent upon delivery.

a. **Pricing.** The pricing for FOB Destination represents the FOB Origin price plus freight. See the Program Statement **Pricing Procedures, FPI**.

b. **Delivery.** The seller is responsible for the cost of shipping and risk of loss. In addition, the title of the goods does not pass to the buyer until they are received by the buyer or arrive at the destination (received at an installer's warehouse does not constitute "received" in most cases).

c. **System Accountability.** The pricing structure within the financial information system allows factoring freight charges for FOB Destination. This is done by combining the FOB Destination cost plus freight charges. In addition, the system-generated bill does not list the sale price and freight charges as separate line items.

6**. TRANSIT TIME ESTIMATES – FOB DESTINATION**

FPI is required to ensure adequate internal controls exist regarding reliability of transit times. It is an acceptable accounting practice to estimate delivery times, if the costs of tracking actual receipt dates outweigh the benefits.

The Deputy Controller, responsible for accounts receivable, or designee, ensures that reliable estimates of transit times can be determined for shipments of similar products to similar destinations.

a. **Reporting Requirements**. The Prime Business Manager or designee of each location within each Business Group ensures a sample of FOB Destination shipments is completed for their plants. Actual transit times for each shipment are tracked and reported.

At the beginning of each month, random samples are generated from a population of FOB Destination shipments for the month prior. Samples are made available by Accounts Receivable via SharePoint to be completed by each Business Group. Samples are pulled from a population of all FOB Destination deliveries. Multiple deliveries are removed from the population before a sample set is pulled from each business area, to include at least one sample for every factory listed in the population. The number of samples selected is determined from the population based on a 95% confidence level and a 10% margin of error. All transit time averages are rounded up to the next full value or day.

Each FFA is responsible for ensuring the samples for his/her areas are completed no later than the 10th working day of the month following the month being reviewed. Average transit times for each Business Group will be determined using the completed transit time sample spreadsheets.

b. **Variances**. The Deputy Controller responsible for accounts receivable, reviews in-transit times for each business group, and compares them to established times each quarter, making adjustments as needed.

7. BILL AND HOLD

These contracts are defined as sales agreements that include one or more clauses requiring the seller to maintain physical possession of merchandise produced for one or more customers. It is FPI's practice not to bill these items until final shipment/delivery has occurred. However, if billing is required, several review steps must be accomplished prior to submission to accounts receivable.

a. **Criteria**. These contracts are subject to several tests of ownership, inventory management, and liability recognition which may delay the revenue process. The following criteria are used to recognize revenue when delivery has not yet occurred.

Note: The term "ownership" is used synonymously with "title."

- Bill and hold in contract negotiations cannot be offered or solicited, but must be requested by the customer.
- Terms of performance must be completed and accepted by the buyer before the transaction can be recognized (no unqualified right of return, refunds, etc.).
- The product must be complete, ready for shipment, segregated from other inventory, and not be subject to being used to fill other orders.
- Time lines for the transfer of liability and ownership must be defined clearly and must pass completely to the buyer.
- Credit terms must be in writing and follow normal business practices and cannot include abnormal or extended credit terms.
- Complete schedules for delivery of the goods must be negotiated in advance, outlined in the contract, and not exceed normal industry standards and practice.

b. **Pricing.** Pricing must be consistent with procedures established in the Program Statement **Pricing Procedures, FPI**. However, consideration must be given to variable costs for such items such as storage costs or costs incurred by FPI for inventory management.

c. **Delivery.** Delivery schedules must be within normal industry guidelines and be consistent with the customer's other trade practices.

d. **Ownership Recognition.** Revenue recognition cannot be completed until all the rights of ownership and liability have passed to the buyer. Validation of this transfer must be in writing and approved by the Controller prior to accounts receivable billing the order.

e. **Validation Procedures.** The General Manager of each Business Group must designate a staff member to identify all contracts viewed as Bill and Hold and prepare a written report with specific deadlines or clauses as outlined above and forwarded for review by a designated committee (the General Manager, Controller and the Deputy Controller responsible for accounts receivable, at a minimum).

f. **Review.** This committee must review the report for specific contract language (ownership, pricing, credit terms, retention and shipment, etc.) to ensure clarity of elements, reasonableness of deadlines, and consistency of corporate guidelines.

g. **Certifications.** Upon the committee's review and approval, the General Manager must ensure individual certifications are prepared in memorandum format. The certifications will contain the following information:

- Purchase order/contract number.
- Sales order number.
- Buyer's point of contact by name, address, phone number, and title.
- The date of the original contract and the date of performance and acceptance by the customer.
- Proof of liability and ownership by the buyer.

h. **Proof.** Proof of ownership and loss/damage liability can be provided in the form of written acceptance by the buyer, certified copies of an agency's balance sheet delineating the inventory in question, or some other form of written notification by an officer of the agency empowered to make such certifications.

i. **Records.** Certifications are forwarded to the Controller or designee for approval. If approved, the revenue recognition proposal will be forwarded to the Deputy Controller responsible for accounts receivable, or designee for processing.

8. MULTIPLE ELEMENT AGREEMENT

Multiple element contracts can be diverse, depending on customer requirements. To maximize cash flow and minimize delays, FPI ensures that revenue is recognized in accordance with established guidelines.

a. **Assessment.** An assessment to determine if an arrangement contains "multiple deliverables" is made during the initial contract negotiation and again as each item is delivered. Each item in a multiple deliverable arrangement is recognized as a separate unit, based on its value, if the following criteria are met:

- The item(s) delivered has value on a standalone basis to the customer.
- The fair value of remaining undelivered items is reliable.
- If a right of return exists, as noted in the arrangement, delivery of the remaining item(s) is probable.

To ensure that FPI invoices customers for partial deliveries, the customer(s) obligating document must include an accounting of all individual line items subject to billing, and their pricing and quantities. Inclusion within the obligating document must be done by listing each line item separately. The total value of the individual line items must equal the value of the customer's obligation. Each billable line item on the customer's order must be entered individually in the financial information system. Items that have been delivered and are ready and available for use by the customer may be billed in whole or as delivered as long as they are separately accounted for in the customer(s) obligating document.

Recommended verbiage for the customer agreement for Federal customers is "As defined in FAR 32.102 (d), payment for accepted supplies, including payments for accepted partial deliveries, is authorized upon proper receipt and invoicing."

b. **Pricing**. Pricing must be calculated in accordance with the Program Statement **Pricing Procedures, FPI**.

Dependent relationships include installation, site preparation, etc., and must be identified as such at both the item level and sales order levels, defined as accounting units:

- Elements that are available as part of FPI's normal product line should have prices that are fixed, determinable, and tied to FPI's normal business operations.
- Dependent elements must have current pricing that is fixed, determinable, and in a manner linking the relationships together.

c. **Delivery.** Delivery has occurred for:

- **FOB Destination** – when all independent elements have been received by the buyer.
- **FOB Origin** – when shipment has occurred.

For delivery to have occurred, all dependent elements must have been delivered or accepted by the buyer.

d. **Ownership Recognition.** Contractual agreements contain information to ensure FPI is legally covered in regards to ownership and acceptance of loss liability, in the event a claim is required.

e. **Independent Elements**. These are items that must be delivered to the buyer, whose contractual acceptance is realized based on shipping terms and conditions.

f. **Dependent Elements**. A method of usability or completeness needs to be established and certification of acceptance from the buyer needs to be obtained in the following manner.

Certifications from the customer must reference each element accepted by the buyer. It must include:

- The customer purchase order or contract number.
- Line item.
- FPI's sales order number.
- Date of acceptance.
- Point of contact, including name and title, telephone number, and address.

Elements containing partially completed items must indicate the approximate percentage completed by individual element in addition to the contact information stated above.

Certifications may include a combination of independent and dependent elements listed above, but must have a clear delineation of each element and its degree of completion.

9. **CONTRACT REVIEW**

A comprehensive review of all contracts is conducted during negotiations and before final agreement to ensure the interests of the Government are met. This review must include, but is not limited to:

- Legal review (commercial and interagency agreements and compliance with the Master Agreement).
- Customer review.
- Market review compliance issues.
- Competition analysis.

Therefore, the General Manager, Contracting Official, Controller, and FPI General Counsel's Office must be involved in the entire process. However, the Controller has the final decision in regards to revenue recognition as it relates to each contract and responds via email as evidence of approval/disapproval.

REFERENCES

Program Statements

P8224.03	Pricing Procedures, FPI (8/2/06)
P8240.03	Sales Report, FPI (6/13/02)
P8260.02	Product Development, FPI (3/6/98)
P8510.02	Internal Control Financial Management Branch, FPI (1/21/03)

Other References
American Institute of Certified Public Accountants (AICPA)
Statements of Federal Financial Accounting Standards (SFFAS) No. 48 (6/81)
SEC Staff Accounting Bulletin No. 104, Revenue Recognition, Corrected (12/2003)

Federal Acquisition Regulation
Emerging Issue Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (2/16/03)

ACA Standards
None.

Records Retention
For requirements and retention guidance applicable to this program, see the Records and Information Disposition Schedule (RIDS) on Sallyport.