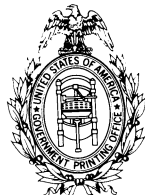




**Report on Strengthening the Controls  
Over GPO's Property Management Program**

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00-02



Office of Audits



UNITED STATES GOVERNMENT PRINTING OFFICE  
OFFICE OF INSPECTOR GENERAL

# memorandum

DATE: February 17, 2000

REPLY TO

ATTN OF: Inspector General

SUBJECT: Report on Strengthening the Controls over GPO's Property Management Program

TO: Public Printer  
Deputy Public Printer  
Comptroller  
Production Manager, Production Department  
Superintendent of Documents  
Manager, Printing Procurement Department

An Office of Inspector General (OIG) audit team conducted a performance audit to evaluate the adequacy, efficiency, and effectiveness of management controls over property within the Government Printing Office (GPO) during July 1998 through March 1999. This OIG audit focused on the current GPO Property Management Program operating under GPO Instruction 810.11A, which was issued in 1981 and remains in effect today. The GPO Instruction designated the Comptroller as the Property Management Officer.

The audit found that GPO's Property Management Program did not reflect the current operating procedures, controls, and responsibilities of GPO offices, and the GPO Instruction 810.11A was not followed by management officials. For instance, the Comptroller did not maintain a complete records system for both capitalized and non-capitalized property as required by the Instruction. Instead, the Comptroller concentrated on maintaining a records system for capitalized property only. As a result, the property custodians could not always use the records system as a management tool to account for the property assigned to their cost codes.

This report identified six major areas needing immediate management attention: (1) updating the 1981 Instruction; (2) accounting for inventory; (3) assigning identification numbers; (4) deleting property items; (5) entering inventory adjustments timely; and (6) receiving annual inventories.

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The OIG made seven recommendations to the Comptroller that when implemented, would result in strengthening the internal controls over administering GPO's Property Management Program. We also recommended that other GPO offices, including the Comptroller, implement three other recommendations in strengthening the internal controls over the accounting for inventory.

The Comptroller has begun taking corrective action by preparing a "draft" Publication 810.11B *GPO Property Management Program* that address new procedures and responsibilities for management officials and improves the effectiveness of management controls in the new Property Management Control System. The Comptroller expects the new system to be operational by the end of FY 2000.

We believe that the OIG's ten recommendations could be implemented immediately by the Comptroller and the other GPO offices. This should improve the current operating procedures, controls, and abilities of GPO offices to provide reasonable assurance and safeguards for maintaining accountability over GPO property months before the expected operational date of the new Property Management Program Publication.

The Production Department's Production Manager, the Superintendent of Documents, and the Printing Procurement Department's Manager agreed with OIG Finding 2 and the three recommendations addressed to other GPO offices. The three Offices have begun identifying the property items that their property custodians could not immediately account for on the March 15, 1999, property listing. (See Appendices V, VI, and VII.)

The Comptroller, on the other hand, did not concur with any of the ten recommendations that were addressed to him, including OIG Finding 2. The Comptroller's comments were inconsistent with the comments that the OIG received from the Production Department's Production Manager, the Superintendent of Documents, and the Printing Procurement Department's Manager on 3 of the 10 recommendations. (See Appendix VIII.)

In addition, the private accounting firm of KPMG LLP issued Management Letter comments to GPO as part of its financial statement audits for FY 1997, 1998, and 1999, and made suggestions for improving controls over two property management issues: (1) monitoring and reporting property and (2) the safeguarding of property.

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On December 7, 1999, KPMG issued two Notifications of Finding and Recommendation (NFR) from its ongoing audit of the FY 1999 financial statements to the Comptroller on the same two management issues from FY 1997 and FY 1998. On January 3, 2000, the Comptroller concurred with KPMG that the two NFRs continue to exist. However, these two NFRs support four of the six OIG findings in this OIG audit report that the Comptroller did not agree with in his December 6, 1999, written comments to the OIG.

The OIG has read the Comptroller's 109 pages of written comments and exhibits in response to the OIG's draft report. The OIG concluded that instead of addressing the factual findings of the OIG audit, the Comptroller preferred to comment on the audit process to justify his rejection of our recommendations for GPO's Property Management Program.

The Comptroller also commented that the draft audit report should be withdrawn and the audit closed. It is the OIG's opinion that this was the Comptroller's stated intent since our first exit conference to discuss GPO's Property Management Program with him in March 10, 1999. (See Appendix IV.)

Mr. Joseph Verch, Supervisory Auditor, and Mr. Michael Ober, Auditor-In-Charge, conducted this audit. The OIG appreciates the cooperation and courtesies extended during the audit by the officials and staff of the Production Department, the Superintendent of Documents, the Office of Administrative Support, the Materials Management Service, the Printing Procurement Department, and the Office of Comptroller.

  
ROBERT G. ANDARY



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**REPORT ON STRENGTHEN THE CONTROLS  
OVER GPO's PROPERTY MANAGEMENT PROGRAM**

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**U.S. Government Printing Office  
Office of the Inspector General  
Office of Audits**

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**REPORT ON STRENGTHENING THE CONTROLS OVER  
GPO's PROPERTY MANAGEMENT PROGRAM**

**RESULTS IN BRIEF**

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The Office of the Comptroller maintains records for over 13,000 items of property for 215 cost codes. As of April 30, 1999, these items of property had an original cost of over \$202 million and a current book value of over \$61 million.

From July 1998 through March 1999, GPO's Office of the Inspector General (OIG) conducted a performance audit to evaluate the adequacy, efficiency, and effectiveness of the management controls over property within the GPO. This OIG audit focused on the current GPO Property Management Program operating under GPO Instruction 810.11A, which was issued in 1981 and remains in effect today. The GPO Instruction designated the Comptroller as the Property Management Officer.

The OIG audit found that GPO's Property Management Program was governed by this outdated 1981 Instruction which did not completely reflect the current operating procedures, controls, and responsibilities of GPO offices and was not always followed by management officials. For instance, the Comptroller did not maintain a complete records system for both capitalized and non-capitalized property as required by GPO Instruction 810.11A. Instead, the Comptroller concentrated on maintaining a current records system for capitalized property only. As a result, the property custodians could not always use the records system as a management tool to account for the inventory of all property assigned to their specific cost codes.

This OIG audit report identified six major areas needing management attention: (1) updating the 1981 Instruction; (2) accounting for inventory; (3) assigning identification (ID) numbers; (4) deleting property items; (5) entering inventory adjustments timely; and (6) receiving annual inventories.

The OIG audit report recommended the Property Management Officer (Comptroller) to implement the following seven audit recommendations that would strengthen the internal controls over administering GPO's Property Management Program:

1. Update GPO policy on the Property Management Program to reflect the current operating procedures, controls, and responsibilities of GPO offices, as required by Standard 4 of GPO Instruction 825.18A;

2. Develop and implement internal controls to provide safeguards in protecting assets against loss and ensuring accountability by having a separation of duties within the individual offices when necessary adjustments are made to property on the property systems, as required by Standards 2, 4, and 5 of GPO Instruction 825.18A;
3. Ensure that an identification number (ID) is assigned to every item of accountable property on the property systems, as required by GPO Instruction 810.11A;
4. Ensure that all property custodians are aware of the importance of maintaining documentation on all future deletions of inventory from property systems, as required by GPO Instruction 805.7B and Standard 7 of GPO Instruction 825.18A;
5. Ensure that all property custodians are aware of the importance of reporting all suspected lost, missing, and stolen properties timely to the appropriate GPO offices, as required by GPO Instruction 810.11A;
6. Ensure that adequate emphasis is placed on the timely updating of all inventory adjustments in the property systems by the Comptroller's General Ledger and Property Section, as required by GPO Instruction 810.11A; and
7. Ensure the timely receipt of all annual updates of inventories from GPO property custodians, as required by GPO Instruction 810.11A.

The Comptroller has begun taking corrective action by preparing a "draft" Publication 810.11B *GPO Property Management Program*. This "draft" will address the new procedures and responsibilities of management officials and the effectiveness of management controls within the new Property Management Control System. The Comptroller expects the new Property Management Control System to be operational by the end of FY 2000.

With the expected operational date of the new Property Management Control System months away, the OIG's ten recommendations should be implemented immediately by the Comptroller and the other GPO offices. The implementation should improve the current operating procedures, controls, and responsibilities of GPO offices to provide reasonable assurance and safeguards for maintaining accountability over GPO property.

The OIG audit report also recommended that the Production Department's Production Manager, the Superintendent of Documents, the Printing Procurement Department's Manager, and the Comptroller implement the three audit recommendations that would strengthen the internal controls over the accounting for inventory within GPO's Property Management Program:

1. Ensure that property custodians verify and account for all inventory and take necessary action to correct all deficiencies on the property systems, as required by GPO Instruction 810.11A;
2. Ensure the same GPO identification (ID) number assigned and attached on the property items matches the ID number on the property systems; and
3. Ensure the property custodians maintain copies of GPO Form 2051 *Return to Stores* on the transfer of future surplus property, as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself.

It should be noted that the private accounting firm of KPMG LLP issued an unqualified Independent Auditors Report on GPO's September 30, 1998, financial statements. Included in the FY 1998 Management Letter to GPO, as well as in the FY 1997 Letter, were suggestions for improving controls over two property management issues: (1) monitoring and reporting property and (2) the safeguarding of property. On December 7, 1999, KPMG issued two Notifications of Finding and Recommendation (NFR) from its ongoing audit of the FY 1999 financial statements to the Comptroller on the same two property management issues from FY 1997 and FY 1998. On January 3, 2000, the Comptroller concurred with KPMG that the two NFRs continue to exist. These two NFRs support four of the six OIG findings in this report.

It is worth noting that the Comptroller's September 30, 1998, General Ledger for property reconciled with the Subsidiary Ledger, and that in-house assembled computers were accounted for during the audit.

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## BACKGROUND

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The GPO has substantial property (computers, monitors, typewriters, presses, etc.) that requires safeguarding and accountability. As of April 30, 1999, the Office of the Comptroller maintained over 13,000 records of property, excluding furniture, with an original cost of over \$202 million and a current book value of over \$61 million. The Comptroller has been designated GPO's Property Management Officer.

GPO capitalizes all property of \$5,000 and over, though certain items under \$5,000 are reported and capitalized by the Comptroller's General Ledger and Property Section. For example, personal computers cost under \$5,000, however, when purchased together, the total costs are substantially higher. Effective October 1, 1998, the \$5,000 capitalization ceiling was raised to \$25,000.

The Comptroller's General Ledger and Property Section maintains a database inventory of accountable property by GPO's 215 cost codes. The Office of Administrative Support's Physical Security Group is responsible for assigning GPO identification (ID) numbers to accountable property. However, recently, the General Ledger and Property Section has worked jointly with the Physical Security Group in assigning GPO ID numbers, when requested by the property custodians.

Verification updates of the General Ledger and Property Section's property inventory listings are conducted periodically by property custodians by cost codes. Proper physical use and safekeeping of assigned GPO property is the responsibility of the property custodians. Surplus property is generally transferred to the Materials Management Services (MMS), Stores Division, for disposition.

GPO Instruction 810.11A *Property Management Program* issued April 1981 establishes property management responsibilities and applicable policies and procedures governing the Program. GPO Instruction 805.7B *Return to Stores and Disposition and/or Sale of Surplus Accountable Government Printing Office Property* issued in June 25, 1993, identifies the policy and administrative procedures for the return, disposition, and/or sale of surplus accountable property. GPO Instruction 825.18A *Internal Control Program* issued in May 28, 1997, identifies policies, standards and assign responsibilities for conducting internal control reviews of GPO programs.

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of this audit was to evaluate the adequacy, efficiency, and effectiveness of management controls over property accountability within the GPO. The current inventory system was evaluated for timeliness, completeness, and accuracy.

The OIG conducted inventories of six GPO cost centers<sup>1</sup> located at Central Office consisting of all non-furniture accountable property costing \$300<sup>2</sup> or more from the Comptroller's property listing. The scope was limited to an evaluation of the Office of the Comptroller, Materials Management Service, Office of Administrative Support, Production Department's Electronic Systems Division, Superintendent of Documents, Printing Procurement Department, and the property custodians' major responsibilities relating to the Property Management Program under the applicable GPO Instructions.

We did not evaluate the effectiveness of physical controls over property at GPO. GPO is a secure facility with ingress and egress controlled by the GPO Protective Services and Physical Security Groups under the direction of the Office of Administrative Support. Moreover, we did not attempt to determine whether every individual item of property, which could not be accounted for under the procedures established by the Property Management Program was missing or misappropriated. No inference should be drawn that property not accounted for has been stolen or otherwise disposed of without authorization. Nothing came to our attention during the course of this audit that suggests property was not being used in GPO or returned to Stores when no longer needed.

The fieldwork of the audit was conducted during the period of July 1998 through March 1999<sup>3</sup> in accordance with generally accepted Government auditing standards, and included such tests of the procedures, operations, and internal controls in place as were considered necessary under the circumstances.

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<sup>1</sup> The OIG auditors stopped inventorying after six cost codes, because of the similar problems generally identified with each cost code.

<sup>2</sup> The \$300 was a benchmark arbitrarily assigned by OIG auditors in identifying accountable property (capitalized and non-capitalized to include pilferable).

<sup>3</sup> Additional fieldwork was conducted in April and August 1999 to follow-up on concerns raised by management officials.

We reviewed:

1. GPO Instruction 805.7B *Return to Stores and Disposition and/or Sale of Surplus Accountable Government Printing Office Property* to identify the policy and administrative procedures for the return, disposition, and/or sale of surplus property;
2. GPO Instruction 810.11A *Property Management Program* to identify property management responsibilities and applicable policies and procedures governing the Program;
3. GPO Instruction 825.18A *Internal Control Program* to identify policies, standards, and assign responsibilities for conducting internal control reviews of GPO programs;
4. FY 1998-99 inventory updates by cost codes to determine if property custodians conducted inventories of their property;
5. The Comptroller's Property database listing of August 3, 1998, and March 15, 1999, to verify for completeness and accuracy;
6. FY 1996-98 Surplus Disposal Record Listing of August 5, 1998, to verify property items that were returned to Stores and deleted from the Comptroller's Property database;
7. Electronic Systems Division's delivery records to verify that in-house assembled computer systems were accounted for;
8. Various internal and external reports by other Federal agencies and private accounting firms including KPMG LLP and Booz-Allen and Hamilton, for background and general information;
9. The September 30, 1998, General Ledger to property accounts with the Subsidiary Records; and
10. The "draft" Publication 810.11B *GPO Property Management Program* to identify the proposed revisions on property management responsibilities and applicable policies and procedures governing the Program.

The OIG audit team interviewed appropriate management officials and staff of the Offices of Comptroller, the Administrative Support, the Materials Management Service, the Superintendent of Documents, the Production Department, and the Printing Procurement Department.

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## FINDINGS AND RECOMMENDATIONS

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### 1. UPDATING INSTRUCTION TO THE PROPERTY MANAGEMENT PROGRAM

#### FINDING

GPO Instruction 810.11A *Property Management Program* has not been updated since April 16, 1981. As a result, the Instruction does not completely reflect current operating procedures, controls, and responsibilities of GPO offices, as required by Standard 4 of GPO Instruction 825.18A.

“Managers should ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities.”

The originating office for GPO Instruction 810.11A is the Office of the Comptroller. There have been a number of changes since 1981 involving the Property Management Program which are not reflected in GPO Instruction 810.11A. For example, contrary to paragraph 8f of the Instruction:

- The Office of Administrative Support’s Physical Security Group is now responsible for assigning ID numbers to GPO property received instead of Engineering Service;
- The Comptroller’s General Ledger and Property Section has recently begun working with the Physical Security Group to assign ID numbers to property items requested by the property custodians; and
- The Electronic Systems Division assigns ID numbers to computers that are assembled in-house. The Assistant Chief, Electronic Systems Division, uses a different numbering system than the Physical Security Group.

Paragraph 9e of the Instruction, does not mention Materials Management Service’s Central Receiving Unit’s responsibility to forward receipt documentation on new equipment for identification numbers to be assigned.

Contrary to paragraph 10b of the Instruction:

- Office furniture is now excluded from accountable equipment;



- The Comptroller is not maintaining a complete records system for both capitalized and non-capitalized property. Instead, the Comptroller concentrated on maintaining a current records system for capitalized property only. As a result, the records system could not always serve as a check for property custodians for inventorying all of their property; and
- There is no mention of the increase in the dollar threshold used by the Comptroller for capital assets, which was increased from \$5,000 to \$25,000 on October 1, 1998.

Also, the Comptroller has proposed, in a new “draft” Publication, changing from the current property control system which includes both capitalized and non-capitalized property to having two separate property control systems:

- One property control system would continue to be maintained by the Comptroller for capital assets of \$25,000 and over for depreciation purposes for the financial statements; and
- A second system would be maintained for detailed information by each organizational entity (i.e., GPO cost code) on all accountable property of the GPO.

The individual offices would be responsible for making necessary adjustments to the second system to maintain a current, accurate, and complete inventory of accountable property. However, if the individual offices’ property listings were not current, accurate, and complete when the Comptroller was designated the Property Management Officer and monitored all adjustments made to the property listings; having the individual offices responsible exclusively for making the necessary adjustments does not provide reasonable assurance that the property listings will improve.

GPO offices are required to perform vulnerability assessments and internal control reviews, as stated in GPO Instruction 825.18A. However, the new “draft” Publication should provide additional safeguards in accounting for assets by having a separation of duties within the individual offices when necessary adjustments are made to property on the property control systems as required by Standards 2, 4, and 5 of GPO Instruction 825.18A. These standards provide as follows:

“Management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation.”  
(Standard 2)

“Managers should ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization....” (Standard 4)

“Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. (Standard 5)

In addition, the outdated GPO Instruction has also contributed to the Comptroller and other GPO offices not implementing and maintaining internal controls in administering the Property Management Program and accounting for inventory, as identified in the following five findings in this OIG audit report.

## **RECOMMENDATIONS**

The Comptroller should:

- Update GPO policy on the Property Management Program to reflect the current operating procedures, controls, and responsibilities of GPO offices, as required by Standard 4 of GPO Instruction 825.18A (0002-01); and
- Develop and implement internal controls to provide safeguards in protecting assets against loss and ensuring accountability by having a separation of duties within the individual offices when necessary adjustments are made to property on the property systems, as required by Standards 2, 4, and 5 of GPO Instruction 825.18A (0002-02).

## **MANAGEMENT COMMENTS**

The Comptroller disagreed with OIG Finding 1 and the two recommendations. (See Appendix VIII.)

## **INSPECTOR GENERAL’S RESPONSE**

The Inspector General found the Comptroller’s comments to be neither valid nor warranted. The Inspector General’s response to the Comptroller’s comments are set forth in Appendix IV.

## 2. ACCOUNTING FOR INVENTORY

### FINDING

OIG auditors found property custodians were not always using and at times could not use the Comptroller's property listings as a management tool to account for the inventory of all property assigned to their specific cost codes, as required by the following GPO Instructions:

1. GPO Instruction 810.11A:

- Paragraph 9.c. states, "Property Custodians are also responsible for the overall operation of a records system including generating and transmitting timely and accurate forms; verifying computer printouts; taking necessary action to have deficiencies in the records corrected...."
- Paragraph 10.b. states, "The Financial Management Service will maintain a records system on capitalized and non-capitalized property owned or leased by the GPO. The system will be updated monthly,....The system will also serve as a check for physical inventory of this property."

2. GPO Instruction 825.18a:

- Standard 7 states, "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

OIG auditors verified for completeness and accuracy the Comptroller's March 15, 1999, property listing with the property custodians of six cost codes in the Offices of the Comptroller (#0121, #0133, #0162), Printing Procurement Department (PPD) (#1106), Production Department (#5400), and the Superintendent of Documents (SuDocs) (#9009). The OIG auditors found that the property custodians could not immediately account for 132 or 47 percent of the 279 property items on the Comptroller's property listing. (See Appendix I.) The 132 items had a total cost of \$4,052,682 and a total book value of \$547,200 as of August 3, 1998. (See Appendix II, page 6.)

The property custodians could not immediately account for the 132 property items because:

1. Items procured under one cost code in the PPD and the SuDocs were transferred after receipt to other cost codes. However, the transfers were not always reported on the Comptroller's property listing. (See Footnotes #6 and #7 of Appendix 1.);

2. Group purchases of the same assets for the PPD and the SuDocs were assigned individual GPO identification (ID) numbers by the Comptroller on the Comptroller's property listings that differed with the property custodian's individual assigned ID numbers. (See Footnotes #6 and #8 of Appendix 1.); and
3. The property custodians of the Comptroller, the Production Department, and SuDocs did not maintain copies of GPO Form 2051 *Return to Stores* on surplus property as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself to support that other items were returned to Stores for surplus and deleted from the Comptroller's property listings. (See Footnotes #1, #2, #3, #4, and #7 of Appendix 1.)

In April and May 1999, OIG auditors met individually with management officials from the six cost codes and provided the list of the unaccountable property items by cost codes to the officials for their review and comments. (See Appendix II.)

Since then, the officials have begun identifying the unaccountable property items in other offices in their department. (See Appendix III.) The officials have also provided documentation to OIG auditors of property items that were returned to Stores. While the officials could not provide additional documentation, the age and value of other property items provide reasonable assurance that these items were also returned to Stores.

The OIG auditors also identified another 83 property items that were physically located at the offices of the six cost codes but were not reported on the Comptroller's property listing. (See Footnote #9 of Appendix 1.)

It was the Comptroller's position that the 83 property items were capitalized property, and that only capitalized property should be on the property listing. However, contrary to the Comptroller's position, paragraph 10b of GPO Instruction 810.11A requires that a records system be maintained for both capitalized and non-capitalized property so that the system can serve as a check for the physical inventory of this property.

In summary, the property custodians did not always:

- Follow paragraph 9c of GPO Instruction 810.11A that requires verifying and accounting for the inventory and taking necessary action to correct all deficiencies in the property listings;
- Have adequate controls to account for the 132 property items required by Standard 7 GPO Instruction 825.18A; and
- Maintain copies of GPO Form 2051 *Return to Stores* on surplus property as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself.

The private accounting firm of KPMG, which issued a Management Letter to GPO as part of its financial statement audit for FY 1997 and FY 1998, also addressed these issues and made suggestions for improving the safeguarding of property and equipment. On December 7, 1999, these issues remained "open" when KPMG issued two Notifications of Finding and Recommendation (NFR) (97-C-1 and 97-C-2) that not all property custodians: (1) monitored assets and reported timely changes in assets to the Comptroller and (2) notified the Comptroller on all new assets or groups of assets upon receipt for assignment of GPO ID numbers. On January 3, 2000, the Comptroller concurred with the two NFRs.

## **RECOMMENDATIONS**

The Production Department's Production Manager, the Superintendent of Documents, the Printing Procurement Department's Manager, and the Comptroller should ensure that:

- The property custodians verify and account for all inventory and take necessary action to correct all future deficiencies on the property systems, as required by GPO Instruction 810.11A (0002-03);
- The same GPO identification (ID) number assigned and attached on the property items matches the ID number on the property systems (0002-04); and
- The property custodians maintain copies of GPO Form 2051 *Return to Stores* on the transfer of future surplus property, as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself (0002-05).

## **MANAGEMENT COMMENTS**

The Production Department's Production Manager, the Superintendent of Documents, and the Printing Procurement Department's Manager agreed with OIG Finding 2 and the three recommendations. The three Offices have begun identifying the property items that their property custodians could not immediately account for on the March 15, 1999, property listing. (See Appendices V, VI, and VII.)

The Comptroller, on the other hand, disagreed with OIG Finding 2 and the three recommendations. (See Appendix VIII.)

## **INSPECTOR GENERAL'S RESPONSE**

The Comptroller's December 6, 1999, comments are invalid. The Comptroller's disagreements contradicted: (1) the agreements that the OIG received from the Production Department's Production Manager, the Superintendent of Documents, and

the Printing Procurement Department's Manager and (2) his concurrence with KPMG's two NFRs 97-C-1 and 97-C-2.

The OIG concluded that instead of admitting that his property custodians could not immediately account for property items on the March 15, 1999, property listing, the Comptroller preferred to attack the audit process with unfounded charges. (See Appendix IV.)

### 3. ASSIGNING IDENTIFICATION NUMBERS

#### FINDING

Thirty, or 20 percent, of the remaining 147 property items that were located by the OIG auditors' inventory of six cost codes were not assigned individual ID numbers, contrary to paragraph 10a of GPO Instruction 810.11A.

“Equipment Numbers (prefixed by a letter or letters to indicate type of equipment) will be assigned and engraved on or attached to capitalized and controllable equipment.”

Further research showed that the Comptroller, contrary to paragraph 8f of GPO Instruction 810.11A, assigned group purchases of the same assets to one ID number.

“Identification Number is a unique number which is engraved on or physically attached to a single item of accountable property to identify that specific item.”

For example, two offices that were undergoing major computer system changes:

- Cost code 1106 (Manager, PPD) had 128 computers costing \$244,555 with a book value of \$141,260 assigned to 6 ID numbers. (See Footnote #6 of Appendix 1.)
- Cost code 9009 (SuDocs) had a total combination of 200 computers and monitors costing \$237,534 with a book value of \$200,324 assigned to 3 ID numbers. (See Footnote #8 of Appendix 1.)

The auditors also found that PPD's eight regional printing procurement offices (Cost codes 1230, 1250, 1280, 1320, 1340, 1350, 1380, and 1390) had only 8 ID numbers assigned to 86 computers costing \$158,793 with a book value of \$155,990.

The Office of Administrative Support's Physical Security Group is responsible for assigning ID numbers to property. When new equipment is received in MMS Central Receiving Unit, a GPO Form 2208, *Assignment of GPO or Equipment Number*, is prepared and copies are forwarded to the Comptroller's General Ledger and Property Section. This Section then notifies the Physical Security Group's Security Assistant (ID). The Security Assistant (ID) assigns and attaches an ID number to the new property received at the cost center's office and forwards the ID information to the Comptroller's General Ledger and Property Section for updating in the Comptroller's property listing.

However, since January 1998, the Security Assistant (ID) has not received any GPO Forms 2208s from MMS. The Director, MMS, directed the Central Receiving Unit not to

issue any more GPO Form 2208s to the Comptroller because of limited staffing. This has resulted in individual property items of group purchases over \$5,000, as well as individual purchases under \$5,000, not receiving ID numbers. Only those computers that were assembled in-house were assigned ID numbers from the Electronic Systems Division.

The Comptroller's General Ledger and Property Section has recently begun working with the Security Assistant (ID) by assigning ID numbers to property items requested by the property custodians.

The private accounting firm of KPMG, which issued a Management Letter to GPO as part of its financial statement audit for FY 1997 and FY 1998, also addressed this issue and made suggestions for improving the safeguarding of property and equipment. On December 7, 1999, this issue remained "open" when KPMG issued NFR 97-C-2 that not all new assets or groups of assets received a GPO ID number upon receipt. On January 3, 2000, the Comptroller concurred with the NFR.

## **RECOMMENDATIONS**

The Comptroller should ensure that an identification number (ID) is assigned to every single item of accountable property on the property systems, as required by GPO Instruction 810.11A (0002-06).

## **MANAGEMENT COMMENTS**

The Comptroller disagreed with OIG Finding 3 and the recommendation. (See Appendix VIII.)

## **INSPECTOR GENERAL'S RESPONSE**

The Comptroller's December 6, 1999, comments did not address the missing GPO ID numbers on property items in his own three cost codes, as well as the other cost code (Production Department). Instead, he addresses the other offices' subsidiary records, which had no relevance on the finding that GPO ID numbers were not assigned or attached to actual property items contrary to paragraph 10a of GPO Instruction 810.11A.

For the past two years, KPMG Management letters have notified the Comptroller about ID numbers not assigned to property. OIG Finding 3 supports KPMG's letters that the issue remains "open." On January 3, 2000, the Comptroller concurred with KPMG's NFR 97-C-2 that the assigning of ID numbers issue remains "open." The Comptroller's concurrence contradicts his disagreement with the OIG Finding 3 and the recommendation.



The Comptroller has informed KPMG auditors that the new Property Management Control System will ensure a GPO ID number for property items. Because of the expected date of the new Property Management Control System to be operational by the end of FY 2000, it is imperative that this recommendation be implemented immediately to correct the deficiencies in the present Program. (See Appendix IV.)

## 4. DELETING PROPERTY ITEMS

### FINDING

In September 24, 1998, the Comptroller issued property listings to property custodians to update for the end of the year financial statements. During that timeframe, OIG auditors performed their own inventory using the same property listings on six cost codes. The auditors notified the property custodians of the six cost codes that at least 132 property items could not be immediately accounted for.

The property custodians of three of the six cost codes (#0133 and #0162 of the Offices of the Comptroller and #5400 of the Production Department) responded to the Comptroller's September 24, 1998, memorandum by returning the property listings with 15 of the 132 property items as either crossed out or annotated that the property items were returned to Stores. The Comptroller's General Ledger and Property Section accepted the information on the 15 property items and dropped them from the Cost Code Record. The items were entered into a general suspense account and eventually deleted from the System.

Comptroller officials stated that only depreciable property with a book value requires supporting documentation for deletion from the Comptroller's property listings. This practice is contrary to GPO Instructions 810.11A and 805.7B, which provide as follows.

Paragraph 9.c. (1) of GPO Instruction 810.11A states, "Property Custodians are also responsible for the overall operation of a records system including generating and transmitting timely and accurate forms; verifying computer printouts; taking necessary action to have deficiencies in the records corrected; and advising the Property Management Officer and the Inspector General when property is lost or missing. This responsibility continues until the Property Custodian processes the appropriate form for issuance, return, or transfer of the property...."

Paragraph 7 of GPO Instruction 805.7B states, "When the head of an organizational unit determines that accountable property is surplus to the organization's needs or is no longer serviceable, the property may be returned to MMS on GPO Form 2051, *Return to Stores*. The returning organization is responsible for determining the acquisition cost and GPO number, if applicable, through contact with the General Accounting Division, Office of Financial Management.... This information must appear on GPO Form 2051 and must bear the signature of an authorized official of the General Accounting Division. The absence of a GPO number for equipment or the inability of the General Accounting Division to determine the acquisition cost must also be documented on the form by the General Accounting Division."

Paragraph 5.a. of GPO Instruction 805.7B defines accountable property as "...furniture, fixtures, office equipment, and capitalized equipment."

The General Ledger and Property Section deleted the following 15 property items, with a total cost of \$906,230 and no current book value, from the Comptroller's property listing without copies of GPO Form 2051 *Return to Stores* on the transfer of future surplus property as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself.

**PROPERTY ITEMS DELETED**

<b>Cost Code</b>	<b>GPO ID #</b>	<b>Description</b>	<b>Cost</b>	<b>Book Value 08/03/98</b>	<b>Book Value 03/15/99</b>
0133	135	IBM PC	\$748	0	\$0
0163 (Formerly 0162)	J7052	Calc Prt	9,025	0	0
0163 (Formerly 0162)	J7054	Calc Prt	9,025	0	0
0163 (Formerly 0162)	J5829	Calc Monr.	374	0	0
5400	5804	Imagemaker	6,295	0	0
5400	2161	IBM Copier Mod 70	16,818	0	0
5400	2380	Kodak Processor	9,980	250	0
5400	2432	570 Typesetter	352,677	10,445	0
5400	2644	Processor Xerox 1065	15,386	0	0
5400	3222	Phototypesetter	329,397	0	0
5400	8642	Digital Tape Transport	5,210	0	0
5400	8412	Duplicator Diazo Film	11,566	0	0
5400	9142	Xerox Copier 9900	547	0	0
5400	9511	Print Proof Copier Sys	130,628	0	0
5400	AB870	Microfilmed Recordak	8,554	0	0
<b>Total 15 items</b>			<b>\$906,230</b>	<b>\$10,695</b>	<b>\$0</b>

Property custodians should adhere to GPO Instructions 810.11A and 805.7B and ensure that supporting documentation is maintained as required by Standard 7 of GPO Instruction 825.18A before any inventory is deleted from the Comptroller's property listings. Standard 7 requires that: "The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

In addition, future inventory deletions without supporting documentation should be reported to the Office of the Inspector General as possible lost or missing property, as required in Paragraph 9.c.(1) of GPO Instruction 810.11A.

The private accounting firm of KPMG, which issued a Management Letter to GPO as part of its financial statement audit for FY 1997 and FY 1998, also addressed this issue and made suggestions for reconciling with the source data. On December 7, 1999, this issue remained "open" when KPMG issued NFR 97-C-1 that there was still no independent physical observations of the assets or other similar processes to verify the accuracy of the changes to the assets. On January 3, 2000, the Comptroller concurred with the NFR.

## **RECOMMENDATIONS**

The Comptroller should ensure that all property custodians are aware of the importance of:

- Maintaining documentation on all future deletions of inventory from property systems, as required by GPO Instruction 805.7B and Standard 7 of GPO Instruction 825.18A (0002-07); and
- Reporting all suspected lost, missing, and stolen properties timely to the appropriate GPO offices, as required by GPO Instruction 810.11A (0002-08).

## **MANAGEMENT COMMENTS**

The Comptroller disagreed with OIG Finding 4 and the two recommendations. (See Appendix VIII.)

## **INSPECTOR GENERAL'S RESPONSE**

Again, the Comptroller's December 6, 1999, comments are flawed. The Comptroller notes that the 15 property items mentioned in OIG Finding 4 had been fully depreciated and had a total book value for financial accounting and report of \$0. And that GPO had used these property items during their estimated useful life and the disposal, exchange, or retirement would be considered reasonable. However, the Comptroller ignores the fact that a property item may be fully depreciated for financial accounting purposes, but it still must be accounted for with adequate documentation, as required by GPO Instructions.

For the past two years, KPMG Management letters have notified the Comptroller about verifying the accuracy of changes to assets made by the property custodians. OIG Finding 4 supports KPMG's letters that the issue remains "open." On January 3, 2000, the Comptroller concurred with KPMG's NFR 97-C-1 that asset verification remains "open." The Comptroller's concurrence contradicts his disagreement with OIG Finding 4 and the two recommendations. (See Appendix IV.)

## 5. ENTERING INVENTORY ADJUSTMENTS TIMELY

### FINDING

Limited staffing in the Comptroller's General Ledger and Property Section contributed to inventory adjustments not always entered timely into the Comptroller's property listing. The following are two examples:

1. A discussion with the property custodian for Cost Code 5400 found that the August 3, 1998, property listing contained 15 property items that the property custodian had previously requested the Comptroller to remove. The 15 items that were returned to Stores, had a purchase cost of \$1,508,139 and a book value of \$22,053. However, the property custodian could not provide any documentation to support this request for removal.
2. In a response to the Comptroller's April 17, 1998, memorandum, requesting an "Accountable Equipment Review", the OIG requested 251 inventory adjustments to the three OIG cost codes, 0050, 0051, and 0053 on May 15, 1998. On September 24, 1998, the Comptroller requested another "Accountable Equipment Review." However, the property listing included only 10 of the 251 changes requested by the OIG. A difference of 241 changes was not made, contrary to paragraph 9d (3) of GPO Instruction 810.11A "...processes inventory adjustments to the accounting records."

When questioned about the delay in processing the OIG's inventory adjustments, the Assistant Comptroller, General Accounting Division, replied that only one General Ledger and Property Section employee entered that data resulting in a backlog. In addition, the Comptroller's request for an "Accountable Equipment Review" before ensuring that all prior property changes have been incorporated from the last review caused a duplication of work for the property custodians.

The Comptroller's "draft" Publication addresses two property systems, The Property Management and Control System (PMCS – all accountable property) and the Depreciable Equipment System (DES – all capital assets). The Comptroller's General Ledger and Property Section will still be responsible for the timely updating of the DES, while the property assistants will be responsible for the timely updating of PMCS.

### RECOMMENDATION

The Comptroller should ensure that adequate emphasis is placed on the timely updating of all inventory adjustments in the property systems by the Comptroller's General Ledger and Property Section, as required by GPO Instruction 810.11A (0002-09).

## **MANAGEMENT COMMENTS**

The Comptroller disagreed with OIG Finding 5 and the recommendation. (See Appendix VIII.)

## **INSPECTOR GENERAL'S RESPONSE**

The Comptroller's December 6, 1999, comments do not assert that the inventory adjustments were made timely, but merely attack the audit methodology. Not only did the OIG have evidence that timely adjustments were not made, but the Assistant Comptroller did not dispute the preliminary finding and mentioned a backlog. (See Appendix IV.)

## 6. RECEIVING FISCAL YEAR 1998 ANNUAL INVENTORIES

### FINDING

In order to prepare for an audit of GPO's 1997 financial statements, the Comptroller's October 1, 1997, memorandum "Review of Equipment Currently being Depreciated" requested property custodians to return updated listings of the equipment assigned to their cost codes by October 22, 1997. The memorandum was issued to only 130 of the 215 cost codes, because the 130 cost codes had depreciable equipment (property with minimum acquisition costs of \$5,000 that was still being depreciated). However, another four cost codes (9910, 9911, 9918, and 9960) had depreciable equipment and were not sent the memorandum.

Our audit disclosed that the annual inventory updates of depreciable assets were not received from 43 of 134 GPO cost codes (32 percent) as required by paragraphs 9c. (1) and 9d. (3) of GPO Instruction 810.11A. As of August 1998, the custodians of the 43 cost codes were responsible for \$7.21 million of the total \$53.17 million or 13.6 percent of the property book value.

### SUMMARY OF INVENTORY RESULTS OF OCTOBER 1, 1997

GPO Cost Codes	Total Cost Codes	% of Cost Codes	Book Value of Inventory	% of Total Book Value
<b>Cost Codes Responding</b>	<b>91</b>	<b>68%</b>	<b>\$45,956,146</b>	<b>86%</b>
<b>Cost Codes Not Responding</b>	<b>39</b>	<b>29%</b>	<b>\$6,393,546</b>	<b>12%</b>
<b>Cost Codes Not Sent Listing (9910,9911,9918, 9960)</b>	<b>4</b>	<b>3%</b>	<b>\$819,302</b>	<b>2%</b>
<b>Subtotal</b>	<b>43</b>	<b>32%</b>	<b>\$7,212,848</b>	<b>14%</b>
<b>Total Cost Codes</b>	<b>134</b>	<b>100%</b>	<b>\$53,168,994</b>	<b>100%</b>

Subsequently, on September 24, 1998, the Comptroller issued a memorandum to all department, service, and staff heads requesting that property custodians review and make changes to the attached property listings by October 9, 1998. Because of "a breakdown in the system of assigning and affixing GPO property numbers," the Comptroller requested a response from all property custodians. The custodians needed to verify production equipment, mainframe and microcomputers and peripherals, faxes,

copiers, vehicles, industrial trucks and batteries, PROBE terminals and any other items with a purchase price of \$5,000 or greater. All changes to the property listings would be made in order to update the records of the department, service, and staff heads before the Comptroller prepared the financial statements.

Our audit disclosed that the September 24, 1998, annual inventory updates were not received from 24 or 11 percent of the 215 GPO cost codes as required by paragraphs 9c. (1) and 9d. (3) of GPO Instruction 810.11A. The property custodians of the 24 cost codes were responsible for \$2.06 million of the total \$73.68 million or 3 percent of the property book value. Also, the same four cost codes (9910, 9911, 9918, and 9960) that were not sent a memorandum to update depreciable equipment in October 1997 were again not sent an annual inventory update.

### SUMMARY OF INVENTORY RESULTS OF SEPTEMBER 24, 1998

<b>GPO Cost Codes</b>	<b>Total Cost Codes</b>	<b>% of Cost Codes</b>	<b>Book Value of Inventory</b>	<b>% of Total Book Value</b>
<b>Cost Codes Responding</b>	<b>191</b>	<b>89%</b>	<b>\$71,612,293</b>	<b>97%</b>
<b>Cost Codes Not Responding</b>	<b>20</b>	<b>9%</b>	<b>\$1,618,354</b>	<b>2%</b>
<b>Cost Codes Not Sent Listing (9910,9911,9918, 9960)</b>	<b>4</b>	<b>2%</b>	<b>\$450,582</b>	<b>1%</b>
<b>Subtotal</b>	<b>24</b>	<b>11%</b>	<b>\$2,068,936</b>	<b>3%</b>
<b>Total Cost Codes</b>	<b>215</b>	<b>100%</b>	<b>\$73,681,229</b>	<b>100%</b>

While 89 percent reply percentage is a significant improvement over last October's 68 percent, the Comptroller needs to strive for 100 percent for preparing future, GPO's end-of-the-year financial statements. The remaining 11 percent or \$2.068 million in book value is a significant amount that should be accounted for in future annual updates of inventories.



The private accounting firm of KPMG, which issued a Management Letter to GPO as part of its financial statement audit for FY 1997 and FY 1998, also addressed this issue and made suggestions for providing complete and timely updates on changes to assets to the Comptroller. On December 7, 1999, this issue remained "open" when KPMG issued NFR 97-C-1 that property custodians were still not providing complete and timely updates on changes to assets to the Comptroller. On January 3, 2000, the Comptroller concurred with the NFR.

## **RECOMMENDATION**

The Comptroller should ensure the timely receipt of all annual updates of inventories from GPO property custodians, as required by GPO Instruction 810.11A (0002-10).

## **MANAGEMENT COMMENTS**

The Comptroller disagreed with OIG Finding 6 and the recommendation. (See Appendix VIII.)

## **INSPECTOR GENERAL'S RESPONSE**

The Comptroller commented that a response rate of 97 percent of the total book value should be worthy of a positive recognition by the OIG rather than negative reporting as an audit finding. Contrary to what the Comptroller claims, OIG Finding 6 commented positively on the significant improvements by the Comptroller from October 1997 to September 1998. However, the OIG believes that 3 percent of the book value or \$2,068,936 worth of property with no inventory update should be enough encouragement for the Comptroller to strive for a 100 percent response rate.

In addition, for the past two years, KPMG Management letters have notified the Comptroller about property custodians not providing complete and timely updates of changes to assets to the Comptroller. OIG Finding 6 supports KPMG's letters that the issue remains "open." On January 3, 2000, the Comptroller concurred with KPMG's NFR 97-C-1 that complete and timely updates issue remained "open." The Comptroller's concurrence contradicts his disagreement with OIG Finding 6 and the recommendation. (See Appendix IV.)

**SUMMARY OF INVENTORY RESULTS**

Description	Cost Code 0121	Cost Code 0133	Cost Code 0162	Cost Code 1106	Cost Code 5400	Cost Code 9009	Total
# of Items Inventoried	53	28	14	71	61	52	279
# of Items Not Accounted for	2 <sup>a</sup>	4 <sup>b</sup>	4 <sup>c</sup>	66	19 <sup>f</sup>	37	132
# of Items Transferred	0	0	0	0	1	0	1
# of Items Duplicated	0	0	0	0	2 <sup>e</sup>	0	2
<b>Total Items Not on Hand</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>66</b>	<b>22</b>	<b>37</b>	<b>135</b>
Cost of Items Inventoried	\$168,735	\$1,035,690	\$69,177	\$1,390,118	\$2,841,477	\$1,651,064	\$7,156,261
Cost of Items Not Accounted for	\$888	\$2,593	\$21,800	\$1,383,194	\$1,564,986	\$1,079,2219	\$4,052,682
Cost of Items Transferred	0	0	0	0	\$750	0	\$750
Cost of Items Duplicated	0	0	0	0	\$29,803	0	\$29,803
<b>Total Cost Not On Hand</b>	<b>\$888</b>	<b>\$2,593</b>	<b>\$21,800</b>	<b>\$1,383,194</b>	<b>\$1,595,539</b>	<b>\$1,079,221</b>	<b>\$4,083,235</b>
Book Value of Items Inventoried 8/03/98	\$55,440	\$271,055	\$12,626	\$329,373	\$461,453	\$447,344	\$1,577,291
Book Value of Items Not Accounted for 8/03/98	0	0	\$3,376	\$325,183	\$23,832	\$194,809	\$547,200
Book Value of Items Transferred 8/03/98	0	0	0	0	0	0	0
Book Value of Items Duplicated 8/03/98	0	0	0	0	\$914	0	\$914
<b>Total Book Value of Items Not on Hand</b>	<b>0</b>	<b>0</b>	<b>\$3,376</b>	<b>\$325,183</b>	<b>\$24,746</b>	<b>\$194,809</b>	<b>\$548,114</b>
Items Inventoried Not On Listing	25	4	5	27	12	10	8310
Assets Missing GPO ID #'s	1	10	1	0 <sup>11</sup>	18	0 <sup>12</sup>	30
Cost of Assets Missing GPO ID#'s	\$615	\$13,662	\$3,238	0	\$799,017	0	\$816,532
Book Value of Assets Missing ID #'s	0	0	0	0	\$410,885	0	\$410,885
Unserviceable Items	0	2	0	0	0	0	2
Cost of Unserviceable Items	0	\$7,869	0	0	0	0	\$7,869

4 An official from Cost Code 0121 stated that these two items were at some point in time returned to Stores. There was no documentation to support this from either the Cost Code or MMS.

5 An official from Cost Code 0133 stated that 3 of the 4 items, with a total cost of \$1,845 and no book value, were at some point in time returned to Stores. There was no documentation to support this from either the cost code or MMS. The remaining item, costing \$748 with no book value, was deleted from the property records during October 1998 on request by Cost Code 0133 without any additional documentation required by the Office of Comptroller.

6 An official from Cost Code 0162 stated that GPO ID # HL107, with a cost/book value of \$3,376, had at some point in time been returned to stores. There was no documentation to support this from either the cost code or MMS. The remaining 3 items, with a total cost of \$18,424 and no book value, were deleted from the property records during October 1998 on request by Cost Code 0162 without any additional documentation required by the Office of Comptroller.

7 An official from Cost Code 5400 stated that 11 of the 19 items, costing \$887,583 with a book value of \$10,695 as of August 3, 1998 (and no book value as of March 15, 1999), had at some point in time been returned to stores. There was no documentation to support this from either the Cost code or MMS. These items were deleted from the property records during January 1999 on request by Cost Code 5400 without any additional documentation required by the Office of Comptroller. The remaining 8 items, costing \$677,928 with a \$13,137 book value as of August 3, 1998 (and a \$10,425 book value as of March 15, 1999), are still being researched by Code 5400 to determine if they exist.

8 Upon notification by Cost Code 5400 in January 1999, two of the duplicated assets were deleted from the inventory listing (GPO #3577 & #4323), that had a total cost of \$29,803 with a book value of \$914 as of August 3, 1998 (and a \$665 book value as of March 15, 1999).

9 An official from Cost Code 9009 stated that GPO ID #10008, DX33 computers, costing \$652,614 with a book value of \$80,368 as of August 3, 1998, was at some point in time returned to Stores. There was no documentation to support this from either the Cost Code or MMS.

10 Identified another 83 property items that were physically located at the offices of the six cost codes but were not reported on the Comptroller's property listing.

11 This excludes 128 computers costing \$244,555 with a book value of \$141,260 as of August 3, 1998, which were assigned to 6 GPO ID numbers. These 6 GPO items could not be located and the cost and book value are included under "items not identified". It should be noted that 8 RPPOs (Cost Codes 1230, 1250, 1280, 1320, 1340, 1350, 1380, & 1390) had 86 computers costing \$158,793 and a book value of \$155,990, as of August 3, 1998, assigned to 8 GPO ID numbers. The cost, book value, and quantity of these items are excluded from this table.

12 This excludes 200 computers and monitors costing \$237,534 with a book value of \$200,324, as of August 3, 1998, that were assigned to 3 GPO ID numbers. These 3 GPO items could not be located and the cost and book value are included under "items not identified."

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
OFFICE OF THE COMPTROLLER'S COST CODES**

Cost Code	GPO #	Description	Cost	Book Value 08/03/98	Book Value 03/15/99	Comments
0121	J4218	Printer	\$418	0	0	NRTS
0121	J4186	Transcriber	\$470	0	0	NRTS
<b>Total</b>	<b>2 items</b>		<b>\$888</b>	<b>0</b>	<b>0</b>	

Cost Code	GPO #	Description	Cost	Book Value 08/03/98	Book Value 03/15/99	Comments
0133	6148	Monitor	\$615	0	0	NRTS
0133	6149	Monitor	\$615	0	0	NRTS
0133	6171	Monitor	\$615	0	0	NRTS
0133	0135	IBM PC	\$748	0	0	NRTS – Deleted
<b>Total</b>	<b>4 items</b>		<b>\$2,593</b>	<b>0</b>	<b>0</b>	

Cost Code	GPO #	Description	Cost	8/3/98 Book Value	3/15/99 Book Value	Comments
0162	HL107	ESDD PC	\$3,376	\$3,376	\$3,376	NRTS
0162	J7052	Calc Prt	\$9,025	0	0	NRTS – Deleted
0162	J7054	Calc Prt	\$9,025	0	0	NRTS – Deleted
0162	J5829	Calc Prt	\$374	0	0	NRTS – Deleted
<b>Total</b>	<b>4 items</b>		<b>\$21,800</b>	<b>\$3,376</b>	<b>\$3,376</b>	

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
PRINTING PROCUREMENT DEPARTMENT'S COST CODE**

Cost Code	GPO#	Description	Cost	Book Value 08/03/98	Book Value 03/15/99
1106	10015D	(20) Dell PC's	\$11,187	\$11,187	\$9,696
1106	D0021	(17) Dell PC's	\$31,827	\$30,235	\$25,992
1106	IH903	ESDD PC	\$4,916	\$4,916	\$4,916
1106	IH904	ESDD PC	\$4,916	\$4,916	\$4,916
1106	IH905	ESDD PC	\$4,916	\$4,916	\$4,916
1106	IH906	ESDD PC	\$4,916	\$4,916	\$4,916
1106	IH865	ESDD PC	\$4,916	\$4,916	\$4,916
1106	IH866	ESDD PC	\$4,916	\$4,916	\$4,916
1106	2548	Catalyst	\$15,449	\$14,419	\$13,389
1106	743	(6) Power Mac	\$23,281	\$17,234	\$14,236
1106	IH794	ESDD PC	\$6,529	\$5,441	\$4,570
1106	12215	(15) Pentium 200	\$12,780	\$10,650	\$8,946
1106	IH795	ESDD PC	\$6,335	\$5,174	\$4,329
1106	IH796	ESDD PC	\$6,335	\$5,174	\$4,329
1106	IH797	ESDD PC	\$6,335	\$5,174	\$4,329
1106	2064	FSSI Module	\$5,883	\$4,707	\$3,922
1106	1650	Ethernet	\$6,343	\$4,969	\$4,123
1106	HL435	ESDD PC	\$1,262	\$1,262	\$1,262
1106	HL436	ESDD PC	\$1,262	\$1,262	\$1,262
1106	HL437	ESDD PC	\$1,260	\$1,260	\$1,262
1106	HL438	ESDD PC	\$1,262	\$1,262	\$1,262
1106	HL439	ESDD PC	\$1,262	\$1,262	\$1,262
1106	HL440	ESDD PC	\$1,262	\$1,262	\$1,262
1106	HL762	ESDD PC	\$4,020	\$4,020	\$4,020
1106	HL408	ESDD PC	\$1,230	\$1,230	\$1,230
1106	HL409	ESDD PC	\$1,230	\$1,230	\$1,230
1106	HL410	ESDD PC	\$1,230	\$1,230	\$1,230
1106	HL411	ESDD PC	\$1,230	\$1,230	\$1,230
1106	HL412	ESDD PC	\$1,230	\$1,230	\$1,230
1106	IH716	ESDD PC	\$4,062	\$4,062	\$4,062
1106	IH715	ESDD PC	\$4,062	\$4,062	\$4,062
1106	IH725	ESDD PC	\$4,062	\$4,062	\$4,062
1106	IH723	ESDD PC	\$4,062	\$4,062	\$4,062
1106	9247	Powerbook	\$5,396	\$3,417	\$2,698
1106	PC049	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC050	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC051	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC052	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC053	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC054	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC055	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	PC056	PC 90MHZ	\$2,006	\$2,006	\$2,006
1106	9185	Dell Optiplex	\$5,851	\$3,315	\$2,535
1106	HD230	ESDD PC	\$4,319	\$4,319	\$4,319
1106	9066	(20) PC 90 MHz	\$51,870	\$24,616	\$17,583
1106	9105	Macintosh	\$16,399	\$7,926	\$5,739
1106	11181	(50) PC 90MHZ	\$113,610	\$47,338	\$32,190
1106	HL155	ESDD PC	\$1,379	\$1,379	\$1,379

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
PRINTING PROCUREMENT DEPARTMENT'S COST CODE**

Cost Code	GPO#	Description	Cost	Book Value 08/03/98	Book Value 03/15/99
1106	HL156	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL157	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL158	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL159	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL160	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL161	ESDD PC	\$1,379	\$1,379	\$1,379
1106	HL162	ESDD PC	\$1,379	\$1,379	\$1,379
1106	IH485	ESDD PC	\$8,301	\$2,490	\$1,384
1106	IH486	ESDD PC	\$8,301	\$2,490	\$1,384
1106	IH487	ESDD PC	\$8,301	\$2,490	\$1,384
1106	HL812	ESDD PC	\$1,327	\$1,327	\$1,327
1106	5847	IBM Term	\$1,408	0	0
1106	5854	IBM Term	\$1,408	0	0
1106	10482	IBM 36 Sys	\$60,078	\$20,527	\$16,521
1106	10481	IBM 36 Sys	\$648,930	0	0
1106	10485	IBM 36 Sys	\$101,944	0	0
1106	53803	IBM Sys 36	\$16,834	0	0
1106	10483	IBM Sys 36	\$106,069	0	0
<b>Total</b>	<b>66 Items</b>		<b>\$1,383,194</b>	<b>\$325,183</b>	<b>\$275,491</b>

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
PRODUCTION DEPARTMENT'S COST CODE**

Cost Code	GPO #	Description	Cost	Book Value 08/03/98	Book Value 03/15/99	Comments
5400	2161	IBM Copier	\$16,818	0	0	NRTS – Deleted
5400	2380	Kodak Processor	\$9,980	\$250	0	NRTS – Deleted
5400	2432	Typesetter	\$352,677	\$10,445	0	NRTS – Deleted
5400	2644	Processor	\$15,386	0	0	NRTS – Deleted
5400	3222	Phototypesetter	\$329,397	0	0	NRTS – Deleted
5400	5804	Imagemaker	\$6,295	0	0	NRTS – Deleted
5400	8642	Digital Tape Transport	\$5,210	0	0	NRTS – Deleted
5400	8412	Duplicator Diazo Film	\$11,566	0	0	NRTS – Deleted
5400	9142	Copier	\$547	0	0	NRTS – Deleted
5400	9511	Print Proof Copier Sys	\$130,628	0	0	NRTS – Deleted
5400	AB870	Microfilmed	\$8,554	0	0	NRTS – Deleted
5400	2360	Phototypesetter	\$40,000	0	0	
5400	2610	Videocomp Typesetter	\$13,500	0	0	
5400	3725	Cutter Paper Electric	\$1,995	0	0	
5400	4008	Kodak Processor	\$30,975	\$11,358	\$9,293	
5400	5450	Duplicator Standard	\$9,702	\$1,779	\$1,132	
5400	7289	Terminal	\$850	0	0	
5400	8468	Basic FR80 – C Syst	\$474,429	0	0	
5400	9921	Duplicator Xerox 9900	\$106,477	0	0	
<b>Total</b>	<b>19 Items</b>		<b>\$1,564,986</b>	<b>\$23,832</b>	<b>\$10,425</b>	

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
SUPERINTENDENT OF DOCUMENTS' COST CODE**

Cost Code	GPO #	Description	Cost	Book Value 08/03/98	Book Value 03/15/99	Comments
9009	J7914	HP LaserJet 4 Printer	\$1,368	1,368	1,368	
9009	J7915	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7916	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7917	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7918	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7919	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7920	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7921	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7922	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7923	HP LaserJet 4	\$1,368	1,368	1,368	
9009	J7924	HP LaserJet 4	\$1,368	1,368	1,368	
9009	IH380	ESDD PC	\$9,234	1,385	154	
9009	IH381	ESDD PC	\$9,234	1,385	154	
9009	IH382	ESDD PC	\$9,234	1,385	154	
9009	IH383	ESDD PC	\$9,234	1,385	154	
9009	IH384	ESDD PC	\$9,234	1,385	154	
9009	IH385	ESDD PC	\$9,234	1,385	154	
9009	IH386	ESDD PC	\$9,234	1,385	154	
9009	IH387	ESDD PC	\$9,234	1,385	154	
9009	IH000	IH Computers Whse 9916	\$227,047	34,057	3,784	
9009	IH010	ESDD PC	\$1,460	0	0	
9009	6195	Display Color	\$463	0	0	
9009	6018	Copier IBM	\$9,828	0	0	
9009	1508	Printer	\$1,738	0	0	
9009	655	Unit Trane Condensing	\$1,393	0	0	
9009	J4632	Typewriter	\$693	0	0	
9009	J3683	Typewriter	\$621	0	0	
9009	X0022	Speedicutter	\$5,392	\$5,392	\$4,673	May be at Laurel*
9009	2657	31 PC's	\$54,230	47,000	37,769	May be at Laurel but no ID #'s to verify*
9009	1983	IBM PC 640	\$1,446	0	0	Left at UCP**
9009	1984	IBM PC 640	\$1,446	0	0	Left at UCP**
9009	1985	IBM Display 2 col .8513	\$432	0	0	Left at UCP**
9009	1986	IBM Display2	\$432	0	0	Left at UCP**
9009	2064	IBM Display2	\$432	0	0	Left at UCP**
9009	8428	Perpetual License-Software	\$28,770	0	0	
9009	7619	Compaq Contura 425	\$1,864	1,864	1,864	
9009	10008	IBM 486 DX33 Computers	652,614	80,368	0	NRTS
<b>Total</b>	<b>37 Items</b>		<b>\$1,079,221</b>	<b>\$194,809</b>	<b>\$64,370</b>	

132 On March 29, 1999, a SuDocs official informed OIG auditors that the Speedicutter and the 31 PCs "May be at Laurel."

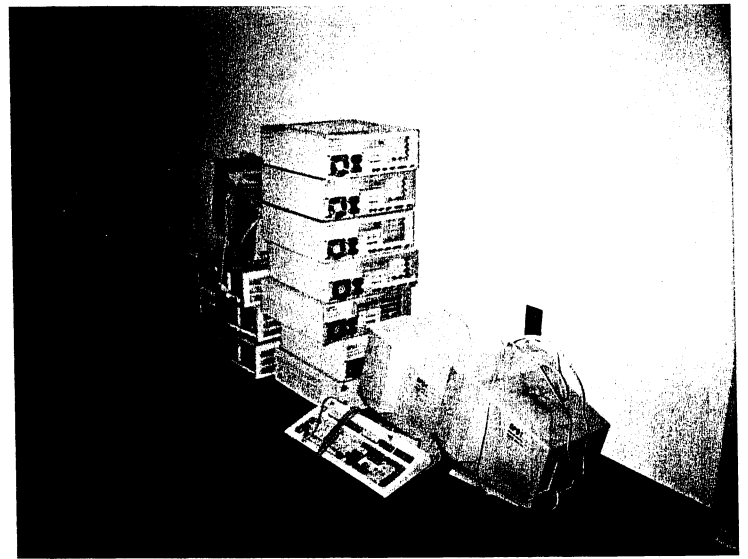
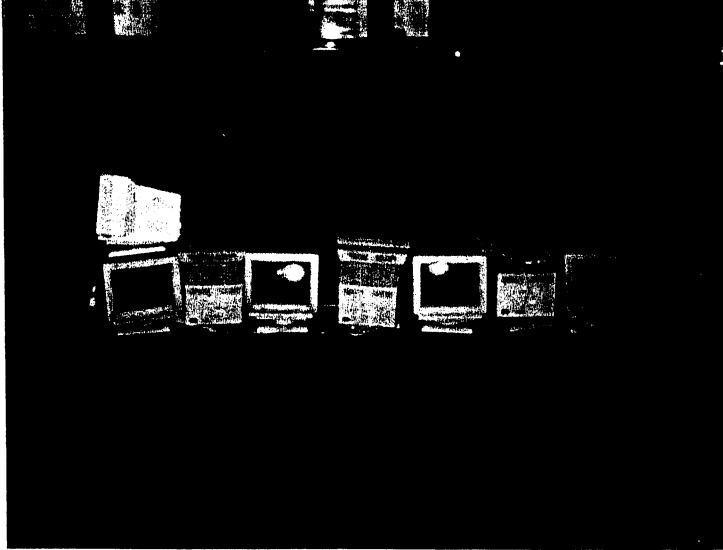
\*\* On March 29, 1999, a SuDocs official informed OIG auditors that the five IBMs were left at Union Center Plaza (UCP).

**ITEMS NOT IDENTIFIED (ITEMS THAT WERE NOT ON HAND OR WITH NO  
RETURN TO STORES SUPPORT DOCUMENTATION [NRTS])  
TOTALS OF THE SIX COST CODES**

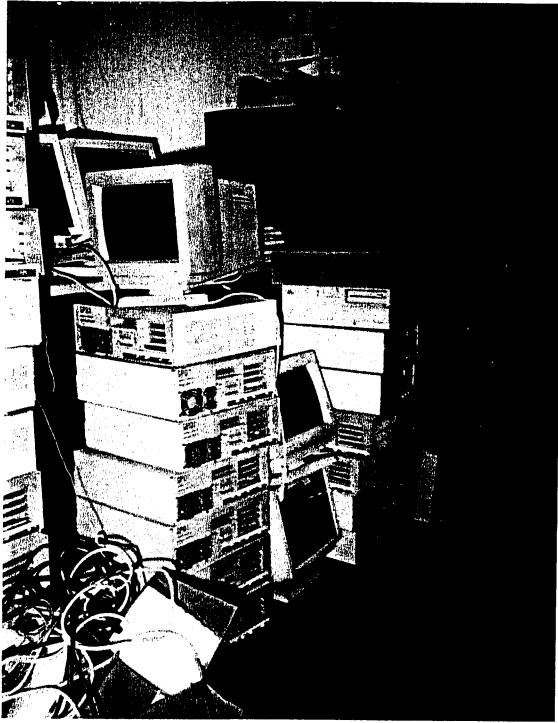
Total Cost Code	GPO#	Description	Cost	Book Value 08/03/98	Book Value 03/15/99
0121	2 items		\$888	0	0
0133	4 Items		\$2,593	0	0
0162	4 items		\$21,800	\$3,376	\$3,376
1106	66 Items		\$1,383,194	\$325,183	\$275,491
5400	19 Items		\$1,564,986	\$23,832	\$10,425
9009	37 Items		\$1,079,221	\$194,809	\$64,370
<b>Grand Total</b>	<b>132 Items</b>		<b>\$4,052,682</b>	<b>\$547,200</b>	<b>\$353,662</b>



Items Identified by the Comptroller



00-02  
(314)



*REX*



*REX*

**INSPECTOR GENERAL'S RESPONSE TO THE COMMENTS BY THE  
COMPTROLLER, U.S. GOVERNMENT PRINTING OFFICE, TO THE DRAFT AUDIT  
REPORT ON PROPERTY ACCOUNTABILITY AND CONTROL**

**Summary Response**

The OIG audit report recommended that the Property Management Officer (Comptroller) implement seven recommendations to strengthen the internal controls over administering GPO's Property Management Program, to include updating the 1981 Instruction. The OIG audit report also recommended that other GPO offices including the Comptroller implement three other recommendations in strengthening the internal controls over the accounting for inventory within GPO's Property Management Program.

On December 6, 1999, the Comptroller submitted written comments and did not concur with any of the ten recommendations that were addressed to him in the OIG audit report's six findings, including OIG Finding 2, Accounting For Inventory. The Comptroller's comments contradicted the agreements that the OIG received from the Production Department's Production Manager, the Superintendent of Documents, and the Printing Procurement Department's Manager on 3 of the 10 recommendations.

In addition, the private accounting firm of Peat Marwick (KPMG) issued Management Letters to GPO as part of its financial statement audits for FY 1997 and FY 1998 and made suggestions for improving controls over two property management issues: (1) monitoring and reporting property and (2) the safeguarding of property.

On December 7, 1999, KPMG issued two Notifications of Finding and Recommendation (NFR) from its ongoing audit of the FY 1999 financial statements to the Comptroller on the same two management issues from FY 1997 and FY 1998. On January 3, 2000, the Comptroller concurred with KPMG that the two NFRs continue to exist. However, these two NFRs support four of the six OIG findings in this OIG audit report that the Comptroller did not agree with in his December 6, 1999, written comments to the OIG.

The OIG has read the Comptroller's 109 pages of written comments and exhibits in response to the OIG's draft report of 34 pages. The OIG concluded that instead of disputing the factual findings of the OIG audit, the Comptroller preferred to attack the audit process with unfounded charges to justify his refusal to make the needed recommended changes to GPO's Property Management Program. This response by the Comptroller is contradicted by his own concurrence with KPMG's two NFRs.

For example, the Comptroller makes the comment that the Assistant Inspector General for Audits has a conflict of interest, in that he is a property custodian for the OIG Office of Audits, and that his involvement in the audit creates the appearance of a conflict of interest impairing independence, judgment, and objectivity.

There is nothing to suggest any conflict of interest between being a designated property custodian and supervising a performance audit of the Property Management Program – any connection between the two functions is tenuous and insubstantial. Instead, the comment serves to divert attention from the audit finding. The allegation has nothing whatsoever to do with whether or not the Comptroller made timely adjustments and diverts attention from the issue raised by OIG Finding 5.

On the other hand, the Comptroller has knowingly exploited an actual conflict of interest in attacking the OIG. I believe the Comptroller's comments were prepared by an auditor on detail from the OIG to the Office of Comptroller who has, in my opinion, a long-standing grudge against the both the Inspector General and the Assistant Inspector General for Audits. In addition, this auditor was included in the OIG's review process of the discussion draft report that was used in the March 10, 1999, exit conference with the Comptroller and other GPO officials. By allowing this employee to have a public vehicle for his continued attacks against the OIG, the Comptroller has done a disservice to the GPO.

The Comptroller also commented that the draft audit report be withdrawn and the audit be closed. It is the OIG's opinion that this was the Comptroller's stated intent since our first exit conference with him in March 10, 1999, to discuss GPO's Property Management Program.

We believe that the GPO should advocate the tightest internal controls over both capitalized and non-capitalized property that are cost effective. OIG audits now being conducted in other areas confirm that problems with GPO's Property Management Program continue to be widespread at GPO. With no firm operational date for the new Property Management Control System, it is highly desirable that the OIG's ten recommendations be implemented immediately by the Comptroller. The implementation should improve the current operating procedures, controls, and responsibilities for the Comptroller to provide reasonable assurance and safeguards for maintaining accountability over GPO property.

## Inspector General's Response

### 1. Comptroller's Cover memorandum.

Instead of disputing the factual findings of the Office of Inspector General (OIG) audit, the Comptroller preferred to attack the audit process itself to justify his refusal to make the recommended changes to the Property Management Program. In the final paragraph of the first page of the cover memorandum, the Comptroller states, "In conclusion, I hope that ...you will decide to withdraw the draft audit report and close out this review." This has been his stated intent from our first exit conference with him in March 10, 1999.

The audit reveals a Program that does not provide the accountability over property it was designed to insure. This Program has been the direct responsibility of the Comptroller since 1981. As set forth below, it is my opinion that the Comptroller's comments unfairly distort the findings in the audit, and are in many respects, unfounded.

### 2. Comptroller's General Comments

#### A. Opinions of the Internal and External Auditors Conflict

The Comptroller's position on the OIG's audit on the Property Management Program is that the OIG's methodology and results are in conflict with that of the external auditor, Peat Marwick (KPMG).

The OIG's response is that KPMG has been conducting audits of GPO's Financial Statements since FY 1997 to the present. GPO received unqualified opinions on the financial statements for FYs 1997 and 1998. These audits are directed at GPO's financial statements, however, and should not be used by the Comptroller to minimize the serious property management deficiencies noted in this audit report.

The OIG and KPMG audits are at different levels, with different objectives and different testing of controls. KPMG's objective is to determine how much it can rely on the effectiveness of management controls so that it can assess the extent of substantive testing within its materiality level of +/- \$7.4 million, necessary to support a financial statement opinion. Most, if not all, of the internal control samples tested by KPMG will be on capitalized property, because most, if not all, of its substantive tests will be on the high-dollar property that is depreciated in the financial statements.

The OIG's objective, on the other hand, is to determine the adequacy, efficiency, and effectiveness of internal controls for the purpose of strengthening the controls over the GPO Property Management Program, including capitalized and non-capitalized items. The OIG properly audits more deeply into the internal controls than the External Auditor. The OIG reports all weaknesses (whether as a finding or in "Other Matters" of an audit report) for the purpose of alerting management to opportunities to improve existing controls, and is not subject to the same materiality threshold. In fact, the KPMG auditors consider the OIG's work a significant internal control factor, because our materiality thresholds are substantially more stringent than that of the Financial Statement Audit.

A good example would be OIG Audit Report #98-11 *Report on the Internal Controls over GPO's Pay Parking Program Assets and Transactions By the Office of the Comptroller*, dated September 8, 1998. The audit report identified weaknesses in the internal controls to provide reasonable assurance and safeguards against waste, loss, and unauthorized use in the areas of cash deposits, separation of duties, Program applications, Schedule of Collections, and journal entry jackets. The audit findings led to an OIG investigation and prosecution of the Comptroller's Disbursing Officer for stealing over \$30,000 in a four-year period. The theft by the Disbursing Officer did not rise to the level of materiality used by KPMG in assessing internal controls for financial statement purposes.

The Comptroller does not disclose that the KPMG auditors have repeatedly identified issues regarding the Comptroller's implementation of the Property Management Program in the audits of the FYs 1997 and 1998 financial statements:

- KPMG issued two Notifications of Finding and Recommendation (NFR) with respect to property management issues for FY 1997:
  1. In NFR number F-3 (97-C-1), KPMG identified problems with the timely and complete monitoring of assets and reporting of changes in assets to the Comptroller's Financial Reports and Accounting Branch.
  2. In NFR number F-4 (97-C-2), KPMG noted that not all capital assets receive a GPO asset number upon receipt. And that there is sometimes a delay between receipt of an asset and recording the related transaction into the subsidiary records.
- In the audit of the 1998 financial statements, KPMG reissued the two NFRs with respect to property management issues. NFR numbers 97-C-1 and 97-C-2 had yet to be corrected.

For the ongoing audit of the FY 1999 financial statements, KPMG has issued the same two NFRs (97-C-1 and 97-C-2) identifying deficiencies that have yet to be corrected in the Property Management Program. The Comptroller concurred with KPMG's NFRs on January 3, 2000.

These two deficiencies that KPMG reported in the FY 1999 financial statements were also reported in the draft OIG audit report in four findings:

1. 97-C-1 – OIG Audit Finding 2 “Accounting for Inventory,” OIG Audit Finding 4 “Deleting Property Numbers,” and OIG Audit Finding 6 “Receiving Fiscal Year 1998 Annual Inventories;” and
2. 97-C-2 – OIG Audit Finding 3 “Assigning Identification Numbers.”

Nevertheless, the Comptroller states that the OIG's assessment of controls is different from KPMG. “The subject OIG audit report should disclose and reconcile this difference in professional opinions concerning the state of internal controls safeguarding assets....Thus, the AIGA should have reviewed the work and reports of the internal auditors...and the external auditors...in regard to this subject and recognized the conflict, and addressed it before now.”

The implication by the Comptroller that the AIGA did not review the draft audit report is simply false. As to reconciling differences with KPMG, the OIG did review KPMG's findings and referred to them in the draft report. The OIG briefed KPMG on our audit on February 2, 1999, and found that the objectives, scopes, and tests of both audits were different.

The Comptroller continues, “The external auditors have greater knowledge and understanding of the system of internal controls for safeguarding assets at the GPO because of their experience and financial expertise.”

KPMG auditors do not necessarily have a greater understanding of internal controls, nor are they required to have a complete understanding, as stated in the United States General Accounting Office Government Auditing Standards or generally accepted Government audit standards (GAGAS). GAGAS (4.27) states that AICPA and GAGAS requires that they have a “...sufficient understanding of internal controls to plan the audit.”

On the other hand, the OIG reviews the internal controls in every internal audit that it conducts. OIG auditors have ample experience with internal controls at GPO.

Also, as previously stated, KPMG auditors assessed internal controls using a broader scope and tests than the OIG, and have an entirely different objective with a shorter time frame to complete the audit. During the OIG audit, KPMG concluded on February 8, 1999, that the internal controls designed by management provided reasonable assurance, but not absolute assurance, on the safeguarding of assets against loss from unauthorized acquisition, use, or disposition as of September 30, 1998.

We believe that the Comptroller should advocate the tightest internal controls over property that are cost effective. It concerns us that the Comptroller appears more than satisfied with the KPMG standard.

B. OIG Used "Absolute Assurance" Instead of "Reasonable Assurance"

The Comptroller states, "The OIG's use of a standard of 'absolute assurance' for this audit is entirely inappropriate and conflicts with internal control standards of the Federal Government. The OIG report repeatedly uses the phrases 'could not always' and 'were not always' as a standard of evaluating controls and results of management objectives."

In addition, the Comptroller states, "The OIG's use of 'absolute assurance' is not only inappropriate, but produces an unreasonable report that is of no value to management."

The OIG's response is that the Comptroller's assertion that the OIG used the standard of "absolute assurance" is totally misleading. The Comptroller presents the words "absolute assurance" as a quotation from the audit report when in fact; the words do not appear at all in the OIG report. The Comptroller sets up the false strawman of "absolute assurance," and then spends a full page attempting to discredit a concept, which was never used in the OIG report.

The Comptroller states that the OIG used the phrases "could not always" and "were not always" in the report as a standard for evaluating controls and the results of management objectives. In fact, the two phrases were used a total of five times in the OIG audit report (Results in Brief [twice], OIG Finding 1 [once], and OIG Finding 2 [twice]) to indicate that the GPO Instruction was not always being followed by the custodians; that the records systems could not always be used by the custodians to account for inventory; and that property item transfers were not always reported on the Comptroller's property listing.

Moreover, the OIG does not seek to apply a standard of assurance. Our objective is to test the effectiveness of management's standard. The purpose of this audit was to identify any problems and make recommendations for increasing efficiency and



effectiveness. Its purpose does not include expressing an opinion, therefore, no statement of assurance was needed. If there was any confusion on the subject, it should have been resolved by the following language in the Inspector General's draft transmittal memorandum, which the Comptroller failed to mention:

"An Office of Inspector General audit team conducted a performance audit to evaluate the adequacy, efficiency, and effectiveness of management controls over property within the Government Printing Office (GPO) during July 1998 through March 1999."

C. Audit Report Is Untimely, Inaccurate, and of No Value

1. The Comptroller states that the results of the report were not completed and presented in a timely manner to management. The Comptroller states the audit was reportedly performed from July 1998 through March 1999 with additional fieldwork in April and August 1999, and sent to the Comptroller on October 26, 1999. And that the OIG sampled property taken from the Comptroller's August 3, 1998, property listing, made the property data over 14 months old and hindered management officials to verify the OIG's claim.

The OIG's response is that the audit did begin in July 1998, and focused on what was then the most recent inventory available, the Comptroller's August 3, 1998, property listing. The auditors worked with that sample throughout the audit with the official property custodians of the six cost codes. The property custodians worked with the audit staff in inventorying their property and the custodians were aware of the property that could not be immediately located, as were other management officials. It is misleading of the Comptroller to assert that the time taken to issue a draft audit report has hindered management's ability to verify the status of the property. The findings of the audit team were regularly reported to management throughout the audit in a timely fashion and in accordance with GAGAS.

GAGAS (7.8) provides that auditors should consider interim, oral reporting to management during the audit. This would alert management to matters needing immediate attention and to permit them to correct them before the report is completed.

The OIG has kept the Comptroller's office fully informed of the findings and recommendations of the audit. The Comptroller's office was briefed on the findings and recommendations of the audit since January 1999. Any delays in completing the audit report have been the direct result of: (1) further audit work performed at

the request of the Comptroller; (2) conflicting and incomplete information provided by some of the auditees; and (3) the absence of a key employee due to an accident:

- On September 23, 1998, and on October 23, 1998, the OIG briefed the Assistant Comptroller, General Accounting Division, on the inventory discrepancies found in the three Comptroller's cost codes. On January 26, 1999, the OIG briefed the Assistant Comptroller, General Accounting Division, on all the findings and recommendations, and he did not dispute them.
- The first "discussion" draft report was delivered to management on February 17, 1999. An exit conference was held on March 10, 1999, with the Comptroller, and other management officials from the Superintendent of Documents (SuDocs), Materials Management Service (MMS), Printing Procurement Department (PPD), and the Deputy Public Printer. Management officials raised specific concerns about the report and the OIG agreed to do additional audit work to address those concerns. At the meeting, the Comptroller stated that he did not think the OIG should issue the report.
- Management's concerns from the exit conference were considered and additional audit work was performed to address those concerns. The second draft report was issued to management for comments on August 6, 1999, with a return date of August 27, 1999. Every effort was made to accommodate management's concerns made at the March 10, 1999, exit conference.
- On August 24, 1999, the Production Manager issued written comments to the OIG agreeing with Recommendations 3, 4, and 5 in Finding 2. However, the Comptroller chose to prepare an August 25, 1999, memorandum to the OIG for the signature of the Deputy Public Printer requesting another exit conference, and accusing the OIG of rushing draft audit reports through management review and stating that no exit conference had been held, despite the fact that such a conference was held in March 1999. The Comptroller waited two and a half weeks to inform the OIG that he needed another exit conference, when such a second conference could have been held much sooner had the Comptroller simply asked for the meeting when he received the draft report.
- On September 11, 1999, an exit conference was held with the Comptroller and the Manager, PPD. The Comptroller's concerns were again considered and found to be generally unfounded, and a third draft report was issued on October 26, 1999, to management officials for their written comments due by November 15, 1999, since there was little change with the major concerns raised in the draft report.

- On November 9, 1999, the Comptroller again requested an extension until December 6, 1999, to reply to the audit report, and his request was granted. His comments were finally received on December 7, 1999, and were longer than the audit report itself. The comments contained such inaccurate, distorted, and misleading information that much effort has been required to carefully refute each erroneous allegation made by the Comptroller against the OIG, which further delayed the finalizing of this audit report.
- On November 15, 1999, the Production Manager again issued written comments to the OIG agreeing with Recommendations 3, 4, and 5 in Finding 2. SuDocs responded on December 6, 1999, and PPD responded on January 14, 2000, agreeing with Recommendations 3, 4, and 5 in Finding 2 too.

The following are the dates and meetings at which management officials of the six cost codes became aware of the audit findings that were to be included in the audit report:

Comptroller's Payroll (Cost Code 0133), Commercial Billing (0162) and Financial Accounting (0121)

- OIG conducted an inventory of property with the official property custodians for Cost Code 133 on September 3, 1998, for Cost Code 162 on September 22, 1998, and for Cost Code 121 on October 23, 1998.
- OIG met with the Assistant Comptroller, General Accounting Division, on September 23, 1998, to discuss inventory discrepancies for Cost Codes 0133 and 0162 and on October 23, 1998, for Cost Code 0121. OIG met again with Assistant Comptroller on January 26, 1999, to discuss all findings and recommendations, and he did not dispute them.
- OIG issued discussion draft on February 17, 1999, identifying areas in GPO's Property Management Program needing management attention. An exit conference was held on March 10, 1999.
- OIG Met with Comptroller and MMS (Stores) employees on specific inventory not located on March 25, 1999.
- OIG met with Comptroller and representatives on May 11, 1999, on audit issues.
- OIG issued second draft report for comments on August 6, 1999, identifying areas in GPO's Property Management Program needing management attention.
- OIG held exit conference on August 30, 1999. OIG issued third draft report for comments on October 26, 1999. Comptroller requested an extension until December 6, 1999, to reply to the draft audit report. The Comptroller's written comments are hand-carried to the OIG on December 7, 1999, disagreeing with all ten OIG recommendations in the draft report.

SuDocs (Cost Code 9009)

- OIG conducted an inventory of property with the official property custodian for Cost Code 9009 on October 19, 1998.
- OIG met with Assistant Comptroller, Government Accounting Division, on January 26, 1999, to discuss all findings and recommendations, and he did not dispute them.
- OIG issued discussion draft on February 17, 1999, identifying areas in GPO's Property Management Program needing management attention. An exit conference was held on March 10, 1999.
- OIG met with SuDocs representative on March 29, 1999, to discuss inventory discrepancies.
- OIG met with SuDocs officials on April 20, 1999, and presented revised listing of inventory discrepancies.
- OIG issued second draft report for comments on August 6, 1999, identifying areas in GPO's Property Management System needing management attention.
- OIG held exit conference on August 30, 1999.
- After the exit conference, the IG met with SuDocs officials to discuss the Comptroller's photographs on specific inventory.
- IG met again with SuDocs Information Systems employee on September 1, 1999, to discuss specific inventory discrepancies.
- OIG issued third draft report for comments on October 26, 1999. SuDocs responded in writing with comments on December 6, 1999, agreeing to the recommendations in the draft report.

PPD (Cost Code 1106)

- OIG conducted an inventory of property with the official property custodians for Cost Code 1106 on October 21, 1998.
- OIG met with PPD's Systems Support representative on November 13, 1998, to discuss specific inventory discrepancies.
- OIG met with Assistant Comptroller, Government Accounting Division, on January 26, 1999, to discuss all findings and recommendations, and he did not dispute them.
- OIG issued discussion draft on February 17, 1999, identifying areas in GPO's Property Management Program needing management attention. An exit conference was held on March 10, 1999.
- OIG met with PPD's Systems Support representative on March 16, 1999, to discuss specific inventory discrepancies.
- OIG met with PPD Manager and his representative on March 30, 1999, and presented revised listing of inventory discrepancies.

- OIG issued second draft report for comments on August 6, 1999, identifying areas in GPO's Property Management Program needing management attention.
- OIG held exit conference on August 30, 1999.
- IG met with PPD's Systems Support representatives on September 1, 1999, to discuss specific inventory discrepancies.
- OIG issued third draft report for comments on October 26, 1999. PPD responded in writing with comments on January 14, 2000, agreeing to the recommendations in the draft report.

Production's Photosetting (Cost Code 5400)

- OIG conducted an inventory of property with the official property custodians for Cost Code 5400 on November 4, 1998.
  - OIG met with Assistant Comptroller, Government Accounting Division, on January 26, 1999, to discuss all findings and recommendations, and he did not dispute them.
  - OIG issued discussion draft on February 17, 1999, identifying areas in GPO's Property Management Program needing management attention. An exit conference was held on March 10, 1999.
  - OIG met with Photosetting Manager on April 1, 1999, to discuss specific inventory discrepancies.
  - Issued second draft report for comments on August 6, 1999, identifying areas in GPO's Property Management Program needing management attention. Production Manager responded in writing with comments on August 24, 1999, agreeing to the recommendations in the draft report.
  - OIG issued third draft report for comments on October 26, 1999. Production Manager responded in writing with comments again on November 15, 1999, agreeing to the recommendations in the draft report.
2. The Comptroller also states, "Third, the report contains numerous inaccuracies, as noted in our response, even after we spent many hours with your staff to have the errors corrected. To illustrate, OIG Finding 5 *Entering Inventory Adjustments Timely*, states that the Inspector General, by memorandum dated May 15, 1998, requested the Comptroller to make 251 inventory adjustments to the OIG's cost codes. However, the arithmetic sum of the requested adjustments is only 216. Such errors raise concerns about the accuracy, quality control, and credibility of this audit and associated report."

The OIG's response is that such a statement by the Comptroller is simply untrue and demonstrates bad faith in dealing with the OIG. The correct sum is as the audit report noted – 251 inventory adjustments, not 251 items.

We arrived at the number in the following manner:

105 items on-hand but not in system.  
111 items in system but not on-hand.  
33 of 111 items value overstated.  
1 vehicle removed from cost code 0051.  
1 vehicle added to cost code 0050.  
251 inventory adjustments

Despite the accuracy of the reported number, the Comptroller seizes upon a perceived inaccuracy to justify his refusal to take any corrective action.

3. The Comptroller further states, "I am disappointed that this year-plus OIG audit has not produced any real benefits for the GPO. The OIG draft audit report lacks any original ideas, suggestions, or recommendations that would either: (1) Strengthen the system of internal controls that safeguard and account for property, (2) Improve the economy, efficiency, and/or effectiveness of the GPO Property Management Program, or (3) Promote greater compliance with management policies and procedures."

The OIG's response is that despite the Comptroller's preference for innovation, it is the OIG's opinion that a good starting point for reform is to comply with existing instructions.

This OIG audit report confirms what has been found in two previous OIG audit reports that were issued in FY 1999: (1) OIG Audit Report #99-07 *Report on the Internal Controls over the Laurel Retail Sales Outlet*, dated July 14, 1999, and (2) OIG Audit Report #99-03 *Report on Audit of the McPherson Square Bookstore*, dated March 19, 1999. The two audit reports noted similar internal control weaknesses that were caused by non-compliance with the existing instructions and a lack of emphasis on the reporting of non-capitalized property.

In addition, subsequent testing of property accountability during five ongoing audits indicate that control weaknesses in the accountability over property is GPO-wide and that the findings of this audit are still valid:

- The Graphic Supplies Section was conducted between March 1999 and September 1999 and the draft report is pending;
- The Electronic Systems Development Division was conducted between July and November 1999 and the draft report is pending;

- The St. Louis Regional Printing Procurement Office was conducted in July 1999 and a draft report is pending;
- The GPO Garage was started November 1999 and is ongoing; and
- The Materials Management Service Paper and Specialized Procurement started in November 1999 and is ongoing.

Contrary to the Comptroller's assertion, we believe that compliance with the existing Instruction, as we recommended, will result in improved controls and an improved program for all property custodians to accurately account for their property items. We also recommend updating the existing Instruction to reflect current management practices.

The OIG also believes that management is in the best position to determine the specifics of implementing changes to strengthen internal controls. The OIG does not attempt to dictate to management the details of implementing recommendations. Unfortunately, in this case, the Comptroller refuses to implement any recommendations, contrary to the management officials in SuDocs, PPD, and PD and in the Office of the Comptroller that are revising the Instruction.

D. Audit Objective Was Not Accomplished

1. The Comptroller notes that the OIG did not evaluate physical security controls over property at GPO. He states that physical security is a critical component of any agency's internal control system that safeguards assets, and that if the OIG did not evaluate physical security, then the OIG's stated objective is misleading. The Comptroller describes this as a deficiency in audit planning and fieldwork which raises doubts about the audit being conducted in accordance with GAGAS.

The OIG's response is that the Comptroller's statement is deceptive. The objective he describes as misleading is followed by language that clearly states, "We did not evaluate the effectiveness of physical controls over property at GPO. GPO is a secure facility with ingress and egress controlled by the GPO Protective Services and Physical Security Groups under the direction of the Office of Administrative Support." This is primarily what KPMG relies on to meet their standard in the absence of a functioning property control system. The Comptroller never mentions that this limitation on scope was clearly set forth in the appropriate place, the OBJECTIVE, SCOPE, AND METHODOLOGY Section, in the audit report.

The OIG performed an independent assessment of the GPO Property Management Program. The audit staff reviewed the receiving of property; the reporting of property on the property listing; the assigning of ID numbers to property; the annual

review of the property listings; the updating of the property listings from the annual review; the deleting of property from the property listings; the disposing of property; and compliance with the GPO Instruction by officials associated with the GPO Property Management Program.

A simultaneous audit of the Physical Security Program was beyond the scope of this audit. If GPO's Property Management Program was properly implemented, the Comptroller would not have to rely on the Physical Security Program as a last resort to ensure the protection of assets. The two Programs should work in tandem. Unfortunately, given the weak internal controls over GPO's Property Management Program, one can not accurately state with certainty that property was not accounted for due to fraud, waste, or abuse.

The Comptroller's statements about the GPO's outstanding security record mask the actual issues at hand. During the audit, property custodians were unaware that certain items could not be located until the OIG brought it to their attention. After it was brought to their attention, the property custodians were unable to physically locate many of those property items.

The seriousness of the situation is illustrated by the Comptroller's words to the effect at the March 10, 1999, exit conference, that he was not overly concerned with: (1) physically accounting for property less than \$25,000 and (2) the property custodians' lack of control over their own property. Remember, the Comptroller was designated as the Property Management Officer by the GPO Instruction.

The Comptroller cites OIG Audit Report #99-05 *Report on the Effectiveness of the Physical Security Program for Secured Production Facilities at GPO*, dated April 13, 1999, as support for his conclusion that security at GPO is excellent. Yet, OIG Audit Report #99-05 only addressed physical security at Building 4, which houses passport operations. Given the nature of its operations, Building 4 is expected to be the most secure building in the Central Office. OIG Audit Report #99-05 did not address physical security in other buildings of GPO.

2. The Comptroller stated, "Furthermore, the subject draft audit report does not provide any evidence of harm, such as the loss or theft of property. Normally, a review of internal controls safeguarding assets would include an examination of reported thefts and losses."

The OIG's response is that the original discussion, draft audit report that was issued to management officials on February 17, 1999, identifying areas in GPO's Property Management Program needing management attention stated that, "...accountability



over assets is weakened as the risk of loss by error, fraud, waste, and theft increases. For example, in January 1995, over \$1,900 in GPO property was reported stolen and investigated by the OIG's Office of Investigations."

At the March 10, 1999, exit conference, the Comptroller commented that the report's example of \$1,900 in GPO stolen property was inappropriate. To accommodate the Comptroller's request, the example was removed from the report. However, now, the Comptroller is questioning why the OIG did not include an examination of reported thefts and losses in the report. The current report replaces the sole emphasis on safeguarding property in the discussion report with the addition of three other controls (accountability, separation of duties, and reliable reporting) over property. The Comptroller's examples of five incidents involving lost, missing, or stolen property provides the actual effect of weak internal controls and highlights the importance of following existing Instructions.

E. OIG Non-Statistical Sample Is Biased

1. The Comptroller attempts to discredit the report by claiming that much of the report is based on a biased judgmental sampling of six GPO cost codes at Central Office, when it should be based on random sampling of the universe.

The OIG's response is that the Comptroller ignores that judgmental sampling is a valid testing method. The six cost codes sampled represent four large offices of GPO (Comptroller, Production, SuDocs, and PPD). In addition, bulk purchases for SuDocs and PPD were incorporated only in the Superintendent's and the PPD Manager's individual cost codes and not reported in the actual cost codes that the property items were being used. This meant that the property listings for many of the cost codes under the two Offices did not include these property items. As a result, these cost codes also had inaccurate property listings that could not be reconciled with the property on-hand by the OIG auditor or the property custodian. For the OIG to inventory these other cost codes would be a duplication of effort.

The findings with respect to the six cost codes have been supported by the findings of five on-going audits and two subsequent completed audits, as mentioned in the OIG's response on Pages 12 and 13 of Appendix IV.

2. The six cost codes included the two largest on-going system acquisition projects of GPO (PPD & SuDocs). The Comptroller asserts that selecting acquisition projects that are being received, stored, and installed in and outside of Central Office was not representative of GPO or proper for property verification. According to the

Comptroller, timing differences would impact the accuracy of the results, especially for equipment delivered, but not in service.

The OIG's response is that the Comptroller is misstating the audit methodology. In every audit the OIG attempts to review current procedures, when possible, to assess compliance with GPO Instructions and the internal controls in place. Any recommendations made on current procedures should benefit management.

The Comptroller brought the timing differences to the OIG's attention at the March 10, 1999, exit conference and noted that some of the unlocated property items on the OIG's report were from bulk purchases listed on single purchase orders that GPO had not received in full. Even though the property items had not been received, they had been obligated and reported in the Comptroller's property listings as "File 4" items. The OIG immediately removed these items from the draft report. The OIG did this to accommodate the Comptroller's concerns despite the fact that information about "File 4" items had not been disseminated to the OIG prior to the exit conference. This included other meetings with the Assistant Comptroller on September 23, 1998, October 23, 1998, and January 26, 1999, on the property discrepancies. As a result, the timing differences in acquisition did not have any impact on the findings in the current OIG draft report.

3. The Comptroller complained that the audit report states that the scope of the audit was limited to Central Office. The Comptroller continues, "However, these two system acquisition projects include property being installed at both Central Office and regional operations."

In addition, the Comptroller states:

"Two of the property items in Appendix II contain "Comments" on page 5 noting that the property: 'May be at Laurel.' Obviously, the OIG only audited Central Office, as stated, and did not go to the Laurel Complex of the Superintendent of Documents to verify property selected in their sample. No wonder the OIG could not locate the property; the auditors never visited any of GPO's regional operations, and apparently just off-handedly reported the property there as not located. The limited sample and scope raise further doubt about the credibility and objectivity of this audit and draft report."

The OIG's response is that we note that the property was listed under the two Central Office cost codes of the Superintendent (SuDocs) and the Manager, PPD. The Comptroller's property listings were not updated to show the actual cost codes having the property on-hand.

At the March 10, 1999, exit conference, it was agreed that the audit staff would contact the individual managers of the six cost codes to discuss any inventory discrepancies. On March 29, 1999, the OIG met with a SuDocs manager on the inventory discrepancies. We were informed that computers were "Left at UCP" when operations were relocated. The Speedicutter and the 31 PC's "May be at Laurel," but with no GPO ID numbers or serial numbers, it would be very difficult to verify. There are ten cost codes assigned to Laurel. We determined that it would be futile to try to locate the property items with no ID numbers to verify them. This is another example of how the failure to properly implement the Property Management Program results in the inability to reconcile inventory with the actual property on hand.

4. The Comptroller stated that he located property that the OIG reported as "not located" in the two earlier versions of this draft report and provided photographs as evidence of the existence of such property.

The OIG's response is that the information provided by the Comptroller did not resolve the issues raised by the audit report. At the August 30, 1999, exit conference, the Comptroller provided the IG with photographs of computers. (See Appendix III.) The photographs of the computers were located in five SuDocs cost codes (9320, 9321, 9322, 9323, and 9324). The IG, assisted by SuDocs officials, specifically counted 140 computer systems (132 were a part of the 322 that were purchased under Purchase Order #10000894 + 8 computer systems that were put together in-house by ESDD). These 140 computers were still assigned to the Superintendent's cost code and had GPO ID numbers attached that could not be traced back to the Comptroller's property listings, because the bulk purchases had only one GPO ID number. The latest draft audit report reflected on the fact that an additional 140 computer systems were located.

#### F. Audit Methodology Is Flawed

The Comptroller continues his criticism of the audit process by claiming that the OIG did not properly consider PPD and SuDocs subsidiary property records or visit regional operations but started "an apparent stealth review conducted in a vacuum."

It is erroneous to claim that the OIG did not properly review subsidiary records. Much effort was spent reviewing the records as a result of information received from the Comptroller. As it turned out, the additional effort did nothing to resolve the issues raised in the audit report. The information provided by the Comptroller only served to delay the audit and divert attention from the absence of property accountability the Property Management Program was designed to insure.

- The OIG did consider PPD's subsidiary property records. During the October 21, 1998, inventory of the Manager, PPD's cost code #1106; the property custodian could not locate 77 items. The custodian kept her own subsidiary records and did not know what to do with the Comptroller's September 1998 property listing. The directions and guidance she requested and received from the Comptroller's office were minimal.

On November 13, 1998, PPD Systems Support Chief stated that he could not reconcile PPD's subsidiary records to the Comptroller's property listing, because the listing was missing serial numbers and his property were missing ID numbers.

- At the August 30, 1999, exit conference, the Comptroller referred the OIG to the Information Systems Specialist detailed to SuDocs for the SuDocs subsidiary property records. The IG personally met with the Information Systems Specialist on September 1, 1999, and found that he kept a book on the 322 computers that were purchased in 1994 when SuDocs moved from Union Center Plaza. However, the book did not cover the status of these computers past 1994. In summary, SuDocs' subsidiary records could not identify the location of any of the 322 computers.

G. OIG Arbitrarily Established Property Accountability Threshold for Audit.

The Comptroller claims that the OIG made up their own property accountability criteria of \$300. The Comptroller states, "At the time of the audit, the approved dollar threshold for recording assets in the Accountable Equipment System (AES) was \$5,000.... The appendices to the draft OIG audit report lists many property items, over \$300 and below the \$5,000 threshold, that the OIG assumed to be accountable property. This action by the OIG is questionable."

The OIG's response is this claim by the Comptroller is misleading and misses the entire point of the audit. The inference is that GPO and the OIG should not be concerned about the accountability of non-capitalized property under \$5,000. The OIG reviewed both capitalized inventory and non-capitalized inventory and set \$300 as a starting point for non-capitalized property.

In reality, the Comptroller's property listing system should include both capitalized and non-capitalized property items, as directed by GPO Instruction 810.11A, which states in paragraph 10(b) as follows:

"Capitalized and Non-Capitalized Property Records". The Financial Management Service will maintain a records system on capitalized and non-capitalized property owned or leased by the GPO. The system will be updated monthly, and will

provide the basis for determining the depreciation expense and the cost center to be charged for those items capitalized. The System will also serve as a check for physical inventory of this property.”

What is questionable is the Comptroller’s attempt to define the OIG’s term of accountable property as only capitalized property. The OIG, in keeping with the Instruction, uses the term accountable property throughout the report for both capitalized and non-capitalized property, because we recognize that a large amount of pilferable property such as computers, telephones, printers, laptops, calculators, firearms, need to be protected by an inventory system. This is supported by the Comptroller’s “draft” July 1999 Publication that defined accountable property as three types: (1) any property having an acquisition cost or value of \$1,000 or greater; (2) any sensitive property, and (3) any pilferable equipment.

#### H. Is This Really a Performance audit?

The Comptroller raises the issue of whether the audit should be classified as a performance audit.

The OIG’s response is that one has to ask what difference does it make whether the audit is called a performance or a financial audit. In fact, the audit can fit the definition of either type of audit, but this should be of no concern to the Comptroller. The classification of the audit has absolutely no bearing on the validity of the audit or the absence of providing property accountability that GPO Property Management Program was designed to ensure. The Comptroller obscures the issues at hand and unfairly casts doubt on the OIG’s credibility to conduct audits in accordance with GAGAS.

According to the Comptroller, as well as, GAGAS,

“A performance audit is an objective and systematic examination of evidence for the purpose of providing independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitated decision-making by parties with responsibility to oversee or initiate corrective action.”

The OIG performed an independent assessment of GPO’s Property Management Program. The OIG report’s objective was to evaluate the adequacy, efficiency, and effectiveness of management controls over property accountability. GAGAS (2.7) identifies performance audits as economy and efficiency audits (protecting property, identifying inefficiencies, complying with economy and efficiency regulations) and

program audits (achieving desired results, effectiveness of programs, and complying with program regulations).

The OIG views the audit as a performance audit combining both economy and efficiency audit objectives and program audit objectives.

I. Planned Improvements to Property Management Program

The Comptroller states that GPO had planned and initiated major changes and enhancements, well before the OIG audit, involving the current property system, and that the report makes little reference to these efforts.

The OIG's response is that we note that this audit started on July 13, 1998. It was not until the September 23, 1998, meeting that the Assistant Comptroller told us he was working on the draft Instruction to replace the April 16, 1981, Instruction.

Subsequently, the Assistant Comptroller provided the OIG a copy of a draft Instruction dated September 1998 in November 1998. The draft did not make any major changes or enhancements from the original Instruction. There was some updating to reflect current responsibilities. The Assistant Comptroller also told us that the draft was put on hold because of other priorities.

Finally, a substantially revised preliminary draft of a new GPO Publication was issued for management comments on August 23, 1999. The draft Publication was more general than detailed. Management was led to believe that another draft Publication would be forthcoming, but as of this date, there has been no improved draft circulated by the Comptroller, to our knowledge. GPO is left to comply with the outdated Publication that has not been properly implemented, and that the Comptroller refuses to improve based on the OIG recommendations.

3. **Comptroller's Specific Comments on Audit Findings and Recommendations**

A. OIG Finding 1 – Updating Instruction to the Property Management Program

The Comptroller disagrees with the first finding and recommendations, claiming that the current GPO Instructions are adequate, and that GPO property numbers are now being assigned. He also asserts that the recommendation for separating duties is not meaningful and that the recommendation for updating the Instruction is moot.

The Comptroller's comments are flawed. The Comptroller has mistakenly referred to GPO Instruction 825.18A *Internal Control Program* instead of the current GPO

Instruction 810.11A *Property Management Program* throughout his comments on OIG Finding 1. For example, he mistakenly claimed that his office is revising the *Internal Control Program* GPO Instruction 825.18A.

In addition, he argued that the finding and the recommendations are not meaningful and are moot. However, the needed improvements in separating duties within individual offices when making necessary adjustments to property listings do present the finding and recommendations meaningful. Also revising the 1981 Property Management Instruction to reflect current operating procedures, controls, and responsibilities, such as assigning property numbers do not render the audit report moot. As mentioned before, these reforms are a direct result of the OIG audit efforts which revealed these deficiencies, and a more responsible management response would be for the Comptroller to acknowledge that there was room for improvements instead of attacking the very audit report that prompted the reforms.

The Comptroller has resisted every effort by the OIG to correct the problems with the present Instruction. Until the Comptroller demonstrates a real capacity to correct the deficiencies in the Property Management Program, the OIG recommendations will continue to be viable.

#### **B. OIG Finding 2 – Accounting for Inventory**

Again, the Comptroller's comments are flawed. The Comptroller states that he disagreed with this finding and the two associated recommendations. The OIG made three recommendations to this finding, not two as the Comptroller stated. In addition, the recommendations were made to the Department Heads of the property custodians of the six cost codes that were audited.

This finding and the three associated recommendations were made to the Production Department, SuDocs, PPD, and the Comptroller. The Production Manager, the Superintendent, and the PPD Manager agreed with OIG Finding 2 and the three recommendations and have begun taking corrective action.

The Comptroller's comments contradicted: (1) the agreements that the OIG received from the Production Department's Production Manager, the Superintendent of Documents, and the Printing Procurement Department's Manager and (2) his January 3, 2000, concurrence with KPMG's two Notifications of Findings and Recommendation (97-C-1 and 97-C-2). The Comptroller makes eight arguments which are all restatements of his general comments discussed above, and are without merit for the reasons stated above.

*First*, he argued that the audit finding is inaccurate and based on a deficient audit methodology.

In response, we demonstrated the inaccuracy of this comment at pages x and y, above. Considerable attention was devoted to the accuracy of the report, which was rendered difficult due to the conflicting and incomplete information provided by the auditees. When confronted by facts, the Comptroller attempts to discredit the audit methodology.

*Second*, he stated that the limited, non-statistical OIG audit sample of six cost codes is not representative of the agency and is biased.

Our response is that the Comptroller ignored the fact that judgmental sampling is a valid testing method. The six cost codes sampled represent four large offices of GPO (Comptroller, Production, SuDocs, and PPD). Bulk purchases for SuDocs and PPD were incorporated only in the Superintendent's and PPD Manager's individual cost codes and not reported in the actual cost codes that the property items were being used. This meant that the property listings for many of the cost codes under these two offices did not include these property items. As a result, these cost codes also had inaccurate property listings that could not be reconciled with the property on-hand. For the OIG to inventory these other cost codes would be a duplication of effort. (See Pages 15 and 16 of Appendix IV.) Additionally, when the same or similar conditions exist in all six cost codes, there is a validity in the auditor's judgement not to continue just to verify the same findings over and over.

*Third*, he claimed that the OIG also inappropriately employed the standard of "absolute assurance."

Our response is that the Comptroller's assertion that the OIG used the standard of "absolute assurance" is misleading. The Comptroller presents the words as a quotation from the audit report when the words do not even appear in the report. The Comptroller sets up the false strawman of absolute assurance, and then spends a full page attempting to discredit that concept, which was never used in the OIG report. (See Pages 5 and 6 of Appendix VIII.)

*Fourth*, according to the Comptroller, the OIG did not obtain an adequate understanding of the internal control system for safeguarding assets at the GPO, or they would have known about the subsidiary property records that organizations maintain to assist in locating property. The Comptroller also notes that these records were shown to the OIG in the exit conference but the staff auditors chose to ignore the subsidiary records.



Our response, as stated above, it is simply untrue to claim that the OIG did not properly review subsidiary records. Much effort was spent reviewing the records as a result of information received from the Comptroller. As it turned out, the additional effort did nothing to resolve the major issues raised in the audit report. The information provided by the Comptroller only served to delay the audit and divert attention from the absence of property accountability the Property Management Program was designed to insure.

*Fifth*, the Comptroller claimed that the OIG property verification attitude was unreasonable and not objective. The reports states that property custodians could not immediately account for 132 or 47 percent of the 279 property items in the OIG sample. In one instance, the OC offered to take the staff auditor to verify the missing IBM AS400 computer for IPS that is located in a secured computer facility. However, the Comptroller notes, the staff auditor refused to go, for reasons unknown.

Our response is that the audit demonstrated that the system implemented by the Comptroller was not working as intended. It was decided rather than duplicate efforts, the auditor would verify the missing computer when accompanied by an official of the particular cost code. The fact remains that the property custodian did not know where the computer was located. If the custodian does not know where the computer is, then the custodian is unable to perform a complete annual inventory and reconcile the property on-hand to the Comptroller's property listings.

In another example, the Comptroller claimed that a software licensing agreement for IPS was first reported as could not locate, but the IPS Contracting Office Technical Representative (COTR) later provided evidence of this missing asset. Again the Comptroller misses the point of the audit. A property management system should be implemented so that property is accounted for in a systematic manner. In this case, the custodian could not account for the property, and efforts had to be made to locate the property through the IPS COTR instead.

In his *sixth* argument, the Comptroller claimed that PPD's System 36 is still in use and the report reflected five property items for System 36 that were not accounted for by the OIG with an acquisition cost totaling \$933,855. The Comptroller claimed that the OIG limited their verification to Central Office, but selected cost centers covering Central Office and regional operations.

The Comptroller again mistakenly alleged that subsidiary property records of the PPD were also inappropriately ignored by the OIG during this audit.

Also, the report notes that computers were “Left at UCP” by SuDocs when their operations were relocated. The Comptroller continues, “We understand that all property involved in the transfer was returned to Stores, moved, transferred, or sold.”

These assertions have been disproved in our response on Page 17 of Appendix IV. The OIG auditors worked with managers and property custodians to verify the information we reported. The so-called “subsidiary records” were reviewed and SuDocs individuals were interviewed to determine the status of property where the Property Management Program could not account for the property. In most cases, documentation regarding the property did not exist, and the disposition of the property “left at UCP” is based on the “understanding” of those involved. This loose method of accounting for property in violation of the GPO Instruction is apparently acceptable to the Comptroller.

*Seventh*, the Comptroller quoted from the draft audit report that some of the property “May be at Laurel.” Unfortunately, the staff auditors do not really know whether the property is there or not because they have not been to Laurel. To report the assets as not located once again illustrates the lack of objectivity and fairness on the part of the OIG.

We responded on Pages 16 and 17 of Appendix IV that the comment “May be at Laurel” was made by a SUDOCS official. Also, in the absence of serial numbers and GPO ID numbers, the property would be very hard to identify by the OIG or SUDOCS officials with any certainty among the ten cost codes at Laurel. The Comptroller insists that it is the auditors’ responsibility to locate property, when the point of the audit was to determine whether the Property Management Program was functioning as intended. The Program should work so that the property custodians can report whether or not certain property is located at Laurel. The weakness of the Program is obvious from the uncertainty demonstrated in the Comptroller’s comments.

The Comptroller’s *eighth* argument is that the OIG recommendations reiterate existing management policies and procedures for property accountability and control and are no value to management.

Our response, as set forth in Pages 12 and 13 of Appendix IV, is that the audit reported widespread non-compliance with written policies and procedures for property management at GPO and made constructive recommendations to correct the deficiencies. The OIG concluded that instead of admitting that his property custodians could not immediately account for property items on the March 15, 1999, property listing, the Comptroller preferred to attack the audit process with unfounded charges.

C. OIG Finding 3 – Assigning Identification Numbers

The Comptroller disagreed with this finding and associated recommendation. The Comptroller's first comment is that the presentation of selected facts for this OIG finding distorts the truth by projecting an image of inadequate property accountability by the GPO. The Comptroller maintains that this OIG finding is based on three examples representing two GPO organizations (SuDocs and PPD). The Comptroller commented that the audit report does not reflect that both organizations maintain additional (subsidiary property) records for purposes of maintaining property accountability.

In response we note that the Comptroller did not address the missing GPO ID numbers on property items in his own three cost codes, as well as the other cost code (Production Department). Instead, he addresses the other offices' subsidiary records, which had no relevance on the finding that GPO ID numbers were not assigned or attached to actual property items.

The first sentence of our finding identifies 30 of 147, or 20 percent, of the property items located did not have GPO ID numbers attached. These 30 property items were found in 4 of the 6 cost codes (3 cost codes were in the Comptroller's office) and identified in Appendix I of the OIG report. The Comptroller's three cost codes account for 12 of the 30 property items not having GPO ID numbers.

The other two cost codes (SuDocs and PPD) had other problems such as having only one GPO ID number assigned to group purchases of computers in the Comptroller's property listing and having no GPO ID numbers attached to the computers.

The so-called "subsidiary" records did not resolve these problems. As stated in Pages 17 and 18 of Appendix IV, the records do not support the Comptroller's assertion that the records support property accountability. It is unfortunate that GPO managers are forced to rely on "subsidiary" records for property accountability, because the Property Management Program, which was designed for that purpose, sometimes can not.

The Comptroller next stated that this OIG finding reiterates an earlier suggestion to improve property accountability from the external auditors. The Comptroller claims that he informed the OIG of this suggested improvement during the audit, and told the OIG that he was in the process of implementing it. The new Property Management Program will have a unique GPO Property Number for every item of property acquired as a group asset purchase.

In response we note that for the past two years the KPMG Management letters have notified the Comptroller about the problem of property numbers for group asset purchases. The Comptroller has not taken any corrective action on this issue and has informed KPMG auditors that he expects the new Property Management Program will be operational by the end of FY2000. Until a new Property Management Program is fully implemented, it will be necessary to correct the deficiencies in the present Program.

D. OIG Finding 4 – Deleting Property Items

The Comptroller disagreed with this finding and the two associated recommendations. The Comptroller comments that this audit finding is based on a total of 15 property items, reported by three cost codes, that were fully depreciated as of March 15, 1999. The total book value for financial accounting and reporting was \$0.

The OIG response is that adequate documentation was not provided to the Comptroller to support deleting property items off the Comptroller's property listings. The Comptroller's "draft" Publication stresses the importance of maintaining documentation in Section II, Paragraph 2.3. The Comptroller again ignores the fact that an item may be fully depreciated for financial accounting purposes, but it still must be accounted for as required by the GPO Instruction.

The Comptroller also commented that the OIG report acknowledges that written documentation, requesting the 15 deletions had been provided by official representatives of the three cost codes. The Comptroller states that since the OIG considers this documentation insufficient, and indicates the GPO Form 2051 *Returns to Stores* form should have been provided, the real issue is the adequacy of documentation, not the lack of it.

In response, we note that the OIG report never mentioned that there was a lack of documentation by the cost codes. The real issue was why did the Comptroller have two standards of documentation for deleting property off the property listings, depending whether the property was capitalized or non-capitalized?

The Comptroller's own "draft" Publication has defined accountable property as: (1) acquisition value over \$1,000; (2) sensitive property, and (3) pilferable equipment. The Comptroller argues for two standards of documentation in commenting on the OIG report, but in his own draft Publication, he uses one standard.

The Comptroller included in his comments, criticism to the OIG response to the FY 1998 property inventory in which the IG requested the Comptroller on May 15, 1998, to make 251 adjustments, including 38 property items that reportedly were "Returned to Stores." The Comptroller comments that the OIG did not provide copies of the GPO Form 2051 for these 38 requested adjustments. Based on the OIG suggested standard of documentation, the Comptroller claims that the Inspector General lacked adequate documentation.

In response, we note that the April 1998 inventory sent to the OIG is what alerted us to the problem with the Comptroller's implementation of the Property Management System. The inventory list maintained by the Comptroller for the OIG was inaccurate and did not reflect the actual property on hand at the OIG. In an effort to begin the process of correcting the clearly inadequate records of the Comptroller, the OIG took care to provide as complete a list as possible of discrepancies in the inventory. In our view, the discrepancies in the inventory reflected poor record keeping by the Comptroller more than it reflected inadequate records by the OIG.

The OIG fully expected the Comptroller's office to begin to work with the OIG to determine the cause of and to correct the inaccuracies. Instead, it appears that nothing was done. No concern or request for documentation was forthcoming, although the OIG does maintain the necessary documentation for 36 of the returned to Stores items, and the problem was exacerbated when the Comptroller made only a few adjustments to the inventory issued in September 1998. This inaction indicated a significant disfunctioning of GPO's Property Management Program, and the subsequent audit revealed substantial problems.

The Comptroller commented that the OIG report recommends, "maintaining documentation on all future deletions of inventory from property systems." According to the Comptroller, the report lacks any evidence that such documentation is not already being maintained and available for review within the three organizations audited. The Comptroller additionally states that MMS maintains copies of GPO Forms 2051 as part of their property disposal system of records.

In response, we note that the Comptroller's statement is inaccurate. During the audit, the OIG checked the property custodians of the three cost codes and MMS and found that they had little official documentation that the property items were returned to Stores to support the deletion off the Comptroller's property listings. The point is that the Comptroller does not know who does or does not have documentation.

**E. OIG Finding 5 - Entering Inventory Adjustments Timely**

The Comptroller disagreed with the finding and the associated recommendation. The Comptroller claimed that the OIG had not furnished substantive evidence of the existence of a systemic problem warranting the recommended action by management. Second, the Comptroller claimed that the two examples supporting this finding are both questionable. The first example had the property custodian for Cost Code 5400 previously requesting 15 property items to be removed from the August 3, 1998, property listing. The second example cited by the Comptroller is the OIG's own inventory listing previously mentioned.

It is noteworthy that the Comptroller does not defend his non-concurrence by claiming that inventory adjustments have in fact been made timely; he merely attacks the audit methodology instead. The recommendation here is a simple one based on adequate evidence that inventory adjustments were not being made in a timely fashion. Not only did the OIG have evidence that timely adjustments were not being made, but when the Assistant Comptroller did not dispute the preliminary finding and mentioned a backlog, further support was rendered unnecessary.

The Comptroller also made the surprising comment that the Assistant Inspector General for Audits has a conflict of interest, in that he is a property custodian for the OIG Office of Audits, and that his involvement in the audit creates the appearance of a conflict of interest impairing independence, judgment, and objectivity.

There is nothing to suggest any conflict of interest between being a designated property custodian and supervising a performance audit of the Property Management Program – any connection between the two functions is tenuous and insubstantial. Instead, the comment serves to divert attention from the OIG finding. The allegation has nothing whatsoever to do with whether or not the Comptroller made timely adjustments and diverts attention from the issue raised by OIG Finding 5.

On the other hand, the Comptroller has knowingly exploited an actual conflict of interest in attacking the OIG. I believe the Comptroller's comments were prepared by an auditor on detail from the OIG to the Office of Comptroller who has, in my opinion, a long-standing grudge against the both the Inspector General and the Assistant Inspector General for Audits. In addition, this auditor was included in the OIG's review process of the discussion draft report before the report was used in the March 10, 1999, exit conference with the Comptroller and other GPO officials. By allowing this employee to have a public forum for his attacks against the OIG, the Comptroller has done a disservice to the GPO.

F. OIG Finding 6 - Receiving Fiscal Year 1998 Annual Inventories

The Comptroller disagreed with the finding and recommendation, because he believed that a 97 percent inventory response rate for FY 1998 is worthy of positive recognition by the OIG rather than negative reporting as an OIG finding. The Comptroller also claimed that the OIG report does not reflect the follow-up efforts by the Comptroller that undoubtedly contributed to achieving the 97 percent verification.

Contrary to what the Comptroller claimed, the OIG report commented positively that an 89 percent reply rate from property custodians was a significant improvement over last October's 68 percent. There was no lack of objectivity and balanced reporting by the OIG. Apparently, the Comptroller takes offense at any suggestion that he should strive for improvement.

The Comptroller has attempted to minimize the OIG's finding and recommendation by focusing on what he calls a "97% inventory response rate," while the OIG reported that 89 percent of cost codes had responded. The 97 percent figure refers to the book value of property reported by the 89 percent of the cost codes responding. But even using the Comptroller's preferred figure, the 3 percent of book value for which no inventory update was received constitutes property having a book value of \$2,068,936. The OIG believes that additional efforts to account for that property should be encouraged.

UNITED STATES GOVERNMENT

# memorandum

DATE: November 15, 1999

REPLY TO  
ATTN OF: Production Manager

SUBJECT: Draft Report on the Review of Property Accountability and Control

TO: Inspector General

After review of your draft report entitled: *Report on GPO Property Accountability and Control*, received for comment on November 4, 1999, I and my staff are in agreement with all ten recommendations.

Specifically, in response to recommendations (03), (04), and (05), this memorandum is being forwarded to all Production Department divisions to remind all designated Property Custodians of their responsibility to verify and account for all inventory, as required by GPO Instruction No. 810.11A, ensuring that all GPO ID numbers on the property match the ID numbers on the property systems and to maintain copies of GPO Form 2051 as implied by GPO Instruction No. 805.7B.

If I may be of further assistance, please do not hesitate to contact me.

  
DONALD L. LADD

cc:  
Manager, Electronic Systems Development Division  
Manager, Graphic Systems Development Division  
Superintendent, Production Planning and Control Division  
Superintendent, Electronic Photocomposition Division  
Superintendent, Press Division  
Superintendent, Binding Division



UNITED STATES GOVERNMENT  
**memorandum**

DATE: December 6, 1999

REPLY TO  
ATTN OF: Superintendent of Documents

SUBJECT: OIG Draft Report on GPO Property Accountability and Control

TO: Inspector General

I am responding to your request for review and comments on the October 26, 1999, draft report on Property Accountability and Control. In response to the recommendations regarding Finding 2 on Page 11, I have asked Documents Technical Support Group to coordinate the property custodian responsibilities within the Superintendent of Documents operation to ensure that all inventory is properly accounted for and in agreement with Office Policy and Procedures.

I would like to make a few comments on the draft report. On Page 4, under Objective, Scope and Methodology, it indicates that the evaluation was limited to six cost codes after determining that similar problems were identified with each cost code. The review of this draft has been limited to the managers of the six cost codes, despite the fact that Materials Management Service (MMS) and the Office of Administrative Support staff members were interviewed for this report, and that these organizations are intimately involved in the process. Should these organizations be given the same opportunity to respond to this draft as were the other organizations involved?

I would also like to point out that the selection of cost code 9009 was not the best choice as a sample cost code for your study. Cost code 9009 is assigned to the Office of the Superintendent of Documents. In addition to expenses incurred by the Superintendent and his immediate staff, this cost code has always been used for particularly large cross-organizational purchases within SuDocs. Examples include the Union Center Plaza (UCP) move to main GPO, the cost incurred for the Integrated Processing System, and purchases of ADP related equipment. After purchase, this property or equipment is normally assigned to the appropriate SuDocs cost center. These cost centers, which maintain physical custody and ongoing responsibility for such property, would have been more appropriate subjects for this report. After interviewing the property custodian for cost code 9009, this should have been readily apparent.


Page 2

As for the property "left at UCP" listed on Appendix II, I assure you that SuDocs worked closely with MMS in the disposition of all property at UCP and our records reflect that. In addition, notes indicate that equipment "may be at Laurel." There is no indication in this draft as to how this conclusion was reached, or that any effort was made to verify it.

I also noted what might be a typo on Page 101. Should the first sentence in the fourth paragraph read "It was the Comptroller's position that the 83 property items were NON-capitalized property,..."

Finally, I would like to point out that I was unaware that this review was underway until after the first draft had been prepared, otherwise we may have been able to clarify many points much sooner with less trouble.

If you have any questions, please call me on 20571.



FRANCIS J. BUCKLEY, JR.

UNITED STATES GOVERNMENT

# memorandum

DATE: January 14, 2000

REPLY TO  
ATTN OF: Manager, Printing Procurement Department

SUBJECT: Accounting for Inventory

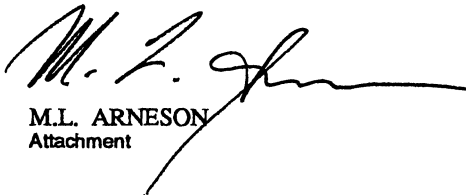
TO: Assistant IG Policy, Planning & Control (Audits)

THROUGH: Supervisory Auditor

ATTENTION: Joseph J. Verch, Jr.

The Printing Procurement Department (PPD) will support and implement your recommendations as articulated (on page 11 of the attached).

It is my understanding that the Comptroller is going to develop and propose a comprehensive system for this implementation. To assure uniformity throughout GPO, the PPD will work with this system when it is available.



M.L. ARNESON  
Attachment

UNITED STATES GOVERNMENT  
**memorandum**

DATE: December 6, 1999

REPLY TO  
ATTN OF: Comptroller

SUBJECT: OIG Draft Report on GPO Property Accountability and Control

TO: Inspector General

As requested, attached are the written comments of the Office of Comptroller (OC) on the subject draft audit report of the Office of Inspector General (OIG), dated October 26, 1999. My staff and I have thoroughly reviewed each of the six audit findings and have fully considered the ten recommendations in this draft report. Our response includes general comments on the audit and the draft report, as well as specific comments on the preliminary audit findings and recommendations. I would like for our response to be included, in its entirety, as part of the final audit report, should you decide to issue one.

As I stated verbally at the two meetings we had with your staff auditors about this draft audit report, it is not complete, accurate, objective, or convincing. Furthermore, my earlier concerns about the adequacy of the audit sample, the effectiveness of the audit methodology used, and the accuracy of the preliminary findings continue to adversely affect this audit.

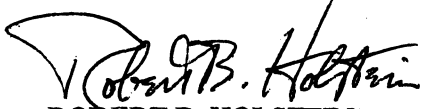
Specifically, your auditors, for some unknown reason, chose to ignore the subsidiary property records maintained by the operating officials in the Printing Procurement Department and the Superintendent of Documents. I had hoped that our discussions would have at least resolved the factual inaccuracies with this draft OIG audit report by now, but this is not the case. As a result, I can not concur with any of the proposed audit findings and recommendations.

Finally, this audit has not produced any real benefits to the agency. The draft audit report lacks any original ideas, suggestions, or recommendations that would either: (1) strengthen the system of internal controls safeguarding assets, or (2) improve the economy, efficiency, and/or effectiveness of the GPO Property Management Program. At best, the draft audit report repeats earlier management initiatives and external auditor suggestions communicated to the OIG.

In conclusion, I hope that after you review my comments, and the evidence included in this response, you will decide to withdraw the draft audit report and close out this review.

Page 2

If you have any questions regarding this subject, please contact me on 512-2073. I appreciate the opportunity to comment on this draft audit report.



ROBERT B. HOLSTEIN

Attachments

**COMMENTS OF THE COMPTROLLER  
ON THE DRAFT OIG REPORT ON  
GPO PROPERTY ACCOUNTABILITY AND CONTROL**

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## SECTION I.

### GENERAL COMMENTS ON AUDIT AND DRAFT REPORT

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#### A. Opinions of the Internal and External Auditors Conflict

The OIG assessment of internal controls over property is clearly at odds with the conclusions reached by the independent external auditors that annually conduct an audit of the financial statements of the GPO under a professional services contract with the U.S. General Accounting Office (GAO). The subject OIG audit report should disclose and reconcile this difference in professional opinions concerning the state of internal controls safeguarding assets. The GPO, OIG, Assistant Inspector General for Audits (AIGA) should be cognizant of this conflict because the AIGA serves as the Contracting Officer's Technical Representative (COTR) for the annual audit of GPO's financial statements, and is responsible for the subject draft report released for management comment. Thus, the AIGA should have reviewed the work and reports of the internal auditors (i.e., the OIG) and the external auditors (i.e., KPMG, LLP) in regard to this subject and recognized the conflict, and addressed it before now.

The external auditors have greater knowledge and understanding of the system of internal control safeguarding assets at the GPO because of their experience and financial expertise. Each year, the external auditors evaluate Property, Plant, and Equipment (PP&E) which includes accountable property. As part of their auditing tests and procedures, the external auditors (1) review the control environment and assess control risk, (2) obtain an understanding of internal controls, (3) test and evaluate the design and operating effectiveness of relevant internal controls, and (4) test compliance with certain laws and regulations (Exhibit A, page 6). PP&E is a major asset account that is evaluated on a recurring basis by the external auditors. Over the years, the external auditors have made several positive suggestions to the Comptroller for improving property accounting and accountability. For example, the capitalization threshold for assets was raised from \$5,000 to \$25,000 as a result of their suggestion.

The KPMG, LLP, concluded in their most recent *Independent Auditor's Opinion* that internal controls provide reasonable assurance that assets are safeguarded. The following is an extract of their written independent opinion, on GPO's financial statements for fiscal year 1998 (see Exhibit A, page 2).

"We have examined management's assertions included in this statement of assurance to us dated February 8, 1999, that **internal controls designed by management provide reasonable, but not absolute, assurance** that as of September 30, 1998, the following objectives were met:

- **Transaction are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition; and**

- Transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (b) and other laws and regulations or government-wide policies that entity management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.”

Finally, KPMG concluded that (see Exhibit A, page 2):

“...in our opinion, management’s assertions that internal controls in place as of September 30, 1998, provide **reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition ... are fairly stated in all material respects, based upon criteria established under OMB Circular A-123, *Management Accountability and Control* (Revised, June 1995).**”

In conclusion, the OIG audit report should have disclosed and reconciled these differences of opinion. Some of the difference may be attributable to the OIG’s inappropriate use of “absolute assurance” versus “reasonable assurance” for evaluating internal controls and results, as discussed in the next section of our comments.

## **B. OIG Used “Absolute Assurance” Instead of “Reasonable Assurance”**

The OIG’s use of a standard of “absolute assurance” for this audit is entirely inappropriate and conflicts with internal control standards of the Federal Government. The OIG report repeatedly uses the phrases “could not always” and “were not always” as a standard of evaluating controls and results of management objectives.

The GAO’s *Standards for Internal Control in the Federal Government*, dated November 1999 (see Exhibit B, page 5), state that in regard to the **safeguarding of assets** that:

“Internal controls should be designed to provide **reasonable assurance** regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency’s assets.” [Emphasis Added]



The cited GAO publication also states that Internal Control “**provides reasonable assurance, not absolute assurance.**” Specifically, the GAO emphasizes that (see Exhibit B, page 6):

“Management should design and implement internal control based on the related costs and benefits. **No matter how well designed and operated, internal control cannot provide absolute assurance that all agency objectives will be met.** Factors outside the control or influence of management can affect the entity’s ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting agency objectives. Therefore, once in place, internal control provides reasonable, not absolute, assurance of meeting agency objectives.”

The GPO has established and maintained internal control systems for property and other assets that provide reasonable assurance. Unfortunately, the OIG audit and draft report reflects an unreasonable standard of “absolute assurance” for reviewing operations and evaluating internal controls at the GPO. This departure from Government-wide standards provides further evidence that the OIG audit was not conducted in a fair and objective manner, and raises further doubts about the draft report’s claim that the audit was conducted in accordance with generally accepted Government auditing standards (GAGAS).

The OIG audit fails to recognize that there is a trade-off between the cost of implementing additional internal controls and reducing the degree of risk (e.g., potential loss of an asset). The Office of Management and Budget and GAO recognize the need to maintain an appropriate balance between risks and controls. In fact, these authorities recognize that internal controls may be excessive in some cases. The GAO’s *Standards for Internal Control in the Federal Government*, dated November 1999, also recognize that (see Exhibit B, page 7):

“In implementing these standards, management is responsible for developing the detailed policies, procedures, and practices to fit their agency’s operations and to ensure that they are built into and an integral part of operations.”

Therefore, management is responsible for establishing policies, procedures, and other controls to provide “reasonable assurance” that assets are safeguarded. The OIG’s use of “absolute assurance” is not only inappropriate, but produces an unreasonable report that is of no value to management.

### **C. Audit Report Is Untimely, Inaccurate, and of No Value**

The OIG draft report is untimely, inaccurate, and useless from a management perspective. First, the results of this OIG audit were not completed and presented in a timely manner to management. The audit was reportedly performed from July 1998 through March 1999, with

additional field work conducted in April and August 1999. This most recent version of the draft OIG audit report was sent to the Comptroller on October 26, 1999 for official comment.

Second, the OIG sample of GPO property was as of August 3, 1998. Thus, the draft audit report was based on property data that was over 14 months old. The OIG reporting delay has caused expected timing differences that would hinder anyone's ability, at present, to verify the OIG's claim about the status of property as of August 3, 1998. Many property transactions have occurred since that time.

Third, the report contains numerous inaccuracies, as noted in our response, even after we spent many hours with your staff trying to have your errors corrected. To illustrate, OIG Finding 5 *Entering Inventory Adjustments Timely*, states that the Inspector General, by memorandum dated May 15, 1998, requested the Comptroller to make 251 inventory adjustments to the OIG's cost codes. However, the arithmetic sum of the requested adjustments is only 216. Such errors raise concerns about the accuracy, quality control, and credibility of this audit and associated report.

I am disappointed that this year-plus OIG audit has not produced any real benefits for the GPO. The OIG draft audit report lacks any original ideas, suggestions, or recommendations that would either:

- (1) Strengthen the system of internal controls that safeguard and account for property,
- (2) Improve the economy, efficiency, and/or effectiveness of the GPO Property Management Program, or
- (3) Promote greater compliance with management policies and procedures.

The OIG recommendations in the draft report simply reiterate existing management policies, procedures and controls for property accountability. At best, the draft report repeats earlier management initiatives and external auditor suggestions communicated to the OIG during the audit. Frankly, the worst example of property accountability and control that was disclosed by the OIG audit was the condition that existed at the OIG itself (see OIG Finding 5).

#### **D. Audit Objective Was Not Accomplished**

The OIG did not accomplish its stated audit objective of evaluating management controls over property. According to the first sentence of the draft OIG audit report:

**“The Office of Inspector General audit team conducted a performance audit to evaluate the adequacy, efficiency, and effectiveness of management controls over property within the Government Printing Office (GPO) during July 1998 through March 1999.” [Emphasis added]**

The OIG also claims that implementation of their 10 recommendations, “should improve the current policies and procedures to provide reasonable assurance and safeguards for maintaining accountability over GPO property.”

Unfortunately, **the OIG did not evaluate physical security controls over property at GPO**, as disclosed later on page 4 of their draft audit report. Physical security is a critical component of any agency’s internal control system that safeguards assets. Under the circumstances, the OIG statement cited in the draft report claiming to have evaluated the adequacy, efficiency, and effectiveness of management controls over property is misleading, if not incorrect.

Furthermore, this deficiency in audit planning and field work raises further doubt about the OIG’s claim that the audit was conducted in accordance with generally accepted Government auditing standards (GAGAS). The GAO’s Government Auditing Standards (Yellow Book) fourth field work standard for performance audits is:

“Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about these controls.”

Finally, security at the GPO is excellent. The GPO has an outstanding security record. Adequate and effective systems of internal control to protect Government assets have been established and maintained. Internal controls are designed to provide reasonable assurance that assets are safeguarded against risks. The security environment at Central Office is appropriate for our mission and operations. An appropriate level of security is maintained to protect employees, visitors, and property.

In fact, the recent OIG Report on the Effectiveness of the Physical Security Program for Secured Production Facilities at GPO (Report #99-05, dated April 13, 1999), signed by the Inspector General, stated that:

“The Office of Inspector General (OIG) concluded that **the Physical Security Program was generally adequate and effective** in safeguarding the secured production facilities located in Building 4 [at Central Office].” [Emphasis added]

Furthermore, the subject draft audit report does not provide any evidence of harm, such as the loss or theft of property. Normally, a review of internal controls safeguarding assets would include an examination of reported thefts and losses. Between October 1, 1997 and March 31, 1999, the Protective Services Group investigated five incidents involving lost, missing, or stolen property valued at \$300 or greater. All of these incidents involved electronic equipment. The OIG report is silent in regard to these statistics concerning the safeguarding of assets.

In conclusion, the OIG audit and draft report does not provide a complete assessment, or picture, of the internal control system safeguarding property at the GPO. This deficiency taints the auditor's findings and recommendations.

### **E. OIG Non-Statistical Sample Is Biased**

Much of the OIG draft audit report is based on a review of a sample of six GPO cost centers (i.e., cost codes) at Central Office. Unfortunately, the OIG employed judgmental sampling instead of statistical random sampling. Instead of obtaining a random, scientific sample representative of the universe, the OIG selected a sample that is biased.

The OIG sample of 6 cost codes from the universe of 215 cost codes included the two largest on-going system acquisition projects of the GPO. The first is for the Superintendent of Documents and the second is for the Printing Procurement Department. These computer acquisition projects support (1) the Sales of Publications Program, and (2) the Printing Procurement Program. Selecting on-going system acquisition projects where computer hardware, software, and other network components are being received, stored, and installed at various locations at the Central Office and in the regions was not representative of the GPO or proper for property verification. Timing differences would impact the accuracy of the results, especially for equipment delivered, but not in service.

Furthermore, the OIG report states that the scope of the audit was limited to "Central Office." However, these two system acquisition projects include property being installed at both Central Office and regional operations. Our concerns with the OIG audit sample and scope limitation become apparent when reading the OIG "Comments" column of Appendix II, page 5 of 6 to the draft OIG audit report.

The title of Appendix II is *Items Not Identified (Items That Were Not On Hand Or With No Return To Stores Support Documentation [NRTS] Superintendent of Documents' Cost Code*. In short, the OIG did not locate this property during the audit. Two of the property items in Appendix II contain "Comments" on page 5 noting that the property:

**"May be at Laurel."**

Obviously, the OIG only audited Central Office, as stated, and did not go the Laurel Complex of the Superintendent of Documents to verify property selected in their sample. No wonder the OIG could not locate property; the auditors never visited any of GPO's regional operations, and apparently just off-handedly reported the property there as not located. The limited sample and scope raise further doubt about the credibility and objectivity of this audit and draft report.

Additionally, the OC has located property that the OIG reported as “not located” in the two earlier versions of this draft audit report. The OC also provided photographs as evidence of the existence of such property that was actually located near the OIG offices.

Under the circumstances, one can only conclude that due professional care was not exercised during the planning, field work, and reporting stages of this audit. Clearly sound judgment was lacking in establishing the scope, selecting the methodology, and choosing tests and procedures for this audit. Therefore, the OC has no confidence in the results of the OIG sample, analysis, and findings.

## **F. Audit Methodology Is Flawed**

The audit methodology used by the OIG has been flawed from the beginning due to weak sampling methods and inadequate auditing steps and procedures. The *Objective, Scope, and Methodology* Section of the draft OIG audit report states that the OIG conducted inventories of GPO cost centers at Central Office. Footnote 1 to the draft report also states the **“the OIG auditors stopped inventorying after six cost codes, because of the similar problems generally identified with each cost code.”** However, the audit methodology was obviously the real underlying cause “of the similar problems” reported by the OIG.

Government Auditing Standards promulgated by the Comptroller General of the United States requires that auditors should design the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the audit. Methodology includes not only the nature of the auditor’s procedures, but also their extent (for example, sample size). Furthermore, auditors are required to report the objectives, scope, and methodology to be in compliance with GAGAS. This is necessary so that readers may judge the merits of the audit work, what is reported, and understand significant limitations of the audit.

First, the report is inappropriately silent in regard to the sampling plan and sampling methodology employed for this audit. The sampling method (e.g., judgmental or statistical random) is not even disclosed, as required by GAGAS. However, it is obvious that the OIG staff auditors did not employ random statistical analysis, and used their own unique method.

From a management perspective, the OIG physical inventory of property started as an apparent “stealth review” conducted in a vacuum. The OIG apparently visited some of the locations at Central Office for the six cost centers sampled, but none of the regional operations. During their limited on-site review, the auditors located some assets, but most assets were not located. However, instead of discussing this perceived “problem” with GPO officials, the OIG leaped forward and drafted their first of three versions of this draft report. This first version claimed that the most of GPO assets sampled were “missing.” Afterwards, GPO officials questioned the dubious results and responded that the OIG inventory “missed” many assets that did in fact exist.

Subsequently, the OIG auditors went back and located more of the property earlier reported as “missing.” However, the second version of the draft audit report still was inaccurate because the OIG did not recognize the existence of known assets. Furthermore, the OIG auditors did not properly consider the subsidiary property records of the Superintendent of Documents and Printing Procurement Department or visit regional operations when reviewing property accountability. The OC made the OIG aware of these subsidiary records which are a part of the internal control system safeguarding assets.

This third OIG draft report notes that some of the GPO property not located by the OIG “may be at Laurel” (OIG Draft Report, Appendix II, page 5 of 6). Such qualified audit reporting is inconclusive, and raises concerns about the adequacy and effectiveness of the audit work.

Finally, as evidenced in Section E of our response, the OIG used a non-statistical sample that was biased and not representative of the agency. This limitation and other deficiencies in the methodology undermine the credibility of the auditor’s findings and recommendations.

### **G. OIG Arbitrarily Established Property Accountability Threshold for Audit**

The OIG made up their own property accountability dollar criteria for the subject audit according to the *Objective, Scope, and Methodology* section of the draft audit report. The OIG draft audit report states that:

“The OIG conducted inventories of six GPO cost centers located at Central Office consisting of all non-furniture **accountable property costing \$300 or more** from the Comptroller’s property listing.” [Emphasis added]

Additionally, referenced OIG draft audit report footnote number 2 states that:

“**The \$300 was a benchmark arbitrarily assigned by OIG auditors in identifying accountable property.**”

At the time of the audit, the approved dollar threshold for recording assets in the Accountable Equipment System (AES) was \$5,000 (see Exhibit C). The appendices to the draft OIG audit report list many property items, over \$300 and below the \$5,000 threshold, that the OIG assumed to be accountable property.

This action by the OIG is questionable. If the OIG believes that the property accountability threshold should be lowered to \$300 or more, then the OIG should formally recommend a change in the threshold amount. However, the OIG’s act of creating audit criteria that conflicts with authorized management policy represents an intrusion on the responsibilities of management to establish property management policies, procedures, and standards for the GPO.

## H. Is This Really a Performance Audit?

Government Auditing Standards classify audits into two types: (1) financial audits; and (2) performance audits. The OIG draft audit report states that this was a “performance audit.” However, the stated OIG audit objectives and scope did not agree with the definition of a “performance audit.” Government Auditing Standards state that:

“A performance audit is an objective and systematic examination of evidence for the purpose of providing independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.”

Apparently this audit should have been classified as a “financial audit” when considering that the stated audit objective was evaluating management controls over property. Government Auditing Standards state that: “Financial audits include financial statement and **financial related audits.**” Furthermore, “Financial related audits may, for example, include audits of the following items: ... **Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems,**” and “**Compliance with laws and regulations ...**” [Emphasis added]

The OIG audit findings and recommendations are primarily “compliance” in nature. The OIG repeatedly cites GPO regulations in the findings as audit criteria, and the recommendations simply reiterate adherence to existing management policies, procedures, and other controls. The report also lacks any recommendations for improving the Property Management Program, which could have been the subject of a “performance audit.”

Finally, the Assistant Inspector General for Audits is the Contracting Officer’s Technical Representative (COTR) for the audit of the financial statements of the GPO by the external auditors under contract with the GAO. As such the OIG should be aware of the extent of auditing tests and procedures by the external auditors for this “financial audit.” The external auditors routinely review Property, Plant, and Equipment of the GPO as part of the financial statement audit. Their field work normally includes reviewing internal control systems, property systems, and property records of the GPO. Therefore, the OIG and external auditors were apparently duplicating each other’s financial audit efforts to a degree.

The OC also understands that the OIG provided an advance copy of the draft audit report to the external auditors before discussions with cognizant GPO officials. Why the OIG would present their preliminary audit findings to the external auditors before discussions with GPO management is unclear. Fortunately, the external auditors did not reach the same conclusions as the OIG on this matter in their audit reports.

## **I. Planned Improvements to Property Management Program**

The GPO has planned and initiated major changes and enhancements that when completely implemented will modernize the GPO Property Management Program. Management commenced these improvements well before the OIG audit involving the current property system, a system that will be replaced. However, the draft OIG audit report makes little reference to our efforts.

These management initiatives take advantage of technological advancements and implement suggestions from the external auditors that were accepted by the Comptroller.

First, as suggested by the external auditors, the asset capitalization dollar threshold has been increased from \$5,000 or more to \$25,000 or more. At the same time, the OC revised the accounting procedures to adopt the Government-wide accounting standards and definitions from Statement of Federal Financial Accounting Standards (SFFAS) Number 6, *Accounting for Property, Plant, and Equipment*.

Second, the GPO is in the process of replacing the Accountable Equipment System (AES) with a new system, the Property Management Control System (PMCS) which will be available on the GPO Intranet next year. Property Managers and Property Assistants (formerly property custodians) will have controlled access to this on-line system that will be used for property accountability and control. Accounting for capital assets will be performed on the Depreciable Asset System (DES) which will interface with the PMCS.

Third, the GPO Instruction on the GPO Property Management Program has been substantially revised. A draft of this Instruction was issued for management comments on August 23, 1999 (see Exhibit G). This document adopts the GAO philosophy which recognizes that people are what make internal control work, and the responsibility for good internal control rests with all managers. Each GPO cost center (i.e., GPO Cost Code) will have a Property Manager and Property Assistant. This action will also provide greater separation of duties.



**PART II.**

**SPECIFIC COMMENTS ON DRAFT  
AUDIT FINDINGS AND RECOMMENDATIONS**

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The Office of the Comptroller thoroughly reviewed each of the six audit findings and fully considered the ten recommendations in this draft report. A summary of our specific comments on each finding and recommendation follows.

**OIG Finding 1. Updating Instruction to the Property Management Program**

The OIG draft report claims that GPO Instruction 810.11A *Property Management Program* does not completely reflect current operating procedures, controls, and responsibilities. The report also claims that this outdated GPO Instruction “has contributed to the failure to implement and maintain internal controls in the Property Management Program as identified in the following five findings in this OIG report.”

Audit Recommendation

The OIG draft report contains the following two recommendations in regard to Finding 1.

OIG Report Recommendations
<p>The Comptroller should:</p> <ol style="list-style-type: none"><li>(1) Update GPO policy on the Property Management Program to reflect the current operating procedures, controls, and responsibilities of GPO offices, as required by Standard 4 of GPO Instruction 825.18A (01); and</li><li>(2) Develop and implement internal controls to provide safeguards in protecting assets against loss and ensuring accountability by having a separation of duties when necessary adjustments are made to property on the property systems, as required by Standards 2, 4, and 5 of GPO Instruction 825.18A (02).</li></ol>

Management Comments

The Comptroller disagrees with this finding and the two associated recommendations. The OC's position on this matter is based on the following.

First, GPO Instruction 825.18A and other GPO guidance collectively contain adequate operating procedures, controls, and responsibilities for the GPO Property Management Program. The basic principles of government property management, accountability and accounting have their foundation in laws and regulations implemented shortly after World War II. GPO has adopted these Government-wide principles and implemented subsequent property management improvements.

Second, the OIG draft report questions the fact that other GPO organizations now assign GPO Property Numbers. These minor "changes" questioned by the OIG are in fact based on management decisions to strengthen property accountability and control. The affixing of GPO Property Numbers to accountable property items is required by GPO Instruction 825.18A. Whether the GPO Property Number is assigned by an employee of the Office of Administrative Support or Engineering Service is of minor importance. What is important is that GPO Property Numbers are being assigned and affixed to the property for accountability and control purposes in accordance with the cited GPO Instruction.

Third, the OIG draft report alludes to the lack of "separation of duties" and other internal controls to properly protect assets against loss and ensure accountability. The OIG does not furnish any evidence of this alleged condition, nor provide any examples of a lack of "separation of duties" for property accountability. As a result, the OIG draft report lacks any meaningful recommendations for strengthening the internal control system for property.

Finally, the OC had commenced the process of revising GPO Instruction 825.18A before commencement of this OIG audit. The OC informed the OIG of this management initiative, and other efforts to enhance the property accountability system through new information technology (e.g., GPO Intranet). The draft of this revised GPO Instruction was provided to the OIG during the audit as evidence of our substantial progress. Subsequently, the draft GPO Instruction was released for agency-wide comments on August 23, 1999. This draft GPO Instruction reflects changes to operating procedures, controls, and responsibilities for the GPO Property Management Program and provides for adequate internal controls, including proper separation of duties. Thus, both OIG recommendations are moot points at this time.

## OIG Finding 2. Accounting for Inventory

The OIG draft report claims that GPO “property custodians **were not always** using and at times could not use the Comptroller’s property listing as a management tool to account for inventory assigned to their specific cost codes.” Additionally, the OIG claims that “the property custodians **could not immediately** account for 132 or 47 percent of the 279 property items” in the OIG sample. These 132 property items had an acquisition cost \$4,052,682 and a book value of \$547,200 as of August 3, 1998.

### Audit Recommendation

The OIG draft report contains the following three recommendations in regard to Finding 2.

#### OIG Report Recommendations

The Comptroller, the Manager, Printing Procurement, the Production Manager, Production Department, and the Superintendent of Documents should ensure:

- (1) Property custodians verify and account for all inventory and take necessary action to correct all future deficiencies on the property systems as required by GPO Instruction 810.11A (03);
- (2) The same GPO Identification (ID) number assigned and attached on the property items matches the ID number on the property system (04); and
- (3) The property custodians maintain copies of GPO Form 2051 *Return to Stores* on the transfer of future surplus property as implied by paragraph 7 of GPO Instruction 805.7B and annotated on the form itself (03).

### Management Comments

The Office of the Comptroller disagrees with this finding and the two associated recommendations. Our position on this matter is as follows.

First, the OIG audit finding is inaccurate and based on a deficient audit methodology, as discussed in Section F of our comments.

Second, the limited, non-statistical OIG audit sample of six GPO cost codes is not representative of the agency and is biased, as discussed in Section E.

Third, the OIG also inappropriately employed the standard of “absolute assurance” (e.g., “were not always” as used in this finding), instead of the government and industry standard of “reasonable assurance,” as discussed in Section B.

Fourth, the OIG apparently did not obtain an adequate understanding of the internal control system for safeguarding assets at the GPO. If the OIG had, they should have known about the subsidiary property records that organizations maintain to assist in locating property such as personal computers that may be relocated within organizations and offices. These records were shown to the OIG audit team at our exit meeting. However, for some unknown reason, the OIG staff auditors chose to ignore the subsidiary records even after the Comptroller informed them of the existence of these records.

Fifth, the OIG property verification attitude was unreasonable and not objective. The OIG draft audit report states that “the property custodians **could not immediately** account for 132 or 47 percent of the 279 property items” in the OIG sample. In one instance, the OC offered to take the staff auditor to verify the existence of a reported “missing” IBM AS400 mid-size computer for the Integrated Processing System (IPS) that is located in a secured computer facility. However, the staff auditor chose not to go, for reasons unknown. The OIG staff auditors also first reported that they could not locate the software licensing agreement for IPS. The IPS COTR later provided evidence of this missing asset that “could not be immediately” located by the OIG. The OIG standard of “could not immediately” account coupled with the fact that “subsidiary property records” were ignored by the OIG staff auditors and there was a general lack of auditor-auditee discussions, was nothing more than a plan for audit failure. Clearly, the objective of the OIG staff auditors was to maximize the amount of “missing property.”

Sixth, the attached memo from the Manager of the Printing Procurement Department (PPD), dated March 8, 1999, provides evidence that System 36 is being phased-out, but still is in use (see Exhibit D). System 36 supports the operations of the Printing Procurement Program that has procurement offices at Central Office and in the regions. The Manager, PPD, requested that the cost of the equipment and software should remain on our financial records until completion. The draft OIG audit report (see Appendix II, page 2) reflected five property items for System 36 equipment that was not accounted for by the OIG. The acquisition cost for the five listed property items for System 36 totaled \$933,855. However, the book value was zero because the assets were fully depreciated. As discussed in Sections E and F of our comments, the OIG limited their verification to Central Office, but selected cost centers covering Central Office and regional operations. Subsidiary property records of the PPD were also inappropriately ignored by the OIG during this audit.

Seventh, the OIG draft audit report notes that some of the property “May be at Laurel” (see Appendix II, page 5). Unfortunately, the OIG staff auditors don’t really know whether the property is there or not because they have not been to the Superintendent of Documents Facility at Laurel, Maryland. However, to report the assets as not located once again illustrates the lack

of objectivity and fairness on the part of the OIG. This deficiency is discussed earlier in Sections E and F of our comments. Additionally, the draft OIG report (Appendix II, page 6) notes that computers were "Left at UCP" by the Superintendent of Documents when their operations were relocated from leased to owned space. We understand that all property involved in the transfer was returned to stores, moved, transferred, or sold.

Finally, the OIG recommendations reiterate existing management policies and procedures for property accountability and control. These recommendations are of no value to management, as discussed in Section C.

### OIG Finding 3. Assigning Identification Numbers

The OIG draft report claims that 30 (20%) of the remaining 147 property items that were located by the OIG auditors' inventory of six cost codes were not assigned individual ID numbers, contrary to GPO Instruction 810.11A. The report also notes that, KPMG LLP, the external auditors, suggested changes for the accountability of group asset purposes in its management letter for Fiscal Year 1998.

#### Audit Recommendation

The OIG draft report contains the following recommendation in regard to Finding 3.

OIG Report Recommendation
(1) The Comptroller should ensure that an identification number (ID) is assigned to every single item of accountable property on the property systems as required by GPO Instruction 810.11A (06).

#### Management Comments

The Office of the Comptroller disagrees with this finding and the associated recommendation. Our position on this matter is as follows.

First, the presentation of selected facts for this audit finding distorts the truth to project an image of inadequate property accountability by the GPO. In summary, this finding is based on three examples representing two GPO organizations: (1) the Superintendent of Documents, and (2) the Printing Procurement Department. According to the OIG draft report, the property items allegedly lacking unique GPO ID Numbers consist of: (1) 200 computers of the Superintendent of Documents, and (2) 214 computers of the Printing Procurement Department. Thus, the finding directly pertains to a total of 414 computers.

The draft audit report is correct that these computers were group asset purchases. These computers were a part of major acquisition projects to modernize operations and improve customer service. The assets were in fact consolidated for capitalization and depreciation purposes in accordance with Government-wide accounting standards and procedures for Property, Plant and Equipment (PP&E). Thus, the "accounting" for these assets is proper.

Unfortunately, the OIG report does not reflect that both organizations maintain additional records (i.e., subsidiary property records) on these computers for purposes of maintaining property

“accountability.” During our exit meeting, the OC informed the OIG of the existence of these subsidiary records, and was even provided these records of the Superintendent of Documents as proof of their existence. The Superintendent of Documents had also labeled their computers with a GPO Form 687 *GPO Property Number* label, and assigned a unique internal property number to each computer. Thus, proper labeling and accountability does and has existed for these computers in accordance with GPO regulations. In conclusion, the OIG report is an inaccurate and incomplete assessment of the situation that should have been corrected earlier during our discussions.

Finally, this alleged audit finding reiterates an earlier suggestion to improve property accountability from the external auditors. We informed the OIG of this suggested improvement during the audit, and told them that we were in the process of implementing it. When implemented, the new property management system will have a unique GPO Property Number for every item of property acquired as a group asset purchase. This number will be used primarily for property accountability and control. The purchase order number will be used as a key to identifying property within each group for accounting purposes.

#### OIG Finding 4. Deleting Property Items

The OIG draft report questions the deletion from the property listing by the OC, General Ledger and Property Section, of 15 property items without copies of the GPO Form 2051 *Return to Stores*. The OIG reported that the deletions were adjustments requested by three cost codes as a result of a Fiscal Year 1998 year-end inventory. The OIG also reported that these assets had a book value of "zero" as of March 15, 1999.

#### Audit Recommendation

The OIG draft report contains the following two recommendations in regard to Finding 4.

OIG Report Recommendations
<p>The Comptroller should ensure that all property custodians are aware of the importance of:</p> <ol style="list-style-type: none"><li>(1) Maintaining documentation on all future deletions of inventory from property systems as required by GPO Instruction 805.7B and Standard 7 of GPO Instruction 825.18A (07); and</li><li>(2) Reporting all suspected lost, missing, and stolen properties timely to the appropriate GPO offices as required by GPO Instruction 810.11A (08).</li></ol>

#### Management Comments

The Office of the Comptroller disagrees with this finding and the two associated recommendations. Our position on this matter is as follows.

First, this audit finding is based on a total of 15 property items, reported by three cost codes, that were fully depreciated as of March 15, 1999. The total book value of these assets for financial accounting and reporting was zero dollars. As such, the GPO had utilized the assets during their entire estimated useful life. Thus, the cannibalization, disposal, exchange, or retirement of these assets would be considered reasonable under the circumstances. On the other hand, the disposal of a relatively new asset would have raised a "red flag" without adequate explanation. However, this was not the case at hand.

Second, the OIG report acknowledges that written documentation, requesting these 15 inventory adjustments, had been provided by official representatives of the three GPO cost codes to the



OC. However, the OIG considers this documentation insufficient, and indicates the GPO Form 2051 *Return to Stores* should have been provided as support for the adjustment. Thus, the real issue is the adequacy of documentation, not the lack of it.

A reasonable person would expect that GPO organizations would occasionally request inventory adjustments based on the results of a physical inventory of their property. To illustrate, the Inspector General (See Exhibit E) requested the Comptroller on May 15, 1998 to make 216 inventory adjustments based on a memorandum, signed by the Inspector General, reporting the results of the OIG's recent physical inventory. Included in these requested inventory adjustments were 38 property items reportedly "Returned to Stores" by the OIG. However, the OIG did not provide copies of the GPO Form 2051 for these 38 requested adjustments. Based on the OIG suggested standard of documentation, the Inspector General lacked adequate documentation.

However, to our dismay, the Inspector General actually took exception to the OC not processing the OIG requested adjustments quickly enough (see OIG Finding 5). If the OIG believes that the written results of their physical inventory of property do not constitute sufficient documentation, then their own lack of documentation would be equally questionable under the circumstances, if not more questionable due to larger number of property adjustments.

Third, the draft audit report recommends, "maintaining documentation on all future deletions of inventory from property systems." However, the report lacks any evidence that such documentation is not already being maintained and available for review within the three organizations audited. Additionally, the Materials Management Service maintains copies of GPO Forms 2051 as part of their property disposal system of records.

Fourth, the OIG draft audit report states that:

"In addition, future inventory deletions without supporting documentation should be reported to the Office of the Inspector General as possible lost or missing property."

The OC is not responsible for making a determination that property of another GPO organization has been "lost or stolen." That determination is made by the organization where the asset is missing! The GPO has a system in place for reporting and investigating lost, missing, and stolen property. The Physical Security Group and Protective Services Group work jointly to maintain a secured environment to protect Government employees and property. Between October 1, 1997 and March 31, 1999, the Protective Services Group investigated five incidents involving lost, missing, or stolen property valued at \$300 or greater. All of these incidents involved electronic equipment.

The proposed new property system will maintain a complete automated history of property adjustments, and adequate documentation. An electronic audit trail documenting all property

transactions will be maintained for management, audit, and investigative purposes. The draft GPO Instruction also includes specific procedures for the reporting of lost, missing, stolen, and recovered property. Proposed procedures have already been included for the referral of high value property thefts to the OIG by the Protective services Group.

### **OIG Finding 5. Entering Inventory Adjustments Timely**

The OIG draft report claims that limited staffing in the OC, General Ledger and Property Section, contributed to inventory adjustments not always being entered into the OC's property listing. Two examples are cited by the OIG as purported evidence of this condition. The first OIG example pertains to the Production Department, Electronic Photocomposition Division (Cost Code 5400). A total of 15 items were alleged to have been "not removed" by the OC. The second example pertains to the OIG itself (Cost codes 0050, 0051 and 0053). The OIG reported that only 10 of 251 requested changes, requested by the Inspector General on May 15, 1998 were made by the OC as of September 24, 1998.

#### Audit Recommendation

The OIG draft report contains the following recommendation in regard to Finding 5.

OIG Report Recommendation
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(1) The Comptroller should ensure that adequate emphasis is placed on the timely updating of all inventory adjustments in the property systems by the Comptroller's General Ledger and Property Section as required by GPO Instruction 810.11A (09).
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#### Management Comments

The Office of the Comptroller disagrees with this finding and the associated recommendation. Our position on this matter is as follows.

First, this OIG audit finding is not based on sufficient, competent, and relevant evidence to afford a reasonable basis for the OIG's findings and conclusions. The OIG audit report finding is based on just two examples that only represent isolated instances when considering the entire universe of GPO cost codes and the constant stream of changes to the GPO accountable property inventory. The OIG has not furnished substantive evidence of the existence of a systemic problem warranting the recommended action by management. Clearly due professional care should be used in conducting the audit and in preparing this report finding. Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing audit tests and procedures. This was not the case here.

Second, the two examples supporting this finding are both questionable. In regard to the first OIG example, the OIG draft audit report states that:

“A discussion with the property custodian for Cost Code 5400 found that the August 3, 1998, property listing contained 15 property items that **the property custodian had previously requested the Comptroller to remove**. The 15 items had a purchase cost of \$1,508,139 and a book value of \$22,053 that were returned to Stores.” [Emphasis added]

Generally, such “hearsay” or “testimonial evidence” is considered the weakest form of evidence and should be corroborated by other forms of evidence before reaching conclusions. However, the OIG admits in the draft report the lack of corroborating “documentary evidence,” as follows:

**“However, the property custodian could not provide any documentation to support this request for removal.”** [Emphasis added]

Clearly, insufficient evidence existed to reach the audit conclusion. This is just another example of the lack of objectivity by the OIG during this audit.

The second OIG example used in the draft report for this finding raises serious concerns about: (1) the OIG’s compliance with the requirements of the GPO Property Management Program, and (2) the lack of independence and objectivity of the OIG in regard to this alleged audit finding. Specifically, on May 15, 1998, the Inspector General requested by memorandum that the Comptroller make 251 specific inventory adjustments to the OIG’s Cost Codes for accountable property. This request was considered extraordinary and the OIG did not furnish an additional supporting documentation for the changes. Clearly, the magnitude and nature of these inventory adjustments raised concerns about the accountability and safeguarding of Government property in the care and custody of the OIG. I also believe it is highly unusual and very unfair for the IG staff to create the problem and then criticize the OC for their actions.

To illustrate, the Inspector General’s memorandum indicates that:

- (1) 35 property items costing \$91,082 had been “discarded,” (GPO Regulations require that excess property to be returned to Stores, unless authorized otherwise);
- (2) 10 property items costing \$15,234 had been transferred to another organization (GPO Regulations require that excess property be reported to Stores for transfer);
- (3) 105 property items costing \$91,754 were on hand, but were not on the property listing (The GPO Regulations, at the time of the audit, required that accountable property costing \$5,000 or greater be recorded);
- (4) 38 property items costing \$44,414 had reportedly been earlier returned to Stores (GPO Regulations require that the OC be notified of property returned to Stores).
- (5) 9 property items costing \$8,490 were not on hand and lacked records of ever being received.
- (6) 19 property items costing \$16,284 were classified as “cannot account for.” (Did the OIG report this missing property to the GPO Police Commander for investigation, as required?)

We should also note another apparent factual error with the OIG draft audit report. The arithmetic sum of the above adjustments totaled 216 property items, not 251 adjustments as reported in this OIG draft report. Our computed total of 216 also agrees with the Inspector General's memorandum of May 15, 1998 (the source document), that contains 6 schedules, with a total of 216 property items requiring adjustment (Schedule # 1: "105 property items;" and Schedules # 2 to 6: "111 items").

This OIG report does not disclose that the Office of Audits has apparent **conflicts of interest** in regard to this finding that impedes the independence and appearance of objectivity for this audit. The OIG property custodians of record as of May 15, 1998 included the Assistant Inspector General for Investigations and the **Assistant Inspector General for Audits** (see Exhibit F). Government Auditing Standards require independence and objectivity, and the disclosure of "impairments" and "conflicts of interests." Clearly, the dual roles of the Assistant Inspector General for Audits, as an OIG property custodian and the senior audit official responsible for this draft audit report, create the appearance of a conflict of interest impairing independence, judgement, and objectivity in this case.

Under the circumstances, the claim in the draft OIG audit report that this audit was conducted "in compliance with the generally accepted Government auditing standards," without any disclosure or qualifications for independence, is questionable.

Third, in reflection, OIG Finding 4, *Deleting Property Items*, questioned the OC's deletion of 15 property items from the inventory "without copies of GPO Form 2051 Return to Stores." The OIG report stated that "future inventory deletions without supporting documentation should be reported to the Office of Inspector General as possible lost or missing property." In retrospect, the Inspector General's memorandum of May 15, 1998 similarly requested inventory deletions without supporting documentation [used as audit evidence in OIG Finding 5] contradicts the OIG's position in OIG Finding 4.

Finally, the comments of the Assistant Comptroller have been misstated in the draft audit report to imply admission of a processing delay and "backlog" of work due to inadequate personnel resources. The Assistant Comptroller only confirmed that one General Ledger and Property Section employee is responsible for entered inventory data and adjustments in the GPO property system. This information was intended to illustrate the separation of duties included in our internal control system for property accountability. Personnel resources are in fact adequate. Furthermore, there is no "backlog" in entering data as alleged by the OIG, and clearly no evidence in the draft audit report of the existence of any "backlog."

## OIG Finding 6. Receiving Fiscal Year 1998 Annual Inventories

The OIG draft report questions the lack of a 100% inventory response rate for the periodic verification of property by the GPO. The OIG reported that 86% and 97% of the book value of property was verified by property custodians as of October 1, 1997, and September 24, 1998, respectively. The OIG states that the Comptroller needs to strive for a 100% response rate.

### Audit Recommendation

The OIG draft report contains the following recommendation in regard to Finding 6.

OIG Report Recommendation
(1) The Comptroller should ensure the timely receipt of all annual updates of inventories from the GPO property custodians by GPO Instruction 810.11A (10).

### Management Comments

The Office of the Comptroller disagrees with this finding and the associated recommendation. Our position on this matter is as follows.

First, the OC believes that a **97% inventory response rate** for Fiscal Year 1998 is worthy of positive recognition by the OIG rather than negative reporting as an audit finding. This is another example of the lack of objectivity and balanced reporting by the OIG for this alleged "performance audit." Furthermore, the OC's goal has always been a 100% rate of verification. The draft report also does not reflect the follow-up efforts (e.g., telephone calls) by the OC that undoubtedly contributed to the achievement of a 97% verification rate for property.

Second, the OIG's insinuation that about \$2 million in property was not accounted for during the Fiscal Year 1998 year-end inventory is baseless in fact. Specifically, the OIG claims that, "\$2.068 million in book value [for property] is a significant amount that should be accounted for in future annual updates of inventories." The fact of the matter is that this property was fully accounted for by the GPO. The OIG staff auditors apparently do not fully understand the reasons for asset verification. The primary purpose is to ensure the "existence" of the property recorded in the accounting system as an asset of the GPO. The property in question is obviously accounted for by the GPO if it is in the accounting system and reflected in the associated property listings sent to the property custodians for verification.

Finally, this alleged OIG audit finding would be a moot point under the proposed new property

management system. The OC will no longer be sending inventory listings of accountable property to property custodians to verify. Instead, information on the inventory of accountable property will be available on-line through the GPO Intranet. Furthermore, the draft GPO Instruction 810.11B *GPO Property Management Program* has a requirement for an annual inventory of accountable property. Each Property Manager will ensure that a physical inventory is performed and the accountable property records are updated for their cost code(s).