

**Report on Improving the Controls  
over Inventories in the  
Graphic Supplies Section**

**April 2000**

**00-05**



UNITED STATES GOVERNMENT PRINTING OFFICE  
OFFICE OF THE INSPECTOR GENERAL

# memorandum

DATE: April 3, 2000

REPLY TO

ATTN OF: Inspector General

SUBJECT: Report on Improving the Controls over Inventories in the Graphic Supplies Section.

To: Manager, Quality Control and Technical Department,

The Office of Inspector General (OIG) has completed a performance audit on the controls in operating, controlling, and administering inventories of inks, raw materials and adhesives, rollers, and property of the Graphics Supplies Section (GSS). The audit was conducted from March through August 1999.

The audit identified 15 findings and made 29 OIG recommendations to improve the effectiveness and efficiency of GSS's internal controls in operating, controlling, and administering inventories of inks, raw materials and adhesives, rollers, and property. One recommendation was to update the 1986 study on whether it was still reasonable and cost effective for the Government Printing Office to make the best possible ink at minimal cost in satisfying the demand of both the Production Department and customer agencies. The OIG projects an estimated savings of over \$1.1 million over the next five years by purchasing Heatset Ink from outside contractors.

The implementation of the 29 audit recommendations would strengthen GSS's ability to accomplish one of its missions of producing inks for the Production Department.

The Manager, Quality Control and Technical Department, has agreed with the findings and recommendations and anticipates all 29 audit recommendations to be implemented by October 1, 2000.

Mr. Joseph Verch, Supervisory Auditor, Ms. Suzan Newman and Mr. Jacob Williams, staff auditors, conducted this audit.

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I appreciate the cooperation and courtesies extended during the audit by the officials and staff of the Graphics Supplies Section, the Quality Control and Technical Department, the Chemical and Environmental Division, the Materials Management Service, and the Production Department.

  
ROBERT G. ANDARY

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**REPORT ON IMPROVING THE CONTROLS OVER INVENTORIES  
IN THE GRAPHICS SUPPLIES SECTION**

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

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**REPORT ON IMPROVING THE CONTROLS OVER INVENTORIES  
IN THE GRAPHIC SUPPLIES SECTION**

**RESULTS IN BRIEF**

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The Graphics Supplies Section (GSS) of the Chemical and Environmental Division maintains an inventory of over 300 items of inks, raw materials and adhesives, and rollers that is used to accomplish one of its missions of producing inks and adhesives for the Production Department. As of April 12, 1999, these items had a listed inventory value of over \$522,000. GSS also maintains an inventory of 69 items of property with an acquisition value of over \$248,000.

From March through August 1999, GPO's Office of the Inspector General (OIG) conducted a performance audit to examine the controls in operating, controlling, and administering inventories of inks, raw materials and adhesives, rollers, and property. This was after the OIG received an allegation concerning shortages in inks and raw materials. The allegation was supported by the results of a cyclic inventory performed by Materials Management Service Inventory Team that made 182 adjustments to 59 percent of the 308 inventory items in Materials Management Procurement Control System (MMPCS II), totaling over \$138,000 or 26 percent of GSS listed inventory value.

OIG auditors found that GSS did not have any specific written instructions to operate, control, and administer the inventories of inks, raw materials and adhesives, and rollers, contrary to GPO Instruction 825.18A *Internal Control Program*. With no written instructions, GSS personnel did not always record the manufacturing of inks and the issues of inks and raw materials and adhesives to the Production Department in MMPCS II. GSS personnel then falsified issue documents and altered the formula for manufacturing Heatset ink in order to reduce shortages of over 17,000 pounds of inks and raw materials and adhesives worth over \$100,000 in MMPCS II.

In addition, GSS personnel could not account for 21 property items or 30 percent of all property assigned to GSS with a total acquisition value of \$17,841. And another 29 property items were not reported in the Comptroller's property inventory listing and were not assigned identification numbers and tagged, contrary to GPO Instruction 810.11A *Property Management Program*.

GSS can improve its internal controls in operating, controlling, and administering inventories of inks, raw materials and adhesives, rollers, and property more effectively and efficiently by implementing the 29 OIG recommendations. One recommendation is to update the 1986 study to determine whether it is still reasonable and cost effective for

GPO to make the best possible ink at minimal cost in satisfying the demand of both the Production Department and customer agencies. The OIG projects an estimated savings of over \$1.1 million over the next five years by purchasing Heatset Ink from outside contractors. These 29 recommendations should strengthen GSS's ability to accomplish one of its missions of producing inks for the Production Department.

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## BACKGROUND

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The Graphics Supplies Section (GSS) is located in GPO's Building 1, 710 N. Capitol St. NW, Washington, D.C. At the onset of our audit, GSS was known as the Graphics Supplies Division (GSD). During a reorganization within the Quality Control and Technical Department (QCTD) on June 1, 1999, GSD became GSS and was realigned into the Chemical and Environmental Division. GSS has nine employees including a foreperson, a work leader, an inventory clerk, four employees responsible for ink manufacturing, and two employees responsible for adhesive manufacturing, roller recovery, and waste processing.

GSS did not have written operating procedures, regulations, or publications for inventory operations. However, inventory controls established by the Materials Management Service (MMS) include GPO Publication 805.18 *Materials Management Procurement Control System (MMPCS II) User's Guide* and GPO Instruction 810.2C *Control of Inventory* and were used as guidance by GSS for inventories and related transactions. GSS also relied on MMS authorities for advice concerning the conduct of in-house inventories, organization of inventory storage, and resolution of inventory discrepancies.

GSS is responsible for the manufacturing of ink and adhesives, and the recovery of rollers. GSS personnel maintain a database inventory of inks, raw materials and adhesives, and rollers within MMPCS II.

MMPCS II is a computerized inventory system maintained by MMS. GPO stores and substores, such as GSS, make entries into MMPCS II to record inventory transactions. For example, GSS Inventory Control Clerk makes entries into MMPCS II to record the conversion of raw materials into finished inks or adhesives (ink and adhesive manufactures) and issues from GSS inventory.

GSS inventory products are initially requested on inventory control documents originated by the requestor. When GSS personnel issue the products, the control document is annotated to show that the issue has occurred.

The Inventory Control Clerk enters issue data from the inventory control documents into an in-house issue log. The Inventory Control Clerk periodically updates MMPCS II by entering data from the issue log and from the ink and adhesive manufacturing logs into MMPCS II through a terminal at her desk. The ink and adhesive manufacturing logs are GSS in-house records of raw materials conversions into finished inks and adhesives. When the clerk enters inventory information into MMPCS II, the inventory system automatically reduces inventories for issues to GSS customers or for manufacturing inks and adhesives, and increases inventories of those finished inks and adhesives. In addition to recording transactions in MMPCS II, GSS physically controls the inventory of raw materials, finished inks, adhesives, and rollers. GSS also purchases specialty



inks as required by customers, however, these inks are not a part of the controlled inventory system.

On February 19, 1999, the Office of Inspector General received an allegation concerning shortages in inks and raw materials. The allegation was based on: (1) impromptu inventory counts; (2) inventory discrepancies determined by an MMS inventory team; and (3) GSS management's methods of resolving the discrepancies. Based on the information provided in the letter, interviews with managers and employees of Quality Control and Technical Division and MMS, and the results of the MMS cyclic inventory, we conducted an audit to determine the source or cause of the alleged inventory discrepancies.

On April 12, 1999, the Acting Director, MMS, issued a memorandum to the Manager, Quality Control and Technical Department, on the results of the Graphic Supplies Division's (Ink Section) cyclic inventory conducted between February and March 1999. The results showed the MMS Inventory Team made 182 adjustments or 59 percent of the 308 inventory items in MMPCS II totaling over \$138,000 or 26 percent of the \$522,069 listed inventory value in MMPCS II.

Inventory Items	Unexplained Shortages		Unprocessed Issues		Unexplained Overages		Totals	
	#	\$	#	\$	#	\$	#	\$
<b>Finished Inks</b>	23	3,365	17	62,282	29	12,067	69	77,714
<b>Raw Materials and Adhesives</b>	54	38,338	3	3,753	26	10,739	83	52,830
<b>Rollers</b>	15	1,357	10	5,697	5	413	30	7,467
<b>Totals</b>	92	43,060	30	71,732	60	23,219	<b>182</b>	<b>138,011</b>

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## OBJECTIVE, SCOPE, AND METHODOLOGY

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The objective of this audit was to examine the controls for operating, controlling, and administering inventories of inks, raw materials, rollers, and property. In particular, this audit examined inventory practices, identified significant inventory variances reported for raw materials, and rollers in Fiscal Year 1999. Transactions for the receipt and issue of ink, raw materials and adhesives, and rollers were also traced.

As part of the audit, the system of internal controls was examined and a general testing of key controls to evaluate their appropriateness and effectiveness was conducted. Any material weaknesses identified are described in the findings section of this report.

We conducted this audit during the months of March through August 1999 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. All significant instances of noncompliance with laws and regulations and all significant instances of abuse found during the audit are described in the findings section of this report.

We reviewed:

1. Change 17 to GPO Instruction 105.1B *Organization and Functions of the Government Printing Office*, dated January 8, 1995, Quality Control to identify specific responsibilities for Graphics Supplies (Division) Section;
2. GPO Instruction 655.3 *Standards of Conduct for Government Printing Office Officers and Employees*, dated February 23, 1973, to identify standards of ethical and financial conduct;
3. GPO Instruction 655.4A *Corrective Actions*, dated July 27, 1979, to identify the general guidelines and penalties used by GPO in processing corrective actions;
4. GPO Instruction 805.18 *User's Guide for Materials Management Procurement Control System (MPCSII)*, dated October 1, 1985, to identify guidelines for the use of MMPCSII;
5. MMS Instruction 810.2C *Control of Inventory*, dated January 1996, to identify procedures and guidelines for the inventory of paper and materials under the control of the Materials Management Service;
6. GPO Instruction 810.11A *Property Management Program*, dated April 16, 1981, to identify specific responsibilities for property and property management;

7. GPO Instruction 825.18A *Internal Control Program*, dated May 28, 1997, to identify policies, standards, and responsibilities for conducting internal control reviews of GPO; and
8. GPO Technical Report No. 9 *The Use and Care of Press Rollers*, dated March 9, 1976, to identify roller use, care, and storage requirements.

The audit team performed the following:

- Interviewed Quality Control, Graphic Supply Section, and Materials Management Service personnel on the inventory operations for raw materials, ink, and rollers;
- Reviewed the Fiscal Year 1999 inventory of raw materials and rollers conducted by Materials Management Service;
- Reviewed and evaluated the adequacy of internal controls for the receipt, storage, and issuance of inks, raw materials and adhesives, and rollers;
- Evaluated the overall administration and annual operating costs of the ink operations; and
- Reviewed and evaluated the internal controls for the receipt, identification, inventory, and disposal of GPO property.

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## FINDINGS AND RECOMMENDATIONS

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### CHAPTER I. INVENTORY

The Graphics Supplies Section (GSS) of the Chemical and Environmental Division can improve its internal controls to accomplish the mission of the organization in operating and controlling the inventories of inks, raw materials and adhesives, and rollers more effectively and efficiently as directed by GPO Instruction 825.18A.

This Chapter identifies opportunities to improve internal controls over operating and controlling GSS inventory that created the \$138,011 worth of inventory discrepancies that were detected by the Materials Management Service Inventory Team during the cyclic inventory between February and March 1999. Recommendations are made to strengthen these controls by: (1) providing overall written instructions on operating and controlling inventories; (2) restricting ink formula "write" privileges; (3) recording all issues and manufactures of inks and passport adhesives into MMPCS II; (4) classifying and accounting for all inactive, unreported inventories and sealed cans of returned inks; (5) purging inactive property numbers in MMPCS II; and (6) considering the transfer of the actual operations and controls over GSS inventory to Materials Management Service.

#### I-1. Falsified Documents

##### FINDING

OIG auditors identified eleven *MMPCS Inventory Control Documents* (GPO Form 3200) that were falsified (forged, altered, or created) to reduce shortages of 9,522 pounds or \$84,612 worth of inventory of finished inks, raw materials, and adhesives on the MMPCS II inventory reports.

- Six GPO 3200 Forms contained forged or altered signatures according to an Offset Press pressperson. The pressperson stated that someone else had signed the pressperson's name for ordering and receiving finished inks on four GPO Form 3200s in October 1998 and February 1999. That someone else had also added finished inks and raw materials that the pressperson did not order on another two GPO Form 3200s in November 1998 and February 1999. The falsification of the six GPO Form 3200s resulted in the unauthorized issues of 25 different items that represented a total of 7,170 pounds or \$27,217 of finished inks and raw materials.
- Four GPO Form 3200s contained forged signatures according to the Postal Card Section's Assistant Foreperson. The Assistant Foreperson stated that someone else had signed the Assistant Foreperson's name for ordering and receiving nine different finished inks on four GPO Form 3200s in November 1998, January 1999, and February 1999. The falsification of the four GPO Form 3200s resulted in the

unauthorized issues of nine different items that represented a total of 1,872 pounds or \$56,489 of finished inks.

The GSS foreperson admitted that he altered GPO Form 3200s in order to make the inventory accounts for finished inks and raw materials balance after Materials Management Service's (MMS) February 1999 inventory. The foreperson felt that it was reasonable to assume that an ink shortage could be charged to a Production Section (Offset and Postal) if that Section was the only GPO organization that used the finished inks or the raw materials<sup>1</sup>.

- Another GSS employee admitted to signing a GPO Form 3200 for the receipt of 480 pounds or \$906 worth of adhesives in August 1998 for the Binding Division. This was to account for shortages in adhesives that the Blank Section of the Binding Division must have received, because no other GPO organization uses that adhesive.

The falsifications of GPO Form 3200s did not appear to be of a personal gain for the GSS personnel. However, these falsifications do constitute violations of Standards 2, 3, 4, 7, and 8 of GPO Instruction 825.18A.

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

*“Standard 3 – Managers and employees must have personal integrity and be obligated to support the ethics program in their agency.”*

*“Standard 4 – 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.”*

*“Standard 7 – Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports.”*

*“Standard 8 – Managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audit and other findings, and related recommendations.”*

These false issue documents also violate paragraph 7.a. of GPO Instruction 655.3 *Standards of Conduct for Government Printing Office Officers and Employees.*

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<sup>1</sup> However, a falsified GPO Form 3200, dated October 1998, for Offset Press included 2,710 pounds of Heatset ink that is not used by Offset Press.

“Federal employees may not: (1) Knowingly and willfully falsify, conceal or coverup by any trick, scheme or device a material fact, or make a false, fictitious or fraudulent statement or representation, or make or use any false writing or document.”

Information regarding the eleven falsified documents has been referred to the OIG Office of Investigation for appropriate action.

GSS personnel did not have written instructions for operating and controlling inventories to include what to do on inventory variances. As a result, false issue documents were used to resolve inventory variances. However, the falsification also hindered GPO officials from determining the true source and extent of the inventory variances. Inventory variances could also slow the automatic reordering system, resulting in GPO paying additional “Rush Order” charges to receive critical finished inks, raw materials, and adhesives.

## **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should:

- Develop and implement written instructions on the issuing and receiving of inventories of finished inks, raw materials, and adhesives using GPO Form 3200 *MMPCS Inventory Control Documents* (0005-01);
- Immediately stop the practice of issuing GPO Form 3200 *MMPCS Inventory Control Documents* to resolve inventory variances of finished inks, raw materials, and adhesives (0005-02);
- Develop and implement written instructions for thoroughly researching and resolving future inventory variances of finished inks, raw materials, and adhesives (0005-03); and
- Ensure that every employee is aware of the prohibition on falsifying official GPO documents (0005-04).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and four recommendations.

## I-2. Heatset Ink

### FINDING

Heatset ink is used quite extensively in GPO's Production Department for printing. From January 1998 through January 1999, GSS officials manufactured Heatset ink (Property #684082) with a standard formula using six raw materials. The standard formula uses 206 pounds of raw materials to yield 206 pounds of Heatset ink. After a batch of Heatset ink is made, a GSS official manually records the amount of Heatset ink made in the GSS Manufacture Ink Log by "lot" number and enters the information in MMPCS II. MMPCS II automatically reduces the inventories of the six raw materials used by GSS personnel to manufacture finished inks and increases the inventory of the Heatset ink. GSS personnel rely on the internal controls within MMPCS II to ensure adequate inventory levels of raw materials are constantly kept in order to meet Production's demands for Heatset ink.

An OIG comparison of the Manufacture Ink Log with MMPCS II found that the yield from 18 "lots" of manufactured Heatset ink did not agree with the standard formula during the 13-month period of January 1998 through January 1999. The different yields provide evidence that alterations were made to the standard formula in MMPCS II. Alterations were made in order to reconcile the actual inventories of Heatset ink and raw materials on hand in GSS with the inventories reported in MMPCS II, as a result of actual manufactures of Heatset ink that were not previously recorded. These alterations totaled 7,736 pounds of Heatset ink and raw materials that were improperly recorded at a cost of over \$17,000:

- As much as 2,702 pounds or \$8,655 of Heatset ink was manufactured in 10 "lots" but was not recorded in MMPCS II<sup>2</sup>;

No.	Date	Lot#	Heatset Ink Yield (in lbs.)				
			Log	MMPCS II	Difference	\$ per lb.	Difference
1	01/22/98	50	612	50	562	\$3.2033	\$1,800.25
2	04/02/98	102	1,254	1,224	30	\$3.2033	\$96.10
3	04/29/98	129	408	404	4	\$3.2033	\$12.81
4	06/23/98	164	824	408	416	\$3.2033	\$1,332.57
5	08/12/98	207	1,030	1,020	10	\$3.2033	\$32.03
6	08/14/98	210	2,060	816	1,244	\$3.2033	\$3,984.91
7	09/10/98	227	1,224	1,218	6	\$3.2033	\$19.22
8	09/11/98	228	1,224	1,218	6	\$3.2033	\$19.22
9	11/05/98	18	2,060	1,648	412	\$3.2033	\$1,319.76
10	01/20/99	48	824	812	12	\$3.2033	\$38.44
<b>Totals</b>			11,520	8,818	<b>2,702</b>		<b>\$8,655.32</b>

- As much as 3,154 pounds or \$2,555 of Heatset ink base in six "lots" was possibly converted to Heatset ink without the base's usage being recorded in MMPCS II, although the ink was recorded in MMPCS II<sup>3</sup>;

No.	Date	Lot#	Heatset Ink Yield (in lbs.)			Formula		Heatset Ink Base (in lbs.)			
			Log	MMPCS II	Diff.	%	lbs.	MMPCS II	Diff.	\$ per lb.	Diff.
1	02/20/98	72	618	618	0	41.75	258.02	172.00	86.02	\$0.81	\$69.67
2	07/16/98	176	1,224	1,224	0	42.16	516.04	344.00	172.04	\$0.81	\$139.35
3	11/05/98	19	2,350	2,350	0	36.60	860.10	86.00	774.10	\$0.81	\$627.02
4	11/24/98	29	2,472	2,472	0	41.75	1,032.06	103.20	928.86	\$0.81	\$752.38
5	12/17/98	41	618	618	0	41.75	258.02	172.00	86.02	\$0.81	\$69.67
6	01/12/99	44	2,678	2,678	0	41.75	1,118.07	11.20	1,106.87	\$0.81	\$896.56
<b>Totals</b>			9,960	9,960	0		4,042.31	888.40	3,153.91		<b>\$2,554.65</b>

- As much as 1,880 pounds of Black Heatset ink was misclassified in two "lots" as 1,880 pounds or \$6,022 of Heatset ink.

No.	Date	Lot#	Classified As Heatset Ink (in lbs.)			Black Heatset Ink		
			Log	MMPCS II	\$ per lb.	MMPCS II	\$ per lb.	Value
1	10/14/98	6	0	940	\$3.2033	\$3,011.10	\$3.09	\$2,904.60
2	11/05/98	17	0	940	\$3.2033	\$3,011.10	\$3.09	\$2,904.60
				<b>1,880</b>		<b>\$6,022.20</b>		<b>\$5,809.20</b>

Between January 1998 and January 1999, nine employees had "write" privileges that would allow them to change the formula in MMPCS II. Five of these employees were management or chemists in the Paper and Physical Testing Division of the Quality Control and Technical Department (QCTD). The other four employees were management or supervisors in the GSS. A fifth GSS employee, the Inventory Control Clerk, did not receive "write" privileges until September 1998.

The abilities to manufacture, issue, and record transactions are incompatible duties in that they could allow an employee to perpetrate a fraud and conceal it to alter the ink formula output without being detected. Although we did not find evidence of any fraud, conditions existed that could allow fraudulent activity to occur and go unnoticed, contrary to Standard 5 of GPO Instruction 825.18A:

"Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Managers should exercise appropriate oversight to ensure that individuals do not exceed or abuse their assigned authorities."

<sup>2</sup> The unrecorded manufacture of Heatset ink could explain a part of the unexplained shortages in the raw materials identified by the MMS Inventory Team.

<sup>3</sup> The unrecorded manufacture of Heatset Ink could possibly explain a part of the unexplained shortages of raw materials identified by the MMS Inventory Team.



The QCTD chemists determine proper mixtures and outputs for the formulae to be used in manufacturing ink. Since the chemists cannot issue or manufacture ink, then they should be the only personnel authorized to make adjustments to the formulae in MMPCS II.

### **RECOMMENDATION**

The Manager, Quality Control and Technical Department, should establish a control to ensure that "write" privileges for future formulae changes in MMPCS II are restricted to only Quality Control and Technical Department chemists (0005-05).

### **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the recommendation.

### I-3. Unrecorded Issues

#### FINDING

GSS personnel issued inks and Passport adhesives totaling 11,395 pounds or \$33,556 to the Production Department from February through November 1998 without recording the issues into MMPCS II<sup>4</sup>. A review of the GPO Form 3200s *MMPCS INVENTORY DOCUMENT FORM* and/or the GPO Form 17 *Material Issue Log* showed that the ten unrecorded issues included:

1. 7,200 pounds or \$23,064 of Heatset Ink (GPO Property #684082);
2. 3,920 pounds or \$7,313 of Passport Adhesive (GPO Property #520683); and
3. 275 pounds or \$3,179 of Offset Blue PMS-288<sup>5</sup> (GPO Property #685283).

No.	Material	Dated	Office	Lbs.	\$ per lb.	Totals
1	Heatset Ink	02/25/98 <sup>6</sup>	Offset Printing	2,400	\$3.2033	\$7,687.92
2	Passport Adhesive	04/15/98	Passports	980	1.8655	1,828.19
3	Offset Blue Ink	04/21/98	Postal Card	100	11.5600	1,156.00
4	Passport Adhesive	05/21/98	Passports	980	1.8655	1,828.19
5	Heatset Ink	06/11/98	Offset Printing	2,400	3.2033	7,687.92
6	Offset Blue Ink	06/10/98	Postal Card	100	11.5600	1,156.00
7	Offset Blue Ink	06/22/98	Offset Printing	75	11.5600	867.00
8	Passport Adhesive	09/22/98	Passports	980	1.8655	1,828.19
9	Passport Adhesive	10/14/98	Passports	980	1.8655	1,828.19
10	Heatset Ink	11/06/98 <sup>7</sup>	Offset Printing	2,400	3.2033	7,687.92
	<b>Totals</b>			<b>11,395</b>		<b>\$33,555.52</b>

The precise cause of each of the unrecorded issues could not be determined. However, it should be noted that MMPCS II does not allow any issues to be entered if the amount issued is greater than the MMPCS II balance, regardless of the physical inventory on hand.

GSS needs to develop instructions in order to use MMPCS II as a management tool to track all issues of inks and Passport adhesives to the Production Department. These instructions would be the controls needed for GSS to ensure adequate inventories of inks and raw materials are kept on hand to meet the Production Department's needs. The controls would also assist GSS personnel to prepare timely and reliable financial and other reports in accordance with Standard 7 of GPO Instruction 825.18A.

<sup>4</sup> The unrecorded issues of ink and adhesive could explain part of the unexplained shortages of inks and raw materials identified by the MMS Inventory Team.

<sup>5</sup> The three entries for Offset Blue PMS-288 Ink in the GPO Form 17 Material Issue Log were lined through. However, between the last confirmed issue in MMPCS II on January 26, 1998, and the next manufactured on July 17, 1998, no issues were made to the Production Department.

<sup>6</sup> This issue was not entered into the GPO Form 17 Material Issue Log.

<sup>7</sup> No GPO Form 3200 Control Document was on file.

“Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.”

## **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should:

- Develop and implement instructions to record all issues from the GPO Form 3200 *MMPCS INVENTORY DOCUMENT FORM* into the GPO Form 17 *Material Issue Log*, and from the issue log into MMPCS II promptly with frequent reconciliations between MMPCS II entries and the issue log (0005-06); and
- Develop and implement instructions are developed to research and resolve immediately all issues that are not accepted into MMPCS II (0005-07).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the two recommendations.

## I-4. Unrecorded Manufactures

### FINDING

Twenty-seven lots of inks and Passport adhesives that were manufactured from January 14, 1998, through March 17, 1999, and totaled 17,744 lbs. or \$55,874 were not recorded into MMPCS II. (See Appendix II.) A review of GPO Form 620s *RECORD OF INK PRODUCTION* (manufacture log) showed that the 27 manufactures included:

1. 8,382 pounds or \$25,878 of Offset Heatset Web Black Ink (GPO Property #562351);
2. 7,214 pounds or \$23,110 of Heatset Ink (GPO Property #684082);
3. 1,530 pounds or \$2,854 of Passport Adhesive (GPO Property #520683);
4. 406 pounds or \$1,581 of Offset Halftone Black Ink (GPO Property #530522); and
5. 212 pounds or \$2,451 of Offset Blue PMS-288 Ink (GPO Property #685283).

The Inventory Control Clerk entered the 27 manufactures into MMPCS II, and printed the first two screens of each manufacture. However, the Clerk failed to print the third screen, which confirms whether or not MMPCS II actually accepted the manufacture. As a result, the Clerk did not actually know whether MMPCS II processed the manufacture or not.

Again, it should be noted that MMPCS II does not accept any manufactures entered if the amount of the raw ingredients to be used is greater than the MMPCS II balance, regardless of the physical inventory on hand.

GSS needs to develop instructions in order to use MMPCS II as a management tool to track all manufactures of inks and Passport adhesives to the Production Department. These instructions would be the controls needed for GSS to ensure adequate inventories of inks and Passport adhesives are kept on hand to meet the Production Department's needs. The controls would also assist GSS personnel to prepare timely and reliable financial and other reports in accordance with Standard 7 of GPO Instruction 825.18A.

### RECOMMENDATIONS

The Manager, Quality Control and Technical Department, should:

- Develop and implement instructions to record all manufactures from the GPO Form 620 *RECORD OF INK PRODUCTION* (manufacture log) into MMPCS II with frequent reconciliations between MMPCS II entries and the manufacture log (0005-08);
- Ensure that the Inventory Control Clerk always prints the third screen associated with manufactures when entering the manufactures into MMPCS II (0005-09); and

- Develop and implement Instructions to research and resolved immediately all manufactures that are not accepted into MMPCS II (0005-10).

### **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the three recommendations.

## **I-5. Inactive Unreported Inventory**

### **FINDING**

During February and March 1999, the MMS Inventory Team identified 78 inactive properties with balances in GSS that were not reported in MMPCS II. These inactive, unreported properties consisted of at least 5,560.5 lbs. of finished inks and raw materials and 740 empty cans. Many of the finished inks came from the Rapid Response Center about 10 years ago.

Currently these inactive finished inks, raw materials, and empty cans are taking up valuable storage space, because GSS has no idea when, if ever, they will be used again. Even though these inactive properties have no dollar value, they are still subject to waste, loss, unauthorized use, and misappropriation.

GSS needs to reassess the feasibility of using these inactive properties in the future. After the reassessment, GSS needs to document only those properties that will likely be used. This action would be the controls needed to provide GSS reasonable assurance and safeguards to protect and to properly classify and account for all inactive properties in order to prepare timely and reliable financial and other inventory reports in accordance with Standards 2 and 7 of GPO Instruction 825.18A. For the remaining inactive properties, GSS should take appropriate action to dispose of them in accordance with current GPO regulations.

### **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should ensure that:

- An assessment is performed on the feasibility of using any of the 78 inactive, unreported properties with inventory balances in the future and to document those properties (0005-11); and
- Any remaining inactive properties with inventory balances that are not considered to be useful within GSS are disposed of in accordance with current GPO regulations (0005-12).

### **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the two recommendations.

## I-6. Returned Inks

### FINDING

GSS does not currently reenter sealed cans of returned inks from the Production Department back into MMPCS II. (See Appendix V.) As a result, there are more inks in GSS actual inventory than what is reported in MMPCS II.

The sealed cans of returned inks were specially procured for the Production Department and do not have a GPO property number assigned. GSS personnel did not have any documentation to use as a management tool to ensure adequate inventories of inks are on hand to meet the Production Department's needs. Instead, GSS personnel could only physically observe the actual inventories on hand.

GSS needs to develop instructions to track and document the amount of sealed cans of returned inks received. These instructions would be the controls needed to provide GSS reasonable assurance and safeguards to protect and to properly classify and account for all cans of returned inks in order to meet the Production Department's needs. The controls would also assist GSS personnel to prepare timely and reliable financial and other reports in accordance with Standards 2 and 7 of GPO Instruction 825.18A.

### RECOMMENDATIONS

The Manager, Quality Control and Technical Department, should:

- Develop and implement instructions to track the amount of sealed cans of returned inks received (0005-13); and
- Develop and implement instructions to document the number of pounds of returned inks (0005-14).

### MANAGEMENT COMMENTS

The Manager, Quality Control and Technical Department, agreed with the finding and the two recommendations.

## **I-7. Inactive Property Numbers With Zero Balances**

### **FINDING**

As of April 12, 1999, GSS had 1,326 inactive property numbers with zero balances that continued to be recorded in MMPCS II. The 1,326 total items consist of:

- 161 items that have never been inventoried;
- 27 items that have been inventoried within the past three years; and
- 1,138 items that were last inventoried more than three years ago.

Despite having zero balances for as much as 11 years (April 1988), these inactive properties have not been purged from MMPCS II, because GSS does not know when, if ever, the properties will be needed again. By purging the 1,299 properties that have not been inventoried for over three years (161 + 1,138 properties) from MMPCS II would enable GSS to use MMPCS II as an effective management tool in order to prepare timely accounts and reliable reports in accordance with Standard 7 of GPO Instruction 825.18A.

Since these properties have no balance and therefore, no value in MMPCS II, they cause the GSS part of the database to be considerably larger than it needs to be. The properties also increase the potential for duplicate property numbers. It is easier for GSS to assign a new property number than it is to scan all 1,326 of the existing numbers if the material is acquired again in the future.

### **RECOMMENDATION**

The Manager, Quality Control and Technical Department, should ensure that all-inactive property numbers with a zero balance are reviewed periodically for possible purging from MMPCS II (0005-15).

### **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and recommendation.



## I-8. No Written Instructions

### FINDING

GSS does not have any specific written instructions to follow to operate and control the inventories of inks, ink-making materials (raw materials), adhesives, and rollers as required in Change 17 to GPO Instruction 105.1B *Organization and Functions of the Government Printing Office – Quality Control*. No written instructions on inventory has contributed to weak internal controls in GSS's inventory of inks, raw materials, and rollers as identified in the first seven findings in Chapter I of this OIG audit report. The findings in this report show that the following six Standards on internal controls as required by GPO Instruction 825.18A *Internal Control Program* have not been implemented:

1. Standard 2 requires reasonable assurance and safeguards to protect assets (inventories) against waste, loss, and unauthorized use in accomplishing management objectives;
2. Standard 3 requires managers and employees to have personal integrity to develop and implement effective management controls and maintain a level of competence to accomplish their assigned duties;
3. Standard 4 requires that appropriate authority, responsibility, and accountability be defined and delegated to accomplish the mission of the organization;
4. Standard 5 requires a separation of duties and responsibilities in authorizing, processing, recording, and reviewing transactions;
5. Standard 6 requires that only authorized individuals have access to resources and records;
6. Standard 8 requires known deficiencies to be promptly evaluated and corrected.

The OIG's first seven findings illustrate the ineffectiveness of GSS personnel using MMPCS II as a management tool to operate and control inventories. This ineffectiveness contributed to over \$138,000 worth of inventory discrepancies in GSS being detected by a MMS Inventory Team in April 1999. The magnitude of the findings and inventory discrepancies suggest that management officials should consider transferring the actual operations and controls over inventory of inks, raw materials, adhesives, and rollers to Materials Management Service in order to meet the needs of the Production Department to fill customers' requisitions.

## **RECOMMENDATION**

The Manager, Quality Control and Technical Department, should consider transferring the actual operations and controls over GSS inventory of inks, raw materials, adhesives, and rollers to Materials Management Service (0005-16).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the recommendation.

## CHAPTER II. ADMINISTRATIVE AREAS

GSS can improve management controls in administrative areas to accomplish its mission of producing ink and controlling inventories more effectively and efficiently as directed by GPO Instruction 825.18A.

This Chapter identifies five opportunities to improve controls in the administrative areas of GSS. Recommendations are made to strengthen controls by: (1) allocating resources more efficiently and effectively in providing finished inks to the Production Department; (2) making documentation readily available for all issue, receipt, and transfer transactions; (3) providing reasonable assurance and safeguards to protect inventory; (4) separating key duties and responsibilities among GSS personnel; and (5) classifying contract requirements properly in order to prepare timely accounts and reports on materials received.

### II-1. Alternative to Manufacturing Finished Inks

#### FINDING

Currently, four of the nine GSS employees manufacture finished inks that are used in the Production Department's printing presses. (See Appendix VI.) In calendar year 1998, GSS manufactured approximately 100,000 pounds of Heatset ink (GPO Property #684082) and another 48,000 pounds of non-Heatset inks. As of February 23, 1999, MMPCS II calculated that the cost of manufacturing Heatset ink for Lot 67 was approximately \$3.24 per pound. The average cost of the raw materials to make the Heatset ink was \$1.17 per pound with the remaining \$2.07 per pound for labor and overhead costs.

OIG auditors obtained estimates from two outside contractors stating that Heatset ink could be purchased and shipped between \$.99 and \$1.35 per pound or between \$1.89 and \$2.25 per pound less than manufacturing in-house. The actual cost of purchasing Heatset Ink would depend on the precise mixture of the ingredients the GPO uses for the ink. The contractors could provide a firmer estimate upon the receipt of the actual specifications from GPO. This action would maximize the efficient and effective use of resources as required in Standard 1 of GPO Instruction 825.18A:

"Resources should be efficiently and effectively allocated for duly authorized purposes."

The OIG projects that an estimated savings of over \$1.1 million over the next five years can be obtained by purchasing Heatset ink from outside contractors using the current usage and rates previously mentioned than manufacturing in-house. And an additional estimated savings of over \$.5 million over the next five years are projected by purchasing non-Heatset inks, if the savings for purchasing these inks instead of manufacturing them are similar to the savings for Heatset ink.

Inks	Manufacture In-House Per LB.	Purchase Outside Per LB.	Estimated Difference Per LB.	CY 1998 Usages Per LB.	Purchase Annual Savings	Purchase 5-year Savings
Heatset	\$3.24	\$.99	\$2.25	100,000	\$225,000	\$1,125,000
Non-Heatset	Not available	Not available	\$2.25 <sup>8</sup>	48,000	108,000	540,000
<b>Totals</b>				148,000	\$333,000	\$1,665,000

Another benefit of purchasing finished inks instead of manufacturing in-house includes the reduction or elimination of some raw material inventories and the resources needed to maintain those inventories.

In 1986, the Quality Control and Technical Department prepared a comprehensive report on GPO ink making to the Deputy Public Printer. It was concluded that:

“CURRENT MAKE OR BUY POLICY has proved to be a reasonable and cost effective means to satisfy the demands of both PRODUCTION and CUSTOMER AGENCIES for the best possible ink at minimal cost. GPO saved \$40,500 last year over what it would have cost to procure all our inks – assuming that possible, if not feasible.”

### RECOMMENDATION

The Manager, Quality Control and Technical Department, should update the 1986 study to determine whether it is still reasonable and cost effective for GPO to make the best possible ink at minimal cost in satisfying the demand of both Production and customer agencies (0005-17).

### MANAGEMENT COMMENTS

The Manager, Quality Control and Technical Department, agreed with the finding and the recommendation.

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<sup>8</sup> This estimated difference per pound of \$2.25 is an assumption made by the OIG that the savings for purchasing non-Heatset inks instead of manufacturing them are similar to the savings for Heatset inks.

## II-2. Original Source Documents

### FINDING

OIG auditors found that GSS personnel did not always retain original source documents on issues and receipts recorded in MMPCS II, contrary to Standard 7 of GPO Instruction 825.18A, which states in part:

“The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.”

Specific original source documents not retained included:

1. GSS could not provide GPO Form 3200 issue documents for the first quarter of Fiscal Year 1998 (October 1997 – December 1997), because the documents were lost.
2. GSS could not provide GPO Form 3200s for the following five issues totaling 7,173 pounds and \$22,977 worth of Heatset ink (GPO Property #684082) in Fiscal Years 1998 and 1999:

Issue	Date	Pounds	\$ per lb.	Worth
1	04/02/98	1,224	\$3.2033	\$3,921
2	06/12/98	400	3.2033	1,281
3	02/09/99	2,400	3.2033	7,688
4	02/09/99	2,400	3.2033	7,688
5	02/09/99	749	3.2033	2,399
<b>Totals</b>		<b>7,173</b>		<b>\$22,977</b>

3. GSS could not provide GPO Form 3200s for the following four issues totaling 6,071.2 pounds and \$11,457 worth of Classified #2 Adhesive (GPO Property #520683) in Fiscal Years 1998 and 1999:

Issue	Date	Pounds	\$ per lb.	Worth
1	03/26/98	2,000.0	\$1.8872	\$3,774
2	05/05/98	1,440.0	\$1.8872	2,717
3	06/02/98	1,671.0	\$1.8872	3,154
4	03/05/99	960.2	\$1.8872	1,812
<b>Totals</b>		<b>6,071.2</b>		<b>\$11,457</b>

4. GSS could not provide GPO Form 3200 for the issue of five pounds and \$58 worth of O/S Blue PMS-288 Ink (GPO Property #685283) on February 2, 1999.

5. GSS could not provide GPO Form 3200s for the following two issues totaling nine rollers and \$945 worth of O/S Transfer rollers (GPO Property #630195) in Fiscal Year 1998 to the Postal Card/Passport Section. However, GSS did supply the GPO Form 17 Issue Log that had these issues recorded:

Issue	Date	Rollers	\$ per Roller	Worth
1	04/20/98	5	\$105	\$525
2	06/08/98	4	105	420
<b>Totals</b>		<b>9</b>		<b>\$945</b>

6. GSS could not provide GPO Form 3200s for the following three issues totaling 13 rollers and \$1,530 worth of O/S Transfer m-800-5 rollers (GPO Property #630217) in Fiscal Year 1998 to the Postal Card/Passport Section. However, GSS did supply the GPO Form 17 Issue Log that had these issues recorded. Both entries for June 8, 1998, were recorded as single rollers in the Log, but one entry was entered into MMPCS II as six rollers. By not retaining GPO Form 3200s, GSS could not officially account for the issuance of the other five rollers worth \$600 (5 x \$120):

Issue	Date	Rollers	\$ per Roller	Worth
1	04/20/98	6	\$115	\$690
2	06/08/98	1	120	120
3	06/08/98	6	120	720
<b>Totals</b>		<b>13</b>		<b>\$1,530</b>

7. GSS could not provide GPO Form 501B Receiving Tickets for the following two receipts totaling 608.9 pounds and \$35,718 of 130100 SC Magenta ink (GPO Property #213268) that the Postal Card/Passport Section received in Fiscal Years 1998 and 1999:

Issue	Date	Pounds	\$ per lb.	Worth
1	10/15/97	200.5	\$58.66	\$11,761
2	01/06/99	408.4	58.66	23,957
<b>Totals</b>		<b>608.9</b>		<b>\$35,718</b>

8. GSS does not maintain original transfer documents from MMS' General Stores. GSS records the information in the transfer log and disposes of the source documents.

The original source documents were irreplaceable because neither the Offset Press Division nor the Postal Card/Passport Section maintained copies of the documents on file. OIG auditors were unable to confirm that the issues, receipts, and transfers represented by the missing documents had actually occurred.

## **RECOMMENDATION**

The Manager, Quality Control and Technical Department, should ensure that the original supporting documentation is retained for a reasonable time period for all issue, receipt, and transfer transactions (0005-18).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the recommendation.

## II-3. Physical Security

### FINDING

Physical security is lacking over most GSS inventory on the fifth floor of Building 1. GSS stores most finished inks on shelves in an unrestricted area. However, the more valuable inks (GPO Property #213489 Photocromic Ink at \$95.37 per pound and GPO Property #214167 Fluorescent Ink at \$168.71 per pound) are kept in a secured locker.

GSS personnel work the first and second shifts at or near most of GSS inventory and provide adequate security. However, there are no GSS personnel working or adequate physical security provided during the third shift over most of the inventory. Consequently, anyone can enter the fifth floor unobserved during the third shift and remove inventory from the unsecured shelves, contrary to Standard 2 of GPO Instruction 825.18a.

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

According to a GSS employee, this may have happened occasionally when the Production Department ran short of finished inks that were needed to complete a printing job. In such a situation, the Production Department is supposed to leave a completed GPO Form 3200 for the GSS to process the transfer the next working day. However, there are no internal controls to ensure that only authorized individuals may remove inventory with the preparation of proper documentation, contrary to Standard 6 of GPO Instruction.

“Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.”

The unsecured shelves of GSS inventory on the fifth floor of Building 2 are subject to loss by theft or undocumented transfer to another department. Undocumented transfers may partially explain the inventory shortages of finished inks in Fiscal Year 1999.

### RECOMMENDATION

The Manager, Quality Control and Technical Department, should ensure that authorized individuals from other departments are designated to have access to GSS inventory and to prepare proper documentation for all transfers (0005-19).



## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the recommendation.

## II-4. Access to MMPCS II

### FINDING

The GSS Inventory Clerk records transactions into MMPCS II for finished inks, raw materials, and adhesives that are either received in GSS inventory or removed from GSS inventory and issued to the Production Department. Currently, the first and second shift forepersons also have access to recording transactions into MMPCS II.

According to the retired Chief, Graphic Supplies Division, these same three personnel also authorize and process issues to Production from the GSS inventory. Usually, a GPO Form 3200 for finished inks, raw materials, and adhesives is received from Production and GSS personnel authorize and process the requested items for pick-up by Production. There have been occasions when Production calls GSS and the GSS personnel prepare the GPO Form 3200 and have the requested items ready for pick-up or delivered.

According to the first-shift foreperson, these same personnel have the authority to sign for the receipt of materials from Materials Management Service's Central Receiving Unit or Stores Division.

GSS personnel having the authority to receive, issue, and process finished inks, raw materials, and adhesives to the Production Department, also have access to MMPCS II to record the transactions. This additional access could perpetrate and conceal a fraud, contrary to Standard 5 of GPO Instruction 825.18A:

"Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals."

Although the auditors did not find evidence of any fraud, conditions existed that could allow fraudulent activity to occur and go unnoticed.

### RECOMMENDATIONS

The Manager, Quality Control and Technical Department, should establish a control to ensure that:

- The accessibility for recording transactions into MMPCS II is restricted to the GSS Inventory Control Clerk (0005-20); and
- The GSS Inventory Control Clerk is prohibited from receiving and issuing inventory (0005-21).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the two recommendations.

## II-5. Consistent Contract Requirements

### FINDING

Contracts and purchase orders prepared by Materials Management Service for GSS raw materials do not require consistent container markings on the outside of each container, contrary to Standard 7 of GPO Instruction 825.18A.

“Transactions should be...properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports.”

For example:

- Solicitation #23040-98, dated July 20, 1998, for the purchase of 64,000 pounds of Heatset Varnish required gross, net, and tare weights, a GPO Purchase Order Number, and a GPO Property Number;
- Solicitation #24016-98, dated October 29, 1998, for the purchase of 10,000 pounds of Alkali Blue Toner Paste only required GPO Purchase Number and GPO Property Number; and
- Purchase Order #112399, dated February 24, 1999, for the purchase of 14,450 pounds of Heatset Ink Base did not require any external markings.

GSS randomly weighs incoming raw materials and records the gross weight on the outside of each container for accurate inventory and billing purposes. However, variances were identified from the actual weigh-ins to the weights recorded on the containers, because several containers were only partially full.

Had all contracts and purchase orders required consistent container markings, GSS would be able to verify whether the vendors were supplying the correct amounts of raw materials, as well as having an accurate weight written on the containers for inventory and billing purposes.

In addition, the contracts for Heatset Varnish and the Purchase Order for Heatset Ink allowed a 10 percent variation in the container contents, while the contract for the Alkali Blue Toner Paste did not make any allowance for variances.

## **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should coordinate with Materials Management to:

- Require all future contracts and purchase orders for Graphics Supplies Section's raw materials to instruct the vendors to print the gross, net, and tare weights, as well as the GPO Purchase Order Number and the GPO Property Number on the outside of each raw material container (0005-22); and
- Review the policy on variances to ensure the allowance for variances are consistent for all Graphics Supplies Section's raw materials contracted and ordered (0005-23).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the two recommendations.

## CHAPTER III. PROPERTY

GSS can improve its internal controls to provide effective management, reasonable assurance, and safeguards to protect GPO property against waste, loss, and unauthorized use as directed by GPO Instructions 810.11A and 825.18A.

This Chapter identifies opportunities to improve controls over GPO property. Recommendations are made to strengthen these controls by: (1) verifying and accounting for all accountable property; and (2) including all unreported property in the Comptroller's property inventory listing.

### III-1. Accountable Property

#### FINDING

OIG auditors detected discrepancies in the Comptroller's July 20, 1999, property inventory listing on accountable property during the inventory taken on July 28-29, 1999, at GSS. Of the 69 accountable property items listed on the Comptroller's property inventory list, the auditors with assistance from the Chief, Chemical and Environmental Division, and the Foreperson, GSS, could only verify 47 items or 68 percent. However, five items that matched the description on the property listing did not have GPO Identification (ID) number tags attached as required in Paragraph 10.a of GPO Instruction 810.11A:

"Property Identification Numbers. GPO Numbers (without letters) will be assigned and attached to capitalized production machinery. 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."

The five property items that did not have GPO ID number tags attached were:

- One cleaning tank;
- One scale platform;
- One stainless steel sink; and
- Two dollies.

Of the remaining 22 property items (69 items on inventory listing - 47 items identified), the property custodian was able to find documentation on only one item, an electronic scale, GPO ID #J6460, that was transferred to Stores as unserviceable on August 28, 1990. GSS officials performed an additional search and found: (1) the colorimeter, GPO ID#6156, in the storage room. The officials also found an old inventory listing that reported the casting box, GPO ID #4840, and the hoist, GPO ID #9295 to be a part of the old type metals foundry on the sixth floor that is now Hasse Hall, and they believe that the two items were disposed. (See Appendix VII.)

However, no other documentation was found on the remaining 18 items which had a total acquisition cost of \$16,797 and a total book value of \$3,979 as of July 20, 1999. (See Appendix III.) As a result, management officials could not account for 18 of the 69 property items or 26 percent on the Comptroller's July 20, 1999, property inventory listing, contrary to Standard 7 of GPO Instruction 825.18A.

"Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination."

The GSS Foreperson stated that he could not remember if any inventory had ever been conducted for GSS property since he joined GSS in 1981.

Paragraph 9.c. of GPO Instruction 810.11A requires the property custodian to: (1) verify and account for the inventory; (2) take necessary action to correct deficiencies in the property inventory listing; and (3) process the appropriate documentation for transfer items. GSS officials need to ensure that the property custodian is following the requirements of GPO Instruction 810.11A to effectively manage GSS accountable property with better controls as required in Standard 2 of GPO Instruction 825.18A.

"Management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation."

## **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should ensure that the property custodian:

- Verifies and accounts for all accountable property with annual inventories and takes necessary action to correct deficiencies on the Comptroller's property listings as required by GPO Instruction 810.11A (0005-24);
- Obtains and attaches GPO Identification tags on the five accountable property items identified (0005-25); and
- Maintains documentation for all future transfers of accountable property (0005-26).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the three recommendations.

### III-2. Unreported Property

#### FINDING

During the inventory of accountable property, OIG auditors found 29 items that were not on the Comptroller's property inventory listing. Nineteen of the 29 unreported property items did not have GPO identification (ID) numbers and tags. Paragraphs 10.a. and 10.b. of GPO Instruction 810.11A require all GPO property to be maintained on a records system with identification numbers assigned and attached to the property.

No.	Property	GPO ID #
1	Monitor	IHM2661
2	Printer	IHL2661
3	Brother EM 630 typewriter	None
4	Beverage air Piedmont line (refrigerator)	None
5	Beverage air Piedmont line (refrigerator)	None
6	Cutter (guillotine style)	Z1473
7	Drum jockey Vernette 750 lbs. capacity	55092
8	Copper kettle	Z1095
9	Signode Dispenser (metal band)	None
10	Dayton generator	None
11	Yale half ton hoist	None
12	Tote tanks	None
13	Tote tanks	None
14	Tote tanks	None
15	Tote tanks	None
16	Mettler Toledo digital scale	None
17	Pennsylvania Model 7600 1000x.2lb scale	None
18	Chatillon centurion scale 1000x.5lb hanging scale	None
19	Grinder Dayton	P1125
20	Toledo 250(400)lb. Scale	None
21	Toledo Scale 1 lb.	2836
22	Calculator Sharpe OS1602	J6490
23	Leeson ink mixer	None
24	Hand pump Tokhiem	Z7969
25	Revolvat dolly/lift	None
26	PC w/monitor	IHS2009
27	Sharpe fax machine	None
28	Hoists (over mills)	None
29	Hoists (over mills)	None



## **RECOMMENDATIONS**

The Manager, Quality Control and Technical Department, should ensure that the property custodian:

- Examines the unreported property items and forwards a list of all items to the Comptroller for inclusion in the Comptroller's property inventory listing (0005-27);
- Obtains GPO identification numbers and tags on the unreported property items in use (0005-28); and
- Returns all unreported property items that are not in use to Stores (0005-29).

## **MANAGEMENT COMMENTS**

The Manager, Quality Control and Technical Department, agreed with the finding and the three recommendations.

## RECOMMENDATION SUMMARY

The Manager, Quality Control and Technical Department, should:

- Develop and implement written instructions on the issuing and receiving of inventories of finished inks, raw materials, and adhesives using GPO Form 3200 *MMPCS Inventory Control Documents* (0005-01);
- Immediately stop the practice of issuing GPO Form 3200 *MMPCS Inventory Control Documents* to resolve inventory variances of finished inks, raw materials, and adhesives (0005-02);
- Develop and implement written instructions for thoroughly researching and resolving future inventory variances of finished inks, raw materials, and adhesives (0005-03);
- Ensure that every employee is aware of the prohibition on falsifying official GPO documents (0005-04);
- Establish a control to ensure that "write" privileges for future formulae changes in MMPCS II are restricted to only Quality Control and Technical Department chemists (0005-05);
- Develop and implement instructions to record all issues from the GPO Form 3200 *MMPCS INVENTORY DOCUMENT FORM* into the GPO Form 17 *Material Issue Log*, and from the issue log into MMPCS II promptly with frequent reconciliations between MMPCS II entries and the issue log (0005-06);
- Develop and implement instructions are developed to research and resolve immediately all issues that are not accepted into MMPCS II (0005-07);
- Develop and implement instructions to record all manufactures from the GPO Form 620 *RECORD OF INK PRODUCTION* (manufacture log) into MMPCS II with frequent reconciliations between MMPCS II entries and the manufacture log (0005-08);
- Ensure that the Inventory Control Clerk always prints the third screen associated with manufactures when entering the manufactures into MMPCS II (0005-09);
- Develop and implement Instructions to research and resolved immediately all manufactures that are not accepted into MMPCS II (0005-10);

- Ensure that an assessment is performed on the feasibility of using any of the 78 inactive, unreported properties with inventory balances in the future and to document those properties (0005-11);
- Ensure that any remaining inactive properties with inventory balances that are not considered to be useful within GSS are disposed of in accordance with current GPO regulations (0005-12);
- Develop and implement instructions to track the amount of sealed cans of returned inks received (0005-13);
- Develop and implement instructions to document the number of pounds of returned inks (0005-14);
- Ensure that all inactive property numbers with a zero balance are reviewed periodically for possible purging from MMPCS II (0005-15);
- Consider transferring the actual operations and controls over GSS inventory of inks, raw materials, adhesives, and rollers to Materials Management Service (0005-16);
- Should update the 1986 study to determine whether it is still reasonable and cost effective for GPO to make the best possible ink at minimal cost in satisfying the demand of both Production and customer agencies (0005-17);
- Ensure that the original supporting documentation is retained for a reasonable time period for all issue, receipt, and transfer transactions (0005-18);
- Ensure that authorized individuals from other departments are designated to have access to GSS inventory and to prepare proper documentation for all transfers (0005-19);
- Establish a control to ensure that the accessibility for recording transactions into MMPCS II is restricted to the GSS Inventory Control Clerk (0005-20);
- Establish a control to ensure that the GSS Inventory Control Clerk is prohibited from receiving and issuing inventory (0005-21);
- Coordinate with Materials Management Service to require all future contracts and purchase orders for Graphics Supplies Section's raw materials to instruct the vendors to print the gross, net, and tare weights, as well as the GPO Purchase Order Number and the GPO Property Number on the outside of each raw material container (0005-22);

- Coordinate with Materials Management Service to review the policy on variances to ensure the allowance for variances are consistent for all Graphics Supplies Section's raw materials contracted and ordered (0005-23);
- Ensure that the property custodian verifies and accounts for all accountable property with annual inventories and takes necessary action to correct deficiencies on the Comptroller's property listings as required by GPO Instruction 810.11A (0005-24);
- Ensure that the property custodian obtains and attaches GPO Identification tags on the five accountable property items identified (0005-25);
- Ensure that the property custodian maintains documentation for all future transfers of accountable property (0005-26);
- Ensure that the property custodian examines the unreported property items and forwards a list of all items to the Comptroller for inclusion in the Comptroller's property inventory listing (0005-27);
- Ensure that the property custodian obtains GPO identification numbers and tags on the unreported property items in use (0005-28); and
- Ensure that the property custodian returns all unreported property items that are not in use to Stores (0005-29).

**UNRECORDED MANUFACTURES OF INK AND PASSPORT ADHESIVE  
(January 14, 1998 – March 17, 1999)**

No.	Manufacture	Lot	Dated	Lbs.	\$ per lb.	Totals
1	OH Black Ink	199	07/28/98	406	3.8931	\$1,581
2	Blue PMS-288 Ink	191	07/17/98	212	11.5627	\$2,451
3	OH Web Black Ink	042	01/14/98	470	3.0873	\$1,451
4	OH Web Black Ink	128	04/27/98	470	3.0873	\$1,451
5	OH Web Black Ink	135	04/30/98	470	3.0873	\$1,451
6	OH Web Black Ink	136	05/01/98	470	3.0873	\$1,451
7	OH Web Black Ink	138	05/05/98	470	3.0873	\$1,451
8	OH Web Black Ink	142	05/12/98	470	3.0873	\$1,451
9	OH Web Black Ink	154	06/04/98	627	3.0873	\$1,936
10	OH Web Black Ink	168	06/24/98	470	3.0873	\$1,451
11	OH Web Black Ink	212	08/18/98	470	3.0873	\$1,451
12	OH Web Black Ink	216	08/24/98	940	3.0873	\$2,902
13	OH Web Black Ink	219	08/26/98	470	3.0873	\$1,451
14	OH Web Black Ink	242	09/29/98	1,175	3.0873	\$3,628
15	OH Web Black Ink	022	11/04/98	470	3.0873	\$1,451
16	OH Web Black Ink	034	11/27/98	940	3.0873	\$2,902
17	Heatset Ink	157	06/09/98	836	3.2033	\$2,678
18	Heatset Ink	163	06/18/98	824	3.2033	\$2,640
19	Heatset Ink	166	06/23/98	408	3.2033	\$1,307
20	Heatset Ink	172	06/29/98	824	3.2033	\$2,640
21	Heatset Ink	175	07/01/98	408	3.2033	\$1,307
22	Heatset Ink	003	10/02/98	1,854	3.2033	\$5,939
23	Heatset Ink	028	11/15/98	1,648	3.2033	\$5,279
24	Heatset Ink	040	12/14/98	412	3.2033	\$1,320
25	Passport Adhesive	052	07/07/98	90 <sup>9</sup>	1.8655	\$ 168
26	Passport Adhesive	011	01/27/99	960	1.8655	\$1,791
27	Passport Adhesive	020	03/17/99	480 <sup>10</sup>	1.8655	\$ 895
<b>Totals</b>				<b>17,744</b>		<b>\$55,874</b>

<sup>9</sup> Lot 52 was entered into the manufacture log as 480 pounds, but was entered into MMPCS II as 390 pounds.

<sup>10</sup> Lot 20 was entered into the manufacture log as 960 pounds, but was entered into MMPCS II as 480 pounds.

PROPERTY NOT FOUND DURING JULY 28-29, 1999, INVENTORY

No.	Machine number	Equipment	Acquisition Costs	Book Value 07/20/99
1	1063	Hoist Electric	\$660.52	\$0
2	1468	Refrigerator	2,060.33	0
3	3733	Battery Charger	804.08	0
4	3768	IBM PS2 8560 MD0171	3,245.00	0
5	4591	Hoist Midget King	213.00	0
6	4720	Scale	200.00	0
7	5758	Tank Steel	220.15	0
8	6003	System Filter	235.00	0
9	6161	Balance Trip		0
10	6183	Pump Mimeo Tank		0
11	6350	Vacuum Cleaner		0
12	6604	Stapler Top		0
13	53285	Dispenser Installation	4,647.70	0
14	IH661	PC assembled by ESDD	3,979.00	3,979.00
15	J7799	Stamp Time Rapid Print		0
16	P0002	Sink Glue Room	189.50	0
17	Z0961	Label Pasting Machine	117.60	0
18	Z8636	Rectifier	225.00	0
<b>TOTALS</b>			<b>\$16,796.88</b>	<b>\$3,979.00</b>

### OTHER MATTERS DISCUSSED WITH MANAGEMENT

- GSS does not always question the reasons for large cost changes in purchase orders for materials. On December 2, 1998, the MMS contracting officer prepared a change order to Purchase Order #35799. The contractor had informed the MMS contracting officer that four of the five rollers needed repairs to the cores and quoted an additional cost of \$40 per roller. However, the MMS contracting officer miscalculated the unit cost by adding the total repair costs of \$160 ( $\$40 \times 4$  rollers) to the unit cost of \$116 for a new unit cost of \$276 ( $\$116 + \$160$ ) or a total of \$1,380 on the change order ( $\$276 \times 5$ ). The correct unit cost should have remained the same \$116 with the additional \$40 added to the four rollers needing repairs for a total cost of \$740 ( $[\$116 \times 1 \text{ roller} = \$116] + [\$116 + \$40 \text{ repair} = \$156 \times 4 \text{ rollers} = \$624] = \$740$ ).

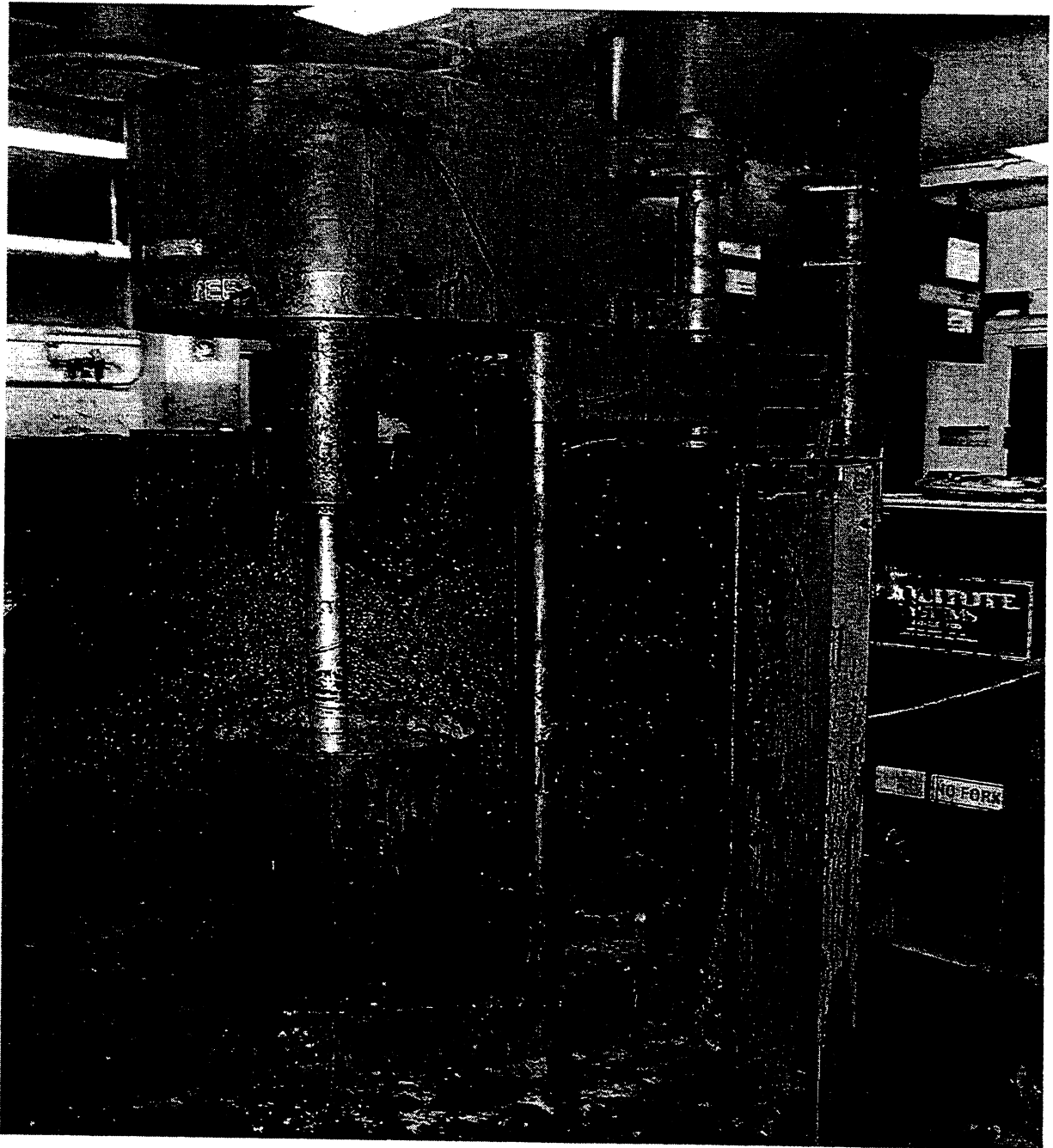
The MMS contracting officer stated that a copy of the change order was forwarded to GSS personnel for their information. However, no GSS personnel questioned the MMS contracting officer about the 138 percent or \$160 increase in the unit cost ( $\$276 - \$116$ ) for Offset Transfer M-800-5 rollers. OIG auditors discovered the miscalculation; contacted the MMS contracting officer; and the matter was resolved. In the future, GSS personnel need to review any significant changes in costs in purchase orders and immediately contact the MMS contracting officer to determine the reason for the changes.

RETURNED INKS



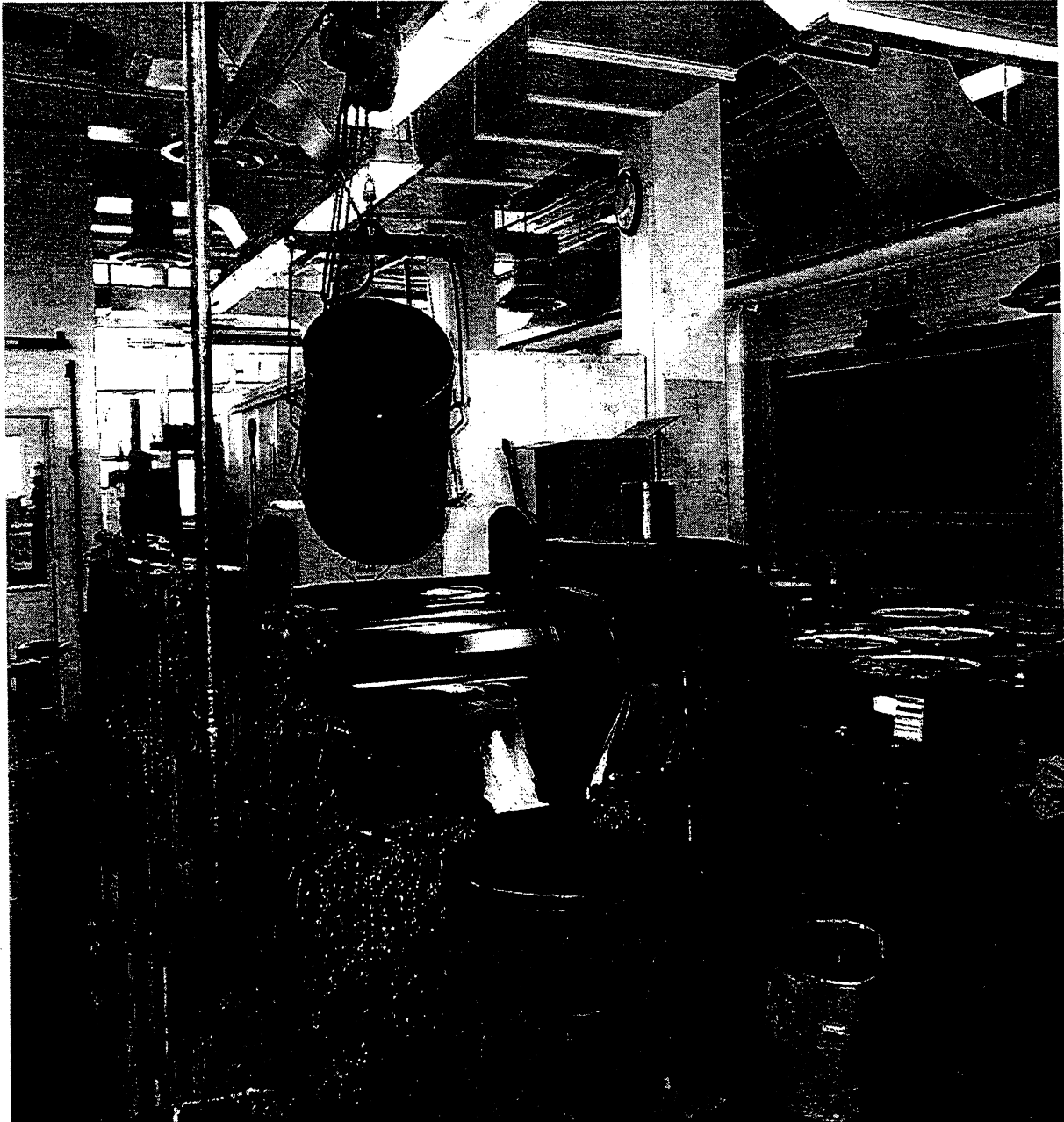


MAKING INK



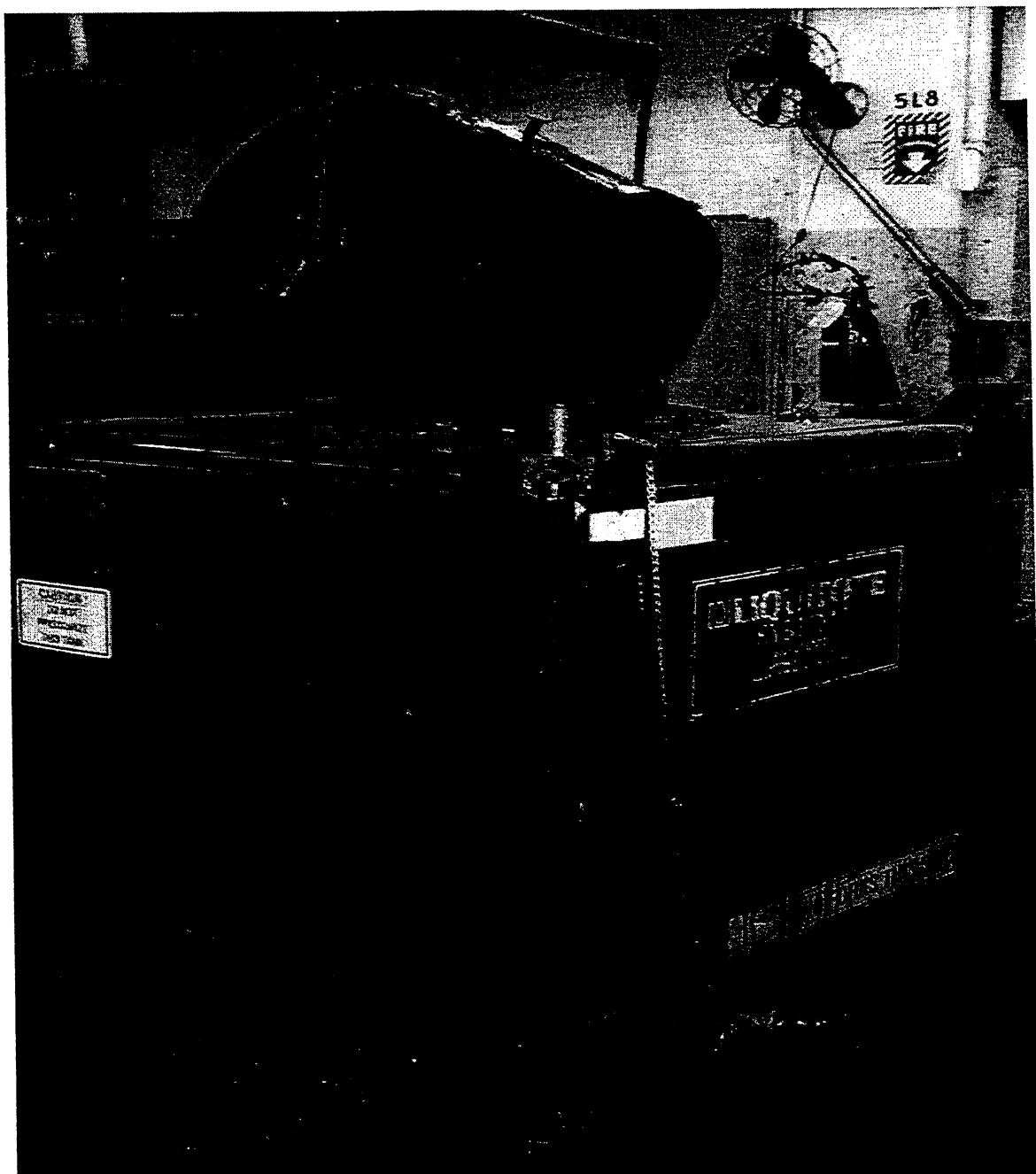
Mixing Raw Materials

**MAKING INK**



**Final Mix in Three-Roll Mill**

MAKING INK



Pouring finished Ink into Tote Tank

DATE: March 31, 2000

FROM: Manager, Quality Control & Technical Department

Subject: Draft Report on Improving the Controls over Inventories in the Graphic  
Supplies Section

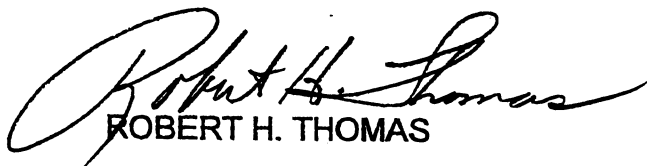
To: Inspector General

I have reviewed the subject draft report and concur in each of the recommendations as written. However, I do have comments relating to the list of unaccounted for capital equipment presented in Appendix III, Page 1.

Based on an old inventory listing we have determined the casting box (item 7) and the hoist (item 15) were part of the old type metals foundry on the sixth floor in the area that is now Hasse Hall. Although there is no documentation, these items were undoubtedly disposed of with the pots and other associated equipment. The colorimeter (item 10) has been found in our storage room. These three items should be removed from this list.

At the present time we are engaged in a major laboratory renovation project and for this reason request that 180 days be allotted for implementation of the recommendations. We anticipate all recommendations will be implemented on or before October 1, 2000.

Thank you for your consideration in this matter.

  
ROBERT H. THOMAS