ER-B-98-07

AUDIT REPORT

PERSONAL PROPERTY AT THE OAK RIDGE OPERATIONS OFFICE AND THE OFFICE OF SCIENTIFIC AND TECHNICAL INFORMATION

APRIL 1998

U.S. DEPARTMENT OF ENERGY
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MEMORANDUM FOR THE MANAGER, OAK RIDGE OPERATIONS OFFICE AND THE DIRECTOR, OFFICE OF SCIENTIFIC AND TECHNICAL INFORMATION

FROM: Terry L. Brendlinger
Eastern Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Personal Property at the Oak Ridge Operations Office and the Office of Scientific and Technical Information"

BACKGROUND

The Oak Ridge Operations Office (Operations Office) and the Office of Scientific and Technical Information (OSTI) are responsible for safeguarding and controlling personal property in their possession and in the possession of their contractors. Categories of personal property include vehicles, heavy mobile equipment, computers and software, office furniture and equipment, laboratory equipment, security and protection equipment, and shop equipment. The objective of this audit was to determine whether the Operations Office and OSTI adequately safeguarded and properly accounted for personal property in their possession and in the possession of their non-integrated contractors.

RESULTS OF AUDIT

The audit disclosed that the Operations Office and OSTI did not adequately safeguard or properly account for personal property in their possession and in the possession of their non-integrated contractors. Property records were inaccurate and incomplete, and financial records differed considerably from property records. These conditions occurred because Departmental personnel did not follow established procedures and management did not enforce the requirements. As a result, 5 capital equipment items valued at $769,000 and 18 sensitive property items valued at $42,000 were missing. We recommend that the Operations Office and OSTI require all property managers to consistently follow the *Property Management Regulations.*

MANAGEMENT REACTION

Management agreed with the audit findings and recommendations and stated that appropriate action would be taken to correct the conditions disclosed in the report.

Personal Property at the Oak Ridge Operations Office and the Office of Scientific and Technical Information

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INTRODUCTION AND OBJECTIVE

The Operations Office and OSTI are responsible for safeguarding and controlling personal property in their possession and in the possession of their contractors. The Department defines personal property as any property except real estate, records, special source materials, and petroleum in the Strategic and Naval Petroleum Reserves. Categories of personal property include vehicles, heavy mobile equipment, computers and software, office furniture and equipment, laboratory equipment, security and protection equipment, and shop equipment. In Fiscal Year (FY) 1997, the Department reported that the Operations Office and its non-integrated contractors[1] had $372 million in personal property and OSTI had $4 million in personal property.

The Office of Inspector General (OIG) has issued numerous audit reports identifying opportunities for the Department to improve its management of personal property. In March 1994, the OIG issued Report DOE/IG-0344, *Summary Report on the Department of Energy's Management of Personal Property*. The report summarized the results of 26 previous OIG reports dealing with personal property, suggesting that the Department could do more to ensure that its contractors follow sound business practices in managing Government-owned personal property. Key issues identified in the previous summary report included the following:

- Contractor property management systems were not reviewed and approved in a timely manner;
- Property inventory records were not sufficient to identify the types, quantities, locations, and cost of personal property inventories; and
- Contractors were not properly identifying, storing, and disposing of excess personal property.

[1] Non-integrated contractors work for the Department and receive Departmental funds as reimbursement for the work performed. However, their accounting records are not integrated with the department.

In November 1994, the OIG issued Report ER-B-95-02, *Report on Audit of Property Management at Fernald Environmental Restoration Management Corporation*. The audit concluded that Fernald Environmental Restoration Management Corporation did not properly acquire, protect, and account for Government property in its possession or the possession of its subcontractors. In October 1995, the OIG issued Report WR-B-96-04, *Audit of Fuel Processing Restoration Property*. The audit concluded that the Idaho National Engineering Laboratory and its contractors did not completely and accurately account for $54 million of property and promptly redistribute or appropriately excess property. Finally, in April 1996, the OIG issued Report WR-B-96-06, *Audit of Bonneville Power Administration's Management of Information Resources*. The audit concluded that improvements were needed to ensure that Government equipment at the Bonneville Power Administration was properly tagged and included in property records, and to identify unused equipment for disposal or redistribution.

The objective of this audit was to determine whether the Operations Office and OSTI adequately safeguarded and properly accounted for personal property in their possession and in the possession of their non-integrated contractors.

OBSERVATIONS AND CONCLUSIONS

The audit disclosed that the Operations Office and OSTI did not adequately safeguard or properly account for personal property in their possession and in the possession of their non-integrated contractors. Property records were inaccurate and incomplete, and financial records differed considerably from property records. These conditions occurred because Departmental personnel did not follow established procedures and management did not enforce the requirements. As a result, 5 capital equipment items[2] valued at $769,000 and 18 sensitive property items[3] valued at $42,000 were missing.

[2]Capital equipment is property that cost $25,000 or more to acquire and must be included in the Department's financial statements.

[3] Sensitive property is property that is susceptible to misappropriation for personal use or property which can be readily converted to cash.

The audit identified material internal control weaknesses that management should consider when preparing its yearend assurance memorandum on internal controls.

/s/

Office of Inspector General

Property Records Were Inaccurate and Incomplete

Property records maintained by the Operations Office, OSTI, and four non-integrated contractors were inaccurate and incomplete. We tested the accuracy of property records for 242 capital equipment items and determined that 13 items, valued at $1.2 million, could not be located, and 10 items were in different locations than shown on the property records. Also, we randomly selected 891 sensitive property items and determined that 100 items, valued at about $327,000, could not be located, and 85 items were in different locations than shown on the property records.

Additionally, we randomly selected 395 property items that were physically located at the Operations Office, OSTI, and non-integrated contractor sites, and reviewed property records to determine if the items were properly recorded. We determined that 104 of the 395 items were not recorded on the property records, and 34 items were not at the locations shown on the property records. The items that were not recorded on property records included two computer workstations and two interfaces which were still in the original shipping boxes. Operations Office personnel stated that the items had been received by a subcontractor, but the subcontractor did not tag computer equipment with a property number and enter it into the property records until someone requested the equipment.

Financial Records Did Not Agree With Property Records

Also, significant differences existed between financial records and property records for the Operations Office, OSTI, and the four non-integrated contractors. We identified differences totaling $9.9 million between the Department's financial records and the sites' property records for FY 1997. For example, the financial records identified 17 capital equipment items at the Operations Office valued at $4.2 million; however, the property records identified 52 items valued at $8.7 million. Therefore, there was a discrepancy of $4.5 million between the financial and property records. The differences between financial and property records were caused by numerous errors in both record types. Among the most significant errors were items that were misclassified as personal property, items that were recorded more than once, and items that were excessed and still included in the financial or property records.

Operations Office and OSTI Were Required to Maintain an Effective Property Management System

The Department's management of personal property is governed by the *Property Management Regulations* (codified as 41 CFR Chapter 109). The regulations establish requirements for the Department, its contractors, and their subcontractors to ensure that property is managed economically and efficiently. "Personal property management" includes the development, implementation, and administration of policies, programs, and procedures for proper acquisition, receipt, storage, use, control, physical protection, care and maintenance, and appropriate disposal. Contractors' property management systems are subject to approval by the Department.

The Department and its contractors are required to develop and maintain complete and accurate records of personal property. All Departmental organizations and contractors are required to conduct a physical inventory of capital equipment at least biannually and sensitive property at least annually. Independent representatives from organizations such as finance, audit, or property are required to observe the inventories or perform follow-on audits to ensure that procedures are followed and the results are accurate. The observation or audit results should be documented and retained in the inventory file. The regulations state that inventory procedures limited to a check-off of recorded property without actual verification of the location or existence of such property do not meet the requirements of a physical inventory. In addition, the results of physical inventories must be reconciled with the property and financial records.

Personnel Did Not Follow Established Procedures and Management Did Not Enforce Requirements

Operations Office and OSTI personnel did not follow, and management did not enforce, the *Property Management Regulations*. Personal property was not always recorded upon receipt, and property records were not audited or reviewed to ensure accuracy and completeness. Also, inventories were not properly conducted, and management did not observe the inventories or perform follow-on audits. We concluded that instead of performing wall-to-wall inventories, Departmental personnel limited their inventories to a check-off of recorded property without actually verifying the location or existence of the property. Further, management did not reconcile inventory results with property and financial records.

Personal Property Valued at $811,000 Was Missing

As a result of personnel not following and management not enforcing the *Property Management Regulations*, $1.2 million in capital equipment and $327,000 in sensitive property were missing at the Operations Office, OSTI, and 3 non-integrated contractor sites as of December 19, 1997. Personnel at the Thomas Jefferson National Accelerator Facility (TJNAF) were able to locate all property items. We did not project the audit results for all personal property assigned to the Operations Office, OSTI, and non-integrated contractors because (1) we performed samples at only six sites, and the sample results may not be representative for all sites; and (2) we could not determine the dollar universe for sensitive property because the Operations Office did not record dollar values for most of its sensitive property.

In response to our draft report, management stated that all but 5 capital equipment items valued at $769,000 and 18 sensitive property items valued at $42,000 had been found. In most cases, the items were in the wrong location or were in the process of being changed to a surplus status.

RECOMMENDATIONS

We recommend that the Manager, Oak Ridge Operations Office, and the Director, Office of Scientific and Technical Information, require all property managers to consistently follow the *Property Management Regulations.* Specifically:

1. Establish management controls to ensure that all property items are promptly tagged and properly recorded upon receipt;

2. Periodically review and update property records to ensure accuracy and completeness;

3. Conduct wall-to-wall inventories of capital equipment and sensitive property, and assign independent representatives to observe the inventories, ensuring that proper procedures are followed and the results are accurate;

4. Reconcile inventory results with property records and financial records; and

5. Review non-integrated contractors' property management systems to ensure compliance with Departmental policies and procedures.

MANAGEMENT REACTION

The Operations Office and OSTI concurred with the finding and recommendations and agreed to take corrective action.

AUDITOR COMMENTS

We consider management's corrective actions to our recommendations to be responsive.

SCOPE

The audit was performed from April 21 to December 19, 1997, at the Operations Office and OSTI in Oak Ridge, Tennessee, and four nonintegrated contractors under the Operation Office's cognizance: East Tennessee Mechanical Contractors (ETMC) and Bechtel National, Inc., (Bechtel) in Oak Ridge, Tennessee; MK-Ferguson in Weldon Springs, Missouri; and TJNAF in Newport News, Virginia. The number of items and cost for capital equipment and sensitive property reported by the sites in FY 1997 are summarized below.

Entity	Capital Equipment Items	Total Cost (Millions)	Sensitive Property Items	Total Cost (Millions)
Operations Office	52	$ 8.7	2,550	$ 4.4
OSTI	55	4.4	1,496	2.9
TNJAF	298	23.5	7,111	15.8
MK-Ferguson	33	1.6	4,593	6.1
ETMC	26	1.3	943	2.9
Bechtel	20	2.5	3,733	3.0
Total	484	$42.0	20,426	$35.1

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed Federal and Departmental regulations for property management and financial reporting;
- Analyzed inventory records for the Operations Office, OSTI, and four non-integrated contractors;
- Evaluated the accuracy of property records for 242 capital equipment items at six sites, including all 186 items at 5 sites and 56 items randomly selected from a universe of 298 items at TJNAF;
- Evaluated the accuracy of 891 property records for sensitive property items which were randomly selected from a universe of 20,426 items at the six sites;
- Reviewed property records for 395 personal property items randomly selected at the six sites to verify that the items were

randomly selected at the six sites to verify that the items were properly recorded; and

- Evaluated financial records for accuracy and inclusion in the Department's financial statements.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we assessed significant internal controls related to the Operations Office's and OSTI's management of personal property. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit.

We relied on computer-generated data in the Operations Office's accounting system to accomplish the audit objective. We assessed the reliability of the data as it pertained to the audit objective, including relevant general and application controls and found them to be adequate. Based on these assessments, we concluded that the data were sufficiently reliable to be used in meeting the audit objective.

We held exit conferences with the Chief, Contracts and Property Management Branch, Oak Ridge Operations Office, on March 9, 1998, and the Assistant Manager, Office of Scientific and Technical Information, on March 24, 1998.

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