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AUDIT OF BONNEVILLE POWER ADMINISTRATION'S MANAGEMENT
OF INFORMATION RESOURCES

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OF INFORMATION RESOURCES

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
WESTERN REGIONAL AUDIT OFFICE

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OF INFORMATION RESOURCES

Audit Report Number: WR-B-96-06

SUMMARY

Bonneville Power Administration's (Bonneville) information resources include computer-related equipment, spare parts, and computer software. The objective of this audit was to determine whether Bonneville acquired and accounted for computer-related equipment properly.

We found positive aspects in Bonneville's management of computer-related equipment. However, improvements could be made in implementing credit card and property procedures. Specifically, we found that improvements were needed to (1) control credit card purchases, (2) ensure that equipment was tagged and included in property records, (3) maintain accountability over spare parts, and (4) identify unused equipment. As a result, about \$90,000 of equipment was bought by personnel whose authority to purchase was not properly documented, and about \$182,000 of purchases lacked supporting invoices. In addition, one maintenance support group had over \$109,000 of spare parts shortages. Furthermore, Bonneville could have saved about \$803,000 had unused equipment been redistributed within Bonneville or to other Federal and state agencies.

Management concurred with the recommendations to improve internal controls.

_____(Signed)_____
Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

Bonneville considered information to be a key asset and expected Information Resources Management (Information Resources) personnel to make business processes more efficient. Bonneville's expenditures for information resources totaled

\$175.8 million for Fiscal Years 1991 through 1995. The objective of this audit was to determine whether Bonneville acquired and accounted for computer-related equipment properly.

SCOPE AND METHODOLOGY

To determine whether Bonneville's acquisition of computer-related equipment was proper, we limited our review to determining whether credit card purchases of computer-related equipment complied with Bonneville's acquisition procedures. To determine whether Bonneville acted prudently with regard to property received and on hand, we focused on a limited number of property management issues. Specifically, we reviewed property tagging, the use of spare parts inventory reports, and the treatment of unused property, to determine compliance with applicable Bonneville procedures.

The audit was performed from August 1994 to October 1995 at Bonneville Power Administration. The audit covered the acquisition and accountability of computer-related equipment (personal computers, monitors, printers, spare parts, and software) from July 1993 through February 1995. Mainframe computers and computers used for technical and scientific applications were excluded from the scope of our audit except for the property management issues mentioned above.

To accomplish the audit objective, we:

- o reviewed Federal and Bonneville guidance on administration and management of information resources;
- o interviewed Bonneville officials to understand their procedures for acquiring, accounting for, and excessing computer-related equipment;
- o interviewed Bonneville officials responsible for implementation of the Accelerated Buying Card Program;
- o obtained credit card rosters and compared purchases made by cardholders with authorizations and monetary limits shown in the rosters;
- o analyzed inventory records, purchase documents, and usage reports maintained by personal computer maintenance support groups from July 1994 through February 1995; and,
- o statistically sampled 137 items of computer-related equipment from a universe of 12,376 items (excluding spare parts) included in property records.

The audit was made according to 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 the significant internal controls with respect to credit card purchases, accounting for computer-related equipment, controls over spare parts, and

disposition of unused equipment. Our assessment consisted of reviewing internal control procedures and practices for these four areas. We relied on computer-generated acquisition and accountability data and, therefore, examined the reliability of the data on a test basis. 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.

An exit conference was held with the managers of Contracts and Property Management and Financial Operations, as well as representatives from Information Resources, on January 29, 1996.

OBSERVATIONS AND CONCLUSIONS

We found that improvements can be made to Bonneville's credit card acquisitions of computer-related equipment. For example, many credit card purchases were made by employees whose authority to buy was not properly documented, and the purchasing files often lacked invoices that would show what was purchased. Some purchasers also exceeded their purchasing dollar limits.

In some respects, Bonneville was acting prudently after acquiring equipment. Once property was recorded in the Personal Property Accounting System, it could be located with available records. However, other aspects of accountability for computer-related equipment warranted attention. For instance, management did not follow up timely on spare parts inventory variance reports that showed substantial shortages. Also, Bonneville missed the opportunity to reduce its Federal debt by about \$803,000 by redistributing unused equipment.

Our finding relating to Bonneville's management of information resources disclosed material internal control weaknesses that management should consider when preparing its annual management reports to the President and Congress.

PART II

FINDING AND RECOMMENDATIONS

Management of Information Resources

FINDING

To satisfy the needs of computer users and achieve other goals, Bonneville had established acquisition and property management procedures. However, these procedures were not always implemented by Bonneville personnel. For example, almost 43 percent of a sample of credit card purchases were made by employees whose authority to buy computer-related equipment was not documented properly. Additionally, inventory reports showing shortages for one maintenance group were not being followed up on timely, and unused equipment was not being redistributed. Parts recorded by technicians as having been used in repair orders had not actually been installed, and Bonneville lacked a quality assurance procedure to detect this. As a result, about \$90,000

of equipment was bought by personnel whose authority to purchase was not properly documented, about \$182,000 of purchases lacked supporting invoices, at least \$109,000 of spare parts shortages occurred, and Bonneville missed the opportunity to reduce its Federal debt by about \$803,000.

RECOMMENDATIONS

We recommend that the Administrator and Chief Executive Officer, Bonneville Power Administration, direct the appropriate Bonneville personnel to:

1. Establish procedures to periodically review and update the roster of credit cardholders and their purchasing authorities.
2. Periodically review a sample of credit card purchases to determine whether cardholders and approving officials are fulfilling their responsibilities under the credit card program.
3. Tag and include in property records the 44 pieces of computer-related equipment identified during the audit.
4. Ensure that all future purchases of computer-related equipment made with credit cards are tagged upon receipt and included in property records.
5. Analyze monthly spare parts inventory results to make sure parts are properly accounted for and follow up on any unusual transactions or balances.
6. Investigate the spare parts shortages identified during the audit to determine the cause.
7. Establish quality assurance procedures to verify that maintenance work has been performed.
8. Enforce the requirements to identify unused equipment for redistribution to Federal or state agencies or within Bonneville.

MANAGEMENT REACTION

Management concurred with the recommendations. Part III of the report provides detailed management and auditor comments.

DETAILS OF FINDING

ACQUISITION AND ACCOUNTABILITY PROCEDURES

To ensure that acquisitions were proper, Bonneville had established a system of acquisition procedures. While these procedures authorized credit card purchases, they also set forth some rules to be followed. Specifically, the August 1992 guide, BPA's Accelerated Buying Card (ABC) Program, The ABC Method for Small Purchases:

- o prohibited the use of credit cards for the acquisition of

computer-related equipment without specific authority;

- o required cardholders to submit their monthly statements with supporting documentation to their approving officials for the official's review and approval;
- o prohibited cardholders from exceeding their assigned dollar limits; and,
- o prohibited cardholders from splitting their purchases for the purposes of staying under their dollar limits.

Additionally, approving officials were to review credit card transactions, and cardholders and approving officials were to be trained.

After computer-related equipment had been acquired, Bonneville was accountable for the equipment. It was Bonneville's responsibility to design property management procedures that would provide reasonable assurance that the equipment would not be misappropriated or left unused. Accordingly, Bonneville had established procedures that required:

- o property to be tagged by property custodians upon receipt, and added to the property records;
- o inventory variances to be followed up on by inventory management specialists; and,
- o unused equipment to be identified by property custodians and redistributed.

These procedures were contained in Bonneville's Operating Procedures for Personal Property Custodians and in the computer facilities support services contract.

ACQUISITIONS USING CREDIT CARDS

Bonneville's employees did not always follow the credit card program procedures. Bonneville used credit cards to purchase computer-related equipment including personal computers, color monitors, printers, and scanners. A judgmental sample of 408 credit card transactions, totaling over \$1 million, for the 15-month period ended September 30, 1994, disclosed that Bonneville personnel: (1) purchased computer-related equipment without proper authorization; (2) did not have documentation in the files to support credit card purchases; and (3) split purchases to avoid transaction limits.

Authorization

Personnel purchased computer-related equipment even though their authority to purchase was not properly documented. We compared the credit card roster, which shows the types of goods cardholders are authorized to purchase, to the monthly statements. The comparison showed that 174 purchases of computer-related equipment--almost 43 percent of the sample transactions--

were made by personnel whose authority to purchase the equipment was not properly documented (that is, the cardholder roster did not show the purchasing authority appropriate to the individual's work activities and responsibilities). These purchases totaled about \$90,000. When we discussed this with credit card officials, they agreed that the roster should be reviewed periodically by the approving official to make sure that the cardholder purchasing authorizations shown in the roster are correct.

Documentation

Files did not contain documentation to support purchases made by credit cardholders. We found 74 purchases--18 percent of the sample transactions--totaling \$181,936 that lacked supporting documentation. For example, in May 1994, one employee made purchases of \$24,975 and \$24,985 from one vendor. The purchasing files did not contain any invoices to show what had been purchased. Nevertheless, the employee's approving official approved the invoice.

Approving officials offered two possible reasons why the invoice support was missing. First, the supporting invoices had been attached to the credit card bills when they reviewed the bills, but the invoices were subsequently lost. Second, some cardholders and approving officials may not have been aware of the change to the credit card program that required supporting invoices. The program originally did not require invoices to be submitted with the bills.

Credit Card Limits

Cardholders split purchases to avoid credit card limits. Each cardholder was assigned a maximum single transaction dollar limit. We considered it a split purchase if one cardholder made multiple purchases on the same day with the same vendor and the total of the purchases exceeded the single transaction limit. Our analysis showed that cardholders split their purchases 44 times to avoid exceeding their single transaction limit. For example, one cardholder made five purchases, each over \$6,000, with the same vendor on the same day. However, the cardholder's single transaction limit was only \$10,000. Thus, by splitting the purchases, the cardholder purchased over \$30,000 of equipment, which was more than three times the assigned limit.

Cardholders and approving officials stated that sometimes purchases were split because they thought it was more important to obtain the computer-related equipment than to follow the credit card procedures. Bonneville had a procedure whereby a cardholder's limit could be raised temporarily. We agree that there may be cases where the limit needs to be raised on an exception basis. However, the credit card program requirements which have been implemented show that Bonneville intends for its approving officials and cardholders to adhere to the program's procedures.

ACCOUNTABILITY ISSUES

Bonneville employees were not always following procedures that were intended to enhance accountability. Weaknesses were found in property tagging, following up on spare parts inventory reports, and redistributing unused equipment.

Property Tagging and Records

Property custodians did not ensure that equipment was tagged and included in property records. During our September and October 1994 testing for unused equipment, we found 51 items--all easily removable and convertible to personal use--that were not tagged. A year later, 44 of the 51 items still had not been tagged.

The property program manager offered various explanations. The manager stated that the equipment may not have been tagged upon receipt because it was purchased by credit card. This acquisition method took the equipment outside of the normal receipt-tagging procedure. The manager also stated that the credit card purchaser may not have known which items were required to be tagged and included in the property records. The manager stated that he had not tagged the equipment that we had identified in 1994 because he did not have time to track down items that most likely would have moved in the interim. The manager was not able to provide us with the value of the untagged computer equipment.

Follow up on Spare Parts

Bonneville maintained quantities of spare parts in order to install, upgrade, and perform maintenance on personal computers. Personnel were assigned to four maintenance support groups to maintain adequate accountability over spare parts and perform required maintenance work. Prior to June 1994, personnel in the maintenance support groups were not required to conduct spare part inventories. To its credit, Information Resources realized that not conducting inventories was a serious internal control weakness. Thus, support group personnel were required to conduct monthly inventories beginning in June 1994, and the results were sent to management for review and analysis.

Nonetheless, one support group reported discrepancies in spare parts that did not prompt follow up by management for several months. We reviewed the inventory records for 418 line items (that is, unique combinations of part numbers and purchase dates) for all four maintenance work groups for October and November 1994. For 32 of these line items, one support group had discrepancies for 94 and 86 percent of its balances in October and November, respectively. These discrepancies involved situations in which the inventory records indicated that parts were unaccounted for or more parts were used than were on hand. For the 2 months, these discrepancies totaled \$50,621 and \$14,166, respectively. Therefore, we expanded our review for this support group to include the 8-month period from July 1994 through February 1995. We determined that the group's balances were inaccurate for 67 percent of the 32 line items. Some

examples of discrepancies are shown below:

- o The group had 16 memory chips with a total value of \$2,544 on hand at the beginning of July 1994. There were no transactions during the month but the group reported only three chips on hand at the end of the month. Therefore, the group was short 13 memory chips with a total value of \$2,067 for the month.
- o The group reported in July 1994 that it used 50 hard drives when only 30 were available in inventory. As a result, the group reported that it had used 20 hard drives with a total value of \$5,560 when they were not available.

We found that reports showing variances were not immediately used by management to identify potential problems and to follow up to determine their causes. Although the group reported a \$14,037 overage in July 1994 and a \$28,917 shortage in September 1994, it was not until December 1994 that management began to take action to resolve the discrepancies. Thus, the discrepancies continued, and by February 1995, the group had experienced over \$109,000 of spare parts shortages. This occurred while the group was managing only 32 line items with an average end-of-the-month inventory value of \$23,394.

Our review also revealed that the group reported work as completed, but the work was not performed. We judgmentally sampled 19 completed work orders--valued at \$28,725--for personal computers. With the assistance of maintenance personnel, we inspected the 19 computers and discovered that \$4,047 of repair parts for 3 work orders had not been installed. The computer users were not aware that the parts were not installed. The installer signed the work orders as being completed, but Bonneville had not established and implemented quality assurance procedures to ensure that work was performed.

Unused Equipment

Bonneville was not getting all of its unused equipment into the hands of people who could use it. As of August 24, 1994, there were 12,376 computer-related pieces of equipment in the property records with an acquisition cost of \$39.3 million. Using the statistical sampling methodology described in the appendix, we found that Bonneville had at least 703 pieces of equipment in the population that could be redistributed within Bonneville or to other Federal or state agencies.

Placing this equipment with people who could use it would have provided an economic benefit to Bonneville. Discussions with property management personnel disclosed that some of the unused property could be reused within Bonneville, thereby eliminating some purchases. Alternatively, Bonneville could have redistributed the equipment to other Federal or state agencies. We estimated that if all of the unused equipment were placed with other Federal or state agencies, Bonneville could have received about \$803,000 of Treasury credit against its Federal debt. The estimate was based on an acquisition cost of about \$1,003,700 for

this equipment and the credit of 80 percent of acquisition cost received by Bonneville in Fiscal Year 1994 for excess computer-related equipment transferred or donated to such agencies (\$1,003,700 x .80).

Equipment was not placed with those who could use it because property custodians were not following control procedures. To ensure equipment was used efficiently, property custodians were to report unused equipment to property managers. However, property custodians stated that this was not always happening for several reasons, including (1) they did not know the equipment was not being used, (2) they did not view identifying excess equipment as a high priority, and (3) they did not excess property if they believed there was a possibility of future use.

IMPACT OF PROCEDURAL LAPSES

As a result, about \$90,000 of equipment was bought by personnel whose authority to purchase was not properly documented and about \$182,000 of purchases lacked supporting invoices. However, \$34,000 of the purchases were included in both categories. In addition, Bonneville did not have accurate property records showing the quantities and types of computer equipment on hand and had increased exposure to misappropriation of unrecorded assets. In fact, one maintenance support group had a total of over \$109,000 of spare parts shortages during an 8-month period and had no assurance that over \$4,000 of spare parts were installed on computers. Furthermore, based on statistical analysis (see appendix), we estimated that Bonneville missed the opportunity to reduce its Federal debt by about \$803,000 because it did not redistribute unused computer equipment.

Bonneville's goal to become more competitive and cost-conscious could be facilitated by implementing the recommendations in this report.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Management concurred with the recommendations but disagreed with the presentation of some of the facts in the report and the potential monetary impact. Management stated that its concurrence with the recommendations was based on the fact that BPA had observed situations similar to those being reported by the Office of Inspector General and had initiated corrective action as early as September 1994. Management also stated that the report provided a historical perspective and did not reflect current conditions and the steps taken to improve internal controls. Management commented that the audited period was the time shortly after the credit card program had been implemented, a time when it was unrealistic to expect that problems would never occur.

Recommendation 1

Management Comments. Management concurred with the recommendation that procedures be established for periodic review and update of the roster of credit cardholders and their purchasing authorities. Management began corrective actions in September 1994 which were completed in October 1994. Following existing practices, Bonneville continues to periodically review and update the roster of credit cardholders and their purchasing authorities. Specifically, in order to make automatic data processing authority more defined, they have added a new code for special purpose automatic data processing hardware and software. The roster of credit cardholders and their purchasing authorities will continue to be distributed annually to supervisors for updating as necessary.

Auditor Comments. Management was responsive to the recommendation.

Recommendation 2

Management Comments. Management concurred with the recommendation that a sample of credit card purchases be periodically reviewed. Bonneville stated that the financial program manager has always insured that all signed, certified credit card statements were received to document payment and that cards had been suspended or canceled. Management also stated that the credit card program administrator has always routinely reviewed purchases and called attention to purchases that appeared to be inappropriate.

Bonneville pointed out several control improvements. First, in October 1994, a financial reengineering effort improved the filing and retrieval of credit card documents and implemented automated controls to ensure that all statements are accounted for. Second, since October 1994, the credit card program administrator now reviews one-third to one-half of the original statements and receipts so that all statements receive 100 percent review at least quarterly. This review consists of comparing items purchased to the authorization codes on the roster. The reviews also check for proper coordination of sensitive equipment with the appropriate property program manager, as well as ensuring that orders are not split, original receipts are attached, the best buy is received, and charges, such as sales tax and services, are appropriate. Finally, in September 1995, a revised credit card manual was issued, and it implemented improved controls.

Management did not agree that there was \$182,000 of unsupported credit card purchases. Bonneville commented that some documentation dating back several years has been displaced; however, internal controls would not have permitted payment for the charges without first reviewing all required documentation.

Auditor Comments. Management was responsive to the recommendation. However, we determined that \$182,000 of credit card purchases did not include supporting invoices. Management's comment that the financial program manager has always ensured

that all signed, certified card statements were received is inconsistent with our audit results. Cardholders and approving officials stated that the credit card program originally did not require invoices to be submitted with the bills. In addition, management was not able to provide invoices for one cardholder for 14 of the 15 months reviewed.

Recommendation 3

Management Comments. Management concurred and Information Resources is reviewing the list of 44 untagged items. Compliance should occur by June 1996.

Currently, the Information Resources property program manager is the sole person responsible for distribution of automatic data processing tags. Information Resources is in the process of developing new procedures that aid in the tagging of automatic data processing equipment. A potential change that has been discussed is having the Information Resources property program manager assign a block of unassigned automatic data processing tag numbers to a store site outside headquarters. This will allow speed-up of the tagging process and should ensure that equipment received outside the headquarters building will be tagged upon receipt.

Information Resources is currently developing a new database software program called Asset Pro that will aid not only with this recommendation but with Recommendation 4 as well. Full implementation of Asset Pro is scheduled to be in place by June 1996.

Auditor Comments. Management was responsive to the recommendation.

Recommendation 4

Management Comments. Bonneville concurred and stated that the Information Resources unit has procedures in place to ensure that equipment purchased with credit cards is tagged upon receipt. All automatic data processing equipment purchased by Information Resources personnel is centrally received by the Information Resources property program manager and tagged as appropriate. However, Information Resources has no control of the automatic data processing equipment purchased by personnel outside the Information Resources unit. Therefore, Information Resources has recommended that the Administrator issue a memorandum to all existing cardholders outlining their responsibilities when purchasing automatic data processing equipment. A copy of the letter will be included in the training packet for new cardholders. Target completion date for this recommendation is July 1996.

Auditor Comments. Management was responsive to the recommendation.

Recommendation 5

Management Comments. Management agreed to analyze monthly spare parts inventory results. In September 1995, Information Resources developed and implemented procedures to reconcile the maintenance/install spare parts inventory on a monthly basis. Overages and shortages are reconciled by the Information Resources maintenance project lead.

Auditor Comments. Management was responsive to the recommendation.

Recommendation 6

Management Comments. Management agreed to investigate the parts shortages. This situation was identified by Bonneville in December 1994 and coordinated with the Inspector General's office. Information Resources reviewed internal controls and the monthly spare parts inventory results to make sure parts were properly accounted for and implemented improved procedures that we believe will prevent a recurrence of the problem. Information Resources has also asked Bonneville Internal Audit Services to review new procedures and make further recommendations if their study shows continued weaknesses. These actions were completed in January 1996.

Bonneville's preliminary conclusion is that there was not a \$109,000 parts shortage. Rather, there was a system weakness that should be resolved with implementation of the recommendation.

Auditor Comments. Management was responsive to the recommendation. However, our audit results confirm that one support group experienced over \$109,000 of spare parts shortages during the 8-month period reviewed. We computed the shortages using the monthly inventories, purchase records, and usage reports. This analysis was performed for each of the line items during the 8-month period. The results were discussed with Information Resources personnel, and they agreed that the calculation of parts shortages was accurate.

Recommendation 7

Management Comments. Bonneville agreed to verify that maintenance work was performed. The new process which Information Resources implemented in November 1995 has been tagged the "Buddy System." Under the buddy system, the person performing the work will have an independent quality review of all work through a peer check to ensure parts identified in the worksheet are actually installed. This process is now used for all maintenance and install work performed by Information Resources.

Auditor Comments. Management was responsive to the recommendation.

Recommendation 8

Management Comments. Management concurred with the

recommendation to identify unused equipment and redistribute it. The Information Resources unit has complied with the requirement to identify unused equipment and to redistribute it to other Federal agencies and schools. Within the last month, Information Resources has disposed of all unused equipment for which it had responsibility. The equipment was given to schools or made available for other Federal and state agencies. However, Information Resources is not in a position to enforce compliance of this requirement with managers outside the Information Resources unit where the majority of the unused equipment was found during the audit. Therefore, a memorandum from the Administrator to all employees will be issued by June 1996 outlining the responsibility of managers to ensure that unused equipment is properly disposed of.

Management did not agree that Bonneville could have reduced its Federal debt by \$803,000. While historically it may have been possible to recover 80 percent of acquisition cost, rapid technological change has substantially decreased the amount that can be received when disposing of obsolete equipment, much of which can only be sold for scrap.

Auditor Comments. Management was responsive to the recommendation. We used statistical sampling techniques and difference estimation analysis to calculate that Bonneville could have reduced its Federal debt by \$803,000. We reviewed all Federal credits received by Bonneville for redistributed equipment in Fiscal Year 1994 and determined that Bonneville on average received 80 percent of acquisition cost for automatic data processing equipment. These calculations were reviewed by personnel from Financial Operations, and they agreed with the results. The percent of acquisition cost which Bonneville receives to reduce its Federal debt is based on the condition of the equipment when it is redistributed. As long as the equipment can be redistributed, rapid technological change will not decrease the Federal credit received.

PART IV

APPENDIX

Details of Statistical Sample Projection

We used statistical sampling techniques to determine whether Bonneville was getting unused computer-related equipment into the hands of people who could use it. We selected a statistical sample of computer-related equipment using a report of computer-related equipment from Bonneville's Personal Property Accounting System. The report showed a total population of 12,376 items on hand as of August 24, 1994.

We used attribute sampling to determine the total number of items of equipment that were not being used and that could be redistributed within Bonneville or to other Federal and state agencies. Each item of computer-related equipment constituted a sampling unit. We used the random number generator in the U.S.

Army Audit Agency statistical sampling program to randomly select 137 individual units. We considered the sample unit an error if the item was not currently in use, had not been in use for the past 2 months, and could be redistributed. Based on the 12 error values found in the sample, we are 90 percent confident that at least 703 (5.7 percent) units in the population were not being used and could be redistributed within Bonneville or to other Federal and state agencies.

Also, we used difference estimation analyses to estimate the potential economic benefit. We projected the results of our analysis for the 137 sample items to the population by using acquisition cost. Based on our sample, we are 90 percent confident that Bonneville had equipment with an acquisition cost of about \$1,003,700 that could have been made available for use within Bonneville or to other Federal and state agencies. Using the 80 percent rate of credit that Bonneville received for redistributed equipment in Fiscal Year 1994, we estimated that a credit of about \$803,000 could be received for this unused equipment ($\$1,003,700 \times .80$).

IG Report No. WR-B-96-06

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