



090242

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

GENERAL GOVERNMENT
DIVISION

March 29, 1978

Mr Albert P Russo
Director, Department of
Human Resources
District of Columbia Government

Dear Mr Russo

The General Accounting Office has been studying how well State and local governments, including the District of Columbia, purchase goods and services with Federal grant funds. Our work at the Department of Human Resources (DHR) disclosed that its property accounting and control system does not provide accurate and complete data on the quantities, location, use, and cost of accountable property. Such data are necessary for DHR to properly account for, maintain control over, and effectively manage its multimillion dollar property inventory. According to DHR's January 1978 Equipment Report Master List (ERML), it owned over 34,000 property items valued at \$14.2 million. The ERML is the principal management tool used by DHR to account for and control accountable personal property.

DHR's system was ineffective because (1) acquisitions of accountable property were not always recorded on the ERML at the time of receipt, (2) annual physical inventories of property were often not done, and (3) physical inventory results, when reported, were used to validate the ERML without any independent review to insure the data was accurate and complete.

Tests of the accuracy and completeness of property data on the ERML showed that a large percentage of the items purchased with Federal grant funds had not been recorded on the ERML and some items which were recorded could not be physically located by us or DHR personnel. Also, physical inventory counts identified property items which were in use but not listed on the ERML.

Without an effective property accounting and control system, management can only estimate procurement needs and use of accountable property. Faulty estimates could lead management to make bad decisions concerning program operations and resource allocation. Further, the absence of

090242
~~915387~~

controls over property makes it impossible for managers to determine how many of the 34,000 items have been lost, stolen, or destroyed. Since property purchased with grant funds enters the system in the same manner as all other property, the ERML totals for property purchased with appropriated funds could also be in error.

To attain better property accountability and control, DHR must insure that (1) all property is recorded on the ERML at the time of receipt, (2) users comply with annual physical inventory requirements, and (3) physical inventory results are independently validated.

BACKGROUND

Although the Department of General Services (DGS) has the responsibility for maintaining control over all District-owned property, DHR manages its own property. DGS's Bureau of Materiel Management provides the policies and guidelines to departments for the acquisition, maintenance, and disposal of property, but DHR has been delegated responsibility for managing its own property inventories. In DHR, the Chief, Supply Management Branch is the departmental accountable property officer.

The supply management branch is responsible for producing the ERML and maintaining its accuracy and completeness. To meet this responsibility it relies entirely on (1) warehouse reports (Form 58--Requisition and Receipt) describing property received and delivered to the user, (2) program managers' reports showing items received directly from a supplier (Form 58) and changes in property accountability (Form 84 which reports the loss of property), and (3) annual physical inventory results.

Accountable property is defined by the Bureau of Materiel Management as any article of personal property which (a) is tangible and complete in itself, (b) does not lose its identity or become a component part of another article when in use, (c) is of a durable nature with an expected service life of over 1 year, and (d) has an acquisition unit cost of \$100 or more.

The recorded value of the 34,000 accountable personal property items acquired by DHR was \$14.2 million as of January 19, 1978. Approximately 2,800 of these items valued at \$1.4 million were purchased with Federal grant funds. The principal management tool used by the supply management branch in accounting for and controlling property is the ERML. DHR spends nearly \$90,000 per year to produce this property listing.

Representatives of the D C Auditor's Office and Office of Municipal Audit and Inspection have not recently audited DHR's property accounting and control system and they do not plan to review this area in the near future

According to property managers, DHR does not have sufficient staff to verify reported data. The effectiveness of DHR's property accounting and control system therefore depends entirely on the warehouse and program managers' reports on property acquisition and changes in accountability.

METHODS OF RECORDING PROPERTY ACQUISITION WERE INEFFECTIVE

Property records are incomplete if property is not recorded at the time of receipt. Testing the accuracy and completeness of the ERML for property acquired by 21 mental health grant programs during fiscal years 1973 through 1976 showed that a significant percentage of the items were not recorded at the time of receipt. Purchase records showed 413 property items valued at about \$120,000, but the ERML listed only 237 of these items. Consequently, effective accountability of and control over the remaining 43 percent are lost until the items are subsequently identified in a physical inventory and placed on the ERML. The 176 unrecorded items valued at about \$48,000 included 9 tape recorders costing \$1,916, 8 air conditioners costing \$1,179, and 11 typewriters costing \$4,877.

The supply management branch could not record all property acquisitions on the ERML at the time of receipt because the (1) program managers did not always send Form 58's to the branch when direct deliveries were received from vendors, (2) warehouse personnel did not report partial shipments and deliveries of property until the remaining items were received and delivered to the users, and (3) warehouse had a backlog of undelivered property items and did not report them until the items were delivered and signed for by program managers. Therefore, many items cannot be accounted for or controlled until they are reported to the supply branch.

To insure that property is recorded at the time of receipt, DHR property managers wrote new procedures requiring that all property be reported to the supply branch within 3 days of receipt. These procedures included reporting requirements for direct deliveries of property to program managers and property items received at the warehouse (full or partial shipments). The new procedures went into effect on December 1, 1977. Also, new procedures for reporting property relocations were established in March 1978.

PHYSICAL INVENTORIES WERE
INCOMPLETE AND UNRELIABLE

Tests of DHR's physical inventory practices and a discussion with supply management branch personnel indicated that many managers of grant programs have not complied with physical inventory requirements. For example, annual physical inventories were often not taken. Also some inventory reports used to update the ERML excluded items which were at the location inventoried but had not been recorded at the time of receipt. Further, the branch did not attempt to validate the physical inventory results even though it doubted the accuracy and completeness of these counts. As a result, inaccurate and incomplete property records weakened property control and management.

Physical inventories of all accountable property are essential to periodically validate the ERML. Also, an inventory serves to test the adequacy of the procedures, such as those used to record acquisitions of property. For instance, if complete inventories had been taken as required, the procedures which permitted the warehouse to delay the reporting of partial shipments of property until the full shipment was received and delivered might have been corrected sooner.

According to District regulations, an annual independent physical count should be taken of all accountable personal property. To comply with this requirement, the supply management branch annually furnished each grant program manager with a list of the property for which they were accountable. They were instructed to do a physical inventory of all property and report the results, including any deletions or additions. Supply management branch officials said they did not have sufficient staff to routinely check that the physical inventories are taken or to validate the physical inventory results reported by the users. According to the ERML, many items had not been inventoried for several years. Thus the accuracy and completeness of the ERML rests primarily with those held accountable for the property.

In testing the inventory practices, we selected and inventoried 84 items valued at about \$20,000. According to the ERML, these items were purchased by one mental health grant program and located at three DHR facilities. The physical inventory showed that 16 of these property items listed on the ERML--such as a projector costing \$389 and 5 tape recorders totaling \$720--were missing from these locations. It also identified 43 pieces of property which had been tagged as DHR accountable property but not recorded on the ERML and 69 other property items which appeared to be accountable property but had not been tagged. These sites had not been physically inventoried since 1974.

According to the Director, DHR, a special inventory taken by DHR in March 1978, located 11 of the 16 missing items, including 7 items which had been moved to new locations not recorded on the ERML. Five items valued at \$1,000, including three tape recorders totaling \$480, could not be found.

Also, we randomly selected and inventoried 28 property items which had been purchased by various Federal grant programs. Three of these items could not be found at the location cited on the ERML, even though the items had reportedly been inventoried in July 1976. The missing items were an electrocardioscope costing \$1,100 and two arterial and venous monitors totaling \$2,250.

After discussing our results with supply management officials, they informed us that program managers had been requested to take this year's physical inventory, beginning in October 1977, and that steps would be taken to insure compliance with District regulations on physical inventories. For example, all program managers were instructed by the Director of DHR to get the inventory results reported by March 1, 1978. In the past verbal requests for these data were made by supply managers when the inventory results were not reported on time, but these requests were often ignored. According to the Director, DHR, the physical inventory was still in progress on March 10, 1978.

CONCLUSIONS

DHR did not have a property accountability and control system which was capable of providing accurate and complete information necessary to effectively manage and control its multimillion dollar property inventory. Therefore DHR could not accurately determine how much property was owned, where it was located, or how effectively it was used. Also, DHR could not determine how much property had been lost, stolen, or destroyed.

An effective property accountability and control system for DHR is essential because of the large amount of District and Federal grant funds invested in accountable property, the high cost to purchase, store, maintain, distribute, and control such property, and the potentially adverse effect of an ineffective system on program results and resource management.

DHR's past procedures involving receipt of property did not insure that all property was recorded on the ERML at the time of receipt. Also, the ERML data was not properly validated because annual physical inventory requirements were not met and physical inventory results were not independently reviewed. Consequently the ERML's effectiveness as a management tool for controlling and managing property was diminished by its inaccuracy and incompleteness.

RECOMMENDATIONS

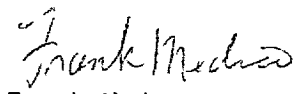
We recommend that, to improve the effectiveness of DHR's property accountability and control system, the Director

- Monitor the implementation of the new procedures requiring all warehouse and program personnel to promptly report all property receipts and relocations,
- Insure that annual physical inventory requirements continue to be met, and
- Independently verify or have an independent group such as the District's Office of Municipal Audit and Inspection verify the results of physical inventories to insure that all property is inventoried, the counts are accurate, and adjustments are justified

Copies of this report are being sent to the City Council, Mayor, Office of Budget and Management Systems, D C Auditor, Office of Municipal Audit and Inspection, and Department of General Services

We appreciated the cooperation of DHR officials and their willingness to act on our findings. Please advise us of any additional actions taken to correct the matters discussed in this letter

Sincerely yours,


Frank Medico
Assistant Director