



U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



US Patent and Trademark Office

***USPTO Has Reasonable Controls
Over Personal Property, but
Additional Improvements Are Needed***

Final Audit Report No. CAR-18701/March 2008

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Office of Audits

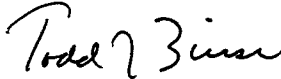


MAR 27 2008



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MEMORANDUM TO: Barry K. Hudson
Chief Financial Officer
United States Patent and Trademark Office (USPTO)

FROM: 
Todd J. Zinser

SUBJECT: *USPTO Has Reasonable Controls Over Personal Property,
but Additional Improvements are Needed*
Final Audit Report No. CAR-18701

We are providing this final report on our audit of the effectiveness of the United States Patent and Trademark Office's (USPTO's) internal controls for its accountable personal property. Our review found that USPTO has made a commitment to establish an effective system of internal controls for safeguarding its laptops and other accountable property, but it needs to strengthen its inventory procedures for accountable property and improve the handling of its lost, missing, or stolen property (see page 4).

To enhance USPTO's internal controls, we recommend that its Chief Financial Officer (CFO) ensure that USPTO performs inventories consistent with property management requirements; provides training to all staff engaged in property management; makes property management guidance readily accessible; requires contractors to perform quality assurance reviews consistent with contractual requirements; and requires property accountability officers to verify property assigned to property custodians. USPTO also should staff property boards of review consistent with Department policy, and continue to promptly and thoroughly document the actions taken on lost/missing/stolen property (see page 7).

In its March 20, 2008 response to our draft report, USPTO concurred with our recommendations and provided details of the corrective actions that it had taken and planned. We believe that these actions are responsive to our recommendations and are encouraged by USPTO efforts to date. USPTO's response is summarized in the report and included in its entirety as Appendix I.

In accordance with Department Administrative Order 213-5, please provide us with an audit action plan that addresses all of the report recommendations within 60 days of the date of this memorandum. If you would like to discuss the contents of the final report, please contact me at (202) 482-4661. We appreciate the cooperation and courtesies your staff extended to us during our audit.



INTRODUCTION

This audit of the effectiveness of internal controls over laptops and other accountable property at USPTO follows a similar audit we conducted at the U.S. Census Bureau last year. In that audit, we found improvements were still necessary despite Census's implementation of Department-wide initiatives designed to strengthen such controls and its own efforts to strengthen property management.¹

USPTO has substantial accountable property assets, approximately 20% of which are located offsite because the bureau operates three programs that enable employees to work from home using laptop computers and related equipment. All property regardless of where it is located must be tracked in USPTO's Enterprise Asset Management System (EAMS).

All USPTO personnel are responsible for the proper use, care, and protection of personal property in their possession, custody, or control. Property custodians regularly communicate with assigned users of property, report updates/changes to be made in EAMS, and perform quarterly certifications of assets for which they are assigned responsibility. The bureau's property accountability officers ensure that property custodians perform their assigned functions including the quarterly certification of assigned property. Overall responsibility for property management resides with the property management officer within the Office of Corporate Services.

Since the fall of 2006, USPTO has supplemented its existing internal control structure with new controls put forth in Departmental initiatives governing accountable property.² Current controls include a system that tracks property from receipt to disposal and contains reasonably up-to-date information; quarterly inventories and certifications of accountable property; a quality control program that checks a large number of inventoried items; physical security that includes locking down assets; a property review board that reviews lost, missing, and stolen property; and performance plans that establish

Quick Facts

- The Office of Corporate Services, Office of Chief Information Officer, and Office of Finance share responsibility for the accountability and safeguarding of property and maintaining USPTO's property inventory system, the Enterprise Asset Management System.
- As of November 2007, USPTO owned about 84,000 pieces of accountable property (such as laptop computers, personal computers, copiers, and fax machines) valued at approximately \$154 million.
- USPTO has approximately 18,000 use-at-home assets valued at approximately \$13 million.

¹ U.S. Census Bureau: *Census Has Improved Accountability for Laptops and Other Personal Property, But Additional Improvements Are Needed*, Audit Report No. IG-18387-1, September 2007.

² In an October 3, 2006, memorandum, the Deputy Secretary of Commerce assigned the Department's Chief Financial Officer and Chief Information Officer the task of developing and coordinating an aggressive Department-wide corrective action plan to address lax management of personal property and to protect sensitive information.

accountability for property officials. USPTO also has an asset management team that meets regularly to discuss accountable property issues and potential solutions. The asset management team has recommended changes to improve the quarterly inventory process, coordinated the installation of mobile data security technology on USPTO laptops, and provided input into USPTO's proposed asset management website.

OBJECTIVES, SCOPE AND METHODOLOGY

The objective of this audit was to determine the effectiveness of internal controls over accountable personal property at USPTO. We also sought to determine whether USPTO accurately reported its loss of laptops to the Department in September 2006.³ Our emphasis was on the internal controls in effect at the time of our fieldwork, but we also reviewed controls related to the lost/missing/stolen property in place from 2001 to 2007. Specific control activities we reviewed included physical control over assets, segregation of duties, and the execution and recording of transactions. We performed our audit work at USPTO headquarters in Alexandria, Virginia, from July 2007 until November 2007.

We obtained an understanding of USPTO's internal controls through interviews; reviews of policies, procedures, a process document, and previous audit reports; and observations. We met with USPTO officials, members of the Inventory Support Team, and the Inventory Operations Manager. We observed physical inventories and toured USPTO's warehouse facility in Alexandria, Virginia. Also, we discussed efforts to strengthen internal controls with the staff of the Department's Office of Administrative Services, the office taking the lead to improve property management across the Department.

We judgmentally selected 9 of the approximately 440 property custodians who are collectively responsible for approximately 22,000 of USPTO's 84,000 items of property, including all 3 of the property custodians responsible for work-at-home property, and met with them to discuss their inventory practices. We observed 4 of the property custodians (or their staff) verify inventories. We judgmentally selected 10 of the 41 "DO Shipment Record" forms used in August 2007 to track receipts of property from the Alexandria, Virginia warehouse, and we traced the property received to EAMS and the purchase orders. We obtained information from EAMS on the 476 lost, missing, stolen, and not found items from 2001 to September 2007 and reviewed how USPTO handled those cases. In addition, we observed the physical inventory conducted as part of the Office of Management and Budget (OMB) Circular A-123 internal control review that was underway at USPTO to assess and correct internal controls.

In order to address our second objective, we identified an additional 10 lost/missing/stolen laptops USPTO had not reported to the Department. This represented a small number of lost items and did not require corrective action to address ongoing controls. As this information did not constitute a major finding of the audit, we did not include a discussion of it in the findings portion of the report.

³ USPTO reported 9 lost/missing/stolen laptops to the Department in September 2006.

We performed a limited data reliability assessment of the computer-generated data in EAMS. Our assessment included tracing property received to EAMS and observing property custodians verify information contained within EAMS to assets on hand. We concluded that the data was sufficiently reliable to satisfy our audit objective. We used the data in EAMS as background information to put the results in proper context.

We reviewed compliance with applicable provisions of pertinent laws and regulations including the Federal Managers' Financial Integrity Act of 1982; the Government Accountability Office's *Standards for Internal Control in the Federal Government*; OMB's Circular A-123, *Management's Responsibility for Internal Control*; the Department of Commerce's *Department Personal Property Management Manual* (which implements portions of the General Services Administration's *Federal Management Regulation* that pertain to the acquisition, management, utilization, and disposal of personal property); and USPTO's *Asset Management Procedures*.

We performed this audit under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated August 31, 2006. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

I. ADDITIONAL IMPROVEMENTS NEEDED IN PROPERTY MANAGEMENT

Since the fall of 2006, USPTO has supplemented its existing controls by implementing Departmental initiatives designed to strengthen the system of internal controls for safeguarding laptops and other accountable personal property. Despite this progress, we found USPTO needs to strengthen its procedures for (1) inventory of accountable personal property, and (2) review of lost, missing, or stolen property.

Procedures for the inventory of accountable personal property

Proper inventories or asset verifications are an essential element of property management. USPTO needs to strengthen the procedures for its inventory of accountable personal property to ensure that (1) it conducts inventories consistent with the requirements of the *Department Personal Property Management Manual*, (2) personnel assigned to conduct the inventory are properly trained, (3) policies and procedures relating to accountability over personal property assets are readily accessible from a central source, (4) an appropriate quality assurance review of the inventory, including verifying property on hand to EAMS, is conducted, and (5) inventory duties are adequately segregated. Detailed explanations of these are as follows:

- Need to ensure appropriate inventories are conducted. One of three property custodians responsible for work-at-home assets does not perform an inventory that includes verifying existence of assets. This property custodian is responsible for approximately 6,500 assets assigned to about 2,200 employees in the Patent Examiner Laptop Program. This means a substantial number of USPTO's assets are not verified. Instead, the custodian just looks at additions and deletions to EAMS during the period. Section 3.807 of the *Department Personal Property Management Manual*, dated October 2007, states physical inventories must be completed at regular intervals, generally at least once a year. The property custodian told us that they did not complete a physical inventory because there is no requirement for employees to bring in laptops for physical verification. However, we noted that other property custodians responsible for work-at-home assets verified item existence using e-mail and webcams. We also noted that property custodians involved with the telework program are responsible for substantially more assets than is typical for property custodians. This large workload may have contributed to the property custodian in question not verifying assets.
- Need to ensure employees conducting inventories are properly trained. We observed the physical inventories for four property custodians and found an instance in which an office manager assigned by a property custodian to conduct an inventory did not understand how to do so. For example, when accountable property was out of the office, the individual did not know the necessary procedures to follow to ensure the item was accounted for. It appeared that the office manager needed training on conducting inventories. Inadequately performed inventories increase the risk of insufficient accountability over property. The GAO's *Standards for Internal Control in the Federal Government* states that management needs to ensure employees have appropriate knowledge and skills needed for various jobs and are provided necessary training.
- Need to ensure that guidance relating to ensuring the accountability of personal property assets is readily accessible from a central source. Although all employees have responsibilities when it comes to ensuring accountability over personal property, currently relevant guidance is not readily accessible at USPTO. Employees must assemble information from multiple sources—a fact that increases the likelihood that personnel will not know how to properly fulfill their property management responsibilities. The GAO's *Standards for Internal Control in the Federal Government* states that information should be communicated to management and others who need it to enable them to carry out their internal control and other responsibilities. USPTO property management officials have developed an approach to include information on an internal web site, but due to other priorities at USPTO, the installation of this information on the web has been delayed.
- Need to ensure an appropriate quality assurance review is conducted. Reconciliation of variances between the physical inventory and the amount of

property on the books is an essential element of property management. The Inventory Support Team, which is comprised of contractors, is not performing the quality assurance review of the inventory verification process in accordance with the terms of its contract. The contract states that for each property custodian on an annual basis, the team should select 10% of the assets from within EAMS and verify those assets to the property on-hand and also select 10% of the property on-hand and verify it to EAMS. We found that, in practice, they verify substantially more than 10% of the assets from EAMS with property on-hand. However, they do not select property on-hand and verify it to EAMS. The Inventory Support Manager told us that to verify property on-hand, they select a random sample of 20% of the assets from EAMS, plus assets associated with the sample. For example, if a monitor is selected in the sample, then the associated processor and printer would also be inventoried. This results in reviewing more items than required by contract. However, by not selecting property on hand and verifying it to EAMS, the team may not identify assets on-hand that have not been recorded into EAMS.

- Need to ensure segregation of duties. We found that property custodians are certifying equipment assigned to them. This is inconsistent with GAO's *Standards for Internal Control in the Federal Government*, which states that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. USPTO officials expressed reluctance to revise their procedures, stating the requirement for property accountability officers to certify property assigned to property custodians on a quarterly basis was an adequate control. However, USPTO officials acknowledged their limited confidence in how thoroughly the property accountability officers verified assets assigned to them. As a result, this control may not be working as intended. USPTO should ensure property accountability officers are verifying property assigned to property custodians.

Procedures for review of lost/missing/stolen property

USPTO needs to strengthen its procedures for addressing lost/missing/stolen property by excluding property management officials from property boards of review. The bureau also needs to continue promptly and thoroughly documenting actions taken on their lost/missing/stolen cases.

- Need to ensure appropriate staffing of property boards of review. The *Department Personal Property Management Manual*, dated October 2007, Section 3.903, states that, in the absence of a justifiable determination to the contrary, property management officers, property accountability officers, and property custodians shall not serve on a property board of review. We found property management and accountability officers were included on property review boards at USPTO, although no determination as to the justification for this seems to have been made. USPTO officials stated persons closest to the situation comprise property boards of review. They also said they are now modifying the makeup of the property

review board to remove the property management and property accountability officers.

- Need to continue to promptly and thoroughly document actions taken on lost/missing/stolen cases. USPTO did not begin using “Report of Review of Property” forms (CD-52s) to document actions taken on lost/missing/stolen property until June 2007. Section 3.904 of the *Department Personal Property Management Manual* states that Form CD-52, Report of Review of Property, or other appropriate forms approved by the departmental property management officer, shall be used for reporting property for board of review actions. Section 3.706 of the manual states that accountable property which is lost, damaged, or destroyed shall be removed from the property records and accounts only when documented on a report of survey, and CD-52s should be used for this purpose.⁴

USPTO officials stated that they began using CD-52s when the Office of the Secretary began its property initiatives. They stated that property board of review decisions were previously documented in memos. We found the memos listing lost/missing/stolen property were not as comprehensive in documenting the circumstances of the cases and the actions taken as the CD-52s now in use. As a result, the documentation was insufficient to justify deleting property from the property management system. In 2007, USPTO prepared CD-52s to document all lost/missing/stolen laptops from years 2001 through 2007 plus all property other than laptops stolen during fiscal year 2007. USPTO should continue to promptly and thoroughly document actions taken on lost/missing/stolen cases.

RECOMMENDATIONS

We recommend that the Chief Financial Officer take appropriate action to ensure the following with respect to personal property management at USPTO:

- 1) Conduct inventories consistent with the requirements contained in the *Department Personal Property Management Manual* dated October 2007, with special attention to property assigned to property custodians for the three telework programs,
- 2) Provide training to employees conducting inventories,
- 3) Make property management information readily available to USPTO employees,
- 4) Require the Inventory Support Team to perform its quality assurance review in accordance with the contract, which requires that the team select and verify 10% of the property on-hand with EAMS,

⁴ Sections 3.904 and 3.706 of the current version of the *Department Personal Property Management Manual*, dated October 2007, contain the same requirements as Sections 4.904 and 4.706 of the previous version of the *Department of Commerce Personal Property Management Manual*, dated March 1995.

- 5) Require property accountability officers to inventory the property of the property custodians who report to them,
- 6) Follow Departmental policy in establishing property boards of review, including ensuring that appropriate justification is made if property management officials participate on property boards of review, and
- 7) Use Report of Review of Property forms (CD-52s) to promptly and thoroughly document actions taken on cases of lost/missing/stolen property.

USPTO Response

On March 20, 2008, we received the USPTO response to our February 29, 2008 draft report. USPTO stated in its response that it concurred with the recommendations contained in the draft report and that it had already taken or planned to take actions to address those recommendations.

In responding to our first five recommendations to improve property management, USPTO stated that it (1) has begun to transfer assets from the three work-at-home property custodians to the respective work-at-home user's supervisor; (2) expanded property accountability training to include all individuals who support a property custodian in fulfilling their required duties; (3) established an asset management web site that contains information on asset management; (4) reminded the Inventory Support Team of their obligation to select and verify at least 10 % of the assets found in the custodian's general location and compare these assets to the property custodian's report; and (5) will notify property accountability officers that they must verify the accuracy of property assigned to their property custodians.

In responding to our sixth recommendation to improve procedures for review of lost/missing/stolen property, USPTO stated that two of the three present board members are no longer property officials, and they are presently deciding whether the current property management officer should remain as a board member. In responding to our seventh recommendation, USPTO stated that it will continue to use CD-52s to document actions taken on lost/missing/stolen cases.

OIG Comments

We believe the actions taken or planned are responsive to our recommendations and are encouraged by USPTO efforts to date. However, USPTO management needs to pay close attention to the bureau's efforts to address two of our seven recommendations.

We believe the transfer of assets from the three work-at-home property custodians to the respective work-at-home user's supervisor is a positive step to meeting our first recommendation that USPTO conduct inventories consistent with the requirements

contained in the *Department Personal Property Management Manual* as it narrows the span of control for work-at-home assets, making inventories of assets more manageable. However, USPTO needs to ensure that these designated property custodians verify the work-at-home program assets. In addition, while the fact that two of the three Property Board of Review members are not property officials is a positive step toward meeting our sixth recommendation, if USPTO determines that it will continue to have the property management officer participate on that Board, it should document the justification for this determination, as required by the *Department Personal Property Management Manual*.

cc: John Hassett, director, Office of Corporate Services
Welton Lloyd, audit liaison, Office of Corporate Planning



UNITED STATES PATENT AND TRADEMARK OFFICE

Chief Financial Officer

March 20, 2008

MEMORANDUM FOR Allison C. Lerner
Acting Assistant Inspector General for Auditing

FROM: Barry K. Hudson
Chief Financial Officer

SUBJECT: Response to Draft Report No. CAR-18701: *USPTO Has Reasonable Controls Over Personal Property, but Additional Improvements are Needed*

This memorandum provides the United States Patent and Trademark Office's (USPTO) response to the findings and recommendations in your draft report covering controls over the USPTO's personal property program. We appreciate the effort your staff has made in evaluating the effectiveness of our internal controls over accountable personal property and the positive comments from your staff regarding the USPTO's efforts in implementing internal controls above and beyond the requirements contained in the *Department Personal Property Management Manual*, such as our:

- USPTO Asset Management Team which is comprised of representation from all Business Units and has been active for over a decade.
- Best practice for inventory and certification of all accountable property on a quarterly, instead of annual, basis.
- Proactive approach to verifying the quarterly inventory and certification through an independent quality assurance process.
- Warehouse management practice and the process for integrating the cradle-to-grave life cycle of an asset with the accountable personal property inventory process.

We have given careful consideration to the seven recommendations contained in the draft report and concur with the recommendations. Below is a summary of the recommendations, our comments and actions we have taken or plan to take to address and implement each recommendation (many of which are already underway).

IG Recommendation 1: Conduct inventories consistent with the requirements contained in the *Department Personal Property Management Manual* dated October 2007, with special attention to property assigned to Property Custodians for the three telework programs.

USPTO Response: Work has begun to transfer assets from the three telework Property Custodians to the respective telework user's supervisor, who is also a designated Property Custodian.

IG Recommendation 2: Provide training to employees conducting inventories.

USPTO Response: Training has always been an integral part of the USPTO's asset management program. In that regard, the USPTO has again partnered with the USDA Graduate School to conduct Personal Property Accountability training for newly assigned Property Accountability Officers and Property Custodians. Unlike in past years, where the focus of the training was directed to designated property officials, the upcoming semiannual training (which will be conducted on March 20 and 25, 2008), has been expanded to include any and all individuals involved in supporting a Property Custodian in fulfilling his/her required duties.

IG Recommendation 3: Make property management information readily available to USPTO employees.

USPTO Response: On February 27, 2008, the USPTO's asset management web site was formally introduced. The web site is prominently displayed as an information resource on USPTO's internal network home page. Asset information posted includes the names of property officials; instructions for all employees when assets are lost, missing, stolen, or destroyed; a checklist of steps for a Property Custodian to complete monthly and certify quarterly inventory reports; training documents; asset management forms; etc.

IG Recommendation 4: Require the Inventory Support Team to perform its quality assurance review in accordance with the contract, which requires that the team select and verify 10% of the property on-hand with EAMS.

USPTO Response: Although the Inventory Support Team (IST) was providing quality assurance for more than 20% of selected assets, on October 15, 2007, IST management was reminded of their obligation to not only physically observe and validate 10% of the assets on a Property Custodian's report, but also select and verify at least 10% of the assets found in the custodian's general location and compare them to the Property Custodian's report. The November 2007 quality assurance report and all subsequent quality assurance reports have demonstrated this requirement.

IG Recommendation 5: Require property accountability officers to inventory the property of the Property Custodians who report to them.

USPTO Response: Property Accountability Officers will receive a notice that, as part of their quarterly certification efforts, they must also verify the accuracy of the property assigned to Property Custodians under their oversight.

IG Recommendation 6: Follow Departmental policy in establishing property boards of review, and ensure that appropriate justification is made if property management officials participate on property boards of review.

USPTO Response: At the beginning of the Office of Inspector General's audit, the USPTO's three-member Property Board of Review included property management officials. Since that time, responsibilities have changed and two of the three present Board members are no longer property officials.

Additionally, Board membership is being expanded to include ad hoc participation by individuals from the USPTO's Office of General Counsel and Office of Human Resources. Finally, we are exploring options involving whether or not, given the USPTO's asset management hierarchy, there is value in having the USPTO's Property Management Officer remain as a Board member.

IG Recommendation 7: Use Report of Review of Property Forms (CD-52s) to promptly and thoroughly document actions taken on cases of lost/missing/stolen property.

USPTO Response: Although it was not the case in past years, beginning in FY 2007, the USPTO's Property Board of Review began utilizing CD-52s to document actions taken on cases of lost/missing/stolen property. USPTO procedures require employees to notify the Office of Security when they discover any lost, damaged or stolen property. USPTO security personnel interview reporting individuals and follow up with a written incident report. If warranted, the Federal Protective Service or local police are notified and additional documentation is gathered. Depending upon the situation at hand, after approximately six months (often sooner, depending upon the circumstances), if an asset is not found, the information gathered in the security reports is used to complete the CD-52 and the Board takes appropriate action.

We thank the Office of the Inspector General for their review of the USPTO's personal property program and we intend to meet all recommendations in a diligent manner.