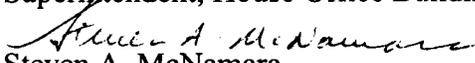


Office of Inspector General  
U.S. House of Representatives  
Washington, DC 20515-9990

MEMORANDUM

TO: Mr. Frank Tiscione  
Superintendent, House Office Buildings

FROM:   
Steven A. McNamara  
Inspector General

DATE: June 22, 2004

SUBJECT: Audit Report - Improvements Are Needed In Controls  
Over House Supplies Inventory (Report No. 04-AOC-02)

This is our final report on supplies inventory management. The objective of this audit was to evaluate the economy, efficiency, and effectiveness of the Superintendent of the House Office Buildings' supplies inventory management. In this report, we found the Architect of the Capitol had initiated several actions to improve management of the supplies inventory; however, we identified additional problems and made a recommendation to strengthen both physical and accounting controls.

In response to our February 18, 2004 draft report, your office concurred with our finding and recommendation. The March 18, 2004 management response is incorporated in this final report and included in its entirety as an appendix. The corrective actions taken by the Architect of the Capitol and planned by your office substantially address the recommendation. As you implement the AOC's "Policy for Inventory Management", you should reconsider our recommendation to record transfers of items between shops or other jurisdictions. The milestone date of September 30, 2004 provided for implementing corrective actions appears reasonable.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call me or Jim Cornell at (202) 226-1250.

cc: Speaker of the House  
Majority Leader of the House  
Minority Leader of the House  
Chairman, Committee on House Administration  
Ranking Minority Member, Committee on House Administration  
Members, Committee on House Administration

# **IMPROVEMENTS ARE NEEDED IN CONTROLS OVER HOUSE SUPPLIES INVENTORY**

## **I. INTRODUCTION**

### **Summary of Results**

The Architect of the Capitol (AOC) needs to improve the management of the House supplies inventory maintained by the Superintendent of the House Office Buildings (Superintendent). The information contained in the current inventory system was not accurate; the quantity of items in the records did not match the number of items on the shelves; and items on hand were often not included in the system records. There were no uniform written policies and procedures to manage supplies inventory, and each shop managed its inventory differently. Prior to the start of our audit, the shop supervisors did not have access to the existing inventory management system and had to rely on outdated printed reports. Employees, for the most part, had access to all of the storerooms, checkout procedures were not effective, and the doors at remote storerooms were not self locking.

The combined effect of supporting a system to which shop supervisors had little access, and a lack of policies and procedures, was inaccurate and untimely data and a system that couldn't be used to manage supplies efficiently and effectively. This, in conjunction with weak physical and accounting controls, resulted in a lack of accountability, increased risk of unauthorized use of supplies and materials, work delays due to unexpected shortages of critical items, surplus items, and unnecessary purchases of items already on hand.

The AOC realized that it needed to improve the situation and had already taken several improvement actions and begun the procurement of a new inventory management system before our audit began. Early in our audit, we learned that the shop supervisors, the key users of the new system, had not been consulted or involved in determining the requirements for the new system. We alerted the AOC of this fact and they informed us that such involvement was planned.

We have recommended the AOC consider and take action on several issues; most importantly, developing written policies and procedures. As these policies and procedures are developed, it will be important to have the active involvement of the shop supervisors who will be critical to effective system implementation and the continued maintenance of system information.

### **Background**

Under the direction of the AOC, the Superintendent is responsible for the day-to-day care of the House buildings that include the Cannon, Longworth, Rayburn, and Ford House Office Buildings and the House Page Dormitory. To accomplish this task, the Superintendent has carpentry, electrical, plumbing, elevator, industrial equipment, masonry, painting, refrigeration and air conditioning, and sheet metal shops. Each of these shops maintains an inventory of supplies and tools classified as "consumable inventory" for maintenance, repair, and small projects within the House Office Buildings. The Superintendent also has a Supply Storeroom

that processes, receives, and distributes all orders for supply items for the shops, and uses the inventory control sheets received from the various shops to update the “perpetual” inventory records in the Computer Application Specialists, Inc. system, known as CAS. In addition, the Supply Storeroom also maintains an inventory of certain items that are available for use by more than one shop. As of April 9, 2003, the value of the House supplies inventory recorded in the CAS system was \$2,413,901. However, this does not include all items since our physical inventory revealed that many items in the shops are not recorded in the system.

Although the supplies inventory is the responsibility of the Superintendent, the AOC identified the need to replace the supplies inventory system and initiated a project to replace CAS. The AOC is purchasing a commercial-off-the-shelf system that will meet identified needs. The request for proposal was submitted to potential vendors on June 23, 2003. The contract was issued on September 26, 2003, and the system is projected to be fully implemented by February 2005.

### **Objective, Scope, And Methodology**

The objective of this audit was to evaluate the economy, efficiency, and effectiveness of the Superintendent’s supplies inventory management. Specifically, we focused on 1) inventory utilization to include acquisition, turnover, and obsolescence, and 2) management controls over physical access and accountability.

The scope of this review of the supplies inventory management process for each of the Superintendent’s shops was to determine if the inventories were efficiently managed and controls were in place to prevent waste, misuse, or theft. The review included current inventory policies, procedures, and controls over stock as of April 2003. This audit was conducted in accordance with Government Auditing Standards as implemented in the Office of Inspector General Policies and Procedures Manual.

To conduct the audit, we reviewed policies covering the supplies inventory management, interviewed the 10 shop supervisors who use consumable supplies and materials, and are under the jurisdiction of the Superintendent, and discussed issues with personnel in the Accounting and Financial Systems Divisions. In addition, we used Audit Control Language (ACL) to analyze transactions in the CAS system database that covered the period January 1, 2001 through April 9, 2003.

We also conducted a sample physical inventory in each of the shops using a two-directional methodology. Using ACL to select a random sample from a population of 8,097 inventory supply items, we selected a sample of 150 items from the automated inventory system database to compare the system quantities with the quantities on the shelves. We also selected an additional 25 items that had the highest unit cost to ensure high dollar items were in our sample and judgmentally selected 63 items from the shelves in the various shops and traced them back to the automated inventory system to compare the quantities on hand. In addition, we reviewed the purchasing process and observed obsolete material in the shops. Although we attempted to evaluate inventory utilization which included acquisition, turnover, and obsolescence, the condition of the inventory management system was inadequate to enable such analyses.

In the absence of formal policies and procedures issued by the AOC, we used the GAO Executive Guide, *Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*, dated March 2002, as guidance for this review.

### **Internal Controls**

During this review, we evaluated the physical and accounting internal controls over the supplies inventory. Specifically, we reviewed a sample of supply items to determine if accounting records were accurate, access to the supplies was limited, supply items were safe, and issue controls were in place. The controls that needed improvement are discussed in the “Results Of Review” section of this report.

### **Prior Audit Coverage**

There have been no prior audits of the Superintendent’s management of the supplies inventory. However, during this audit we issued a letter to the AOC on March 21, 2003, which stated that the AOC had not involved end users throughout the development of the new inventory management system. AOC management replied that additional input from the end users would be obtained before the statement of work was finalized. In addition, the AOC provided documentation that listed the end users who were involved before the statement of work was issued.

## **II. RESULTS OF REVIEW**

Although the Superintendent is responsible for effectively managing the House supplies inventory, the AOC needs to improve the physical and accounting controls over the House supplies inventory. In particular, basic written policies or procedures to manage supplies inventory need to be developed. Since there were no written policies and procedures, supervisors could not be held accountable, and each shop managed its inventory differently. Improvements in physical and accounting controls would reduce the risk of unauthorized use of supplies and materials, decrease work delays due to unexpected shortages of critical items, and eliminate unnecessary purchases of items already on hand.

The AOC has taken several actions to improve management of the supplies inventory. For example, the AOC is in the process of implementing a new inventory management system, and the accounting department has drafted procedures that cover periodic physical inventory requirements. Shop supervisors were working to better organize their supplies inventories in drawers, bins, and shelves. Further, actions were taken in June 2001 when the AOC initiated an asset management effort to dispose of obsolete and surplus property and material inventories. This effort was completed in October 2002. In addition, a bench stock program has been established for certain items (like screws, nuts, and bolts) that are replenished on a regular basis by a contractor.<sup>1</sup> Finally, although the CAS inventory system has its limitations, during the new system implementation period, the House shop supervisors were given access to the CAS system which improved their ability to manage their individual shop supplies inventory. Prior to this

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<sup>1</sup> A bench stock program includes low cost inventory parts/items designated as bench stock that are issued and tracked in bulk quantities rather than individually.

review, shop supervisors depended on outdated hard copy reports to manage their inventory. With the implementation of the replacement system, scheduled to be operational in February 2005, shop supervisors will have more current data to better manage their supplies inventory.

Although the AOC is moving in the right direction, they continue to have problems with excess supplies on-hand, duplicate purchases of supplies, and credit card purchases to avoid work stoppages. The AOC needs to implement written policies and procedures capitalizing on active involvement of the shop supervisors to continue to improve inventory management and ensure that they will utilize the capabilities of the new replacement system.

### **Physical Controls**

Written policies and procedures have not been established for managing, storing, and issuing supplies inventory resulting in the shops' inconsistencies in how they manage their supplies, and reducing the quality and effectiveness of physical controls. During our review, we noted the following areas where physical controls need to be improved:

- ? Supplies were unorganized and the shelves and bins were not labeled.
- ? Shop employees had access to all supply storage locations.
- ? Issue controls were weak. For example, when supplies were issued for work orders or projects, they were recorded on an issue control sheet and forwarded to the Supply Storeroom to be input into the CAS system. However, supplies used were not consistently recorded on the issue control sheets, and with one exception, none of the shops maintained an audit trail to identify the work order or project for which the supplies were used.
- ? Doors at remote storage location did not lock automatically when closed.
- ? According to information in the database, physical inventories of the supplies and materials were not conducted on a regular basis. When physical inventories were taken, there were no consequences for excessive shortages or overages, and no allowable variances had been established.<sup>2</sup> Basically, no one was held accountable for inventories, and the shop supervisors' job performance was not tied to the accuracy of physical inventories.

In the absence of formal written inventory control policies and procedures, AOC personnel indicated that they rely on the Capitol Police presence as the main deterrent to the theft of supplies. However, it would be very difficult for Capitol Police officers to discern authorized from unauthorized activity by AOC employees. Therefore, better physical controls should be put in place, regular inventories of supplies must be conducted, and accountability for shortages must be established.

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<sup>2</sup> The AOC's Accounting Division considers a variance of 5% to be acceptable.

## Accounting Controls

Until the new system is operational, the CAS system is still being utilized, even though it does not provide adequate accounting controls. During our review we noted the following areas where accounting controls need to be improved:

- ? The item records in the automated inventory system are not complete. For example, many of the supplies on the shelves are not entered into the CAS system. During our review, we found that 18 items, or 28.6 percent of the 63 items we selected from the shelves to trace back to the CAS system, were not in the system. Also, one shop's CAS system records showed zero balances for all items in our sample with a value of less than \$500. The shop supervisor stated that he had removed all the items valued less than \$500 from the system.
- ? When supplies are ordered for a specific Superintendent project, they are immediately expensed when received, instead of being recorded in the system. Then, if there are excess items left over when the project is done, the supplies are still not entered into the CAS system. They are co-mingled with the main supply inventory when they are returned to the shops' shelves and bins.
- ? Items left over from completed Construction Management Division projects have caused shops to have excess items on hand, inaccurate inventory balances, and in some cases, unrecorded items on hand held for possible future use.
- ? A complete audit trail of supply inventory transactions had not been maintained. Currently, only one shop records what supplies and materials are used on specific jobs, work orders, or projects. Also, when shop supervisors realize that the system quantity does not agree with the quantity on hand, adjustments to the CAS system are recorded as "usage" of supplies to bring the system quantity in agreement with the physical count. This distorts the usage rate and makes it impossible to calculate management information such as inventory turnover rates or identify lost, missing, or damaged items.
- ? Items that are transferred to AOC shops in other jurisdictions are "off the record". If the Senate, Library of Congress, or Capitol have an emergency, and are in need of an item, then the House shops "loan" the item to the other shop. The borrowing shops pay back the House shop when their supplies are replenished.

All of the conditions listed above contribute to the inaccuracy of the CAS system, and undermine the Finance Office's ability to determine the value of supplies and inventory on hand and the ability of AOC managers to use the CAS system information to make informed decisions. The new system will have appropriate functions to improve accounting controls; however, adequate policies and procedures need to be established to ensure that the new system's capabilities are utilized.

## **Conclusion**

Overall, managers are making attempts to manage their supplies inventories; however, improvement is needed to eliminate the underlying problems in order to support implementation of the new system. The inventory management control problems exist because the AOC has not established and issued policies to ensure that all AOC shops manage and store their supplies in a consistent manner, and that they keep diligent records so that management decisions can be based on this data. Improvements in these areas will reduce the risk of unauthorized use of supplies and materials within the House shops, decrease work delays due to unexpected shortages of critical items, and eliminate unnecessary purchases of items already on hand. In addition, such improvements could enable the AOC shops to decrease the size of their inventory, and therefore, free up storage space for other uses.

## **Recommendation**

We recommend that the Architect of the Capitol (Superintendent of the House Office Buildings) establish written policies and procedures to strengthen physical and accounting controls over supplies inventories. As the AOC develops these controls they should consider the following issues:

- a. Granting access to inventory to the least practicable number of authorized personnel so as not to compromise physical controls, and taking steps to ensure adequate separation of duties between custody and record keeping functions.
- b. Ensuring that all inventory is organized, labeled, and bar coded.
- c. Installing locks on doors at remote storage locations that lock automatically when each door is closed.
- d. Recording transfers of items to another shop or jurisdiction.
- e. Recording the usage of all items, identifying the specific work orders or projects where used, in order to provide a complete audit trail of the items from purchase to usage.
- f. Recording all adjustments to inventory with the appropriate reason for the adjustments.
- g. Requiring periodic item checks by shop supervisors to promote ongoing system accuracy, in addition to cycle counts by independent parties.
- h. Establishing appropriate variances between the actual inventory count and the system records.
- i. Requiring accountability for the inventory custodians and establishing appropriate performance measurements for inventory management.

## **Management Response**

On March 18, 2004, the Superintendent of the House Office Buildings concurred with the finding and recommendation contained in this report. On January 8, 2004, the Architect of the Capitol issued AOC Order No. 32-1, "Policy for Inventory Management" which addresses the

recommendation. Full implementation of the policy requirements are estimated to be completed by September 30, 2004.

**Office of Inspector General Comments**

The proposed actions taken by the Architect of the Capitol are substantially responsive to the issues identified. As the Superintendent of the House Office Buildings fully implements the requirements of “Policy for Inventory Management”, they should reconsider recording transfers of items between shops or other jurisdictions.



Frank J. Tiscione  
Superintendent

Robert A. Gleich, Jr., PE  
Deputy Superintendent



William S. Wood, Jr.  
Assistant Superintendent

Peter C. Aitcheson  
Assistant Superintendent

Sterling C. Thomas  
Assistant Superintendent

OFFICE OF THE SUPERINTENDENT  
House Office Buildings  
Rm. B341, Rayburn House Office Building  
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March 18, 2004

TO: Steven A. McNamara  
Inspector General

FROM: Frank J. Tiscione   
Superintendent, House Office Buildings

SUBJECT: Draft Audit Report - Improvements Are Needed in Controls Over House Supplies Inventory.

Reference the draft audit report for "Improvements are Needed in Controls Over House Supplies Inventory" dated February 18, 2004, we are in agreement with the recommendations contained in the draft report.

Prior to the initiation of this audit, the Architect of the Capitol was in the process of developing written procedures for the management of inventory. These procedures are finalized and were approved on January 8, 2004. The written procedures titled "Policy for Inventory Management" are attached.

The policy addresses the recommendations contained in your report. Full implementation is scheduled to be completed by September 30, 2004.

If you have any questions, please feel free to contact me at (202) 225-7012.

Attachment

**AOC ORDER NO. 32-1**



Washington, DC 20515

**ORDER OF THE ARCHITECT OF THE CAPITOL**

**SUBJECT: POLICY FOR INVENTORY MANAGEMENT**

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## 1. PURPOSE

This policy establishes inventory management policy for materials and supplies, and property.

For materials and supplies, this policy uses the term Consumable Materials and Supplies. For property, this policy uses the term Property.

The policy also establishes inventory management controls for a subset of those Consumable Materials and Supplies. The focus of these controls is the revolving stock of materials and supplies used during the Architect of the Capitol's (AOC) programs and activities. This policy calls this revolving stock of materials and supplies, Operating Materials and Supplies. The AOC most commonly refers to these Operating Materials and Supplies as "inventory".

## 2. SCOPE

This policy addresses inventory management policy for the three types Consumable Materials and Supplies, and the three types of Property.

The three types of Consumable Materials and Supplies are Operating Materials and Supplies, Work-in-Progress Materials and Supplies, and Bench Stock. The three types of property are Capital Assets, Controlled Property, and Personal Property.

The policy also establishes inventory management controls for Operating Materials and Supplies.

The policy applies to all jurisdictions of the AOC.

The policy applies to items acquired through AOC managed appropriations, donation, or transfer from another entity.

## 3. BACKGROUND

AOC's mission requires an on-hand balance of Operating Materials and Supplies to be ready and available for immediate use in its operations. To retain these consumable commodities in warehouses and storage areas greatly increases the agency's risk management and operating cost. If management controls are missing or ineffective, the AOC may inaccurately estimate, miss, or incur unnecessary risks and costs. There are risks and costs when material is stored:

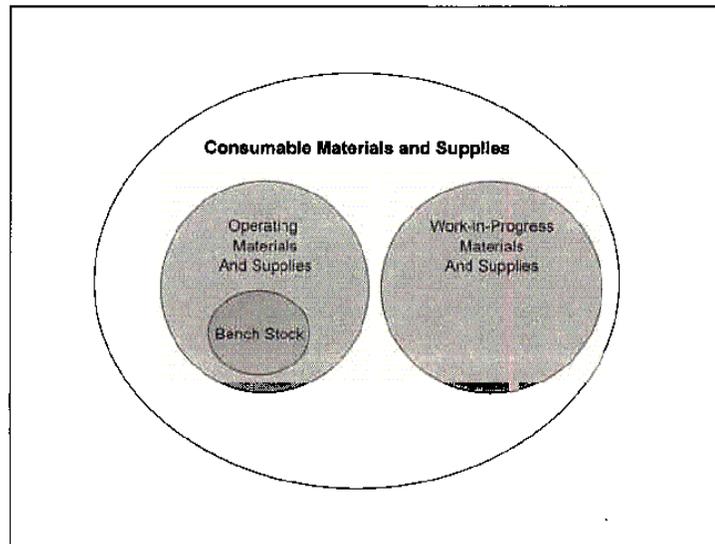
- Stocks of materials and supplies require physical storage space (a scarce asset) and warehousing operations.
- Inability to locate items efficiently increases costs. Inability to locate items causes duplicate purchases.
- Excess inventory leads to materials and supplies that exceed their expected shelf life or intended purpose. These useless materials and supplies may be disposed for much less than their original cost.
- Stocks purchased in support of a specific operating program could become excess when a program is changed or terminated.
- Hazardous materials pose significant management risks and costs. The AOC must prepare for and react to hazardous material events, such as a chemical spill.

- Excessive quantities of materials and supplies increase fire, safety, security and similar risks.

Each jurisdiction must maintain inventory management controls to mitigate risks and their associated cost. Inventory management concepts and principles shall guide the creation and implementation of AOC's inventory management policy and controls.

#### 4. DEFINITIONS

**Consumable Materials and Supplies:** Consumable Materials and Supplies are goods used (consumed) during AOC activities. Examples are drywall, paper towels, pipe, electric motors, lumber, air handler units and general supplies. The AOC further classifies Consumable Materials and Supplies as either Operating Materials and Supplies, or Work-in-Progress (WIP) Materials and Supplies. When proper, the AOC further classifies Operating Materials and Supplies as Bench Stock.



**Operating Materials and Supplies:** Operating Materials and Supplies are goods used in work order, preventive maintenance, custodial and other operating activities. Materials and supplies purchased without a project number are Operating Materials and Supplies. Examples are drywall, paper towels, pipe, electric motors and general supplies. Operating Materials and Supplies are:

- Purchased without a project number
- Stored for future use, usually for preventative maintenance and work orders
- Commonly referred to as “inventory”
- Stored in bulk and/or sealed containers and controlled by stock keeping units (SKUs)

**Work-in-Progress (WIP) Materials and Supplies:** WIP Materials and Supplies are goods used in project activities. Materials and supplies purchased with a project number are WIP Materials

and Supplies. The AOC typically buys WIP Materials and Supplies with specific appropriated moneys, i.e. a project budget line item. Examples are pipe, drywall, lumber, paint, block, conduit, plaster, air handling units, generators, and motors. WIP Materials and Supplies are:

- Purchased with a project number
- Usually used in major capital improvement projects
- Usually purchased with project budget line item funds
- Used shortly after delivery to the AOC

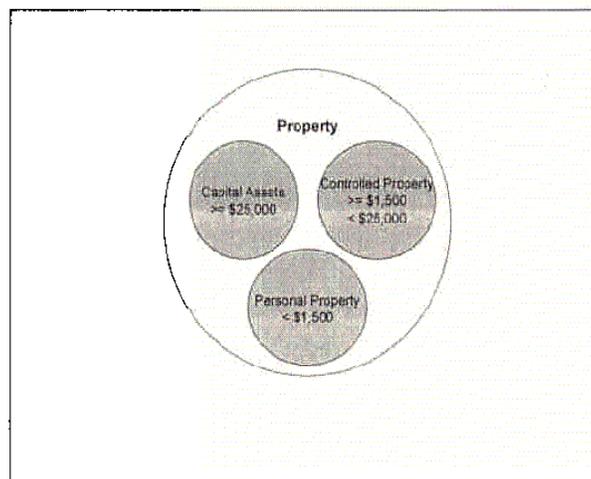
**Bench Stock:** Bench Stock is a further classification of Operating Materials and Supplies. Characteristics of Bench Stock are:

- Has a low extended cost, usually below 100 dollars
- Must be readily available for day-to-day preventative maintenance and work order operations
- Is intended to be used in the immediate future
- Is used frequently and at an unpredictable rate

Examples of Bench Stock are a box of fasteners, a roll of wire, a bucket of paint, or a length of pipe.

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**Property:** Property is durable and tangible items that have a useful life of one year or more. Examples of Property are buildings, land, vehicles, tools, machinery and equipment. Unlike Consumable Materials and Supplies, the AOC does not use (consume) property during the course of its activities. At any one time, an item may be Property or it may be Consumable Materials and Supplies. It cannot be both. The AOC has three types of Property, Capital Assets, Controlled Property and Personal Property.



**Capital Assets:** Capital Assets have a useful life of two years or more, and an acquisition or construction cost of \$25,000 or more. Examples of Capital Assets are land, structures, equipment, and software. The AOC tracks Capital Assets in the AOC Capital Asset System. AOC's Property, Plant and Equipment Policy further defines Capital Asset policy.

**Controlled Property:** Controlled Property has a useful life of one year or more. Its acquisition cost is at least \$1,500, but less than \$25,000. Examples of Controlled Property are tools, machinery and equipment.

**Personal Property:** Personal Property has a useful life of one year or more, and an acquisition cost of less than \$1,500. Examples of Personal Property are tools, machinery and equipment issued for use to an employee or shop.

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**Accountable Officer:** The officer designated by the Architect of the Capitol to effect proper utilization and to maintain records, per this policy, of materials and supplies, and property – the accountability for which the Architect assigns this person. An Accountable Officer is usually a Jurisdiction Superintendent.

**Custodian:** A person designated by proper authority as the person responsible for the custody, use, care and safekeeping of materials and supplies, and property, and for accounting to the Accountable Officer. A Custodian is usually a Shop Foreman or Supply Room Manager.

**Inventory Management Branch:** The organization responsible for the inventory management program at the AOC. The Inventory Management Branch reports to the Chief Financial Officer through the Accounting Officer. It is located in the Accounting Office, room 205 of the Ford House Office building.

**Inventory Management Technician:** A person who performs common day-to-day inventory management tasks for a Custodian. Common tasks include tagging materials and supplies, and recording issues in the AOC Inventory Control System. In some cases, one person may perform the duties of a Custodian and Inventory Management Technician.

## 5. POLICY

The AOC establishes the following inventory management policy for each type of Consumable Materials and Supplies.

### **Operating Materials and Supplies:**

- Inventory Management Technicians shall record Operating Materials and Supplies in the AOC Inventory Control System when the AOC receives these materials and supplies.
- Inventory counts shall include Operating Materials and Supplies.
- Inventory Management Technicians shall record issues of Operating Materials and Supplies in the AOC Inventory Control System.
- Inventory Management Technicians shall tag Operating Materials and Supplies by item.

### **Bench Stock:**

- Custodians shall use Bench Stock to promote efficient use of AOC resources. Bench Stock simplifies the management of low extended cost Operating Materials and Supplies. It focuses AOC's resources on high extended cost and other sensitive Operating Materials and Supplies.
- Operating Materials and Supplies with the following traits are suitable for Bench Stock:
  - low extended cost, usually below 100 dollars
  - used in the immediate future
  - used frequently and at an unpredictable rate
  - used in day-to-day preventative maintenance and work order operations
- Inventory Management Technicians shall record Bench Stock in the AOC Inventory Control System when received.
- The AOC Inventory Control System shall track Bench Stock by container or SKU. For example, the AOC Inventory Control System may track a box of screws, instead of each screw.
- Inventory Management Technicians shall record Bench Stock as issued in the AOC Inventory Control System, when a Custodian or Inventory Management Technician first opens the container, or breaks or removes the SKU seal.
- Once issued, Custodians shall keep Bench Stock separate from Operating Materials and Supplies, if possible. If this is not possible, Inventory Management Technicians shall tag Bench Stock with a "Bench Stock" tag when a Custodian or Inventory Management Technician issues Bench Stock.
- Inventory counts shall exclude issued Bench Stock.

***Work-in-Progress (WIP) Materials and Supplies:***

- The AOC Inventory Control System shall not track WIP Materials and Supplies.
- Custodians and Project Managers shall keep WIP Materials and Supplies separate from Operating Materials and Supplies, if feasible.
- Custodians shall distinguish WIP Materials and Supplies from Operating Materials and Supplies. Inventory Management Technicians shall tag WIP Materials and Supplies with a "Work-in-Progress" tag upon receipt.
- Once a project is complete, Project Managers and Custodians may either move excess WIP Materials and Supplies to inventory or dispose of the excess in accordance with the AOC Surplus and Excess Property Program. When the AOC moves excess WIP Materials and Supplies to inventory, Custodians shall treat them as Operating Materials and Supplies. For example, Custodians shall store them in an appropriate storage location and Inventory Management Technicians shall record them in the AOC Inventory Control System.
- Emergent customer requirements and demands may require that work-in-progress activities obtain materials from Operating Materials and Supplies. In this case, Inventory

Management Technicians shall still record the requisition and issuance of Operating Materials and Supplies in the AOC Inventory Control System.

- Inventory counts shall exclude WIP Materials and Supplies.

The AOC establishes the following inventory management policy for each type of Property.

***Capital Assets:***

- Inventory personnel shall not record Capital Assets in the AOC Inventory Control System. The Accounting Office shall track Capital Assets in the AOC Capital Asset System.
- Inventory counts shall exclude Capital Assets.

***Controlled Property:***

- Inventory Management Branch personnel or Inventory Management Technicians shall record Controlled Property in the AOC Inventory Control System.
- The AOC Inventory Control System shall track Controlled Property by location.
- Inventory Management Branch personnel or Inventory Management Technicians shall tag each Controlled Property asset with a bar code.
- Inventory Management Branch personnel or Custodians shall annually perform a physical inspection of Controlled Property.

***Personal Property:***

- It is not required that the AOC record Personal Property in the AOC Inventory Control System. A Jurisdiction Manager or their designee decides if an item of Personal Property should be recorded in the AOC Inventory Control System. The decision may consider likelihood of theft, significance if loss occurs, and any other factor the Jurisdiction Manager or their designee considers relevant.
- If recorded, the AOC Inventory Control System shall track Personal Property by location.
- If recorded, Inventory Management Technicians shall tag the Personal Property item with a bar code.
- Custodians shall annually perform a physical inspection of Personal Property recorded in the AOC Inventory Control System.

In addition, this policy requires that jurisdiction managers maintain a physical control program that focuses on Operating Materials and Supplies. The control program will include the following practices, which the jurisdiction manager will document in a written Standard Operating Procedure (SOP):

- Responsibilities; Jurisdictions shall:

- Identify, via delegations of authority, persons responsible for ordering, receiving, and issuing materials and supplies. Identifications will include Accountable Officers, Custodians and personnel who use the AOC Inventory Control System.
- Identify persons responsible for warehouses and storage areas.
- Physical Inventory Controls; Jurisdictions shall:
  - Identify warehouses and storage areas.
  - Limit physical access to warehouses and stock rooms.
  - Keep Operating Materials and Supplies separate from WIP Materials and Supplies, if possible.
  - Organize warehouses and storages areas to facilitate the receipt, issue, return and count of inventory items.
  - Protect and secure inventory items to prevent damage, theft, or loss.
  - Maintain an integrated AOC Inventory Control System to track the flow of materials and supplies from acquisition to consumption.
- Inventory Counts; Jurisdictions shall, in conjunction with the Inventory Management Branch:
  - Periodically perform physical inventory cycle counts. The Inventory Management Branch shall determine frequency, but at least annually.
  - Based on count results, systematically adjust inventory balances as necessary.
  - Provide summary reports of count discrepancies and accuracy rates, with a copy to the Inspector General.
  - Document procedures used during count activities.
- General Inventory Management; Jurisdictions shall:
  - Promote internal management and coordinate program activities to minimize inventory balances. Emergent customer requirements and demands may affect minimum inventory balances.
  - Identify and properly dispose of excess, obsolete, damaged, or unserviceable materials and supplies, and property.

## 6. RESPONSIBILITIES

**Chief Financial Officer:** It is the responsibility and the authority of the Chief Financial Officer to provide agency-wide policy, staff guidance, and direction for the financial management, control, and performance indicators related to inventory management policy and controls for materials and supplies and property. This responsibility includes periodic reviews and cycle counts to assure controls are in place and effective.

**Inventory Management Branch:** At the direction of the Chief Financial Officer, the Inventory Management Branch carries out many of the Chief Financial Officer's inventory management

responsibilities. In carrying out those responsibilities at the request of the Chief Financial Officer, the Inventory Management Branch:

- Leads the implementation of new inventory management systems and technology
- Identifies and implements inventory management best practices
- Trains, educates and mentors field units in inventory management practices
- Develops and distributes inventory management policy, SOP template and other information as appropriate
- Provides quality assurance for inventory management processes, including inventory counts
- Oversees the ABC cycle count process
- Provides program performance and status reporting

**Jurisdiction and Jurisdiction Level Managers:** It is the responsibility of the Jurisdiction Superintendents and other Jurisdiction level managers to establish accountability and to develop and implement management control programs within their organizations that assure appropriate inventory management functions are performed and effective. Each manager shall:

- Ensure that their organization maintains - and complies with - a written SOP. The SOP must be in accordance with the provisions contained in this policy. Managers should develop their SOP from an SOP template that the Chief Financial Officer provides.
- Ensure that each affected area within their organization receives the most recent version of their SOP. Jurisdictions will decide if and to whom they distribute the most recent version of this policy.
- Assign/delegate authority within the organization to manage organization assets properly and in line with sound business practices.

## 7. REFERENCES

*Federal Accounting Standards Advisory Board*, Statement Number 3, Accounting for Inventory and Related Property

*Federal Accounting Standards Advisory Board*, Statement Number 6, Accounting for Property, Plant and Equipment

*General Accounting Office, Executive Guide*, Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, July 2001

*Joint Financial Management Improvement Program (JFMIP)*, Federal Financial Management System Requirements, "Inventory, Supplies and Materials System Requirements," August 2003

*Joint Financial Management Improvement Program (JFMIP)*, Federal Financial Management System Requirements, Property Management Systems Requirements, October 2000

**8. CANCELLATION**

There are no prior AOC orders, publications, and/or bulletins affected by this Order.

**9. EFFECTIVE DATE**

This Order of the Architect is effective December 15, 2003.

**10. APPROVED**

[ R. McSeveney ]  
Richard McSeveney  
Chief Operating Officer

8 Jan 04  
Date