

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

MEMORANDUM

TO: Scot M. Faulkner
Chief Administrative Officer

FROM: John W. Lainhart IV 
Inspector General

DATE: July 18, 1995

SUBJECT: Audit Report - The House Gift Shop's Internal Controls Need To Be Improved
(Report No. 95-CAO-05)

This is our final report on the internal controls of the Gift Shop. The objective of this audit was to evaluate whether the Gift Shop's internal controls were adequate to meet the July 1994 Committee on House Administration guidance. In this report we identified problems and recommended needed corrective actions.

In response to our May 31, 1995 draft report, your office fully concurred with our findings and recommendations. The comments provided by the Associate Administrator, Media and Support Services, at the May 9, 1995 exit conference are included in this final report. In addition, the June 15, 1995 written response of the Director, Internal Controls and Continuous Improvement is also incorporated in this final report and included in its entirety as an appendix. The corrective actions taken and planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations.

We appreciate your office's positive response and concurrence with the recommendations, and the courtesy and cooperation extended by your staff. If you have any questions or require additional information regarding this report, please call me or G. Kenneth Eichelman at (202) 226-1250.

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

The House Gift Shop's Internal Controls Need To Be Improved

*Report No. 95-CAO-05
July 18, 1995*

RESULTS IN BRIEF

CONCLUSIONS

The Gift Shop has not established adequate accounting and operational controls to ensure that it is operating in accordance with sound business management principles. Specifically, the Gift Shop has not: (1) established an adequate account structure to facilitate management evaluation of its performance or costs; (2) established good cash management practices; (3) properly capitalized all startup costs; (4) adequately clarified operational policies; (5) fully documented its operating procedures; and (6) adequately safeguarded its automated system. As a result, the Gift Shop's ability to effectively manage its operations and provide effective, timely, and accurate financial statements to management is diminished. Additionally, the Gift Shop's cash and other assets are exposed to potential loss or misuse. These deficiencies are attributable primarily to the lack of development and implementation of clear and comprehensive policies and procedures.

RECOMMENDATIONS

We recommended the Chief Administrative Officer (CAO) to: (1) develop and document an adequate chart of accounts and transaction sets; (2) implement a cash management policy; (3) implement a policy and identify the amounts of costs to be capitalized; (4) clearly define, develop and document operational policies; (5) prepare an automated system contingency plan; and (6) strengthen controls over automated system user accountability.

MANAGEMENT RESPONSE

On June 15, 1995, the Director of Internal Controls and Continuous Improvement on behalf of the CAO fully concurred with the findings and recommendations in this report. In the exit conference, management indicated corrective action has been either initiated or planned for each recommendation.

OFFICE OF INSPECTOR GENERAL COMMENTS

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendations.

TABLE OF CONTENTS

TRANSMITTAL LETTER

RESULTS IN BRIEF i

I. INTRODUCTION

 Background 1

 Objective, Scope, And Methodology 1

 Internal Controls 1

 Prior Audit Coverage 2

II. FINDINGS AND RECOMMENDATIONS

 Finding A: Account Structure Needs Improvement 3

 Finding B: Cash Management Controls Need Improvement 6

 Finding C: Capital Costs Are Understated 10

 Finding D: Operational Policies Are Not Clearly Defined 12

 Finding E: Operating Procedures Are Not Properly Documented 17

 Finding F: Automated System Controls Need Improvement 19

III. APPENDIX

 Appendix: CAO Response to Draft Report 21

I. INTRODUCTION

Background

The House Gift Shop (Gift Shop) was established by a July 20, 1994, Committee on House Administration¹ letter and began operations on September 1, 1994. This authorizing letter also included a policy directive discussing items such as location, merchandise, and records that must be maintained. Furthermore, this directive stated that the Inspector General and the General Accounting Office (GAO) should approve the accounting records and reports. In developing the Gift Shop's operating procedures and chart of accounts, Office of Supply Services (OSS) personnel informally contacted GAO to obtain advice on accounting issues, and used the experience gained from operating OSS and the letter establishing the Gift Shop. This report presents the results of our review of the Gift Shop's implemented procedures.

Objective, Scope, And Methodology

Our objective was to evaluate whether the Gift Shop's internal controls were adequate to meet the July 1994 Committee on House Administration guidance. In order to assess these internal controls, we reviewed policies and procedures, discussed Gift Shop operations with House personnel, and reviewed selected operations to gain an understanding of how certain policies and procedures were specifically implemented.

We conducted our work from November 1994 through January 1995 at the Gift Shop and the OSS. Our audit was performed in accordance with *Government Auditing Standards* prescribed by the U.S. General Accounting Office and included such tests as we considered necessary in the circumstances.

Internal Controls

We reviewed internal controls related to the operation of the House Gift Shop. We found significant weaknesses in the following areas: (1) account structure discussed in Finding A; (2) cash management discussed in Finding B; (3) understatement of capital costs discussed in Finding C; (4) undocumented operating procedures discussed in Finding D; and (5) improvements needed in automated system controls discussed in Finding E.

Prior Audit Coverage

¹The Committee on House Administration was the oversight body during the 103rd Congress. However, the Committee's name was changed to Committee on House Oversight with the 104th Congress.

No prior audits were performed of the House Gift Shop.

II. FINDINGS AND RECOMMENDATIONS

Finding A: Account Structure Needs Improvement

The Gift Shop has not established an adequate account structure or transaction sets needed to provide management and others with the financial management information required to evaluate its performance or costs. The account structure is key to a sound accounting system, providing management information so that informed business decisions can be made. As a result of not having an adequate account structure, the Gift Shop's ability to meet the Committee on House Administration's requirement to provide monthly financial statements in a cost effective and timely manner is in question. This occurred due to a lack of understanding of accounting standards.

Account structure requirements

The number of accounts needed by an entity depends upon its size, the nature of its operations, and the extent to which management wants a detailed classification of information. Once these requirements are determined, a chart of accounts is established which lists the account titles and account numbers being used by an entity. This chart of accounts is usually arranged in financial statement order, that is, assets first, followed by liabilities, owner's equity, revenue, and expenses. The chart of accounts is used to ensure that prepared financial statements comply with the generally accepted accounting principle of consistency. This principle holds that management must measure and disclose information about an entity in the same manner from one accounting period to the next. Consistency assists management in making sound business decisions by facilitating the comparison of accounting information between periods and between entities. Generally accepted accounting principles also require that the entity's financial statements disclose any deviations from the consistency principle.

In addition, a chart of accounts can be used to ensure appropriated funds are used for purposes authorized by the enabling and appropriating legislation. Public Law 97-258 enacted September 13, 1982, codified certain general and permanent laws related to money and finance (Title 31, USC). Section 1301(a) of Title 31 provides that appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law. Section 1501(a) of Title 31 states an amount shall be recorded as an obligation of the U.S. Government only when supported by documentary evidence of a binding agreement that is in writing and for a purpose authorized by law. Therefore, usage of a chart of accounts is needed to ensure compliance with these provisions of the law.

Account structure is inadequate to support financial statement reporting

Three major objectives of financial reporting are to provide information: (1) useful in investment, credit, and similar decisions; (2) useful in assessing cash flow prospects; and (3) about enterprise resources, claims to those resources, and changes in them. However, the Gift Shop did not include all the necessary accounts.

The account structure adopted by the Gift Shop for the automated financial system did not fully consider the authorizing letter's requirement to produce monthly financial statements in accordance with generally accepted accounting principles. Specifically, there are no accounts for depicting such items as donated capital, gross salaries, employee benefits, computer services, etc. Although appropriated funds are used to fund these accounts, these funds must be disclosed in order to present complete financial statements. As a result, Gift Shop management's ability to meet the Committee on House Administration's requirement to provide monthly financial statements in a cost-effective and timely manner is in question.

Gift Shop management stated that the automated system does not need to capture these costs since the needed information can be obtained from existing Office of Finance reports using analytical methods. However, we believe that their analytical methods should not be relied on when the automated accounting system could provide this information if an adequate chart of accounts had been implemented. Further, the financial system adopted by the Gift Shop has standard reports that, with little manual intervention, meet the requirements of the authorizing letter.

Transaction sets not properly documented

When a transaction occurs the automated system needs to know the accounts affected and how the event should be shown in these accounts. The accounts used and whether the account is increased or decreased is commonly referred to as a transaction set. It is important to properly document these entries so that the user and others, such as senior management, can evaluate whether the financial system properly records a given event. Transaction sets were not provided by the software vendor so they were not available to OSS employees.

Specifically, the system users had not been provided with the transaction sets used to record accounting events. As noted earlier, the financial system can produce financial statements based on the information recorded. However, without information on how the accounting system records accounting events, there is limited assurance that the information contained in these summary reports accurately represents the Gift Shop's results.

Recommendations

We recommend that the Chief Administrative Officer:

1. Develop and document an adequate chart of accounts that will include all necessary accounts to provide monthly financial statements.
2. Document transaction sets used by the financial system; determine whether they are adequate to meet reporting requirements; and if necessary, ensure that the needed changes are made to the financial system.

Management Response

Office of Supply Services management stated efforts are being made to prepare complete financial statements for the Gift Shop. To prepare these financial statements, the account structure is being revised to include not only accounts identified in this audit report but also to include centrally supplied services (i.e., rent, power). In addition, during the review of the account structure all of the transaction sets will be documented.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendations.

Finding B: Cash Management Controls Need Improvement

The Gift Shop has not established good cash management practices. Specifically, there is lack of controls over the (1) accountability of cash resources; (2) changing of safe combinations in a timely manner; (3) endorsement of checks; and (4) amount of available cash. Such controls are essential to prevent loss or misuse of cash assets.

Cash management requirements

Management is responsible for establishing and maintaining a system of controls. Although, the maintenance of an adequate system of internal controls for all assets is important, it is particularly critical for cash. Cash appeals to virtually everyone and is relatively easy to steal if not properly safeguarded. Generally accepted accounting principles provide for internal controls including:

- Personnel should be given specific responsibilities to affix accountability.
- The accounting function should be separated from the custodianship of assets.
- Assets should be protected by physical safeguards.
- Management should conduct reviews testing the effectiveness of the system of internal controls.

In addition, the established control must be cost beneficial and provide management reasonable assurance the assets are protected.

Accountability of cash resources

An accountable official is anyone with access and control over cash resources that belong to the Federal government. Such personnel are required to maintain adequate safeguards over these resources and are personally liable if a loss occurs. Therefore, it is critical that the controls over cash resources be adequate to clearly identify who is responsible if a loss occurs. The current system maintains accountability for the drawers assigned to a cashier. However, a method is needed to provide accountability over cash maintained in the accounting group.

OSS maintains about \$2,500 in cash resources to conduct the operations of the Gift Shop and the Supply Store. About \$1,400 is maintained in seven cash drawers of \$200 each. These drawers are held in a central location in the accounting group until they are needed for sales operations. At that time they are assigned to a specific individual. The remaining \$1,100 is retained in the central location and serves as a "bank" in case change is needed. Although accountability over

an individual cash drawer is adequate, there is no such accountability for funds maintained at the central location. At least five people have access to this central location which results in a loss of accountability. Therefore, if a loss occurs at the central location, it is impossible to identify the person responsible. OSS officials believe that at least four employees need access to the safe to provide for sufficient backup when employees are on leave.

Changing of safe combinations

Although we were unable to identify any House of Representatives (House) criteria for the changing of safe combinations which contain cash, there are several criteria used by other legislative and executive branch agencies which could be applied. One possibility is the criteria governing combinations of safes containing classified material. In this instance, safe combinations are changed whenever the equipment is placed in service; a person knowing the combination no longer requires access to it; a combination has been subjected to possible compromise; or the equipment is taken out of service. In addition, combinations are changed at least once every year.

According to OSS officials, the combination of the safe used to store cash has not been changed for several years. Furthermore, we were told that at least one person, who is no longer employed by OSS or the House, has the current combination. Not changing the combination allows the possibility of cash to be misused. Therefore, a policy which ensures that the combination is changed in a reasonable, consistent, and timely manner is needed.

Endorsement of checks

The Department of the Treasury recognizes the importance of endorsing checks and requires that the endorsement contain: (1) the name of the agency depositing the check; (2) an endorsement stating "For Credit to the US Treasury"; and (3) the date of the endorsement. Although the Gift Shop complies with this Treasury requirement it is not done in a timely manner.

Currently, a check is not promptly endorsed when received by the clerk but is endorsed during the deposit preparation process--normally on the next business day. A possible approach for providing proper safeguards would be to have an endorsement stamp available at the cash registers. The clerks could then be required to use this stamp whenever a check is received with the person preparing the deposit validating that all checks had been endorsed.

Excessive cash balances

Efficient management of cash includes controls that will prevent unnecessarily large amounts of cash from being held idle which produce no revenue. In addition, there is a cost associated with obtaining cash in the Federal Government which results from Treasury borrowing funds.

As noted earlier, OSS maintains about \$2,500 in cash resources. Specifically, seven cash drawers are available with \$200 each, with \$1,100 maintained as a "bank." If necessary, a sales person can obtain additional change from the "bank." However, if current procedures are modified to reflect more realistic cash levels, cash requirements could be significantly reduced.

Based on discussions with OSS staff, we believe that only six cash drawers (one for each cash register) are required. Furthermore, we believe that a cash reserve balance of \$500 would be sufficient to meet the operational needs of the Gift Shop. This is based on (1) the ability of the Office of Finance to provide additional cash, and (2) the unlikely event that a number of sales requiring "bank" cash would occur before sufficient cash would be collected through the normal course of business. As a result, the Gift Shop could maintain \$1,700 in cash resources--a reduction of \$800 (or 32 percent) over the current cash level--without adversely affecting Gift Shop floor operations.

According to Gift Shop officials, no analysis was performed to determine the appropriate cash drawer amounts required, but the amounts were established to ensure that sufficient cash was available for making change. Having cash in excess of need results in the Government incurring borrowing costs while also increasing the risk of a possible loss.

Recommendations

We recommend that the Chief Administrative Officer:

1. Implement a cash management policy which, at a minimum, ensures:
 - a. individual accountability over cash resources;
 - b. safe combinations are changed on a periodic basis and whenever an employee no longer requires access to the safe;
 - c. checks are endorsed upon receipt; and
 - d. on-hand cash resources do not exceed necessary cash level requirements.
2. Change the current safe combination immediately.

Management Response

Office of Supply Services management stated that they would implement a cash management policy to increase individual accountability. The safe combinations will be changed immediately and a policy for periodic changes will be adopted. Checks will be endorsed upon receipt instead of during the deposit preparation process. In addition, management will review and take appropriate action to limit the amount of on-hand cash maintained.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendations.

Finding C: Capital Costs Are Understated

The Gift Shop did not capitalize all startup costs. As a result, Gift Shop asset and capital accounts are understated and financial statements prepared from the automated records will not be in accordance with generally accepted accounting principles. This occurred because several Gift Shop costs were paid using appropriated funds. Although the use of appropriated funds was proper, the Gift Shop should capitalize such costs where practicable.

The generally accepted accounting principle of full disclosure holds that financial statements and their accompanying footnotes should disclose fully and completely all relevant data of a material nature relating to the financial position of the entity for which they are prepared. In addition, generally accepted accounting principles include the modifying conventions of industry practices and substance over form. Therefore, the unusual characteristics of some industries (such as the government) and the economic substance instead of the legal form of the transaction necessitate modifying accounting principles. Examples are (1) transactions with related parties, if material, must be disclosed and (2) nonreciprocal transfers, which are transfers of assets or services in one direction, either to or from the enterprise, should be based on the fair value of the asset received. Therefore, the remodeling costs incurred by another organization are charged to the asset and Donated (Invested) Capital accounts of the enterprise that receives the asset².

After the creation of the Gift Shop, remodeling was undertaken to better present the merchandise and provide additional shelf space. The remodeling was performed by the Architect of the Capitol, which installed only a door, and Office Furnishings.

Office Furnishings management estimates that \$4,800 in direct materials and \$10,225 in direct labor were expended on building display cases for the Gift Shop. Assuming a 29.55 percent fringe benefit rate³, we estimate that about \$18,100 in direct costs was incurred by Office Furnishings. In addition, Office Furnishings spent about \$3,500 for carpet materials and \$311 in labor cost to install new carpet tiles in the Gift Shop. Again, assuming a 29.55 percent fringe benefit rate, about \$3,900 was spent on new carpeting. Thus, House Gift Shop assets have been understated by at least \$22,000.

Gift Shop management determined that only those remodeling costs that required an outlay of funds would be capitalized. For example, display cases purchased for the Gift Shop were considered capital items and were properly shown in the financial records. OSS officials stated

² An asset is defined as probable future economic benefits obtained or controlled by an entity as a result of past transactions or events.

³ A fringe benefit rate of 29.55 percent is used, as provided by Office of Management and Budget Circular A-76. This Circular sets governmentwide standards for comparing government costs to those private vendors.

that services provided by other entities, but not normally charged to the user, should not be capitalized. Therefore, display cases custom built by Office Furnishings were not considered capital items because the associated construction costs were incurred by a House office other than OSS. Such a practice materially affects the financial statements and is, therefore, inappropriate.

Recommendations

We recommend that the Chief Administrative Officer:

1. Implement a policy which allows for the capitalization of costs, when appropriate, regardless of the source of funds.
2. Identify the amount of capital costs associated with the startup of the Gift Shop and record such amounts in the accounting records and financial statements.

Management Response

To prepare meaningful financial statements, Office of Supply Services management agreed that the costs associated with the startup of the Gift Shop need to be determined and reflected in the financial statements. OSS management has already begun to identify costs of opening the Gift Shop that should have been capitalized. A policy for capitalization of costs will be developed and implemented.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendations.

Finding D: Operational Policies Are Not Clearly Defined

The Gift Shop's pricing policy needs further clarification and approval for: (1) costs to be recovered to ensure revenues exceed expenses; (2) the amount of the surcharge added to an item's cost; and (3) the implementation of rounding prices to the next nickel. In addition, the Gift Shop needs written approval to sell items with the House seal without Committee approval. Without this clarification and approvals, the Gift Shop has no assurance that operations are in accordance with the Committee on House Administration's July 1994 letter establishing the Gift Shop.

Requirements for Gift Shop

The Congressional Handbook states, "The prices charged for items will reflect that the Gift Shop shall be operated as a retail store. Pricing shall be uniform for all customers. Volume discounts may be offered, and any such discounts will be determined by the management of the House Gift Shop according to sound business practices." In pricing products, a key concept of sound business practices is to recognize that selling prices must be sufficient to cover all costs, both fixed and variable. In addition, the selling price must provide a reasonable return on investment, if the entity is to survive and grow. The most common approach to pricing products is to use some type of cost-plus pricing formula. This approach is to compute a "cost" base, and then to add to this base some predetermined markup to arrive at a target selling price.

The legislation authorizing the revolving fund used by the Supply Store and Gift Shop does not state which costs should be recovered. OSS officials interpreted costs to mean that only an item's acquisition cost needs to be recovered with appropriated funds paying personnel and all other costs not paid by OSS. This procedure virtually assures that the Gift Shop will always be profitable since: (1) the pricing is designed to recover only an item's acquisition costs and not costs associated with stocking and providing the item to the user; (2) a 20 percent markup is added to all sales which would essentially be used to raise the revolving fund's balance; and (3) an item's acquisition cost is rounded up to the next nickel.

Clarification needed on costs to be recovered

The establishing letter requires that the Gift Shop be operated with sound business practices. However, the Gift Shop is not recovering all of its direct and indirect costs. For example, the following direct costs are not being recovered: personnel costs; employee benefits; and services provided by Congressional entities such as Office Furnishings (i.e., custom built display cases, etc.). In addition, if the Gift Shop was operated as a private retail store, sound business practices would dictate that indirect costs (i.e., heat, electricity, etc.) be recovered as well.

OSS officials stated their policies implemented the intent of the establishing letter's requirement. However, the establishing letter does not specify which Gift Shop operating costs should be recovered.

Formal approval needed on amount of markup

OSS officials stated that Gift Shop prices are established by adding a 20 percent markup to an item's cost. However, there is no factual basis for this markup other than to approximate the Senate's Gift Shop prices. In addition, since about 1979, OSS has allowed members and staff to purchase items from the Supply Store for cost plus a 10 percent markup. According to an OSS official, both percentages were verbally agreed to by the Committee on House Administration .

We were informed that one reason for establishing the Gift Shop was to eliminate the perception that Members and staff receive special treatment. Since the Supply Store and Gift Shop carry several identical items, the price paid depends on where the item is purchased. For example, if a Member buys an item from the Supply Store, which is also available in the Gift Shop, the cost to the Member would be 10 percent less. Therefore, the price paid by the Member, for the identical item, would be less than the price available to the public. As a result, the House may still be subject to special treatment criticism.

Formal clarification needed on implementation of rounding policy

In a June 20, 1994, letter from the Committee on House Administration, OSS was instructed to base its sales price on the acquisition cost of an item and to round the results of this computation to the next highest nickel. For example, if it purchased 10 items and the purchase order cost was \$10.00, then the items would be priced at \$1 each. If the purchase order cost was \$10.01, then the items would be priced at \$1.05 each. The applicable markup is then applied to the unit cost--resulting in the use of pennies.

Since the strategy adopted to implement the rounding policy can significantly affect pricing, it is critical to know the purpose for such a policy. For example, if the intent is merely to eliminate pennies from transactions then a better policy would be to round the total purchase to the next highest nickel. Conversely, if the policy's purpose is to generate additional revenue, then one of the following three methods could be adopted:

- add the markup and then round to the next highest nickel;
- use the current method to determine the inventory price, add the markup, and then round the result to the next highest nickel; or
- maintain the current method of adding the 20 percent markup to the rounded item

cost.

All these methods, except the current approach, eliminate the pennies from the total sales price. The following table shows a comparison of these four rounding approaches on a single purchase of three items with an acquisition cost of \$10.01 each.

Comparison of Pricing Methodologies

| <u>Method</u> | <u>Item Selling Price</u> | <u>Total Sale</u> | <u>Additional Revenue</u> | <u>Percent Markup</u> |
|--|-----------------------------------|-----------------------|-------------------------------|---------------------------|
| Round Total Sale | \$ 12.01 | \$ 36.05 | \$.02 | 20.0 |
| Add Markup and Round Item Sale Price | \$ 12.05 | \$ 36.15 | \$.12 | 20.4 |
| Round Cost, Add Markup, and Round Item Sale Price | \$ 12.10 | \$ 36.30 | \$.27 | 20.9 |
| Current Method | \$ 12.06 | \$ 36.18 | \$.15 | 20.5 |

As shown above, the pricing methodology can significantly affect the markup percentage. This is especially true for items with low unit costs. For example, if three items with a unit cost of \$1.01 were sold, the markup percentages would range from 19.8 percent to 28.7 percent.

OSS officials stated that it was clear that this revised policy applied to new items but they were not sure what should be done about existing items. Therefore, they decided that the cost for the existing items would not be rounded up until additional items were purchased. OSS believed this was a prudent interpretation of the policy since almost all items are replenished and the Members and public would benefit from the lower costs until new items were acquired. However, the Committee on House Administration never approved this pricing policy.

Clarification needed on approval for items bearing the House seal

The Chief Administrative Officer, formerly the Director of Non-Legislative and Financial Services, determines the gifts, souvenirs, mementos, and items carried by the Gift Shop. However, the policy directive establishing the Gift Shop required that any items bearing the seal of the House of Representatives be approved, in advance, by the Committee on House Administration through the Subcommittee on Administrative Oversight.

Gift Shop staff stated that after discussions with Committee on House Administration staff, the

requirement to obtain prior approval from the Committee for items bearing the House seal was modified. This modification allowed the Director to approve these items, with the Committee on House Administration periodically conducting after-the-fact reviews. However, we were unable to obtain any documentation that items bearing the House seal were approved by either the Committee or the Director.

OSS officials stated that it is not feasible to get the Committee's approval on all items bearing the House seal due to the number of new items being brought into the Gift Shop to test their marketability. OSS stated that no items in poor taste would be purchased and it would be difficult to get the Committee's approval on each purchasing decision. By not obtaining the Committee's approval, the Gift Shop acted against the requirements of the Committee.

Recommendations

We recommend that the Chief Administrative Officer:

1. Request the Committee on House Oversight to provide:
 - a. formal clarification on what constitutes recoverable costs;
 - b. formal clarification on the markup policy;
 - c. formal clarification on the rounding policy; and
 - d. approval to sell items bearing the seal of the House of Representatives without the Committee on House Oversight's advance approval.
2. Develop and document operational policies which incorporate the results of the formal clarifications and approvals obtained in the above recommendation.

Management Response

Office of Supply Services management will request clarification of recoverable costs, markup policy, and rounding policy from the Committee on House Oversight. In addition, OSS management will request to be allowed to sell items bearing the House seal without advance Committee approval. All of the clarifications and approvals obtained will be documented in operational policies.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendations.

Finding E:**Operating Procedures Are
Not Properly Documented**

The Gift Shop's operating procedures are not properly documented. Although Gift Shop personnel are developing written procedures in many areas, an OSS official stated that very few of their procedures are currently documented. Without written, detailed procedures there is little assurance that the Gift Shop is consistently, effectively, and efficiently meeting management's objectives.

Management is responsible for designing an internal control system to provide reasonable assurance that its goals and objectives are met. The control structure designed should provide reliable data; safeguard assets and records, promote operational efficiency; and encourage adherence to prescribed policies. Moreover, documented procedures help management (1) assure that adequate internal controls are incorporated into the system; (2) train new and reassigned employees; and (3) provide a baseline from which to determine whether control objectives are adequate.

The individuals assigned to operate the Gift Shop have many responsibilities. However, few of their operating procedures were documented and, in some cases, the process for handling unusual events had not been developed. For example, a written general policy, used as a framework for Office Furnishings procurement operations, is also used in the Gift Shop. However, detailed procedures used in day-to-day operations are not documented in such areas as recording of bid information; the purchase order process; updating and reconciling data in the automated system; and determining reorder points. Moreover, the head of OSS's procurement group did not have a copy of the Committee on House Administration's rules on purchasing. In addition, procedures for holdup situations, counterfeit currency screening, and shoplifting detection have not been developed.

Properly documented procedures would improve Gift Shop controls and help ensure that they are operating as designed. Furthermore, such documentation could serve as the basis for training new or reassigned employees. This documentation can also serve to measure if management's objectives are being successfully accomplished.

Recommendation

We recommend Chief Administrative Officer continue current efforts to document Gift Shop operating procedures; to ensure the completeness of these procedures; and to review existing procedures to ensure their adequacy.

Management Response

Office of Supply Services ongoing effort to document Gift Shop operating procedures should ensure all procedures are complete and adequate for Gift Shop operations.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendation.

Finding F: Automated System Controls Need Improvement

Controls over the Gift Shop's automated system need improvement. Specifically, OSS has not developed adequate security and disaster recovery plans. Since the automated system performs such functions as procurement, inventory management, receiving, and determining the prices that are charged to a customer, sound automated system controls are critical to its operations.

Automated system control requirements

Internal controls should include safeguarding of assets. Controls for safeguarding of assets should ensure vital records are protected from loss, and the means for quickly reestablishing capabilities should a disaster occur.

Contingency plan needed

A contingency plan is used to manage the availability of valuable resources in the event of a processing disruption. It should document the detailed recovery procedures necessary to quickly and smoothly restore an organization's processing capabilities in the event of a computer or communications failure. It is not a single task that is performed by one individual. Contingency planning is a complex, multifaceted process that requires the support and involvement of several individuals and organizations. A successful contingency plan accomplishes the following objectives:

- ensures continuity of organization operations;
- minimizes recovery time;
- supports the business recovery plan; and
- fulfills legal obligations.

OSS has not developed a formal contingency plan which documents specific actions to be taken if the computer hosting the Gift Shop financial system was unavailable for an extended period. Such a plan is necessary to ensure that reactions to service disruptions are well thought out and comprehensive. Several groups, including the National Institute of Standards and Technology, Information Systems Audit and Control Association, and Institute of Internal Auditors Research Foundation, have developed generally accepted methodologies for contingency planning. Although developing a plan is a complex process, using a generally accepted methodology can help reduce the risks of such an effort and provide a logical basis for the resulting plan.

Recommendation

We recommend that the Chief Administrative Officer develop a contingency plan for the Gift Shop's automated system.

Management Response

Office of Supply Service management indicated that a contingency plan is in place for the Gift Shop's automated system; however, it is not a formal, documented plan. Management agreed to formally document this plan.

Office of Inspector General Comments

The current and planned actions are responsive to the issues we identified and when fully implemented, should satisfy the intent of our recommendation.

APPENDIX

APPENDIX

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860

TO: Robert B. Frey III
Deputy Inspector General

FROM: *pr* Thomas J. Simon *Bill Staudenmaier*
Director of Internal Controls and Continuous Improvement

DATE: June 15, 1995

SUBJECT: Response to Draft Audit Report of Internal Controls of the House Gift Shop

Thank you for the opportunity to review your report. We are in total agreement with your recommendations, finding no problems with them.

We look forward to receiving your final report.