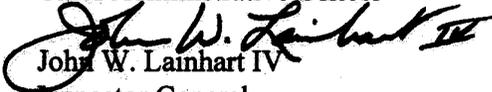


Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: Scot M. Faulkner
Chief Administrative Officer

FROM: 
John W. Lainhart IV
Inspector General

DATE: September 10, 1996

SUBJECT: Audit Report - Internal Controls Over House Furnishings Need
Improvement (Report No. 96-CAO-08)

This is our final report on the internal controls over Washington, D.C. and District Office furnishings. The objective of the audit was to evaluate the effectiveness of management controls over office furnishings. In this report, we identified internal control weaknesses in the accountability of House furnishings, materials, and supplies and made specific recommendations for corrective actions.

In response to our June 20, 1996 draft report, your office concurred with our finding and recommendations. The July 8, 1996 management response is 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. Further, the milestone dates provided for implementing corrective actions appear 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 Robert B. Frey III 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

Internal Controls Over House Furnishings Need Improvement

I. INTRODUCTION

The House of Representatives (House) has a large quantity of office furnishings in Washington, D.C. and the District Offices. Sufficient internal controls have not been established over furnishings, and those controls that were in place were not always implemented. The lack of internal controls may result in the (i) misappropriation of office furnishings without timely detection, (ii) unfulfilled requests for needed furnishings, and (iii) procurement of unneeded furnishings.

Background

Office furnishings inventories for the House are managed by two different offices under the Chief Administrative Officer (CAO) -- Furniture Resource Center (FRC) and Property Asset Management (PAM). FRC is responsible for all office furnishings located in Washington, D.C. as well as materials and supplies for constructing, repairing, and refinishing furnishings. PAM is responsible for all office furnishings located in the District Offices. FRC and PAM use separate automated systems to maintain control over their inventories. FRC's system is used to track both office furnishings and the materials and supplies used in the furnishings shops. PAM's system tracks computers, office equipment, and District Office furnishings.

FRC is responsible for providing, maintaining, storing, and moving office furnishings for Members, committees, and support offices in Washington, D.C. FRC consists of the following units: Administrative Office, Asset Management Division, and six service divisions. The Administrative Office procures new furniture and receives and processes work order requests for constructing, repairing, and refinishing furnishings. The Asset Management Division processes completed work orders and updates inventory records. The service divisions -- Cabinet, Drapery, Carpet, Finishing, Upholstery, and Labor -- support the efforts of FRC.

Objective, Scope, And Methodology

The objective of this audit was to evaluate the effectiveness of internal controls over office furnishings. This review focused on policies, procedures, and internal controls over office furnishings, materials, and supplies located in Washington, D.C. and internal controls over the furnishings inventory for District Offices. Our audit was conducted at FRC and PAM. We verified inventory records by visiting offices supported by FRC, e.g., Page School and Page Dormitory. The period covered by the review included October 1, 1994 through March 31, 1996. Since the District Office furnishings are accounted for by the same system used for the computer and office equipment inventory, that system evaluation was included in a separate review of Computer and Office Equipment Inventory. This review was coordinated and performed simultaneously to avoid any duplication of effort.

We conducted our review in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. We identified and reviewed the internal controls for House office furnishings through interviewing CAO staff, reviewing pertinent policies and procedures, observing operations, reviewing management reports, and evaluating the flow of transactions.

Internal Controls

This review covered internal controls related to office furnishings, supplies, and materials in Washington, D. C. and internal controls over the furnishings inventory in District Offices. We found significant weaknesses which are discussed below in "Results of Review."

Prior Audit Coverage

Changes In Operating Practices Could Save Office Furnishings \$1 Million Annually (Report No. 95-CAO-15, dated July 18, 1995): This review assessed opportunities to increase efficiency and effectiveness of operations within FRC. The report identified opportunities for savings and made seven recommendations with respect to FRC operations. The CAO has taken action on three of the seven recommendations. Management is addressing the remaining four recommendations which relate to (i) reviewing the continued need of Office Furnishings in-house resources, (ii) implementing an automated cost accounting module within the future financial management system, (iii) identifying the work order system needs, and (iv) procuring a commercially available computer package capable of addressing work order system needs.

Office Furnishings: Alternatives for Further Strengthening the Internal Control Environment, (Management Advisory 94-01, dated October 6, 1994): This review identified several areas where internal controls could be improved. The management advisory outlined fifteen alternatives to improve FRC's internal control environment. FRC has taken action on five of the fifteen alternatives. Of the 10 remaining alternatives, FRC has partially addressed two alternatives and is anticipating that the remaining alternatives will be corrected when the new Federal Financial System is implemented. The alternatives requiring further FRC action are (i) defining and documenting the requirements for operating government vehicles and performing periodic driver's license checks, and (ii) developing a catalog of standard furniture to minimize request misunderstandings (color photos are available, but a catalog has not as yet been made available).

II. RESULTS OF REVIEW

The internal controls over furnishings, materials, and supplies can be improved. Necessary policies and procedures do not exist to ensure an accurate accountable inventory record or responsibility for furnishings. Although there are procedures for conducting physical inventories, these inventories are not accurate. There are no clear control procedures to account for furnishings procured from individual office allowances or appropriations. Since procedures do not exist to ensure all purchased furnishings are included in the inventory, the financial statements

could be understated by unrecorded items. Consequently, House furnishings can be removed without detection. Furthermore, segregation of duties is lacking in the management of materials and supplies. Without these controls, the House's ability to control its assets is subject to question.

Although most office furnishings do not meet the threshold value for House financial statement purposes, they should, nevertheless, be properly inventoried and controlled. The General Accounting Office's *Policy and Procedures Manual for Guidance of Federal Agencies* (Title 2) states that even though capitalization criteria is not met, "...these limits do not affect an agency's responsibility for proper control of property. Agencies shall establish appropriate internal controls over all assets, particularly those sensitive items that are subject to theft." An organization's internal control structure consists of management's policies, procedures, and commitment to reasonably prevent material errors and irregularities from occurring or going undetected. In addition, internal controls are the overall plan of an organization and the methods employed to: (i) safeguard assets, (ii) ensure the reliability of accounting data, (iii) promote efficient operations, and (iv) ensure compliance with established policies. Some basic internal controls concerning assets include assigning accountability and responsibility, conducting periodic physical inventories, maintaining inventory records, and establishing separation of duties or implementing compensating controls.

Offices Are Not Accountable For House Furnishings

In order to have adequate controls, accountability should be assigned. Currently, accountability for most of the House furnishings resides with FRC. Assignment of accountability needs to be made to ensure that items are properly accounted for and taken care of by individual offices.

For example, at the present time, unwanted items are often placed in House office building hallways to be picked up by FRC. However, while these items are awaiting pickup, they are vulnerable to removal and use by other offices, and physical damage or abuse. Ensuring that offices are accountable for their furnishings would also assist in controlling items for inventory purposes. Inventory is tracked by office and room number. When furnishings are moved from office to office without advising FRC, the risk is increased that items will be misplaced. It is also time consuming to reconcile the physical inventories and track down furnishings that, otherwise, could have been appropriately reassigned to offices that need them.

Current House policies do not address the accountability of furnishings by individual offices. Through the CAO, FRC has submitted a proposed policy to the Committee on House Oversight which would provide that Members, Committee Chairs, and Officers of the House be financially responsible for damaged or lost furniture. Approval and implementation of such a policy would parallel policies used for computer and office equipment and mitigate the risk that furnishings could be misappropriated, abused, or lost. One exception to holding individuals responsible would be when a theft occurs. If a theft is promptly reported to the police and FRC, the accountable official would be relieved of financial responsibility provided the police investigation

shows that reasonable care was taken to safeguard the furnishings.

The CAO's proposed policy would assign accountability and financial responsibility. However, it lacks a statement of need and a cost benefit analysis. Without these items the proposed policy fails to demonstrate its value to the House. Furthermore, the proposed policy did not address areas where direct accountability is not easily identified. For example, should the Committee Chairman be held responsible for furnishings in offices at various locations and not under his or her direct control? Should House Officers be financially responsible for furnishings in offices at various locations in the House complex? These are but two examples of additional areas that need to be addressed in a completely developed proposal.

Furnishings Inventories Are Not Accurate

The accuracy of the furnishings inventory is questionable since inventories are not taken timely. Regular physical inventories are important controls, especially when accountability is not assigned. Poor inventory controls could result in office furnishings being lost or misused. Additionally, without accurate records, purchases could be made for items not needed.

Washington, D.C. Office Furnishings -- The accuracy of the Washington, D.C. furnishings inventory is questionable. This is because it has been more than three years since the last physical inventory. Further, the last inventory was piecemeal. Also, the inventory system was not updated following a major move at the beginning of the 104th Congress.

The Washington, D.C. office furnishings have not been inventoried since 1993.¹ This is contrary to FRC's inventory policy for Washington, D.C. furnishings which states, "A physical inventory of all offices in the U.S. House of Representatives is performed bi-annually by the Asset Management Division." Inventories should be completed in accordance with established policy.

In addition, the 1993 inventory was conducted in a piecemeal manner. The physical inventory began on March 1 and was not completed until September 23. (Some miscellaneous locations were not completed until January 4, 1994.) Because the inventory was conducted over such a long period, some items could easily have been missed. For example, if an office had been inventoried and subsequently picked up from the hallways furnishings that had not been inventoried, those items may have been missed. Inventories should be completed within an established reasonable timeframe.

Furthermore, the inventory records for House furnishings were not updated following the major Congressional move that occurred at the beginning of 1995. As a result, the current records are not accurate, especially with respect to item location. Because FRC does not know the location of all furnishings, it cannot provide offices with certain items when requested. In June 1995, FRC

¹ Subsequent to the audit period, FRC began inventorying House furnishings on April 28, 1996.

began keeping a record of unfulfilled furnishings requests. This record showed that, for 10 items alone, FRC had anywhere from 16 to 44 unfulfilled requests for each item. For example, during the renovation of the former offices of the House Historian, FRC discovered two 3-cushion sofas that could have satisfied two of the requests if FRC's inventory had been accurate. In addition, we observed other unoccupied offices containing the former occupants' furnishings that may have been needed elsewhere. The lack of an accurate inventory has caused a false perception of shortages of certain items. For this reason, FRC could run the risk of purchasing additional furniture unnecessarily in order to meet Member requests. In order to make the inventory more reliable, the inventory system should be maintained with timely updates to the inventory records and reconciliations to completed physical inventories.

In addition, an accurate inventory allows for better utilization of existing House furnishings. Currently, there are offices waiting for several types of Members' furnishings, such as hutches and bases, coffee tables, and Turkish chairs. According to FRC personnel, some offices have as many as five Member hutches and bases while other Members have none. An accurate inventory would enable FRC to keep track of the total number and current location of all House furnishings, especially since the House is no longer purchasing some of these items. Also, an accurate inventory would allow FRC to reassign furniture to satisfy unfilled furnishings requests of Members when another Member leaves office.

An accurate inventory is a useful management tool for scheduling needed maintenance and projecting required replacements. For example, an inventory with condition codes would enable FRC to ascertain the condition of existing House furnishings. Currently, repairs are only performed when items become unusable and are returned to FRC. By using condition codes, items could be inspected and taken into service divisions and repaired before the damage becomes extensive or unrepairable. Also, scheduling repairs could increase the efficiency of the service divisions and reduce the amount of furnishings needed to replace damaged items. Furthermore, condition codes could allow FRC to make better projections for replacement of furnishings and the associated costs. An accurate inventory is an essential management tool for improved operations of FRC.

District Office Furnishings -- The District Office furnishings inventories are unreliable because physical inventories are only undertaken when the Member leaves office. This practice does not allow for the timely detection of errors in the furnishings inventories.

Physical inventories for District Office furnishings have in the past been conducted by the General Services Administration only when a Member leaves office. Approximately 49 percent of the Members have been in office for periods ranging from 7 to 41 years, with the average being 15 years. As a result, the time span between independent physical inventories is excessive. In the interim, PAM annually generates inventory listings for the District Offices to verify.

Because of the unusually long time span between physical inventories, accountability for missing or damaged furnishings is delayed. In addition, this increases the risk that furniture can be

misplaced or misappropriated. To protect House assets, written policies should be implemented to ensure that physical inventories are performed more frequently.

House Furnishings Inventory Is Incomplete

FRC does not have procedures to identify and track furnishings purchased by other offices. Lack of comprehensive tracking procedures may result in misplaced or misappropriated furnishings -- without detection -- and an understated inventory for financial statement purposes. During the audit period, \$346,737 was obligated for other office purchases of furnishings through the FRC procurement function. However, as illustrated below, these other office purchases were not always recorded in the furnishings inventory.

- The Page School purchased several assorted school chairs for approximately \$19,000. These school chairs did not have inventory decals and were not included on the FRC inventory. Although the Page School has an equipment inventory listing, they rely on FRC to maintain their furnishings inventory.
- The Page Residence had furniture not included in the FRC inventory. For example, an indoor tennis table, an air hockey table, an indoor soccer table, five washers, five dryers, and several pieces of furniture in the main office did not have decals for inventory purposes.
- Some offices in the House are moving toward the installation of systems furniture, but this type of furniture is not included in the FRC inventory. For example, the Office of the Clerk made a substantial investment of \$178,233 for systems furniture. Although systems furniture, by its nature, is not a high risk for misappropriation, it does need to be included in the inventory system for financial statement purposes.

Without affixing inventory decals on all furnishings and updating the inventory system, FRC is unable to account for the quantity and value of House furnishings. Although FRC acknowledges that furnishings purchased from other office allowances or appropriations are not included in its inventory, FRC's written policy makes it responsible for House furnishings. In addition, there is no clear determination of which items should be included in FRC's furnishings inventory and which should be included in PAM's equipment inventory. For example, washers and dryers could be included in either inventory. Written policies and procedures are needed to address these matters.

The Furnishing Storeroom Lacks Segregation of Duties

The FRC materials and supplies storeroom lacks segregation of duties or compensating controls to protect the inventory from loss or misappropriation. The storeroom contains the materials and supplies used in constructing, repairing, and refinishing furnishings. One individual has the responsibility for submitting purchase requests and receiving, issuing, and recording materials and supplies. Additionally, the same individual has the capability to delete and change transactions in

the automated inventory system. Because there are no controls to ensure that all purchases have been recorded and no transactions have been changed, materials and supplies could be lost or misappropriated without detection.

Segregation of duties is necessary for making detailed control procedures effective. It also would provide reasonable assurance that materials and supplies are accurately reported and are safeguarded from unauthorized use or disposition. Under certain circumstances, it may be practical to have one employee perform all of the duties described above, but as compensating controls, material and supply inventory items should be periodically spot checked or reconciled to purchase orders maintained by the FRC procurement function. Also, the capability to delete and change transactions should be limited to individuals outside of the storeroom. Compensating controls such as these should help to ensure that items purchased were properly entered into the inventory system and inventory balances are reliable.

Recommendations

We recommend that the Chief Administrative Officer:

1. Clarify the proposed policy change with respect to assignment of accountability and financial responsibility and perform a detailed, quantified analysis of the need for assigning accountability and financial responsibility for lost or damaged furnishings to Members, Committee Chairs, and Officers of the House, and submit this clarification and analysis to the Committee on House Oversight.
2. Implement formal written policies to:
 - a. Determine which items should be included in the Furniture Resource Center's inventory.
 - b. Assign responsibility to the Furniture Resource Center to maintain the inventory for all House furnishings, regardless of the source of funds used for their purchase.
 - c. Require a physical inventory of both Washington, D.C. and District Office furnishings biannually, in a timeframe which ensures that all items are included in the physical count.
 - d. Establish a cost-effective methodology for inventorying District Office furnishings.
 - e. Establish segregation of duties or compensating controls in the FRC materials and supplies storeroom. If compensating controls are established, they should include:
 - (1) reconciling purchases to the inventory records, and
 - (2) limiting the capability to delete and change transactions to the Asset Management supervisor.

Management Response

On July 8, 1996, the Director of Internal Controls and Continuous Improvement, on behalf of the CAO, agreed with the finding and both recommendations including all subparts (see Appendix). According to the response, a detailed quantified analysis of the need for assigning accountability and financial responsibility for lost or damaged furnishings will be performed and submitted to the Committee on House Oversight before September 1, 1996. In addition, formal written policies will be implemented to (a) define in which categories to include items not currently inventoried; (b) assign responsibility for maintaining the inventory of all House furnishings; (c) assign responsibility for a biannual inventory in a timeframe that will ensure all items will be included in the physical count; (d) work with GSA to set up a practical and cost-effective methodology for inventorying District Offices; and (e) establish segregated duties in the Furniture Resource Center supplies storeroom. The written policies will be completed and implemented by September 30, 1996.

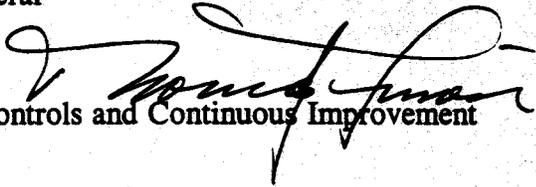
Office of Inspector General Comments

The CAO's actions are responsive to the issues identified and, when fully implemented, should satisfy the intent of our recommendations.

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

MEMORANDUM

TO: Robert B. Frey III
Deputy Inspector General

FROM: Thomas J. Simon 
Director of Internal Controls and Continuous Improvement

DATE: July 8, 1996

SUBJECT: Draft Audit Report - Furnishings

We appreciate the opportunity to comment on your draft report. We deeply appreciate your efforts and are in general agreement with the findings and recommendations. Many actions have been or are being undertaken to improve our overall management of furnishings. We have completed a full inventory of all House furnishings in Washington with a 1 to 5 rating system relating to condition. This will allow us better to anticipate workloads and purchasing requirements. We have begun a methodical process of reducing obsolete inventory through the use of outside resellers. We have completed development and are about to publish a furniture catalogue that describes all furniture styles and availability in our inventory as well as outlines sample room layouts that maximize the efficient usage of furnishings. It also clearly outlines who is authorized to use unique and historic furnishings. As noted in the Results of Review, a comprehensive furniture policy was submitted to the Committee on House Oversight last November. We believe that approval of those policy proposals that assign liability, reduce moves, and accurately allocate costs will address many underlying concerns of your report.

Specific comments on each recommendation follow. If there are any questions or additional information required regarding this reply, please contact me at (202) 226-1854.

Recommendation 1

A detailed quantified analysis will be performed and submitted to the Committee before September 1, 1996.

Recommendation 2

The activities on the following parts of the recommendation will be completed by September 30, 1996.

- a** An internal policy will be developed defining in which categories to include items not currently inventoried.
- b** The Furniture Resource Center and Property Asset Management will work together to prepare a joint policy paper assigning responsibility for maintaining the inventory of all House furnishing.
- c** The policy paper (2b above) will include assignment of responsibility for a biannual inventory in a time frame that will ensure all items will be included in the physical count.
- d** The Furniture Resource Center and Property Asset Management will work with GSA to set up a practical and cost effective methodology for inventorying District Offices.
- e** Segregation of duties will be established in the Furniture Resource Center supplies storeroom.