

Office of Inspector General

**Audit of NARA's
Central Receiving Function**

OIG Report No. 08-13

September 29, 2008

Executive Summary:

The National Archives and Records Administration (NARA) Office of the Inspector General (OIG) performed an audit of NARA's Central Receiving Function. The objective of the audit was to evaluate the effectiveness of controls over the central receiving function at Archives II. Specifically, we evaluated NARA policies, oversight, management and accountability of property received and stored at the loading dock, storage area and warehouse components of the NARA facility located in College Park Maryland (hereafter referred to as AII). This audit report describes weak management controls over the receiving process and warehouse operations as well as weak physical controls on the loading dock and warehouse. Based on a 2007 inventory¹, 36 percent of accountable IT property stored in the Office of Information Services (NH) fenced warehouse, with an original acquisition cost of \$367,439, was identified as missing. Also, 22 percent of accountable property stored in the NARA warehouse, with an original acquisition cost of \$176,008, was identified as missing.

This audit was initiated based on an OIG investigation surrounding criminal activity by a NARA [REDACTED]

[REDACTED] Redacted pursuant to FOIA Exemption b(6) [REDACTED]

[REDACTED] This audit report defines a weak or compromised internal control environment which presented opportunities for theft of government assets. In August 2007, a grand jury indicted² [REDACTED] Redacted, b(6) [REDACTED] for conspiracy arising from a scheme to embezzle almost \$1 million from NARA between July 2002 and September 2006.

Since the alleged criminal activity was identified to NARA management, NARA has taken action to address deficiencies within the property management program. However, we determined management controls specific to the central receiving function were still inadequate to mitigate risk in this area. NARA management and physical security controls remain ineffective in safeguarding and accounting for property. NARA's policies and procedures are outdated and not aligned with the various functions encompassing central receiving. NARA's receiving process is a manual process prone to error. Other compensation controls such as periodic independent validation and verification processes do not occur which could identify potential pilferage more timely. The lack of integrated systems and processes creates an environment where property is susceptible to loss or misappropriation with little risk of detection.

In a separate vein, the audit identified that NARA's receipt and acceptance processes do not support the accounts payable and invoice payment processes. These control

¹ Preliminary results of the 2007 physical inventory, received in March 2008, hereafter referred to as the 2007 inventory.

² A grand jury indicted [REDACTED, b(6)] for these criminal activities. An indictment is not a finding of guilt. An individual charged by indictment is presumed innocent unless and until proven guilty at some later criminal proceedings.

weaknesses affect the accuracy of the property and financial information used by managers to make key agency decisions.

Property received at the loading dock meeting NARA's definition of controlled property was properly barcoded, but controls did not provide assurance that the equipment would have been properly recorded in NARA's property system. We found instances where delivery of property from the loading dock to the end user was not timely. In addition, various weaknesses in physical security controls over property at the loading dock and property in the warehouse increase the risk of loss.

Other processes outside the central receiving function and not within the scope of this audit such as equipment delivered by the mail room staff, government equipment purchased by government contractors under a contract or property brought into the building by a purchase cardholder open up the risk that government property meeting NARA's definition of controlled property are not barcoded or subject to physical inventory control.

We acknowledge that the Assistant Archivist for Administration directed a complete business process review (BPR) of the entire property management function in April 2007. A contract for the BPR was awarded in June 2008 with several deliverables by November 2008, including recommended business processes and suggested standard operating procedures.

We made 25 recommendations which, when implemented by management, will assist the agency in enhancing controls in the central receiving function.

Background:

Based on General Services Administration's (GSA) Federal Personal Property Desk Reference, the Federal Personal Property Management Life Cycle consists of four phases: Determination of Need, Acquisition of Need, Accountability & Maintainability, and Utilization & Disposal. Our audit focuses on the central receiving piece of the Accountability & Maintainability phase. The purpose of an agency's central receiving function is to manage and control the personal property as it arrives at the loading dock and to ensure it is promptly and accurately logged in, inspected, barcoded if needed, and stored or delivered to the proper program office.

NARA contracts for services to perform all management, labor, and to provide equipment, tools, and materials necessary to perform all aspects of material handling, loading dock operations, and warehouse operations for the Archives II facility.

Based on the contract, the Contractor's receiving personnel must perform receipt and inspection functions at the loading dock and receiving areas. All shipments must be unpacked, inspected for damage, and compared with documentation to validate and verify the accuracy of material and supplies received. If appropriate, the Contractor must prepare any material damage reports or transportation discrepancy reports on missing or damaged items. The Contractor must prepare documentation for shipments that do not have accompanying documentation. For Government Property, the Contractor must:

- At time of receipt place bar code labels on all accountable property values in excess of \$3,000 or sensitive equipment, record item description, serial number, and quantity on GSA Form 1025, Receipt for Property or National Archives (NA) Form 5008, Transfer of Accountable Property, and return the signed copy to the Government; and
- Maintain receiving files to include: Government bills of lading, receipt and shipping documentation, discrepant vendor receipts, NA Form 6032, Pick-up and Delivery Receipt, etc.

During fiscal years (FY) 2007 and 2008, NARA took steps to upgrade its property management system. However, NAF continues to correct data migrated to the upgraded property management system. In June 2007 NARA began a manual inventory process to set a new baseline for NARA property due to changes in accountable property thresholds. NARA continues to verify and validate the FY 2007 inventory results.

With the creation of the Federal Managers' Financial Integrity Act of 1982 along with the Chief Financial Officers Act of 1990, the Congress determined more emphasis was needed to ensure assets purchased with public funds were properly used and accounted for, and at the end of their useful life were disposed of in a manner providing the most effective return on the taxpayer's investment. Therefore the emphasis has shifted from merely property management, to the recognition that items procured with public funds are truly financial assets, used to further the mission of the agency, and should be handled accordingly.

Objectives, Scope, and Methodology:

The overall objective of the audit was to evaluate the effectiveness of controls over the central receiving function at Archives II. Specifically, we evaluated NARA policies, oversight, management and accountability of property received and stored at the Archives II loading dock, storage area and warehouse.

To accomplish our objective we:

- Reviewed relevant laws, regulations, contracts, and NARA guidance pertaining to the receiving functions;
- Held discussions with NARA staff and Contractors to obtain an understanding of the central receiving functions and physical security controls in the loading dock and warehouse areas;
- Reviewed pertinent documentation related to selected transactions to test the effectiveness of controls. For example, we reviewed the receiving report log, related purchase orders, Receipt for Property forms, shipping documentation, invoices and approval forms for a sample of deliveries made between April 2007 and December 2007;
- Preliminary results of the 2007 physical inventory, received in March 2008 (hereafter referred to as the 2007 inventory); and
- Employed judgmental sampling.

We attempted to verify the completeness and validity of the property information by comparing transactions recorded in the receiving report log to entries in the property management system. Because current data in the property management system was not available due to the system upgrade process, we compared transactions recorded in the receiving report log and property barcoded by the contractor to supporting documentation maintained by Facilities and Personal Property Management Division (NAF) to be recorded in the property management system.

The review was conducted at Archives II in College Park, MD and encompassed all NARA programs at AII. Our audit was performed from December 2007 through August 2008 and was conducted in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Findings

Physical security controls are not effective in safeguarding property

Internal controls on the loading dock and in the warehouse are inadequate and can be readily compromised. This condition results from the failure of NARA officials to: properly maintain functional closed circuit cameras and related equipment; restrict access to the loading dock to designated individuals, store IT equipment in a secure area and ultimately protect assets from pilferage. Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control requires agencies to establish controls that reasonably ensure that property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation. As a result government property is at risk of loss or pilferage. This is reflected in NARA's 2007 inventory which identified 36 percent of IT related equipment housed in NH's 'cage' as missing, with an original acquisition cost of \$367,436. An additional 22 percent of accountable property, with an original acquisition cost of \$176,008, stored outside the NH 'cage' in the NARA warehouse was likewise identified as missing. The lack of sound internal controls also compromises the ability to detect and subsequently investigate irregularities in a timely and effective manner.

A) Cameras

Physical controls are not in place to ensure all loading dock areas can be monitored and recorded by the security camera. A Space and Security Management Division (NAS) official stated the servers that store digital video recordings have "intermittent coverage" due to servers damaged by excessively high temperatures in the digital video recorder rack room. Inspections performed by security guards indicate both cameras in the loading docks area were not fully functional. The cameras did not tilt, pan, and zoom properly. Cameras are tested and inspection reports are filled out by security guards once during each shift or three times a day. NAS was unable to provide documentation supporting their requests to fix the loading dock cameras.

We observed the view of the loading dock cameras in the security control base. One of the cameras pans left but does not pan back to the right. This same camera does not tilt up or down. The security guard at the control center radioed the security guard at the loading dock and instructed him to move the camera back into position. We observed the security guard using a long stick to move the camera back into position.

A Facilities and Personal Property Management Division (NAF) official, who started working at NARA in 1998 stated "the cameras never worked" properly and that "no one complained so nothing was done." Based on OIG inquiries during this audit the contractor coordinated with NAF to replace the two cameras on the loading dock with new dome protected cameras; this was accomplished on June 24, 2008.

B) Access Readers

Several doors within the loading dock and warehouse areas are not controlled by access readers requiring a badge and authorization to enter those areas where property is received and stored.

- The back door to the loading dock processing room and the accountable property room do not have access readers. Any employee or contractor can access the loading dock area through the contractors administrative offices or the property processing room using the back corridor. The accountable property room is accessed with a key and only certain individuals have a key.
- The four main loading dock bay rollup doors do not have access readers to restrict and account for people using these rollup doors.

-----Redacted pursuant to FOIA Exemption b(2)-----

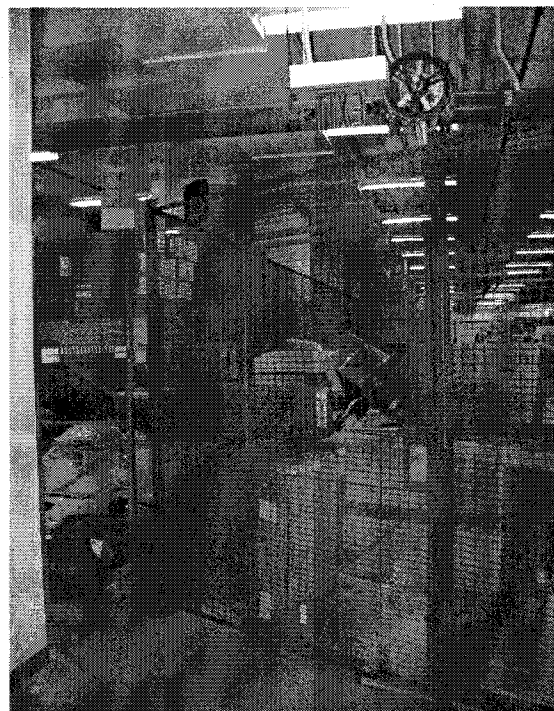
In addition, the number of people, 294 employees and contractors, that have 24/7 or between 4pm and 11pm access to the loading dock is excessive. This includes night custodial contractors, whose custodial carts are stored in a locked room in the loading dock area.

Furthermore, NARA does not have any policies and procedures to review access reader reports for high risk areas on a routine basis.

C) IT Equipment Storage Area

Physical controls are not in place to ensure IT equipment is stored in an appropriately secure area. IT equipment managed by the Office of Information Services (NH) is stored in a separate fenced cage within the Archives II warehouse. However, the fenced cage is open at the top and adjacent to shelving, making it easy to climb into the fenced area. -----Redacted pursuant to FOIA

Exemption b(2)-----As a result, there is the risk that items could be taken from the fenced cage area. In fact, the 2007 inventory identifies 36 percent of IT related equipment housed in NH's fenced warehouse as missing, with an original acquisition cost of \$367,439. For



IT Equipment Storage in NH Fenced Warehouse

additional information on IT equipment stored in the warehouse see page 9.

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Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* state an agency must establish physical controls to secure and safeguard vulnerable assets.

During the conduct of the audit we were advised that NARA is transitioning to a new access reader system and NAS already intends to add access readers to doors with uncontrolled access in the loading dock and warehouse areas.

Deficient internal controls (to include those that could be readily bypassed), when paired with exposed high value equipment such as computers and monitors established an undue risk environment for NARA. This condition negates the prospects for timely theft detection and successful resolution.

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RECOMMENDATIONS

1. The Assistant Archivist of Administration should direct the removal of the key cylinder to the NARA warehouse and replace with a plug.
2. The Assistant Archivist of Administration should direct the installation of access card readers to the back door of the loading dock processing room, loading dock bay roll-up doors and the accountable property room.
3. The Assistant Archivist of Administration should direct NAS and related program offices to review on a weekly basis access reports of high risk areas such as the loading dock and warehouse for unusual activity.
4. The Assistant Archivist of Administration should direct NAF to move the night custodial equipment to an area outside the loading dock area.
5. The Assistant Archivist of Administration should take measures to ensure all servers storing DVR work consistently.
6. The Assistant Archivist of Administration should direct NH and NAF to fence in the top of the NH cage in the warehouse.
7. The Assistant Archivist of Administration should direct the installation of cameras in the warehouse to monitor accountable property in the warehouse.
8. -----
Redacted pursuant to FOIA Exemption b(2)

9. The Assistant Archivist of Administration should take measures to facilitate communication between NAS and NAF to ensure security of NARA assets.

Management Response:

The Acting Assistant Archivist for Administration concurred with the recommendations.

Limited Accountability of Items Stored in the Warehouse

Physical controls are not adequate in securing accountable property in the warehouse resulting in hundreds of thousands of dollars worth of accountable property identified as missing. In addition, management controls over other property stored in the warehouse and operated by contractors do not exist to ensure proper accountability of government property. These conditions exist because of the lack of internal control and oversight on the part of NARA over warehouse management. OMB Circular A-123, Management's

Responsibility for Internal Control requires agencies to establish controls that reasonably ensure that property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation. These conditions result in an elevated risk that NARA assets will be lost or pilfered and inventory will not be effectively managed.

NARA's warehouse at AII is operated by contractors under NAF management except for a fenced in area managed and operated by NH personnel (hereafter referred to as the NH fenced warehouse). NH's fenced warehouse stores accountable IT equipment and is inventoried each year under NARA Directive ADMIN 201, Chapter 8, Part 3 and the Property Managers Users Guide.

NARA's warehouse stores material and supplies such as bulk paper, packaging, reproduction equipment supplies, office supplies, film and furniture. Based on the contract (see Attachment 1):

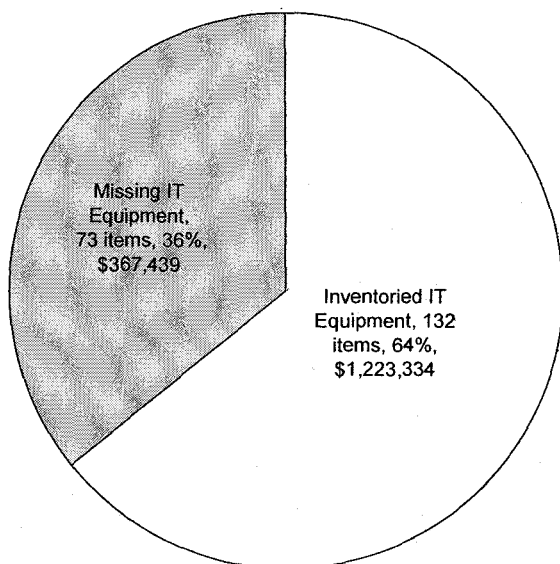
- NARA is responsible for inventory management, accounting and document processing for NARA warehouse items.
- NARA will maintain the official inventory records for Government owned material managed by the contractor.
- Contractors operate the warehouse subject to contract requirements which include, but are not limited to receipt, inventory, storage, and material movement.
- Contractors are required to conduct an annual wall to wall inventory of the NARA warehouse of all Government property stored by the contractor.

In addition to materials and supplies, NARA stores accountable property recorded in NARA's property system for program Property Accountable Officers (PAO's) and accountable property to be surplus in the NARA warehouse. Accountable property is inventoried each year by PAO's under NARA Directive ADMIN 201, Chapter 8, Part 3 and the Property Managers Users Guide.

1. NH Accountable IT Property stored in NH Fenced Warehouse

As stated earlier, physical controls are not in place to ensure IT equipment is stored in an appropriately secure area for IT equipment managed by NH. The NH fenced warehouse is a fenced cage, open at the top and adjacent to shelving, making it easy to climb into the fenced area. The results of the 2007 inventory identifies 36 percent of the NH accountable property stored in the NH fenced warehouse as missing, with an original acquisition cost of \$367,439. We attribute this in part to a lack of physical controls to restrict access to property and the fact that no other periodic independent validation and verification processes occur which could identify potential pilferage more timely. The PAO for NH agrees that he lacks control of the accountable property because the fenced cage is not secure. In addition, the PAO believes many items have been sent out to other program offices and not properly updated in NARA's property system to reflect the movement of property. NH is in the process of attempting to locate missing items.

**NH Missing Accountable Property
(Inside NH Fenced Warehouse)**



Missing IT Equipment	Acquired Cost	Quantity
PRINTERS	\$158,217	41
SERVERS	118,528	17
TAPE DRIVES	33,588	5
WORK STATION	20,000	1
SWITCHES	15,348	3
COMMUNICATIONS EQUIPMENT	10,270	2
RACKS	8,494	2
LAPTOPS	2,994	2
Total	\$367,439	73

2. Property Stored in NARA Warehouse operated by contractors

NARA has not established warehouse standard operating procedures and does not have a method of accounting for items stored in the warehouse, other than manual stock sheets for bulk purchases of paper, microwaves and chairs. Other items stored in the warehouse include accountable property, monitors, pictures, rugs, systems furniture and more. According to NAF officials, the warehouse “serves more as an overstock and temporary storage space than a true warehouse.”

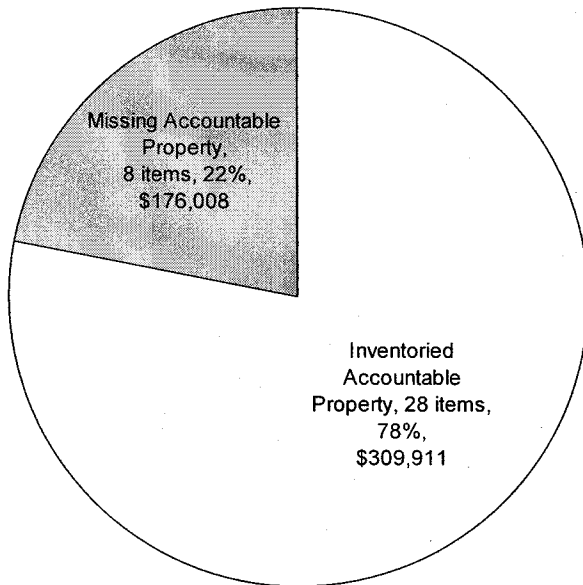
Without a system of accountability established by NARA, contractors are unable to fulfill their contractual obligation of conducting an annual inventory of other property in the warehouse. In addition, because no inventory of other property exists, NARA effectively waives their right to be reimbursed (replacement cost, Government administrative and labor cost to purchase missing item) by the contractor for any missing items. Further, NARA is paying for services outlined in the contract but not rendered. A lack of internal control and oversight on the part of NARA over warehouse management has occurred resulting in a risk that NARA assets will be lost or pilfered.

GAO’s *Standards for Internal Control in the Federal Government* state an agency must establish physical controls to secure and safeguard vulnerable assets. In addition, management is responsible for developing the detailed policies,

procedures, and practices to fit their agency's operations and to ensure that they are an integral part of operations.

The results of the 2007 inventory identifies 22 percent of the accountable property stored in the NARA warehouse (outside the NH fenced warehouse) as missing, with an original acquisition cost of \$176,008.

**Accountable Property stored in NARA Warehouse
(outside the NH fenced Warehouse)**



Missing IT Equipment	Acquired Cost	Quantity
AUDIO/VISUAL EQUIPMENT	\$60,000	2
FITNESS EQUIPMENT	5,000	1
FOOD PREPARATION	3,000	1
LAPTOP	1,000	1
SECURITY EQUIPMENT	5,000	1
DIGITAL CAMERA	2,008	1
WORKSTATION	100,000	1
Total	\$176,008	8

RECOMMENDATIONS

10. The Assistant Archivist of Administration should direct NAF to develop and implement NARA Standard Operating Procedures for Warehouse Operations ensuring proper segregation of duties are adhered to over the annual inventory and to include procedures for periodic unannounced counts of property stored in the warehouse.
11. The Assistant Archivist of Administration should direct NAF to implement a system of accounting for property stored in the warehouse.
12. The Assistant Archivist of Administration should direct NAF and the contractors to conduct an annual wall to wall inventory of the AII warehouse after recommendations 10 and 11 have been accomplished. The NAF staff performing the inventory should have no access to the system accounting for property stored in the warehouse.
13. The Assistant Archivist of Administration, with assistance from affected units should develop additional safeguards to adequately protect accountable property

stored in the warehouse outside the custody of the Property Accountable Officer.

Management Response:

The Acting Assistant Archivist for Administration concurred with the recommendations.

Policies and Procedures Need Improvement and Updating

NARA's policies and procedures are outdated and not aligned with the various functions encompassing central receiving. A management official stated that they have not updated NARA policies and procedures due to lack of staff resources and other priorities such as converting to the new property management system. GAO requires managers to develop detailed policies and procedures, and to ensure the policies and procedures are an integral part of agency operations. Inaccurate policies and procedures and untrained staff increase the risk that vulnerable assets are not adequately secured and safeguarded and increase the risk that errors would not be prevented or detected by management.

NARA Policies and Procedures need updating.

- (A) NARA's policy and procedures do not include requirements for NAF to participate in the acquisition planning of property⁴.
- (B) NARA's Standard Operating Procedures (SOP) for the Receipt of Government Owned Property and Supplies does not adequately cover procedures for:
 - Documenting discrepancies with a shipment;
 - Documenting the delivery date,
 - Dating the acceptance of goods ordered and received.
 - Ensuring the requesting office gets a copy of the GSA Form 1025.
- (C) NARA policy and procedures do not include clear guidance on handling bulk purchases⁵ (i.e., monitors, desktop computers); component and spare parts of systems (i.e., items that can not be used alone, servers, monitors, desktop computers, keyboards); government property in the possession of contractors⁶; or recording the proper delivery and acceptance dates on the Invoice/Intra-governmental Payment and Collection (IPAC) Approval Form.
- (D) NARA policy and procedures do not include clear guidance on training requirements for property officials.
- (E) NARA Procurement Guide refers to the process of recording receiving reports in NARA's old financial system and using GSA Form 3025, Receiving Report,

⁴ GSA's Federal Personnel Property Desk Reference states the Property Management Team must participate in acquisition planning with Program, Acquisition and Finance personnel.

⁵ Federal Accounting Standards Board (FASAB) Statement of Federal Financial Accounting Standards No. 6, Accounting for Property, Plant, and Equipment states each entity should establish its own threshold as well as guidance on applying the threshold to bulk purchases.

⁶ FASAB Statement of Federal Financial Accounting Standards No. 11, Amendments to Accounting for Property, Plant, and Equipment – Definitional Changes, further specifies property and equipment in the possession of or acquired directly by the Government and delivered or otherwise made available to a contractor for use in accomplishing a contract is collectively referred to as 'Government property'.

which are currently not being used.

- (F) NARA guidance does not adequately define sensitive items that should be held accountable by NARA. There is equipment with an estimated useful life of two or more years, costs less than \$3,000, is small in nature and easily pilferable, but is not considered accountable property. For example, digital lens for cameras, digital video recorders, video projectors, scanners, servers, handheld devices, computer processing units (CPU), routers, switches and firewalls may cost less than \$3,000, are usually part of a larger system, are small and/or easily to pilfer but are not accounted for under the current guidance.

GAO's *Standards for Internal Control in the Federal Government* states, management is responsible for developing the detailed policies, procedures, and practices to fit their agency's operations and to ensure that they are built into and an integral part of operations. Information should be recorded and communicated to management and others within the entity, who need it, and in a form and within a time frame, which enables them to carry out their internal control and other responsibilities. On April 15, 2008, OMB issued new guidance (OMB Memorandum 08-18) specific to developing and implementing guidance for documenting independent receipt, acceptance, and inventorying of items obtained with a purchase card which are considered sensitive and pilferable property.

Management has not updated NARA policies and procedures due to lack of staff resources and focused upon other priorities such as converting to the new property management system. NARA switched to a shared service provider for financial services in 2006, but did not document changes in controls in its internal policies and procedures or remove old procedures from the NARA policies on its intranet. In addition, NARA's SOP for the Receipt of Government Owned Property and Supplies developed in April 2007 is not available on the NARA intranet and was not reviewed by affected offices such as Financial Services Division (NAB) or Acquisition Services Division (NAA). Inaccurate policies and procedures and untrained staff increase the risk that vulnerable assets are not adequately secured and safeguarded and increase the risk that errors would not be prevented or detected by management.

RECOMMENDATIONS

14. (a) The Assistant Archivist of Administration should update and align its various policies and procedures relating to the receiving process and eliminate out-of-date policies and procedures. Affected policies and procedures include the NARA Procurement Guide, NARA's Standard Operating Procedures Receipt of Government Owned Property and Supplies, NARA's Property Managers Users Guide. The following key controls should be added to NARA policy and procedures:
- Ensuring NAF is included in approving procurements for accountable property
 - Documenting discrepancies with a shipment;
 - Documenting the delivery date,

- Dating the acceptance of goods ordered and received.
- Ensuring the requesting office gets a copy of the receiving report
- Ensuring proper delivery and acceptance dates are recorded on the Invoice/IPAC Approval Form.
- Handling bulk purchases (i.e., monitors, CPU's, shelving)
- Handling component parts or replacement parts of systems (i.e., items that can not be used alone, servers, monitors, and CPU's); and
- Handling government property in the possession of contractors or purchases by contractors.
- Receiving and accepting responsibilities for CORs, PAOs, requesting office point of contact and invoice approvers.

(b) In addition, draft policies and procedures shall be reviewed by all program offices within NA. Finally updated policies and procedures should be posted on-line for easy reference by NARA staff.

15. The Assistant Archivist of Administration should change the description of sensitive items to include and account for CPU's, servers, handheld devices, small electronics because of the susceptibility to loss or misuse in addition to operation and security considerations for NARA data stored on certain items.
16. The Assistant Archivist of Administration should change the description of sensitive items to include and account for digital lens, digital video recorders, video projectors, routers, switches and firewalls costing less than \$3,000, are usually part of a larger system, are small and/or easily to pilfer.
17. The Assistant Archivist of Administration should ensure staff with property responsibilities are trained in accordance with GSA's Interagency Committee on Property Management defined core competencies for the Personal Property Management Professional. Each level of a property official must complete initial training and periodic refresher training to ensure they are competent to complete the duties of a property official.
18. The Assistant Archivist of Administration should develop and implement specific guidance for documenting independent receipt and acceptance of items obtained with a purchase card, including: (1) purchases of a de minimis amount and (2) responsibilities of the approving official or supervisor to ensure items purchased were actually received in accordance with OMB Memorandum 08-18.
19. The Assistant Archivist of Administration should develop and implement specific guidance for inventorying items obtained with a purchase card which are considered to be sensitive and pilferable property (e.g., handheld devices, small electronics) and are easily converted to personal use in accordance with OMB Memorandum 08-18.

Management Response:

The Acting Assistant Archivist for Administration concurred with the

recommendations.

Receiving Report Log and GSA Form 1025, Receipt for Property are Ineffective

The Receiving Report Log and GSA Form 1025, Receipt for Property (see Attachment 2), maintained by the contractors includes errors and omissions thereby negating the effectiveness of the control tool. NAF officials stated that NARA's oversight of the receiving report log consisted of confirming the receiving report number from the GSA 1025 form to the receiving report log. Oversight of the receiving report log did not include confirming details of the receipt of goods or determining whether goods have been delivered timely. Inaccurate content of the GSA Form 1025 defeats an inherent control mechanism and places NARA property at risk of loss and pilferage. It also adversely impacts the distribution of the property to users. Likewise if data on GSA Form 1025 is not accurate the financial and physical accountability records of property will not be accurate.

The Receiving Report Log maintained by the contractors is used to log in the daily deliveries received at the loading dock based on information documented on GSA Form 1025. The purpose of the log is to sequentially account for all GSA Form 1025. The Receiving Report Log effectively accounts for all sequentially numbered GSA Form 1025's, however we found errors in a sample of entries in the log and/or GSA Form 1025's when compared to supporting documentation, to include:

- incorrect date received at the dock
- incorrect date processed
- incorrect name of individual who received and inspect goods
- incorrect vendor name
- incorrect purchase order number
- incorrect quantity received
- incorrect name of individual who accepted assets
- no support for date delivered/accepted

The NARA SOP for Receipt of Government Owned Property and Supplies states a GSA Form 1025, Receipt for Property, will be used to document the receipt of all items delivered to Archives II, and a log will be maintained for all GSA Form 1025's issued.

The contractor stated mistakes were due to clerical errors, the process of copying and pasting information from the previous line in the receiving report log or illegible handwriting. In addition, contractors stated they are not getting purchase orders to properly plan for the arrival of deliveries and purchase orders obtained were not complete and contain vague descriptions of property ordered which can cause delays in the delivery of property to end-users. Inaccurate content of the receiving report defeats an inherent control mechanism and places NARA equipment at risk of loss and pilferage.

If data on the GSA Form 1025, such as the purchase order number, description, quantity received, amounts, name of vendor, date material was received, are not accurate the

financial and physical accountability records of property will not be accurate. In addition, shipments may be delayed due to inconsistent delivery address and lack of information regarding loading dock hours on purchase orders. Delivery of goods received at the loading dock to the program offices may be delayed due to incomplete purchase orders and vague descriptions of items.

In January 2008, contractors and NAF officials met and implemented new procedures to date stamp all deliveries with the date of actual receipt and record the actual delivery date in the receiving report log. In May 2008, NARA started using NA Form 5025, Material Handling Document (see Attachment 3). NAF revised the receiving report log, ordered scanners to electronically capture serial numbers and bar codes to eliminate clerical errors, and created electronic files of supporting documents for each purchase order. NAF uses the log to ensure data on the receiving reports for accountable property, shipping documents and purchase orders are in agreement. Deliveries after January 2008 were not included within the scope of our audit so we cannot comment as to whether these new procedures are effective.

RECOMMENDATIONS

20. The Assistant Archivist of Administration should direct NAF to periodically test the accuracy of information recorded on GSA Form 1025 or any other comparable form used as the receiving report and the Receiving Report log and determine the timeliness of delivery of goods from the loading dock to the program office.
21. The Assistant Archivist of Administration should direct NAA to develop a method ensuring complete purchase orders are provided to the AII loading dock. This will help the loading dock plan for large or multiple deliveries and match the goods to the proper purchase order.

Management Response:

The Acting Assistant Archivist for Administration concurred with the recommendations.

NARA Lacks an Adequate Acceptance Process

NARA's receiving report process does not adequately support the acceptance of goods ordered and received. This condition results from the application of inconsistent and inadequate NARA policies and procedures as established by NARA management. The Prompt Payment Act requires agencies to ensure receipt of goods and services is properly recorded at the time of delivery of goods and acceptance is executed as promptly as possible. In addition, Federal Acquisition Regulations require invoice payments to be supported by a receiving report or any other Government documentation authorizing payment. As a result of the aforementioned deficiencies, vendors on occasion were not being paid in accordance to the Prompt Pay Act and in some cases vendors have been paid late without interest.

During the scope of our audit NARA used GSA Form 1025, Receipt for Property, which does not adequately document the certification of acceptance date as cited in the NARA SOP. As well, program offices are not provided copies of GSA Form 1025, thus the proper dates are not carried forward to the Invoice/IPAC Approval Form for authorization to pay the invoice.

NARA's SOP for the Receipt of Government Owned Property and Supplies states that the GSA Form 1025 will be used to document the receipt of all items, including the date received, and acceptance will be acknowledged by signing and dating GSA Form 1025. However GSA Form 1025 does not provide a space for the acceptor to record a date and the signature sometimes only acknowledges that the program office received the property from the loading dock, and not necessarily acceptance of the property. NARA guidance does not address the relationship of GSA Form 1025, Receipt for Property, for non-credit card purchases, to the Invoice/IPAC Approval Form, which documents the certification of goods received and accepted for authorization to pay the invoice.

Consequently, invoice approving officials are not recording the proper dates on the Invoice/IPAC Approval Form as they commonly record the date the end users received the goods or the date the user received the invoice, rather than the delivery date and acceptance date. As a result, vendors are not being paid in accordance to the Prompt Pay Act and in some cases vendors have been paid late without interest.

- We have seen evidence of vendors being paid late because improper dates were used on the Invoice/IPAC Approval Form. We determined that 5 out of 17 invoices were paid late because the incorrect delivery date was recorded on the Invoice/IPAC Approval Form for invoices related to a judgmental sample of receiving reports dated between April 2, 2007 and December 3, 2007.
- In one instance, an invoice was not paid because acceptance had not occurred. Acceptance occurred 92 days after the property was received at NARA. The Prompt Pay Act does not allow delaying payment of invoices because acceptance has not occurred. If agency controls do not ensure that acceptance occurs in a timely manner then the agency may owe the vendor interest when the invoice is paid.

RECOMMENDATIONS

22. The Assistant Archivist of Administration should implement controls to ensure receiving report data is captured in accordance with the Prompt Pay Act and the FAR, and accurately presented to NARA's financial system for processing. These controls should include, but not be limited to:
 - Use a form that better facilitates the receiving report data requirements, i.e., GSA Form 3025, Receiving Report.
 - The point of contact (POC) or contractor officer representative (COR) on the purchase order should verify the information recorded by the contractors and verify the items and quantity of items received agree with corresponding purchase order. The POC or COR should certify acceptance by signature and date that the goods

received conform to the purchase order requirements. The POC or COR should forward a copy of the form to the invoice approver to ensure proper dates are forwarded to the financial system, for proper payment of the invoice.

Management Response:

The Acting Assistant Archivist for Administration concurred with the recommendations.

NAF Property Records are Incomplete

We found five instances where NAF did not have documentation supporting accountable property, acquired at a cost of \$22,615. NARA's property system is based on data from GSA Form 1025 which is hand carried by a contractor to NAF. NAF has been maintaining a folder of GSA Form 1025's to be recorded in NARA's property management system since March 2007 when use of the property management system has ceased due to technical difficulties during a software upgrade. GAO requires documentation and records to be properly managed and maintained. Manual processes increase the risk that property may have been acquired but not recorded in NARA's property system.

We compared contractor records of items barcoded to records maintained by NAF for input into NARA's property system. NAF did not have four GSA Form 1025's accounting for five pieces of accountable property, valued at \$22,615.

Table 3
Receiving Reports not in NAF Records, as of January 17, 2008

Receiving Report #	Date	Barcode Number	Purchase Order Number	Description	Amount
1621	9/20/07	1003726	credit card	Laptop	\$1,905.00
1621	9/20/07	1003745	credit card	Laptop	\$1,905.00
				Fiber switch over	
1623	9/20/07	1003744	c NAMA--07-F-0108	\$3,000	\$4,010.00
1637	9/24/07	1003727	c NAMA-NW-07-0015	Printer over \$3,000	\$4,500.00
				Switch over \$3,000 part	
1862	10/30/07	1003819	c NAMA--07-F-0120	of larger acquisition	<u>\$10,294.62</u>
				Total	\$22,614.62

c = corrected and recorded in NARA's Property System, as of March 14, 2008

NARA's SOP for the Receipt of Government Owned Property and Supplies states NAF will maintain the files in a format that will provide an audit trail both by GSA Form number and bar code number. The NARA's property management system record will include references to both the GSA form and the Obligating document. However, this guidance is not followed.

This condition occurred because GSA Form 1025's are hand carried by a contractor to NAF for recording into the property system and no reconciliation between contractor records and NAF records were performed to identify differences. NAF has not recorded information in NARA's property system since March 2007 because the property management system is being upgraded. In addition, NAF had not established a filing system satisfying the NARA SOP requirements. Manual processes increase the risk that accountable property may have been acquired but supporting documentation was not provided to NAF.

RECOMMENDATIONS

23. The Assistant Archivist of Administration should, upon implementation of recommendation #16, use the same report to reconcile data to the receiving report log and property management system to ensure accountable property received is accurately recorded in the property management system on a monthly basis.

24. The Assistant Archivist of Administration should direct NAF to develop a filing system of assets that can easily be linked to procurement (purchase orders) and financial related records (receiving reports and invoices).

25. The Assistant Archivist of Administration should seek to acquire subsystems that capture or generate receiving report data and property management information and be capable of interfacing with other financial and mixed systems⁷. The goal of all system interfaces is to:

- Promote a single point of entry to populate the property management database and all databases with which the property management system interfaces at the same time.
- Ensure audit trails of all system transactions are captured.
- Facilitate ease of reconciliation between systems to ensure data accuracy.

Management Response:

The Acting Assistant Archivist for Administration concurred with the recommendations.

⁷ As part of the Financial Management Line of Business initiative, in July 2008, Financial Systems Integration Office (FSIO) in cooperation with OMB issued the Federal Financial Management Standard Business Process Document covering Payment Management Standard Business Processes that reflect best practices in an electronic environment and sound internal controls from requisition to payment. The Financial Systems Integration Office (FSIO) within the General Services Administration was formerly known as the Joint Financial Management Improvement Program (JFMIP).

The labor support requirements must not exceed an average of four hours per workday. All duties associated with this requirement will originate and end at the Archives I and/or Archives II buildings loading docks.

68. WAREHOUSING - NARA OPERATIONS. The Government stores approximately 90 days of predominately consumable materials and supplies at Archives II to support the daily Government operations. Also included are bulk paper; packaging; reproduction equipment supplies; office supplies; and laboratory supplies including film, photographic supplies, photographic chemicals, systems furniture, excess property waiting disposal instructions, and other necessary supplies. Government property used herein refers to Government owned materials and supplies intended for Government use and does not include property furnished to the Contractor for the Contractor's use during the performance of this Contract. The Contractor must manage and provide all warehousing operations for Government property.

- a. Warehouse operations include, but are not limited to receipt, inventory, storage, material movement, stock issue, shipment, and disposal. The COR or warehouse Contracting Representative Assistant will be responsible for identifying the additional warehouse requirements to the Contractor warehouse supervisor.
- b. All material movement request documents will be prepared by NARA and furnished to the Contractor for appropriate action. The Contractor must perform the indicated action, and sign and return the document to the NARA warehouse COR Contracting Representative Assistants. Contractor personnel must be familiar with NARA procedures relating to receiving, inventory, warehouse operations, and shipping functions. Contractor warehouse personnel will require unescorted access to most Archives II spaces, except for limited access spaces, for making issues, material handling, pick-up of shipments, etc.

68.1 INVENTORY MANAGEMENT. The Contractor must manage and provide warehouse operations for all NARA warehouse items. Inventory management, accounting, and document processing for the NARA warehouse items will be the responsibility of the Government. NARA will maintain the official inventory records for Government owned material managed by the Contractor using DYNAMICS Inventory Management System (IMS). Accountable Government property will be managed using NARA's Property Accounting System (PAS). The Contractor must be familiar with the use of automated inventory tracking systems and must provide inventory documentation to the Government to support all accountable and non-accountable material Government inventory systems. Material must be managed on a first-in, first-out (FIFO) basis. All material and documentation for the Government property and the Contractor property warehouse operations must be kept physically separate. The Contractor must maintain a formal filing system for all Government items issued including transaction documentation.

68.1.2 Annual Inventory. The Contractor must conduct an annual wall to wall inventory of the NARA warehouse in August of each contract year of all Government property managed and stored by the Contractor. Government personnel may accompany the Contractor personnel during the inventory to verify the accuracy, the methods used, and completeness of the inventory. The Contractor must conduct the inventory in accordance with the procedures in the NARA Warehouse SOP. The Contractor must conduct causative research to determine potential losses or gains of Government assets. The Contractor must replace or reimburse the Government for replacement cost (includes Government administrative and labor cost to purchase missing item) of any missing items by September 30 of each year.

68.2 STORAGE. The Contractor must determine material storage locations in accordance with the NARA SOP and COR direction. The Contractor must receive and store material (within two days of receiving materials); indicate the action taken on the receipt, issue, and storage document; and enter the transaction in the IMS system. The Contractor will be responsible for looking up the stock location in the IMS system and storing all material in the designated IMS system location. The Contractor must adhere to stack height, box orientation, bin capacity, and other storage restrictions to prevent damage to stored material. The Contractor will be responsible for following normal supply practices such as stock rotation and First-In-First-Out (FIFO) material processing. The Contractor must relocate material and combine locations as necessary for good inventory management.

GENERAL SERVICES ADMINISTRATION		RECEIVED FROM (Organizational Unit)			
RECEIPT FOR PROPERTY					
STOCK NUMBER	DESCRIPTION	QUANTITY	UNIT	UNIT PRICE	COST

IT IS UNDERSTOOD THAT I AM PERSONALLY ACCOUNTABLE FOR THE PROPERTY LISTED ABOVE AND THAT I SHALL BE HELD FINANCIALLY LIABLE FOR LOSS OR DAMAGE UNLESS OTHERWISE RELIEVED BY APPROPRIATE SURVEY ACTION.

SIGNATURE	ORGANIZATIONAL LOCATION	TELEPHONE
APPROVED BY	SIGNATURE	DATE

GENERAL SERVICES ADMINISTRATION
WHITE
GSA FORM 1025 (REV. 12-67)

MATERIAL HANDLING DOCUMENT

RECEIPT – ISSUANCE – ACCEPTANCE

Purchase Order Number:

Vendor:

Mode of Delivery: UPS FEDX DHL GBL

Tracking/GBL Number:

Print Name/Shipping & Receiving Personnel

Signature/Date

Print Name/Property Specialist

Signature/Date

---- This area is for use by loading dock (LB&B) personnel only! ----

Item Description	Qty Ordered	Qty Received	Qty B/O	Serial #	Barcode #

Discrepancies? Yes No

If yes, describe:

Shipping & Receiving/
Property Specialist Issued by: _____
Print Name

Signature/Date

Package Marked for:

Room Delivered to:

Package Accepted by: _____
Print Name/Organization

Signature/Date



National Archives and Records Administration

8601 Adelphi Road
College Park, Maryland 20740-6001

Date: **SEP 29 2008**

To: OIG

From: NA

Subject: OIG Draft Report No. 08-13, Audit of NARA's Central Receiving Function

Thank you for the opportunity to comment on the Draft Report No. 08-13: Audit of NARA's Central Receiving Program. We appreciate the auditor's acceptance of some minor word changes within the report and have no further comments.

We concur with all recommendations made in this draft report as amended based on our discussions with the auditor.

Please note that actions to satisfy some of the recommendations are already underway. If you have any questions concerning these comments, please contact me via e-mail or telephone, b(6)) at 301-837-1

Adrienne C. Thomas
ADRIENNE C. THOMAS
Assistant Archivist for Administration

Attachment