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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

MAR 2 1976

B-115349



Mr. Alfred M. Zuck, Comptroller
Department of Labor

Dear Mr. Zuck:

AGC 00009

At the request of Mr. Richard E. Miller, former Comptroller, we reviewed the Department of Labor Contractor-held Property Management System.

The Contractor-held Property Management System is designed to account for nonexpendable personal property the Government furnishes to contractors and grantees to carry out training programs administered by the Employment and Training Administration, Department of Labor. The value of such property in the custody of contractors and grantees at December 31, 1975, was approximately \$108 million.

The Federal Property and Administrative Services Act of 1949, section 202 (b), requires that each executive agency maintain adequate inventory controls and accountability systems for the property under its control (40 U.S.C. 483). The Comptroller General approved the design of the Contractor-held Property Management System in October 1972. The design of the system, which was not implemented at the time of approval, provides for controls to assure that all transactions are processed correctly.

In August 1973 the Department's internal auditors reviewed 44,600 items at 40 contractor locations valued at \$11.5 million and reported that \$355,000 worth of property for which contractors were accountable could not be located. In addition, they reported that equipment valued at over \$14.4 million in the contractors' custody, including an Apollo space command module valued at \$13.4 million, was not recorded in the Employment and Training Administration's property accounting records.

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We examined the system for recording property in the custody of contractors, including the computerized processing of transactions performed by an outside firm. We also examined selected transactions to evaluate the adequacy of controls over the processing of property transactions. In addition to confirming the property accountability problem identified by the internal auditors, our review showed that several control procedures included in the approved design had not been implemented. We believe this is the primary cause for the failure to properly account for contractor-held property. Discussions of these control procedures, including their current status, follow.

CONTROL OVER PROPERTY ACQUISITIONS

The approved property system design provides for control of acquisitions through an automated suspense file. Contractors needing equipment and other nonexpendable personal property must obtain Employment and Training Administration approval before acquisition. After acquisition is approved, the Administration is supposed to record the equipment in its automated suspense file. Each piece of equipment when acquired should be recorded in the property accounting records also maintained by the Administration. The suspense file, therefore, was in part designed to serve as a basis for follow-up to insure that accurate accountability was initiated and maintained for all property acquired by contractors and grantees.

The automated suspense file has not been implemented. The Employment and Training Administration, therefore, has to rely on contractors and grantees to report property acquisitions for recording in the property accounting records. Without the automated suspense file, the Administration has no systematic way of following up to insure that property acquired by contractors and grantees has been completely and accurately reported for inclusion in the property accounting records.

USE OF PREDETERMINED CONTROL TOTALS

To insure that all transactions are accounted for, the approved system design requires that predetermined control totals be accumulated for the number of transactions, number of units, and unit price of property items to be added to, or deleted from, the property accounting records. Predetermined control totals are arithmetic totals taken for reconciliation purposes before the data are introduced into the automated system for processing. They are compared to corresponding totals, accumulated independently during the data processing operation, which should equal the predetermined control totals. Unequal totals indicate that not all data were processed or that they were processed incorrectly.

The procedures to reconcile predetermined control totals have not been fully implemented. As a result, comparisons could not be made of the data processed at each major stage of the processing cycle to determine if all units and dollars were accounted for nor could action be taken to correct errors before further processing. Further, there was no way of insuring that all transactions were processed.

CONTROL AND PROCESSING OF
REJECTED TRANSACTIONS

Both manual and automated checks were made during processing to verify the accuracy and completeness of all transactions. The procedures provided that errors discovered during these checks be corrected by the firm which provides data processing services for the system or returned to the Administration for correction. However, the controls were inadequate to insure that all transactions rejected because of errors were corrected and resubmitted for processing.

We believe that the failure to implement adequate controls has contributed to the discrepancies continuing to exist between Administration property accounting records and property in the custody of contractors and grantees.

PHYSICAL INVENTORY VERIFICATION

The approved system design provides for periodic verification of property accounting records through annual physical inventories conducted and certified by the contractor. In addition, it provides that once every 3 years these physical inventories be observed by Administration personnel. Periodic physical verifications are necessary to insure that adequate and accurate records on the status of the investment in property assets are being maintained. In addition to the annual physical inventory and certification requirements, contractors must also conduct final closeout inventories 30 days before completion of their contracts.

Our review showed that the physical inventory verification requirements had not been fully implemented. Not all contractors were certifying the accuracy of their inventories nor was the Administration meeting requirements to participate in physical inventories.

At December 31, 1974, there were 165 national contractors which had contracts with the Administration's headquarters office and property in their custody valued at \$58.6 million. Our review of Administration records showed that about 50 percent of the contractors had not certified that the required inventories were taken during 1974. Moreover, many of these contractors had not certified that the required inventories were

taken during 1973. In addition, during the 2 years ended December 1973, Administration representatives had observed inventories at only 6 of approximately 600 contractor sites. During 1974 they observed inventories at 67 contractor sites.

Because the property charged to and held by many of the contractors may not have been inventoried for several years, there is no assurance that all property is properly recorded in the property accounting records maintained by the Administration. In addition, an Administration official told us that no effort had been made to coordinate annual physical inventories, Administration observations of them, and closeout inventories. This lack of coordination could result in duplicate inventories being taken at a contractor's site within a 1-year period.

EMPLOYMENT AND TRAINING ADMINISTRATION
ACTIONS TAKEN OR PLANNED

The need for improvement in the property control procedures, including our suggested corrective actions, was discussed during our review with Administration officials. We recently inquired as to whether the Administration has acted on our suggestions. We were told that:

- A manually maintained suspense file and followup procedure has been established for all approved property acquisition documents to help insure that accurate property accountability is maintained.
- The use of predetermined control totals has been implemented and other control procedures have been instituted to insure that no documents are missed during processing.
- Instructions have been issued for correcting and handling transactions rejected during processing.
- The personnel responsible for monitoring contractor performance (Government Authorized Representatives) have been requested to participate in performing the property review functions when they visit contractor facilities.
- The regional administrators have been notified of (1) procedures to follow and forms to complete for contractor inventory certifications and (2) actions required to update and correct the property accounting records.
- Action has been taken to coordinate the physical inventories and related certifications required to avoid, where possible, a duplication of effort.

The Chief, Division of Administrative Services, Employment and Training Administration, informed us that the revised procedures relating to the above corrective actions will be incorporated in a revised edition of the property accounting system manual currently in preparation.

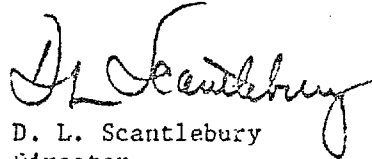
We believe that the corrective actions taken or planned by the Employment and Training Administration will improve the accountability for the Government's investment in property in the custody of contractors and grantees. We suggest, however, that you request the Director of Audit and Investigations to determine whether the corrective action has been adequate and the property accounting system is, therefore, operating effectively.

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We are sending copies of this report to the Secretary of Labor; the Assistant Secretary for Administration and Management; the Assistant Secretary for Employment and Training; the Administrator, Administration and Management, Employment and Training Administration; and the Director of Audit and Investigations.

We wish to acknowledge the courtesies and cooperation extended to our representatives during our review. We shall appreciate your comments and advice concerning the matters discussed in this report.

Sincerely yours,



D. L. Scantlebury
Director

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