



U.S. GOVERNMENT PRINTING OFFICE
OFFICE OF INSPECTOR GENERAL

**AUDIT REPORT
14-01**

**GPO Paint Branch
Safeguarding Paint and Supplies Inventory**

November 13, 2013

Date

November 13, 2013

To

Managing Director, Plant Operations

From

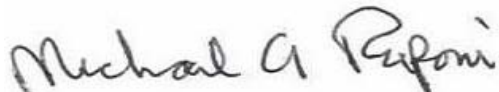
Inspector General

Subject

Audit Report – GPO Paint Branch: Safeguarding Paint and Supplies Inventory
Report Number 14-01

Enclosed please find the subject final report. Please refer to the “Results in Brief” for the overall audit results. Our evaluation of your response has been incorporated into the body of the report. We consider management’s comments responsive to the recommendations. The recommendations are resolved and will remain open for reporting purposes pending completion of the proposed actions.

We appreciate the courtesies extended to the audit staff during the course of our review. If you have any questions or comments about this report, please do not hesitate to contact Mr. Jeffrey C. Womack, Assistant Inspector General for Audits and Inspections at (202) 512-2009 or me at (202) 512-0039.



MICHAEL A. RAPONI
Inspector General

Enclosure

cc:

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Deputy Public Printer

General Counsel

Chief of Staff

Director, Operations Support

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Office of Inspector General

Report Number 14-01

November 13, 2013

GPO Paint Branch —Safeguarding Paint and Supplies Inventory

Introduction

The Office of Inspector General (OIG) evaluated the internal controls over the GPO Paint Branch's paint and supplies inventory after learning a GPO Paint Branch employee was arrested in April 2013 for theft of GPO property.

Within GPO's Plant Operations, the GPO Office of Operations Support is responsible for the continuous operation and maintenance of GPO's Washington, DC facilities. Under the Office of Operations Support is the GPO Carpentry and Paint Branch. Included in the Carpentry and Paint Branch are 8 full time staff, separately located from the rest of the Branch, responsible for painting GPO's facilities as well as snow removal in the winter (for this report we refer to this group by their former name—the Paint Branch). The Paint Branch orders paint and supplies as needed to perform their work. They are also responsible for managing inventory and supplies necessary to perform their duties.

We performed our audit to answer the following question: Does GPO have adequate controls in place to prevent and detect the loss or misuse of paint and supplies inventory maintained by the GPO Paint Branch?

We conducted our audit fieldwork from May through August, 2013. To achieve our objective we (1) discussed the theft incident with the GPO Uniform Police Branch and reviewed the associated report; (2) discussed Paint Branch inventory internal control procedures with GPO personnel from both the Office of Operations Support and the Paint Branch; (3) conducted inspections of the Paint Branch office and storage facilities and paint and supplies on hand; (4) examined all Paint Branch paint and supply purchase and use records for the eight month period November 2012 through June 2013 and traced those purchases to the actual items; (5) performed an inventory of all paint on hand as of July 2, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our objective, scope, methodology, and criteria are detailed in Appendix A

Results in Brief

Accurate and reliable data are essential to an efficient and effective operating environment in the federal government. Inventory represents a portion of assets in the federal government. Therefore, managers and other decision makers need to know how much inventory there is in order to make effective budgeting, operating, and financial decisions and to create a government that works better and costs less.

GPO's Paint Branch has not created a framework and guide that employees can use to ensure the accuracy and reliability of paint and supplies inventory and related property data. We identified several opportunities for GPO to further strengthen internal controls over paint and supplies inventory in an effort to improve safeguards. For example, we found the following conditions:

- Written inventory procedures need to be developed.
- Inventory counts are needed.
- Inventory documentation should be maintained.
- Reconciliations should be performed.
- Access to the paint branch inventories was provided to two employees who did not need access.
- Inventory levels should be monitored and may exceed current needs.

We were told that the employees in the Paint Shop were unaware of such requirements. As a result, we attribute those conditions to oversight. Due to the lack of records, we could not determine with any degree of accuracy whether any GPO personnel had taken paint and/or supplies inventory for unauthorized use. However, the potential for loss is estimated at \$55,830. We also estimate funds put to better use at \$29,830.

Recommendations

We recommend the Managing Director, Plant Operations: (1) develop written inventory procedures, (2) perform a complete inventory of all paint and supplies, maintain adequate documentation to track all purchases and uses throughout the year, and reconcile any differences with the inventory list, and (3) monitor paint and supplies inventory to ensure excess inventories are not purchased and maintained.

Management's Response

Management concurred with the recommendations. The complete text of management's response is in Appendix B.

Background

Within GPO's Plant Operations, the Paint Branch is responsible for the continuous painting upkeep of GPO's facilities walls, ceilings, and floors. The Paint Branch has also been assigned responsibility for snow removal. The Paint Branch staff consists of a Paint Lead, 5 Painters, a Painter's Helper, and a Typist who performs the administrative work. The Painters and Painter's Helper all work the 2nd shift (3:30 - 12:00 am). The Paint Branch orders all paint and supplies (brushes, rollers, tape, drop clothes, etc.) as needed under three separate Blanket Purchase Agreements with paint suppliers in Washington DC. On occasion the Paint Branch also orders some paint supplies through a government credit card. The Paint Branch stores all new paint and supplies in its facility in the basement of GPO's Central Office where it is secured by both card access and lock and key. All opened paint and supplies currently in use are stored in an additional shop located on the 5th floor of GPO's Central Office, under lock and key.

In the 1990s, the Congress passed the Chief Financial Officers Act of 1990 and subsequent related legislation, the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996. The intent of these acts is to (1) improve financial management, (2) promote accountability and reduce costs, and (3) emphasize results-oriented management.

GAO reports¹ that managing the acquisition, production, storage, and distribution of inventory is important to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports. Producing and maintaining accurate inventory data is a multifaceted issue. The ability to accurately count physical inventories is only one factor that must be considered in improving the reliability of inventory records. The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records.

¹GAO Report Number GAO-02-447G, Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, dated March 2002.

Results and Recommendations

GPO does not have adequate controls in place to prevent and detect the loss or misuse of paint and supplies inventory from the Paint Branch. We identified several opportunities for GPO to further strengthen internal controls over paint and supplies inventory. For example, we found the following conditions:

- Written inventory procedures need to be developed.
- Inventory counts are needed.
- Inventory documentation should be maintained.
- Reconciliations should be performed.
- Access to the paint branch inventories was provided to two employees who did not need access.
- Inventory levels should be monitored and may exceed current needs.

We were told that the employees in the Paint Shop were unaware of such requirements.

The potential for loss is estimated at \$55,830. For the 8 month period ending June 30, 2013, GPO ordered 826 gallons of paint worth about \$26,000. On July 2, 2013, we inventoried all paint on hand in the Paint Shop storage facilities and identified approximately 1,861 gallons of paint on hand, which, at an average purchase price of \$30/gallon² equated to \$55,830. We estimate funds put to better use at the amount in excess over the current year paint requirements of \$29,830 (\$55,830 inventory on hand less \$26,000 worth of current year purchases).

Written Inventory Procedures. The Paint Branch does not have written procedures on how to complete the requirements of a specific task for a physical inventory count. Establishing written procedures helps ensure consistent and accurate compliance and application needed to achieve high levels of integrity and accuracy in the physical count process, especially in light of any future employee turnover. Procedures also become the basis for training and informing employees. Written procedures for all aspects of the physical count process should consist of defining the current process and the individual tasks associated with the process and procedures for and examples of filing and completing required paper work.

Physical Inventory Counts. The Paint Branch had not physically counted its paint and supplies inventory. The inventory count process is an integral component of an organization's internal control environment. The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records.

² Average per/gallon paint cost was based on purchase data for the period November 2012 through June 2013. Some of the paint on hand included opened, partially-filled containers of paint.

GPO Directive 810.11B, "GPO Property Management Program," June 6, 2003, states that Property Managers should ensure that: (1) all items of accountable property within their organization are physically inventoried at least once per fiscal year; (2) the results of these physical inventories are compared to the corresponding inventory records; (3) any discrepancies are researched and reconciled, if possible; and (4) any overages, shortages, and/or other necessary adjustments are made to maintain a current, accurate, and complete inventory of property. Paint Branch staff stated that they weren't aware of the need or the requirement to do so.

Inventory Documentation. The Paint Branch did not maintain inventory documentation such as physical inventory counts. Physical counts of inventory are only one aspect of inventory control that contributes to accurate and reliable inventory records. Other records may include worksheets with discrepancy annotations, as well as annotations resulting from any item recounts, and subsequent adjustment documentation.

Inventory Reconciliations. There are many factors that can cause the record of on-hand inventory to differ from the physical quantity counted, including omission of items from the count, incorrect counts, errors in cutoff, and improper recording. Inventory reconciliations provide an effective mechanism to address such differences.

The Paint Branch was unable to demonstrate it has conducted any inventory reconciliations. Periodic comparison of assets with the recorded accountability reduces the risk of errors, fraud, misuse, or unauthorized alteration. Physical inventories and other verifications (e.g., random spot checks) provide positive assurance to management, external auditors, and other interested parties that reported assets do in fact exist, and in the quantities (i.e., count, weight, or measure) recorded in inventory or property management systems. Physical inspections also help identify assets that are in unusable condition or in excess of current and anticipated needs.

Access to Paint Branch Inventories. The Paint Branch's facilities, located in the basement of GPO are accessed through electronic card readers. We obtained the list of employees with access to those facilities and identified 1 deceased employee, and 2 employees from the GPO Electric Branch. GPO Directive 825.38, "Regulations Governing Buildings and Grounds," August 30, 2010 states that controlled areas have assets, processes, or risks which require controlled access and that Security Services, working with Business Units, define specific spaces to meet safety, security, privacy, or integrity requirements. When we brought this situation to the attention of the Operations Support Director, that access was immediately removed.

Current Inventory Levels Are Not Monitored and May Exceed Current Needs. The Paint Branch could not demonstrate it monitors the need or timely turnover of the paint on hand. The primary measure of effective inventory management is turnover. It is defined as the number of times an item is replaced within an inventory in a

designated period from replenishment to consumption. GPO does not have a benchmark for turnover in place. Low turnover indicates poor inventory management and typically means the product has been sitting on the shelves for too long. Overstocking of shelves increases the risk of expiration, contamination, or obsolescence of inventory, and is an inefficient use of GPO resources.

On July 2, 2013, we inventoried all paint on hand in the GPO Paint Shop storage facilities and identified approximately 1,861 gallons of paint on hand, which, at an average purchase price of \$30/gallon equated to \$55,830.

Property Management Standards

GPO Directive 810.11B provides information on the management and operation of GPO property, stating that GPO property is a public resource and an asset of the Federal Government and that GPO has an obligation to effectively manage the acquisition, use, and disposal of Government property.

Directive 810.11B covers accountable property and defines accountable property as, among other things, being pilferable, which the Directive defines as being easily transportable or concealable, and has a ready resale value or application for personal use.

Management Control Guidelines

Management control guidelines apply to both accountable and non-accountable inventory items.

GPO requires³ that management controls must provide reasonable assurance and safeguards to protect assets against waste, loss, unauthorized use, and misappropriation. It requires that GPO maintain effective systems of accounting and management control. The policy states that internal controls are the organization, policies, and procedures used to reasonably ensure that:

- programs achieve intended results
- resources are used consistent with agency mission
- programs and resources are protected from waste, fraud, and mismanagement
- laws and regulations are followed
- reliable and timely information is obtained, maintained, reported, and used for decision making

The Government Accountability Office (GAO) *Standards for Internal Controls in the Federal Government*, November 1999, requires ongoing monitoring in the course of

³ GPO Instruction 825.18A, Internal Control Program, dated May 28, 1997.

normal operation. Internal controls are performed continuously and ingrained in an Agency's operations. GAO's standards include regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

The GAO standards require the use of control activities described as the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements or budget development and execution. They help ensure that actions are taken to address risks. Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of Government resources and achieving effective results.

OMB Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004, requires that managers develop and maintain effective internal controls. Effective internal controls provide assurance that significant weaknesses in the design or operation of internal controls that could adversely affect an agency's ability to meet its objectives would be prevented or detected in a timely manner.

As a legislative branch agency GPO is not required to follow OMB Circulars, including Circulars A-123. However, since those Circulars provide a sound basis for internal controls for any organization, GPO has incorporated the major requirements of Circulars A-123 in its directives.

Recommendations

We recommend the Managing Director, Plant Operations:

1. Develop written inventory procedures.

Management's Response

Management concurred and stated that once an inventory of current stock is completed standard procedures and task lists will be developed within the iMaint software. The complete text of management's response is in Appendix B.

Evaluation of Management's Response

Management's actions are responsive to the recommendation. We consider the recommendation resolved but will remain open pending our confirmation of the final actions scheduled for January 2014.

2. Perform a complete inventory of all paint and supplies, maintain adequate documentation to track all purchases and uses throughout the year, and reconcile any differences with the inventory list.

Management's Response

Management concurred stating that an inventory of all stock has already begun and will be completed within 45 working days. Management stated that it has already reduced its excess inventory of paint by 25 percent.

Evaluation of Management's Response

Management's actions are responsive to the recommendation. We consider the recommendation resolved but will remain open pending our confirmation of the final actions scheduled for January 2014.

3. Monitor paint and supplies inventory to ensure excess inventories are not purchased and maintained.

Management's Response

Management concurred stating that the Paint Branch will use the iMaint software to track, monitor, and disperse all paint products issued for each assigned work order.

Evaluation of Management's Response

Management's actions are responsive to the recommendation. We consider the recommendation resolved but will remain open pending our confirmation of the final actions scheduled for January 2014.

Appendix A - Objectives, Scope, and Methodology

We performed the audit from May through August 2013 at the GPO Central Office in Washington, D.C. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that will provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

We performed our audit to answer the following question: Does GPO have adequate controls in place to prevent and detect the loss or misuse of paint and supplies inventory maintained by the GPO Paint Branch?

Scope and Methodology

To achieve our objective we

- Reviewed applicable criteria including GPO Directive 810.11B, "GPO Property Management Program;" GPO Directive 825.18A, "Internal Control Program;" OMB Circular A-123, GAO Internal Control Standards, the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Government Performance and Results Act of 1993, and the Federal Financial Management Improvement Act of 1996.
- Discussed the theft incident with the GPO Uniform Police Branch and reviewed the associated report
- Discussed Paint Branch inventory internal control procedures with GPO personnel from both the Office of Operations Support and the Paint Branch;
- Conducted inspections of the Paint Branch office and storage facilities and paint and supplies on hand;
- Examined all Paint Branch paint and supplies purchase and use records for the eight month period November 2012 through June 2013 and traced those purchases to the actual items;
- Performed an inventory of all paint on hand as of July 2, 2013.

Management Controls Reviewed

We determined that the following internal controls were relevant to our audit objective:

Program Operations – Policies and procedures the GPO management implemented to reasonably ensure that the Paint Branch operation met GPO's objectives and that all government assets were adequately secured.

Validity and Reliability of Data – Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports (See Computer-Generated Data below).

Compliance with Laws and Regulations – Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.

The details of our examination of management controls, the results of our examination, and noted management control deficiencies are contained in the report narrative. Implementing the recommendations in this report should improve those management control deficiencies.

Computer-generated data

We did not use any computer generated data in conducting this audit.

Appendix B – Management’s Response

UNITED STATES GOVERNMENT

Memorandum

DATE: November 5, 2013
REPLY TO:
ATTN OF: Director, Operations Support
SUBJECT: IG Audit of the Paint Branch
TO: Inspector General

2013 NOV -7 PM 12:40
OFFICE OF THE
INSPECTOR GENERAL

The Facilities Division has addressed the IG Report on the GPO Paint Branch as per our discussion with Karl Allen on October 21, 2013.¹ The information below documents management’s response to the recommendations of the report.

Recommendation 1: Develop Written Inventory Procedures.

Concur. Once an inventory of current stock (see Recommendation 2) is completed, standard procedures and task lists will be developed within the iMaint software. The completion of the inventory will allow classes of paint to be developed and stock handling subprocedures will be based on classes of paint. Additionally, feedback from the Paint Leader will be sought. These procedures, subprocedures, and task lists should take approximately 3 work days or fewer to complete, after the inventory of current stock has been completed, for a projected completion date of January 15.

Recommendation 2: Perform a Complete Inventory of All Paint and Supplies, Maintain Adequate Documentation to Track all Purchases and Uses Throughout the Year, and Reconcile Any Differences with the Inventory List.

Concur. The Paint Branch will inventory existing products to identify and class each product and enter the data into the iMaint system. The Paint Branch has already reduced its excess inventory of all paint and sealer products by 25%. An inventory of all stock on hand has already begun and should be completed within approximately 45 working days, with an estimated completion date of January 10, 2013.

Recommendation 3: Monitor Paint and Supplies Inventory to Ensure Excess Inventories Are Not Purchased and Maintained.

Concur. The Paint Branch will use the iMaint software modules “Materials/Inventory” to track, monitor and disperse all paint products issued for each assigned work order. The Paint Branch will issue all products through the iMaint inventory module to account for paint

¹ This response was delayed by preparations for and the aftermath of the government shutdown which occurred from October 1, 2013, to October 16, 2013.

used on each job. This information will be reviewed on a monthly basis by the Supervisor of the Paint Branch for accountability. Additionally, when quantities of paints and sealer products have diminished to a predetermined amount, the iMaint system will provide an alert to reorder those specific products to ensure that sufficient supplies are on hand and that excess quantities are not purchased and stored. This system is expected to be fully functioning once the inventory process in Recommendation 2 has been completed and once written inventory procedures are completed, with an estimated completion date of January 15, 2013.

Thank you for bringing these deficiencies to my attention. I look forward to working with you and your team for our improvement with monitoring the materials for the Paint Branch. If you need anything else, please do not hesitate to contact me.


GARY B. ENGLEHART
DIRECTOR, OPERATIONS SUPPORT

Appendix C - Status of Recommendations

Recommendation	Resolved	Unresolved	Open/ECD*	Closed
1	x		1/15/14	
2	x		1/10/14	
3	x		1/15/14	

*Estimated Completion Date.

Appendix D - Report Distribution

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Major Contributors to the Report

Karl Allen, Lead Auditor