



March 31, 2014

To: ARC Federal Co-Chair
ARC Acting Executive Director/General Counsel
ARC Director of Finance and Administration
From: Hubert Sparks, Inspector General

Subject: Administrative Review – Report 14-18

Background

OIG was notified by an ARC official on December 17, 2013, that three laptops computers valued at \$2,550 each, and reported as delivered by UPS on October 29, 2013, could not be located and were considered missing. Also, concern was raised as to whether 11 color toner cartridges valued at about \$3,000 for two color printers reported as installed between December 6 and 10, 2013 were new cartridges.

Summary

Review of available records and contacts with ARC staff and vendor and distributor representatives, including oral and written voluntary statements, the absence of witnesses, elapsed time, and the absence of inventory controls contributed to inconclusive determinations about these occurrences.

However, as noted, there was a need for increased inventory controls and policies and procedures dealing with receipt and security of equipment and supplies.

Methodology

Based on the reported information available purchase orders, invoices and delivery slips were obtained and reviewed. Contacts were made with 14 persons including 9 ARC staff and 5 representatives of vendors and distributors. Voluntary written statements were requested and provided by 5 ARC staff and discussion was held with 4 other ARC staff. Vendor and distributor representatives commented on production and delivery issues. We observed the location of equipment and supplies including the extent of inventory security and ARC staff provided examples of printer cartridges and demonstrated operation of the map printer.

ARC Guidelines

ARC Financial Management Guidelines dated August 8, 2012, copy attached, identify various property management procedures, staff responsibilities and requirements. The guidelines note that individual equipment items with an acquisition cost of at least \$35,000 and a useful life of at least two years must be capitalized for accounting and reporting purposes. The ARC Administrative Officer (Property Manager) maintains a schedule of capitalized property and of controlled and high risk non-capitalized personal property which is almost exclusively IT equipment. The Administrative Officer is responsible for maintaining the master inventory list, affixing an ARC inventory tag to each piece of equipment, verifying the accuracy and completeness of the inventory on a semi-annual basis, training staff as needed, issuing and receiving property, and ensuring compliance with ARC property management policies and procedures.

Prior guidelines note that steps taken to safeguard property and control its use would be proportionate to the value of the items and the relative risk of loss or damage and ADP equipment is designated high risk property.

Delivery and Inventory Controls

Except for the Administrative Officer property management responsibilities there were no additional written policies and procedures regarding delivery and security of equipment and higher cost supplies. Also, discussion disclosed that the Administrative Officer was not immediately involved with respect to deliveries and inventory control since the Officer was not immediately informed of deliveries.

We were informed that procedures used included larger deliveries, such as IT equipment, being delivered directly to the open mail room prior to the Office Assistant in the reception area subsequently signing for the delivery generally without validating what was received. The Office Assistant notified the person for whom the delivery was intended, such as the IT manager. The person taking control of the delivery (IT Manager) was to notify the Administrative Officer who would add the equipment to the non-capitalized inventory, tag the equipment, and identify the staff member who was the end recipient. For IT equipment the IT Manager set up the equipment and provided it to the end user. For supplies, such as printer cartridges staff receiving the supplies were responsible for ordering supplies through the Administrative Officer and accounting for and securing deliveries.

Discussion with ARC staff confirmed that there was no immediate logging in of equipment received. Notification to the Administrative Officer was often delayed substantially and there was no control as to how long the equipment remained in the mail room that was open to anyone during office hours or when persons to whom the delivery was intended were notified

to pick up delivery from the mail room. Also, ARC IT staff did not promptly notify ARC officials when it was noted that only six of nine computers reported as delivered on October 29, 2013 could be located.

Observation disclosed that supplies, including expensive toner cartridges, were left in unsecure locations for long periods of time prior to use.

Related Information

With respect to the missing three computers, none of the six persons having official access to the server room acknowledged transferring the computers reported as received on October 29, 2013 from the mail room to the server room. For the toner cartridges, although it was apparent that some of the cartridges in the printers were old based on indicated low ink levels and lack of recent use we could not conclusively determine how this occurred. Vendor and distributor representatives commented that it was difficult to identify expiration dates without the cartridge box or identify the cartridges manufactured date.

During our review, ARC initiated an inventory to determine if purchased equipment and supplies were accounted for. This activity disclosed concerns about color toner cartridges in another printer, but insufficient information was available to reach supportable conclusions with respect to these supplies.

For computers, UPS provided nine Proof of Delivery notices for the computers reported as delivered on October 29, 2013. However, these notices all contained exactly the same signature of the ARC Office Assistant who signed one time for the delivery. It appears one signature was provided and the signature was transposed to nine proof of delivery notices that included the statement "this notice serves as proof of delivery for the shipment listed below". Although it is the responsibility of ARC staff to verify deliveries we do not concur with the UPS method for confirming deliveries.

Recommendations

Written procedures for delivery and inventory of higher cost equipment and supplies should be implemented with provisions including:

- Logging in large, accountable and high cost supplies upon delivery.
- Identifying items and volume delivered prior to signing for delivery
- Prompt notification to persons to whom delivery is intended.

- Prompt notification to the Administrative Officer of receipt of property/equipment requiring inventory identification, tagging and, identification of end recipient.
- Increased security over deliveries, including high risk IT equipment, and higher cost supplies, including storage in lockable cabinets and periodic observation of the open mailroom to identify items needing delivery to intended recipients.
- Prompt reporting to the Director of Finance and Administration about missing or un-locatable equipment.

ARC Response

Appendix A notes actions being initiated.