

**Office of Inspector General**

**Audit of Management Controls over  
Accounting for Lost Property**

**OIG Report No. 08-09**

**August 14, 2008**

## Executive Summary

The National Archives and Records Administration (NARA) Office of the Inspector General (OIG) performed an audit of management controls over accounting for lost property. The objective of the audit was to assess whether management controls were adequate and provided reasonable assurance that lost inventory was properly documented and accounted for in NARA records. Specifically, OIG auditors sought to identify whether NARA adhered to its own policy and procedures in accounting for lost property and whether management actions taken in response to the identification of lost property were appropriate in order to protect government assets from loss. This is the first in a series of reports on management controls within the Facilities and Personal Property Management Division.

This audit was initiated based on a referral from OIG Investigations surrounding criminal activity by a NARA employee and contractor who had responsibilities -----Redacted pursuant to FOIA Exemption b(6)-----<sup>1</sup>. In August 2007, a grand jury indicted these individuals for conspiracy arising from a scheme to embezzle almost \$1 million from July 2002 until September 2006.

Our audit found that:

1.) Lost property was not properly documented and accounted for in NARA records. At least 147 reports of survey were submitted to the NARA Facilities and Personal Property Management Division (NAF) between FY 2002 and FY 2006. Of these 147 reports, only 3 documented the circumstances surrounding the loss, theft, damage or destruction of Government property. Weaknesses in management controls and oversight of the personal property management function increase the risk that property could be stolen or misused. In addition, without statements or other documents provided as evidence, the Assistant Archivist for Administration (NA) and NAF officials responsible for reviewing the reports lacked enough information to determine whether an investigation was warranted.

2.) The Assistant Archivist for NA and Director, NAF never once directed an investigation<sup>2</sup> of any of the 2,405 missing equipment items identified on reports of survey or hold individuals accountable for any of the lost property. By not investigating any of the missing equipment, the Assistant Archivist for NA and NAF officials created a weak internal control environment. This environment presented an opportunity for theft of equipment by unscrupulous employees or contractors without fear of being detected or being held responsible by management officials.

3.) The fiscal year (FY) 2007 annual inventory identified approximately 559 information technology (IT) equipment items with memory storage capability were

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<sup>1</sup> 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.

<sup>2</sup> According to the NARA Property Managers Users Guide an investigation would include interviewing and obtaining statements from all individuals whose useful testimony may assist in deciding the cause of, or responsibility for, the loss, damage, or destruction of the property listed on the ROS.

missing. Although these missing items have the potential to store sensitive information, to include Personally Identifiable Information (PII), NARA officials did not take action to determine the use or type of data stored on the equipment and each believed it was not their responsibility to do so. As a result, the risk presented by the loss of these equipment items has not been assessed and NARA is unaware whether sensitive data has been or is at risk of disclosure.

4.) We identified 17 missing capitalized equipment items, with an acquisition cost of \$1.3 million, included in the FY 2007 Property, Plant and Equipment subsidiary schedule and depreciation schedule. Failure to adjust the property records in a timely manner could result in an overstatement of fixed assets on future NARA Financial Statements.

The findings contained in this audit report mirror those identified in Government Accountability Office (GAO) report 08-727 entitled "Indian Health Service (IHS) Mismanagement Led to Millions of Dollars in Lost and Stolen Property," June 2008. The GAO reported that:

The lost or stolen property and waste we detected at IHS can be attributed to the agency's weak internal control environment and its ineffective implementation of numerous property policies. IHS management has failed to establish a strong "tone at the top" by allowing inadequate accountability over property to persist for years and by neglecting to fully investigate cases related to lost and stolen items.

The GAO report went on to state that IHS had "historically shown little motivation to hold its employees liable for missing property. Instead of investigating the circumstances surrounding missing property, IHS writes off the losses without holding anyone accountable."

In 2007, the Assistant Archivist for NA took several actions to address deficiencies in the property management program. One action taken was to change the definition of accountable property to increase the minimum value threshold from \$1,000 to \$3,000 and reduce the categories of sensitive items to only laptops, digital cameras, and weapons. This change eliminated controls over approximately 14,000 equipment items but did not correct the control deficiencies identified in the program. The Assistant Archivist for NA also directed a complete business process re-engineering (BPR) of the entire property management function in April 2007. A request for quotation for the BPR was issued one year later, in April 2008 and the deliverable for the contractor to provide recommended standard operating procedures is due in November 2008. As of July 29, 2008, the contract has been awarded and initial interviews with property management stakeholders have begun. Improvements in management controls are needed immediately to ensure assets are appropriately safeguarded from loss.

This report makes 15 recommendations which, if implemented, will help to strengthen controls over the personal property management function.

## INTRODUCTION

### BACKGROUND

NARA defines accountable personal property as personal property that is in the interest of the Government to maintain and assure proper use, maintenance, and protection from receipt through disposal. Accountable personal property required to be maintained is:

- (a) Capitalized personal property;
- (b) Office furniture and equipment having a unit cost of \$3,000 or more;
- (c) Borrowed or leased personal property; and
- (d) Sensitive items (defined as laptops, weapons, and digital cameras).

The NARA-wide personal property management program is managed by the Director, NAF. Policy governing the personal property management program at NARA is contained in NARA Directive 201, Chapter 8, "Personal Property Management," and supplemental guidance is provided in NARA's Property Managers Users Guide. According to the Property Managers Users Guide, Property Accountable Officers (PAOs) are responsible for the immediate physical custody of all personal property under their control and for providing documentation on all actions affecting the personal property within their jurisdiction. A Property Management Officer (PMO) is an individual within NAF responsible for maintaining the personal property management system and developing, promoting, monitoring, administering, coordinating, and evaluating the NARA-wide personal property management program.

NARA requires a physical inventory of accountable personal property at all NARA locations be taken at regular intervals, generally, at least once a year or an equivalent cycle commensurate with the volume of personal property and the complexity of the operations of the unit. The PAO must submit a Report of Survey (ROS) to NAF for items discovered missing during the inventory (within 5 workdays of discovery). In addition, if an employee detects or suspects a loss of, or observes damage to, Government property, the employee must report it to the PAO or the supervisor immediately. Every effort is to be made to locate lost items before initiating a ROS.

NARA uses NA Form 5015 "National Archives Report of Survey" (see Appendix A) to document the circumstances surrounding the loss, theft, damage, or destruction of Government property, and serves as a voucher for adjusting the accountable property records. It also determines the responsibility and establishes the extent of liability for damage, destruction and deterioration (beyond normal wear and tear); or provides relief from responsibility, liability, and/or accountability for such property.

## OBJECTIVES, SCOPE AND METHODOLOGY

The overall objective of the audit was to assess whether management controls were adequate and provided reasonable assurance that lost property was properly documented and accounted for in NARA records.

The audit was conducted at Archives II in College Park, MD, primarily with the Office of Administration (NA). We also contacted the Office of Information Services (NH) and the General Counsel (NGC).

To determine whether management controls were adequate and provided reasonable assurance that lost property was properly documented and accounted for in NARA records we evaluated the policy and procedures in place over the property management program and the extent to which the policies and procedures were implemented. Specifically, we (1) reviewed NARA Admin 201, Chapter 8 and the Property Managers Users Guide, (2) interviewed NARA property management officials and the Assistant Archivist for Administration (hereafter referred to as Assistant Archivist for NA) to obtain their view on the property management program, (3) interviewed selected Property Accountability Officers who had previously reported lost property, and (4) reviewed the ROSs available for fiscal years 2002 through 2007. We also evaluated actions taken by management to hold employees accountable for equipment losses by interviewing those officials responsible for signing the ROSs and reviewing and analyzing the reports obtained.

**Table 1. Reports of Survey Available for Review.**

<b>Year</b>	<b>Number of Reports of Survey Available</b>
2002	64
2003	10
2004	6
2005	37
2006	30
2007	0*
<b>Total</b>	<b>147</b>

\*ROSs had not been completed at the time of our audit

We evaluated equipment losses and other equipment management problems by reviewing and analyzing the 147 ROSs available for fiscal years 2002 through 2006. Because ROSs were not available for FY 2007, we used a spreadsheet of the preliminary results of the 2007 physical inventory, received in March 2008, to identify the approximate number of items reported as missing<sup>3</sup>. In addition, because the ROSs for fiscal years 2004, 2005 and 2006 were not signed by responsible officials, we did not use the amounts reported on

<sup>3</sup> At the time of fieldwork, the results of the 2007 inventory were not finalized therefore, we used the preliminary results available as of March, 2008. The actual amount of lost property may change as a result of PAO's recertifying their property listings.

those forms in our calculation of the amount of equipment removed from property records, as this equipment had yet to be removed from the property management system pending signatures.

To determine whether lost property had an affect on the NARA financial statements we reviewed the 2007 Property, Plant and Equipment subsidiary schedule and compared the barcode numbers of the assets listed in the spreadsheet to the list of missing property identified during the 2007 physical inventory.

This performance audit was conducted in accordance with generally accepted government auditing standards (GAGAS) between January and July 2008. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## FINDINGS AND RECOMMENDATIONS

### Report of Survey Process Not Followed or Enforced

Lost property was not properly documented and accounted for in NARA records. At least 147 reports of survey were submitted to the NARA Facilities and Personal Property Management Division (NAF) between FY 2002 and FY 2006. Of these 147 reports, only 3 documented the circumstances surrounding the loss, theft, damage or destruction of Government property. This occurred because the Assistant Archivist for NA and NAF officials did not follow or enforce the established controls over the ROS process. Office of Management and Budget (OMB) Circular A-123, Revised, "Management's Responsibility for Internal Control" requires federal agencies to establish and maintain a management control system that provides reasonable assurance property and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Without statements or other documents provided as evidence, the Assistant Archivist for NA and NAF officials responsible for reviewing the reports lacked enough information to determine whether an investigation was warranted.

According to the Property Managers Users Guide, a physical inventory of accountable personal property at all NARA locations must be taken at regular intervals. One purpose of the physical inventory is to locate or identify missing property. If property is identified as missing, the Property Accountability Officer (PAO) is responsible for preparing the ROS and submitting the report to the Property Management Officer in NAF. According to NARA procedures, the ROS is used to document the circumstances surrounding the loss, theft, damage, or destruction of Government property, and serves as a voucher for adjusting the accountable property records. The ROS must be supported by statements and other documents clearly and concisely answering all questions pertaining to the incident.

Between fiscal years 2002 and 2006, NARA property accountability officers submitted at least 147 ROSs to report 2,405 missing equipment items with a combined original acquisition value of \$6 million. We reviewed the 147 ROSs and found 144 reports were not complete because the forms did not include the circumstances surrounding the loss, theft, damage or destruction of the Government property.

**Table 2. Lost Property reported on Reports of Survey between FY 2002 and FY 2006.**

Year	Reports of Survey Submitted	Number of Items Reported as Lost	Acquisition Cost of Lost Property (rounded)	Number of Complete Reports
2002	64	1,003	\$2,658,000	0
2003	10	415	\$831,000	0
2004	6	34	\$260,000	1
2005	37	325*	\$826,000*	0
2006	30	628**	\$1,475,000**	2
<b>Total</b>	<b>147</b>	<b>2,405</b>	<b>\$6,050,000</b>	<b>3</b>

\*This amount does not include 206 missing IT equipment items with an acquisition cost of \$1.1 million which was not reported on an ROS (please refer to page 8 for further information).

\*\*This includes some equipment reported in FY 2006 which was also reported in previous years.

In addition, we found that not all of the ROSs had been reviewed by the designated officials as required. According to NARA procedures, the ROS process includes three levels of management review as shown in Table 3.

**Table 3. Responsibilities in the ROS Process as defined in the NARA Property Managers Users Guide**

Role	NARA Official	Responsibilities
Property Management Officer	Property Management Officer	Reviews the report for administrative errors, omissions, and completeness and returns it to the initiating unit for correction if necessary.
Appointing Authority	Director, NAF	Reviews the report to decide if it warrants an investigation by a survey officer.
Reviewing Authority	Assistant Archivist for Administration	Reviews the actions taken by the survey officer and the appointing authority, making certain all requirements have been met. Has the authority to: 1) provide relief from responsibility; 2) require an investigation; 3) determine whether the initial investigation was complete or more information is needed; or 4) approve liability against an individual.

Our review of the ROSs revealed that only the reports submitted in FY 2002 and 2003 were reviewed and signed by all three NARA officials. However, in these cases, the circumstances surrounding the loss were either omitted or defined in generic terms such as "search conducted but item(s) not found." There was no indication the Director, NAF or the Assistant Archivist for NA rejected any of the forms or sought additional information, even though they were incomplete. ROSs provided by NAF officials for FY 2004 and 2006 were not signed by the Director, NAF or the Assistant Archivist for NA, therefore, we could not determine whether management had reviewed the reports as required. According to one NAF official, the Assistant Archivist for NA voided the results of the 2006 inventory before his office had a chance to perform their initial review the FY 2006 reports. The ROSs for 2005 were signed by two of the three officials but had not been signed by the Assistant Archivist for NA as the Reviewing Authority. According to the Assistant Archivist for NA, because of inaccuracies and questionable data in the property management system she voided the FY 2005 and FY 2006 inventories as invalid instead of signing the forms. Therefore, the management control created to account for missing property and for management to review the missing property was not operating as intended.



OMB Circular A-123 requires federal agencies to establish and maintain a management control system that provides reasonable assurance property and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation. NARA Admin 201, Chapter 8 along with the Property Managers Users Guide established controls to ensure the security of personal property against theft, fraud, waste, abuse, and damage. However, the Assistant Archivist for NA and NAF officials did not follow or enforce the existing controls over the ROS process. For example:

a.) NAF officials did not follow or enforce procedures for conducting physical inventories. NARA procedures require annual inventories to be completed within 10 workdays and allow another 10 workdays to reconcile and adjust the PAO's records to the property system. We found the annual inventories at NARA did not follow these procedures as annual inventories were not completed for several months, or in some cases over a year, while the PMO tried to reconcile the inventory results received from all the PAOs to determine whether any missing property reported by one PAO was included as new property on another PAOs inventory. In addition, NARA procedures require incoming and outgoing PAOs to conduct a joint physical inventory when there is a transfer of accountability. Several PAOs we interviewed stated a joint inventory was not conducted when they became PAO. In at least one instance, this led the PAO to refuse to accept responsibility for 206 missing items with an original acquisition cost of over \$1.1 million because according to the PAO, the property was lost prior to their assignment as PAO. In another example, an ROS was submitted to NAF officials regarding approximately \$600,000 in missing property in a PAO account managed by the former NAF Property Management Officer. According to the form, the Property Management Officer retired before the account could be reconciled and although the warehouse at Archives II was physically inventoried on several occasions, 250 items could not be located. Because the PAO responsible for the equipment had retired, circumstances surrounding the loss of the items could not be provided.

b.) The Assistant Archivist for NA and NAF officials did not require PAOs to fill out the ROSs as described in NARA procedures. As part of the review process, property management officials had the opportunity to return the form to the PAO to request additional information, however, evidence did not exist to show that any of the ROSs were ever returned. As a result, information in block 11 regarding the date and circumstances surrounding the loss of equipment, including supporting documentation and statements from parties involved, was not provided. Without this information, documentation does not exist to suggest that the Assistant Archivist for NA and NAF officials had enough evidence to conclude that further investigation was not needed or to relieve employees from liability.

In one example, missing items from an ROS included a microfiche camera terminal with an acquisition cost of \$45,000 and a 3,000 lb capacity electric forklift with an acquisition cost of \$13,000. According to the form, "a second search was conducted and the attached list indicates 21 items were not located." The Director, NAF and the Assistant Archivist for NA signed the form without requiring statements or evidence as to what may have happened to the camera, forklift, or the other 19 missing items, be documented on the ROS. In an interview, the Assistant Archivist for NA stated she requested additional

information about some of the missing equipment items before approving their removal from the property management system. According to the Assistant Archivist for NA, the additional information was received verbally from the Director, NAF, therefore, it was not documented on the form and support could not be provided. The Assistant Archivist for NA did not furnish any documentary evidence that she had questioned or sought additional information in 2002 or 2003, prior to supporting the writing off of 1,418 equipment items with an acquisition cost of \$3.5 million from the property management system.

c.) NAF officials did not provide sufficient training to PAOs on their functions as property custodians. Several management officials stated PAO's were given training at every opportunity however, during the conduct of the audit the PMO stated training was not provided to PAO's. We noted that PAOs we interviewed were not familiar with the NARA procedures for personal property management and stated they had not received formal training regarding their responsibilities. Instead, PAOs we interviewed received training on how to create reports in the automated property management system. PAOs often relied on NAF officials for assistance in completing the ROS form. According to several PAOs, NAF either directed them to write they were unable to locate the equipment or the NAF staff filled out the ROS for them. For example, the ROS shown in Figure 1 below documents a PAO's inability to locate 253 equipment items. According to the information in Block 11, a second search was performed and the property was still missing. We found the information recorded on this form was consistent with a majority of the reports we reviewed and did not provide any information as to the circumstances surrounding the loss of the equipment.

**Figure 1. ROS Approved by the Assistant Archivist for NA in 2003 even though Circumstances were not included.**

NATIONAL ARCHIVES REPORT OF SURVEY		1. DATE PREPARED	2. SURVEY NUMBER		
TYPE OF PROPERTY		5/15/03	473067- -3178-0002		
[REDACTED]		4. ADDRESS OF PROPERTY ACCOUNTABLE OFFICER			
5. ORIGINATOR		8601 Adelphi Rd			
6. NATIONAL STOCK NUMBER	7. ITEM DESCRIPTION	8. QTY	9. UNIT PRICE	10. TOTAL COST	
253 <del>273</del>	line items missing See attached items not located.				
11. DATE AND CIRCUMSTANCES					
I have performed a second review not located and the attached list of property is still missing.					

Interviews with selected PAOs who had previously filled out ROS forms identified that efforts to locate the equipment before filling out the ROS were not always thorough. In particular, one PAO noted that a room was completely filled with excess equipment to the point where the PAO considered it to be unsafe to try and inventory the equipment. The lack of thorough inventories and failure by NAF to oversee the inventory process created a risk environment in which equipment could be removed from the property management system prematurely.

In addition, we identified a potential loophole within the NARA procedures. Although the Assistant Archivist for NA believed she had retained the sole responsibility and authority for determining whether an individual was relieved from responsibility or liability for missing property, the ROS process contained in the NARA Property Managers Users Guide grants the Appointing Authority (the Director, NAF) the ability to approve the ROS by the authority of the Archivist of the U.S. if the Appointing Authority determined an investigation was not warranted. In this scenario, the Assistant Archivist for NA would not have an opportunity to review the ROS or the actions taken by the Appointing Authority to determine whether an investigation was needed or whether an individual should be held financially liable.

In 2007, the Assistant Archivist for NA took several actions to address deficiencies in the property management program. One action taken was the Assistant Archivist for NA approved a change to the definition of accountable property increasing the minimum cost threshold from \$1,000 to \$3,000 and reducing the definition of sensitive items to include only laptops, digital cameras, and weapons. This change eliminated controls over approximately 14,000 equipment items. The Director, NAF believed that by reducing the amount of property controlled from 18,000 items to 4,000 items, the program would be more manageable. However, this change did not correct the control deficiencies identified in the program. Other actions taken by the Assistant Archivist for NA included new procedures for the loading dock and detailing a Financial Reports official to NAF to assist in cleaning up the data in the property management system. In addition, the Assistant Archivist for NA directed a complete business process re-engineering (BPR) of the entire property management function in April 2007. A request for quotation for the BPR was issued one year later, in April 2008, and the contract was awarded in June 2008. The deliverable for the contractor to provide recommended standard operating procedures is due in November 2008. Improvements in management controls are needed immediately to ensure assets are safeguarded from loss.

**Recommendations:**

1. The Archivist of the U.S. should direct the Assistant Archivist for Administration to enforce the requirement that physical inventories be completed within 10 days and establish a mechanism to monitor PAO's adherence to the physical inventory requirements.
2. The Archivist should direct the Assistant Archivist for Administration to enforce the requirement for joint inventories to be completed when there is a transfer of accountability between PAOs.

3. The Archivist should direct the Assistant Archivist for Administration to develop and review quarterly a set of management reports from the property management system to ensure it is updated regularly and that information is complete and accurate.
4. The Archivist should direct the Assistant Archivist for Administration to establish a specific timeframe for finalizing Reports of Survey once submitted.
5. The Archivist should direct the Assistant Archivist for Administration to provide training for all PAOs on their functions as property custodians. At a minimum the training should include a review of the procedures for conducting inventories, the procedures to remove excess equipment, and the procedures to report missing equipment items.
6. The Archivist should direct the Assistant Archivist for Administration to revise the Property Managers Users Guide to remove the ability for the Appointing Authority to approve the Reports of Survey and require that the Reviewing Authority review and sign each Report of Survey.

**Management Response:**

The Acting Assistant Archivist for Administration concurred with the recommendations.

**NARA Officials did not Investigate Any Missing Equipment**

The Assistant Archivist for NA and Director, NAF never once directed an investigation<sup>4</sup> of any of the 2,405 missing equipment items or hold individuals accountable for any of the lost property reported on the ROSs. This occurred because reviews of the ROSs by the Assistant Archivist for NA and NAF officials were not adequate and NARA procedures did not include sufficient guidance as to when an investigation should be conducted. By not investigating any of the missing equipment, the Assistant Archivist for NA and NAF officials created a weak internal control environment. This environment presented an opportunity for theft of equipment by unscrupulous employees or contractors without fear of being detected or being held responsible by management officials.

None of the 147 ROSs we reviewed from the last five years were investigated by a survey officer. In 2002 and 2003 (the only years in which the reports were signed by the Assistant Archivist for NA) the Director, NAF, determined further investigation was not required for any of the 1,418 missing equipment items identified on the ROSs and the Assistant Archivist for NA agreed with the Director's decision. This determination relieved all parties from property accountability and responsibility and allowed property with a total acquisition cost of \$3.5 million to be removed from the property management system without investigation. Subsequent to 2003, the Assistant Archivist for NA and NAF officials did not investigate or recommend an investigation for any of the

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<sup>4</sup> See Appendix A, blocks 16 and 34 of the ROS form.

\$2.5 million in lost property identified on the ROSs even though documentation of the circumstances surrounding the loss of equipment was, in most cases, not provided. In no cases was a referral of any kind made to the OIG.

The Assistant Archivist for NA and NAF officials believed that property losses were not the result of negligence, willful misconduct, or deliberate unauthorized use. They continue to maintain this position even in light of -----Redacted pursuant to FOIA Exemption b(6)----- following allegations of criminal activity. We identified a flawed approach in the reviews of the ROSs performed by the Assistant Archivist for NA and the Director, NAF in making their determination as to whether an investigation was needed. In particular, the Director, NAF, lacking better guidance, came to the conclusion an investigation was not needed for any of the reports of lost property based on his "gut feeling." The Assistant Archivist for NA considered whether the ROS seemed "strange" in lieu of requiring PAOs to provide evidence or statements from personnel who may have had knowledge of what happened to the equipment.

Another flaw in the method used to review the ROSs was the Director, NAF, used the total depreciated value of the missing items as a factor in his continuous recommendation that investigations were not needed. If the depreciated value of the item was \$0, he considered it to be old and outdated and would not recommend investigating. Although NARA's accounting policy only depreciates individual equipment items valued at \$50,000 or more, the NARA property management system included a depreciation schedule and calculated depreciation for each asset. Therefore, missing property that was fully depreciated in the property management system (which could occur as early as 3 years from the date the item was received) was considered by the Director, NAF to be old and outdated and therefore, probably unworthy of an investigation regardless of (a) the original acquisition cost; (b) potential resale value which would increase the equipment's risk of theft; or (c) whether the equipment was still needed to support NARA's mission and would need to be replaced. In a practical sense, equipment meeting this threshold could be stolen carte-blanche by unscrupulous persons without fear of their being detected by responsible management officials.

After becoming aware of the alleged criminal activity by a NARA -----Redacted pursuant to FOIA Exemption b(6)----- in September 2006, and the loss of over \$1.1 million in IT equipment during FY 2005, the Assistant Archivist for NA questioned the results of the FY 2005 and FY 2006 inventory and the reliability of the data in the property management system. However, according to the Assistant Archivist for NA, the missing equipment reported in FY 2005 and FY 2006 was most likely either transferred to GSA as excess equipment without documentation or the equipment was stored in a closet somewhere. The Assistant Archivist for NA stated she did not consider the missing items to have any value that would present a risk of theft.

In our review, we identified a range of equipment on the ROSs including three x-ray machines, two forklifts, expensive preservation equipment, and a considerable amount of IT equipment. While some equipment was more than 10 years old and could have been outdated, we do not agree that all missing equipment was old and outdated. For example, we identified a \$72,000 server received in October 2005 that could not be located during

the annual inventory in October 2006. In another example, 3 desktop computers were received in March 2005 and reported on a ROS dated May 2005. Therefore, these three computers were lost less than three months after receipt. These examples highlight missing equipment that should have been investigated by a survey officer to determine the cause of or responsibility for the loss of government property.

NARA procedures do not include criteria or a threshold for when an investigation by a survey officer<sup>5</sup> would be warranted and the Assistant Archivist for NA stated she never requested data on trends or analysis of the ROSs. According to the Assistant Archivist for NA, information regarding lost property could be found in the stack of ROSs she received from NAF. However, if the Assistant Archivist had requested trends from NAF such as the total number of laptops lost during the year or how many items were lost in NARA field sites versus AI or AII locations, this information could have been helpful in detecting weaknesses in internal controls.

By not investigating lost property or holding individuals accountable for lost property, the Assistant Archivist for NA and NAF officials created a weak control environment over the property management function. Regardless of the depreciated value of the equipment or the age of the equipment, NARA is required to follow federal policy for removing equipment no longer in use. In addition, NARA officials have a responsibility to protect assets from theft, loss, unauthorized use, or unauthorized disposition.

Preliminary results from the 2007 annual physical inventory, obtained in March 2008, identified that NARA is currently missing approximately 895 equipment items. The combined original acquisition cost of these 895 items is \$7 million. In order to reconcile the assets on hand to the records in the property management system, PAOs will have to fill out ROSs to document the loss of these 895 equipment items. Due to the fact items may have been missing in some cases for over seven years, the potential for any successful investigative outcome has been severely limited. However, the Assistant Archivist for NA and NAF officials should review the ROSs prepared and determine whether an investigation by a survey officer is warranted.

#### **Recommendations:**

7. The Archivist should direct the Assistant Archivist for Administration to establish criteria or a threshold for when an investigation by a survey officer would be required and document this criterion in the property management procedures.
8. The Archivist should direct the Assistant Archivist for Administration to review the Reports of Survey for equipment items reported as missing in fiscal years 2007 and 2008 and ensure the Reports of Survey include evidence or statements from personnel with knowledge of what happened or what may have happened to the equipment on the form.

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<sup>5</sup> The survey officer (under normal circumstances the PMO) conducts an investigation to determine the cause and value of loss, damage, or destruction of property listed on an ROS, and determines any assessment of financial liability.

9. The Archivist should direct the Assistant Archivist for Administration to revise the property management procedures and require PAOs to submit the Reports of Survey to the OIG as well as NAF within the time period required by the Property Managers Users Guide (currently five workdays of discovery of the missing equipment).

10. The Archivist should direct the Assistant Archivist for Administration to provide trends and analysis on the Report of Survey data that will be useful in detecting weaknesses in internal controls.

**Management Response:**

The Acting Assistant Archivist for Administration concurred with the recommendations.

**Missing IT Equipment with Memory Storage Capability Presents Risk of Data Breach**

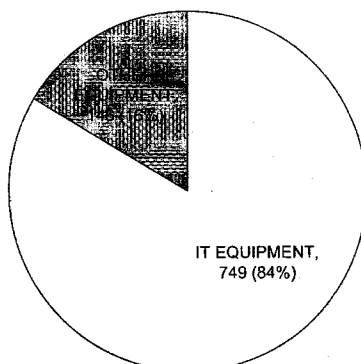
The FY 2007 annual inventory identified 559 IT equipment items with memory storage capability were missing. Although these missing items have the potential to store sensitive information, to include Personally Identifiable Information (PII), NARA officials did not take action to determine the use or type of data stored on the equipment. This occurred because NARA policy and procedures do not address missing IT equipment with memory storage capability, and a process was not in place to ensure lost property did not contain sensitive information. According to Office of Management and Budget (OMB) Memorandum 07-16, "Safeguarding Against and Responding to the Breach of Personally Identifiable Information," safeguarding personally identifiable information in the possession of the government and preventing its breach<sup>6</sup> are essential to ensure the government retains the trust of the American public. As a result, the risk presented by the loss of these equipment items has not been assessed and NARA is unaware whether sensitive data has been or is at risk of disclosure.

Depending on the user of the equipment and how the equipment was used at the individual or office level, missing equipment could have stored a variety of sensitive information such as PII, contractor proprietary data, credit card information, or classified data. According to the results of 2007 inventory, the 895 missing items fell within 23 different asset types (see Appendix B for the complete list) with a majority of the missing equipment categorized as IT equipment. As shown in Figure 4, of the 895 missing items 749 items were categorized as IT equipment.

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<sup>6</sup> According to OMB M-07-16, the term "breach" is used to include the loss of control, compromise, unauthorized disclosure, unauthorized acquisition, unauthorized access, or any similar term referring to situations where persons other than authorized users and for an other than authorized purpose have access or potential access to PII, whether physical or electronic.

**Figure 4. Classification of Missing Equipment Identified during the FY 2007 Physical Inventory**



We identified at least five of the asset types consisted of IT equipment with memory storage capability and therefore, had the potential to store PII, classified or other sensitive data (See Table 4 below). Of the total 749 missing IT equipment, 559 items fell within one of these five asset types. As of March 2008, NARA officials had not taken any action to determine the use or type of data stored on these 559 missing IT equipment items.

**Table 4. Missing IT Equipment from the 2007 Inventory with Memory Storage Capability**

Asset Type	Number of Items Missing	Acquisition Cost of Missing Items
LAPTOP	231	\$485,440
SERVER	215	\$2,089,936
WORK STATION (i.e. Desktop Computer)	55	\$415,311
PRINTER*	55	\$272,694
STORAGE DEVICE	3	\$62,385
<b>TOTAL</b>	<b>559</b>	<b>\$3,325,766</b>

\* Certain printers have the capability to store data.

NARA Interim Guidance 1603-2 "External Breach Notification," September 20, 2007, created in response to OMB M-07-16, recognizes that lost or stolen equipment such as laptops, portable data assistants (PDA's), or other electronic storage devices could result in a breach of personally identifiable information. However, NARA personal property management procedures do not address special considerations for missing IT equipment with memory storage capability and a process was not in place to determine what information may have been stored on the lost property. For example, the ROS form does



not require the PAO to assess or include the sensitivity of information stored on lost IT equipment.

None of the NARA officials we interviewed had questioned what type of data may have resided on the missing equipment and each believed it was not their responsibility to do so. The Assistant Archivist for NA believed the NARA Chief Information Officer (CIO) should be responsible for assessing the sensitivity of information that could have been on missing equipment. However, the CIO believed the PAO and the individual using the equipment should be responsible. NARA's General Counsel who serves as the Senior Agency Official for Privacy was not notified of the potential for loss of PII information and stated that the General Counsel's office should be notified only if there is a suspected breach. His opinion was that it should be the responsibility of the PAO and NAF officials to determine what information was on the equipment. The different answers given by three NARA senior officials indicate coordination is needed to establish clear roles and responsibilities for IT equipment with a potential to store sensitive information. By not taking action to identify what information could have been on the missing equipment NARA is unaware whether sensitive data has been or is at risk of disclosure. Missing IT equipment items involve an additional security risk associated with the potential for sensitive or classified data that may have been stored on the equipment, therefore, agency officials need to take timely action to address these risks.

### **Recommendations**

11. The Archivist should direct the Assistant Archivist for Administration to revise NARA Form 5015 "Report of Survey" to require the inclusion of the sensitivity of information stored on missing IT equipment with memory storage capability.
12. The Archivist should direct the Assistant Archivist for Administration along with the Senior Agency Official for Privacy and the Assistant Archivist for Information Services to develop policy that communicates who has responsibility for determining (a) the information that was or could have been stored on lost property and (b) the significance of the lost data.
13. The Archivist should direct the Assistant Archivist for Administration to assess what information was or could have been stored on the 559 missing IT equipment items and notify appropriate officials, as described in NARA Interim Guidance 1603-2 "External Breach Notification," if personally identifiable information is discovered to have been stored on any of these items.

### **Management Response:**

The Acting Assistant Archivist for Administration concurred with the recommendations.

### Impact of Missing Equipment on the NARA Financial Statements

The subsidiary schedule for Property, Plant and Equipment is based on records maintained in the property management system. The FY 2007 subsidiary schedule included 17 capitalized assets, with an acquisition cost of \$1.3 million, that were reported as missing during the FY 2007 physical inventory. This occurred because the Assistant Archivist for NA and NAF officials did not follow the ROS process to adjust the records in the property management system. According to NARA procedures the ROS serves as the voucher for adjusting the property records. Failure to adjust the property records in a timely manner could result in an overstatement of fixed assets on future NARA Financial Statements.

NARA Interim Guidance 400-5 "Capitalization Policy for NARA Assets," March 7, 2005, defines an asset as any general property, plant, and equipment purchases that will benefit daily NARA operations. An asset is capitalized if it (1) has an estimated useful life of two or more years; (2) is not intended for sale in the ordinary course of operations; (3) meets the dollar threshold for the asset category (currently the threshold for an individual item is \$50,000) and (4) is acquired or constructed with the intent of being used or is available for use by NARA. According to a NARA Financial Reports official, data in the property management system is relied upon by their office to identify capitalized assets no longer in NARA's possession that would need to be removed from the schedules supporting the financial statements.

As shown in Table 5, 17 missing capitalized assets were included in the subsidiary schedule for Account 1750 "Equipment" and 1759 "Accumulated Depreciation - Equipment" for FY 2007 and in the personal property depreciation schedule. At least 12 of the 17 assets had not been inventoried for over a year with one asset last inventoried in 2001. In addition, six of the missing assets were not fully depreciated at the beginning of FY 2007. While the inclusion of these 17 assets in the subsidiary schedule did not materially affect the FY 2007 financial statements, in the future, NARA officials need to ensure the data relied on to support the financial statements is accurate.

**Table 5. Lost Property Included in the 2007 Fixed Asset General Ledger Account.**

Asset Description	Year Asset was Last Inventoried	Acquisition Cost
1. PROJECTOR	2006	\$125,000
2. COMPUTER SYSTEM	2006	\$100,000
3. PEREGRINE APPLIANCE HARDWARE	2004	\$100,000
4. ROUTER	2003	\$87,408
5. ROUTER	2003	\$87,408
6. ROUTER	2003	\$87,408
7. ROUTER	2003	\$87,408
8. ROLL FILM CLEANING MACHINE 16MM/36MM FILM	2005	\$84,461
9. SERVER INTERNET SECURITY SYSTEM	2005	\$72,224
10. MINI COMPUTER SYSTEM	2004	\$65,000

Asset Description	Year Asset was Last Inventoried	Acquisition Cost
11. CAMERA ZEUTSCHEL	2006	\$64,000
12. CAMERA ZEUTSCHEL	2006	\$64,000
13. PREVENTIA APPLIANCE	unkown	\$60,000
14. CORE SWITCH	2005	\$60,000
15. SWITCH	2005	\$60,000
16. X-RAY MACHINE	2001	\$55,865
17. COPYING MACHINE W/REDUCTION/ENLARGE	2004	\$50,000
<b>Total</b>		<b>\$1,310,182</b>

As discussed earlier in this report, the Assistant Archivist for NA and NAF officials did not follow the ROS process established in NARA procedures. Because these officials did not use the ROSs to adjust property records after 2003, items reported as missing by PAOs during the annual inventories remained in the property system. Therefore, the information relied upon to compile the property plant and equipment subsidiary schedule was not an accurate representation of the assets on hand. Until the Assistant Archivist for NA and NAF officials follow the ROS process and adjust the property records to reflect property on-hand, NARA is at risk of overstating the fixed asset account supporting future NARA Financial Statements.

**Recommendations:**

14. The Archivist should direct the Assistant Archivist for Administration to provide a copy of all Reports of Survey that include a capitalized asset to the NARA Financial Reports Division as soon as it is approved.
15. The Archivist should direct the Assistant Archivist for Administration to develop as part of the management reports from the property management system a report on capital assets that is reconciled quarterly to the financial statements.

**Management Response:**

The Acting Assistant Archivist for Administration concurred with the recommendations.

**Appendix A. NA Form 5015 "National Archives Report of Survey"**

<b>NATIONAL ARCHIVES REPORT OF SURVEY</b>		1. DATE PREPARED	2. SURVEY NUMBER	
3. TYPE OF PROPERTY		4. ADDRESS OF PROPERTY ACCOUNTABLE OFFICER		
5. ORIGINATOR				
6. NATIONAL STOCK NUMBER	7. ITEM DESCRIPTION	8. QTY	9. UNIT PRICE	10. TOTAL COST
11. DATE AND CIRCUMSTANCES				
12. AFFIDAVIT I do solemnly swear (or affirm) that (to the best of my knowledge and belief) the articles of public property shown above and/or on attached sheets were lost, destroyed, damaged, or worn out in the manner stated, while in the public service.		a. SIGNATURE AND DATE		
		b. TYPE NAME, TITLE, AND LOCATION		
13. DATE	14. NAME AND SIGNATURE OF PROPERTY MANAGEMENT OFFICER		15. DOCUMENT NUMBER	
16. APPOINTING AUTHORITY I have received the evidence pertaining to the lost, damaged, or destroyed property, and have determined that the following action is required.				
<input type="checkbox"/> a. No further investigation is required. There is no positive evidence of negligence. I do not suspect willful misconduct, or deliberate unauthorized use. I hereby forward this document to the approving authority for final action. (Proceed to block 34.)				
<input type="checkbox"/> b. The circumstances surrounding the loss, damage or destruction warrants further investigation. (Proceed to block 20.)				
17. DATE	18. TYPE NAME AND TITLE OF APPOINTING AUTHORITY	19. SIGNATURE		

20. NAME OF SURVEYING OFFICER		21. REASON FOR SURVEY ( <i>Loss, Damage, etc.</i> )		22. DATE	
23. FINDINGS AND RECOMMENDATION  I have examined all available evidence as shown in exhibits _____ to _____ and as indicated below have personally investigated the same and it is my belief that the article(s) listed hereon and/or attached to sheets, total cost \$ _____					
24. RECOMMENDED PECUNIARY CHARGE		a. ACTUAL LOSS	b. AMOUNT CHARGED	c. LOSS TO GOVERNMENT	
25. DATE		26a. TYPE NAME OF SURVEYING OFFICER		b. SIGNATURE	
27. I have examined the findings and recommendations of the Surveying Officer on this report of survey and the exhibits _____ to _____ and <input type="checkbox"/> desire to make a statement which is attached hereto; <input type="checkbox"/> do not desire to make a statement. I am aware of my right to legal advice in preparing the statement and if a pecuniary charge is finally approved.					
28. DATE		29a. NAME OF INDIVIDUAL BEING CHARGED		b. SIGNATURE	
30. RECOMMENDATION BY THE APPOINTING AUTHORITY <input type="checkbox"/> CONCUR <input type="checkbox"/> NONCONCUR		31. COMMENTS			
32. DATE		33a. TYPE NAME AND TITLE OF APPOINTING AUTHORITY		b. SIGNATURE	
34. REVIEWING AUTHORITY  <input type="checkbox"/> a. REJECTED. Investigation is required. Appoint a survey officer. Date _____ Initials _____ <input type="checkbox"/> b. REJECTED. Investigation incomplete. Additional information required. Date _____ Initials _____ <input type="checkbox"/> c. APPROVED BY AUTHORITY OF THE ARCHIVIST OF THE UNITED STATES.				35. PECUNIARY CHARGE a. ACTUAL LOSS b. AMOUNT CHARGED c. LOSS TO GOVERNMENT	
36. DATE		37. TYPE NAME AND TITLE OF REVIEWING AUTHORITY		38. SIGNATURE	

**Appendix B. Missing Property Identified during the 2007 Physical Inventory (as of March 2008)**

Asset Type	Number Missing	Acquisition Cost
Server	215	\$2,089,936
Router	48	690,532
Photographic Equipment	34	496,908
Laptop	231	485,440
Switch	33	480,495
Tape Drive	51	473,176
Work Station	55	415,311
Audio/Visual Equipment	36	414,754
Printer	55	272,694
Office Equipment	23	220,301
Security Equipment	12	207,067
Catalyst	16	189,194
Rack	31	181,427
Industrial Equipment	18	127,760
Storage Device	3	62,385
Scanner	9	52,468
Firewall	2	40,498
Laboratory Equipment	7	37,967
Conservation Equipment	4	21,316
Communications Equipment	3	13,277
Fitness Equipment	3	12,708
Food Preparation	2	11,873
Digital Camera	4	4,008
<b>Total</b>	<b>895</b>	<b>\$7,001,495</b>



## National Archives and Records Administration

8601 Adelphi Road  
College Park, Maryland 20740-6001

Date: August 13, 2008  
To: OIG  
From: NA  
Subject: Management Response to Audit of Management Controls over Accounting For Lost Property, OIG Draft Report No. 08-09

Thank you for the opportunity to review and comment on this draft audit report. We appreciate the efforts of your staff and all parties associated with the audit process.

We agree that weaknesses exist in personal property management internal controls. We disagree, however, with some of the conclusions drawn from the findings. We detail that disagreement below to help clarify the report and our actions, not to invalidate the report. In fact, we accept all of the specific recommendations proposed in the report and agree that more needs to be done.

I. However, contrary to the presentation in the report, the Director of the Facilities and Personal Property Management Division (NAF) and I took multiple actions over the last few years to resolve the issues through the following and other efforts:


- Recognizing the weaknesses in internal controls found through the 2005 inventory ROSs, NA directed additional efforts and resources to assist NAF in resolving some of the data and control issues. The first priority was to place immediate controls at the personal property primary point of entry and exit (loading dock/receiving area) by implementing revised standard operating procedures (SOPs). Further, we undertook an intense effort to clean up the data in the property management database by conducting a complete wall-to-wall manual inventory, tracing each property record through its entire life cycle. A member of the Financial Reports Staff (NAX) staff was detailed to NAF to assist with this major task. Concurrently, the Office of Information Services (NH) conducted a nationwide IT equipment inventory to be used to assist in reconciling property accounts.
- In 2006, NA directed further research and data clean up of the inventory and refused to validate it until such research was conducted. The intent of not signing the 2006 inventory was *not* to allow the write-off of discrepancies, but instead to pursue missing items.

NARA's web site is <http://www.archives.gov>

- Recognizing the need to improve control of property, NA directed NAF to conduct an internal business process reengineering of property management processes and systems in 2006/2007. When it became clear that the BPR was too resource intensive for existing staff – as they were also engaged in the inventory and data clean up efforts, a contract was awarded to a professional BPR company to complete the effort in a more timely manner.

2. We would also emphasize that while the control weaknesses are real, the impact of any overstatement in Personal Property can result only in a negligible impact to NARA's Financial Statements because its entire value is below three percent of the total Property, Plant and Equipment value. We believe that it is also useful to note that the book value of the missing items as of March 2007 was \$41,000. This figure points to the age of the missing items.

In conclusion, we concur with the fifteen recommendations in this report and will begin working on an action plan to address them. In addition, we would like to work with the OIG on permanently resolving the remaining deficiencies in the property management program.



ADRIENNE C. THOMAS  
Acting Assistant Archivist for Administration





## National Archives and Records Administration

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