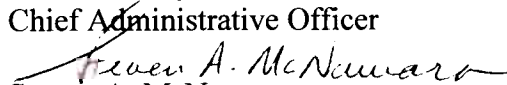


Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

MEMORANDUM

TO: James M. Eagen III
Chief Administrative Officer

FROM: 
Steven A. McNamara
Inspector General

DATE: May 24, 2000

SUBJECT: Audit Report – Office Systems Management’s Equipment Procurement And
Payment Practices Need Further Improvement (Report No. 00-CAO-03)

This is our final report on the procurement and payment practices of Office Systems Management (OSM). The objective of this audit was to determine whether OSM has effective procedures, practices, and processes to procure and pay for equipment purchased for the House. In this report, we identified several areas in the equipment acquisition process where further improvements are needed and made recommendations for corrective actions.

In response to our May 14, 1999 draft report, your office concurred with our finding and recommendations. The January 25, 2000 management response is incorporated in this final report and included in its entirety as an appendix. The corrective actions planned by your office are appropriate and, when fully implemented, should adequately respond to the recommendations. Further, the milestone dates provided for implementing corrective actions appear reasonable.

We appreciate the courtesy and cooperation extended to us by your staff. If you have any questions or require additional information regarding this report, please call Christian Hendricks or me at (202) 226-1250.

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Chairman, Committee on House Administration
Ranking Minority Member, Committee on House Administration
Members, Committee on House Administration

OFFICE SYSTEMS MANAGEMENT'S EQUIPMENT PROCUREMENT AND PAYMENT PRACTICES NEED FURTHER IMPROVEMENT

I. INTRODUCTION

Background

Office Systems Management (OSM) is responsible for fulfilling the office equipment needs for Members, Committees, and support offices in a quality and timely manner, while continually striving to improve the efficiency of the process. The process is administered within OSM by three departments, Acquisition Management; Vendor Administration; and Inventory Control. Acquisition Management administers written requests and telephone inquiries regarding equipment and furnishings performance, and answers questions pertaining to the House Guidelines for the Purchase of Equipment, Software, and Related Services. Vendor Administration processes invoices and payment inquiries, and provides information on maintenance contracts and vendors. The Inventory Control department manages assets, tags new equipment, moves equipment between offices, and removes and arranges for disposal of used equipment.

Objective, Scope, And Methodology

The objective of this audit was to determine whether OSM had effective procedures, practices, and processes to procure and pay for equipment purchased for the House. We assessed the adequacy of management controls over OSM's processing of requisitions, purchase orders, vendor invoices, payment vouchers, and inventory accountability. Our audit was conducted at OSM, Member and Committee offices, and selected vendors. The audit period was October 19, 1998 through March 31, 1999, and covered office equipment purchases made by OSM from March 1, 1998 through September 30, 1998.

This audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests as we considered necessary under the circumstances. We selected a random sample of 57 purchase orders from the universe of 1,374 purchase orders issued between March 1, 1998 and September 30, 1998, to evaluate the OSM procurement process from initial requisition to voucher payment. After analyzing the sample data, we met with OSM officials responsible for the procurement process, offices using the process, and vendors supplying the hardware and software to the House, to further assess the process.

Internal Controls

During this review, we evaluated OSM's internal controls pertaining to the procurement of office equipment. Weaknesses in the internal control environment are described in the "Results of Review" section of this report.

Prior Audit Coverage

The Office of Inspector General previously issued three audit reports that contained recommendations pertaining to OSM operations.

The first report, *Split Responsibility For Equipment Leasing And Maintenance Cost The House Almost \$2.0 Million Annually In Payments For Outdated Equipment* (Report No. 95-CAO-17, dated July 18, 1995), determined that OSM (1) did not take a physical inventory of House office equipment; (2) did not provide an on-going evaluation to determine whether vendors performed to House expectations; (3) did not manage maintenance of computer equipment cost-effectively; and (4) continued to pay maintenance fees for purchased equipment over six years old and of questionable utility. Additionally, OSM management did not manage leases on office equipment cost-effectively. Accordingly, this report made 10 recommendations for improvement.

The report, *Improvements Are Needed In The Management And Operations Of The Office Of The Chief Administrative Officer* (Report No. 96-CAO-15, dated December 31, 1996), identified that OSM systems and controls to track inventory were duplicative and that certain equipment is never inventoried. In addition, the report illustrated that due to poor tracking, when contracts are terminated or expire with vendors, OSM is unable to differentiate between House and vendor-owned equipment. We recommended that the Chief Administrative Officer (CAO) (1) consolidate the physical inventory of and responsibility for all House-owned equipment and to develop inventory control policies and procedures to ensure accurate inventory management; (2) develop a proposal to streamline and restructure processes for purchasing computers and related equipment; and (3) prepare a proposal for the Committee on House Oversight's approval to revise the approval authorities to reduce the review levels and distribute the purchase authority.

The most recent report, *Internal Controls Over Equipment Inventory Systems Can Be Improved* (Report No. 97-CAO-11, dated July 28, 1997), found that the internal controls over the equipment inventory systems in the U.S. House of Representatives (House) can be improved to provide greater assurance that House assets are properly identified, accounted for, secured, and valued uniformly. The report made 21 recommendations for improved operations.

Of the 34 recommendations made in these three reports, 17 of these recommendations remained open at the start of this audit. The Exhibit at the end of this report summarizes the current status of these 17 recommendations.

II. RESULTS OF REVIEW

During the past year, the CAO has implemented several policies and procedures to improve equipment acquisitions through OSM. These include the approval of Interim Equipment Process Improvement Recommendations, modification of the "Yellow ticket" and related procedures, updated Delegations of Authority to Sign Certain Purchase Orders, and the implementation of Procurement Desktop (PD) within OSM. However, we identified several areas in the equipment acquisition process where further improvements are needed.

Our review disclosed OSM equipment procurement and payment processes are unique and, as such, may not conform to standard industry practices. These processes include unique procedures for requesting, ordering, accepting, and paying for House equipment. As a result, equipment purchases, deliveries, and accountability can sometimes be delayed--making it difficult to pay vendors within the industry standard of 30 days after invoice date.

Requisition and Purchase Order Process

The House equipment procurement process begins when an office identifies a need and researches the products that will fulfill that need. To assist House offices with the procurement of equipment, software, and services, the Committee on House Administration issued *The User's Guide to Purchasing Equipment, Software, and Related Services (User's Guide)*.

According to the *User's Guide*, offices may purchase equipment from any vendor if it is procured through a "bona fide arms-length marketplace transaction."¹ To aid offices in determining prevailing market prices, OSM maintains a Preferred Vendor List and a price range list, based on General Services Administration prices and other market rates. Although this information is posted to OSM's House Intranet web page, we found a number of Member offices were unaware that this type of information exists.

Prior to purchasing computer equipment and related services, an office is required to consult with a Technical Service Representative (TSR)² for advice and confirmation that the equipment meets the Standards for New Purchases.³ Once the TSR confirms that the desired equipment meets the Standards for New Purchases, offices must annotate vendor and product information, installation costs, maintenance costs, and method of payment⁴ to complete a requisition. An office may purchase non-computer and related services without consulting with a TSR. In both instances, information pertaining to any equipment trade-ins to the vendor should also be indicated on the requisition.

Once completed, the requisition is submitted to OSM, who makes the purchase and accounts for the equipment on the office inventory. The *User's Guide* states equipment purchases should be made through OSM; however, occasionally an office may purchase equipment directly from the vendor and submit a voucher directly to the Office of Finance for payment. In such cases, a copy of the invoice should be forwarded to OSM for processing to ensure that it is included on the office inventory.

¹ The *User's Guide* defines arms-length marketplace transaction as a transaction in which goods and services, including quality of and access to such goods and services, are received under the same terms and conditions as are available to the public.

² A TSR is a House Information Resources employee assigned to a House office to provide technical support, advice, and assistance regarding computer equipment.

³ Standards for New Purchases are developed by the CAO to ensure technical excellence and quality performance and can be obtained through House Information Resources.

⁴ A House office can pay for equipment using the one-time payment plan or the three-year payment plan. The one-time purchase plan recognizes the entire cost of the equipment after acceptance. The three-year plan allows the office to make 36 equal monthly payments upon acceptance.

An office purchasing equipment can submit a requisition to OSM by fax, inter-office mail, or hand delivery. At this point, OSM continues the procurement process on behalf of the Member, Committee, or Officer. When received, OSM date stamps the requisition and assigns it to the appropriate counselor for review and processing. The counselor reviews the requisition for completeness, but is not responsible for ensuring that the office is obtaining the best price for the items requisitioned. If the requisition is incomplete, the counselor contacts the requesting office for any missing information. When OSM determines that the requisition has been properly completed, the information is entered into PD to generate and track the purchase order (PO).⁵ After this data input is complete, PD interfaces with the Federal Financial System to determine if the office has sufficient funds to make the purchase. If funds are available, the PO is forwarded to the appropriate individual for approval.

Currently, all POs must pass through a number of approval layers before being sent to a vendor. The approval process is determined by the total dollar value of the PO through Delegations of Authority. The Delegation of Authority issued December 11, 1998, granted certain CAO staff the authority to approve and obligate POs under \$500, \$2,500, and \$10,000. All POs of \$10,000 or more must be approved and obligated by the CAO, whereas any POs of \$100,000 or more must be reviewed and authorized by the Committee on House Administration prior to CAO approval⁶. After the appropriate approvals are obtained, the funds of the office purchasing the equipment are obligated.

Although each Member, Committee Chairman, and Officer has the authority to obligate their respective appropriated funds, for accountability, all the equipment purchases made for House use should be processed through OSM. However, under the current process all equipment POs must obtain additional CAO approvals even though a PO can be denied only if funds for the purchase are unavailable or the purchase is during a restricted period.⁷ Since the Member, Committee Chairman, or Officer signs equipment requisitions, and the Office of the CAO is merely a conduit for this purchase, it should not be necessary to obtain these additional approvals.

Nevertheless, the time needed to obtain the equipment PO approvals within the CAO organization has improved. From our sample of equipment POs, we found that between March 1, 1998 and September 30, 1998, it took an average of 3.5 days to obtain all the required CAO approvals--with some taking as long as 12 days and others as little as 1 or 2 days. During this period, the POs had to be hand-walked to the various CAO offices to obtain the required approvals and then hand-walked back to OSM. Although, with the implementation of PD in October 1998, the time to obtain equipment PO approvals has been greatly reduced, additional reductions in processing time could be achieved by eliminating certain approvals. Since the Member, Committee Chairman, or Officer has already approved the request; the need for additional approvals of POs under \$100,000 is unnecessary. The signatures of the Member or

⁵ Procurement Desktop was implemented in OSM in October 1998 to generate and electronically track purchase orders.

⁶ Subsequent to the audit, on June 22, 1999, the Committee on House Administration, amended the Guidelines for Procurement of Goods and Services, to reflect the Committee shall approve all contracts for goods and services purchased by the CAO, in excess of \$250,000.

⁷ In April 1998, the Committee on House Oversight issued a "Dear Colleague" letter that identified regulations restricting equipment and furnishings purchases during certain periods.

Officer and verification of sufficient funds in the account should be all that is needed to process the PO.

During the requisition process, the purchasing office must also indicate whether any equipment is to be traded in and which payment plan the office will use to pay for the requested equipment. During our review, we identified several weaknesses associated with these areas.

Trade-ins. In an effort to obtain the best price, Members, Committee Chairmen, and Officers may trade-in equipment. As stated in 2 U.S.C. § 117e, the CAO “may dispose of used equipment of the House of Representatives, by trade-in or sale, directly or through the General Services Administration.” Although conversations with Member offices, OSM, vendors, and our analysis of the sampled invoices confirmed that House equipment is traded in, OSM was unable to provide us with a published House trade-in policy. However, each vendor we spoke to had a policy that identified the type and quantity of equipment acceptable for trade-in. The value the vendor assigned to the trade-in is based on the computer processing speed, internal components, and monitor. When copiers or printers are traded in, the vendors set the trade-in value based on the cost of the new purchase, condition of the equipment, and potential to resell the traded-in equipment. Trade-ins benefit both the procuring office and staff via lower prices for both the new and used equipment. However, there is no formal House policy addressing equipment trade-ins. Consequently, the CAO should develop a formal policy that identifies the specific conditions appropriate for trading in equipment thus enhancing technological capabilities and providing the best value to the House.

Payment Plans. When purchasing equipment, Members, Committee Chairmen, and Officers can either pay for the equipment with a one-time payment, directly from their allowance or appropriation, or have payments extended over a three-year period. If the office chooses the three-year plan, OSM pays for the equipment, then recovers the funds by charging funds from the office account each month during the next three years. However, CAO was unable to provide a copy of the procedure, parameters, or historical basis for the use of the three-year payment plan.

The *User’s Guide*, published in April 1996 and updated on January 19, 1999, provides the Members with the option to purchase equipment on a one-time or three-year purchase basis. The *User’s Guide* does not provide any explanation of the process, the dollar threshold for use, or how and when the appropriation is charged for the equipment. OSM officials stated that the three-year plan could be used for equipment purchases of \$500 or more although a threshold amount for the three-year plan is not specifically addressed in the guide.⁸ Furthermore, the procedure currently used to approve and obligate funds for the three-year plan does not ensure the Member will have enough funds to cover the purchase. During a walk-through of the procurement process, we discovered that OSM, prior to PO approvals, only determines whether

⁸ On November 30, 1998, the Committee on House Oversight issued a “Dear Colleague” letter entitled Office Equipment Inventory Change, identified revisions in regulations that govern equipment inventory. This letter stated that equipment that has an initial purchase price of \$500 or less would not be placed on Member or Committee office inventories. The letter further stated “Items that do not appear on the office inventory may only be purchased using a one-time payment plan.” However, the updated 1999 *User’s Guide* did not reflect this change in payment plan policy.

an office's appropriation has sufficient funds available to cover a single payment. OSM does not consider whether the office has sufficient funds to cover the cost of the equipment through the end of the year. For example, assume an office purchases \$10,000 in equipment under the three-year extended payment plan in February. OSM would determine if the office had sufficient funds for only one month, or \$278, not for the entire total annual cost. However, the Office of Finance, as part of Financial Counseling's regular account activity monitoring, does perform monthly forecasting and projections for equipment costs and associated maintenance costs through the end of the year on members' accounts as needed. Once the new Fixed Asset and Inventory Management System is implemented and with the addition of the Office of Finance's monitoring and projecting/forecasting activity, OSM will be able ensure that there are sufficient appropriated funds available, obligate the remaining monthly payments, and, each month, liquidate the appropriate amount from this obligation.

At the conclusion of the last three Congresses, OSM absorbed a total of \$481,000 to cover the costs associated with Members not fulfilling the terms of the three-year payment plans because they did not return to Congress. To reduce the unrecovered costs associated with equipment purchased using the three-year plan, the CAO should review current policies and procedures and consider proposing a new policy which requires that payments can only be extended over the time remaining in the Member's current term of office. Furthermore, OSM should publish a formal policy on the use of extended payments. This policy should explain when an extended plan can and should be used, the dollar thresholds, and how the purchase affects the Member's monthly and annual financial statements.

Equipment Installation Process

The House employs a unique process for purchasing equipment that utilizes the Equipment Installation Notice/Maintenance Notification Form (EIN), or commonly referred to as the "Yellow Ticket". This EIN is attached to all POs sent to vendors. The front side of the EIN requires the following information: PO number, office name and location, vendor, equipment make, model, and serial number, and the signatures of both the vendor and the House Member or Officer. The back of the EIN requires the office name and location, current vendor, new vendor, equipment manufacturer, model, and serial number, OSM control number, reason for cancellation or removal and again signatures of both the vendor and the Member or Officer. However, the CAO has not published formal policies or procedures regarding responsibilities for completing and processing the form.

Since the EIN has both vendor payment and inventory functions associated with it, the House policy requires that both sides of the form be completed before payment to the vendor is processed. The original signature of the Member, or Officer, on the front side certifies that the equipment was received, installed, and is working as it was intended. OSM cautions offices not to sign the EIN until they are satisfied that the equipment received is what they ordered and operating as intended. Once OSM receives the signed EIN, it is date stamped and enters the payment processing cycle.

This EIN process, which is unique to the House, differs from the Standard Terms and Conditions (Terms and Conditions) the House uses for equipment purchases. Every PO issued by OSM

contains the wording “The installation date and warranty period will commence on the OSM date stamp that appears on the Equipment Installation Notice”. However, the accompanying Standard Terms and Conditions include a clause that states “title to the product shall pass at delivery points specified herein...”. Therefore, according to the Standard Terms and Conditions, after the equipment is delivered and the title passes, and prior to the submission of a completed EIN, required for payment, the vendor does not have control, use, or payment for the equipment. Moreover, the monthly maintenance charges on the new equipment also do not commence until OSM receives the completed EIN. Since the payment for both equipment and maintenance does not begin until OSM receives a signed EIN, some House vendors refrain from submitting an invoice until after the EIN has been signed. As a result of time lost in waiting for a signed EIN, submitting the invoice, and the uncertainty of timely payments, the House does not obtain the lowest prices or payment discounts. One major vendor stated if hardware and software invoices could be separated, payment discounts could be offered for hardware, if paid timely. Since House vendors must pay their suppliers within 30 days from the supplier’s invoice, the vendor incurs additional carrying cost expenses (i.e., interest) when payment for House procured equipment is not made within the 30-day terms of the invoice.

Furthermore, the Terms and Conditions, included as part of each PO, provide that the materials furnished shall be free from defects in materials and workmanship for at least ninety days after delivery/performance and acceptance, unless a longer warranty period is provided by the equipment warranty. However, through discussions with Member offices and vendors, the act of withholding signature on an EIN is used as means to ensure the hardware and software purchase or integration is functioning according to the Member’s expectations. Therefore, the House will not pay the vendor until the EIN is received, even though the PO terms and conditions require that the vendor must replace or repair any defect upon written notification within ninety days.

These inconsistencies between House EIN policies and the published Terms and Conditions issued with each equipment purchase have caused confusion between OSM and the vendors providing equipment to the House. According to the six House vendors interviewed, this EIN process is an administrative and financial burden that is in excess of what other commercial or governmental entities require. Normally, other Government and commercial entities initiate payment upon receipt of a signed delivery/receiving document. These entities do not wait until the equipment is operational to initiate payment. The EIN process results in vendors’ staff making multiple visits to House offices to obtain the proper signature. The vendors also indicated they must dedicate employee time and efforts solely to obtain signatures on EINs and follow-up on unpaid and delinquent invoices. Without the proper signature, the EIN does not get processed, thereby delaying payment. Our analysis of the sampled POs and corresponding invoices, submitted at the time of shipment, revealed that the OSM’s average time to pay a vendor for goods and services rendered was over 46 days after the vendor invoice date. This delay in payment is due to the current EIN process requirement whereby the requesting office must sign the EIN as acceptance before the Office of Finance will pay the obligation. Furthermore, the added administrative costs of completing the EIN and the interest costs associated with the extended carrying cost of the equipment may result in higher equipment costs and fewer vendors willing to comply with this unique process.

To balance the needs of the House to ensure the equipment operates as intended and the needs of the vendors to be paid promptly, the House should make every effort to automate the EIN process. For example, the process could be further streamlined using an E-mail electronic confirmation process. If implemented, upon receipt of a signed vendor-shipping document, OSM would send that office an E-mail requesting verification that the vendor delivered the equipment listed on the vendor-shipping document. Further the E-mail would ask if the office is satisfied with the equipment. If not, the receiving office must register their dissatisfaction with the vendor, and with OSM via E-mail, within a specified period. If an office fails to respond within the established timeframe, OSM would follow up with the office before initiating the payment process.

Accounts Payable Process

The receipt of a completed EIN initiates OSM's accounts payable process. As previously stated, a vendor will not be paid for goods or services rendered until the EIN has been completed, signed, and turned in to OSM. After OSM receives the EIN, a vendor management counselor matches the EIN with the vendor's invoice and prepares a voucher for payment.

An analysis of the sampled invoices demonstrated, that on the average, it takes OSM over 46 days to process a payment to the vendor. It is standard industry practice and the House's Terms and Conditions require a vendor to issue an invoice for a product when it is shipped to the customer and require payment within 30 days of the invoice date. However, as mentioned earlier, because of the House's unique EIN requirements, some vendors have altered this practice and do not invoice the House until after the EIN has been submitted to OSM. Within our sample, the time between equipment delivery and submission of a completed EIN to OSM varied dramatically from the same day to 85 days. Therefore, the invoice processing time would actually be greater if all House vendors issued their invoices using standard industry practices.

In contrast to standard industry practices and the House's Terms and Conditions, OSM's internal policy is that invoices should be paid within 30 days of the receipt of EIN and invoice. However, the Terms and Conditions sent with each PO, which are generally comparable to standard industry practices, state that "Invoices shall be mailed at time of shipment..." and that the "Terms shall be net thirty days unless otherwise stated herein." The PO states that "No payments will be made until the attached Equipment Installation Notice and Maintenance Notification Form...is returned to OSM," but it is silent on any specific payment time thereafter. The net result of the combination of these terms and conditions and the EIN process is ambiguous and seems to conflict with OSM's internal policies.

We compared the requirements of the PO Terms and Conditions and the EIN process against our sample and found on average, that OSM received the EIN and started the payment process 23⁹ days after the vendor's invoice date. As a result, OSM, on average, starts its payment process over three weeks later than customary industry practice. After the payment process was initiated, it took OSM an additional 17.5 days to prepare the voucher and forward it to the Finance Office (Finance). Finance then processes the voucher, cuts the check, and mails payment to the vendor

⁹ This value excludes the two vendors that do not submit their invoices until after they have submitted an EIN to OSM.

(or transmits it electronically) adding additional time. If the House agreed to conform with standard industry payment practices, the vendors indicated that they would discuss offering purchase discounts.

Vendors who have done minimal or no prior business with the House may not realize that payment is contingent on submission of a completed EIN. For example, one computer vendor was advised of the EIN process during an in-depth discussion with the auditors. Once notified of the process, the vendor understood why payments were not forthcoming timely. Subsequent to the discussion, the vendor met with OSM to clear up delinquent invoices. In the case of new and infrequent House vendors, it is not until the vendor contacts the House about the late payment of an invoice that the vendor becomes aware of this requirement. In some instances, OSM will complete the EIN and obtain the Member's signature so the vendor can then be paid. However, OSM does not provide this service to regular vendors who must complete and deliver the EIN themselves.

Again, the inconsistencies between the EIN process and the Terms and Conditions used to purchase equipment cause confusion as to when payment should be made. This confusion is compounded when new vendors who are unfamiliar with the unique EIN requirements for payment don't get paid because they do not understand the process. As a result of these special requirements, some vendors may determine that it is too costly to comply and choose not to provide equipment to the House and therefore limiting equipment alternatives. Furthermore, the House may pay higher prices for equipment and not be offered prompt payment discounts. To alleviate this problem, the House should streamline the process to improve timeliness of equipment payments and revise the Terms and Conditions to reflect House policies.

Inventory Process

The signed EIN also acts as the mechanism that initiates the inventory process. Prior to March 1, 1998, payment to the vendor would not be processed until equipment was received, installed, working correctly, and inventoried. Subsequent to that date, and for all the POs we reviewed in our sample; inventory of the procured equipment commenced after payment to the vendor had been processed. Vendors stated that this change in procedure has improved the timeliness of House payments. However, we believe that further improvements are necessary.

Upon receiving notification that new equipment has been installed, OSM's Inventory Control (IC) section is tasked with verifying equipment serial numbers and attaching inventory labels on the equipment. The inventory records are then updated to reflect the newly acquired equipment and any traded-in, transferred, or removed equipment.

One possible solution to improve the efficiency of the inventory process would have vendors attach inventory labels either prior to shipment, or as part of the installation process. The vendors stated that they are willing to attach House provided inventory tags and provide a cross-referenced list by office of all product serial numbers and inventory tags to OSM. Several vendors indicated that this list could be transmitted electronically to the House. This procedure would allow IC to acquire equipment accountability more promptly and provide the CAO with additional time to take and reconcile physical inventories.

Conclusion

The House's equipment and procurement processes are unique and, as such, may not conform to standard industry practices. The House's practices are based on the special needs of Members, Committee Chairmen and Officers. To ensure that the House receives the best value for its equipment purchases a Business Process Reengineering study should be performed to see how the House can best partner with industry. The issues raised in this report relating to requesting, ordering, accepting, and paying will require a detailed review of the EIN process, and procurement terms and agreements made with House vendors.

Recommendation

We recommend that the Chief Administrative Officer:

1. Streamline the purchase order approval process for equipment. At a minimum, only one approval within OSM, accompanied by a signed requisition from a Member, Committee Chairman, or Officer should be required.
2. Develop a comprehensive equipment trade-in policy for approval by the Committee on House Administration. Where practicable, the policy should enhance the technological capabilities of the House by retaining and utilizing the equipment's residual value.
3. Apply the House approved SDLC process to the review of the current equipment purchase process and evaluate streamlining and automated solutions for areas such as the requisition, purchase order, delivery confirmation, acceptance, and asset management coordination with vendors. Implement appropriate changes/results based on the SDLC analysis.
4. Analyze the current extended payment program including evaluating when equipment can/should be placed on the extended payment plan, if there is a need for a dollar threshold, and the method used to charge the annual payments against the Member Representation Allowance. Following the analysis, develop an appropriate extended payment program policy for submission to the Committee on House Administration.

Management Response

On January 25, 2000, the CAO concurred with the finding and recommendations included in the report. According to the response, the Office of the CAO contracted with a consulting firm to perform a business process improvement analysis of OSM. The study is expected to result in recommendations to improve several of OSM's business processes, including the current equipment purchase process, and streamlining areas such as the requisition, purchase order, delivery confirmation, acceptance, and asset management coordination with vendors. The results of this study will be analyzed and resulting recommendations that are found to be beneficial will be implemented by July 31, 2000.

Further, Media and Support Services is preparing a recommendation for the CAO to allow all purchase orders prepared for Members, Committee Chairs, and Leadership Offices to be approved within OSM, thereby eliminating the additional approvals presently required. This

recommendation will be completed by March 31, 2000. In addition, the CAO will review streamlining the purchase order approval process for requisitions submitted by House Officers. This review will be completed by August 31, 2000.

The CAO is also preparing proposals for submission to the Committee on House Administration with regard to an equipment trade-in policy and a policy covering extended payment plans. The CAO believes the on-going study and the resulting changes from these initiatives will adequately address the issues outlined in the recommendations above, and will improve services and processes.

Subsequent to the CAO's response the CAO signed a new delegation of authority, on March 30, 2000, allowing OSM to approve, obligate all purchase orders, and act as contracting officer on purchase orders for purchases by non-CAO offices for equipment up to \$250,000.

Office of Inspector General Comments

The actions planned and taken by the CAO are responsive to the issues identified. Based on the actions completed, we consider Recommendation 1 closed. The actions currently planned, when fully implemented, should satisfy the intent of this recommendation.

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Status Of Implementation Of Prior Audit Report Recommendations

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
95-CAO-17 B.1	<p>RECOMMENDATION: Develop and propose system requirements, policies, and procedures, for approval by the Committee on House Oversight, to track office equipment inventory by operable units, rather than component parts.</p> <p>ACTIONS COMPLETED: On October 5, 1998, the CAO submitted a proposal to the Committee on House Oversight to set the House accountable property threshold at greater than \$500 for office equipment and district office furniture, and discontinue the tracking of internal components to equipment (modems, memory boards, etc.). The proposal also details the treatment of items currently on inventories and any future purchases with an acquisition cost of \$500 or less.</p>	Closed
95-CAO-17 C.2	<p>RECOMMENDATION: Develop proposals, for approval by the Committee on House Oversight, to implement a policy for terminating maintenance agreements as equipment becomes outdated.</p> <p>ACTIONS COMPLETED: OSM developed a report that lists equipment that is over five-years old. The report has the following columns of information:</p> <ul style="list-style-type: none"> -Control Number -Equipment Description -Original House Acquisition Date -Current Account Install Date -Original Purchase Price -Current Monthly Maintenance Fee -Approximate Maintenance Fee for Year-To-Date -Overall Approximate Maintenance Fee Paid To-Date <p>This information should be sufficient for assisting an office in determining the cost effectiveness of either retaining or replacing older equipment.</p>	Closed

EXHIBIT

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
96-CAO-15 K.2	<p>RECOMMENDATION: Consolidate the physical inventory of all House equipment owned and maintained by Members, Committees, Officers, and others.</p> <p>ACTIONS COMPLETED TO DATE: Media and Support Services initiated a needs analysis and business process reengineering analysis to assess how inventory responsibilities can be consolidated.</p> <p>ACTIONS NEEDED FOR CLOSURE: The Chief Administrative Officer must select and implement an appropriate inventory approach for furniture and equipment after completing the needs and process analysis.</p>	12/31/00
96-CAO-15 P	<p>RECOMMENDATION: Develop a proposal, for approval by the Committee on House Oversight, to streamline and restructure processes related to the purchase of computers and related equipment.</p> <p>ACTIONS COMPLETED: On January 29, 1998, the Chief Administrative Officer submitted Interim Equipment Process Improvement Recommendations to the Committee on House Oversight, which was subsequently approved.</p>	Closed
97-CAO-11 A.1	<p>RECOMMENDATION: Develop a proposal, for approval by the Committee on House Oversight, to implement an inventory tracking process for House equipment that contains all information necessary to prepare financial statements in accordance with the Generally Accepted Accounting Principles and adequately identify and account for all assets on a House-wide basis.</p> <p>ACTION COMPLETED TO DATE: The Committee on House Oversight approved the Request for Proposals, and subsequently contract award to Anteon. The CAO is in the process of implementing the Fixed Asset/Inventory Management System.</p> <p>ACTIONS NEEDED FOR CLOSURE: The House should ensure that the chosen system has the functionality to prepare financial statements in accordance with Generally Accepted Accounting Principles and adequately identify and account for all assets on a House-wide basis. Finally, the new system and functionality should be implemented and utilized by the House.</p>	12/31/00
97-CAO-11 A.2	<p>RECOMMENDATION: Develop a proposal, for approval by the Committee on House Oversight, to appoint a qualified project manager to oversee and report on the progress of the consolidation effort described below.</p>	Closed

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
	ACTIONS COMPLETED: The CAO appointed a project manager for the acquisition of a new Asset Management System.	
97-CAO-11 A.4	<p>RECOMMENDATION: Develop a proposal, for approval by the Committee on House Oversight, to periodically evaluate inventory consolidation efforts to determine if, and at what point, optimum consolidation has been achieved.</p> <p>ACTIONS COMPLETED TO DATE: A Needs Analysis/Requirements Definition Document, Business Process Reengineering Document, and Request for Proposals to procure a new Fixed Assets/Inventory Management System has been prepared. According to the Request for Proposals, the proposed new system will replace all current fixed assets and inventory management systems at the House. The planned new system environment will be comprised of the Federal Financial System for core financial data, Procurement Desktop for purchasing and receiving, the new asset management system for tracking of fixed assets and inventory, and the Management of Network Income, Expense, and Services for phone line charges. Joint Requirements Planning sessions were conducted to accumulate the needs of different entities that maintain their own fixed assets inventory system.</p> <p>ACTIONS NEEDED FOR CLOSURE: Office Systems Management should ensure that the implementation of the new Fixed Assets/Inventory Management System results in a consolidated House-wide system enabling the House to adequately identify and account for all of its fixed assets and inventory. Consequently, during the implementation of the new system, the House should periodically review the consolidation effort to determine whether the optimal level of consolidation has been achieved.</p>	12/31/00
97-CAO-11 B.1	RECOMMENDATION: Develop a proposal, for approval by the Committee on House Oversight, to establish House-wide written policies and procedures in accordance with prudent business practices which ensure the accountability of all assets, including: (a) conducting a timely physical inventory by technically qualified personnel; notifying the responsible Member, Committee, or other House office of missing, damaged, or stolen equipment; and inventorying items by operable unit, (b) reconciling the assets to the inventory records on a timely basis and adjusting and investigating any differences where appropriate, (c) requiring supporting documentation and proper authorization of transactions by appropriate personnel, (d) establishing depreciation rates and capitalization thresholds, and (e)	Closed

EXHIBIT

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
	<p>identifying property to be written off due to obsolescence or loss and authorizing appropriate personnel to periodically write off the property.</p> <p>ACTIONS COMPLETED: On March 23, 1998, the CAO submitted to the Committee on House Oversight for approval, procedures for Fixed Assets and Leases.</p>	
97-CAO-11 C.1	<p>RECOMMENDATION: Periodically review and adjust the inventory records where appropriate, or establish a suspense account and periodically review the account to ensure that only authorized items are being transferred in.</p> <p>ACTIONS COMPLETED: Office Systems Management completed a full inventory and reconciliation, as of December 31, 1998, of all Washington D.C. accountable property and capital assets. Additionally, with the assistance of the General Services Administration, Office Systems Management inventoried all district offices. Office Systems Management also developed specific procedures for ensuring that 100 percent of all inventory maintained by House organizations is physically counted every two years. These procedures also include the detailed steps of the inventory reconciliation process.</p>	Closed
97-CAO-11 C.3	<p>RECOMMENDATION: Review purchase orders which were recorded at greater than the actual amount paid. Determine whether vendors who invoiced the House for an amount less than the purchase order amount will be submitting an invoice for the difference at a later date. If they are not, adjust the obligations for the differences between the obligations previously recorded and actual outlays to liquidate these obligations and adjust the requester's account accordingly.</p> <p>ACTIONS COMPLETED: OSM developed procedures to review purchase orders which were recorded at an amount greater than that paid. These procedures outline the required appropriate actions.</p>	Closed
97-CAO-11 C.4	<p>RECOMMENDATION: Review accounts payable periodically to determine whether they are being timely paid.</p> <p>ACTIONS COMPLETED: OSM now compares the payment date of its accounts payable to the invoice due date to assess the timeliness of its payment activity. This is accomplished by the inclusion of the invoice due date on the Purchase Order Tracking Report. OSM uses the report to</p>	Closed

EXHIBIT

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
	periodically review accounts payable to determine the timeliness of the payments.	
97-CAO-11 C.5	<p>RECOMMENDATION: Evaluate the validity of current Office Systems Management procedures used to process vendor invoices whose amounts differ from the original purchase order amounts.</p> <p>ACTIONS COMPLETED: OSM developed procedures for addressing differences between vendor invoice and original purchase order amounts.</p>	Closed
97-CAO-11 D.1	<p>RECOMMENDATION: Develop procedures that limit access authority to J010 and J020 transactions to authorized personnel only.</p> <p>ACTIONS COMPLETED: Office Systems Management indicated that there are two “pages” in screen J020. Only the users with access level 3 are able to access J020’s second “page,” the area where employee access level is set and/or changed. Similarly, only these level 3 users can access screen J010 which leads to screen J015, the screen where the password to execute certain protected transactions can be set or changed.</p>	Closed
97-CAO-11 D.2	<p>RECOMMENDATION: Develop monitoring procedures that require continuous review of password protected transactions and require follow-up and documented review of activity against such transactions.</p> <p>ACTIONS COMPLETED: Office Systems Management developed monitoring procedures to serve as a guideline in the review process. These procedures include recording exceptions discovered during the review and directing Office System Management’s attention to the transactions that need further investigation.</p>	Closed
97-CAO-11 D.4	<p>RECOMMENDATION: Review and update employee information via transaction J020 on a periodic basis and verify employee access levels for each Resource Identification Code and mainframe application screen they can access.</p> <p>ACTIONS COMPLETED: Office Systems Management began the periodic review and update of employee information via transaction J020 as of June 1997. Office Systems Management plans to implement a new screen, J030 which was developed by House Information Resources to replace and simplify the review and update process. According to Office Systems Management, screen J030 will be used monthly by the Indicators/Budget Analyst to monitor the accuracy of the information and</p>	Closed

EXHIBIT

Report and Recommendation Number.	RECOMMENDATIONS ACTIONS COMPLETED TO DATE ACTIONS NEEDED FOR CLOSURE	STATUS TARGET DATE
	access level of Office Systems Management employees. The Indicators/Budget Analyst will also be responsible for the update of employee access level information.	
97-CAO-11 D.5	<p>RECOMMENDATION: Require House Information Resources personnel be restricted from making changes to the inventory production system without appropriate testing and authorized documentation from designated Office System Management management.</p> <p>ACTIONS COMPLETED: Office Systems Management incorporated into its operating policies the procedures for production changes made by House Information Resources. These include procedures requiring Office Systems Management to validate that the changes were approved and that no unauthorized changes were made.</p>	Closed
97-CAO-11 E.1	<p>RECOMMENDATION: Assign an independent staff member to perform a reconciliation of physical inventories of equipment in Office Systems Management’s custody such as House inventory, surplus sales, and the General Services Administration.</p> <p>ACTIONS COMPLETED: Office Systems Management completed a full inventory and reconciliation, as of December 31, 1998, of all Washington D.C. accountable property and capital assets. Additionally, with the assistance of the General Services Administration, Office Systems Management inventoried all district offices. Office Systems Management also developed specific procedures for ensuring that 100 percent of all inventory maintained by House organizations is physically counted every two years. These procedures also include the detailed steps of the inventory reconciliation process.</p>	Closed

James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515-6860

MEMORANDUM

To: Bob Frey
Acting Inspector General

From: Jay Eagen
Chief Administrative Officer

Subject: CAO Response to the Discussion Draft Audit Report Entitled "OSM Equipment Procurement And Payment Practices Need Further Improvement."

Date: JAN 25 2000

Thank you for the opportunity to comment on the audit report on Office Systems Management's (OSM) equipment procurement and payment practices. We have reviewed the draft report and the recommendation therein, and believe we have the appropriate solution to both address the recommendation and improve our operations which follow below:

Recommendation: We recommend that the Chief Administrative Officer:

1. Streamline the purchase order approval process for equipment. At a minimum only one approval within OSM, accompanied by a signed requisition from a Member, Committee Chairman, or Officer should be required;
2. Develop a comprehensive equipment trade-in policy for approval by the Committee on House Administration. Where practicable, the policy should enhance the technological capabilities of the House by retaining and utilizing the equipment's residual value;
3. Apply the House approved SDLC process to the review of the current equipment purchase process and evaluate streamlining and automated solutions for areas such as the requisition, purchase order, delivery confirmation, acceptance, and asset management coordination with vendors. Implement appropriate changes/results based on the SDLC analysis; and
4. Analyze the current extended payment program including evaluating

when equipment can/should be placed on the extended payment plan, if there is a need for a dollar threshold, and the method used to charge the annual payments against the Member Representation Allowance. Following the analysis, develop an appropriate extended payment program policy for submission to the Committee on House Administration.

CONCUR.

The Office of the CAO presently has an outside consulting firm conducting a Business Process Improvement Analysis (BPIA) of Office Systems Management (OSM). This study is expected to result in recommendations to improve several of the OSM business processes, including the current equipment purchase process, and streamlining areas such as the requisition, purchase order, delivery confirmation, acceptance, and asset management coordination with vendors. The results of this BPIA will be analyzed and resulting recommendations that are found to be beneficial, will be implemented by July 31, 2000.

Further, MSS is currently preparing a recommendation for the CAO to allow all purchase orders prepared for Members and Committee Chairs, and Leadership Offices to be approved within OSM, thereby eliminating the additional approvals presently required. This recommendation will be completed by March 31, 2000. In addition, the CAO will review streamlining the purchase order approval process for requisitions submitted by House Officers. This recommendation will be completed by August 31, 2000.

The CAO is also preparing proposals for submission to CHA with regard to an equipment trade-in policy and a policy covering extended payment plans. We believe the on-going study and the resulting changes from these CAO initiatives will adequately address the issues outlined in the recommendations above, and will improve OSM services and processes.