



Department of Veterans Affairs

Office of Inspector General

Evaluation of Computer and Housekeeping Equipment Accountability at the VA Maryland Health Care System

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DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420

Memorandum to the Acting Director (512/00)

**Evaluation of Computer and Housekeeping Equipment Accountability at
the VA Maryland Health Care System**

1. Introduction. In support of an Office of the Inspector General (OIG) Office of Investigations review of allegations of theft, the OIG Office of Audit conducted an evaluation of computer and housekeeping equipment accountability at the VA Maryland Health Care System (VAMHCS) which consists of four facilities: Veterans Affairs Medical Centers (VAMCs) Baltimore, Fort Howard, and Perry Point, and the Baltimore Rehabilitation and Extended Care Center (BRECC). The investigation of computer theft was initiated by the OIG at the request of VAMHCS management. Our review to quantify missing computer equipment was conducted between June and December 2001, and our review to quantify missing housekeeping equipment was conducted between January and February 2002.

2. Summary of Results. Information Resource Management (IRM) accountability for computer equipment was inadequate. Controls were not implemented to document inventory records for computer equipment receipts, assignments, or disposals. Required annual physical inventories were not performed in FYs 1998, 1999, and 2000. A physical inventory was completed by a contractor in February 2001; however, 14 months later the VAMHCS still had not adjusted inventory and accounting records. Our limited physical verifications showed that procedures were not followed to update the physical inventory with equipment receipts, assignments, and disposals. Many discrepancies existed between the contractor inventory and equipment actually on hand. Significant quantities of equipment were on hand but were not recorded in the contractor's inventory. Other items listed in the inventory could not be located. With few credible records available, we identified missing equipment by matching the contractor inventory with equipment receipt documents. Of \$12 million of equipment purchased from FY 1998 through mid FY 2001, \$3.3 million (2,425 computer items) was not included in the contractor's inventory, and was unaccounted for. The VAMHSC has continued to search for missing equipment at the 4 sites and has reduced the number of missing items to 1,879 worth \$1.9 million.

Inventory management controls for Environmental Management Service (EMS) housekeeping equipment were also inadequate. Physical inventories of housekeeping

equipment were not performed annually as required. Equipment assignments and disposals were not documented in inventory records, although receipts were documented. Our verification of sampled EMS equipment indicated significant record discrepancies. EMS staff could not locate one-third (\$26,516) of the equipment sampled. Follow-up searches by the VAMHCS Police located seven additional polishers in the 2 months following our verifications.

We recommended that the Acting Director enhance computer and housekeeping equipment accountability by: (a) conducting wall-to-wall inventories as soon as possible, and subsequently conducting required physical inventories on an annual basis; (b) adjusting inventory and accounting records based on the results of these inventories; and, (c) implementing procedures to document and control receipts, assignments, and disposals of all computer and housekeeping equipment. The Acting Director agreed with the findings and recommendations, and provided acceptable implementation plans. We will follow up on the planned actions until they are completed.

3. Details of Evaluation.

IRM computer equipment. IRM accountability for computer equipment was inadequate. Controls were not followed to document equipment receipts, assignments, or disposals. Required annual physical inventories were not performed in FYs 1998, 1999, and 2000. A contractor inventory was completed in February 2001; however, 14 months later the VAMHCS had not adjusted inventory and accounting records.

VAMHCS Policy Memorandum 90-10, Nonexpendable Equipment Inventory defines nonexpendable equipment and specifies associated inventory responsibilities, including periodic physical inventories. Nonexpendable equipment is defined as having a cost of \$300 or more and having a life expectancy of 2 years or more, or is of a sensitive nature requiring accountability regardless of cost or life expectancy. An inventory of nonexpendable equipment is required annually. Acquisition and Materiel Management Service provides inventory listings for physical verification and confirming signatures by responsible officials. Unusual overages or shortages should be followed up by the accountable officer within 6 months. All computer equipment must be inventoried regardless of cost.

IRM officials had contracted with a private contractor to perform a physical inventory of all computer equipment. In addition, IRM staff stated they had verified the inventory results. However, inventory and accounting records had not been reconciled with the contractor's inventory. The contractor's inventory took place at all four VAMHCS facilities between December 2000 and February 2001, and cost \$39,000.

While IRM managers stated that the contractor's inventory database was used in conjunction with a perpetual inventory system in order to track the location of computer

equipment on a real-time basis, we found that the perpetual inventory system was not accurately maintained. Procedures required recording the receipts, assignments, or disposals of computer equipment on a local form (called the “CMR Sheet”) for input to the contractor’s inventory database. Our tests of the inventory in IRM storage rooms indicated procedures were not followed to record inventory receipts, assignments or disposals. As a limited test, we physically inventoried the computer equipment in the IRM storage rooms and found significant record discrepancies. Of 307 items (valued at \$515,905) on the contractor’s inventory, 102 (33 percent valued at \$109,391) were not in the storage rooms and could not be located. Another 151 pieces (49 percent valued at \$184,337) were on hand but not recorded on the contractor’s inventory.

We quantified missing equipment system-wide by comparing the contractor’s inventory results with equipment receipts and disposal documents. With the assistance of IRM officials, we matched all computer equipment purchased during FYs 1998, 1999, 2000, and 2001, to June 30, 2001, with the inventory completed in February 2001 by the private contractor at all four VAMHCS facilities. The results of this match were also compared to disposal records to ensure accounting for discarded items. Purchases of computer equipment during this period totaled approximately \$12 million, of which 2,425 items (valued at \$3.3 million), mostly computers and printers, could not be accounted for on any computer equipment records.

To further test the value of our estimate of missing computer equipment, we selected a sample of 100 of the 2,425 unaccounted for items. Computer equipment selected (valued at \$683,000) ranged from high dollar value network components (i.e., one server valued at \$95,000) to individual personal computers (valued at \$2,100 each). Of the 100 items sampled, IRM management found 17 items valued from \$10,000 to \$95,000. However, they were unable to locate 83 items (valued at \$212,000), mostly personal computers, which were considered more vulnerable to theft for personal gain. When this review was conducted in September 2001, we concluded that most of the personal computer equipment purchased for \$3.3 million had been lost or stolen. However, since September 2001, the VAMHSC has continued to search for missing equipment at the 4 sites and the number of missing items has been reduced to 1,879 (valued at \$1.9 million).

The absence of adherence to internal controls to safeguard computer equipment enhances the possibility of theft and loss of accountability for equipment. Our tests of IRM records indicated that substantial amounts of computer equipment purchases had been lost or stolen. Significant amounts of other computer equipment were not recorded. As a result, inventory and accounting records were significantly misstated and needed to be adjusted.

EMS housekeeping equipment. Accountability for EMS housekeeping equipment was inadequate. Required annual physical inventories were not conducted. Physical inventories were last conducted at VAMC Fort Howard 3 years ago. Officials were uncertain when the last physical inventories were performed at VAMCs Baltimore and

Perry Point. Due to minimal inventory (three floor polishers) and time constraints, we did not conduct a review at the BRECC. Housekeeping equipment assignments and disposals were not recorded, and consequently not input to the inventory and accounting records. As of January 30, 2002, VAMHCS inventory records listed 455 pieces of EMS equipment, including floor polishers, vacuums, and scrubbers, valued at \$433,141. We physically verified EMS floor polishers at three facilities (VAMCs Baltimore, Fort Howard, and Perry Point) and found significant record discrepancies.

Of 81 floor polishers (valued at \$97,817) sampled from the EMS inventory records, 27 (valued at \$26,516) could not be located. Only VAMCs Fort Howard and Perry Point had purchased polishers since FY 1998 and 11 (41 percent) of the 27 missing floor polishers were among those most recently purchased. Follow-up searches by the VAMHCS Police located 7 additional polishers in the 2 months after we had completed our verifications.

The absence of adherence to internal controls to safeguard EMS equipment enhances the possibility of theft and loss of accountability for equipment. Our sample verification of floor polishers indicated that 33 percent had been lost or stolen. Consequently, inventory and accounting records were misstated and needed adjustment.

Recommendation. We recommended that the Acting Director enhance computer and housekeeping equipment accountability by:

- a. Conducting wall-to-wall inventories as soon as possible, and subsequently conducting required physical inventories on an annual basis;
- b. Adjusting the inventory and accounting records based on the results of these inventories; and
- c. Implementing procedures to document and control receipt, assignment, and disposal of all computer and housekeeping equipment.

Acting Director Comments

The Acting Director agreed with the findings and recommendations.

Wall-to-Wall Inventories. The Acting Director concurred with the recommendation to conduct wall-to-wall inventories as soon as possible, and subsequently conduct required physical inventories on an annual basis. The target date for the IRM wall-to-wall inventory is July 2002. The Acting Director concurred regarding the housekeeping equipment and stated the EMS wall-to-wall had been completed April 3, 2002.

Adjusting Records. The Acting Director concurred with the findings and recommendations for the adjustment of both inventory and accounting records for computer and housekeeping equipment. The target completion date for inventory and accounting records adjustments for IRM and EMS will follow the completion of the Report of Survey on June 15, 2002.

Implementing Documentation and Control Procedures. The Acting Director concurred and stated that additional accountability will be added to existing policies concerning computer equipment by June 30, 2002. Regarding housekeeping equipment, the Acting Director concurred and added that an action plan to correct deficiencies found in EMS inventory controls will be developed by May 15, 2002.

Office of Inspector General Comments

The Acting Director agreed with the findings and recommendations, and provided acceptable implementation plans. We will follow up on the planned actions until they are completed.

For the Assistant Inspector General for Auditing

(original signed by Lee R. Bailey for:)

THOMAS L. CARGILL, JR.

Director, Bedford Audit Operations Division (52BN)

Appendices

VAMHCS Acting Director Comments

Department of Veterans Affairs

MEMORANDUM

Date: May 20, 2002

From: Acting Director, VA Maryland Health Care System

Subj: Evaluation of Computer and Housekeeping Equipment Accountability

To: Director, Bedford Audit Operations Division (52BN)

1. I have thoroughly reviewed the "Evaluation of Computer and Housekeeping Equipment Accountability at the VA Maryland Health Care System."
2. Included in the appropriate sections of the aforementioned draft report are the VAMHCS's responses to the review team's observations resulting from your evaluation review. We concur with the findings and recommendations and have provided specific implementation plans, with target dates, to address the issues raised.
3. If you have any questions, please feel free to contact either Kathy Lockhart, Associate Director for Operations at 410-605-7017 or myself at 410-605-7004.

/s/
MOHAMED S. AL-IBRAHIM, M.D.
Acting Director, VA Maryland Health Care System

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