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United States Department of State
and the Broadcasting Board of Governors
Office of Inspector General

Office of Audits

Audit of Broadcasting Board of Governors Overseas Nonexpendable Personal Property

Report Number AUD/HCI-10-24, July 2010

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and the Broadcasting Board of Governors**

Office of Inspector General

PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to the OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink, appearing to read "H. W. Geisel".

Harold W. Geisel
Deputy Inspector General

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EXECUTIVE SUMMARY

In FY 2007, the Broadcasting Board of Governors (BBG) implemented the Property Inventory Processing System (PIPS) worldwide. This action was taken to address deficiencies in control over personal property previously identified in Office of Inspector General (OIG) audit and inspection reports. As of July 8, 2009, PIPS included records of 13,381 items of nonexpendable personal property, with acquisition costs of more than \$350 million. More than 8,500 (64 percent) of these items, with acquisition costs totaling almost \$245 million (70 percent), were located overseas. Of the items located overseas, 668 (8 percent) were capitalized, with acquisition costs totaling almost \$226 million (92 percent) and a net book value after depreciation of more than \$84 million.

OIG conducted this audit to determine whether BBG could properly account for its nonexpendable personal property overseas. Specifically, OIG attempted to verify whether capitalized assets included in PIPS were properly valued, personal nonexpendable property included in PIPS existed, and PIPS data was accurate and complete.

OIG conducted its audit between June 2009 and March 2010 at BBG offices in Washington, DC, and in August 2009 at transmitting stations located in the Northern Mariana Islands (two), the Philippines (two), Germany (two), and Sri Lanka (one). These locations represented seven of the 11 physical locations of transmitting stations outside the continental United States.

OIG found that PIPS was not the direct source for capitalized nonexpendable property on BBG's financial statements because BBG continued to use a spreadsheet that had been developed in 2005 to consolidate data from the property tracking systems in use at that time. Also, BBG did not always properly value its capitalized property. Specifically, some BBG personnel stated that they were not aware of requirements for reporting the value of BBG's capitalized property. As a result, annual depreciation was overstated by as much as \$1 million and net book value for property, plant, and equipment was understated by as much as \$19.7 million on BBG's FY 2009 financial statements. These actions warrant BBG's reviewing the impact on its financial statements for FY 2009 and prior years with its independent auditor.

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Further, PIPS data on property could not be verified and was incomplete because BBG's internal control environment did not ensure that physical inventories were conducted and certified, that PIPS records were updated, that personnel had adequate guidance and training, and that serial numbers or other unique identifiers were recorded in PIPS.

OIG provided BBG with a copy of the draft report on May 26, 2010, and BBG responded on June 23. In its response, BBG did not dispute the accuracy of the report but noted that staff, in implementing inventory controls and reporting at overseas broadcasting stations, encountered "increasing mission-related demands and fewer resources." BBG stated, for example, that the station in Germany had three transmitting sites and a staff of 41 in October 2006 but had only 20 staff members at the end of FY 2009. However, the number of annual shortwave broadcast hours "has increased from 32,400 to 45,760." Furthermore, BBG stated that there was no evidence that the property that OIG could not account for was stolen or misappropriated and that it believed the vast majority would be found or accounted for. BBG concurred with nine of the report's 10 recommendations. For the remaining recommendation (No. 2), which stated that BBG should use data from PIPS rather than from its internally developed spreadsheet for information for its financial statements, BBG agreed. However, it stated that developing a "fully integrated property and financial accounting system" such as PIPS was a "long-term project." BBG did agree to take "short-term" actions, and OIG determined these proposed actions to be responsive to the intent of the recommendation. Based on the response, OIG considered all 10 recommendations resolved, pending further action.

BACKGROUND

BBG is an independent Federal agency that supervises all U.S. non-military international broadcasting services. The International Broadcasting Bureau provides engineering and technical operations for transmitting stations located domestically, in seven countries, and in one commonwealth outside the continental United States, as well as satellite and Internet delivery systems for all BBG broadcasters. The International Broadcasting Bureau also manages the operations of the Voice of America and the Office of Cuba Broadcasting (which oversees Radio/TV Marti).

Property Inventory Processing System

PIPS, BBG's automated property accounting system, is used to account for all real and nonexpendable property, both capitalized and noncapitalized.

Real property consists of owned or leased land, buildings, structures, and facilities. Nonexpendable property is an item of property that is complete in itself, does not lose its identity or become a component part of other property when used, has an initial acquisition cost of \$5,000 or more, is durable, and has an expected useful life of over 2 years. All nonexpendable property must have a barcode and have a property record established in PIPS. Nonexpendable property also includes sensitive equipment, such as equipment containing classified material, laptop computers, and cameras, which is mission essential, attractive for personal use, pilferable, or hazardous and costs between \$1,000 and \$5,000. Although sensitive items are under the \$5,000 threshold, they require a greater degree of control and accountability. Therefore, the equipment must have a barcode and a property record established in PIPS. PIPS captures property records for real and nonexpendable property in the active file, or module, until the property is transferred to another organization or disposed of. When either action occurs, the property is removed from the active database and moved to the PIPS archive file, which is a module within PIPS that stores inactive property records.

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Capitalized property describes real and nonexpendable property that must be reported by the Chief Financial Officer (CFO) on an agency's quarterly and annual financial statements. Capitalized property is accounted for like any other piece of real or nonexpendable property. To be considered capitalized property, the item must meet one of five thresholds. Specifically, it must be:

- nonexpendable property with an acquisition cost of \$25,000 or greater.
- other structures and facilities with an acquisition cost of \$50,000 or greater.
- a building with an acquisition cost of \$100,000 or greater.
- a vehicle regardless of acquisition cost.
- any owned land regardless of acquisition cost.

The capitalized property records are used to prepare the agency's financial statements; therefore, receipts, transfers, disposals of capitalized property, and any changes to the capitalized property record are reported monthly to BBG's Office of Engineering and Technical Services (E office), Network Support Division (E/OT), in a transmitting station's monthly report. No information can be changed on the PIPS property record unless the station reports the change and includes the required supporting documentation in its monthly report submission.

As of July 8, 2009, PIPS included records of 13,381 items of nonexpendable personal property, with acquisition costs of approximately \$350 million. More than 8,500 (64 percent) of these items, with acquisition costs totaling almost \$245 million (70 percent), were located overseas. Of the items located overseas, 668 (8 percent) were capitalized, with acquisition costs totaling almost \$226 million (92 percent) and a net book value of more than \$84 million.

In addition to PIPS, CFO staff maintains an Excel spreadsheet that tracks capitalized property as well as annual and accumulated depreciation and net book value. PIPS data serves as the initial source of the spreadsheet's data. In addition, E/OT provides the CFO with quarterly updates on acquisitions, disposals, and adjustments to the capitalized property in PIPS. The CFO spreadsheet is the source of the capitalized property and depreciation expense data used in BBG's annual financial statements.

BBG Responsibilities

The Director of the E office is the Property Management Officer, who is responsible for the overall administration, coordination, and control of BBG's property management program, including developing and implementing BBG's property management policies and procedures.

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The Chief of E/OT is the Agency Property Manager, who is responsible for the day-to-day administration of the property management program. Duties of E/OT include disseminating and implementing property policies and procedures within BBG; maintaining the BBG-wide central property database; and acting as the Property Control Office for the transmitting stations, technical monitoring offices, and other facilities under the direction of the E office

The Transmitting Station Manager and the Chief of the Technical Monitoring Office, the accountable officers for their organizations, are responsible for all property assigned to the organization regardless of how it was acquired (for example, owned, leased, hand-received, or locally procured).

To assist the accountable officer, one property custodian, who is a Government employee, may be designated for each custodial area (for example, Transmitter Plant, Facilities, or Administration) established by the accountable officer. The property custodian is responsible for properly managing, maintaining, accounting for, and controlling the nonexpendable property and sensitive equipment assigned to him or her by the accountable officer.

All U.S. Government and contract employees are responsible for ensuring that any U.S. Government property in their custody is used properly and protected. Employees may be held liable for property that is stolen, destroyed, lost, or damaged as a result of negligence, improper use, or willful action on the employee's part.

Prior and Concurrent Reports

Between FYs 2002 and 2009, OIG issued one audit report,¹ two inspection reports,² and a management letter,³ all of which identified deficiencies in various aspects of BBG's property management. At the time of this audit, all of the recommendations relating to property were closed. Concurrent with this audit, an audit of BBG's financial statements⁴ and an inspection of the Kuwait Transmitting Station⁵ examined some aspects of BBG's controls over property and also identified deficiencies in internal controls over BBG's nonexpendable personal property.

¹ *BBG Controls on Domestic Personal Property* (IBO-A-02-03, Sept. 2002).

² *Review of Voice of America Central News* (ISP-IB-08-06, Oct. 2007) and *Review of Voice of America Persian News Network* (ISP-09-27, Mar. 2009).

³ *Management Letter Related to BBG's 2007 and 2006 Financial Statements* (AUD/FM-08-06, Feb. 2008).

⁴ *Independent Auditor's Report on the Broadcasting Board of Governors Financial Statements, September 30, 2009 and 2008* (AUD/IB-10-04, Nov. 2009).

⁵ *Inspection of International Broadcasting Bureau Kuwait Transmitting Station* (ISP-IB-10-45, Mar. 2010).

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OBJECTIVE

The overall objective of the audit was to determine whether BBG could properly account for its nonexpendable personal property overseas. Specifically, OIG was to determine whether:

- the capitalized assets included in PIPS were properly valued.
- the personal property included in PIPS existed.
- PIPS data was accurate and complete.⁶

AUDIT RESULTS

Finding A. Capitalized Property in PIPS Was Not the Direct Source for Financial Statements and Was Not Properly Valued

Although PIPS is BBG's automated property accounting system, it was not the direct source for capitalized property and depreciation expenses reported in BBG's financial statements. This occurred because BBG's CFO, rather than using PIPS to obtain data on capitalized items, used a spreadsheet developed in 2005 to obtain the data. Relying on a spreadsheet, in which data is entered manually, increases the potential for errors and omissions to occur. The Foreign Affairs Manual (FAM)⁷ requires BBG to calculate annual and accumulated depreciation expense. However, as required by Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards (SFFAS) No. 6,⁸ BBG personnel responsible for calculating and reporting on the data did not include salvage value and shipping (transportation) costs when they valued their property. Because BBG did not properly value its capitalized property, OIG estimated that BBG's financial statements for FY 2009 overstated annual depreciation by as much as \$1 million and understated

⁶ "Complete" as defined in this report means that PIPS contains records of all nonexpendable personal property and the related information that is required and/or appropriate under applicable laws, regulations, and other non-BBG and BBG guidance.

⁷ 14 FAM 415.2-2.

⁸ "Accounting for Property, Plant, and Equipment," June 1996.

the net book value of property, plant, and equipment by as much as \$19.7 million. Similar misstatements could also have occurred for prior years' financial statements. These actions warrant BBG's reviewing the impact on its financial statements for FY 2009 and prior years with its independent auditor.

PIPS Not Direct Source of Data for Annual Financial Statements

BBG implemented PIPS worldwide in 2007 to correct a high vulnerability weakness identified in property management. However, rather than exploring the option of using PIPS as a means of obtaining data on capitalized items, the CFO continued to use a spreadsheet that it developed in 2005 to consolidate the data from the three property tracking systems used at that time. Moreover, when E/OT officials developed and implemented the PIPS upgrade, they did not involve the CFO in the process.

Each quarter, E/OT provides updated PIPS data to the CFO that indicates acquisitions, deletions, and adjustments to the property data as appropriate. The CFO also uses additional invoice and payment data obtained from E/OT and the financial system to verify data on the spreadsheet, which includes calculations for annual and accumulated depreciation that are not captured in PIPS.

However, in its audit report of BBG's 2009 financial statements, the independent auditor found BBG's internal control over its financial and accounting system to be "inadequate" and that there was the risk for the financial information to be "materially mistat[ed] . . . under the current conditions." The report further stated that "certain elements of the financial statements, principally property, plant, and equipment," were "developed from sources other than the general ledger," which "increases the potential for omission of significant transactions."

PIPS is not linked to either the general ledger or the procurement and payment systems, and it requires that all data, including data relating to procurement and payment, be entered into PIPS manually, which increases the risk for errors and omissions. OIG believes that relying on the additional step of taking data from PIPS and then manually entering the data into the CFO spreadsheet for reporting on capitalized property further increases the risk for errors and omissions. Representatives of both the CFO and E/OT stated that the spreadsheet provided a check and balance because it and PIPS data must be the same and that any discrepancies would be identified and corrected. However, as described in the sections that follow, OIG found that both methods of accounting contained errors.

Discrepancies Between PIPS Data and CFO Spreadsheets

OIG's summary comparison of information contained in the fourth quarter FY 2009 CFO spreadsheet and in PIPS on October 21, 2009, identified discrepancies in the years for useful life of capitalized nonexpendable personal property. That is, the CFO spreadsheets used only four terms to designate the number of years for useful life (6, 10, 20, and 30 years), and PIPS used six terms (4, 6, 10, 20, 25, and 30 years). PIPS and CFO officials agreed that the CFO terms were correct and that PIPS data should be corrected. Another discrepancy was found in OIG's detailed comparison of 39 capitalized items purchased between June 2006 and July 2009. The acquisition costs and acquisition dates matched for 36 items. However, the spreadsheet was correct on the remaining two acquisition costs, and PIPS was correct on one acquisition date. Documentation for the other acquisition cost and two acquisition dates was not available.

Although the CFO spreadsheet was more accurate on the useful lives of the property, it was not complete. The CFO spreadsheet relied on data from PIPS to generate a record, but this data was not always recorded in a timely manner in the spreadsheet. CFO staff stated that they relied on the quarterly updates from E/OT to identify acquisitions, deletions, and adjustments. For example, the fourth quarter FY 2009 update from E/OT identified 13 items, with a total acquisition cost of \$1.9 million and acquisition dates between February 2002 and May 2008. These items had not been previously reported in the CFO spreadsheet and resulted in an understatement in the financial statements. Furthermore, a comparison of the fourth quarter 2009 CFO spreadsheet and the October 21, 2009, PIPS data showed that seven items acquired between January and June 2009, with total acquisition costs of approximately \$284,000, were not in the spreadsheet.

Although these amounts were not material for either annual or accumulated depreciation expense and net book value for prior periods, the inaccuracies resulted in misstatements for those periods. Furthermore, both the CFO spreadsheet and PIPS shared the more significant discrepancies related to salvage value and, to a much less significant amount, acquisition costs (these conditions are discussed further in the sections that follow).

E/OT personnel, on a quarterly basis, provide the CFO's office with PIPS updates related to capitalized property. CFO personnel input this data into their spreadsheet, determine depreciation, and report this information in the financial statements. Although CFO personnel are responsible for reporting the value of

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property in the financial statements, E/OT is responsible for the accuracy of data in PIPS. However, since the CFO relies on PIPS data to generate the records in the CFO spreadsheet, any errors, omissions, and deficiencies in PIPS data increase the potential for CFO data to be inaccurate and/or incomplete.

Both E/OT and CFO personnel who work with PIPS and the spreadsheet, respectively, agreed that if PIPS were somewhat modified to allow it to report annual and accumulated depreciation and if the deficiencies pertaining to PIPS cited in this report are corrected, PIPS should be used as the direct source of the depreciation and net book value for the annual financial statements.

Recommendation 1: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, identify the system and procedural modifications and corrections required to meet the requirements for reporting on capitalized nonexpendable personal property for the annual financial statements and that it implement the appropriate modifications and corrections no later than September 30, 2010.

Management Response and OIG Reply: BBG concurred with the recommendation, stating that it would take the actions recommended by September 30, 2010. OIG considers this recommendation resolved, pending receipt of acceptable evidence of implementation.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer, upon verification that the Property Inventory Processing System (PIPS) meets its requirements for reporting on capitalized nonexpendable personal property in the annual financial statements, use PIPS data rather than the internally developed spreadsheet.

Management Response: BBG “agree[d]” that it needs to take actions to address the issues identified but stated that developing a “fully integrated property and financial accounting system is a long-term project.” BBG further stated that it would take, “in the short term,” actions regarding procedural changes to the reporting of capitalized property, plant, and equipment and that it will evaluate PIPS’ ability to generate the information needed for the financial statements.

OIG Reply: Although BBG did not agree to implement the “long-term” actions proposed, OIG considers BBG’s willingness to address the basis for the recommendation sufficient to meet the intent of the recommendation. OIG considers

this recommendation resolved, pending its acceptance of documentation showing the short-term actions BBG will take regarding procedural changes to the reporting of capitalized property, plant, and equipment; evaluation of PIPS' ability to generate the information needed for the financial statements; and the long-term development of a fully integrated property and financial accounting system.

Capitalized Nonexpendable Property Not Properly Valued

BBG did not properly value its capitalized property in that it did not add salvage value, shipping costs, and additional costs when it calculated annual and accumulated depreciation expense and net book value for its annual financial statements, as required by SFFAS No. 6. BBG personnel responsible for overseeing and reporting on the data stated that they were not aware of these valuation requirements. Because BBG did not assign the 10 percent salvage value, as required by the FAM,⁹ OIG estimated that annual depreciation in the FY 2009 financial statements was overstated by as much as \$1 million and the net book value of property, plant, and equipment was understated by as much as \$19.7 million. Similar misstatements could also have occurred for prior years' financial statements. Depending on the materiality of these misstatements, BBG may have to restate its financial statements for FY 2009 and prior years.

Salvage Value Not Included in Depreciation Expense

In its review of both PIPS and the CFO spreadsheet, OIG found that salvage values were not considered in determining either the annual depreciation expense or the net book value of capitalized items, and E/OT and CFO officials familiar with the data stated that they were not aware of the requirement that salvage values were to be assigned. The November 16, 2009, independent auditor's report¹⁰ found that BBG's internal controls over property were a significant deficiency and that salvage values "were not treated consistently."

SFFAS No. 6 states that depreciation expense "is calculated through the systematic and rational allocation of the cost of general PP&E [property, plant, and equipment] less its estimated salvage/residual value, over the estimated useful life of the general PP&E."

⁹ 14 FAM 411-4.

¹⁰ AUD/IB-10-04, Nov. 2009.

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For 2009, BBG reported approximately \$11 million in depreciation expense and amortization; \$226 million in accumulated depreciation; and \$133 million in net book value of property, plant, and equipment. However, because BBG did not assign the 10 percent salvage value, annual depreciation for FY 2009 and accumulated depreciation were overstated by \$1 million and \$19.7 million, respectively, and net book value of property, plant, and equipment was understated by \$19.7 million on BBG's FY 2009 financial statements. Because the salvage value was not included, similar overstatements and understatements could also have occurred for prior years. These actions warrant BBG's reviewing the impact on its financial statements for FY 2009 and prior years with its independent auditor.

Shipping and Other Costs Not Applied Consistently

BBG did not apply shipping costs and other applicable costs for property, plant, and equipment consistently. Specifically, based on a comparison of 39 purchase and shipping documents and invoices for capitalized items, OIG found that shipping and other costs were sometimes noted separately as a line item in the overall costs and other times included as part of the invoice of the cost of the item. Also, for nine invoices for capitalized items with individual shipping costs on the invoices with the acquisition costs shown in PIPS, OIG found that none of the items included the shipping costs, which totaled \$11,745, in their acquisition costs. Also, the acquisition cost for one item in PIPS included \$18,000 for an extended warranty, which should not have been included as part of the acquisition cost.

SFFAS No. 6 states that all general property, plant, and equipment (PP&E) "should be recorded at cost" and that cost "shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use." Cost (acquisition cost) may include items such as amounts paid to vendors, transportation charges to the point of initial use, and handling and storage costs.

In addition to the shipping costs listed on the invoice, E/OT officials stated that they also may incur additional shipping costs. That is, E/OT may request that property items be shipped to BBG's warehouse in Washington, DC, from where they are shipped in bulk to the various transmitting stations. However, shipping costs for this method of shipment are not routinely applied to the acquisition costs of the items. Furthermore, E/OT officials stated that although individual stations may sometimes include such costs in the overall acquisition costs, it was not the policy to do so.

Although failing to include shipping costs did not materially affect the overall valuation or annual depreciation expense of the capitalized items, not including the shipping costs did result in an understatement in the depreciation expense and the

net book value and was not in compliance with accounting and other requirements. The November 16, 2009, independent auditor's report¹¹ also found that BBG's "costs of shipping property . . . were not treated consistently."

Recommendation 3: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, review all capitalized nonexpendable personal property identified; assign salvage values for each item as appropriate; and adjust the annual depreciation expense calculations, accumulated depreciation expenses, and net book values for these items in the Property Inventory Processing System and the Chief Financial Officer's capitalized property spreadsheet as appropriate.

Recommendation 4: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer inform the independent auditor of the revisions to annual and accumulated depreciation and net book value for capitalized property, plant, and equipment that resulted from the assignment of salvage values and determine whether BBG's financial statements for FY 2009 and prior years may have been impacted.

Recommendation 5: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, develop and implement policies and procedures to ensure that personnel assign appropriate salvage values to all nonexpendable personal property before annual depreciation rates are calculated and applied.

Recommendation 6: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that personnel include, in each item's acquisition costs, shipping and all other costs necessary to make nonexpendable personal property ready for use.

Management Response and OIG Reply: BBG concurred with Recommendations 3-6, stating that it would take the actions recommended. OIG considers Recommendations 3-6 resolved, pending receipt of acceptable evidence of implementation.

¹¹ AUD/IB-10-04, Nov. 2009.

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Finding B. PIPS Data on Property Could Not Always Be Verified and Was Incomplete

Data on the existence of all items in PIPS could not be verified, and data in PIPS listings for property items was incomplete. Specifically, of 1,702 nonexpendable personal property items sampled from PIPS, the existence of 180 items could not be verified. In addition, 101 of 257 sampled items were not included in PIPS. (Examples of these deficiencies are shown in Appendix B.) These deficiencies occurred because BBG’s internal control environment did not ensure that guidance on how to conduct physical inventories was adequate and that serial numbers or other unique identifiers were recorded in PIPS. As a result, BBG had limited assurance that assets were not vulnerable to loss, theft, or misuse.

Property Existence Could Not Be Verified

From the seven overseas transmitting stations in its audit, OIG selected all capitalized nonexpendable personal property and a stratified random sample of the remaining nonexpendable personal property (the sample methodology is detailed in Appendix A). Of the 4,580 items reported in PIPS for the seven locations as of July 8, 2009, OIG sampled 1,702 items (37 percent), with individual acquisition costs of less than \$100 to more than \$2 million. These items included cell phones, computers, monitors, electronic equipment, vehicles, antennas, and transmitters. OIG determined, for the 1,702 items randomly selected from PIPS, that the existence of 180 items (11 percent), whose costs totaled \$7.7 million, could not be verified for the reasons shown in Table 1.

Table 1. Results of OIG’s Physical Verification of Property Existence

In PIPS	Northern Marianas		Philippines		Germany		Sri Lanka	Totals
	Saipan	Tinian	Tinang	Poro	Biblis	Lampertheim		
In Sample	162	273	389	116	110	242	410	1,702
Total OIG Verified	146	254	357	108	104	221	332	1,522
Could Not Find Item	12	7	0	0	0	4	31	54
Could Not Obtain Adequate Documentation for Item Disposition	0	3	1	0	1	5	1	11
Could Not Confirm Item Was What or Where PIPS Data Indicated	4	9	31	8	5	12	46	115
Total OIG Could Not Verify	16	19	32	8	6	21	78	180

Disposition of Items

OIG determined that the 180 items randomly selected from PIPS either could not be located, could not be documented, or could not be confirmed as to what they were purported to be as follows:

- *Locating Property* - 54 items, with total acquisition costs of approximately \$500,000 and individual acquisition costs of \$87 to \$200,556, could not be located. Transmitting station personnel could provide explanations for only six items: two modulation monitors and a frequency synthesizer were reported as not having been seen since 2004, one modulation monitor was reported as never having been seen, one cell phone was reported as having been traded in for a replacement (4 days before the PIPS record of the date it was last inventoried), and one spare relay air conditioning panel was reported as having been removed when the air conditioning unit was removed “some years ago.” PIPS records showed that none of these six items had previously or subsequently been reported as disposed of or missing.
- *Documenting Property* – 11 items, with total acquisition costs of approximately \$226,000 and individual acquisition costs of \$800 to \$115,000, did not have adequate documentation to support that the items had been previously disposed of, reported as missing, or transferred to another BBG entity, as station personnel had stated. Station personnel stated that one item was reported to have been identified as missing in July 2009 and that the remaining 10 items were purportedly disposed of or transferred between the 1990s and 2008, including three antennas purported to have been demolished in 1997.
- *Confirming Property* – 115 items, with total acquisition costs of approximately \$7 million and individual acquisition costs of less than \$100 to \$1.1 million, could not be confirmed as either the items station personnel purported them to be or that they were where PIPS records indicated they were located. The items could not be confirmed because they did not have barcodes and PIPS did not contain serial numbers or other identifying information, the items had barcodes but serial numbers did not match those recorded in PIPS, the items were identified as being located where OIG could not travel to verify their existence, or station personnel could not provide documentation that the items existed.

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Listing of Property in PIPS Incomplete

OIG attempted to determine the completeness of data in PIPS, that is, whether PIPS contained records of all nonexpendable personal property and the related information that was required under applicable BBG guidance.¹² Specifically, of its judgmental sample of 257 items of nonexpendable personal property, OIG found that 101 items, of which 51 items had barcodes and 50 did not, were not included in PIPS or the archive file. OIG was not able to determine why PIPS was incomplete, that is, why the items with barcodes were not in the archive file if they were not in PIPS.

If an item did not have a barcode but did have a serial number, OIG searched for the serial number in PIPS and the archive file. Because OIG did not know the acquisition costs of the items to determine whether they met the minimum value criteria for entry into PIPS, OIG, as part of the sample selection process, selected only items on-site that were similar to or the same as the types of items in PIPS at that specific location. OIG's rationale was that if other items of the same type were included in PIPS for a particular site, all of the same types of items should be included in PIPS. The results of OIG's sample are shown in Table 2.

Table 2. Details of Completeness Test Sampling

	Sri Lanka	Northern Marianas		Philippines		Germany		Totals
	Chilaw	Saipan	Tinian	Poro	Tinang	Biblis	Lampertheim	
Items In Sample:	64	23	47	29	41	22	31	257
Items in PIPS or the Archive File:	40 (63%)	16 (70%)	19 (40%)	23 (79%)	34 (83%)	8 (36%)	16 (52%)	156 (61%)
Items NOT in PIPS or the Archive File:	24 (38%)	7 (30%)	28 (60%)	6 (21%)	7 (17%)	14 (64%)	15 (48%)	101 (39%)

¹² The guidance consisted of the Property Inventory Processing System III (PIPS III) Users Manual, dated Jan. 18, 2007, and the International Broadcasting Bureau Manual of Operations and Administration, sec. 710(4), "General Concept for Accounting for Nonexpendable Property and Sensitive Equipment," dated Dec. 12, 2007.

Physical Inventories Not Adequately Conducted

PIPS data indicated that all of the items in OIG's sample for verification at the seven sites had been physically inventoried between January and April 2009, and the accountable officers/station managers at the sites attested that PIPS data was correct and accurately reflected the results of the annual inventory. However, OIG found no documentation to support that the annual physical inventories required by Transmitting Station Instruction 108¹³ had actually been conducted or that the accountable officers had verified the inventory results before they signed the certifications.

The Transmitting Station Instruction requires nonexpendable personal property to be inventoried annually and PIPS to be updated accordingly when there is a change in accountable officers. The International Broadcasting Bureau Manual of Operations and Administration¹⁴ further requires physical inventories to be generally conducted by March 31 of each year, with certified hard copies of the results of the inventory to be provided to E/OT no later than April 10 of each year. The certification is to include the following language:

I accept accountability for all property listed on the attached property inventory report, dated March 31, 200x. I certify that to the best of my knowledge the content of this listing:

- Represents all accountable property in my accountable area.
- Is an accurate representation of this property in the Agency's property database.
- Has been properly inventoried in the past year.

Missing property reports are attached for items marked with an asterisk (*) that could not be located during this inventory.

Property custodians at two sites stated that they had not conducted physical inventories since 2004, and at another site, the property custodian responsible for the 2009 inventory stated that he had not conducted a full physical inventory. The two station managers for these three sites did not verify the inventories presented to them before or after they had certified the results. One manager stated that he had considered verifying the inventories but had not, and the other manager stated that he should have been alerted when he noticed that the property custodian responsible for overseeing the physical inventory at the other in-country site had not been to that site for years.

¹³ Transmitting Instruction 108: Property Accountability, sec. 108.17, "Reporting on Property," Jan. 16, 2008.

¹⁴ International Broadcasting Bureau Manual of Operations and Administration, secs. 710(9)c, "Reconciling the Inventory Results," and 710.14, "Reporting on Property," dated Dec. 12, 2007.

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Property custodians at the other four sites stated that they had performed the physical inventories as required, but they could not provide documentation to support that they had done so or explain why the items that they had told OIG had been disposed of previously, that did not have barcodes, or that had serial numbers that did not match those in the PIPS records continued to be included in PIPS or continued to include incorrect data in PIPS rather than being deleted or corrected as appropriate.

Prior to its fieldwork at the seven transmitting stations, OIG's summary review of June 23, 2009, PIPS data containing 13,375 records (domestic and overseas) showed that 1,354 records identified the items' most recent inventory date as prior to June 23, 2008 (one year before the date of the PIPS data, despite the annual requirement). Of the 1,354 records, 846 records showed the latest inventory date as 2 or more years prior to June 23, 2009, including 124 records that were dated 5 or more years prior to June 23, 2009. About 22 percent of these records were located overseas, and 78 percent were located domestically.

OIG did not find documentation to support that individual accountable officers or E/OT personnel in Washington had implemented internal controls or took action to verify the accuracy of the inventories. Individual accountable officers relied on information provided by their property custodians and certified it without testing or other verification, and E/OT accepted the certifications without question and evidence of oversight or verification.

Guidance on Physical Inventories Inadequate

Property custodians at the sites visited had different views on what constituted a physical inventory and how it should be conducted, and guidance in the Transmitting Station Instructions and the Manual of Operations and Administration on these subjects was limited and inadequate. The guidance consisted basically of telling personnel who conduct inventories to print out the property listing, compare the property with the items on the list, update PIPS records for existing property as appropriate, add to PIPS the "found" items not already in PIPS, and report missing items on the proper forms.

Guidance that contained more detailed steps on how to conduct physical inventories was posted on BBG's intranet Web site.¹⁵ However, OIG found that the guidance had never been distributed and that personnel responsible for conducting inventories at the seven stations were not aware of its existence.

¹⁵ Informal guidance on physical inventories is at various locations on BBG's intranet Web site.

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Although the guidance on the Web site would be helpful, it needs to be revised to address all aspects related to physical inventories and provide more specific direction to the personnel using it, such as the information contained in the Government Accountability Office's guidance on inventories.¹⁶ For example, E/OT's guidance does not address issues such as the following:

- The inventory of other items that are not required to be included in PIPS but that the station has chosen to include at its discretion or the removal of such items from PIPS when the station no longer needs to track them.
- The importance of verifying the accuracy and completeness of identifying data such as descriptions or serial numbers.
- The segregation of duties and the need to ensure that individuals responsible for the day-to-day control of the property are not the only individuals who perform the inventories.
- Whether and, if so, how to verify the results of the physical inventory by having a party not involved in the inventory randomly test or sample the results for accuracy and completeness.

In addition to inadequate guidance, OIG found no documentation to support that the property custodians or other individuals conducting the inventories had been properly trained on how to conduct the inventories. Consequently, individuals conducting the inventories did not always add items or identify items as missing, and they did not correct inaccurate or incomplete data, which was suggested in E/OT's guidance.

Serial Numbers Not Required

Of the 13,990 records of items (domestic and overseas) in PIPS on October 21, 2009, 2,576 items did not have serial numbers. Approximately 1,900 items (14 percent of all of the items in PIPS), with total acquisition costs of approximately \$184 million, were the types of items that were likely to have a serial number, vehicle identification number, or other unique identifying number. However, the PIPS User Manual (page 18) states that the serial number field in PIPS is optional. Therefore, the serial number field within PIPS was populated with numbers or alphanumeric characters or was left blank.

¹⁶ *Executive Guide on Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* (GAO-02-447g, Mar. 2002).

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In PIPS, the barcode is considered the unique identifier. However, as OIG observed, barcodes can be removed or, by using the proper software, replicated. Serial numbers and vehicle identification numbers, by contrast, are usually not easily removed or altered, but if they are, the removal is usually apparent. If the serial number or vehicle identification number was not included in PIPS and a barcode was removed from one item and placed on another or the barcode was replicated and placed on another item of a similar description, make, and model, there would be no way to determine whether it was the correct item. For example, station personnel showed OIG 48 items purported to be in OIG's sample that did not have barcodes to verify against PIPS records. Although the items had serial numbers, the numbers were not recorded in PIPS, and OIG had no basis to determine whether these were the items they were purported to be. OIG believes that including the unique serial number or vehicle identification number for those items that have them would provide another control in tracking and accounting for property.

Conclusion

Because OIG did not conduct a complete physical inventory of all nonexpendable personal property at any of the seven sites visited, it could not determine whether or if any of the 180 items it could not locate were actually missing, lost, or stolen. It also could not determine to what extent the data in PIPS was accurate. Making these determinations will require BBG to ensure that a 100 percent inventory of all nonexpendable personal property is conducted. The results of that inventory should then be compared with the results contained in PIPS, and PIPS data should then be revised as appropriate.

Without proper control and accountability of its nonexpendable personal property, BBG cannot be assured of the disposition of the property, and the potential exists for this property to be missing, lost, or stolen. A 100 percent physical inventory would also ensure that information in PIPS is accurate so that this property can be properly tracked and controlled in the future.

Management Comments on Finding B

In its response (see Appendix C), BBG stated that OIG's report "does an excellent job" in documenting procedures pertaining to audit property at overseas posts, but it provided additional comments to be included in the report.

BBG stated that its staff members were "energetic, interested, and involved in" broadcasting U.S. Government programs to foreign audiences but that its "budgets and resources are continually shrinking." BBG stated, for example, that the station

in Germany had three transmitting sites and a staff of 41 in October 2006 but had only 20 staff members at the end of FY 2009. However, the number of annual shortwave broadcast hours “has increased from 32,400 to 45,760.” BBG stated that “needed inventory control and reporting” may have been hampered because of the emphasis on “achieving the station’s broadcast mission” and acknowledged that “more emphasis” needed to be placed on ensuring that annual inventories are “thorough, complete, and correct.”

Regarding items that OIG could not find, BBG noted that OIG “did not encounter any evidence to suggest that significant amounts of missing or unaccounted items had been stolen, pilfered, or otherwise misappropriated.” Rather, BBG stated that the stations’ “inability to account for items can best be characterized as administrative in nature” and that “staff members fully expect that the vast majority of missing items will be accounted for once proper resources are applied to do the research and clean up the inventories.”

Regarding administrative functions, BBG stated that resources are “slim,” travel to transmitting stations is “infrequent,” and training is “a particularly difficult issue.”

BBG reiterated that because the existence of 48 items could not be confirmed “does not necessarily mean that items are missing or have been lost.” Rather, according to BBG, the items can be “found” or recovered merely by placing a proper barcode on the item.”

BBG did not dispute OIG’s findings regarding PIPS data on property not being verifiable or complete and the results of its inventory verification. However, it stated that station staff, “in many instances,” provided “anecdotal information and recollections” about the items and expressed confidence that the items “were accounted for despite missing documentation.” BBG further stated that “the documentation may be missing, not the item.”

Recommendation 7: OIG recommends that the Broadcasting Board of Governors (BBG), Office of Engineering and Technical Services, review and revise, as appropriate, its guidance on conducting physical inventories to provide complete and easy-to-understand instructions for property custodians and other individuals who conduct inventories and that this guidance be incorporated into Transmitting Station Instructions, the International Broadcasting Bureau Manual of Operations & Administration, or other applicable BBG guidance.

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Recommendation 8: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that all accountable officers, property custodians, and other individuals involved in conducting annual physical inventories of nonexpendable personal property receive initial and then periodic follow-up training on conducting and reporting the results of the physical inventories.

Recommendation 9: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, direct all accountable property officers to conduct a complete physical inventory of all nonexpendable personal property assigned to or located within their respective organizational units as soon as training has been completed but no later than March 31, 2011.

Recommendation 10: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, revise Property Inventory Processing System guidance to require the mandatory input of serial numbers, vehicle identification numbers, or other unique identifiers for all nonexpendable property with such unique identifiers.

Management Response and OIG Reply: BBG concurred with Recommendations 7-10, stating that it would take the actions recommended. For Recommendation 9, BBG noted that in correcting the discrepancies identified in the audit, the Sri Lanka Transmitting Station's inventory for 2010 reflected "the culmination of this effort" by identifying 90 missing items, valued at \$97,599, out of an inventory of items valued at \$27,274,039. Based on the response, OIG considers Recommendations 7-10 resolved, pending receipt of acceptable evidence of implementation.

LIST OF RECOMMENDATIONS

Recommendation 1: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, identify the system and procedural modifications and corrections required to meet the requirements for reporting on capitalized nonexpendable personal property for the annual financial statements and that it implement the appropriate modifications and corrections no later than September 30, 2010.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer, upon verification that the Property Inventory Processing System (PIPS) meets its requirements for reporting on capitalized nonexpendable personal property in the annual financial statements, use PIPS data rather than the internally developed spreadsheet.

Recommendation 3: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, review all capitalized nonexpendable personal property identified; assign salvage values for each item as appropriate; and adjust the annual depreciation expense calculations, accumulated depreciation expenses, and net book values for these items in the Property Inventory Processing System and the Chief Financial Officer's capitalized property spreadsheet as appropriate.

Recommendation 4: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer inform the independent auditor of the revisions to annual and accumulated depreciation and net book value for capitalized property, plant, and equipment that resulted from the assignment of salvage values and determine whether BBG's financial statements for FY 2009 and prior years may have been impacted.

Recommendation 5: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, develop and implement policies and procedures to ensure that personnel assign appropriate salvage values to all nonexpendable personal property before annual depreciation rates are calculated and applied.

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Recommendation 6: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that personnel include, in each item's acquisition costs, shipping and all other costs necessary to make nonexpendable personal property ready for use.

Recommendation 7: OIG recommends that the Broadcasting Board of Governors (BBG), Office of Engineering and Technical Services, review and revise, as appropriate, its guidance on conducting physical inventories to provide complete and easy-to-understand instructions for property custodians and other individuals who conduct inventories and that this guidance be incorporated into Transmitting Station Instructions, the International Broadcasting Bureau Manual of Operations & Administration, or other applicable BBG guidance.

Recommendation 8: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that all accountable officers, property custodians, and other individuals involved in conducting annual physical inventories of nonexpendable personal property receive initial and then periodic follow-up training on conducting and reporting the results of the physical inventories.

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ABBREVIATIONS

AUD	Office of Audits
BBG	Broadcasting Board of Governors
CFO	Chief Financial Officer
E office	Office of Engineering and Technical Services
E/OT	Network Support Division
FAM	Foreign Affairs Manual
OIG	Office of Inspector General
PIPS	Property Inventory Processing System
SFFAS	Statement of Federal Financial Accounting Standards

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APPENDIX A

SCOPE AND METHODOLOGY

The Office of Inspector General (OIG) conducted its audit between June 2009 and March 2010 at Broadcasting Board of Governors (BBG) offices in Washington, DC, and in August 2009 at transmitting stations in the Northern Mariana Islands (Saipan and Tinian), the Philippines (Poro and Tinang), Germany (Biblis and Lampertheim), and Sri Lanka (Chilaw). OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

OIG analyzed BBG's policies, procedures, and other guidance, as well as other relevant laws, regulations, and standards, including the Federal Acquisition Regulation; applicable Government Accountability Office reports, such as Standards for Internal Control in the Federal Government and Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property; Office of Management and Budget directives; and the Department of State's Foreign Affairs Manual and Foreign Affairs Handbook. OIG interviewed officials, including the agency property control officer, accountable officers, and property custodians, who were responsible for managing and maintaining nonexpendable personal property inventories, and it reviewed Property Inventory Processing System (PIPS) data and applicable purchase and receipt records in the Network Support Division (E/OT) and at the transmitting stations at the locations visited. OIG also interviewed officials from the office of the Chief Financial Officer (CFO) involved with collecting data and reporting on the annual and accumulated depreciation expense associated with the net book value of capitalized property for BBG's annual financial statements. In addition, OIG met with the independent auditor to discuss the results of its audit of BBG's financial statements for FYs 2008 and 2009.

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OIG selected transmitting stations in Sri Lanka, the Northern Marianas, the Philippines, and Germany for site visits and review using a nonstatistical sampling method known as judgment sampling. Because this method uses discretionary criteria to effect sample selection, the audit team was able to use information garnered during the survey phase to aid in making informed selections.

A prime consideration in selecting the sites was the number of items at the stations and their acquisition costs as stated in PIPS on June 23, 2009, which are shaded in Table 1. The selected sites accounted for 57 percent of all overseas items. The items at these locations also had a total acquisition cost of about \$106.3 million, or 44 percent of the total acquisition cost of all overseas items. This percentage would increase to 62 percent if Thailand was eliminated from the calculation—a reasonable measure, since just two of the stations’ items totaled \$54 million, or 75 percent of the total acquisition costs of its items. Moreover, the independent auditor performing the financial statement audit selected Thailand as one of its sites to perform work. Consequently, OIG did not include Thailand among its sites to visit.

Table 1. Overseas Nonexpendable Property Items and Costs by Location

Location	Number of Items	Percent of Total	Acquisition Cost	Percent of Total
Thailand	226	3	\$72,683,399	30
Philippines	1501	18	\$41,025,382	17
Sri Lanka	1454	17	\$25,941,851	11
Kuwait	724	8	\$23,833,542	10
Northern Marianas	976	11	\$20,490,815	8
Sao Tome	1832	21	\$19,130,102	8
Germany	941	11	\$18,887,455	8
Botswana	132	2	\$18,319,517	8
Other overseas	740	9	\$2,879,814	1
Totals	8526	100	\$243,191,877	100

The criteria for selection of stations also included geographical and logistical considerations and the recency of site visits made by OIG, as well as by the independent auditor. OIG performed tests for existence of the items and completeness of the lists generated by PIPS. The steps taken to select the individual items of property are as described.

Detailed Sampling Methodology at Selected Transmitting Stations

OIG's sampling objective was to determine whether BBG could properly account for its nonexpendable personal property maintained overseas. OIG tested the lists generated by PIPS at selected overseas locations to verify existence of the items and completeness of the lists. These tests are commonly referred to as "list-to-floor" and "floor-to-list," respectively.

Existence Test

To determine whether the overseas transmitting stations could account for the items in their property inventory lists, OIG randomly selected items from the lists and physically verified their existence, that is, list-to-floor testing. OIG used the PIPS property records to sample the target population (that is, the population intended to be covered).

OIG grouped the items in each property list into like categories, or strata, primarily to ensure that items of special interest from each category were adequately represented in our sample as follows:

1. Capitalized property.
2. Noncapitalized property with a cost between \$5,000 and \$24,999.
3. Sensitive items with a cost of \$4,999 or less, such as cameras and computers.
4. Noncapitalized property with a cost of \$4,999 or less.

OIG planned to focus on the first three categories. In fact, OIG intended to review all the items for these three strata at all but one of the sites to be visited, as indicated in Table 2. Since the overseas sites are permitted discretion as to whether to include noncapitalized property with a cost of \$4,999 or less, OIG planned to review the least number of these items, which is the last of the four categories, for the purpose of determining consistency within and between transmitting stations in maintaining inventory records.

OIG's original sampling plan called for a total sample at the eight selected overseas sites of 1,843 items out of a total universe of 4,901 items contained in PIPS on July 8, 2009—a planned sampling rate of 38 percent. These totals are broken out by location and category in Table 2.

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Table 2. Identification of Sampled Universes per PIPS and Planned Sample Sizes per Location

Location	Category	Universe	% of Total Universe	Sample	% of Universe Sampled
Chilaw, Sri Lanka	Capitalized property	62	4	62	100
	Non-capitalized – \$5,000–\$24,999	83	6	83	100
	Sensitive items – \$4,999 or less	156	11	156	100
	Non-capitalized – \$4,999 or less	1155	79	109	9
	Subtotals	1456	100	410	28
Saipan, Northern Marianas	Capitalized property	11	3	11	100
	Non-capitalized – \$5,000–\$24,999	36	11	36	100
	Sensitive items – \$4,999 or less	101	31	101	100
	Non-capitalized – \$4,999 or less	175	54	14	8
	Subtotals	323	100	162	50
Tinian, Northern Marianas	Capitalized property	41	6	41	100
	Non-capitalized – \$5,000–\$24,999	86	13	86	100
	Sensitive items – \$4,999 or less	112	17	112	100
	Non-capitalized – \$4,999 or less	415	63	34	8
	Subtotals	654	100	273	42
Poro, Philippines	Capitalized property	20	11	20	100
	Non-capitalized – \$5,000–\$24,999	36	20	36	100
	Sensitive items – \$4,999 or less	57	31	57	100
	Non-capitalized – \$4,999 or less	71	39	3	4
	Subtotals	184	100	116	63
Tinang, Philippines	Capitalized property	130	10	130	100
	Non-capitalized – \$5,000–\$24,999	238	18	77	32
	Sensitive items – \$4,999 or less	476	35	161	34
	Non-capitalized – \$4,999 or less	508	38	21	4
	Subtotals	1352	100	389	29

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Location	Category	Universe	% of Total Universe	Sample	% of Universe Sampled
Biblis, Germany	Capitalized property	35	17	35	100
	Non-capitalized – \$5,000–\$24,999	27	13	27	100
	Sensitive items – \$4,999 or less	43	21	43	100
	Non-capitalized – \$4,999 or less	103	50	5	5
	Subtotals	208	100	110	53
Lampertheim, Germany	Capitalized property	60	15	60	100
	Non-capitalized – \$5,000–\$24,999	103	26	103	100
	Sensitive items – \$4,999 or less	72	18	72	100
	Non-capitalized – \$4,999 or less	168	42	7	4
	Subtotals	403	100	242	60
Ismaning, Germany	Capitalized property	10	3	10	100
	Non-capitalized – \$5,000–\$24,999	74	23	74	100
	Sensitive items – \$4,999 or less	49	15	49	100
	Non-capitalized – \$4,999 or less	188	59	8	4
	Subtotals	321	100	141	44
	Totals	4901	-	1843	38

Sample Selection. OIG was unable to affect its original sampling plan, as detailed in Table 2, because the PIPS database from which OIG obtained its sampling frames or inventory lists was incomplete and inaccurate. Specific anomalies included missing items; duplicate items; and incorrect serial numbers, acquisition costs, acquisition dates, present locations, and descriptions. Moreover, OIG was not able to sample any items at Ismaning because, according to station officials, all of the property was transferred to Kuwait, although PIPS listed 321 items for this station. Because of these deficiencies, OIG was not able to employ the intended statistical sampling design,¹ namely, stratified random sampling, at each of the offices visited, as planned.

¹ A statistical sample requires each unit in the population to have a known nonzero probability of selection, and a random method is used to choose the specific units to be included in the sample.

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Since no sampling could be performed at Ismaning, OIG did not include this station in any subsequent discussions of testing. Excluding Ismaning, OIG sampled 1,702 items (37 percent) of the total universe of 4,580 at the remaining seven sites. As shown in Table 3, OIG focused, as planned, on capitalized property, noncapitalized property with acquisition costs between \$5,000 and \$24,999, and sensitive items with a cost of \$4,999 or less, sampling 100 percent, 74 percent, and 69 percent, respectively, of all of the items in these three categories per PIPS.

Table 3. Samples Selected Per Property Category

Category	Universe	Sample	Percent Sampled
Capitalized property	359	359	100
Non-capitalized – \$5,000–\$24,999	609	448	74
Sensitive items – \$4,999 or less	1017	702	69
Non-capitalized – \$4,999 or less	2595	193	7
Totals	4580	1702	37

Completeness Test

To determine whether all required² nonexpendable property was recorded in PIPS, OIG tested the lists for completeness. This procedure is commonly referred to as “floor-to-list” testing.

Sample Selection. OIG sampled items being used or stored at the seven sites visited and then attempted to locate the property in the inventory lists. The nature of such tests makes it extremely difficult, if not impossible, to develop a comprehensive sampling frame or list that includes the entire universe of items on the “floor,” thereby precluding the use of statistical sampling. Consequently, the team selected a judgmental sample of items based on factors such as accessibility and value to confirm whether the property items were appropriately and accurately recorded in inventory. Specifically, OIG sampled 257 items of nonexpendable personal property at the seven sites visited and tried to trace them back to PIPS or the archive file. The number of locations visited and the amount of time available at each site were among the factors that caused the sample sizes to vary considerably.

² Required property consists of (1) property that is durable, has an expected life of 2 years or more, and an acquisition cost of \$5,000 or more and (2) property that is considered “sensitive.”

Review of Internal Controls

OIG tested the items in the PIPS database for existence and inventory lists generated by PIPS for completeness. Compliance with applicable policies, procedures, and processes was also reviewed to assess whether the system of internal controls over the inventory of nonexpendable personal property was effective (that is, whether it provided reasonable assurance as to the reliability of inventory information and accountability of the nonexpendable personal property). As stated in the report, OIG identified numerous deficiencies and internal control weaknesses in physically inventorying and accounting for property items and in the completeness, accuracy, and reliability of the PIPS data.

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APPENDIX B

DETAILED RESULTS OF EXISTENCE AND COMPLETENESS SAMPLES

During its audit, the Office of Inspector General (OIG) found anomalies in tests of the existence of property and the completeness of data in the Property Inventory Processing System (PIPS).

Existence Results

At the seven transmitting stations visited, OIG found 180 anomalies (11 percent) of the 1,702 items sampled. These anomalies are shown in Table 1 by location, category of property, and specific anomaly type. The three types of anomalies OIG found are as follows:

- The item could not be located at all despite indications in PIPS that it was assigned to the station.
- The item was stated to be disposed of or transferred, but this assertion was not adequately documented.
- An item was presented to OIG, but verification was not possible because the item lacked a barcode and/or a serial number or other individual identifier that could be matched with PIPS; the serial number in PIPS associated with the barcode did not match the serial number on the item; or the item was stated to be located at a location that OIG could not visit and the station could not provide any evidence (such as a picture of the item, barcode and serial number, or hand receipt) that the item existed.

Table 1. Details of Existence Test Sampling

Location	Category	Sample Size	Total of Anomalies	Specific Anomalies		
				Property Not Located	Deficient Documentation	Other Verification Problems
Chilaw, Sri Lanka	Capitalized property	62	5	1	0	4
	Non-capitalized – \$5,000–\$24,999	83	10	2	0	8
	Sensitive items – \$4,999 or less	156	31	18	0	13
	Non-capitalized – \$4,999 or less	109	32	10	1	21
	Subtotals	410	78 (43%)	31	1	46

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Table continued

Location	Category	Sample Size	Total of Anomalies	Specific Anomalies		
				Property Not Located	Deficient Documentation	Other Verification Problems
Saipan, Northern Marianas	Capitalized property	11	0	0	0	0
	Non-capitalized – \$5,000–\$24,999	36	6	4	0	2
	Sensitive items – \$4,999 or less	101	8	7	0	1
	Non-capitalized – \$4,999 or less	14	2	1	0	1
	Subtotals	162	16 (9%)	12	0	4
Tinian, Northern Marianas	Capitalized property	41	2	1	0	1
	Non-capitalized – \$5,000–\$24,999	86	10	4	2	4
	Sensitive items – \$4,999 or less	112	5	2	1	2
	Non-capitalized – \$4,999 or less	34	2	0	0	2
	Subtotals	273	19 (11%)	7	3	9
Poro, Philippines	Capitalized property	20	2	0	0	2
	Non-capitalized – \$5,000–\$24,999	36	1	0	0	1
	Sensitive items – \$4,999 or less	57	5	0	0	5
	Non-capitalized – \$4,999 or less	3	0	0	0	0
	Subtotals	116	8 (4%)	0	0	8
Tinang, Philippines	Capitalized property	130	12	0	0	12
	Non-capitalized – \$5,000–\$24,999	77	3	0	0	3
	Sensitive items – \$4,999 or less	161	14	0	1	13
	Non-capitalized – \$4,999 or less	21	3	0	0	3
	Subtotals	389	32 (18%)	0	1	31
Biblis, Germany	Capitalized property	35	2	0	0	2
	Non-capitalized – \$5,000–\$24,999	27	2	0	1	1
	Sensitive items – \$4,999 or less	43	2	0	0	2
	Non-capitalized – \$4,999 or less	5	0	0	0	0
	Subtotals	110	6 (3%)	0	1	5

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Location	Category	Sample Size	Total of Anomalies	Specific Anomalies		
				Property Not Located	Deficient Documentation	Other Verification Problems
Lampert-heim, Germany	Capitalized property	60	9	2	3	4
	Non-capitalized – \$5,000–\$24,999	103	5	0	0	5
	Sensitive items – \$4,999 or less	72	7	2	2	3
	Non-capitalized – \$4,999 or less	7	0	0	0	0
	Subtotals	242	21 (12%)	4	5	12
	Totals	1702	180 (11%)	54	11	115

Property Not Located

Of the 180 nonexpendable personal property items that could not be verified, neither OIG nor station personnel could locate 54 (30 percent) items. PIPS showed total acquisition costs for these items as \$497,000. Four of the items, described as control room equipment, two satellite receiving systems, and a dry type transformer, were capitalized, with a total acquisition cost of \$375,000 and a depreciated net book value of \$2,450. The remaining 50 items included property described as cell phones, monitors, computers, printers, radio equipment, frequency synthesizers, up converters, modems, and zip drives, with individual acquisition costs ranging from \$87 to \$16,000 and totaling approximately \$122,000.

Although station personnel could not explain why most of the 54 items could not be located, they provided explanations for six items as follows: two modulation monitors and a frequency synthesizer were reported as not having been seen since 2004, one modulation monitor was reported as never having been seen, one cell phone was reported as having been traded in for a replacement (4 days before the PIPS record of the date it was last inventoried), and one spare relay air conditioning panel was reported as having been removed when the air conditioning unit was removed “some years ago.” PIPS records indicated that all of these items had been inventoried between February and April 2009—only a few months before the arrival of OIG at the stations—and that none of the items had previously or subsequently been reported as disposed of or missing.

Evidence of Disposal or Transfer Not Provided

Of the 180 nonexpendable personal property items that could not be verified, 11 (6 percent) could not be located and OIG could not obtain adequate documentation to confirm that the items had been previously disposed of, reported as missing, or transferred to another Broadcast-

ing Board of Governors (BBG) entity. One item, according to station personnel, was reported to have been identified as missing in July 2009, and all of the other items were stated to have been disposed of or transferred between the 1990s and 2008, including three antennas purported to have been demolished in 1997. PIPS showed total acquisition costs for these items as approximately \$226,000. In addition, PIPS records indicated that all of these 11 items were last inventoried between February and April 2009.

The three antennas were capitalized, with a total acquisition cost of almost \$196,000. Individual acquisition costs ranged from \$30,000 to \$115,000, with depreciated net book values for all three items fully depreciated to zero. The remaining eight items were a walkie-talkie, an up converter, a defibrillator, a telephone, a computer, a controller, and two satellite receivers. Individual acquisition costs ranged from \$800 to \$9,800 and totaled approximately \$31,000.

Other Physical Verification Issues

OIG also was not able to verify the physical existence of 115 (64 percent) of the 180 items. Of these 115 items, 19 were purportedly at locations that differed from those in PIPS records, but station personnel were not able to provide evidence to this effect; 48 had missing barcodes or other unique identifiers; and 48 had serial numbers or other unique identifiers that did not match information in PIPS records.

Evidence for Property Located Elsewhere. Of the 115 items that could not be verified, OIG could not determine the existence of 19 items because they were identified by station personnel as being located where OIG was unable to visit, such as at remote locations or repair shops. Station personnel were unable to provide documentation, such as hand receipts or photographs with barcodes and serial numbers, to support the property's existence. PIPS showed total acquisition costs for these items as \$62,000. None of the items had been capitalized. The items included receivers, analyzers, radio equipment, computers, and generators, with acquisition costs ranging from \$625 to \$11,600.

Barcodes and Other Unique Identifiers. Of the 115 items, OIG could not confirm the existence¹ of 48 items because the items shown to OIG were missing the original barcodes or barcodes were reprinted, were written on masking tape, or were painted/written directly on the item. In addition, PIPS records did not contain a

¹ Because a replacement, taped, or written barcode could be placed on any item of a similar description and OIG was not performing a complete physical inventory of all items at each location, OIG did not have reasonable assurance that these 48 items were the same as those included in OIG's sample.

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serial number or other unique identifier for the items, and station personnel could not provide any other evidence that the items shown to OIG and in OIG's sample were the same. PIPS showed total acquisition costs for these items as \$3.8 million. PIPS records indicated that all of these items had been inventoried and that none were subsequently reported as disposed of or missing.

Of the 48 items, 10 items, with total acquisition costs of \$3.6 million, were capitalized. These items were described as a power substation, a riggerline truck, two sets of transmitting equipment, an antenna switching system, an audio routing switcher, a vertex antenna, a rapid transformer, a motor control center, and a switchgear control unit. Individual acquisition costs ranged from \$27,000 to \$1.1 million, with depreciated net book values ranging from zero for nine items to more than \$51,000 for the vertex antenna acquired in 1996. The other 38 items included property described as jack stands, computers, printers, furniture, monitors, lift trucks, air conditioners, satellite dishes, door lock systems, uplink switches, and smoke and heat detection test equipment, with acquisition costs ranging from \$100 to \$22,348 and totaling approximately \$200,000.

Serial Numbers in PIPS and on Items. For the remaining 48 items, with acquisition costs of \$3.1 million, OIG could not confirm their existence because either the barcode or the serial number/unique identifier on the item did not match the property record in PIPS and station personnel could not provide evidence that the items shown were the items in our sample. For example, one item had two different barcodes. Although both barcodes were in PIPS, one did not have a serial number associated with it, and the other barcode had a serial number in PIPS that did not match the one found on the item. PIPS records also indicated that all 48 items had been inventoried between January and April 2009.

Of the 48 items, 13 items, described as a milling machine, a lifting machine, a power cable feeder, two security itemizers, a forklift, a traveling wave tube analyzer, four generator sets, a backhoe, and a truck with digger, were capitalized, with a total acquisition cost of \$3 million. Individual acquisition costs ranged from \$25,000 to \$690,000, with depreciated net book values ranging from zero for 11 items to \$34,000 and \$36,000 for the two security itemizers. The remaining 35 items included property described as cell phones, iridium phones, monitors, computers, air conditioners, batwing mowers, and trailer jacks, with individual acquisition costs ranging from \$100 to \$17,000 and totaling \$100,000.

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Completeness Results

To determine whether all required property was recorded in PIPS, OIG tested the lists for completeness. This procedure is commonly referred to as “floor-to-list” testing.

As detailed in Table 2, OIG could not find 101 (39 percent) of the sample of 257 items in either PIPS or the archive file—51 items had barcodes and 50 did not. If an item did not have a barcode but had a serial number, OIG searched for the serial number in PIPS and the archive file. Because information such as acquisition costs was sometimes missing, OIG could not always be certain whether items were required to be included in PIPS or were optional at the station’s discretion. Consequently, OIG, as part of the sample selection process, compared the items on the “floor” with items in PIPS or the archive file to determine whether the same type of items was already in inventory at that location. OIG used the rationale that if a site had multiples of an item and included at least one item in PIPS or the archive file in order to track it, then all of the same type of items should be included. Such a discretionary item qualified for inclusion in OIG’s sample; otherwise, an item did not. After this determination was made, the actual sample was selected for review, and the results are as shown in Table 2.

Table 2. Details of Completeness Test Sampling

	Sri Lanka	Northern Marianas		Philippines		Germany		Totals
	Chilaw	Saipan	Tinian	Poro	Tinang	Biblis	Lampertheim	
Items In Sample:								
with barcode	44	21	24	27	37	22	30	205
without barcode	<u>20</u>	<u>2</u>	<u>23</u>	<u>2</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>52</u>
Totals	64	23	64	29	41	22	31	257
Items in PIPS or the Archive File:								
with barcode	38	16	19	23	34	8	16	154
without barcode	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Totals	40	16	19	23	34	8	16	156
Percent in Sample	(63%)	(70%)	(40%)	(79%)	(83%)	(36%)	(52%)	(61%)
Items NOT in PIPS or the Archive File:								
with barcode	6	5	5	4	3	14	14	51
without barcode	<u>18</u>	<u>2</u>	<u>23</u>	<u>2</u>	<u>4</u>	<u>0</u>	<u>1</u>	<u>50</u>
Totals	24	7	28	6	7	14	15	101
Percent in Sample	(38%)	(30%)	(60%)	(21%)	(17%)	(38%)	(48%)	(39%)

APPENDIX C



**BROADCASTING BOARD OF GOVERNORS
UNITED STATES OF AMERICA**

June 23, 2010

Ms. Evelyn R. Klemstine
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of State

Dear Ms. Klemstine:

This is in response to the e-mail from Ms. Amy Conigliaro, dated May 26, 2010, regarding the Office of Inspector General's (OIG) draft report titled, "Audit of Broadcasting Board of Governors Overseas Nonexpendable Personal Property," Report Number AUD/XX-10-XX, May 2010.

The Broadcasting Board of Governors is grateful for the opportunity to review the OIG's draft report. This report will be very helpful to our efforts in this vital area. Our overall comments to the report and to Recommendations 1 through 10 are noted on the enclosure.

If you have any questions, please feel free to contact me, or contact Mr. John S. Welch, Senior Advisor, International Broadcasting Bureau, at (202) 203-4515.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey N. Trimble".

Jeffrey N. Trimble
Executive Director

Enclosure: As Stated

Enclosure

**Broadcasting Board of Governors (BBG) Response to the
Office of Inspector General's (OIG) Draft Report titled,
"Audit of Broadcasting Board of Governors Overseas Nonexpendable Personal Property"
Report Number AUD/XX-10-XX, May 2010**

BBG Overall Comments:

1. The report does an excellent job of documenting the procedures that were followed to audit property at IBB overseas sites. In our April 21, 2010 comments on the discussion draft report, we suggested adding language in the final report to address some points made by BBG representatives in the Exit Conference held with OIG staff on April 16, 2010. We again suggest that the following text be included in the final report:

"At all levels, IBB staff members were energetic, interested, and involved in their primary mission – that of broadcasting U.S. government programs to a foreign audience. Recent years have been difficult for the staff at overseas broadcasting stations as budgets and resources are continually shrinking. In Germany, for example, as recently as October 2006, the station had three transmitting sites (Ismaning, Lampertheim, and Biblis) with a staff of 41. At the end of FY 2009, 20 staff members remained. During that same time, however, the number of annual shortwave broadcast hours has increased from 32,400 to 45,760. In addition, the Germany Transmitting Station has taken on numerous additional responsibilities for IBB operations in Tajikistan, Cyprus, and Afghanistan.

This need to focus on achieving the station's broadcast mission may have hampered staff attention on needed inventory control and reporting as they addressed more mission critical tasks. Nevertheless, the IBB must place more emphasis on ensuring that the annual inventory is thorough, complete, and correct.

Moreover, although the Audit Team found numerous instances where the stations could not properly account for inventory, the Team did not encounter any evidence to suggest that significant amounts of missing or unaccounted items had been stolen, pilfered, or otherwise misappropriated. The station inability to account for items can best be characterized as administrative in nature. At all levels, the IBB staff members fully expect that the vast majority of missing items will be accounted for once proper resources are applied to do the research and clean up the inventories."

2. We do not dispute the text under the heading "Physical Inventories Not Adequately Conducted" on pages 12 and 13. The draft documents many of the shortfalls of the IBB inventory process but makes no mention of the difficulties we encounter in executing the system. In our April 21, 2010 comments on the discussion draft report, we suggested adding

the below text to explain the difficulties. We again suggest that the following text be included in the final report:

“The IBB manages a far-flung broadcasting network that spans the globe. The extensive range of this network provides excellent broadcast coverage in most areas of the world but also makes carrying out administrative functions difficult, especially with increasing mission-related demands and fewer resources. Resources are slim, and travel by Headquarters managers and staff to the various transmitting stations is infrequent. Training is a particularly difficult issue as the IBB generally cannot afford to conduct face-to-face training for all employees in all skills. For skill subsets such as inventory control, there are generally few individuals at each station who are familiar with procedures. Training is generally ad-hoc and is often conducted rapidly or informally as employees retire or depart and responsibilities are transferred. This reality makes it extremely difficult to adequately staff and address the important inventory function.”

3. Page 26 of the draft report contains the following text: *“Of the 115 items, OIG could not confirm the existence of 48 items because the items shown to OIG were missing the original barcodes or barcodes were reprinted, were written on masking tape, or were painted/written directly on the item.”* We cannot dispute the accuracy of this text. However, in our April 21, 2010 comments on the discussion draft, we suggested that the text below be incorporated into the report as additional clarification. We again suggest that the following text be incorporated into the final report:

“The IBB has requested that we note that this is a relatively strict standard being applied by Auditors. While there can be no argument that the statement is correct, it does not necessarily mean that items are missing or have been lost. In many cases, the item can be “found” or recovered merely by placing a proper barcode on the item. In a sense, the item may have been lost by the administrative system, but is not actually missing or unusable and can be quickly and simply recaptured by the inventory system.”

4. The text under the heading *“Finding B. PIPS Data on Property Could Not Always Be Verified and Was Incomplete”* constitutes an area where there can be little argument with the facts, but some additional clarification appears to be warranted. In our April 21, 2010 comments on the discussion draft we suggested incorporating the text below as additional clarification. We again suggest that the following text be incorporated into the final report:

“It is noted that the majority of items are in the categories of “Could Not Confirm Item Was What or Where PIPS Data Indicated” and “Could Not Obtain Adequate Documentation for Item Disposition.” In many instances, station staff provided anecdotal information and recollections about the items. The staff was often confident that the items were accounted for despite missing documentation. This may well be correct, and it is likely that in many cases these items can be adequately accounted for after some research and administrative effort. In these cases, the documentation may be missing, not the item.”

BBG Responses to OIG Recommendations:

Recommendation 1: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, identify the system and procedural modifications and corrections required to meet the requirements for reporting on capitalized nonexpendable personal property for the annual financial statements and that it implement the appropriate modifications and corrections no later than September 30, 2010.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The Office of the Chief Financial Officer (CFO) will identify necessary adjustments to capitalized non-expendable personal property in the year-end financial statements and will make any corrections to the statements, as appropriate, by September 30, 2010. The Office of the CFO and the Network Support Division (E/OT) will also identify necessary system and procedural changes required to meet the reporting requirements by September 30, 2010. Required modifications will be implemented in the Property Inventory Processing System (PIPS) as necessary to meet these reporting requirements.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer, upon verification that the Property Inventory Processing System (PIPS) meets its requirements for reporting on capitalized nonexpendable personal property in the annual financial statements, use PIPS data rather than the internally developed spreadsheet.

BBG Response (June 23, 2010): PIPS is an inventory management control database and was not intended to serve as a financial system. The BBG agrees that we need to take action to address the issues identified in this report. However, development of a fully integrated property and financial accounting system is a long-term project. In the short term, the BBG will take steps to develop and implement appropriate procedural changes to the reporting of capitalized property, plant, and equipment and will evaluate the ability of PIPS to generate the necessary information required in the BBG's financial statements.

Recommendation 3: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, review all capitalized nonexpendable personal property identified; assign salvage values for each item as appropriate; and adjust the annual depreciation expense calculations, accumulated depreciation expenses, and net book values for these items in the Property Inventory Processing System and the Chief Financial Officer's capitalized property spreadsheet as appropriate.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The CFO and Network Support Division personnel will coordinate a review of all capitalized nonexpendable personal property and will revise policies and procedure as necessary. Adjustments will be made to the system generated records to accurately value capitalized assets maintained, as appropriate.

Recommendation 4: OIG recommends that the Broadcasting Board of Governors Chief Financial Officer inform the independent auditor of the revisions to annual and accumulate

depreciation and net book value for capitalized property, plant, and equipment that resulted from the assignment of salvage values and determine whether BBG's financial statements for FY 2009 and prior years may have been impacted.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The Office of the CFO will analyze the impact of any adjustments to capitalized property, plant, and equipment as a result of its asset review and will communicate any impact on the BBG's financial statements to the external auditors, as appropriate.

Recommendation 5: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, in conjunction with the Chief Financial Officer, develop and implement policies and procedures to ensure that personnel assign appropriate salvage values to all nonexpendable personal property before annual depreciation rates are calculated and applied.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The Office of Engineering and Technical Services and the CFO will coordinate to develop and implement asset management policies which incorporate the assigning of appropriate salvage values to all nonexpendable personal property in order to calculate annual depreciation and net book value amounts.

Recommendation 6: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that personnel include in each item's acquisition costs, shipping and all other costs necessary to make nonexpendable personal property ready for use.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The Network Support Division will develop and implement the necessary policies and procedures to ensure that shipping and other applicable costs are included in the acquisition cost assigned to an item of capitalized property.

Recommendation 7: OIG recommends that the Broadcasting Board of Governors (BBG), Office of Engineering and Technical Services, review and revise, as appropriate, its guidance on conducting physical inventories to provide complete and easy-to-understand instructions for property custodians and other individuals who conduct inventories and that this guidance be incorporated into Transmitting Station Instructions, the International Broadcasting Bureau Manual of Operations & Administration, or other applicable BBG guidance.

BBG Response (June 23, 2010): BBG concurs with this recommendation. As a result of the OIG Exit Conference held on April 16, 2010, the Network Support Division (E/OT) has already developed a detailed briefing on conducting a property inventory, and will soon be ready to begin presenting it to personnel at the transmitting stations. After the briefing process has been completed, and feedback from the stations is evaluated, E/OT will incorporate the guidance provided in the briefing into TSI-108, *Property Accountability*, and into the appropriate sections of the Agency's Manual of Operations & Administration (now called Broadcasting Administrative Manual), or other applicable Agency guidance.

E/OT will also use its SharePoint site on the Agency's intranet to disseminate information on property accountability and property inventory.

Recommendation 8: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, develop and implement policies and procedures to ensure that all accountable officers, property custodians, and other individuals involved in conducting annual physical inventories of nonexpendable personal property receive initial and then periodic follow-up training on conducting and reporting the results of the physical inventories.

BBG Response (June 23, 2010): BBG concurs with this recommendation. A detailed briefing has been drafted by the Network Support Division (E/OT) that, once approved, will be presented to personnel at the transmitting stations. The briefing consists of slides and a narrative that cover preparing and conducting an inventory, reconciling the results and updating the property records, and reporting the results. Once the initial training is conducted, the slides and narrative will be made available to the stations on E/OT's SharePoint site on the Agency's intranet. The stations can use this information to provide periodic follow-up training to its station personnel. After the initial training has been completed, E/OT also will provide periodic follow-up training as required.

Recommendation 9: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, direct all accountable property officers to conduct a complete physical inventory of all nonexpendable personal property assigned to or located within their respective organizational units as soon as training has been completed but no later than March 31, 2011.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The transmitting stations will be directed to conduct a 100% physical inventory of their property using the guidance provided in the training developed by the Network Support Division. The inventory of the nonexpendable property located in the transmitting station network will be completed no later than March 31, 2011.

It should be noted that at least two of the transmitting stations that were visited by the OIG as part of this audit have already taken action to correct the inventory problems that were identified during the OIG visit. The Sri Lanka Transmitting Station re-inventoried its nonexpendable property and is in the process of completing the reconciliation process. The station was recently visited by an OIG inspection team, and the following quote is from that team's draft report:

"In August 2009, the station underwent an audit as part of a larger OIG review of the agency's nonexpendable property accounting system. Having submitted an inventory months earlier that had shown no discrepancies, the station management was surprised when the audit revealed an unexpectedly high number of discrepancies, including difficult-to-find or missing items, missing barcode labels, and insufficient or erroneous database details."

Although the station was eventually able to account for most items, the station manager believed they should undertake a more thorough review of the nonexpendable property database and inventory. In October 2009, the station began correcting discrepancies uncovered during the OIG audit and investigated the general state of its Property Inventory Processing System database and overall inventory. The station's 2010 inventory reflects the culmination of this effort. Out of an inventory valued at \$27,274,039, the shortage was \$97,599, well under one percent. The station will remove the 90 missing items from its inventory under the one percent rule."

Similarly, the IBB Station Manager at the Philippines Transmitting Station—who also is responsible for the Northern Mariana Islands Transmitting Station—reports the following for the Marianas: *"A complete physical inventory was completed and submitted in May 2010. A property management person from the Philippines was on site for training and assistance, the station manager followed-up in June 2010 making numerous spot checks. Minor errors/omissions were corrected with cooperation by EOT."*

Recommendation 10: OIG recommends that the Broadcasting Board of Governors, Office of Engineering and Technical Services, revise Property Inventory Processing System guidance to require the mandatory input of serial numbers, vehicle identification numbers, or other unique identifiers for all nonexpendable property with such unique identifiers.

BBG Response (June 23, 2010): BBG concurs with this recommendation. The Network Support Division will modify the Property Inventory Processing System to make the *SERIAL NUMBER* field mandatory. In addition, the training that will be provided to the personnel at the transmitting stations addresses verifying the serial number for those items that have them as part of the inventory process.

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