



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

September 27, 2013

MEMORANDUM NO:
2013-IE-0804

Memorandum

TO: Michael Anderson, Chief Human Capital Officer, A
David P. Sidari, Deputy Chief Financial Officer, F

//signed//

FROM: Donna M. Hawkins
Acting Director, Inspections and Evaluations Division, GAH

SUBJECT: Evaluation of HUD's Property Inventory System

INTRODUCTION

We completed an evaluation of the U.S. Department of Housing and Urban Development's (HUD) property inventory system. The evaluation was performed at the request of Office of Inspector General (OIG) management due to long standing issues with HUD's property inventory system. Our objectives were to determine why HUD did not have a properly working property inventory system in place and the status of procuring a new property inventory system.

METHODOLOGY AND SCOPE

We performed our evaluation in Washington, DC, from April through July 2013.

To accomplish our objectives, we

- Reviewed applicable laws and regulations and HUD's policies and procedures related to the property inventory system.
- Interviewed staff from the Office of the Chief Human Capital Officer, the Office of the Chief Information Officer, the Office of the Chief Financial Officer, and the Office of the Chief Procurement Officer.
- Reviewed documentation provided by the Human Capital, Information, Procurement, and Financial Offices related to the property inventory system, the upgrade of the Facilities

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Integrated Resource Management System (FIRMS), and HUD's efforts to procure a new property inventory system.

Our review did not include testing FIRMS or reviewing the inventory process. We conducted this review in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

BACKGROUND

HUD's Human Capital Office, specifically the Office of Facilities and Management Services (OFMS), oversees HUD's personal property management policy development, implementation, and administration. OFMS is responsible for coordinating the physical inventory, maintaining accountability through the inventory and reconciliation process, and reporting excess property to the General Services Administration. OFMS conducts an inventory of HUD's property annually. HUD's inventory includes all equipment that must be inventoried and tracked with a value of \$1,000 or more. The inventory is conducted with barcode scanners, which are used to scan each piece of equipment. If an item does not have a barcode, that item is immediately barcoded and scanned. The information from the scanners is then uploaded to FIRMS, which records the inventory in the system.

Besides OFMS, other program offices within HUD have responsibilities related to the property inventory system. The following chart describes those responsibilities.

HUD office	Responsibility
Office of the Chief Information Officer	The Information Office acquires and maintains HUD's systems. The government technical representative for FIRMS, within the Information Office, is responsible for contract administration and delegates some of those responsibilities to the government technical monitor.
Office of the Chief Procurement Officer	The Procurement Office procures the service or product when the contracting effort becomes a requirement. It is considered a requirement when there is a requisition with approved funding and a statement of work or a performance work statement for the procurement of an item or service that is part of an approved request. The Procurement Office is also responsible for ensuring that the procurement request is processed in a timely manner.
Office of the Chief Financial Officer	According to the Chief Financial Officers Act of 1990, the Chief Financial Officer must direct, manage, and provide guidance and oversight of agency financial management personnel, activities, and operations, including the implementation of the agency asset management systems, to include a property and inventory management and control system. The Financial Office is also

	responsible for reconciling the depreciation reports automatically created by FIRMS with the general ledger quarterly.
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FIRMS

OFMS uses FIRMS to monitor and track HUD's property. FIRMS is a mixed financial management system with the purpose of streamlining and consolidating information about essential business functions, including facilities and asset management provided by OFMS. The system is used by HUD staff to consolidate, automate, and provide reports on furniture, equipment, personal property, space, and lease life-cycle processes. FIRMS is capable of producing the following reports pertinent to our review: Furniture and Equipment Listing, Depreciation, and Excess Personal Property reports.¹ Since FIRMS did not integrate with other HUD systems, OFMS had to rely on the Procurement Office, the Information Office, and purchase card holders for necessary acquisition and disposal information.

Title 40, United States Code, "Public Buildings, Properties and Works," requires executive agencies to maintain adequate inventory controls and accountability systems for property under their control. Additionally, the Federal Managers Financial Integrity Act (FMFIA) mandates that the agency head establish administrative and internal accounting controls that reasonably ensure that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

HUD OIG's Financial Audits Division issued report number 2010-FO-0004, entitled "Review of HUD's Property and Equipment," on August 17, 2010. The Division found that HUD lacked control over the acquisition of accountable equipment and HUD's property management system had weaknesses. Specifically, FIRMS did not interface between HUD's core financial system and its acquisition systems. The Division recommended that the General Deputy Assistant Secretary/Chief Human Capital Officer coordinate with the Financial, Information, and Procurement Offices to develop and implement system interfaces, including but not limited to interfaces between FIRMS and the core financial system and the acquisition system. Although the final target action date was December 31, 2011, this recommendation remained open. The action plan had not been implemented due to funding constraints.

RESULTS OF REVIEW

HUD did not have a properly working property inventory system in place. HUD had experienced significant problems and delays in getting FIRMS operational and continued to be noncompliant with the Joint Financial Management Improvement Program (JFMIP)²

¹ FIRMS is also capable of producing the Rent/Bill Detail, Space Information, and Lease Reports.

² JFMIP is a joint undertaking of the U.S. Department of the Treasury, the U.S. Government Accountability Office, the Office of Management and Budget, and the Office of Personnel Management, working in cooperation with other agencies to improve financial management practices in the Government. Although JFMIP was dissolved in March 2010, to determine compliance with the Federal Financial Management Improvement Act requirements, agency heads evaluate their systems against JFMIP requirements.

requirements. The main problem was the expiration of the FIRMS support contract. As a result of the expired contract, HUD had no contractor in place to test FIRMS before changing the operating system to Windows 7 in 2013. As of the end of our review, the planned new property inventory management system had not been purchased since the appropriate funding was not available. Instead, HUD procured upgraded FIRMS supporting software in September 2012. However, HUD did not obtain a contractor to upgrade and maintain FIRMS until May 2013. At the conclusion of our review, FIRMS remained noncompliant with JFMIP standards and did not meet HUD's needs. As a result, HUD had no assurance that its assets were accounted for properly. Additionally, HUD's inventory was left vulnerable to loss, theft, or misappropriation.

HUD Did Not Have a Properly Working Property Inventory System

HUD did not have a properly working property inventory system in place because its service support contract expired in August 2011. As a result, when HUD changed its operating system to Windows 7 in 2013, there was no contractor in place to test FIRMS within the new operating system environment. Ultimately, it was the lack of contractor support and the new operating system that affected OFMS's ability to run reports and rendered FIRMS inoperable.

FIRMS Deficiencies

FIRMS did not comply with JFMIP requirements. Therefore, it did not meet the Human Capital Office's needs. Specifically, the system did not

- Produce depreciation reports,
- Maintain historical data,
- Provide an audit trail,
- Properly upload items scanned with the inventory bar code scanners,
- Reconcile items entered into the system, and
- Integrate with HUD's financial and procurement systems.

Although JFMIP requirements state that financial management systems must be designed to facilitate the preparation of financial reports, FIRMS did not produce depreciation reports. The most recent FIRMS depreciation report still documented inaccuracies included in the November 2012 report. The Financial Office's Accounting Center uses the depreciation reports to record the depreciation expense in the general ledger. Since the Accounting Center did not have access to FIRMS, it received the contractor-generated depreciation reports from the Human Capital Office quarterly. The Human Capital Office provided the November 2012 depreciation report in December 2012. After December 2012, the Accounting Center received no depreciation reports from the Human Capital Office until June 2013, when it provided reports for December 2012 through May 2013. Upon review of these reports, the Accounting Center found that the discrepancies in the November 2012 report still existed. Specifically, there was more than a \$1.6 million discrepancy between the general ledger equipment account and the depreciation report. This discrepancy was due to purchased equipment not being included in the inventory or on the depreciation report. As a result, the general ledger's capitalized equipment balance was not

accurate. Further, since FIRMS did not operate as intended, the Accounting Center was unsure whether new depreciable equipment had been purchased.

Although JFMIP requirements state that financial management systems must be designed to provide a complete audit trail, Human Capital Office staff cited problems with FIRMS' inability to maintain historical data. After the contract expired, the Human Capital Office found instances of equipment being inventoried but disappearing from the system. For example, on April 17, 2013, OFMS provided a 2012 inventory count of 21,938 items valued at more than \$33.9 million. However, OFMS provided another 2012 inventory count on May 8, 2013, with 8,848 items valued at less than \$16 million. The two 2012 inventories differed by 13,090 items and more than \$17.9 million. Additionally, based on the FIRMS Sighted Inventory Reports provided by OFMS, it appeared that HUD's inventory had diminished over the years. Specifically, in fiscal years 2009, 2010, 2011, and 2012, the inventory reports indicated that HUD had \$25.1 million, \$9.7 million, \$15.2 million, and \$16 million worth of inventory, respectively. However, since the data entered into FIRMS were not maintained on a historical basis and changed depending on when the report was produced, we could not rely on the inventory count, inventory value, or FIRMS Sighted Inventory Reports. By not having reliable historical data, FIRMS did not provide an audit trail, thereby leaving the inventory vulnerable to loss, theft, or misappropriation.

OFMS staff also encountered problems with the inventory bar code scanners and reconciliation. Although JFMIP requirements consider the use of barcode scanners as an option rather than a requirement, since HUD uses these devices to conduct its inventory, they should be functional. However, when OFMS scanned items with the barcode scanners and uploaded the information to FIRMS, some of the scanned items did not appear in the system. FIRMS did not allow a reconciliation of these items to be performed. Instead it produced an error report. This limitation forced OFMS to make manual entries into the system. OFMS staff manually reconciled the differences between the system and the error report using an Administrative Adjustment Form, which had been in use since 2011. This form documents new acquisitions and inventory adjustments. Since OFMS could not rely on the bar code scanners or perform reconciliation, there was no assurance that the inventory in FIRMS was accurate.

JFMIP requirements state that property management systems should be capable of interfacing with other financial and mixed systems.³ However, OFMS staff cited problems with system integration. Specifically, the system did not integrate with HUD's financial and procurement systems. This limitation forced OFMS to rely on the Procurement and Information Offices and purchase card holders for necessary information on acquisitions and disposals. If OFMS was not notified, the purchased items would not be inventoried. In 2010, OIG report number 2010-FO-0004 found the same interface issues and recommended that the Human Capital Office coordinate with other HUD program areas to develop interfaces between FIRMS and the core financial and acquisition systems. However, this recommendation remained open. Therefore, the risk of errors and omissions in reports generated by FIRMS persisted.

³ Mixed systems are defined as any information system that supports both the financial and nonfinancial functions of the Federal Government or components thereof.

FIRMS Noncompliance

HUD's Financial Management Systems Plan deemed FIRMS as noncompliant in fiscal years 2010,⁴ 2011, and 2012. According to the Federal Financial Management Improvement Act of 1996 and Office of Management and Budget (OMB) Circular A-127, if a financial management system is deemed noncompliant, the agency must establish a remediation plan to resolve the issues and bring the system into compliance. The Human Capital Office provided its remediation plans to the Financial Office. The Financial Office monitored the Human Capital Office's progress in resolving the noncompliance; however, as of the end of our review, FIRMS remained noncompliant.

The Property Management Systems Requirements document is one of a series of financial management system requirement documents published in October 2000 by JFMIP. The document includes 54 requirements for property management systems. As a result of the deficiencies noted in our review, we requested that HUD officials assess FIRMS against the 54 JFMIP system requirements. Based on an HUD official's assessment, FIRMS was noncompliant with 19 of the 54 JFMIP requirements. Although HUD personnel classified another six requirements as partially compliant, OIG considered FIRMS to be noncompliant with those requirements as well since it was not fully compliant. The 25 noncompliant items indicated that FIRMS did not

- Have an audit trail for all adjustments to quantities and units and transfer disposal and retirement actions.
- Record entries to a property record, including the identification of the individual(s) entering or approving the information or data.
- Capture the property custodian's identity and the accountable organization.
- Record beginning balances, acquisitions, and withdrawals and calculate ending balances expressed in values and physical units.

Without a properly working property inventory system, HUD had no assurance that its assets were accounted for properly. Additionally, HUD's inventory was vulnerable to loss, theft, or misappropriation. This is in direct contrast with OMB Circular A-123, which states that internal controls should be designed to provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets.

FIRMS Procurement Status

As of the end of our review, the planned new property inventory management system had not been purchased since the appropriate funding was not available. Instead, HUD procured upgraded FIRMS supporting software in September 2012. However, it did not obtain a contractor to upgrade and maintain FIRMS until May 2013.

⁴ In 2010, FIRMS was originally reported as compliant, but in November 2010, that assertion was revised to noncompliant as of September 30, 2010.

On August 8, 2006, HUD awarded Pyramid Systems, Inc., a firm fixed-price contract to provide services for FIRMS. The period of performance included 1 base year, August 9, 2006, through August 8, 2007, with 4 option years ending August 8, 2011. Specifically, Pyramid Systems was contracted to maintain, update, and enhance HUD's FIRMS (serves headquarters) and the iFIRMS⁵ (serves the field) interface. FIRMS remained without contractor support until 2013. As a result of the expired contract, HUD had no contractor in place to test FIRMS before changing the operating system to Windows 7 in 2013.

To alleviate this issue, HUD opted to use a two-phase strategy for obtaining a property management system as follows:

- (1) Short-term plan
- (2) Long-term plan

Short-Term Plan

The first phase was considered the short-term approach. Regarding the short-term plan, although there was no contractor in place to upgrade and service the system, the Information Office purchased the 20.2 version of the FIRMS supporting software in September 2012. To rectify the contract lapse, HUD issued a modification to an existing HUD legacy contract, which was originally awarded to Pyramid Systems in January 2010. This 2010 contract included updating, maintenance, operational support, development, and administration of current and future Human Capital and Information Office automated systems. Since FIRMS was not 1 of the 18 systems included on this contract, HUD issued a modification action, adding FIRMS to this contract in 2013.

The Information Office entered the request for the short-term plan into the HUD Integrated Acquisition Management System⁶ on March 22, 2013. Modification 3 to the HUD legacy contract was ultimately awarded on May 23, 2013, almost 2 years after the original contract expired. This modification added FIRMS as contract line items to the last 2 option years of the legacy contract under the ongoing operations and corrective maintenance tasks. After modification 3 was awarded, FIRMS went "live," and the Human Capital and Information Offices began working with the contractor to resolve any issues. The barcode scanners had been activated; however, the scanners would need to be tested in a live environment before the Human Capital Office could attest to their functionality. Additionally, while FIRMS was able to produce the depreciation reports, the reports were inaccurate. Specifically, the depreciation reports carried items that were already fully depreciated and should not have shown up on these reports. Pyramid Systems was working to resolve these issues. As of the end of our review, the

⁵ iFIRMS is a Web-based HUD Intranet interface that provides access to the FIRMS database.

⁶ The HUD Integrated Acquisition Management System is a Web-based commercial-off-the-shelf integrated acquisition procurement contract writing system that generates award documents in accordance with the Federal Acquisition Regulations. The Information Office enters procurement requisitions into the system for the Procurement Office's review and processing.

Information Office anticipated that FIRMS would not be upgraded until January 2014, although the software had already been purchased and the contractor was in place. The Information Office attributed the FIRMS upgrading delays to the time it would take to procure servers and install the software, install and configure version 20.2 on the new server, and fully test and deploy the software before release. Therefore, since HUD had experienced significant problems and delays in getting FIRMS operational, HUD's assets would remain unaccounted for and unprotected for at least an additional 5 months. However, we have no assurance the upgrade will resolve the system deficiencies.

Long-Term Plan

The second phase was a long-term plan to purchase a new system. As of the end of our review, the procurement of a new system had not started since the appropriate funds were not available. Specifically, the Human Capital Office had only its operations and maintenance funds available. However, to purchase a new system, it would need development modernization and enhancement funds. The Information Office controls both of these working capital funds. According to an Information Office official, development modernization and enhancement funds had been allotted for fiscal year 2013. However, the Information Office officials thought the process for procuring a new system would not start until at least 3 months after the award of the maintenance contract and it could take up to a year for the contract to be awarded.

Although the Chief Financial Officers Act of 1990 (CFO Act) states that an agency's Chief Financial Officer has the responsibility for ensuring that the agency has a property management system in place, the Financial Office had limited involvement in the process. When we spoke with program officials from the Human Capital, Information, Procurement, and Financial Offices, they indicated that the Information and Human Capital Offices had the responsibility mentioned in the CFO Act. None of the offices, including the Financial Office, mentioned HUD's Chief Financial Officer as having this responsibility or being involved in the process. The Financial Office mentioned only reviewing the depreciation reports, its annual data call for system compliance with computer security and internal controls, and its monitoring of the remediation plans submitted by the Human Capital Office. However, we do not agree that these items cover the Financial Office's CFO Act responsibilities. The Financial Office agreed that it was not fully safeguarding HUD's assets and stated that HUD's fixed assets were financially immaterial. However, due to FMFIA requirements, HUD must establish administrative and internal accounting controls that reasonably ensure that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. Further, the CFO Act requires the Financial Office to direct, manage, and provide guidance and oversight of agency financial management personnel, activities, and operations, including the implementation of the agency asset management systems, to include a property and inventory management and control system.

RECOMMENDATIONS

We recommend that the Office of Chief Human Capital Officer

- 1A. Test the upgraded FIRMS to determine whether the upgrade meets its needs and advise the Financial Office and Information Office of any deficiencies.

We recommend that the Office of Chief Financial Officer

- 1B. Adhere to the CFO Act of 1990 by ensuring that HUD has a properly working property inventory system in place.
- 1C. Coordinate with the Human Capital Office, Information Office, and Procurement Office to develop and implement a properly working, JFMIP compliant property management system by the end of fiscal year 2014.


Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

The Office of the Chief Human Capital Officer informed us that it did not have any comments on our memorandum. However, the Office of the Chief Financial Officer provided its comments below.

Ref to OIG Evaluation

Auditee Comments

	<p>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT WASHINGTON, DC 20410-3000</p>
<p>OFFICE OF THE CHIEF FINANCIAL OFFICER</p>	
<p>MEMORANDUM FOR: FROM: SUBJECT:</p>	<p>Donna M. Hawkins, Acting Director, Inspections and Evaluations Division, GAH SEP 18 2013 David P. Sidari, Deputy Chief Financial Officer, F Comments on Draft Memorandum of the Evaluation of HUD's Property Inventory System (2013-IE-0804)</p>
<p>Comment 1</p>	<p>Thank you for the opportunity to comment on the draft memorandum report, entitled, "Evaluation of HUD's Property Inventory System." As the draft report indicates, the Office of the Chief Human Capital Officer's (OCHCO's) Office of Facilities and Management Services (OFMS) oversees HUD's personal property management policy development, implementation, and administration. OFMS is responsible for developing, maintaining and updating a nationwide inventory of HUD's furniture, selected equipment, and HUD-provided personal property. To accomplish these tasks, OFMS utilizes the Facilities Integrated Resource Management System (FIRMS) which also was designed to track space utilization, assist in the management of leases, lease/rent payments, and capture and report on the depreciation of selected assets.</p>
<p>Comment 2</p>	<p>As pointed out in the draft report, FIRMS, like most HUD systems, requires critical technical contractor support to maintain and keep its software both current and fully operational. Unfortunately FIRMS contractor support lapsed for a period of several months. This support lapse, coupled with the upgrade by the Department to a Microsoft Windows 7 operating system, resulted in FIRMS data and reports becoming unreliable. On the other hand the draft report indicates that OFMS has obtained upgraded FIRMS supporting software and in May 2013 successfully hired a contractor to provide technical support and bring FIRMS back online. The report states OFMS projects an operational FIRMS by January 2014.</p>
<p>Comment 3</p>	<p>In the longer term OFMS hopes to replace FIRMS with a new system. The timing of this replacement will be dependent upon funding availability via a competitive Departmentwide funding process. In the interim, OFMS should ensure the New Core project team is advised of the need to consider the replacement of FIRMS as a part of the Department's New Core project or if FIRMS will not be replaced through New Core, that it be integrated into New Core where appropriate, pending an alternative long term solution.</p>
<p>Comment 4</p>	<p>We agree that the Chief Financial Officers' Act of 1990 provides all Department level CFOs a broad overarching responsibility in a number of financial management areas - to include an oversight role in property and inventory control systems. I have asked our</p>
<p>www.hud.gov espanol.hud.gov</p>	

Comment 5

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Office of Accounting to work with OFMS in improving FIRMS and to keep me apprised of the FIRMS situation. My staff will also be available to advise OFMS regarding the Joint Financial Management Improvement Program and the Office of Management and Budget's Circulars A-123 and A-127 compliance issues.

Thank you for the opportunity to comment on this draft report. Should you have any questions regarding our comments to the draft memorandum report please contact Jerry Vaiana at (202) 402-8106 or Larry McGhee of his staff at (202) 402-3895.

cc:

Michael A. Anderson, Chief Human Capital Officer, A

Karen R. McBride, Senior Policy Analyst, FA

Ann R. Butler, Acting Assistant Chief Financial Officer for Accounting, FB

Christopher B. Davies, Acting Assistant Chief Financial Officer for System, FY

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OIG Evaluation of Auditee Comments

- Comment 1** OCFO acknowledges that FIRMS contractor support lapsed for several months. However, FIRMS did not have contractor support for 1 year and 9 months, from August 2011, when the contract expired, until May 2013, when HUD obtained a contractor to upgrade and maintain FIRMS. Although HUD procured the upgraded FIRMS supporting software in September 2012, Office of Chief Information Office (OCIO) did not obtain contractor support until May 2013.
- Comment 2** Although FIRMS is back online, it still does not comply with JFMIP requirements or meet OCHCO's needs. Specifically, the barcode scanners have been activated, however, they need to be tested in a live environment before OCHCO can attest to their functionality. More importantly, while FIRMS is able to produce the depreciation reports, the reports are still inaccurate because there is more than a \$1.6 million discrepancy between the general ledger equipment account and the depreciation report. OCHCO and OCIO are working with the contractor to resolve these issues.
- Comment 3** OCIO, not OFMS, anticipated that FIRMS would not be upgraded until January 2014, although the software had already been purchased and the contractor was in place.
- Comment 4** We agree that OFMS should have a role in the replacement of FIRMS, however, according to the CFO Act of 1990, the OCFO should have a role in ensuring that the New Core project team is advised of the need to consider the replacement of FIRMS as a part of the Department's New Core project or integrated into New Core where appropriate.
- Comment 5** It is imperative that the Department has a properly working, JFMIP compliant property management system in place by the end of fiscal year 2014, so that HUD's assets are accounted for properly and safeguarded from loss, theft or misappropriation.

We are encouraged by OCFO's willingness to work with OFMS in improving FIRMS. We look forward to reviewing OCFO's implementation of our recommendations during the audit resolution process.