



UNITED STATES GOVERNMENT PRINTING OFFICE
OFFICE OF THE INSPECTOR GENERAL

memorandum

DATE: March 19, 1999

REPLY TO:

ATTN OF: Inspector General

SUBJECT: Report on Audit of the McPherson Square Bookstore

To: Chief, Field Operations Division

Through: Superintendent of Documents

An Office of Inspector General audit team conducted an audit of the McPherson Square Bookstore in December 1998. The audit determined that the operations and administration of the McPherson Square Bookstore were generally satisfactory. It also identified several instances of noncompliance with the Bookstore Manual and deficiencies in the Government Printing Office's (GPO) inventory records resulting from insufficient internal inventory controls and procedures.

The audit recommends implementation of 12 recommendations to improve compliance with the Bookstore Manual and the internal controls over GPO property. These recommendations should improve the current policies and procedures to provide effective and efficient service to customers and to provide reasonable assurance and safeguards against waste, loss, and theft over GPO's property at the McPherson Square Bookstore.

Mr. David Schaub, Supervisory Auditor, conducted this audit.

I appreciate the cooperation and courtesies extended during the audit by the officials and staff of the McPherson Square Bookstore and the Field Operations Division.

Robert G. Andary
ROBERT G. ANDARY

REPORT ON AUDIT OF THE McPHERSON SQUARE BOOKSTORE

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**U.S. Government Printing Office
Office of the Inspector General
Office of Audits**

**REPORT ON AUDIT OF THE
McPHERSON SQUARE BOOKSTORE**

RESULTS IN BRIEF

The Office of Audits performed an audit of the McPherson Square Bookstore on December 3-4, 1998. The objective of the audit was to review and evaluate the management practices of the bookstore.

In general, the operations and administration of the McPherson Square Bookstore were satisfactory. Cash on hand at the time of our review was accounted for accurately; controls over the inventory of publications were adequate, the general appearance of the bookstore was excellent; and the overall administration of the bookstore was effective. As of August 1998, the McPherson Square Bookstore had gross sales of \$542,676 in the first eleven months of Fiscal Year 1998.

We also identified several controls and procedures that can be improved with further management attention, as directed by the GPO Bookstore Manual, dated April 1994; GPO Instruction 810.11A, *Property Management Program*, dated April 16, 1981; and GPO Instruction 825.18A, *Internal Control Program*, dated May 28, 1997. GPO management officials should take additional steps to prevent reoccurrence of the following seven weaknesses:

1. McPherson Square's Bookstore Manager acknowledged the ordering of publications for the purpose of reshipping them to customers, even though it resulted in double handling, shipping, and postage costs to GPO.
2. An inventory of property assigned to the McPherson Square Bookstore found that the Bookstore Manager and the auditor could not verify one item to the property listing.
3. One of six items researched from the property listing could not be verified because it did not contain a GPO Identification (ID) Number to ensure timely and accurate identification. Another twelve items were found on hand without a GPO ID number and were not on the property listing.

4. The McPherson Square Bookstore's location continues to be misidentified. It is located at McPherson Square, NW, not at Farragut Square. Some GPO address labels and property listings were in error and needed to be corrected and updated with the McPherson Square Bookstore location.
5. McPherson Square Bookstore personnel did not comply with written instructions in the one occurrence observed where transactions were voided by marking the individual receipts with the word "VOID."
6. The decal on the front door of the McPherson Square Bookstore was missing the opening and closing times for Wednesdays and Thursdays.
7. Several discrepancies existed between the written policy in the Bookstore Manual and the current working procedures at the McPherson Square Bookstore. Among the significant discrepancies were the acceptance of the Discover credit card; the method for confirmation of the current balance on deposit account customers ordering \$50 or more; and the establishment of the length of time that daily sales records should be kept on hand.

BACKGROUND

The McPherson Square Bookstore is one of 23 GPO bookstores. It is located at 1510 H Street, NW, Washington D.C. Staffing consists of a Manager, Assistant Manager, and three clerks. The bookstore was relocated from an address in Farragut Square in the early 1990's. The last audit performed at this bookstore was when it was still located at Farragut West, in July 1989. At that time, four controls on the safekeeping and handling of cash were identified that required management's attention.

Since the time of the last audit, this bookstore also has experienced a change in Managers. The current Manager had worked on the bookstore staff at Farragut West, and has been the Manager at McPherson Square since 1991.

The Bookstore Manager is directly responsible to the Chief, Field Operations Division, for the proper conduct of business and implementation of GPO and Superintendent of Documents' policies and procedures. The Manager is also responsible for sales and for initiating local marketing actions to improve sales and maintain customer relations.

McPherson Square has recently ranked as one of the more productive bookstores in GPO's chain. Based on bookstore ranking results through August 31, 1998, the McPherson Square Bookstore ranked among the top ten GPO bookstores in terms of revenue, net income, total orders, and profit per order.

In addition, McPherson Square ranked second highest in average sales per employee (\$108,535.18), as well as ranking lowest among all bookstores in cost per order (\$51.71). McPherson Square's revenues of \$542,676 was offset by \$465,294 in total expenses, for a net income (as of August 31, 1998) of \$77,382.

OBJECTIVES, SCOPE, AND METHODOLOGY

The specific objectives of this audit were to evaluate management practices of this bookstore as they pertained to:

- Adequacy of controls over safekeeping and handling of cash,
- Effectiveness of procedures for check authorizations, discounts, charge sales and void sales,
- Adequacy of controls over opening, certifying, and processing of mail orders received,
- General appearance of the bookstore,
- Adequacy of controls over receipt, pricing, replenishment, and destruction of publications inventory,
- Adequacy of controls over receipt, identification, inventory and disposal of GPO property and equipment, and
- Effectiveness of the overall administration of the bookstore.

We conducted the audit during the month of December 1998 in accordance with generally accepted Government auditing standards, and included such tests of the procedures, operations, and internal controls in place as were considered necessary under the circumstances. Performance of the audit included review work performed at the bookstore site on December 3-4, 1998.

We reviewed:

- The GPO Bookstore Manual, to identify applicable policies and procedures governing the McPherson Square Bookstore;
- GPO Instruction 810.11A, *Property Management Program*, to identify relevant aspects of property accountability; and
- GPO Instruction 825.18A, *Internal Control Program*, to identify policies, standards, and responsibilities of internal control systems.

FINDINGS AND RECOMMENDATIONS

FINDING 1

SPECIAL ORDERS AND RESHIPMENTS

The Bookstore Manager acknowledged that McPherson Square commonly ordered publications expressly for customers, receiving them at the bookstore, then shipping the publications out to the customers. This practice was contrary to Section 2 of the United States Government Bookstores' *Guidance For Managers Manual*, entitled *Replenishment Orders*. It states the following: "Publications should not be ordered for the purpose of reshipping them to customers because it results in double handling and shipping and postage costs. Postage charges are levied against each bookstore and are based on both the total outgoing and incoming shipments for the store."

The Bookstore Manager was unaware of this policy, and was surprised to learn that their practice was contrary to GPO bookstore procedures. The Manager explained that the method they have been using saves a lot of time, and the customer can get the item in several days, rather than weeks. For many customers, timeliness is as important to them as the availability of publications, according to the Manager.

The Chief, Field Operations Division, pointed out that they allow the bookstores to ship publications to customers if the items are already in stock on the shelves. However, the customer does not pay any extra costs for the service of having the publications ordered and reshipped. GPO assumes all of these costs; therefore, GPO pays more to have publications ordered, received, and reshipped. Each time this bookstore performs special orders and reshipments, it would incur duplicative costs. Attempts to obtain recent examples of special orders and reshipments to determine the magnitude of costs were unsuccessful.

RECOMMENDATIONS

The Chief, Field Operations Division, should:

- Ensure the Manager, McPherson Square Bookstore, takes immediate steps to cease special orders and reshipments of publications to customers (9903-01), and
- Issue a reminder memorandum to the other bookstores in order to inform them that special orders and reshipments are not to be performed (9903-02).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and the recommendations. The Bookstore Manager has been notified, and a memorandum has already been issued to the bookstores.

FINDING 2

PROPERTY INVENTORY DISCREPANCIES

Discrepancies in the property listing records were detected during the inventory taken of McPherson Square Bookstore by an OIG auditor in December 1998. Of the six items inventoried from the Financial Reporting and Evaluation Section's property listing, the auditor and the property custodian (the Bookstore Manager) could not verify one item, or 17 percent. This item was a 12" VGA computer monitor that could not be located. It had an original cost of \$463, but no current book value. The Bookstore Manager claimed that this monitor was removed and replaced by a new one. She provided an updated listing of property, which showed that this monitor was no longer listed; however, neither was the new monitor, which also had no GPO ID number and was identifiable only as a Magnavox VGA monitor, SN #50477808.

These inventory discrepancies were the result of the property custodian (Manager) not always following paragraph 9c of GPO Instruction 810.11A which requires: (1) verifying and accounting for the inventory; and (2) taking necessary action to correct deficiencies in the records. Consequently, the Comptroller's financial reports were not accurately reporting accountable property to protect assets against waste, loss, and unauthorized use as required in Standard 2 of GPO Instruction 825.18A.

RECOMMENDATION

The Chief, Field Operations Division, should ensure that the McPherson Square Bookstore Manager immediately research and determine the status of two property items (both the old and new computer monitors) that could not be verified by the property custodian and the OIG auditor, in order to update the property listing and financial reports accordingly (9903-03).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and the recommendation.

FINDING 3

GPO PROPERTY IDENTIFICATION NUMBERS

One of the six items listed on the Financial Reporting and Evaluation Section's property listing (a microfiche reader) was not assigned an individual GPO ID number, contrary to the requirements of paragraph 10a of GPO Instruction 810.11A. In addition, only one of the six items had both its serial number and requisition number recorded on the property listings. This omission of serial and requisition numbers meant that if an item did not have a GPO number affixed to it, there was no other way to verify it to the listing. This omission of data hindered accurate and timely identification of GPO property.

Also, the auditor found no GPO ID numbers on twelve other items that were found on hand but were not reported on the property listing, contrary to paragraphs 10a and 10b of GPO Instruction 810.11A. Several of these items were not in current use. For example:

- A used IBM Model XL 24 printer was found in a box. The box had been sent to the McPherson Square Bookstore from Kansas City, Missouri, via express mail "at least two years ago." The box that contained this printer was labeled "Urgent" and was specifically addressed to this GPO Bookstore. No evidence of a GPO Return To Stores form or any other GPO document was found making reference to this item. The Bookstore Manager claimed that the used printer was neither ordered nor requested. She stated that the Field Operations Division management had been contacted, but she has not received a response. The Chief, Field Operations Division, claimed that a cash register, not this printer, had been sent in this box to McPherson Square. The printer contained no GPO ID number or other identifying numbers.
- Several other unused property items were found on hand, including an old NCR cash register and several spare cash register drawers. The Bookstore Manager claimed that they had contacted MMS Stores Division several times and have asked them to pick up the items, but had not been successful in getting them to do it. The Chief, Field Operations Division, stated that the Bookstore Manager informed him that she had submitted all relevant paperwork for all these items, and had done so before the audit.

RECOMMENDATIONS

The Chief, Field Operations Division, should ensure that the McPherson Square Bookstore Manager immediately:

- Examine the twelve items without GPO ID numbers that were found by the OIG auditor, and determine whether they should be either included on the property listing or returned to GPO Central Offices for surplus and/or disposal (9903-04);

- Reconfirm that all property items not needed or wanted have had a Return To Stores form completed and sent (or resubmitted) to Materials Management Service (9903-05); and
- Coordinate with the Physical Security Group, Office of Administrative Support, in order to ensure that all property items are recorded or otherwise accounted for, and that GPO property identification numbers are affixed to all applicable items (9903-06).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and the recommendations. Discrepancies will be resolved by the Bookstore Manager in conjunction with the Staff Assistant, Field Operations Division.

FINDING 4

McPHERSON SQUARE BOOKSTORE LOCATION

The McPherson Square Bookstore would benefit from an information notice to correct a continuing misimpression about the bookstore's location. The bookstore is located at McPherson Square NW and not at Farragut Square NW. The Manager stated that some publications might have the McPherson Square Bookstore listed as the Farragut West Bookstore, although it was relocated from Farragut Square almost ten years ago. GPO itself was inconsistent when they addressed items to be delivered. The address labels being used internally to deliver office supplies stated, "MANAGER, GPO FARRAGUT WEST BOOKSTORE, COST CODE 9509" on the container.

The auditor also noted that the most recent GPO property listings for McPherson Square continued to show two 'refurbishings' of "Farragut West" as the largest dollar-value components of their total property. However, these improvements occurred at a different location in 1984 and 1987, and they have been fully depreciated by the Comptroller's Financial Reporting and Evaluation Section, with no remaining book value. Standard 7 of GPO Instruction 825.18A states in part: "Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports."

Inconsistencies in addressing could lead to lost revenues due to confusion on the part of current or future customers. Internally within GPO, a habitual error in one addressing area could lead or allow for errors in other areas. Property and asset listings would be distorted when irrelevant assets or renovations continue to be reflected. In this case, the renovations to Farragut West amounted to \$44,242.82 out of a total of \$51,282.87 in listed property values; thus, over 86 percent of the stated property values for McPherson Square (Cost Code 9509) pertained to irrelevant items. At this time, the Comptroller is continuing to maintain property data from Farragut West on the accounting books.

RECOMMENDATIONS

The Chief, Field Operations Division, should:

- Take steps necessary to ensure that no further misidentification of McPherson Square Bookstore or its location exist, by way of a memorandum or similar notice (07) and
- Coordinate with the Comptroller to assess the relevance of maintaining old renovations to a defunct location on the balance sheet, with the goal of removing all such irrelevant depreciated assets from the McPherson Square Bookstore's Cost Code 9509 (9903-08).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and recommendations.
The Chief, Financial Reporting & Evaluation Section, has been contacted and has agreed to review the assets.

FINDING 5

VOIDED TRANSACTIONS

A review of the December 1, 1998, Daily Summary revealed that in a circumstance with voided transactions, bookstore personnel did not mark the individual receipts with the word "VOID" as specified in written procedures. The five receipts totaled \$1,620.

The "Store Accountability" chapter of the GPO Bookstore Manual, under Section 2, "Bookstore Daily Summary," states: "Before preparing the Bookstore Daily Summary, these procedures must be followed by staff member:...[e.] Make certain each cash register void is accompanied by a Voided Bookstore Sale, GPO Form 3920, and that it is filled out properly."

On the "Voided Bookstore Sale" form, there is a list of "Procedures" to be followed that is located at the top of the form. It states, "When a cash register mistake (incorrect cash register under/over ring or wrong key is depressed) occurs:

1. Write the word Void on the receipt and staple it to the area of this form as indicated below."

Bookstore personnel stated that on the day of these transactions, the Manager was not in attendance, and the Assistant Manager had prepared the documentation with assistance from a bookstore staffer. This specific procedure was not specified in the Bookstore Manual, and it may have been overlooked. Nonetheless, the Manager acknowledged that the voided receipts should be appropriately marked, and will ensure that this is done in the future.

Voided receipts that are not appropriately marked could be mistaken for valid transactions, thereby leading to erroneous summaries of sales. In this instance, where the correction of the original error was a multi-step process, the potential for a compound error that could misstate several component sales summaries could result.

RECOMMENDATION

The Chief, Field Operations Division, should ensure the McPherson Square Bookstore Manager and employees are fully familiar with the preparation of the Bookstore Daily Summary, especially in regard to the processing of voided sales. The Manager and employees should be aware of several sources to consult when completing the necessary paperwork, including not only the Bookstore Manual but also the specific form's own procedures (9903-09).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and recommendation.

FINDING 6

OPENING AND CLOSING TIMES

When the auditors arrived to begin the audit, it was noted that the decal affixed to the front door of the bookstore announcing its daily opening and closing times was missing some key information. No opening and closing times were posted for Wednesdays and Thursdays.

The Bookstore Manager acknowledged that the opening and closing times for the two days were not posted on the door. McPherson Square had not received an effective set of decals for affixing to the sign. Opening and closing times were posted for Monday, Tuesday and Friday with the strategy that customers would “assume” those hours would also be valid for the intervening weekdays.

When opening and closing hours are posted in an inconsistent manner, it can give the wrong impression that the store may not be open. A potential customer was observed walking up to the door at about 8:25 AM; normal opening time was at 8:30 AM. The customer saw no times posted for opening on Thursday, and walked away, possibly causing a loss of sales revenue for the McPherson Square Bookstore.

RECOMMENDATION

The Chief, Field Operations Division, should ensure that the McPherson Square Bookstore Manager obtains the additional decals that are needed for their front door. In the interim, opening and closing times should be posted (using paper or another alternative) for all weekdays immediately (9903-10).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding and recommendation. The building landlord has been contacted; the Bookstore Manager has also been authorized to replace the current sign.

FINDING 7

BOOKSTORE MANUAL UPDATES

In several areas of policy and procedures, the auditor noted that there have been changes to standard Bookstore procedures that were not reflected in the GPO Bookstore Manual. Among the most significant changes were the following:

- Current bookstore policy allows bookstore employees to accept the Discover credit card. However, in the Bookstore Manual, only Visa and MasterCard were cited as acceptable credit cards for payment.
- Bookstore employees currently consult a daily “Status of Deposit Accounts” printout to confirm current balances of accounts when the deposit account customer submits an order for \$50 or more. The Bookstore Manual states that the clerk should call the Deposit Accounts section to secure a current balance.
- The Bookstore Manager stated that they keep daily sales records on hand for the past year. The Director, Field Operations Division, stated that for the last several years the bookstores were directed to keep their daily sales records on hand for the current year and the previous year. However, the Bookstore Manual does not make any specific reference as to how long these records (or any others) are to be kept on hand.

Standard 7 of GPO Instruction 825.18 states, “Transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.”

The Bookstore Manual did not contain a specific date when it was last revised. A sole reference to the approximate date was found on the organization chart, which was dated April 1994. When changes are made to policy, a memorandum is sent to each bookstore. However, copies of these memoranda could not be located at the time of the audit.

When discrepancies exist between written operating procedures and current working procedures, employees can become confused and may not be performing their required tasks properly. Valuable documents (and potential revenue) may be lost and accountability compromised (with increases in cost). Also, without a clear policy on what to do with memoranda of updates to bookstore policy, the risk exists that not all bookstore employees will be informed of the change(s), resulting in inconsistencies within each bookstore.

RECOMMENDATIONS

The Chief, Field Operations Division, should ensure that:

- The Bookstore Manual is promptly, accurately, and consistently updated. This updating should include the assignment of manual revision numbers and dates to each change in general bookstore policy (9903-11) and
- When the new Bookstore Manual is issued, a separate section for manual revisions, complete with a log for revision numbers and dates are to be maintained so that all revisions can be included and accounted for in the manual (9903-12).

MANAGEMENT COMMENTS

The Chief, Field Operations Division, agreed with the finding. A revised manual was expected to be issued in conjunction with implementation of the new IPS automated system for the Superintendent of Documents, but it was not yet ready.

MANAGEMENT'S COMMENTS

March 16, 1999

Chief, Field Operations Division

Report on the Audit of the McPherson Square Bookstore

Inspector General

I have reviewed the draft report on this audit, and have discussed it with members of your staff. I am in general agreement with the report, and pleased that you found this operation to be generally satisfactory.

Listed below are my Management Comments on the 7 Findings.

Finding 1: Special Orders and Reshipments

The stores have been notified by memorandum that they are not to order books solely for the purpose of reshipment. The Manager of the McPherson store has been reminded of this.

Finding 2: Property Inventory Discrepancies

Concur

Finding 3: GPO Property Identification Numbers

The Staff Assistant, Field Operations Division, will be visiting the McPherson Bookstore to work with the Manager on resolving any discrepancies in this area.

Finding 4: McPherson Square Bookstore Location

A memorandum was sent to all areas of GPO several years ago when the name was changed from Farragut West to McPherson Square. In those very rare instances where we find this change was not made by another area, we correct them as we find them.

We are working with the Comptrollers office to remove depreciated assets from the McPherson Square Cost Code.

Finding 5: Voided Transactions

Concur

Finding 6: Opening and Closing Times

We have asked our landlord to replace the sign listing the hours of operation. If they do not do so, the Manager is authorized to buy a new sign and install it.

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Finding 7: Bookstore Manual Updates

With the arrival of IPS, many things in the current Bookstore Manual will change. Therefore, a decision has been made to not prepare a new manual until IPS is operational.

In the meantime, the bookstores are notified in writing of changes, such as the acceptance of the Discover card.

The suggestions you have made concerning the format of the next Bookstore Manual will be considered when the next Manual is prepared.

If you have any questions, please call me on 3-0406.

WILLIAM L. TICKNOR