



# Community Development Inventory Audit

## Introduction and Background

The Division of Purchase is charged, as provided in the Onondaga County Charter Administrative Code, section 3.06 to “be responsible,....., for the maintenance of all current inventories of materials, supplies, and equipment owned by or otherwise within the jurisdiction of the County government and maintain such records of use and maintenance therefor as may be appropriate,” and to “transfer materials, supplies and equipment among departments and other units of County government as required....” The Purchasing Director is responsible (unless otherwise specified by Administrative Code) for the maintenance of all current fixed assets owned by or otherwise within the jurisdiction of the County government and such records of use and maintenance thereof as may be appropriate.

To fulfill these responsibilities, an asset database management and reporting system (the System) was implemented. Along with the System, the Division of Purchase has developed a Materials Management Program Policy and Procedure Manual (the Manual). The administration of the System and reports resides with the Materials Management Coordinator in the Division of Purchase. In this report, the inventory required by the Administrative Code will be referred to as the fixed asset inventory. Fixed asset inventory reports are required to be provided to the County departments annually for verification with actual assets on hand.

The County Comptroller’s Office Audit Division conducted an audit of the Community Development Department’s (the Department) fixed asset inventory. The results of the audit are contained in this report.

## Audit Objectives

Our audit objectives were to:

- Determine if the Department has adequate internal controls in place to safeguard County owned fixed assets within the custody of the Department.
- Determine the Department’s compliance with the Manual.
- Determine accuracy of the fixed asset inventory maintained by the Division of Purchase and IT Office of Automation for the Department.

## **Methodology and Procedures**

The Manual requires that non-consumable equipment, with a life expectancy of greater than 2 years and a purchase cost of greater than \$500, be tracked in the System. In addition, certain assets, by nature of their size, use, or other factors, are considered “sensitive” and are also included in this System regardless of whether they meet all the requirements. Examples of these types of assets are photographic equipment, media and recording equipment, computer equipment and peripherals, and weapons.

We interviewed two employees from the Department to gain an understanding of the fixed asset inventory tracking process. The purpose of the interviews was to determine if any internal control deficiencies exist in the procedures for recording and tracking Department fixed assets and allow us to design appropriate audit procedures with respect to the same.

Based on the interviews and other work, we developed audit procedures to determine compliance with the Manual as well as detect and test other internal controls that may be in place to safeguard County owned fixed assets. Current inventory system reports were provided to us by the Division of Purchase and the Department of Information Technology (IT) Office of Automation. We compared the inventory reports provided to the Department’s fixed assets and computer and peripheral items that were physically on hand to determine the accuracy.

## **Summary of Audit Recommendations and Conclusions**

The Department staff members interviewed weren’t aware that a Materials Management Program Policy and Procedure Manual existed. In addition, the Department has no written policies and procedures to ensure the safeguarding of County fixed assets. Lastly, it did not appear that a recent physical inventory had been conducted.

It was evident during the audit that the fixed asset inventory reports we obtained from the Division of Purchase and the Department of Information Technology were not accurate. The reports contained different categories of information and were not up-to-date. The Department employees interviewed indicated that they had not received inventory reports for verification since 2010.

We tested the fixed assets inventory report that we received from the Department of Information Technology to verify the existence of fixed assets and the completeness and accuracy of the list. These tests determined that items on the inventory report could not be located in the Department and that there were fixed assets that existed in the Department that were not listed on the inventory report.

Based on our findings, we are recommending the Department:

- Assign a staff member to be the designated inventory representative.
- Make sure the person assigned to the designated inventory representative role is properly trained and has a good familiarity with the Manual.
- Establish written policies and/or procedures necessary to make sure the Manual is properly implemented. That includes ensuring that all information and transactions regarding fixed assets and sensitive items are directed to the designated inventory representative.
- Obtain fixed assets information and reports at appropriate intervals from the Division of Purchase and the Department of Information Technology (IT) Office of Automation.
- Periodically reconcile inventory listings received to physical assets and resolve any discrepancies.
- Review and reconcile the IT Office Automation bills as soon as they are received to ensure the assets listed are being used by the Department and the charges are accurate. Any discrepancies should be reported to the IT Department. The Department should follow up to make sure the corrections are made.
- Discontinue using the Department purchase card to obtain assets meeting the criteria for inclusion in the fixed asset inventory. Such assets should only be purchased through the regular purchasing process.

Implementing the above recommendations will greatly improve the preservation and control over County fixed assets that are entrusted to the Department and will also resolve the findings included in this audit report.

## **Audit Findings, Recommendations, and Conclusions**

### **Internal Controls and Compliance**

The Department staff members interviewed weren't aware that the Manual existed. Subsequent to the interviews, we provided the Department staff with a copy of the Manual.

The Department staff members interviewed also indicated:

- The Department has no additional written procedures or controls in place over their fixed assets.
- They had not received an inventory/fixed asset listing from the Division of Purchasing since 2010.

- Do not believe they receive inventory asset ID tags to be placed on assets.
- To the best of their knowledge, no recent physical inventory had been conducted.

The Audit Division did observe asset ID tags on some physical assets but they were mostly on computers and computer related peripherals. These assets had been tagged by the IT Division before being placed in the Department.

### **Accuracy of the Fixed Asset Inventory Listing**

The Audit Division obtained a list of fixed assets from the Division of Purchase and from the Department of Information Technology. Testing steps were developed to verify the existence of the physical assets and the completeness and accuracy of the fixed asset inventory lists.

The entire Department was undergoing a transition to new laptop computers with docking stations, making the audit of computers not applicable at this time. Other computer related equipment, peripherals and sensitive items were selected for testing purposes for the audit. We selected 12 assets from a total IT asset list population of 120 and attempted to trace them to the physical asset. We also selected 7 physical assets from within the Department and attempted to trace them back to the asset lists.

The audit testing steps included:

- Traced inventory selected from the fixed asset lists and confirmed their physical existence
- Confirmed whether the asset was in the correct location specified on lists
- Confirmed whether the asset had a proper ID tag label
- Verified whether the assets being charged on the monthly IT Office Automation bill were accurate.

Results of tests:

- Of the twelve assets selected from the inventory lists, five physical assets could not be found in the Department. Of the seven assets found, one was at the location noted on the list, three were found to be in different locations within the Department, and three selected had no location other than the Department noted on the list. However, we did not find any evidence of theft and or fraud.
- Of the seven assets selected from within the Department and traced back to the inventory lists, all items were found on the lists with the proper asset id tag information and proper location noted.
- Department staff reviewed the fixed asset lists from the Division of Purchase and the Department of Information Technology and stated there were several assets on the lists that were no longer in the Department. This verified the asset lists are not being updated. The Department staff also verified they do not keep a separate fixed asset list nor do they keep any list or paperwork when assets are removed from the Department.

- We observed the Department staff were not reconciling the IT Office Automation bill on a regular basis and not reporting billing errors to IT for correction. We asked Department staff to reconcile the June 2013 IT Office Automation bill. The bill charged for 21 personal computers, which was the correct number of computers in the Department. However, the staff member found:
  - One Personal Computer (PC) on the bill could not be identified as listed.
  - Three PC's billed had been replaced. However, the new PC numbers were not reflected on the bill.
  - One PC billed had not been in use for several years and was no longer in the Department.

### **Use of Purchase Card to Acquire Fixed Asset Items**

From time to time the Department purchased sensitive items such as digital cameras that are below the fixed asset threshold of \$500 and have a useful life of greater than two years. Due to the low cost of such assets, the Department primarily acquires them using the Department's purchase card. These assets were not included on the asset lists from the Division of Purchase or the IT Department.

### **Recommendations:**

In order to establish and maintain effective internal controls over the Department fixed assets, we recommend the Department:

- Assign a staff member to be the designated asset inventory representative.
- Make sure the person assigned as the designated asset inventory representative is properly trained and has a good familiarity with the Manual.
- Establish written policies and/or procedures necessary to make sure the Manual is properly implemented. That includes ensuring that all information and transactions regarding fixed assets and sensitive items are directed to the designated inventory representative.
- Obtain fixed assets information and reports at appropriate intervals from the Division of Purchase and the Department of Information Technology (IT) Office of Automation.
- Periodically reconcile fixed asset inventory listings to physical assets and resolve any discrepancies.
- Review and reconcile the IT Office Automation bills as soon as they are received to ensure that the assets listed are being used by the Department and the charges are accurate. Any discrepancies should be reported to the IT Department. The Department should follow up to make sure the corrections are made.

- Discontinue using the Department purchase card to obtain assets that meet the criteria for inclusion in the fixed asset inventory. Such assets should only be purchased through the regular purchasing process.

**Conclusion:**

Implementing the above recommendations will greatly improve the preservation and control over County fixed assets that are entrusted to the Department and will also resolve the findings included in this audit report.