Recommendations to Administration

CONSULTING ENGAGEMENT

Controlled/Fixed Assets Inventory

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Executive Summary (AR001)

Introduction and Background

The purpose of this report is to provide recommendations to improve internal controls for the controlled/fixed assets inventory owned by the District. This consulting project did not include an audit of the controlled/fixed assets inventory process. As such, we are not providing assurances that procedures and internal controls are followed and adhered to in accordance with the federal, state, local policies and guidelines. Our recommendations were based on discussions with management, best practices, and our knowledge and understanding of internal controls related to controlled/fixed assets inventory.

Consulting services are advisory in nature, generally performed at the specific request of an engagement client, and intended to add value and improve the District's control processes. Internal Audit will not assume the role and duties of management. Administration and management are responsible for establishing and maintaining the systems of internal controls. This consulting project was included in the Board approved 2014-2015 Internal Audit Plan.

The Warehouse Department is responsible for the controlled/fixed assets inventory process, however, different departments, such as Fine Arts, Special Education and Technology Services (TS) receive and process their own controlled/fixed assets.

Summary of Recommendations

Best Practices
1. We recommend the Administrator's Reference Guide (ARG) and Fixed Assets Procedures Manual be updated to include missing requirements previously outlined in policy and remove references that are no longer in policy or bulletins.

2. One of the most effective internal controls is to separate duties so that no one person (i.e. the purchaser-custodian) has control over the entire process.

    a. The District should consider centralizing the receiving and processing of controlled/fixed assets.

    b. The TEAMS Fixed Assets Module should be maintained (add/delete options) only by the Property Control staff.

    c. The Director of Warehouse Services should set the expectations of the access provisioning process as it relates to the TEAMS Fixed Assets Module.

    d. Any access to the TEAMS Fixed Assets Module (aside from read-only) should be approved by the Director of Warehouse Services.

    e. A listing of all the users who have access to the TEAMS Fixed Assets Module should be reviewed for appropriate access (on an annual basis). If inappropriate access is identified, it should be modified or revoked as directed by the Director of Warehouse Services.

3. We recommend the Director of Warehouse Services coordinate a District-wide inventory certification process with an independent verification.

4. We recommend the Warehouse Department communicate to principals and department heads physical security best practices to protect District property (see Detailed Recommendations AR002 for examples).

<u>Fine Arts Department</u>
1. We recommend all activity coded to object code 6398 (account used for instruments) be reviewed on a monthly basis to determine whether instruments purchased by campuses should be requested from the campuses, tagged and entered into the TEAMS Fixed Asset Module.

2. The Warehouse Department should consider joining efforts with the Fine Arts Department during the upcoming significant acquisition of instruments. This will help to ensure all instruments are accounted for appropriately and provide the Warehouse Department a better understanding of Fine Arts' instrument inventory processes.

<u>Other Recommendations</u>
1. In previous internal audits, issues have been noted related to the purchase and use of federally funded assets. The issues included, but are not limited to, "stockpiling" and inappropriate use of assets. Therefore, we recommend Administration establish additional internal controls related to federally funded assets (see Detailed Recommendations AR002 for recommendations).

2. In previous internal audits, it was noted some fixed assets donated by booster clubs had not been accounted for in the District's inventory. Therefore, we recommend the Director of Warehouse Services reach out to Campus Accounting to coordinate a "refresher" training for campus personnel as it relates to accounting for donations.

3. We recommend the Director of Warehouse Services request and review the data reconciliation (if one was performed) after the controlled/fixed asset data was converted to TEAMS Fixed Assets Module.

Conclusion

The current internal controls and internal control environment as it relates to properly controlling and accounting for controlled/fixed assets could be strengthen. The implementation of controlled/fixed assets best practices may reduce risks, such as: asset loss and theft, non-compliance with federal/state requirements, ineffective utilization, and having insufficient/ unreliable information to determine the needs of the District (e.g. limitations in the identification of surplus).

Detailed Recommendations (AR002)

Controlled/Fixed Assets Inventory – Best Practices

This section outlines "best practices" and recommendations to strengthen internal controls. This section is broken down into internal controls in the form of policies/procedures, separation of duties, reviews/reconciliation and security of assets.

1. Policies and procedures serve as documentation for defining programs and outline guidelines/expectations for staff. As a result of the policy review conducted by the Texas Association of School Boards (TASB), Board Policy CFB (Local) was changed to remove language related to responsibilities for accounting for controlled/fixed assets, value thresholds, tagging inventory, physical inventory requirements, penalties (consequences), etc. Although most of this language is included in the ARG, said guidelines do not outline consequences for employees and administrators who fail to comply with responsibilities related to controlled/fixed assets. Furthermore, the ARG and Fixed Assets Procedures Manual have not been updated to reflect changes to operations, policy, and remove references to "bulletins."

   a. We recommend the ARG and Fixed Assets Procedures Manual be updated to include missing requirements previously outlined in policy and remove references that are no longer in policy or bulletins.

   b. We recommend the ARG and Fixed Assets Procedures Manual be reviewed and updated (if necessary) on an annual basis. The annual review of the guidelines should include determining whether the list of items identified as controlled/fixed assets needs to be updated to ensure we are documenting ownership of theft sensitive assets/equipment that are not capitalized (i.e. calculators, computer monitors, cameras, video cameras, etc.).

2. One of the most effective internal controls is to separate inventory duties so that no one person has control over the entire process. Potential risks if duties are not separated may include inaccurate inventory and lost, stolen, or destroyed property. Note that centralized receiving greatly facilitates the inventory process. Best practice is to, at a minimum, have different people for the following tasks:

   - Purchaser and custodian (the person who places the order and is responsible for maintaining proper accountability and the safeguard of assets in their department/campus)
   - Receiver, tagger, and distributer (the person who receives the delivery of equipment, is responsible for making certain each item is properly tagged/added to inventory, and distributing the asset to the responsible administrator/location)

   a. The District should consider centralizing the receiving and processing of controlled/fixed assets; a centralized internal control environment is easier to control and monitor. If equipment is delivered to a specific person or department, it is easier to ensure inventory tasks are properly accomplished. If equipment is delivered directly to campuses or departments, it is more difficult to control the process.

   b. The TEAMS Fixed Assets Module should be maintained (add/delete options) only by the Property Control staff. Read-only access to the TEAMS Fixed Assets Module should be given to principals and department heads, enabling them to have access to their

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controlled/fixed assets inventory list. This includes individuals who do not need full-access as part of their day to day job responsibilities.

c. We recommend the Director of Warehouse Services set the expectations of the access provisioning process as it relates to the TEAMS Fixed Assets Module. Furthermore, the expectations should be clearly documented in the Fixed Assets Procedures Manual.

d. Going forward, any access to the TEAMS Fixed Assets Module (aside from read-only) should be approved by the Director of Warehouse Services.

e. We recommend the Director of Warehouse Services request from TS a listing of all the users who have access to the TEAMS Fixed Assets Module; the listing should be reviewed for appropriate access. If inappropriate access is identified, it should be modified or revoked as directed by the Director of Warehouse Services. It is a best practice the review of appropriate access be performed at least on an annual (random) basis by the Director of Warehouse Services.

    i.   As part of the access review, it should be noted that user accounts with the ability to add, modify, and delete data should be limited to personnel who need such access as part of their day to day job responsibilities.

    ii. Separation of duties needs to be kept in mind when determining appropriate access. We obtained a current listing from TS of all users and their types of access to the TEAMS Fixed Assets Module and noted several departments have full-access, which they may not need as part of their day-to-day job responsibilities. Full-access creates separation of duties conflicts when it is not properly administered. As of the date of the user listing request, there were 17 people who have "level 9" access (i.e. full access), which means they can add, modify, and delete.

Department	# of People
Financial Services	3
Fine Arts	4
Special Education Services	2
Technology Services	5
Warehouse Services	3
Total	17

3. Best practices dictate that a physical inventory should be conducted at least annually and that any differences be documented and reconciled. The annual inventory should include physical counts and a review to determine proper usage/disposal of controlled/fixed assets. The inventory should be conducted by someone other than the person responsible for purchasing or who has custody of the assets. If there are limited resources to conduct a full inventory of the District's controlled/fixed assets, then an "inventory certification process with independent verification" may be conducted. While a full inventory will give maximum comfort over the completeness and accuracy of the inventory balances, an "inventory certification process with independent verification" provides an alternative means of performing a physical inventory.

a. Due to the current limited resources of the Property Control staff, we recommend the Director of Warehouse Services coordinate a District-wide inventory certification process with independent verification. It will be important to coordinate such efforts with District Leadership. As part of this process, a detailed controlled/fixed asset listing

from the TEAMS Fixed Assets Module could be sent out to all principals and department heads, along with a memo including, but not limited to, the following:

- Principals and department heads would be responsible for coordinating inventories at their respective campuses and departments.
- Requiring principals and department heads to compile all fixed asset information under their responsibility and provide the Director of Warehouse Services the results (on a timely basis) of their inventory along with a signature certifying the results of the inventory.
- Instructions to:
  - Confirm the fixed assets that appear in the listing are on-hand.
  - Remove fixed assets that appear in the listing, but are not physically located at the campus or department, including an explanation to address discrepancies.
  - Add fixed assets that do not appear in the listing, but are physically located at the campus or department, including an explanation to address discrepancies.
- Include a note in the memo that a sample of the certified inventory listings could be randomly selected for an independent verification.

b. As noted above, we recommend a representative sample of the certifications be selected and a spot check be performed at the respective location in order to validate the inventory certification's accuracy. The inventory certifications should be reconciled against the information in the TEAMS Fixed Assets Module; any discrepancies should be investigated.

The results of the District-wide inventory should be compiled by the Warehouse Department and shared with District Leadership. Furthermore, any adjustments made to the TEAMS Fixed Assets Module, to accurately reflect the controlled/fixed assets balances, should be properly supported by the inventory certifications. Adjustments should be coordinated with the Financial Services Department.

4. All employees are responsible for taking precautions to prevent the loss or theft of District property. We recommend the Warehouse Department communicate to principals and department heads physical security best practices to protect District property. Such communication can be carried out by updating the Fixed Assets Procedures Manual and sending out periodic memos asking them to communicate such information to their staff members.

Physical security best practices include, but are not limited to, the following:

- Valuable and theft sensitive equipment should not be left unattended.
- Office and classroom doors and drawers should be locked when no one is present.
- Thefts and lost items should be reported to Police Services and principals/department heads, respectively, on a timely basis since this increases the chance that property will be recovered.
- District property with missing or damaged barcodes should be reported to the Warehouse Department on a timely basis to allow for proper replacement and recording of barcodes.
- Damaged property should be reported to principals/department heads on a timely basis for proper follow-up.
- If necessary, informal inventories of assets assigned to employees may be performed on a periodic basis.
- New principals/department heads should consider verifying the accuracy of the campus/department's inventory before assuming responsibility for the assets.

Fine Arts Department

1. We recommend the District consider the following:
    - The Warehouse Department receives and processes all instrument inventory (including all the barcoding). After the instruments are processed, they are sent directly to the respective locations; or
    - The Warehouse Department receives all instruments and Fine Arts personnel are on site to assist in the processing of the instrument inventory; or
    - The Fine Arts Department receives all instruments and the Warehouse Department is on site to assist in the processing of the instrument inventory.

2. We recommend all activity coded to object code 6398 (account used for instruments) be reviewed on a monthly basis and determine whether instruments purchased by campuses should be requested from the campuses, tagged and entered into the TEAMS Fixed Asset Module. During our review of the detail for object code 6398 we noticed that it included items such as instrument strings, shoulder rests, accidental damage protection, drum lifts and instrument stands, which would not be considered instruments. Therefore, we also recommend that object code 6398 only be used for instruments and not instrument supplies and accessories, such as the items listed above. These items should be coded to a different object code.

3. The Warehouse Department should consider joining efforts with Fine Arts during the upcoming significant acquisition and disposal of instruments to ensure all instruments are accounted for appropriately and provide the Warehouse Department a better understanding of Fine Arts' instrument inventory processes. This is a great opportunity for the Warehouse Department to get involved and get cross-trained in the acquisition and disposal of instruments, including the proper placement of barcodes on the instruments.

    We recommend the following reconciliation processes for the aforementioned acquisition and disposal of instruments:

    - The total number and value of instruments purchased should agree to the total number and value of instruments entered into the TEAMS Fixed Assets Module as it relates to the significant acquisition.
    - The total number of instruments being disposed of should agree to the total number listed in the surplus transfer forms.
    - Any discrepancies shall be researched and resolved in a timely manner.

Other Recommendations

1. In previous internal audits, issues have been noted related to the purchase and use of federally funded assets. The issues included, but are not limited to, "stockpiling" and inappropriate use of assets. The Warehouse Department should consider these issues when updating/revising the fixed asset inventory process and performing spot checks.

    We recommend Administration consider the following:

    - Identifying federal assets in the TEAMS Fixed Assets Module.

- Tagging federal assets in a way that simplifies identification to both the responsible party and the Warehouse Department.
- Implementing preventive and/or detective controls to reduce the risk of campuses stockpiling equipment.
- Periodic "refresher" training sessions for campus and Warehouse personnel.

2. In previous internal audits, there have been situations where fixed assets were found at campuses that were not accounted for in the District's inventory. These turned out to be donations from booster clubs.

   We recommend the Director of Warehouse Services reach out to Campus Accounting to coordinate a "refresher" training for campus personnel as it relates to accounting for donations from outside agencies/organizations, such as the booster clubs.

3. Fixed asset data was converted from AssetTrak Pro to Teams Fixed Assets Module in July 2014.

   Based on our understanding of the fixed asset data conversion, reconciliations (i.e. record counts and tag number comparisons between the two systems) were performed, however, supporting documentation was not kept. In the future, we recommend the process owners (i.e. Warehouse Services for controlled/fixed assets and Financial Services for capital assets) be involved in fixed asset data conversion projects from the planning phase to the completion phase (reconciliation) of the project so they can be informed about the completeness and accuracy of the data converted. Furthermore, any reconciliation should be properly documented.