

**FOLLOW-UP OF
COMPUTER EQUIPMENT TRACKING
CONTROLS AND PROCEDURES
REPORT NO. 07-02-115F**



**City of Albuquerque
Office of Internal Audit and Investigations**



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Follow-Up: Computer Equipment Tracking
Controls and Procedures
07-02-115F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a follow-up of Audit No. 02-115, Computer Equipment Tracking Controls and Procedures, issued September 28, 2005. The purpose of our follow-up is to report on the progress made by management in addressing our findings and recommendations.

SCOPE, OBJECTIVES, AND METHODOLOGY

Our follow-up procedures consist of inquiries of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations. The audit was conducted in accordance with Government Auditing Standards.

The scope of the follow-up did not include an examination of all the functions and activities related to computer equipment tracking controls and procedures. We limited our scope to actions taken to address our audit recommendations from the period of September 28, 2005 to September 30, 2007.

RECOMMENDATION NO. 1:

The audit determined that the City departments and divisions tested were not performing annual physical inventories of their computer equipment fixed assets, as required by state statute. The departments and divisions which maintained their own computer equipment fixed asset records were

not reconciling their actual inventories to Department of Finance and Administrative Services (DFAS) records. OIAI compared the DFAS computer equipment records to the departments' inventory records and noted discrepancies.

DFAS capital asset accounting records relating to computer equipment may not have been accurate, in part because they had not been updated for items sent to the City's surplus/salvage operation. Departments may not have been complying with the requirement to notify DFAS when computer equipment was sent to surplus/salvage. Overall, there were not adequate safeguards to prevent the theft of computer equipment.

The audit recommended that the Chief Administrative Officer (CAO):

- Ensure that City departments/divisions reconcile actual computer equipment inventories with DFAS capital asset accounting records.
- Ensure that City departments/divisions utilize the computer equipment listings that are available from DFAS, as the source inventory control record for controlling and tracking their computer equipment inventory.
- Require departments to comply with state statute by performing an annual physical inventory of moveable equipment and reconcile their inventory to DFAS capital asset accounting records.
- Ensure that departmental fixed asset liaisons notify DFAS when computer equipment is sent to surplus/salvage, or if differences exist between DFAS capital asset records and the computer equipment actually on hand in each department.

The CAO responded that:

- Departments should be responsible for reconciling their inventory of computer equipment to the DFAS capital asset accounting records, and as the City moves into full compliance with GASB 34, there would be an increased focus on fixed asset inventories.
- DFAS initiated and completed a reconciliation of actual computer equipment inventories with DFAS capital accounting records for Fiscal Year (FY) 2005.
- Additional or changed procedures are being considered to improve accounting for computer equipment. The Chief Financial Officer (CFO) and DFAS would work together to develop a capitalization policy for computer equipment that balances the need for accurate inventory records against the incremental cost of excessively detailed recordkeeping.

The audit recommended that DFAS ensure that its capital asset accounting records relating to computer equipment are accurate. The audit also recommended that DFAS regularly communicate

information about capital asset tracking and recordkeeping requirements to the departments/divisions through training, such as in the Financial Users Group (FUG) meetings.

DFAS responded they would ensure that the City's capital records are accurate and make capital assets tracking and recording a FUG meeting agenda item in the coming year.

ACTION TAKEN

The audit recommendations have been partially implemented. Although corrective actions are in progress by DFAS and the CAO, they are not yet complete. The following is a summary of the partial corrective actions that the CAO and DFAS have in progress:

- DFAS worked with City departments to ensure that annual physical fixed asset inventories were conducted for FY 2007. The DFAS Accounting Division (Accounting) is in the process of completing the FY 2007 physical inventory reconciliation and coordinating with departments to ensure that computer equipment inventory records are reconciled to the annual year-end physical fixed asset inventory records.
- The CFO is in the process of reviewing and rewriting Administrative Instruction No. 6-4, Capitalization of Fixed Assets; and
- The CFO and DFAS are evaluating whether additional policy or clarification should be provided to departments to safeguard and track computer equipment.

The CFO informed OIAI that she had considered two options to achieve better inventory control of computer equipment: add an inventory control component to a current contract with a computer vendor or create a new position within either the DFAS Information Systems Division (ISD) or DFAS Accounting.

Neither of these options has been implemented. The CFO expects to finalize a policy by the end of the calendar year.

DFAS informed OIAI the City will not be implementing the fixed asset inventory tracking application module in the first phase of Enterprise Resource Planning (ERP) implementation. ERP will be the City's new financial system. The Accounting staff have been meeting with the ERP team and consultants to ensure that the purchasing module will allow for the proper capturing and tracking of capitalized fixed assets.

RECOMMENDATION

DFAS and the CAO should develop an action plan and timetable to fully address the audit recommendations made in the audit report.

DFAS should ensure that its capital asset accounting records are updated in the fiscal year that additions and retirements occur.

RESPONSE FROM CAO

“The CAO concurs with the recommendation and submits the following action plan and timetable.

“December 31, 2007

- *DFAS will review current policies and Administrative Instruction governing capitalization for computer equipment.*
- *DFAS will review Administrative Instruction No. 6-4, Capitalization of Fixed Assets*

“January 15, 2008

- *DFAS will make recommendation of proposed changes to policies, procedures and administrative instruction as necessary or appropriate to CFO.*

“January 31, 2008

- *CFO will finalize proposed changes to policies, procedures and administrative instruction as necessary or appropriate.*
- *CFO will revisit and consider options to achieve better inventory control of computer equipment.”*

RESPONSE FROM DFAS

“We will review current practices and benchmark other municipalities and businesses. We will establish a computer inventory policy and procedures to safeguard City computer assets by January 31, 2008.”

RECOMMENDATION NO. 2:

Administrative Instruction No. 6-2 requires that transactions involving the transfer or sale of surplus, obsolete or unclaimed property will be processed utilizing a Surplus/Obsolete Property Form. The procedure also requires the City ID tag number assigned to the asset be included to enable DFAS Accounting to identify and record the transaction.

The audit determined that City departments were not consistently following City policy when completing the Surplus/Obsolete Property Forms. City departments were not identifying all surplus computer equipment with City ID tag numbers. As a result, DFAS capital asset accounting records were inaccurate, in part, because they had not been updated for surplus/salvage items. Also, the City departments and divisions tested were not performing annual physical inventories of their computer equipment fixed assets.

The audit recommended that the CAO ensure departments follow City policy when performing computer equipment transactions.

The CAO responded that:

- Many City policies related to computer equipment transactions were unduly cumbersome and probably put in place when the City relied less on technology.
- The CFO and DFAS will continue to work on a project to amend the relevant ordinances to clarify proper procedures for the disposition of surplus and obsolete computer equipment and other transactions involving computer equipment.

The audit recommended that DFAS return improperly completed Surplus/Obsolete Property Forms to the originating department.

DFAS responded that it was not practical for the warehouse surplus/salvage staff to verify the original purchase price of salvaged items to determine whether those items should have property asset tags. The staff must rely on the departments to complete the form accurately. To reject surplus items on the basis of incomplete forms is not necessarily a solution.

ACTION TAKEN

The audit recommendations have been partially implemented. Although corrective actions are in progress by DFAS and the CAO, these actions are not yet complete. The following is a summary of the partial corrective actions that the DFAS and CAO have in process:

- DFAS Accounting is reviewing the equipment tagging and disposal procedures to ensure more accurate tracking of disposed computer equipment and other capitalized items.
- The DFAS Purchasing Division warehouse is finalizing a request for proposal (RFP) for auctioneer services to better manage City surplus and salvage items. The contractor will provide a custom website in which departments will be able to identify surplus property, and post those items to the website.

RECOMMENDATION

DFAS and the CAO should develop an action plan and timetable to fully address the audit recommendations made in the audit report.

RESPONSE FROM CAO

“The CAO concurs with the recommendation and submits the following action plan and timetable.

“December 31, 2007

- *DFAS will review current procedures, policies, administrative instruction and ordinances governing surplus/obsolete property forms and City ID tags.*
- *DFAS will review Purpose and Procedures; Administrative Instruction No. 6-2 Control of Fixed Assets and Disposition of Surplus Property and Salvage.*

“January 15, 2008

- *DFAS will incorporate Electronic Process and On-line auction procedures into Administrative Instruction No. 6-2 and make recommendation of proposed changes to other policies, procedures and ordinances as necessary or appropriate to CFO.*

“January 31, 2008

- *CFO will finalize proposed changes to policies, procedures and administrative instruction and ordinances as necessary or appropriate.*
- *CFO/DFAS will revisit and consider options that have been presented to achieve better inventory control of computer equipment*

- “March 31, 2008***
- ***CFO will finalize proposed changes in inventory control of computer equipment as necessary or appropriate.”***

RESPONSE FROM DFAS

“DFAS concurs with this finding. Together DFAS Purchasing Division and Accounting Division will provide training to appropriate User Groups regarding City policy when performing computer equipment transaction. Training will be provided prior to the start of the fiscal year 2008 annual physical inventory.”

RECOMMENDATION NO. 3:

DFAS Accounting issued instructions to City departments regarding the necessity to identify all fixed assets, which included computer equipment, by use of the City's ID tags. The instructions require the property liaison to affix the barcode tag to the asset.

OIAI physically examined five departments' computer equipment for City ID tags and identified computer equipment in three of the departments which did not have the required City ID tags. There was not sufficient management oversight in these departments to ensure identification of equipment as required by DFAS. The computer equipment not identified was more susceptible to misappropriation.

The audit recommended that City departments ensure that all computer equipment is identified with City ID tags as required by DFAS instructions.

The CAO responded that City equipment should have proper identifying tags attached at the time of acquisition. However, the current process is often divided between two or more divisions or departments, making oversight difficult and ineffective. The CFO and DFAS Director are considering alternatives that might be more effective in ensuring that capitalized City assets are properly identified.

ACTION TAKEN

The audit recommendations have been partially implemented. Although corrective actions are in progress by DFAS and the CAO, these actions are not yet complete. The following is a summary of the partial corrective actions that the CAO and DFAS have in progress:

- The CFO stated that at least one vendor may be willing to put City ID tags on computer equipment prior to delivery.
- DFAS Accounting is considering providing mandatory fixed asset training in conjunction with the year-end annual physical fixed asset inventory to all City fiscal managers and fixed asset liaisons.
- DFAS Accounting is evaluating whether Accounting staff or warehouse personnel should be responsible for tagging capital assets.

The CFO also stated that the CAO meets with all department directors weekly and uses that time to remind them of issues such as this.

RECOMMENDATION

DFAS and the CAO should develop an action plan and timetable to fully address the audit recommendations made in the audit report.

RESPONSE FROM CAO

“The CAO concurs with the recommendation and submits the following action plan and timetable.

- *CFO will utilize weekly department director meetings to remind, reinforce and disseminate changes to city ordinances, administrative instructions, policies and procedures in correlation with the recommendations.*

“December 31, 2007

- *DFAS will review vendor opportunities, current resources and procedures for tagging capital assets to CFO.*

“January 15, 2008

- *DFAS will make recommendation of proposed changes to procedures, vendor opportunities or staffing as necessary or appropriate to CFO.”*

RESPONSE FROM DFAS

“The Accounting and Purchasing Division through appropriate User Groups will work with City Departments to ensure that computer equipment which meets the City’s capitalization threshold is identified with City tags. The Accounting Division will provide tags to the Departments

for all new capitalized assets and the Department's liaisons will be required to certify that they have tagged the equipment. The Accounting Division will perform random checks to verify that Departments are properly performing this procedure."

RECOMMENDATION NO. 4:

The audit determined that the Aviation Department (Aviation) did not have adequate separation of duties with respect to the physical control and recordkeeping of computer equipment. A single employee at Aviation was responsible for determining when computer equipment should be replaced, installing new equipment, and keeping the records. This individual also took physical possession of computer equipment when it was taken out of service. This was not an adequate separation of duties. The employee responsible for the physical control of assets should not also be responsible for recordkeeping.

The audit recommended that Aviation ensure there was adequate separation of duties between the recordkeeping, physical control and replacement of computer equipment.

Aviation responded that it changed its procedures for acquiring, replacing and retiring computer equipment. The procedural changes provided adequate separation of duties between purchases, recordkeeping and physical control of the assets.

ACTION TAKEN

The audit recommendation has been fully implemented. Aviation has implemented new procedures to ensure adequate separation of duties for recording, controlling and replacing computer equipment. An Aviation technology employee determines when a computer should be replaced. The Aviation warehouse receives new computer equipment. An Aviation administration employee places a City identification tag on the computer and maintains the related documentation. An Aviation information technology employee installs the new equipment. The Aviation warehouse takes physical possession of computer equipment when it is taken out of service.

CONCLUSION

One of the four recommendations noted in the initial audit report has been fully implemented. Three recommendations were partially implemented. As noted in our follow-up recommendations, City departments need to further strengthen their policies and procedures relating to computer equipment tracking controls.

We appreciate the assistance and cooperation of City personnel during the audit.

Principal Auditor

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