

MANAGEMENT AUDIT REPORT

OF

**COMPUTER EQUIPMENT TRACKING CONTROLS AND
PROCEDURES**

CITYWIDE

REPORT NO. 02-115



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



City of Albuquerque
Office of Internal Audit and Investigations
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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: COMPUTER EQUIPMENT TRACKING CONTROLS AND PROCEDURES
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FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a Citywide Management Audit of Computer Equipment Tracking Controls and Procedures. This audit was on the audit plan for FY 2002.

The required controls and procedures relating to City-owned computer equipment are specified in the following Administrative Instructions:

- No. 6-2 - Control of Fixed Assets and Disposition of Surplus Property
- No. 6-3 - Establishment of Property Accounting Liaisons and Property Accounting Procedures
- No. 6-4 - Capitalization of Fixed Assets
- No. 6-5 - Use of City Property

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Do departments comply with the City’s controls and procedures for the tracking and recording of computer equipment?
- Is computer equipment, listed in the City’s Capital Asset Accounting records, physically present in the department that it has been assigned to?
- Is computer equipment, physically present in the department, properly recorded in the City’s Capital Asset Accounting records?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to computer equipment tracking controls and procedures. Our audit test work was limited to a review of computer equipment, listed in the City’s Capital Asset Accounting records, for selected departments and divisions. The tracking controls and procedures were tested for selected departments and divisions.

Our audit procedures were performed on the following departments and divisions. The records were obtained from DFAS Capital Asset Accounting records, as of the dates indicated and total the following amounts:

<u>Department/Division</u>	<u>Date of Records</u>	<u>Amount</u>
APD	March 18, 2004	\$10,997,428
DFAS-ISD	August 7, 2003	8,576,754
Cultural Services	July 9, 2003	2,511,971
Planning	June 19, 2003	1,898,563
Aviation	February 24, 2003	1,712,981
AFD	February 27, 2003	1,378,462
Solid Waste	April 7, 2003	651,364
Legal	February 7, 2003	356,577
DFAS – Accounting	July 8, 2003	<u>261,708</u>
Total		<u>\$28,345,808</u>

This report and its conclusions are based on information taken from a sample of transactions and do not purport to represent an examination of all related transactions and activities. The audit report is based on our examination of computer equipment tracking controls and procedures through the completion of fieldwork and does not reflect events or accounting entries after that date. Our last day of fieldwork was completed April 5, 2004.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, requiring an external quality review.

METHODOLOGY

We judgmentally selected an audit sample of computer equipment, out of the populations listed in the City's Capital Asset Accounting records, as of the dates noted above. We tested if the computer equipment listed in the City's Capital Asset Accounting records was physically present in selected department and divisions. We tested departmental compliance with the City's controls and procedures for the tracking and recording of computer equipment.

We examined recent purchases of computer equipment, on a sample basis, to determine if it was physically present in departments and divisions; and also to determine if the equipment has been properly recorded in the City's Capital Asset Accounting records. We interviewed key personnel, relating to the computer equipment tracking controls and procedures in their department. This audit, and its conclusions, is based on information provided through interviews, tests and reviews of current procedures.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. THE CAO SHOULD ENSURE THAT CITY DEPARTMENTS COMPUTER EQUIPMENT INVENTORIES AGREE WITH THE DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES CAPITAL ASSET ACCOUNTING RECORDS.

Administrative Instruction No. 6-4 (Revised) states, "Accounting standards require Governments to maintain detailed records for each fixed asset by classification . . . Fixed assets are defined as assets that have a useful life of greater than two years after the date of acquisition . . . It is the policy of the City to charge all disbursements in amounts of more than \$1,000 per item for furniture and equipment to the capital outlay expenditure accounts . . .

These items are assigned a city tag number(s) by Property Accounting with identifying numbers and are capitalized by Accounting as fixed assets.”

As of fieldwork, State Statue 12-6-10 required governmental units to perform “. . .at the end of each fiscal year . . . a physical inventory of movable chattels and equipment costing more than one thousand dollars . . .” The state statute required that “The inventory shall list the chattels and equipment and the date and cost of acquisition.” Additionally, the statute required that “. . .the inventory shall be certified by the governing authority as to correctness. Each agency shall maintain one copy in its files.”

Administrative Instruction No. 6-3, Establishment of Property Accounting Liaisons and Property Accounting Procedures, states “The responsibility of the Property Accounting Liaison is to see . . . that periodic property inventories are carried out.”

The Department of Finance and Administrative Services (DFAS) maintains capital asset accounting records (records) that list computer equipment items for each City department. Some departments also maintain separate listings of their computer equipment.

We obtained copies of the DFAS records for the following departments and/or divisions:

- Albuquerque Police Department
- Information Systems Division (ISD) of DFAS
- Cultural Services Department
- Planning Department
- Aviation Department
- Albuquerque Fire Department
- Solid Waste Management Department
- Legal Department
- Accounting Division of DFAS

We also obtained copies of computer equipment listings maintained by the departments and divisions. We compared the DFAS records to the departments' inventory records. The following discrepancies were noted:

Albuquerque Police Department

The Albuquerque Police Department (APD) maintains its own listing of computer equipment. We compared this listing to DFAS records. There were 2,416 items of computer equipment listed valued at \$10,997,428 on DFAS records. Only 2,076 items were listed on APD's records. APD can not account for the 340 items. The value of these 340 items could not be determined by OIAI because the APD records did not consistently list the cost of computer items.

According to APD personnel, when a new police patrol car is put into service, the Fleet Management Division installs a laptop computer into the vehicle; however, APD does not make an entry into its master listing of computer equipment.

ISD

ISD and OIAI personnel performed a comparison between the DFAS Property Accounting records and its actual inventory of computer equipment. This comparison determined that approximately 400 computer equipment items were no longer in ISD's possession. ISD personnel were not able to determine the location of the missing items, whose original purchase cost was \$8.4 million. To verify physical existence, we selected a sample of 47 computer equipment items valued at \$3.2 million, from recent purchases and the DFAS Property Accounting Section records. ISD personnel were not able to locate two of the 47 items. The original purchase cost of these two items was \$48,940.

Cultural Services Department

The Cultural Services Department (CSD) maintains its own listing of computer equipment. CSD's listing of computer equipment does not record the individual cost of each computer item. The auditors compared this departmental listing to the DFAS records. There were 159 items of computer equipment listed on the DFAS records, valued at \$725,720, that were not included on CSD's records. CSD staff does not know the location of these missing items. The auditors selected 64 computer equipment items from the department's records to verify their existence. CSD staff were able to locate all but one of the items, which was a laptop computer purchased in 2001 for \$3,600.

Planning Department

The Planning Department maintains its own listing of computer equipment. The Planning Department's listing of computer equipment does not record the individual cost of each computer item. The DFAS records listed 21 pieces of computer equipment purchased for \$51,000 that were no longer in the possession of the Planning Department. The department informed us that these missing items had been sent to the City's salvage/surplus operation. The department did not complete the necessary documentation to notify the DFAS Capital Asset Accounting Section to delete the assets.

Aviation Department

The Aviation Department maintains its own listing of computer equipment. The Aviation Department's listing of computer equipment does not record the individual cost of each computer item. We selected a sample of 50 computer equipment items for physical verification from the Aviation Department's listing. The Aviation staff were able to locate all but three items that the auditors selected for physical examination. These items consisted of a laptop computer and two personal computers. The Aviation staff could not explain why these items were missing. The laptop was purchased in 2001 for \$3,627. One of the personal computers was purchased in 2000 for \$1,898. OIAI was not able to determine the cost or purchase date of the second personal computer.

Albuquerque Fire Department

Albuquerque Fire Department (AFD) maintains its own listing of computer equipment. We compared this departmental listing with DFAS records. DFAS records indicated that AFD had an inventory of computers and related equipment, with an original purchase price of \$1.4 million. However, AFD records reflected only \$48,000 of computer equipment. AFD personnel could not provide an explanation for the difference between DFAS's and their records. They indicated that some computer equipment items may have been disassembled for parts to use in other computers, and other items may have been sent to the City's surplus/salvage operation.

In 2001, AFD purchased 13 laptop computers for \$19,000. We attempted to verify the existence of these computers. AFD did not respond to this request.

Solid Waste Management Department

The Solid Waste Management Department (SWMD) maintains its own listing of computer equipment. OIAI compared this departmental listing to the DFAS records. There were 350 items of computer equipment valued at \$651,364 listed on the DFAS records. SWMD staff informed OIAI that 208 of the items on the DFAS listing had been sent to the City's salvage/surplus operation. SWMD was unable to account for another 79 computer items on the DFAS listing, valued at \$168,848.

Additionally, OIAI determined that there were 63 computer equipment items listed on the SWMD records, that were not included on the DFAS records. The value of these 63 items could not be determined by OIAI because the SWMD records did not consistently list the cost of computer items. These 63 items included 45 personal computers, 4 central processing units, and 14 printers. SWMD staff could not explain why these items were not included on DFAS records.

Legal Department

The Legal Department (Legal) maintains its own listing of computer equipment. We compared this listing to DFAS records. There were 71 items of computer equipment listed on DFAS records, valued at \$225,000, that were not included on Legal's records, and not present. Legal can not account for the 71 missing computer items. Legal personnel informed us that 21 of the 71 computers were sent to the City's surplus/salvage operation, but they were not able to provide documentation to verify the transaction.

Accounting Division of DFAS

No exceptions were noted.

The City departments and divisions tested are not performing annual physical inventories of their fixed assets. These departments and divisions with separate fixed asset record keeping are not reconciling their actual inventories to DFAS records. Adequate safeguards to prevent the theft of computer equipment may be weak.

Administrative Instruction No. 6-2 (Revised) states, "When a department determines that a fixed asset is no longer serviceable or is considered excess, a completed Surplus/Obsolete Property Form shall be forwarded to Property Accounting. This form must include the reason for declaring it surplus. If there is no City property number, a serial or model number must be included. After the Property

Accounting Section has noted the property as surplus, it will sign the form and return to the user department who will then coordinate with the Internal Services Section, Purchasing Division to turn-in the item(s). At time of turn-in, the user department must provide the properly signed and completed Surplus/Obsolete Property Form to the Internal Services Section.”

DFAS Capital Asset Accounting Records relating to computer equipment may not be accurate, in part because they have not been updated for items sent to the City’s surplus/salvage operation. Departments may not be complying with the requirements stated above.

RECOMMENDATION

The CAO should ensure that City departments reconcile actual computer equipment inventories with DFAS capital asset accounting records.

The CAO should ensure that City departments/divisions utilize the computer equipment listings that are available from the DFAS Capital Asset Accounting, as the source inventory control record for controlling and tracking the departments’ computer equipment inventory.

The CAO should require departments to comply with NMSA 12-6-10 by performing an annual physical inventory of moveable equipment and reconcile their inventory to DFAS Capital Asset accounting records.

DFAS should ensure that its capital asset accounting records relating to computer equipment are accurate.

The CAO should ensure that departmental fixed asset liaisons notify DFAS when computer equipment is sent to surplus/salvage, and when there are differences between DFAS capital asset records and the computer equipment actually on hand in each department.

DFAS should regularly communicate information about capital asset tracking and record keeping requirements to the departments/divisions through training, such as in the Financial Users Group (FUG) meetings.

EXECUTIVE RESPONSE FROM CAO

“The CAO agrees that the Departments should be responsible for reconciling their inventory of computer equipment to the DFAS Capital

Asset accounting records. As the City moves into full compliance with GASB34, there will be an increased focus on fixed asset inventories.

“As part of the preparations for the close of the FY/05 records, DFAS initiated and completed a reconciliation of actual computer equipment inventories with DFAS capital asset accounting records. All discrepancies will be resolved prior to the close of the books for FY/06.

“Additional or changed procedures are being considered to improve accounting for computer equipment, as well as possible ordinance changes related to the disposition of obsolete or surplus equipment and the City’s capitalization policy with respect to computer equipment. The CFO and DFAS will 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 record keeping.”

EXECUTIVE RESPONSE FROM DFAS

“DFAS concurs. The department will ensure that the City’s capital records are accurate. The department will make capital assets tracking and recording a FUG meeting agenda item in the coming year.”

2. CITY DEPARTMENTS SHOULD ENSURE THAT THEY FOLLOW CITY POLICY WHEN PERFORMING COMPUTER EQUIPMENT TRANSACTIONS.

Administrative Instruction No. 6-2 requires that “All transactions involving the transfer or sale of surplus, obsolete or unclaimed property will be processed utilizing a Surplus/Obsolete Property Form.” The Administrative Instruction further requires that “This form must include the reason for declaring it surplus.” The procedure also requires the inclusion of the City inventory number assigned to the asset. The City inventory number allows DFAS Capital Asset Accounting to identify and record the transfer or disposition of the asset.

We judgmentally selected the following departments and divisions for testing:

- Information Systems Division (ISD) of DFAS
- Cultural Services Department

- Planning Department
- Aviation Department
- Albuquerque Fire Department
- Solid Waste Management Department
- Legal Department

Sample sizes selected depended upon equipment retired over the past several years.

ISD

OIAI tested the Surplus/Obsolete Property Forms relating to 57 pieces of computer equipment that ISD transferred to the City's surplus/salvage operation. Eight of these items had the required City property inventory number listed on the form. The remaining 49 items could not be deleted as they could not be identified by DFAS.

Cultural Services Department

OIAI tested the Surplus/Obsolete Property Forms relating to 65 pieces of computer equipment that the Cultural Services Department transferred to the City's surplus/salvage operation. Fifteen of these items had the required City property inventory number listed on the form. The remaining 50 items could not be deleted as they could not be identified by DFAS.

Planning Department

OIAI tested the Surplus/Obsolete Property Forms relating to 191 pieces of computer equipment that the Planning Department transferred to the City's surplus/salvage operation. One hundred and eighty four of these items do not have the required City property inventory number listed on the form, and could not be deleted as they could not be identified by DFAS

Aviation Department

No exceptions were noted

Albuquerque Fire Department

The auditors reviewed the Surplus/Obsolete Property Forms relating to 222 pieces of computer equipment that the AFD had transferred to the City's surplus/salvage operation. None of these items had the required City property inventory number listed on the form. The 222 pieces of computer equipment could not be deleted as they could not be identified by DFAS.

According to a listing prepared by the Albuquerque Fire Department (AFD) personnel, 14 laptop computers were transferred to the Albuquerque Police Department (APD) in March 2003. However, this computer equipment is still shown on the DFAS Capital Asset Accounting records as part of AFD. AFD did not prepare the required Surplus/Obsolete Property Forms to document the transfer of this equipment. Consequently, DFAS Capital Asset Accounting records are misstated since there is no record of the transfer of this computer equipment to the Albuquerque Police Department.

Solid Waste Management Department

No exceptions were noted

Legal Department

OIAI tested the Surplus/Obsolete Property Forms relating to 57 pieces of computer equipment that the Legal Department transferred to the City's surplus/salvage operation. Thirty six of these items did not have the required City property inventory number listed on the form, and could not be deleted as they could not be identified by DFAS.

RECOMMENDATION

The CAO should ensure that City departments follow City policy when performing computer equipment transactions, such as completing the Surplus/Obsolete Property Forms.

DFAS should reject surplus/property forms that have not been properly completed, the forms should be return to the originating department for correction.

EXECUTIVE RESPONSE FROM CAO

“The CAO agrees that City departments should follow City policies related to computer equipment transactions. However, the CAO notes that many of those policies are unduly cumbersome and were 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, as well as other transactions involving computer equipment.”

EXECUTIVE RESPONSE FROM DFAS

“DFAS concurs. However, it is not practical for the warehouse surplus/salvage staff to verify the original value/purchase price of salvaged items and determine whether those items are indeed ‘assets’ that were originally capitalized and should have property asset tags in accordance with City policy. 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.

“It should also be noted that, more often than not, when an item does not have an inventory number, warehouse staff take the time to add the serial number of the item to the form as a matter of record.”

3. THE CAO SHOULD ENSURE THAT ALL COMPUTER EQUIPMENT IS IDENTIFIED WITH CITY BARCODE IDENTIFICATION (ID) TAGS.

DFAS Property Accounting has issued instructions to City departments regarding the necessity to identify all fixed assets which includes computer equipment by use of the City’s ID tags. These instructions state, “... the Property Liaison should then affix the barcode tag to the asset . . .”

We physically examined computer equipment for City ID tags for the following departments and divisions:

- Cultural Services Department

- Aviation Department
- Albuquerque Fire Department
- Solid Waste Management Department
- Legal Department

Cultural Services Department

No exceptions were noted.

Aviation Department

The Aviation Department does not ensure that computer equipment is identified with the required City barcode id tags. OIAI and Aviation Department personnel located 29 City ID tags issued in 1998 that had not been placed on computer equipment.

Albuquerque Fire Department

No exceptions were noted.

Solid Waste Management Department

Sixty three of 120 pieces of SWMD computer equipment examined did not have the required City ID tags.

Legal Department

Twenty one of 68 pieces of Legal computer equipment examined did not have the required City ID tags.

There is not sufficient management oversight in these departments to ensure that all computer equipment is identified with City ID tags as required by DFAS. The computer equipment that is not identified with City ID tags is more susceptible to misappropriation.

RECOMMENDATION

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

EXECUTIVE RESPONSE FROM CAO

“The CAO agrees that City equipment that is properly capitalized under City policies should have proper identifying tags attached at the time of acquisition. However, the current process is often bifurcated 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. New or revised policies would most likely only be effective prospectively.”

4. THE AVIATION DEPARTMENT SHOULD ENSURE THAT THERE IS ADEQUATE SEPARATION OF DUTIES BETWEEN THE RECORD-KEEPING FOR COMPUTER EQUIPMENT AND THE PHYSICAL CONTROL AND THE REPLACEMENT OF THESE ASSETS.

The employee who is responsible for the physical control of assets should not be the same employee responsible for the record keeping of those assets. The Aviation Department does not have adequate separation of duties with respect to the physical control of computer equipment and the record keeping for these assets. A single employee at the Aviation Department is responsible for determining when computer equipment should be replaced, installing new equipment, and keeping the records relating to this equipment. This individual takes physical possession of computer equipment at the Aviation Department when it is taken out of service. This is not an adequate separation of duties.

When the same employee who is responsible for the physical control of assets is also responsible for the record keeping of these assets, assets can be misappropriated and the problem is difficult to detect.

RECOMMENDATION

The Aviation Department should ensure that there is adequate separation of duties between the record-keeping for computer equipment and the physical control and replacement of these assets.

EXECUTIVE RESPONSE FROM AVIATION DEPARTMENT

“The Aviation Department concurs with the recommendation. The Department has changed its procedures related to the acquisition, replacement and retirement of computer equipment. The procedural changes listed below provide adequate separation of duties between purchases, record-keeping and physical control of the assets:

- *“The IT person analyzes new and replacement computer needs, and submits requests to the Department buyer.*
- *“After the purchases are made, the Department buyer provides the required supporting documentation to the employee in charge of tracking fixed assets.*
- *“The employee responsible for tracking fixed assets then logs the equipment into the database. Additionally, all assets costing over \$1,000 are tagged.*
- *“The IT employee identifies computer equipment that is eligible for salvage, and upon retirement of the equipment, places the items in storage pending completion of the salvaging process.*
- *“The employee responsible for fixed assets coordinates with the warehouse for the transportation and paper work for the salvage items.*
- *“Subsequent to the transfer of salvage items, the fixed asset employee records the relevant information into the fixed asset database.”*

CONCLUSION

City departments/divisions should improve their computer equipment tracking controls and procedures and ensure that their actual computer equipment inventories agree with DFAS capital asset accounting records. Departments should utilize the computer equipment listings that are available from the DFAS Capital Asset Accounting as the source inventory control record. Departments should perform an annual inventory of computer equipment and provide DFAS all required information when transferring computer equipment to the City's surplus/salvage operation. All computer equipment should be identified with City ID tags.

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