Frederick County Government
Asset Inventories, Accountability, and Surplus Performance Audit

January 19, 2022

Report #21-08

Table of Contents

I. Executive Summary

Background

SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H) was engaged by Frederick County Government (FCG, the County) Interagency Internal Audit Authority (IIAA) to conduct a performance audit (audit) of the management of Frederick County Government in relation to the inventory, accountability, and surplus of County assets. The audit was performed in two phases: a planning and risk assessment phase and a testing phase.

Fixed Asset Definition
Per the County's Fixed Asset Information Sheet, the County defines a fixed asset (also referred to as a capital asset or asset in this report) as any asset that meets the following criteria:
1. Used in operations
2. Has a useful life of greater than one year
3. Has a minimum cost value (see below for additional information)

Examples of fixed assets include, but are not limited to the following:
1. Land
2. Land improvements
3. Easements
4. Buildings and improvements
5. Vehicles
6. Machinery
7. Equipment
8. Software
9. Infrastructure (roads, bridges, underground pipes, etc.)

Multiple divisions and departments (collectively referred to as divisions in this report) across the County maintain fixed assets purchased with County taxpayer, state, and federal funds. Per the fiscal year 2020 comprehensive annual financial report (CAFR), total County capital assets were over $206 million. The County is accountable for the inventory and safekeeping of those assets as well as proper disposal or surplus in accordance with the County's Purchasing Rules and Regulations (or Rules and Regulations).[1]

Fixed Asset Cost Information
The value that qualifies a purchase as a fixed asset is dependent upon the asset type.
1. Infrastructure assets must have a current replacement value of $100,000 or greater at the date of acquisition
2. Software must have a cost value of $100,000 or greater
3. All other assets must have a cost value of $10,000 or greater to qualify for capitalization

---

[1] https://frederickcountymd.gov/DocumentCenter/View/20295/Purchasing-Rules-and-Regs-effective-01-01-10?bidId=

<u>Costs Included in the Fixed Asset Value</u>
Non-Software
The County has defined the following criteria as included in the value of a fixed asset:
1. Physical item (purchase price or donation value)
2. Freight charges
3. Additional preparation/installation charges
4. Accessory items
5. Any subsequent work that increases the useful life of the assets and/or improves the effectiveness or efficiency of the asset

Software
The County has defined the following costs as included in the value of software fixed assets, including both purchased software packages, as well as internally developed software:
1. Application development stages (including design, configuration, interfaces, coding, installation of hardware and related testing, which includes the parallel processing phase)
2. Data conversion costs (if necessary to make the software operational)
3. Internal and external (consultant) costs
4. Any costs to expand the functionality or efficiency of the software

Fixed Asset Purchasing, Receiving, and Tagging
Fixed assets are typically purchased by County divisions through the County's requisition and purchase order process or Purchase Card process. Upon receipt of a fixed asset, the receiving division is responsible for submitting a Fixed Asset Addition Form to the Finance Division (Finance). An asset management e-mail address has been created and is managed by Finance for all fixed asset related inquiries and communication. The information to be included in the Fixed Asset Addition Form includes the following:
1. Asset description
2. Asset location
3. Responsible division
4. In-service date
5. Model and/or serial number
6. Total costs
7. Estimated useful life
8. Invoice number

Upon receipt of a Fixed Asset Addition Form, Finance assigns a fixed asset tag number from a pre-populated asset sticker, inputs the asset information into Infor, the County's Enterprise Resource Planning (ERP) system, and sends the physical fixed asset tag via inter-office mail to the responsible division to be affixed to the asset. In addition, Finance generates and reviews on a monthly basis, an Infor query of purchases made from capital accounts and an Infor query of purchases over $10,000 in an attempt to identify any purchases that should be capitalized, but may not have been communicated by the purchasing division.

Annual Fixed Asset Inventory Review
Annually, Finance requires each division to verify the accuracy of all fixed assets assigned to their division. Finance generates and e-mails a Fixed Asset Report from Infor and e-mails to each division that is responsible for at least one fixed asset, along with a blank Fixed Asset Verification Signature Form to be completed.

Each division assigns a representative to verify the existence of each fixed asset contained within the report. If the report is not accurate, the assigned representative completes the following forms to address differences/variances:
1. Fixed Asset Retirement Form for any assets that should be removed from the inventory listing (i.e., the asset is missing, sold, traded-in, disposed of, or permanently broken).
2. Fixed Asset Addition Form for any in-service assets that do not appear on the inventory.
3. Fixed Asset Transfer Form for any assets that were transferred to another division.

If other information (i.e., serial numbers, location, etc.) is missing or incorrect, necessary changes should also be indicated on the report. Division management then reviews/approves the inventory results and sends the completed inventory report, along with the above forms if applicable, to Finance via the asset management e-mail. Finance reviews the completed reports and updates asset records in Infor, if needed.

Fixed Asset Disposals, Surpluses, and Transfers
Per the Rules and Regulations, when a division determines that an asset is beyond its useful life, or of no further use to that division, management may transfer the asset to another division if a need for the asset has been established. If a need is established by another division, the transferring division completes a Property Transfer Form, maintains a copy for division records, and submits a copy of the Property Transfer Form to both Purchasing and Finance to update the asset records within Infor.

If no division demonstrates a need for the asset, division management should originate a request to the Purchasing Director for approval prior to loaning, selling, destroying, or otherwise removing the asset from County custody. The Purchasing Director negotiates for the disposal of all assets, first by circulating a listing of available items among all County divisions to allow the divisions to make requests for any items for which they may have a need. If no County divisions demonstrate a need, the Purchasing Director coordinates the attempt to sell the item via competitive auction.[2] If the asset successfully sells via auction, the responsible division delivers the asset to the buyer and completes and submits an Asset Retirement Form to Finance for purposes of retiring the asset within Infor and communicating any proceeds that are received by the County from the sale. After a successful sale, Procurement works with the responsible division to determine which general ledger account the proceeds should be posted to. If the asset does not sell via competitive auction, the responsible division should obtain approval from the Purchasing Director prior to disposing of the asset in any other manner.

Cartegraph Operations Management System
In August 2020, the County purchased Cartegraph's Operations Management System (OMS). The County's vision for Cartegraph is to:
1. Provide accurate fiscal forecasting beyond the Capital Improvement Program (CIP), informed by quantifiable asset data on a unified platform
2. Provide divisions the ability to proactively manage workflow, schedule preventive maintenance, and strategically prioritize asset rehabilitation/replacement

Finance and the Budget Office's objectives of the OMS is to consolidate data of multiple asset types from multiple divisions with multiple funding sources for a cohesive understanding of the asset value, asset life, and risk analysis. This information will be used to support decisions of infrastructure needs and recommendations for repair or replacement based on quantifiable resources. This information will also be used to illustrate competing resources to decision makers.

---

[2] The County currently works with Govbids.com to sell County owned assets via competitive auction.

The County identified three divisions for the initial implementation of the Cartegraph OMS; Water and Sewer Utility (DUSWM), Public Works (DPW), and Parks and Recreation. The County intends to include additional divisions and stakeholders in future implementation phases, as applicable.

IIT Assets and Inventory

The County's Interagency Information Technologies Division (IIT) maintains an inventory of IT related equipment and goods it manages that do not meet the fixed asset equipment specifications or have a unit cost greater than the County's defined threshold. These assets are deemed necessary to be inventoried because they can be easily converted to personal use, are highly portable and susceptible to theft or resale, or are required to be tracked by division management. Examples of these types of goods are desktops, laptops, tablets, etc.

Annually, IIT requires each division to verify the IIT managed assets on file within Microsoft Endpoint Manager are accurately reflected. Microsoft Endpoint Manager is an application used by IIT to manage and monitor endpoint devices that include laptops and desktops across the County. Annually in September, IIT generates an IT asset report and IIT Device Verification Form and e-mails all divisions with IIT managed devices. Each division and agency assigns an individual to verify IT assets and make adjustments within the provided report for any IT assets not listed. Division management then reviews/approves the inventory results and e-mails the completed inventory report, along with the IIT Device Verification Form back to IIT to update their records within Microsoft Endpoint Manager.

Objectives

The following objectives for the testing phase were developed based upon the understanding gained during the planning phase and approved by the IIAA.
  A. Assess whether fixed assets are identified and recorded within the appropriate system of record.
  B. Ensure fixed assets are assigned means of identification and tracked.
  C. Verify the annual fixed asset inventory review is completed, reviewed, and updated timely.
  D. Assess how fixed assets are physically safeguarded and secured.
  E. Ensure fixed asset disposals and surplus procedures adhere to the Purchasing Rules and Regulations Policy.

Scope

The audit was initiated in February 2021 and completed in October 2021. The audit focused on the inventory, accountability, and surplus procedures for County owned fixed assets, IIT assets, and other sensitive assets. Within the category of fixed assets, the scope did not include land, buildings, easements, improvements, or infrastructure assets. The period in scope included the current inventory procedures from July 1, 2019 through May 1, 2021.

Sensitive assets were also included in the scope of this audit. While it was noted the County does not have any formal or documented definition of what qualifies as a sensitive asset, for the purpose of this audit, sensitive assets included assets which are highly mobile, valuable, and/or easily saleable on the open market.

Audit Testing Selection

An analysis of fixed assets recorded within the Infor system was performed to select a sample of divisions for further review. The sample selection was based on the quantity of fixed assets and the dollar value of

those assets as compared to other divisions. Below is the sample of six County divisions that were selected as a focus for the planning and testing phase of the audit.

Divisions:
1. Fleet Services
2. Parks and Recreation
3. Solid Waste and Recycling
4. Division of Fire and Rescue Services (DFRS)
5. Interagency Information Technologies
6. Frederick County Sheriff's Office (FCSO)

Methodology and Approach

SC&H conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In order to obtain the necessary documentation to appropriately perform and conclude upon the objectives of this audit, SC&H conducted the following procedures.

Creation of Audit Program
Based on the understanding of the processes, risks, and related controls, as well as data analytics performed during the planning and risk assessment phase, SC&H developed an audit program to achieve the objectives. This program included detailed steps to address each objective with the goal of verifying the existence of internal controls and identifying opportunities for improvement.

Execution of Audit Program
SC&H executed the audit plan by completing the following tasks:

Objective Area	System Reviewed	Test Description
Fixed Asset Identification	Infor	Selected a sample of 30 purchases from capital accounts with a cost of over $10,000 to assess: 1. Whether the purchase met County criteria for capitalization. 2. Whether the purchasing division completed and submitted a Fixed Asset Addition Form to Finance timely. 3. The timeliness of asset record creation by Finance based on the in-service date and fixed asset record creation date.
Fixed Asset Useful Life	Infor	Performed data analytics to determine: 1. Whether all fixed assets have a defined useful life. 2. The reasonableness of the defined useful life based on actual useful life.

6

Objective Area	System Reviewed	Test Description
Fixed Asset Receiving and Tagging	Infor	Selected a sample of 60 assets across the six divisions reviewed during the planning phase to physically observe the fixed asset to verify: 1. Existence of the asset 2. Whether the County issued fixed asset tag is affixed to the asset.
Annual Inventory Procedures	Infor	Performed data analytics to identify all divisions that maintain active fixed assets to verify: 1. Whether all divisions completed the annual fixed asset inventory review for fiscal year FY19 and FY20 timely. 2. Whether appropriate division personnel completed and approved the annual fixed asset inventory review via signature on the Fixed Asset Inventory Verification Signature Form.
	Infor	For the six divisions reviewed during the planning phase, identified all fixed asset additions, transfers, and retirements submitted to Finance during the previous two annual fixed asset inventory reviews conducted by the County. Selected a sample of 16 additions/transfers/retirements to verify: 1. Whether Finance updated the status or information of the fixed asset within Infor timely. 2. If the fixed asset status was communicated to Finance timely (using relevant dates such as in-service date, retirement date, etc.).
	Microsoft Endpoint Manager	Perform data analytics using a report of all IIT managed devices to identify all divisions that maintain IIT managed devices. Selected a sample of eight County divisions to verify: 1. Whether the division completed the annual IIT Device Inventory review for FY19 and FY20 timely. 2. Whether appropriate division personnel completed and approved the IIT Device/Logon/Access Badge Inventory Verification Signature Form. 3. If modifications were required to IIT records, that those modifications were communicated to IIT.
Asset Safeguarding	N/A	For the in-scope divisions, performed a walkthrough to observe areas where fixed/sensitive assets are received, stored, and secured to identify any instances where assets did not appear to be adequately safeguarded.
Disposals and Surplus	Microsoft Endpoint Manager	Selected a sample of 41 IIT assets that were disposed within the last two fiscal years to verify: 1. Whether all storage media within the device was wiped/sanitized prior to disposal. 2. Whether the assets were destroyed by e-End (third party vendor). 3. Whether an IIT employee witnessed the destruction of the asset.

Objective Area	System Reviewed	Test Description
		4. Whether a Certificate of Destruction was collected, retained, and reconciled to the asset record.
	Infor	Selected a sample of 31 retired fixed assets across the six divisions reviewed during the planning phase to research, determine, and document the method of disposal to identify any instances in which the County disposal process appeared to be bypassed or not followed.
	Infor	Selected a sample of three months within the last two fiscal years in which fixed assets were sold via GovBids to verify: 1. Whether surplus proceeds were accurately recorded and allocated to the appropriate account by Finance. 2. Whether the fixed asset records were retired by Finance within Infor timely.
	Infor	Selected a sample of fixed assets that were posted for sale on Public Surplus, but did not sell to identify any instances in which the County disposal process appeared to be bypassed or not followed.

Summary of Work

After reviewing the processes and evaluating the current control environment, SC&H concludes that opportunities exist to mitigate risks within the fixed asset function. These opportunities are represented by nine observations, which are outlined below.

Observation Topics
1. Creating and updating County and Division level fixed asset policies and procedures.
2. Creating and updating Division level fixed asset policies and procedures.
3. Formally documenting procedures to escalate and resolve non-compliance with the annual fixed asset inventory process.
4. Communicating fixed asset additions, transfers, and disposals to Finance and Procurement.
5. Development of a consistent methodology of recording multiple assets that are grouped as a single asset in Infor.
6. Applying a fixed asset tag to Division owned fixed assets.
7. Analyzing and assigning useful life of fixed assets.
8. Tracking internal sanitization of sensitive IIT assets.
9. Handling of IIT managed devices upon employee transfers and separation.

The following section provides detailed observations and recommendations to mitigate associated risks.

We appreciate the assistance and cooperation of the management and staff of the Finance, Procurement, DFRS, FSCO, Fleet Services, Solid Waste and Recycling, IIT, and Parks and Recreation divisions who assisted in the performance of this audit. Please contact us if you have any questions or comments regarding any of the information contained in the performance audit report.

SC&H Attest Services, P.C.
Sparks, Maryland
January 19, 2022

II. Detailed Observations and Recommendations

Observation 1

The County's Purchasing Rules and Regulations do not reflect current, comprehensive fixed asset management functions/operations.

Observation Detail

The County's Purchasing Rules and Regulations are maintained by Procurement. These Rules and Regulations include multiple policies and procedures related to purchasing, bidding, surplus, disposal, and property accountability for County owned assets.

Findings

Rules and Regulations Content Findings

The Rules and Regulations were last revised on December 15, 2009 and do not reflect current policies/procedures including, but not limited to:
1. The minimum dollar value of fixed assets by type
2. Current forms utilized for fixed asset processes (e.g., additions, transfers, retirement)
3. Current job titles (e.g., Purchasing Director should be Procurement & Contracting Director)
4. Sensitive assets, including a definition of sensitive assets

The Rules and Regulations include guidance around the following processes:
1. Accountability of fixed assets assigned to County divisions
2. Assigning of fixed asset property numbers
3. Disposal of fixed assets
4. Transfer of fixed assets between County divisions

Operational Findings

While the Rules and Regulations include information regarding disposals, discrepancies were identified within those operations. A review of documentation maintained for 31 fixed asset disposals for compliance with Rules and Regulations identified the following:
1. Five assets: The division did not maintain documentation to support the disposal.
2. Seven assets: The assets were sold through Wolfe's Auction, which is a County approved vendor. However, the division did not coordinate with Procurement to facilitate the sale.
3. One asset: The asset was totaled due to damages from an accident and disposed by the division without communicating the insurance proceeds to Procurement or Finance.
4. Seven assets: The division did not involve Procurement in the fixed asset disposal process.

Risks
1. The lack of comprehensive guidance may result in ineffective, inconsistent, or incomplete procedures for the management of fixed and sensitive assets.
2. A lack of up to date countywide policies and procedures defining the appropriate methods for the operations may result in inconsistent practices and the potential for misappropriation of assets or inaccurate recordkeeping.

Recommendation 1.1

Management should consider creating and communicating a comprehensive policy specific to asset management and sensitive inventory procedures throughout FCG. The policy should be based on best practices and industry standards, with the goal of addressing the management of the complete lifecycle

of assets owned by FCG including acquisitions, tagging, safeguarding, record keeping, use, transfer, disposal/sales, and retirement. The crafting of FCG asset management policy (or policies) should be coordinated through a centralized group that should include representation within FCG Finance, Procurement, IIT, Legal, Risk Management, and other respective division leads. Additionally, FCG should consider assigning the responsibility of policy coordination, dissemination, and application to a person or group to help ensure effective countywide implementation. Periodic review of the policy should occur to ensure that all current asset management procedures are appropriately considered and incorporated.

Management's Action Plan
The County will begin the process of creating a new Asset Management plan by establishing a core group of directly impacted staff who can collaboratively make recommendations as to the steps necessary to develop a new Asset Management Plan and that team will also develop a timeline for the development of a full policy.

Implementation Date
A report from the core group making recommendations for steps that could be taken to develop this policy and providing a timeline would be expected by December 2022. Movement towards acceptance and implementation would be determined at that time.

Recommendation 1.2
FCG should consider implementing a periodic review of the asset management practices at the division level to ensure alignment with the policy, following its adoption. While the County level management policy provides guidance and sets the tone for management of County owned assets, specific procedures for meeting these requirements may vary between divisions. To further assist with operating in an effective control environment, FCG should consider periodically performing physical and electronic spot checks of asset management procedures. Periodic, random reviews may help reinforce the importance of asset management throughout FCG and provide comfort that appropriate procedures have been implemented.

Management's Action Plan
Once an Asset Management Plan is developed and accepted, an aspect of the resulting implementation would include periodic reviews.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Recommendation 1.3
Upon revision of the asset management policy, FCG should provide periodic required training to division management and responsible division representatives regarding its contents and the expectations. The purpose of this training will be to increase the overall awareness of the need to safeguard County fixed assets and maintain complete, accurate, and timely records. This training should highlight the importance of proper safeguarding/storage, recordkeeping, transfer, disposal, and sale activities.

Management's Action Plan
Training on the new Asset Management Plan would be included in the core group's recommendations.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Observation 2

Division level policies or procedures are not currently in place that address the management of County owned fixed assets or sensitive assets.

Observation Detail

Division level policies and procedures offer guidance that complement expectations and requirements provided at the County level (e.g., Rules and Regulations), but are detailed and focused on the individual divisions they relate to, such as the assignment of roles, responsibilities, and tasks; segregation of duties; etc.

Findings

SC&H met with six County divisions to understand the procedures in place around the management of fixed and sensitive assets. Within the six divisions, no documented division level policies or procedures related to the management of fixed or sensitive assets existed.

Risks

A lack of division level policies and procedures related to the management of fixed and sensitive assets may result in inconsistent asset management processes, misappropriation of assets, inadequate physical safeguarding, or inaccurate recordkeeping.

Recommendation 2.1

See Recommendation 1.2

Management's Action Plan

Division level policies would only be established upon creation and acceptance of an Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Recommendation 2.2

See Recommendation 1.3

Management's Action Plan

Periodic training would only be developed and implemented upon creation and acceptance of an Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Observation 3

A process is not in place to escalate and resolve division level non-compliance with the annual fixed asset inventory review process.

Observation Detail

Annually, Finance requires all County divisions that maintain county-owned fixed assets to verify the accuracy of all fixed assets assigned to their division. Each year, Finance generates a Fixed Asset Report from Infor and e-mails the report to each County division that is responsible for at least one county-owned fixed asset. Along with the Fixed Asset Report, Finance also e-mails a blank Fixed Asset Verification Signature Form to be completed and returned. This form contains two sections to be completed by each County division.

1. The first section of the form is intended to determine whether the asset inventory provided by Finance is accurate or requires modifications.
2. The second section is used to capture the signatures of the two independent division personnel who completed and approved the review.

Each division assigns a representative to verify the existence of each fixed asset included within the Fixed Asset Report. If the report is not accurate, the assigned representative completes the following forms to explain why a specific asset is or is not listed on the report, and to provide critical information to Finance in order to update the Infor asset records:

1. Fixed Asset Retirement Form: Reports any assets to be removed from the inventory listing (i.e., sold, traded, disposed).
2. Fixed Asset Addition Form: Reports any in-service assets that do not appear within the inventory.
3. Fixed Asset Transfer Form: Reports any assets that were transferred to another division.

Additionally, if any other information (i.e., serial numbers, location, etc.) is missing or incorrect, the division has the opportunity to document the correct information. After completing the review, division management reviews/approves the inventory results and e-mails the completed inventory report, along with any of the above noted forms (if applicable) to Finance via the asset management e-mail. Finance reviews the completed inventory reports for each division and updates asset records within Infor if necessary.

Findings

While the Fixed Asset Inventory Review Instructions state that Division Heads should assign an employee to conduct the inventory review and assign a supervisor to review the inventory results, there are no formal steps defined within the instructions to address follow-up/resolution steps when a division does not comply with the annual inventory procedures.

A review of 70 fixed asset annual inventory reviews completed in FY19 and FY20 across the 35 divisions that maintain at least one fixed asset identified the following:

1. Three instances: The same individual completed and approved the Fixed Asset Inventory Verification Form.
2. One instance: The Fixed Asset Inventory Verification Signature Form was not signed as completed and/or reviewed by the division.
3. Five instances: The division did not complete the annual inventory.

Risks
1. Inventory is not safeguarded or monitored, resulting in inaccurate inventory records or misappropriation of assets.
2. Assets are not tracked or communicated throughout their lifecycle, resulting in inaccurate inventory records or misappropriation of assets.
3. The lack of periodic asset confirmations from each division may result in untimely identification of misappropriation or inaccurate asset records.
4. Inventory review and approvals performed by the same individual may result in the lack of or untimely identification of misappropriation, leading to inaccurate asset records.

Recommendation 3.1
Management should consider implementing formalized procedures to follow-up, escalate, and resolve non-compliance with divisions for incomplete, inaccurately approved, or delayed annual fixed asset inventory reviews. Follow-up, escalation, and resolution procedures should continue until all annual fixed asset reviews have been completed and submitted to Finance.

Management's Action Plan
Formalized procedures for follow-up, escalation and resolution would be included in a new Asset Management Plan.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Recommendation 3.2
To help ensure updates are completely and accurately captured by Finance and the division, upon Finance receiving and updating division level fixed asset inventory reviews, Finance Management should provide divisions with a confirmation that requested changes were made. If changes were unable to be made (e.g., the criteria requested to be updated by the division is not available in Infor), Finance Management should also inform the division.

Management's Action Plan
This would be considered in a new Asset Management Plan.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Observation 4

Fixed asset information is not consistently communicated and updated in Infor completely, accurately, and timely.

Observation Detail

When a County division purchases, transfers, or disposes of a fixed asset, division management completes and submits a Fixed Asset Addition/Transfer/Retirement Form corresponding with the type of transaction that occurred to Finance using the asset management e-mail address.

Upon receipt of the applicable form, Finance creates, updates, or retires the fixed asset record in Infor. Further, Finance generates and reviews an Infor query of purchases made from capital accounts and an Infor query of purchases over $10,000 on a monthly basis in order to identify any purchases that should be capitalized, but may not have been communicated by the purchasing division.

Findings

A review of 30 fixed asset purchases, 60 active fixed assets, 16 fixed asset adjustments, 31 fixed asset disposals, and three months of all fixed asset surplus sales identified the following:

Timeliness Findings
1. Six fixed asset purchases: The fixed asset record was not communicated and created in Infor timely.
2. One active fixed asset: The fixed asset labeled as 'Active' in Infor, was disposed by the division and a Fixed Asset Retirement Form was not completed and communicated to Finance timely.
3. Two fixed asset adjustments: As a result of identified changes from the fixed asset inventory reviews (i.e., additions, transfers, or retirements), the fixed asset record was not communicated and created timely.
4. Six fixed asset sales: The fixed asset sale was not communicated to Finance and recorded within Infor timely.
5. Two fixed asset disposals: The fixed asset disposal was not communicated and recorded within Infor timely.

Accuracy Findings
1. Two fixed asset sales: The proceeds for the asset sale, as recorded in Infor, did not align with documentation provided that supports the sale.
2. Five fixed asset disposals: The disposal date, as recorded in Infor, did not align with provided documentation to support the disposal.

Completeness Findings
1. Four fixed asset sales: The proceeds for the asset sale, were not recorded in Infor.

Risks
1. Fixed assets are not completely or accurately identified or tagged, resulting in misappropriation or inaccurate inventory records and financial reporting.
2. Inventory is not safeguarded or monitored, resulting in inaccurate inventory records or misappropriation of assets.
3. Assets are not tracked or communicated throughout lifecycle, resulting in inaccurate inventory records or misappropriation of assets.

Recommendation 4.1
Management should consider exploring the functionality of Infor to determine if a process can be implemented to automatically identify and communicate fixed asset purchases based on defined criteria.

Management's Action Plan
 Exploration of an automated process for identifying and communicating fixed assets purchases based on defined criteria occurred during the Infor implementation. This functionality does not exist within Infor and would require customization. There is no funding for this recommendation.

Implementation Date
N/A

Recommendation 4.2
Upon adoption of a comprehensive asset management policy, FCG should provide periodic required training to division management and responsible division representatives regarding its contents and the expectations. The purpose of this training will be to increase the overall awareness of the need to safeguard County fixed assets and maintain complete, accurate, and timely records. This training should:
1. Highlight the importance of proper safeguarding/storage, recordkeeping, transfer, disposal, and sale activities.
2. Define the appropriate corrective actions to be taken in the instance of non-compliance with expectations.

Management's Action Plan
This was established in the Management Action Plan for Recommendation 2.2.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Observation 5

A formalized methodology is not in place to consistently record and track multiple assets that are grouped as single asset in Infor.

Observation Detail

When a County division purchases a fixed asset, division management completes and submits a Fixed Asset Addition Form to Finance using the asset management e-mail address. As a step in the asset creation process, Infor has the capability of tracking the quantity of a fixed asset. However, this feature is not formally required to be utilized by the County.

Findings

The County may purchase assets that if purchased individually, may not meet capitalization criteria. However, when purchased in bulk, the County may make the decision to treat the item as a capitalized asset by combining each of the assets into a single asset number in Infor. For these assets, a unique identifier was not assigned to each of the individual assets, but only the overall asset. Further, there is no formalized methodology in place to ensure each individual asset is assigned a unique identifier in Infor.

A review and physical observation of 60 active fixed assets across six divisions identified two assets that were recorded as a single asset in Infor. However, those assets were comprised of multiple units.
1. Project Fire Station Upgrade with an acquisition value of $13,298.41: This asset consists of 12 separate access points.
2. Digital Radios with an acquisition value of $1,755,798: This asset consists of 275 radios.

Risks
1. Assets not tracked at an itemized level could result in inaccurate tracking or retirement status of a fixed asset.
2. Fixed assets are not completely or accurately identified or tagged, resulting in misappropriation or inaccurate inventory records and financial reporting.

Recommendation 5.1

Management should consider developing a formalized methodology for the treatment of capitalized assets that consist of multiple units. This methodology should include guidance for the appropriate method to create the asset and document impairments, depreciation, and disposal.

Management's Action Plan

This would be considered in a new Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Observation 6

Fixed assets are not consistently tagged or traceable.

Observation Detail

When a County division orders and receives an asset that meets the County's capitalization criteria, the division communicates key asset information to Finance by completing and submitting a Fixed Asset Addition Form to the asset management e-mail address. Upon receipt of the form, Finance assigns a fixed asset tag number using a pre-populated asset sticker, inputs the asset information into Infor to create the fixed asset record, and sends the physical fixed asset tag via inter-office mail to the responsible division. Upon receipt of the fixed asset sticker, the division affixes the sticker to the corresponding asset.

Findings

A review and physical observation of 60 active fixed assets across six divisions identified the following:
1. Three assets: The asset did not have a County issued fixed asset tag and a serial number was not recorded in Infor.
2. One asset: The asset did not have a County issued fixed asset tag and did not have a unique identifier (e.g., serial number).
3. Three assets: The asset could not be located.

Risks

Fixed assets are not completely or accurately identified or tagged, resulting in misappropriation or inaccurate inventory records and financial reporting.

Recommendation 6.1

Finance management should identify the appropriate personnel to implement an annual process to independently perform a fixed asset inventory for a sample of County divisions/assets. This process should involve an employee independent of the division being reviewed to physically observe an asset's existence and to verify the inventory review completed and documented.

The assigned personnel should implement the process to include a risk-based approach for selecting a sample of divisions and/or assets that Finance deems to be of high risk. This process should include a reconciliation of the independent review and the selected division's inventory review. The completion of this review should be formally documented and retained based on FCG's record retention requirements.

Management's Action Plan

A process for inventory will be considered in a new Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Observation 7

The useful life of fixed assets does not reflect the actual lifespan of the assets.

Observation Detail

When a County division orders and receives an asset that meets the County's capitalization criteria, the division communicates key asset information to Finance by completing and submitting a Fixed Asset Addition Form to the asset management e-mail address. The useful life of an asset is an accounting estimate of the number of years the asset is likely to remain in service for the purposes of depreciating the cost of an asset. Upon receipt of the form, Finance reviews the suggested useful life as provided by the division. Typically, the County follows Internal Revenue Service guidance to determine and assign useful lives (measured in months) for County owned fixed assets. However, Finance provides divisions the opportunity to adjust the useful life of a fixed asset based on the anticipated use, professional judgment, and experience. Assets of similar purpose are typically grouped and assigned similar useful lives.

Findings

A review of the assigned useful life assigned within Infor for the population of County owned fixed asset equipment identified a population of 2,533 unique fixed assets by asset number recorded in Infor. Of those fixed assets, 822 (32.45%) are currently more than five years past their defined useful life. The following are the top four divisions with these findings.
1. 388 (47%): Water and Sewer assets
2. 153 (18%): Fleet Services assets
3. 58 (7%): DFRS assets
4. 48 (6%): Solid Waste and Recycling assets

Risks
1. Assets are used beyond their effective useful period, which may result in safety issues or increased costs to maintain aged assets.
2. Assets are not depreciated based on actual useful lives.

Recommendation 7.1

Management should consider reviewing the analytics and determining which asset categories and divisions to evaluate and consider lifecycle reassignments. Finance should collaborate with division leadership to update lifecycles to reflect anticipated use and duration.

Management's Action Plan

This would be considered in a new Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Recommendation 7.2

Management should consider formalizing a standard methodology for determining and recording the anticipated useful life of fixed assets.

Management's Action Plan

This would be considered in a new Asset Management Plan.

Implementation Date

To be determined based on the completed Asset Management Plan implementation.

Recommendation 7.3
Management should consider performing fixed asset analytics on a periodic basis. The procedures can include analyzing criteria that may impact certain operational factors or risks to the County (e.g., financial, safety, exposure). Criteria may include asset life cycle, years in service, and asset type. The review should be documented, and decisions/changes resulting from the analytics should be justified and supported.

Management's Action Plan
This would be considered in a new Asset Management Plan.

Implementation Date
To be determined based on the completed Asset Management Plan implementation.

Observation 8

A process is not in place to evidence internal efforts to sanitize the storage media of sensitive IT equipment prior to disposal.

Observation Detail

When IIT makes the decision to dispose of any IT equipment that contains any form of storage media (server, laptop, desktops), a member of the IIT technical staff is responsible for removing the storage media from the devices and sanitizing the drives prior to disposal. IIT partners with e-End, a third-party data destruction and electronic recycling company, to physically destroy any IT equipment for the division. An IIT employee delivers the equipment to be destroyed to the e-End facility and is present during the destruction process. After destruction is complete, e-End provides the County with a certificate of destruction and the IIT employee signs off as a witness to the destruction.

Findings

The IIT division currently tracks their inventory of computers (laptops and desktops) using the service tag and the serial number of the motherboard. The serial numbers of the hard drives are not tracked alongside this data. Therefore, when a hard drive is removed from a computer to be sanitized/destroyed, there is no mechanism in place to tie a hard drive back to the computer it was removed from.

Additionally, when IIT delivers a bulk shipment of computers to e-End for destruction, the resulting certificate of destruction provided to IIT is reported at an aggregate level and does not identify the service tag or motherboard serial number of the destroyed devices.

A review of 26 servers and 15 computers disposed by IIT identified that a process is in place to internally sanitize storage devices prior to e-End's destruction. However:
1. A process is not in place to record and verify internal efforts. As a result, evidence of hard drive sanitization could not be provided for the sample of 15 computers.
2. The Certification of Destruction provided by e-End, is not captured at an itemized, per computer level.

Risks

1. Inventory is not safeguarded or monitored, resulting in inaccurate inventory records or misappropriation of assets.
2. Assets are not tracked or communicated throughout the entire lifecycle, resulting in inaccurate inventory records or misappropriation of assets.
3. Computers and IT related equipment are not sanitized prior to disposal, resulting in the potential breach of sensitive or personal related information.

Recommendation 8.1

IIT management should consider implementing a method for tracking and documenting the process of internally sanitizing storage media specific to each device. The process should involve two independent levels of verification.

Management's Action Plan

IIT Management recognizes the potential risk of data exposure should a hard drive go missing during the destruction process. IIT Management will use a different approach to mitigate this risk. IIT will implement a process to encrypt endpoint devices upon issuance to County employees. IIT will also implement a process of verifying encryption status is active within a 90-day window prior to destruction. Should a disk

drive or device go missing during destruction, there will no risk of data exposure. This also eliminates the need for manual serial number tracking. IIT will be able to report on encryption compliance during the management lifecycle of devices.

Implementation Date
December 2022

Recommendation 8.2
IIT management should consider collaborating with e-End to determine if the serial numbers of individual devices that are destroyed can be tracked an included on the certificate of destruction provided to the County.

Management's Action Plan
IIT Management will abandon this recommendation for the plan in 8.1.

Implementation Date
N/A

Observation 9

A formalized process is not in place to recover IIT managed sensitive equipment upon employee separation from the County.

Observation Detail
When an employee separates from the County, division management is responsible for retrieving any IIT managed devices from the employee (desktops, laptops, etc.). The division may elect to store and hold onto IIT assets to be reassigned to future employees. If the division chooses to return the devices, they may contact the IIT division who would coordinate the pickup of the assets.

Findings
A review of 16 annual IIT device reviews across eight divisions identified that in 12 of the 16 reviews, the division communicated IIT assets that were either no longer actively assigned to an employee (but still being held by the division), or required updates to the asset records.

Risks
1. Inventory assignment is not safeguarded or monitored, resulting in inaccurate inventory records or misappropriation of assets.
2. Assets are not tracked or communicated throughout the entire lifecycle, resulting in inaccurate inventory records or misappropriation of assets.
3. Computers and IT related equipment are not sanitized prior to disposal or reassignment, resulting in potential breach of sensitive or personal related information.

Recommendation 9.1
Management should consider developing a countywide standard operating procedure for the proper handling of IIT managed devices upon when an asset is reused or transferred between employees and upon employee separation. This procedure should include a process for IIT to collect devices upon separation in order to sanitize, re-format, and re-purpose the device in preparation of being assigned to a new employee.

Management's Action Plan
IIT Management recognizes two areas of risk associated with this observation. The first would be data exposure as an asset is transferred between employees, especially if the new user has administrative privileges on the device. While a risk, an individual would be acting maliciously in this case. The second area of risk pertains to devices that are not on the network for an extended period of time. When this scenario occurs, the device is not patched or has the latest anti-virus updates.

IIT Management will evaluate and implement a policy to have County division management notify IIT upon endpoint reassignment. Upon notification, IIT and the respective division will collaborate to ensure devices will be re-provisioned prior to reuse. This will ensure devices are sanitized and have the latest updates. IIT Management will also evaluate a process, and take action if reasonable, on a quarterly report of devices that have not been seen on the network. This will allow for device inventory to remain current, and to ensure devices are adequately patched.

Implementation Date
December 2022