



Department of Taxation Asset Management Audit

Audit Period: January through October 2015

Results Summary:

Objective	Conclusion *
Asset Tracking and Reporting	Improvement Needed

* Please refer to Appendix A for classification of audit objective conclusions



Executive Summary

Background

The Ohio Department of Taxation (TAX) is responsible for the administration and enforcement of most state and locally levied taxes. Headed by the Tax Commissioner, the Department administers all state taxes except the insurance taxes and the motor vehicle license tax. The Department performs such duties as registering taxpayers, processing tax returns, determining tax liabilities, issuing refunds and assessments, conducting audits, and enforcing Ohio tax laws. Additionally, TAX has administrative functions they must oversee, including asset management, to comply with state requirements. TAX has a dedicated asset management team, with separate processes in place for IT and non-IT assets. Non-IT assets are recorded in the OAKS Asset Management System (AMS) upon receipt, while IT assets are tracked in a separate system and then added to OAKS AMS; both IT and non-IT assets are then certified to the Department Administrative Services annually. In addition to the central office, TAX has field staff and two remote office locations; all assets going to these field staff and remote office locations must first come to TAX's central office for tagging and recording, before it is distributed for use. At the time of the audit, approximately 8,912 inventoriable assets were reported by TAX in OAKS AMS.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's information technology (IT) and non-IT asset management processes. This work was completed October through December 2015. The detailed objective is as follows:

- Evaluate the design and effectiveness of controls over the key IT and non-IT Asset Management processes, including the receipt and control of assets, management of assets, and re-use/disposal of assets.

Detailed Observations and Recommendations

The following Observations and Recommendations include only those risks which were deemed high or moderate. A low risk observation was discussed with individual agency management and is not part of this report. However, the low risk observation was considered as part of the audit objective conclusion.

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.



Observation 1 – Monitoring of Current Assets

Agency assets should be properly maintained from initial receipt through operation and ultimate disposal of the asset. Assets should be periodically verified and reported in accordance with State and agency policy and procedures. The Department of Taxation utilizes the Ohio Administrative Knowledge System – Asset Management System (OAKS AMS) to support the recording of their assets. Taxation’s Asset Policy indicates, in part:

- The placement of bar code inventory labels is critical to future asset identification and physical inventories. Considerations: a) Placement of bar code inventory labels shall be consistent, especially for similar assets; b) Bar code inventory labels shall be easily visible without moving the asset; c) Bar code inventory labels shall not impede regular use of the asset; d) Place bar code inventory labels on the permanent part of the asset; e) Bar code inventory labels shall not be placed on the work surface of an asset where it may be subject to excessive wear;
- The Inventory Control Officer is responsible for the accountability of inventoried assets in OAKS AMS and is responsible to update OAKS AMS when inventoried assets are reassigned or relocated.

During testing, OIA selected a total of 45 assets (20 non-IT and 25 IT) from the TAX asset system of record, OAKS AMS, and noted:

- 20% of AMS assets tested could not be located on the floor (9 of 45);
- 44% of assets had incomplete records (i.e., description, tag #, location, etc.) in OAKS AMS (20 of 45); and
- 4% of assets tested did not have the asset tag affixed properly (2 of 45).

OIA also selected 10 assets (5 non-IT and 5 IT) from the floor and traced the asset information back to the system of record. During this testing OIA noted:

- 10% of the floor assets tested could not be found in OAKS AMS (1 of 10);
- 10% of the floor assets tested did not have the correct location recorded in OAKS AMS (1 of 10); and
- 50% of floor assets tested were not assigned to a custodian in OAKS AMS (5 of 10)

Not properly accounting for an agency’s assets puts the agency at risk of misplacement, loss or theft of assets. In addition, failure to properly track/manage agency IT assets can result in the loss of sensitive data and intellectual capital, as well as negatively impact agency and State of Ohio reputation.



Recommendation

Consider an agency-wide communication to enforce and emphasize the significance of proper asset management. Such communication should bring general awareness to agency staff of the asset process, including the assurance that all assets are assigned a custodian and that any asset movement is reported to the Inventory Control Officer.

Furthermore, management should evaluate and update existing agency asset procedures, as necessary, to emphasize the following:

- Updating OAKS AMS with complete asset information (description, tag number, location, custodian, etc.);
- Verifying that each agency asset is assigned a custodian;
- Ensuring each is properly tagged; and
- Performing a full inventory evaluation on a regular basis.

Periodic monitoring by management should be conducted to confirm the asset procedures are being performed timely and appropriately.

Management should also rectify current data discrepancies within OAKS AMS and implement appropriate controls and quality assurance processes to protect the integrity of OAKS AMS data.

Finally, align asset management practices with DAS standard policies, including ITS SEC-02.

Management Response

It is TAX's goal to develop an agency-wide training program to include the following:

- A list of equipment that requires an asset tag and the dollar thresholds associated with such equipment;
- A reiteration of TAX's policy on where an asset tag should be placed along with what steps will need to be taken when an asset tag has been destroyed/replaced;
 - The placement of all asset tags in visible locations when possible;
 - Direction on when and how to notify management should an asset be found without the proper tag attached
- Both the Budget & Fiscal Division (B&F) and the Information Services Division (ISD) have been and will continue to actively work to create reports and procedures when updating and reconciling OAKS AMS with Symantec information

TAX will work to align asset management practices with DAS standard policies, including ITS SEC-02, in areas where TAX's efforts do not already align.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Inventory Control Officer	June 2016



Observation 2 – Asset Ownership

It is management's responsibility to ensure all assets are properly managed within the asset management system (OAKS AMS). Asset management procedures should be detailed to indicate proper timing and scenarios for updating custodian responsibility and asset ownership, as this is a critical piece of information that assists an agency in properly tracking their assets.

The TAX Asset Policy specifies:

- An employee shall be assigned as the custodian of an inventoried asset as the primary user of the asset.
- An Inventory Coordinator is responsible for providing the Inventory Control Officer with updates, in a timely manner, regarding changes to the status, location, custodianship, etc. of an asset.

Currently, custodians of non-IT assets do not evidence their receipt, ownership, or possession of their asset(s), as there is not a documented process in place for non-IT asset custodians to formally acknowledge that they have accepted their asset(s) upon receiving them. Additionally, management indicated there is not an annual verification performed by non-IT asset custodians confirming they are in possession of their assigned asset as stated in OAKS AMS; rather, the focus of the annual verification process for non-IT assets is to ensure the non-IT asset continues to exist. Receipt acknowledgement and an annual verification process by custodians are in place for IT assets.

OIA selected 45 assets (20 non-IT and 25 IT) from the TAX asset system of record, OAKS AMS, 10 assets (5 IT and 5 non-IT) from the floor, and 7 out of 77 separated employees during the audit period. OIA considered proper asset ownership in all three test populations and noted:

- Eight of 45 assets (18%) from the system of record to the floor ownership did not agree; six of the eight assets in which the ownership information did not agree were related to IT assets.
- Five of ten assets (50%) from the floor to the system of record ownership did not agree due to ownership not assigned in OAKS AMS; the five errors noted were non-IT assets.
- One of seven (14%) separated employees was incorrectly listed as a current custodian.

Not maintaining accurate ownership information in OAKS AMS increases the risk of misplacement, loss and/or theft of assets. In addition, failure to properly track/manage agency IT assets can result in the loss of sensitive data and intellectual capital, as well as negatively impact the agency and State of Ohio reputation. Operationally, processes performed inconsistently across the agency are more susceptible to error, and could lead to inefficiencies and employee confusion when separate guidelines exist per asset type.



Recommendation

Develop department-wide policies and procedures for asset custodians to formally evidence acknowledgement of their asset upon receiving it. When an end-user/asset custodian is not available at the time their asset is delivered, or an asset is to be shared across several employees, TAX should ensure there is a documented process in place to evidence the asset was delivered and received by an appropriate department representative. Follow-up should be conducted to obtain formal acknowledgement of receipt for individually-assigned asset custodians in instances when the custodian is not available at time of delivery.

Additionally, consider implementing a process where custodians of non-IT assets evidence verification of the assets assigned to them, as recorded in OAKS AMS, on an annual basis, similar to what is currently done by the department for IT assets. The system should prompt the agency with any exceptions where an asset has not been annually confirmed by the custodian or does not have an assigned custodian.

Management Response

There are multiple divisions involved in the delivery of assets and equipment received by TAX. Budget & Fiscal and ISD will work with all divisions involved to create a new procedure and document the new process for assets not currently following the existing procedures, including acknowledgement of asset receipt.

B&F will look into what the OAKS AMS potentials may be regarding annual sign-offs by all asset/equipment custodians, including non-IT assets.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Inventory Control Officer	June 2016



Observation 3 – Disposal of Assets

State of Ohio DAS Directive GS-D-06, *Removal of Sensitive Information from Surplus State Property and Procedures for the Relinquishing of Custody of Excess Computer Equipment*, directs state agencies that the state surplus property section in DAS is neither staffed nor equipped to verify removal of sensitive information from state equipment passing through the disposal process. All property received from state agencies by the DAS State and Federal Surplus Section is expected to have been properly prepared for disposal. Once a state agency determines that it has computer equipment excess and informs DAS State Surplus via a signed Turn-In document, the owning state agency should take the necessary steps to remove all sensitive information from the equipment.

During our review, OIA selected 25 assets for disposal testing and noted that one server had the hard drives removed and placed in storage prior to the server being sent to DAS State Surplus. During the course of the audit, OIA identified hard drives that have been accumulating in storage (intended to be processed at a later date). These accumulated hard drives are not asset tagged, and a process for tracking these accumulated hard drives does not exist.

Lack of appropriate asset management disposal procedures puts the agency at risk of misplacement, loss and theft of assets. In addition, failure to properly manage disposal of IT assets can result in the loss of sensitive data, intellectual capital, as well as negatively impact agency and State of Ohio reputation.

Recommendation

TAX should ensure hard drives removed for salvaged and queued for delivery to DAS State surplus do not accumulate in storage. If hard drives are to accumulate in storage awaiting delivery to DAS State surplus, TAX should develop process and procedures to tag and track ownership of those hard drives.

TAX should appropriately manage tracking and disposal of all assets, especially assets with data storage capabilities, to ensure sensitive data is not exposed or lost.

Management Response

TAX currently takes steps necessary to ensure that stored data is removed from equipment before being salvaged with State Surplus (including when stored data is removed by a service provider).

Based on the noted observation, TAX will begin a process that will enable TAX to clearly identify and track hard drive components that are removed and placed in storage.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Inventory Control Officer	June 2016

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee