Department of Health

Asset Management Audit

Audit Period: January through December 2015

Results Summary:

Objective	Conclusion
Receiving and Recording	**Major Improvement Needed**
Tracking and Usage	**Major Improvement Needed**
Disposal	**Major Improvement Needed**

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Executive Summary

Background

The Ohio Department of Health (ODH) is responsible for providing preventive medical services and other healthcare services, public health education, and performing various regulatory duties. The mission of ODH is to protect and improve the health of all Ohioans by preventing disease, promoting good health, and assuring access to quality health care.   The public health system in Ohio is composed of ODH, 123 local health departments, healthcare providers, public health associations, and universities. These entities work together to promote and protect public health. As of December 2015, ODH had over 9,300 assets totaling approximately $14.3 million. During calendar year 2015, ODH acquired 280 assets and disposed of 563 assets.

During the audit, OIA identified opportunities for ODH to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODH staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's asset management process. This work was completed November 2015 through March 2016. The scope of this audit included the following asset management processes:

- Receipt and recording
- Tracking and usage
- Disposal

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over receiving and recording assets.
- Evaluate the design and effectiveness of controls over tracking and usage of assets.
- Evaluate the design and effectiveness of controls over disposal of assets.

Audit Period: January through December 2015

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

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation - Asset Tracking

It is management's responsibility to ensure all assets are properly managed within an asset management system. ODH utilizes the Ohio Administrative Knowledge System Asset Management System (OAKS AM). Asset management procedures, combined with proper segregation of duties, help to reduce the risk of loss, theft, or misappropriation of assets. Procedures should be documented to provide staff with the guidance necessary to carry out responsibilities throughout the entire life of assets. Procedures should include the proper timing and scenarios for tracking assets, assigning and updating appropriate custodian ownership, and removing assets from inventory. According to the Department of Administrative Services (DAS) Asset Management requirements, appropriate custodians for assets are individuals, rather than divisions or locations.

However, ODH's procedures are not effective to ensure assets are recorded and updated accurately, completely, and timely in OAKS AM and that processes comply with DAS requirements.

Receiving and Recording:

- 15 of 20 (75%) assets purchased during the period January through December 2015 were not recorded in OAKS AM.

- Six of 20 (30%) assets selected for testing from OAKS AM for ODH Central Offices were not located. Of the 14 assets located, one (7%) did not have an asset tag. The untagged asset was an iPhone. 11 of 20 (55%) assets selected for testing from OAKS AM for ODH satellite offices (either the Agriculture Lab Building or the Columbus Vital Statistics Building) were not located. For five assets, the location code was incorrect in OAKS AM.

- One of 5 (20%) assets selected for testing from the floor at either the Agriculture Lab Building or the Columbus Vital Statistics Building was not tagged. The untagged item is an iPhone at the Vital Statistics Building. Of the four assets tested that were tagged, 3 (75%) were not recorded in OAKS AM.

- Overall, 73% of ODH's assets are not assigned to specific employees in OAKS AM. For example:

- 13 of 20 (65%) assets selected for testing from OAKS AM and four of five (80%) assets selected for testing from the floor for ODH Central Offices are not assigned to either a specific employee or to the correct custodian.

- 15 of 16 (94%) assets selected for testing from OAKS AM for assets at either the Agriculture Lab Building or the Columbus Vital Statistics Building and one asset selected from the floor at the Vital Statistics Building were not assigned to either a specific employee or to the correct custodian.

- ODH does not record internal software, projects, and applications with cumulative costs in excess of $100,000 in OAKS AM, as required by DAS Asset Management requirements.

Tracking and Usage:

- According to ODH management, ODH staff completes a physical inventory every two years by viewing assets at the Central Office and receiving inventory reports from satellite locations. This is evidenced by updating the production date in OAKS AM. However, ODH does not completely reconcile OAKS AM but only updates those assets viewed or reported by satellite locations. From a sample of 25 assets assigned to ODH Central Offices, 16 (64%) had not been included in a physical inventory within the past two years. From a sample of 21 assets assigned to either the Vital Statistics Building or the Agriculture Lab Building, 14 (67%) had not been inventoried within the past two years. Additionally, ODH does not include the assets located at the Strategic National Stockpile (SNS) Warehouse when conducting its physical inventory. ODH plans to implement a periodic quality control process of pulling reports from OAKS AM and distributing to the other divisions to verify and completely update OAKS AM.

- 14 of 25 (65%) employees tested that separated from ODH during the period January through December 2015, had asset assignments in OAKS AM. 45 assets were assigned to the 14 employees. ODH staff could not locate 11 of the 45 (24%) assets.

Disposal:

- For 15 (100%) of 15 assets tested that were salvaged to DAS, ODH did not retain documentation to support the DAS approval of salvaged assets. Additionally, for three of 25 (12%) assets tested that ODH retired during the period January through December 2015, ODH did not have documentation on file to support that the assets were removed from the agency.

Failure to implement effective controls to ensure assets are timely, accurately, and completely tracked in accordance with DAS asset management requirements, increases the likelihood that lost or stolen assets are not timely detected and located.

Recommendation

Develop and implement controls to ensure assets are recorded in OAKS AM, assets are tagged, asset ownership is tracked and timely updated, and to ensure compliance with DAS Asset Management requirements. Processes should include:

- Periodic reviews of OAKS voucher detail reports to identify asset purchases and to ensure that all assets are recorded in OAKS AM.

- Requirements that ODH Fiscal staff flag all purchase orders for assets (account codes beginning with 53) to populate OAKS AM with the purchase order information.

- Periodic physical inventories to include reporting from OAKS AM so that all divisions and locations may verify their assets. Update OAKS AM with additions, deletions, or updates reported from the various divisions and locations. Periodic physical inventories should be conducted at least bi-annually. Include the SNS Warehouse in periodical physical inventory counts.

- Requirements that all divisions and locations assign specific individuals or supervisors to all assets. According to DAS, in instances in which locations have state assets but there are no state employees, the custodian should be a local employee or the state employee tasked with monitoring the program.

- Recording internally created software and applications that exceed $100,000 in costs in OAKS AM.

- Routine communication from all divisions and locations of asset transfers, changes in custodian, and disposals.

- Formal communication protocols when employees transfer within the agency or separate. Off-boarding procedures should include verification that assets assigned to the off-boarding employees are collected and reassigned.

- Obtaining and retaining documentation to evidence compliance with DAS Asset Management requirements when retiring or salvaging assets.

Updating asset management procedures and distributing to all staff as well as all locations that have ODH-purchased assets.

Management Response

Since late fall 2014, the Ohio Department of Health has recognized the need to move from a siloed approach to managing administrative functions to one that is integrated and centralized, guided by common operating policies and procedures. The agency has been in the process of centralizing fiscal functions, and the issues identified within this report are ripe for improvement through similar central controls.

First, ODH is committed to completing a comprehensive physical inventory of all items no later than June 30, 2016. All items will be properly located, identified, tagged, and recorded within the inventory control system no later than that date. In addition, all software previously purchased or developed internally will be recorded in OAKS AM.

To address noted deficiencies on an ongoing basis, ODH has committed to move from a narrow inventory control process to a broad agency-wide effort. Asset control policies and procedures will be revised and updated to reflect stronger central control and will be effective by May 30, 2016. These updated policies and procedures will require central receipt of newly acquired assets through one entry point at each ODH office or warehouse location, with a staff person identified and trained to be responsible for properly recording and tagging the item in the asset management system and issuing the item out to the user, with proper documentation of all steps in the process. In addition, ODH policy and procedures will address the remainder of the items identified within our response, as follows.

ODH procedures will include requirements to report, track, and update custodial assets (including internal software, projects, and applications with cumulative costs in excess of $100,000) from their receipt to their disposal. The Office of Financial Affairs (OFA) and the Office of Management Information Systems (OMIS) shall work together to assign responsibility for ownership of this process for IT and non IT assets. Responsibilities shall be specifically delineated in policy.

All assets at all locations will be assigned a specific ODH employee as the custodian of the property. Once an asset is assigned to an employee, it shall be the employee's responsibility to both ensure the item's location and report any changes as to its condition or status. In accordance with DAS, in instances in which locations have state assets but there are no state employees, the state employee tasked with monitoring the program shall be identified, as well as a local employee to serve as custodian of the asset.

ODH shall work to develop, in policy and procedure, a process to monitor and track personnel moves, transfers, terminations, or other changes in employment status that would impact the control of assets under that individual's possession. An integrated on-boarding, transfer, and off-boarding process will be created by ODH Human Resources, OFA, OMIS, and ODH program representatives to identify when employees are beginning and leaving agency employment, or transferring internally, to accurately reflect assets assigned to the employee, update the information on any of the impacted assets, and reassign assets back to inventory or to another appropriate employee if returned to agency possession. In addition, OMIS will report within 24 hours any assets that are moved to and from their storage area so a specific asset custodian can be assigned.

To ensure that all assets are properly recorded, the Office of Financial Affairs shall implement quality assurance processes to identify assets that have been purchased and ensure they are inventoried properly. OFA will closely monitor purchases with equipment account codes to flag

these assets on OAKS purchase orders and ultimately include these assets in the OAKS AM system. OAKS Voucher data will be monitored weekly through the OAKS AM Review AP/PO Information screen to identify purchased assets. Through IT governance and budgeted purchases, any additional software that is created or purchased will be tracked and a procedure will be developed to coordinate with Operations Management to add these assets to OAKS AM. Other financial reports will be provided as needed by the Office of Financial Affairs to identify all purchased assets for the agency. Reports will be generated bi-annually (OAKS BI AM-0015 Asset Custodian Report) for ODH programs and employees to conduct a physical inventory of all assets within their control, or assigned to them. Agency policy and procedure will identify procedures for spot checks of inventory items in off-site locations, including the SNS Warehouse, Freeway Drive Warehouse, and other identified locations.

ODH will also be implementing equipment replacement guidelines to more effectively manage IT equipment lifecycles. To assure items are being properly disposed, policy and procedures will require all employees and programs surplus or end-of-life assets to OFA or OMIS respectively, as appropriate, for processing. Operations Management shall be responsible for accurately logging assets within the OAKS AM system, coordinating with DAS surplus and ensuring signed copies from DAS are received and that the assets are removed from OAKS AM. Operations Management shall maintain all related records in a central location.

Upon approval of the updated agency asset management policy and procedures, all ODH staff will acknowledge receipt and review of the directive in OAKS ELM. Training may be provided on the new procedures, as determined necessary by the Agency Training Advisory Council.

Risk	Remediation Owner	Estimated Completion Date
High	Chief of Staff	December 2016

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.

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