



Department of Insurance Asset Management Audit

Audit Period: April 2015 through March 2016

Results Summary:

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

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Executive Summary

Background

The Ohio Department of Insurance (ODI) regulates the business of insurance in Ohio. Its mission is to serve and protect Ohio consumers through fair and efficient regulations, provide assistance and education to consumers, and promote a competitive marketplace for insurers. To carry out this mission, it licenses insurance agents and agencies, investigates allegations of misconduct by insurance agents or agencies, examines claims of consumer and provider fraud, investigates consumer complaints, and monitors the financial solvency and market conduct of insurance companies. ODI reviews insurance policies and forms used by insurance companies and the premiums they charge customers in the life, accident, health, managed care, and property and casualty insurance lines. ODI also administers the domestic and foreign insurance taxes, which in state fiscal year 2015 contributed over \$518 million (combined) for the General Revenue Fund.

ODI is a cabinet-level agency with approximately 248 employees, some located centrally in Columbus, Ohio and others off-site across the State. As of March 2016, ODI had a total of 1,854 items, totaling approximately \$4.6 million, recorded within the Ohio Administrative Knowledge System Asset Management System (OAKS AM).

During the audit, OIA identified opportunities for ODI to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank ODI 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 review over Asset Management processes to determine the adequacy of the internal control environment, including assurance testing of the controls. More specifically, the scope of this audit included the following processes:

- Receiving and Recording
- Tracking and Usage
- Disposal

This work was performed February through June 2016. The detailed objectives of the review were as follows:

- Evaluate the design and effectiveness of the controls governing the receiving and recording of Assets (including Inventory Entry and Asset Classification).
- Evaluate the design and effectiveness of controls governing tracking and usage of Assets (including data collection and updates, access, and physical location).



- Evaluate the design and effectiveness of the controls governing the Disposal of Assets (including inventory reconciliation and reporting).

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate.

Observation 1 – Inadequate In-House Data Wiping prior to Disposal

The Department of Administrative Services (DAS) requires that agency management ensure data is completely removed from assets prior to delivery to the State Surplus. Asset management procedures, combined with proper segregation of duties, helps to reduce the risk of incomplete and undocumented data wipes. Procedures should be documented to provide staff with the guidance necessary to carry out responsibilities throughout the entire data wipe process and should include the proper timing and scenarios for wiping data from assets.

ODI utilizes the DBAN sanitation software to wipe data from assets prior to submitting assets to State Surplus. ODI staff performs the software's default setting of three rounds of wiping. However, seven rounds of this type of data wipe are required for sufficient data removal. All portions of the data wiping and salvaging process are completed by a single staff member who does not retain evidence of completed data wipes for any assets.

Failure to implement adequately designed controls to ensure data is timely, accurately, and completely wiped from assets in accordance with DAS asset management requirements increases the likelihood of a sensitive data breach.

Recommendation

Develop and implement controls to ensure all data is completely removed from applicable assets to ensure compliance with DAS Asset Management requirements. This may include destroying hard drives or performing additional data wiping rounds. Implement formal policies and procedures to outline the agency's selected methodology for removing data. Should the current process of utilizing the DBAN software continue, the policies should include:

- Requirements to completely perform the data wipe;
- Documentation standards to evidence a successful data wipe; and
- Periodic supervisor review of data wiped assets prior to Submission to State Surplus.



Management Response		
Data wipes are being discontinued and hard drives will be manually destroyed in the IT Department and the remaining shell of an asset will be stored for later use or submitted to State Surplus for disposal. The Sourcing Analyst will receive assets post hard drive destruction and will no longer be responsible for wiping sensitive assets.		
Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Information Officer	June 2016

Observation 2 – Asset Records are not Accurate and Complete

It is management’s responsibility to ensure all assets are properly managed within an asset management system. ODI utilizes the Ohio Administrative Knowledge System Asset Management System (OAKS AM) as well as internal spreadsheets to track assets. 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 DAS Asset Management requirements, appropriate custodians for assets are individuals, rather than divisions or locations.

Adequate segregation of duties for asset management functions includes segregation between custody, record keeping, authorization, and reconciliation functions. Ideally, no individual should handle more than one of the functions in a process. However, ODI has one individual performing all asset management functions including receiving and recording assets, monitoring assets, and disposal of assets. Lack of adequate segregation of duties may have contributed to the following:

Receiving and Recording:

Based on voucher records, ODI purchased 21 assets during the period April 2014 through March 2015. ODI does not include purchase order numbers on asset records in OAKS AM. Therefore, there is no means to identify the purchased assets in OAKS AM to determine if ODI timely records assets.

OIA selected a sample of 22 assets from the OAKS AM listing and haphazardly selected a



sample of five assets from the floor.

- For seven of 22 (32%) assets tested from the OAKS AM listing, the asset was not physically located.
- For 12 of 18 (67%) assets tested, the asset location was incorrect in OAKS AM.
- For seven of 14 (50%) assets tested, the assets were not recorded on the internal spreadsheet or were recorded inaccurately.
- For 16 of 27 (59%) assets tested, there was no record of an inventory input document.
- For 27 of 27 (100%) assets tested, there was no evidence of the associated purchase order or packing slip for the asset to determine whether ODI timely records assets in OAKS AM upon receipt.

Tracking and Usage:

- According to ODI management, staff completes a physical inventory every two years by viewing assets at the Central Office and verifying offsite assets via emails with asset custodians. However, ODI does not completely reconcile OAKS AM to physical assets and does not track all assets on the internal tracking spreadsheets.
- Five of 10 (50%) employees tested that separated from ODI during the period February 2015 through February 2016 had asset assignments in OAKS AM.
- Three of 10 (30%) separated employees had asset custodian assignments in the internal tracking spreadsheets.
- In total, 12 assets were still assigned to six separated employees. ODI staff could not locate or provide proof of disposal for four of the 12 (33%) assets. Interview checklists for these employees did not specify asset tag numbers to determine specific assets collected upon separation.

Disposal:

- According to ODI management, it updates internal tracking spreadsheets upon asset disposal by deleting asset records in the spreadsheet. Therefore, no historical information is retained in these spreadsheets, which reduces ODI management's ability to rely on the spreadsheets to track the life cycle of agency assets.

Failure to develop and implement adequately designed controls to ensure assets are timely, accurately, and completely tracked in accordance with DAS asset management requirements increases the likelihood that assets are lost or stolen without timely detection.



Recommendation

Perform a complete physical inventory and full reconciliation of OAKS AM to physical assets to ensure all asset information is correctly recorded in OAKS AM, particularly location and custodian. Remove items from OAKS AM that do not meet the asset definition or no longer exist at the agency.

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. These activities should be formally documented and include:

- Segregation of duties between the receiving, recording, monitoring, and disposal functions. When duties cannot be segregated, compensating controls should be implemented. For example, periodic supervisory review by an individual independent of the process is a detective control to identify assets that are not timely, accurately, or completely recorded. Routine monitoring processes can identify assets that have been reassigned in order to timely update OAKS AM records. Asset disposal forms should be authorized by a supervisor. Completion of compensating control activities should be documented.
- Periodic reviews of OAKS voucher detail reports to identify asset purchases and to ensure that all assets are timely recorded in OAKS AM.
- Requirements for ODI Fiscal staff to flag all purchase orders for assets (account codes beginning with 53) to populate OAKS AM with the purchase order information.
- Record purchase order numbers for assets in OAKS AM.
- Timely update OAKS AM upon asset delivery to custodians, which is required to be an individual, transfers between employees or locations, and disposals.
- Discontinue use of the internal tracking spreadsheets and inventory input sheets and fully utilize OAKS AM to track and monitor assets.
- Periodic physical inventories to include reporting from OAKS AM so that all custodians may verify their assets and report any discrepancies. Update OAKS AM with additions, deletions, or updates reported from the asset custodians. Periodic physical inventories should be conducted at least bi-annually. Document completion of physical inventory counts as well as discrepancies and resolutions.
- Routine written communication from all departments and locations to the inventory control specialist of asset transfers, changes in custodian, and disposals to help ensure OAKS AM is timely updated.
- 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. Document asset tag numbers on exit interview checklists for assets collected.

- Create or update policies and procedures to formally implement revised processes and to outline roles and responsibilities.

Management Response

Separation of Duties and Records

We will assess the staffing capacity of the fiscal division to see if there is an opportunity to have an additional employee involved in handling assets. In case such an opportunity does not exist, we will have the supervisor regularly make random checks to ensure the accuracy of records.

We agree that the current inventory spreadsheet should be discontinued and all asset information should be in one place, OAKS AM. As for the data entry sheet, we believe it is still useful. In addition to helping data entry, it sometimes serves as paper records for devices that have tag numbers in OAKS AM but are not physically tagged, such as iPhones.

We will also reset the asset records to match the current physical assets with OAKS AM records.

Fiscal Staff Involvement

Currently POs for asset purchases are forwarded to the sourcing analyst for the receiving report and recording of the assets in OAKS AM. We will continue doing so. In addition, we will start forwarding the monthly reconciliation spreadsheet to the supervisor to help him ascertain that all assets that are needed to be in OAKS AM are entered accurately and timely. While a majority of asset purchases are in account code 53xxxx and are associated with POs, there are some that are coded in 521xxx and sometimes purchased with credit cards or via EDI. The reconciliation spreadsheet, which contains monthly vouchers and payment card transactions, will help the supervisor work with the sourcing analyst to timely enter asset information in OAKS AM.

Communication

We will work with divisions to timely communicate any changes to assets assigned to employees so that asset information is updated in OAKS AM.

Policies and Procedures

After the above steps are implemented, we will formalize them in policies and procedures.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief Financial Officer	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.

* 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