



Adjutant General Asset & Fleet Management Audit

Audit Period: July through December 2016

Results Summary:

Objective	Conclusion*
Asset Management Process	Improvement Needed
Fleet Management Process	Well-Controlled with Improvement Needed

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



Executive Summary

Background

The Ohio Adjutant General's Department provides military organization for the Ohio National Guard, Ohio Naval Militia and Ohio Military Reserve, collectively known as the Ohio organized militia.

The Ohio National Guard - Army and Air - is the organized military force of the State, except when ordered into federal service. Under the National Defense Act, the Army and Air National Guard are reserve components of the U.S. Army and Air Force, respectively. The National Guard also may be ordered by the Governor to serve the State by protecting persons and property from disasters - man-made or natural - and suppressing or preventing riot, insurrection, invasion or violence.

During Fiscal Year 2016, the Ohio National Guard was comprised of about 16,000 traditional Guard members. Typically, these men and women volunteer one weekend a month and an additional 15 days a year in service-related career fields. These traditional Guard members are supported by a full-time staff made up of state employees, federal technicians and Active Guard/Reserve personnel dispersed at various locations around the State. Headquarters for the organization is located at the MG Robert S. Beightler Armory in northwest Columbus. At the close of Fiscal Year 2016, the Ohio National Guard maintained a presence in 38 of the State's 88 counties. Ohio's Air Guard units are dispersed in seven geographic locations and the State's Army Guard units occupy five training sites and 48 readiness centers statewide.

As of January 2017, ADJ has over 3,200 assets recorded within the asset management system totaling about \$4.5 million. ADJ also maintains 32 fleet vehicles which are assigned to specific job positions with the exception of seven vehicles available for pooled use.

During the audit, OIA identified opportunities for ADJ 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 ADJ 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 and fleet management processes. This work was completed January through March 2017. The scope of this audit was limited to state assets purchased either through cooperative agreements or with state funds, and state-funded fleet vehicles for the period of July through December 2016. The following summarizes the objectives of the review:



- Evaluate the design and effectiveness of controls over the agency's Asset Management processes (receiving, tracking/reporting, disposal).
- Evaluate the design and effectiveness of the agency's controls over key Fleet Management processes (vehicle assignment, pool car reservations, vehicle purchase/disposal/maintenance)

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.

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



Observation 1 - Asset Ownership

It is management's responsibility to ensure all assets are properly managed within the Agency's asset management system. ADJ utilizes the Ohio Administrative Knowledge System Asset Management system (OAKS AM). Asset management procedures should be detailed to indicate proper timing and scenarios for assigning and updating appropriate asset custodian ownership, as this is a critical piece of information that assists an agency in properly tracking their assets. Therefore, ensuring asset ownership is timely and efficiently managed and recorded within OAKS AM should be an Inventory Control Officer's top priority.

The State of Ohio Asset Management Handbook states within fifteen (15) calendar days from the date an asset is received by the agency, the name of the person being assigned as the equipment custodian of the asset, along with the corresponding asset tag number(s), be provided to the agency inventory control officer (ICO). The name and/or State of Ohio User ID of the state employee assigned as an equipment custodian shall then be entered into OAKS AM for the corresponding assets.

OIA reviewed ADJ's entire population of assets recorded in OAKS AM as of January 5, 2017 and noted 3,126 (97%) of the agency's 3,202 IT and non-IT assets were not assigned to an individual. Of these 3,126 unassigned assets, 1,357 (43.4%) were deemed to be sensitive assets. It was also noted, as of March 2017, the last items to have been acquired and entered into OAKS AM were purchased in July 2016; any asset purchases made since July 2016 were not yet entered into OAKS AM at the conclusion of our review.

Not maintaining accurate ownership information in OAKS AM increases the risk of misplacement, loss and/or theft of assets. In addition, failure to properly track and manage agency IT or other sensitive assets can result in the loss of confidential data and intellectual capital, as well as negatively impact the agency and State of Ohio reputation.

Recommendation

Update current OAKS AM records to ensure all assets have an individual assigned as the custodian. In instances in which locations have state assets but there are no state employees on site, the custodian should be a local employee or the state employee tasked with monitoring the program for which the asset is being used. Furthermore, any pooled assets should be assigned to specific individuals or supervisors.

Management should also conduct training with all assigned asset custodians emphasizing the importance of the agency maintaining accurate asset ownership information in OAKS AM. In addition, the training should address the need for timely notification and reassignment of assets when the previous asset custodian transfers positions or is no longer employed by the agency.

Consider implementing a periodic review of the OAKS Business Intelligence (BI) AM-0015 Asset Custodian Report. Reviewing this report will help to ensure former employees are not assigned



assets, along with discovering when the custodian field is blank or contains room names or generic descriptions.

Any other changes made due to the above recommendations should be incorporated into policies and procedures as appropriate.

Management Response

The vast majority of sensitive items identified in the review are currently housed in secured vaults with limited access. To address concerns regarding custody, between 15 March 2017 and 1 July 2017 (the beginning of FY 2018), the Adjutant General’s Department is establishing a custodian for each of the sensitive items in OAKS Asset Management. The custodian for each item housed in a secured vault, will be the custodian already assigned as responsible for federal property stored in the secure vault. Upon changes in staffing that results in a vault custodian being assigned, OAKS Asset Management will be updated with the new custodian’s information. These records will also be reviewed annually as part of our inventory of these items and updated as appropriate. Other sensitive items identified, while not located in a secure vault, are in secure spaces of the Adjutant General’s Department, are under lock and key and accessible only through the person responsible for that space. As with the items housed in the secure vaults, the OAKS Asset Management records for the sensitive items housed in these spaces will be updated prior to 1 July 2017 with custody assigned to the person responsible for that space.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Inventory Control Specialist Supervisor	July 2017

Observation 2 - Timing and Accuracy of Asset Listing

Per the State of Ohio Asset Management Handbook, agencies shall maintain current and accurate inventory records and related activity for all assets owned by the agency with an actual or estimated acquisition cost of more than \$1,000 per item, as well as all firearms, and sensitive property with a cost of at least \$500. ADJ maintains record of these items but tracks sensitive items with an acquisition cost of at least \$300. Donated assets should be treated the same as all other state-owned assets and shall be recorded with a cost equal to the market value at the time of donation. It is also management’s responsibility to ensure all assets are properly recorded within the agency’s asset management system; ADJ utilizes the Ohio Administrative Knowledge System – Asset Management system (OAKS AM) for purposes of recording and tracking its agency assets. In regards to new and retired assets, DAS requires agencies to update OAKS AM within 15 days of receipt of all authorized forms.



ADJ utilizes hand receipts to document all assets currently assigned to a specific location which are signed by the responsible employee (custodian) and Inventory Control Specialist to evidence their accuracy. When an asset is purchased, transferred, or retired, the Inventory Control Specialist Supervisor (ICSS) is tasked with the responsibility of adding or removing the asset from the location's hand receipt and updating OAKS AM.

OIA haphazardly selected a sample of ADJ assets from OAKS AM for testing. The sampled items were selected from three site locations representing the largest dollar and/or volume of ADJ's assets: Beightler (HQ); Rickenbacker; and DSCC. While testing these sampled assets, the following was noted:

- Six of 25 (24%) assets selected from OAKS AM assigned to the Beightler location could not be located.
- Fifteen of 25 (60%) assets selected from OAKS AM assigned to the Rickenbacker location could not be located. This was a direct result of the ICSS not having access to the assets' listed location.
- Five of 13 (38%) assets selected from OAKS AM assigned to the DSCC location could not be located. Two of these items (servers) were waiting to be retired, one asset had been transferred to another location but not updated within OAKS, and the remaining two items were not found during the last physical inventory.

OIA conducted additional tests to validate the completeness and accuracy of the agency's assets recorded in OAKS AM and noted the following:

- OIA attempted to conduct an existence test of sensitive assets at one particular site; the sensitive assets at this location represented 98% of the total assets assigned to that site. However, ADJ could not provide the auditors with access to the vault containing these assets, resulting in OIA not being able to validate the existence of these sensitive assets.
- ADJ's ICSS has the ability to make purchases with the state payment card. OIA reviewed the ICSS' payment card transactions during July through December 2016 and noted three assets were purchased. Only one of these assets had an updated hand receipt while none of the three had been recorded in OAKS AM as of February 2017. The ICSS indicated transferred assets are not updated in the system until they are physically viewed at the new location which could take several months.
- Several historical weapons donated to the Ohio National Guard Historical Unit were incorrectly recorded in OAKS AM with a cost of \$1.00, as opposed to the market value of the weapons at the time of donation.
- OIA reviewed the OAKS AM-0013 Asset Retirement Detail Report for calendar year 2016 and noted 22 assets were not updated in OAKS AM within the 15 day timeframe. Days from transaction date (date retired) to accounting date (date of OAKS update) ranged



from 41 to 196 days, meaning in some instances, OAKS AM was updated six to seven months after the asset had already been retired.

OIA also reviewed OAKS access to ensure only appropriate ADJ employees had the ability to edit (add, transfer, delete) asset information. One individual was deemed to have edit access to OAKS AM who is no longer in a position requiring such access.

Not submitting and/or processing asset paperwork timely decreases the reliance state and agency management can place on agency inventory reports. Failure to monitor access to OAKS AM could result in assets being improperly updated in an attempt to cover up theft of state property. Ultimately, failure to properly track/manage agency assets could result in the loss of sensitive data and/or assets and negatively impact the agency and State of Ohio's reputation.

Recommendation

Establish a deadline to have previous asset activity updated within OAKS AM to ensure the official book of record is up-to-date. Going forward, ADJ management should monitor and enforce the 15-day timeframe in which any asset activity (add, transfer, retire, etc.) is processed/updated within OAKS AM once the appropriate paperwork is received.

Consider providing agency-wide training to assist in enforcement and awareness of the asset management policies. This training should, at a minimum, be offered at sites where ADJ assets are being utilized, even if there are no ADJ employees on-site. Training should emphasize the importance of maintaining accurate asset ownership information within OAKS, along with the timely reassignment of assets when the previous owner transfers positions, the employee is no longer employed by the agency, or when assets are moved between locations. Consider implementing the use of a transfer form to document the custodians to and from whom the asset is being transferred, along with each respective custodian's signature. OAKS AM can then be updated based on the information contained on the asset transfer form. Utilizing transfer forms that contain information only on the asset(s) being transferred would help to eliminate the need for the ICSS to continually create new hand receipts, which currently require the custodian to confirm all assets at their location each time a single asset is added or transferred.

In order for the ICSS to carry out his responsibility to maintain the agency's asset records, the ICSS should have access to all ADJ state assets. If state assets are maintained in secured locations where the ICSS does not have proper clearance, evaluate if the asset is truly a state asset versus federal asset. If deemed a state asset that is maintained in a secure location in which the ICSS does not have access, management should establish a set time frame in which the asset custodian is required to provide the ICSS with access to perform his duties. Additionally, ADJ should review the current listed costs for donated assets and determine if reasonable compared to the market value at the time of donation; if deemed incorrect, update OAKS records to reflect the proper valuation.



Periodically (i.e. annually) review user access to OAKS to ensure only those whose job duties require the ability to edit asset records have access. If it is determined an employee no longer requires the ability to edit information, their access should be revoked in a timely manner.

Management Response

The department is already in the process of updating asset activity and custody within OAKS Asset Management. A deadline of 30 June to update all asset records will be adopted in order to have all records up to date at the beginning of FY 2018. In addition, the department will develop and provide training on asset management policies and procedures to all ADJ staff listed with custody of assets in OAKS Asset Management. This initial training is proposed to be completed by 30 September 2017 and repeated annually thereafter. Included in this training will be the emphasis that any custodian must notify the Inventory Control Specialist Supervisor prior to transfer or departure from their current duties so that an inventory and orderly transfer of assets listed in OAKS Asset Management to a new custodian can be completed.

While the Inventory Control Specialist Supervisor requires access to all of the department’s assets, the security governing certain spaces makes immediate access to all spaces impossible. However, in order to carry out his responsibilities, we will propose adopting a policy stating that in circumstances involving assets stored in secured spaces, the Inventory Control Specialist Supervisor will need access to the assets within 72 hours of the request for such access.

To ensure proper control and access to OAKS Asset Management, the agency OAKS Administrator along with the Chief Financial Officer and the Inventory Control Specialist Supervisor will review OAKS security levels quarterly. Through this review the department will ensure that access to the OAKS Asset Management is provided only to those with such a need. An additional review will also be conducted at the time of any staff turnover for positions that have access to OAKS Asset Management or at any time when access is granted to another employee (e.g. changes in job responsibilities now require a department employee to have access they previously lacked).

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Inventory Control Specialist Supervisor	October 2017



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