



Department of Veterans Services Asset Management - Georgetown Audit

Audit Period: January 2017 through August 2017

Results Summary:

Objective	Conclusion*
Asset Receiving	Well-Controlled with Improvement Needed
Asset Tracking and Reporting	Improvement Needed
Asset Disposal	Improvement Needed

* Refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The Ohio Department of Veterans Services (DVS) was established by S.B. 289 of the 127th General Assembly and began functioning as an agency on August 21, 2008. The agency's main objective is to actively identify, connect with, and advocate for veterans and their families. The Department also works to connect approximately 800,000 Ohio veterans and their families to programs and benefits to which they are entitled.

DVS runs and operates two veterans' homes, one in Sandusky and one in Georgetown. The Georgetown facility is a 35-acre campus with 168 nursing home beds, 42 of which are dedicated to Alzheimer's and dementia patients. This facility offers skilled care and hospice care for residents in need of those services. The Georgetown facility is in the process of implementing a Radio Frequency Identification (RFID) inventory system to replace the existing manual asset tagging and inventory system. Under the new RFID system, assets get tagged with an embedded frequency tag that is recognized by a scanner via radio waves to enable a user to quickly and easily identify assets in a particular area. As of September 6, 2017, the Georgetown location had approximately 800 assets, excluding property or buildings, valued at \$2.3 million, with most of the assets affixed with an RFID asset tag.

During the audit, OIA identified opportunities for DVS 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 DVS 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 DVS' asset management processes during the period January through August 2017. This work was completed August through November 2017. The scope of this audit included the key processes related to IT and non-IT asset management within the Georgetown facility only.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls over the agency's IT and non-IT asset receiving process.
- Evaluate the design and effectiveness of controls over the agency's IT and non-IT asset tracking and reporting process.
- Evaluate the design and effectiveness of controls over the agency's IT and non-IT asset disposal process.



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 1 – Inadequate Asset Tracking, Monitoring, and Disposal Procedures

It is management's responsibility to ensure all assets are properly managed within an asset management system. DVS utilizes the Ohio Administrative Knowledge System Asset Management System (OAKS AM) to record its 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. Per DAS Asset Management requirements, appropriate custodians for assets are individuals, rather than divisions or locations.

Based on OIA's review of the processes in place and testing results, it appears DVS' 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. Details are noted below.

Custodians

As of August 31, 2017, DVS Georgetown had a total of 800 assets of which 9 (1.1%) had no custodian listed and 712 (89%) were assigned to a position rather than an actual individual. During the engagement, DVS management worked with the Department of Administrative Services' (DAS) General Services Division (GSD) to update their asset custodians. A subsequent review of the AM-0015 Asset Custodian Report revealed DVS Georgetown had updated asset custodians to individuals for all 838 assets except one, which was still assigned to the Food Service Director.

Recently, the Fiscal Officer sent out confirmation e-mails to asset custodians. Employees were to respond only if there were errors in the assets reported as assigned to them so the Fiscal Officer could update the records, as appropriate. As such, no response from employees was interpreted by the Fiscal Officer as the employee agreeing with the assets assigned to him/her. Such interpretation could be incorrect if an asset custodian was out for an extended period and did not receive the email, or if the asset custodian failed to respond to the email.



Tracking and Monitoring

The official book of record for assets is the OAKS AM system. However, the Georgetown IT department maintains an inventory database specific for IT assets. This database separately tracks IT asset location, serial number, asset tag and other identifying information to allow IT personnel to easily track IT assets.

The Asset Manager at Georgetown is currently in the process of conducting a physical inventory review for all assets as required by DAS. Since this process was still ongoing, OIA was unable to validate the process or the results. However, testing of assets during the audit revealed several discrepancies noted by OIA, specifically:

- 1 of 25 assets (4%) was double-tagged with different tag numbers, both of which were listed in OAKS.
- 2 of 25 assets (8%) were unable to be validated due to one being disposed in 2014 and not properly updated in OAKS, and the other physically residing at the DVS Sandusky location.
- 5 of 25 assets (20%) had asset tag numbers different from those in OAKS AM:
 - 3 of these were a result of IT updating the old tag to a new RFID tag and the information had yet to be provided to the Asset Manager to update OAKS AM.
 - 1 was currently on the retirement/disposal pallet and information had not yet been provided to the Asset Manager.
 - 1 asset (a tractor/loader) could not be located. This is believed to have been an error in tagging as it was initially tagged as one asset instead of two and part of the asset has since been retired.
- 3 of 25 assets (12%) had the wrong location code listed in OAKS AM.
- In conducting a separate asset test where OIA randomly selected assets from the floor and attempted to trace the assets to OAKS to validate the accuracy of the OAKS AM asset listing, OIA noted 4 of 10 assets (40%) did not agree to OAKS AM.
 - 1 was recorded in OAKS AM as a bed but the physical asset was an EZ Stand Harness.
 - 2 were deemed to no longer be assets based on their cost and the asset tags were not removed.
 - 1 had a tag updated by IT and this information had not yet been provided to the Asset Manager.

Currently, there is also no reconciliation performed between OAKS AM and the IT asset database to ensure all assets have been updated appropriately. This is important since there are several updates being made to tag numbers to ensure all assets have been tagged with RFID tags within the Georgetown location.



Disposals

Once assets have been approved by DAS to be salvaged, information is provided to the Asset Manager who marks these items as retired in OAKS AM. However, delivery of these items to DAS Surplus could take several months since the DVS Georgetown location holds on to the retired assets in the warehouse until they have a full truckload to send. While these assets are secured until delivery, there is no official record of them since they have already been removed from OAKS AM at the time DAS approves the salvage method. Furthermore, after items have been delivered to DAS Surplus and receipt has been confirmed, there is no reconciliation conducted by DVS to ensure the items marked as retired in OAKS AM were sent to and received by DAS.

The lack of reconciliations and monitoring of asset custodians and IT assets increases the risk of inaccurate asset records being maintained. When storing assets to be disposed for an extended period, there is an increased risk of those assets being lost, stolen or misappropriated.

Recommendation

Develop and formalize procedures over the following areas:

- Custodians
 - Continue to periodically (i.e. annually) send out confirmation e-mails for employees to verify the assets in their possession agree to the assets assigned to them in OAKS AM. However, employees should be required to respond to the email confirmation no matter if changes are needed or if OAKS is accurate. This will help to ensure employees are not intentionally or accidentally ignoring e-mails, as well as acknowledging responsibility for the asset(s) assigned to them. Documentation of responses and any updates made to OAKS AM, as a result of the employee confirmation, should be retained.
- Tracking and Monitoring
 - Perform a reconciliation of the IT asset database to OAKS AM on a routine basis. Any discrepancies should be investigated and resolved in a timely manner. Results of this reconciliation should be maintained to evidence the review.
 - Biennial physical inventory counts for all assets should be conducted in a timely manner. This physical count should ensure all attributes recorded in OAKS AM match the actual asset, including: asset tag number, location, custodian, etc. Documentation should be maintained to evidence the results of the physical count, as well as any updates that were required to be made to OAKS AM. Final results should be reviewed by a supervisor.
- Disposals
 - Upon receipt of salvaged assets, DAS returns the Surplus Turn-In Document to DVS indicating the listed assets were received. DVS management should perform



a reconciliation to ensure all assets marked as retired in OAKS AM were received by DAS, as supported by DAS' acknowledgment of receipt, or disposed of in accordance with DAS' approved salvage method. The person performing this reconciliation should be separate from the employee(s) updating the asset status in OAKS AM and the employee(s) responsible for disposing the assets.

- Since DVS retains assets designated for DAS Surplus for an extended period, consider not marking assets as retired in OAKS until they are physically delivered to DAS. A different asset status or comment could be utilized to indicate the asset is in process to be retired. Additionally, consider waiting to obtain confirmation from DAS that the assets can be brought to surplus until there are enough assets to deliver. When DAS gives approval for items to be brought to surplus, DAS anticipates items arriving in a timely manner. When items are not received timely, it can have a negative impact on surplus auctions as DAS could have declined similar assets from other agencies due to anticipation of receiving those items from DVS. Conversely, DAS may end up with an abundance of the same items due to DVS' six to nine-month delay in delivering approved surplus items.

Update the existing policies and procedures to include all areas of asset management, including the activities noted above. These policies and procedures should be reviewed by management on a periodic basis to ensure their accuracy.

Management Response

DVS will review, develop and formalize procedures for all areas of asset management including the activities below.

- Custodians
 - DVS will continue to periodically (i.e. annually) send out confirmation e-mails for employees to verify the assets in their possession agree to the assets assigned to them in OAKS AM. Employees will be required to respond to the email confirmation no matter if changes are needed or if OAKS is accurate. DVS will retain employee confirmation.
- Tracking and Monitoring
 - DVS will perform a reconciliation of the IT asset database to OAKS AM on a routine basis. Any discrepancies will be investigated and resolved in a timely manner. The reconciliation will be maintained to evidence the review.
 - DVS will perform a Biennial physical inventory counts for all assets in a timely manner. The physical count will ensure all attributes recorded in OAKS AM match the actual asset, including: asset tag number, location, custodian, etc. Documentation will be maintained to evidence the results of the physical count, as



well as any updates that were required to be made to OAKS AM. Final results will be reviewed by a supervisor.

- Disposals
 - DVS management will perform a reconciliation to ensure all assets marked as retired in OAKS AM were received by DAS, as supported by DAS' acknowledgment of receipt, or disposed of in accordance with DAS' approved salvage method. The person performing this reconciliation will be separate from the employee(s) updating the asset status in OAKS AM and the employee(s) responsible for disposing the assets.
 - DVS will review the process and consider not marking assets as retired in OAKS until they are physically delivered to DAS. Additionally, DVS will consider waiting to obtain confirmation from DAS that the assets can be brought to surplus until there are enough assets to deliver.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Georgetown Financial Manager	January 2018

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