Assurance Report

2119 – Property Control Review

December 23, 2021

Cindy Rougeou, LASERS Executive Director
The LASERS Audit Committee

EXECUTIVE SUMMARY

During this review, the following observations were noted and are detailed below:
1. Cell phones and tablets not included in the inventory tracking process.
2. Use of automated techniques could be used to improve the inventory tracking process.
3. Procedures for surplus/disposal process should be updated.

BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2021 Audit Plan. The fieldwork for this engagement was completed on November 17, 2021.

LASERS has established a process to capitalize and depreciate capital assets, in accordance with the Capitalization and Depreciation of Property and Acquisitions Policy (Policy Number LAS.01-010). According to the LASERS Inventory Policy (Policy Number LAS.01-024), all items considered to be movable property (inventory) that have an acquisition cost of $5,000 or more are accounted for in the JD Edwards (JDE) inventory system. Computer hardware acquisitions costing less than $5,000 are added to JDE for tracking and inventory purposes including laptops and personal computers.

Procedures are in place to update the JDE inventory system when there are purchases, transfers, and disposal/surplus of property during the year. Physical inventory occurs prior to the end of each fiscal year.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this review included the acquisition, monitoring, and disposition of LASERS property.

The primary objectives of this engagement were to determine if LASERS property is properly:
- Classified, based on LASERS Inventory Policy.
- Depreciated and tracked while in use.
- Disposed of or surplused.
- Safeguarded.

Procedures used to complete this engagement included:
- Reviewing policies, procedures, and controls related to property.
- Interviewing LASERS staff.
- Testing data obtained from JD Edwards using Audit Command Language (ACL).
- Conducting other inquiries considered necessary to achieve engagement objectives.

This engagement was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the policies and procedures of the Audit Services Division.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES
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1. CELL PHONES AND TABLETS NOT INCLUDED IN THE INVENTORY TRACKING PROCESS

OBSERVATION

While reviewing LASERS inventory being tracked in JDE, it was identified that tablets and cell phones were not included. LASERS Inventory Policy, section IV, states that "The JD Edwards inventory system will also keep track of the following computer hardware acquisitions less than $5000: laptops, personal computers, tablets, and cell phones." Omitting tablets and cell phones from the inventory system increases the risk that staff may not know when items are misplaced or stolen.

Cell phones and tablets with cellular service have historically been tracked by IT for security management purposes using Air Watch. IT has recently transitioned the management of all cell phones and tablets with cellular service from Air Watch to Microsoft Intune and has plans to add tablets without cellular service, laptops, and eventually desktop computers.

RECOMMENDATION #1

Fiscal should make the necessary procedure updates to begin tracking tablets and cell phones in JDE, in order to be in compliance with the LASERS Inventory Policy.

DIVISION RESPONSE

Fiscal agrees with this recommendation. Fiscal has input all phones and is in the process of inputting tables into JDE Inventory. The phones have been reconciled to the Verizon bill and a list provided by IT. Fiscal is waiting on a tablet inventory list to reconcile the tablets listed in JDE. Once the reconciliations are complete, we will

finalize updates to procedures. The priority for this item has been set as medium with a target completion date of March 31, 2022.

RECOMMENDATION #2
Fiscal should work with IT to identify all cell phones and tablets owned by LASERS and add these items to JDE.

DIVISION RESPONSE
Fiscal agrees with this recommendation. Fiscal is in the process of working with IT to identify all cell phones and tablets. These items are being added to the JDE Inventory. At this time all cell phones have been entered into JDE and reconciled to the Verizon bill and a list provided by IT. Fiscal is waiting on IT to provide an inventory list of tablets to be entered into JDE before this can be completed. The priority for this item has been set as medium with a target completion date of March 31, 2022.

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2. USE OF AUTOMATED TECHNIQUES COULD BE USED TO IMPROVE THE INVENTORY TRACKING PROCESS

OBSERVATION
During the course of this engagement, Audit Services identified the following areas where the inventory tracking process could be improved with automated techniques:
- Deployment of new IT devices (i.e., desktops, laptops, cell phones, tablets, and servers).
- Transferring of IT devices among different users/locations.
- Disposal or surplus of IT devices.

Currently, communication and physical inspection of devices are essential for Fiscal to know what IT devices are being deployed, transferred to other users/locations, or disposed/surplused. When there is a breakdown in the communication process, discrepancies are created in the JDE inventory system.

A sample of 305 inventory items were reviewed and the following types of discrepancies were identified which illustrate some examples where a breakdown occurred:
- 61 items with an incorrect location in JDE
- 15 items that were disposed/surplused, but not updated as such in JDE.
- 3 items that were marked as disposed/surplused in JDE, but remained at LASERS.

IT utilizes device management software (i.e., Microsoft Intune, Microsoft System Center Configuration Manager) that could also be used to assist Fiscal with inventory tracking. Reports from these programs can show, for example, the date that devices last connected to LASERS network, as well as, the user's account being used to log in. The ability to use data from these reports can help to streamline inventory tracking by allowing for verification of JDE data to occur on a more regular basis than annually and should also reduce the need for sole reliance on communication when a device is deployed, transferred, or disposed/surplused.

RECOMMENDATION
Fiscal should develop and implement improvements to the inventory tracking process that utilizes automated methods/data, leveraging IT's device management tools, where possible.

DIVISION RESPONSE
Fiscal agrees with this recommendation. Fiscal and IT are currently testing the use of Intune on cell phones to assist in automating the inventory process. If the test is successful, Fiscal and IT will prepare a process change document for approval and expansion of the new inventory process to tablets and desktop computers. The priority for this item has been set as medium with a target completion date of December 31, 2023.

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3.   PROCEDURES FOR DISPOSAL/SURPLUS PROCESS SHOULD BE UPDATED

OBSERVATION
According to the LASERS Surplus Procedures, when IT devices have been designated for disposal/surplus, the data will be wiped clean and then placed in a designated location until disposal/surplus. Periodically, the Inventory Designee will check this location to determine if there are enough items to organize a pickup.

Procedures also state that items are accounted for and written down to show the recipient the quantity of items they will be picking up. A surplus form is completed and kept on file, which lists each item's description, asset number, LAS number, and serial number. JDE is updated by removing the location of the device so that it is blank. Inventory items are disposed of through a journal entry and the equipment status is set to "Fully Disposed". Receipts from the organization picking up the items are saved electronically.

Complete and accurate documentation resulting from disposal/surplus activities are important to keep for accountability purposes. During this engagement, documentation related to previous disposal/surplus activities was reviewed. The following types of example discrepancies were identified:
- A surplus form did not exist for three of the seven disposal/surplus activities reviewed.
- Of the 18 items selected to review which were designated as "disposed/surplused" in JDE, eight items could not be found in the disposal/surplus documentation.

RECOMMENDATION (CLOSED)
Fiscal should work with all affected parties to review and make the necessary updates to the procedures relating to the surplus/disposal process. While performing this review, some items for consideration include the following:
- Approval form (currently in development) that authorizes items to be disposed/surplused.
- Surplus form (detailing asset information that can be tied back to JDE), including the date of disposal/surplus and signature of the LASERS staff member responsible for the disposal/surplus.
- Acknowledgement of the organization receiving the items.
- Notation if funds/credits are to be received.
- Disposal journal entry with report showing items were updated with a "disposed" status in JDE.
- When items are designated as needing to be disposed of as opposed to surplused, two LASERS staff members should sign the surplus form to confirm disposal.

DIVISION RESPONSE
Fiscal agrees with this recommendation. Fiscal has completed the development of procedures and forms for the surplus/disposal process. The priority for this item has been set as high and is marked as complete.

FOLLOW-UP

A follow-up to this engagement will not be scheduled at this time. Audit Services will maintain this information on a tracking report. These items will be tracked until they are closed.

Hollie Cowell, CPA, CIA, CISA
Auditor

Ryan Babin, CPA, CIA, CISA
Audit Services Director

Cc: Trey Boudreaux
        Travis McIlwain
        Artie Fillastre
        Johnathon Sprouse
        Wretha Drinnon
        Eric Schoonmaker
        Amber Foster
        Greg Byrd