Consulting Engagement
Fixed Assets Part 2 of 3

Office of Internal Audit

Rachel A. Snell, Director
CIA, CFE, CRMA, CICA

May 2014

Providing value-added services in an independent, ethical, and collaborative environment
Chancellor Jones,

Internal Audit conducted a Consulting Engagement related to Fixed Assets. The objectives were to 1) enter fixed asset information into Banner; 2) create process manuals documenting fixed asset entry into Banner; and 3) evaluate Fixed Assets policies and procedures. This report is Part 2, in a three-part series, which relates to Surplus Property. Part 3 will focus on Policies and Procedures. Part 1 was completed April 2014, and it was related to fixed asset purchasing and tracking.

To accomplish Part 2, we performed the following work:

- Entered surplus information into Banner and assessed (limited) accuracy and completeness of data in Banner;
- Analyzed surplus property information and documentation;
- Reviewed policies, procedures, and other relevant criteria;
- Assessed risk and controls, including the potential for fraud, waste, and abuse.

As a result, we reviewed 2,556 surplus entries, and there were 402 entries (16%) either missing asset tag numbers or contained inaccurate tag information. There are multiple inventory systems District-wide, and none communicate with each other or Banner. Furthermore, there is no review of entries or regular reconciliations to ensure accuracy and completeness of data. In order to improve, we recommended enhancing access to Banner so that appropriate staff is able to make surplus entries and increasing the extent to which surplus data is reviewed and reconciled.

A summary of the results and action plan is located on page 5 of this report. If you have any questions, I can be contacted at (714) 438-4602 or rsnell1@mail.cccd.edu.

Rachel Snell, Director Internal Audit
**Objective, Scope, and Methodology**

This Consulting Engagement was conducted in accordance with the International Professional Practices Framework (IPPF) as per Board Policy. The Office of Internal Audit (OIA) follows most of the auditing standards as they pertain to tasks associated with direct audit and/or consulting engagements. However, due to resource shortages, the OIA is unable to comply with standards related to Quality Control Systems and Peer Reviews.

This project was selected as a Consulting Engagement due to Independence and Objectivity conflicts. One member of the OIA staff performed management functions in this area for over one year. Per Board Policy, auditors are not permitted to perform management functions, and per IPPF auditing standards, auditors cannot audit their own work. In order to institute safeguards while providing a value adding service, the audit objective, scope, and methodology were limited.

**Objectives:**

This report is Part 2 in a three-part series.

- To enter surplus information into Banner;
- To create manuals documenting the processes used to enter surplus information into Banner; and
- To evaluate policies and procedures related to Surplus Property.

**Scope:**

Banner surplus entries July 2013 through March 2014. Test work was not performed to verify statements made by management and staff, verify actual inventory, or review campus fixed asset tracking systems/ancillary purchases.

**Methodology:**

In order to perform our work, we performed the following tasks:

- Entered surplus information into Banner and assessed (limited) accuracy and completeness of data in Banner;
- Analyzed surplus information and documentation;
- Assessed risk and controls, including the potential for fraud, waste, and abuse;
- Reviewed policies and procedures, and other relevant criteria.

**Team Members:**

- Rachel Snell, Director
- Tracy Young, Team Member
Consulting Engagement Results

Background

Fixed assets are long-lived tangible assets having continuing value such as land, buildings, machinery, furniture, and equipment. Supplies are material items of an expendable nature that are consumed, wear out, or deteriorate in use. Districts are required to maintain an inventory system that contains the following information for items in excess of $5000 (or the district adopted capitalization threshold):

- description, name, identification numbers, original cost, date of acquisition, location;
- time and mode of disposal for all items of equipment that cost or had a market value at time of acquisition.

Districts may inventory assets at a lower level, but the $5000 level is the uniform system level for capitalization and depreciation. For purposes of capitalization and depreciation, equipment is defined as those items with a price of $5000 or more and a useful life beyond a single reporting period.

To comply with BAM, CCCD Administrative Procedure 6520 details the protocols for the inventory system, including fixed assets costing in excess of $1000. It also requires the District to conduct a physical inventory of fixed assets on a periodic basis. OCC and GWC adopted inventory thresholds lower than $1000 for inventory purpose. For example, OCC’s threshold is $500, except for technology related items which is $250, and GWC’s threshold is also $500. The same thresholds apply to both General Fund and Ancillary assets.

Purchase Orders are entered into Banner in such a way that staff assigns the record a specific accounting code that leads Banner to recognize the entry as a fixed asset. Assets are assigned an asset tag number in order to facilitate tracking and reporting of District owned property and equipment. Once it is determined that the useful life of an asset has expired, each campus completes a surplus disposal form and submits it to the District Purchasing Office. District Office staff creates a master list, which is submitted to the Board for review and approval. Since only assets purchased with General Fund monies with a value of $5000 or more were assigned asset tag numbers in Banner, the surplus list may contain other items that are purchased with Ancillary Funds (of any amount) or General Fund purchases that are less than $5000. After Board approval, the District Purchasing Office utilizes a third-party vendor to auction and dispose of the assets or trade-in for new assets. If the disposed asset’s funding source is identified, proceeds from the sale are deposited into the original fund source account. Otherwise, proceeds are deposited into the General Fund.

Results-Accuracy and Completeness

As a result of our work, we identified multiple incidences where asset tag numbers were missing, incomplete, or incorrect. The surplus disposal form does not contain the original value of the asset, so there is no way to determine whether there should be a record in Banner. Furthermore, staff has no means to reconcile assets in instances where the asset tag is missing or was never assigned. Staff was
asked to gather and report corrected information, so that we could update Banner with corrected data; however, we were informed that the campuses would need to perform a physical inventory in order to perform a reconciliation of assets. Overall, despite knowing of the inaccuracies, staff is not taking the time to validate and correct the reported information.

**Surplus Analysis Summary Table**

<table>
<thead>
<tr>
<th>Campus</th>
<th>Total Surplus Items</th>
<th># Without Asset Tag</th>
<th>Incorrect Asset Tag</th>
<th>Total # of Missing/Incorrect Asset Tag</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Office</td>
<td>N/A**</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>OCC</td>
<td>2275</td>
<td>199</td>
<td>43***</td>
<td>242</td>
<td>11%</td>
</tr>
<tr>
<td>GWC</td>
<td>N/A**</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CCC</td>
<td>281</td>
<td>58</td>
<td>102</td>
<td>160</td>
<td>57%</td>
</tr>
<tr>
<td>Total</td>
<td>2556</td>
<td>257</td>
<td>145</td>
<td>402</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Information based upon data provided by the campuses. Internal Audit did not conduct a physical inventory. **Per District Office and GWC, no surplus forms were submitted to-date, but is planned by current fiscal year end. ***Includes 5 duplicated entries.

According to staff, these errors occur because

- No review of fixed asset entries or surplus reporting
- Information was not always inputted correctly when the asset was initially purchased and received (data entry errors);
- Fiscal Office staff does not always verify or monitor the various components associated with inventory tracking.

According to staff, fiscal and maintenance/operations employees at each campus do not have access to the Fixed Asset module in Banner, and therefore, are unable to verify surplus assets. As stated in Part 1 of our Fixed Assets report, fixed asset tracking systems at the campuses do not communicate with Banner, and there is no independent review of entries made in Banner. Since we already determined that there is no way to verify whether data within Banner is accurate and complete, likewise, the possibility exists that data within the campus tracking systems may not be accurate or complete. Without a mechanism to ensure the accuracy and completeness of property and equipment and ensure items are not omitted, staff would not have a way to identify misplaced or stolen items.

If a surplus item was verified in Banner, then Internal Audit staff performed an entry to remove it from inventory. Aside from Internal Audit not being the appropriate staff to perform this work, the entries and removals made by internal audit were not reviewed by a subject matter expert within the fiscal department. There is no analysis performed to ensure items that should be removed from inventory were actually surplused. Potentially, assets could be overstated on the financial statements, and it is unknown if it would be a material amount.
Results-Other Observations

Board Policy 6550 was revised in December 2013, which delegated surplus declaration authority to the Chancellor. This policy also stated that sales of surplus personal property shall be reported to the Board on a periodic basis. The District Purchasing Office has yet to adapt the newly revised policy.

Lastly, assets approved for surplus are stored at designated locations on the campuses until the third-party auction company arranges auction on-site. Once sold/disposed, the auction company provides summary report along with any proceeds earned. It is unclear if reconciliation has been performed between the surplused listing and the vendor summary report to validate record accuracy.

Summary of Results and Action Plan

<table>
<thead>
<tr>
<th>Surplus entries are not made by the appropriate business unit; disposal forms and Banner entries are not reviewed or reconciled.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 1:</strong> The District Office should investigate the potential for allowing fiscal services staff at each campus “entry” access to the fixed asset module in Banner and allowing District Office Fiscal staff to perform periodic independent reviews of the surplus entries.</td>
</tr>
<tr>
<td><strong>Management Response/Action Plan:</strong> The Finance team (District and campus Fiscal managers) has met to discuss giving access to the fiscal services staff at each campus access to the fixed asset module and have determined that additional review of the process is needed to standardize the process and provide training to all staff of the new procedures.</td>
</tr>
<tr>
<td><strong>Due Date:</strong> Fall 2014</td>
</tr>
<tr>
<td><strong>Responsible Party:</strong> Daniela Thompson, Suzie Payne, Paul Wisner, Helen Rothgeb, and Rachel Kubik</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purchasing Office has yet to implement changes to Board Policy 6550.</th>
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<tbody>
<tr>
<td><strong>Recommendation 2:</strong> The Purchasing Office should transition its work practices to conform to Board Policy 6550.</td>
</tr>
<tr>
<td><strong>Management Response/Action Plan:</strong> The District Office will update the tools to dispose of surplus (i.e. forms, procedures) to conform to BP 6550 and provide training to District Staff on the new procedures.</td>
</tr>
<tr>
<td><strong>Due Date:</strong> 9/1/14</td>
</tr>
<tr>
<td><strong>Responsible Party:</strong> John Eriksen, Director of Purchasing, District Office</td>
</tr>
</tbody>
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