Audit Engagement
Fixed Assets Follow Up Audit

Office of Internal Audit
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Internal Audit Director
CIA, CFE, CRMA, CICA

August 2016

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

The Office of Internal Audit conducted a Follow Up Audit Engagement related to Fixed Assets. The objectives were to determine the extent to which audit recommendations, were implemented. We reviewed 9 of 11 recommendations from the three fixed asset reports.

To accomplish this task, we performed the following work:

- Reviewed relevant criteria;
- Interviewed relevant stakeholders;
- Analyzed relevant documentation and information systems; and
- Assessed risk and controls, including the potential for fraud, waste, and abuse.

As a result, we determined that none of the 9 recommendations we reviewed were implemented. According to management, other priorities in the District prevented staff from implementing corrective action. It should be noted, however, that failure to improve fixed assets and surplus programs may affect the accuracy of certain information reported on the District’s financial statements.

In pursuit of continuous improvement, we made recommendations geared toward ensuring audit recommendations are implemented and in accordance with the original timelines as communicated by management. A summary of the results is located on page 8 of the report. If you have any questions, I can be contacted at (714) 438-4602 or rsnell1@mail.cccd.edu.

Rachel Snell, MPA, Director
Objective, Scope, and Methodology

This audit was started as part of the 2015-2016 Annual Strategic Work Plan. Management responses were not received timely, and Internal Audit was unable to complete the project under the planned Fiscal Year. Therefore, this project was carried over to the 2016-2017 Annual Strategic Work Plan.

Board Policy (BP) requires Internal Audit to follow the International Professional Practices Framework (IPPF). No independence or objectivity issues were noted. BP also requires Internal Audit to annually review purchasing practices. The work performed herein was done so as part of this requirement.

Objectives:

- To determine the extent to which management implemented the recommendations associated with the three fixed asset reports that were issued in April, May, and June of 2014.

Scope:

- Implementation status of recommendations, with an implementation date prior to July 2016. Excluded recommendations that were not specific to fixed assets.

Methodology:

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

- Reviewed relevant criteria;
- Conducted interviews with relevant stakeholders;
- Reviewed and analyzed management responses to the recommendations, and other relevant documentation and information systems;
- Assessed risk and controls, including the potential for fraud, waste, and abuse.

We also used the following definitions in order to make determinations as to the implementation status of recommendations:

- **Fully Implemented**: Successful development and use of a process, system, or policy to implement a prior recommendation.
- **Substantially Implemented**: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- **Incomplete/Ongoing**: Ongoing development of a process, system, or policy to address a prior recommendation.
- **Not Implemented**: No formal process, system, or policy to address a prior recommendation.

Team Members:

- Rachel Snell, Internal Audit Director, MPA
- Kathy DeSalvo, Team Member
**Background**

Internal Audit conducted three consulting engagements related to Fixed Assets.
- Part 1, completed April 2014, related to fixed asset purchasing and tracking.
- Part 2, completed May 2014, related to surplus property tracking.
- Part 3, completed June 2014, related to fixed asset & surplus property policies and procedures.

As presented in the original reports, fixed assets are long-lived tangible assets having continuing value (land, buildings, machinery, furniture, equipment). Districts are required to maintain an inventory system containing specific information for items in excess of $5,000, and Administrative Policy 6520 (Use and Security for District and Personal Property) requires a lower threshold of $1,000. Different campuses have chosen to reduce levels further to $500, with technology at an even lower level for OCC at $250. Surplus property is those units determined to have a useful life which has expired. Disposal requirements for surplus property are specifically addressed in Board Policy 6550 (Disposal of District Property).

In Part 1, Internal Audit found that fixed asset entries into Banner were not performed timely or independently reviewed. Deliveries were not always received at the District Office or at designated Campus receiving offices, meaning that deliveries could be received without District Office, campus receiving, or fiscal affairs staff knowledge. Campus staff does not have access to the Fixed Asset module in Banner. There was no mechanism to ensure accuracy and completeness of fixed asset records, ensure items were not omitted, or identify misplaced or stolen items. Lastly, purchase order entries were not always entered with correct or identifiable information.

In the second report, we found that surplus designations of property were not made by the appropriate business unit and Banner entries were not reviewed or reconciled. The Master List completed by the District Office included campus surplus items, but could not be reconciled to the initial values of the asset due to incomplete recordkeeping and multiple systems used to compile lists. Fixed Asset reconciliations required physical inventory counts, which have not been performed consistently. Overall, we found that surplus fixed assets were not being disposed of according to Board Policy 6550.

In the third report, it was noted that the Property Control Manual and Purchasing Handbook had not been reviewed or updated in several years, and subsequently, were not consistent with revised Board Policies. Roles and responsibilities at each site were unclear and inconsistent, and authorized use of fixed assets both off and on campus sites was not properly documented. Periodic physical inventory counts were inconsistent and sporadic. This created risk for loss of fixed assets with no tracking of usage or disposal of property. Finally, Board Policies pertaining to Fixed Assets and Surplus Property needed to be reviewed and revised for inconsistencies and redundancies, putting in place safeguards to ensure security and value of District assets.
Audit Engagement Results

Overall, Internal Audit reviewed 9 of 11 recommendations from the three fixed asset reports. As a result, none of the 9 recommendations were implemented. Therefore, the risks identified in the prior reports still exist. These risks included, but are not limited to:

- Inability to accurately track and account for all fixed assets and surplus property, which may affect how these items are reported on the District’s financial statements; This includes:
  - Inconsistencies in where fixed assets are received (District Office or campuses) and who is responsible for entering into the Banner system and tagging the asset.
  - Decreased ability to identify if assets are missing or stolen.
  - Incorrect purchase order entries in Banner.
- Inability to demonstrate compliance with Board Policies and Administrative Procedures related to fixed assets and surplus property; This includes:
  - No reconciliations of fixed assets to property ready for surplus, and incomplete record-keeping;

Part 1 Report (Issued April 2014) Recommendations and Status

According to District Fiscal Services, a contract employee was hired in order to assist with establishing procedures for fixed assets, which includes reviewing fixed asset entries on a quarterly basis. However, due to other Banner projects, District Fiscal Services has not provided the campuses access to the fixed asset module. In the future, management stated there is a plan underway to develop a process for completing fixed asset inventories on a more frequent basis. In conjunction with this inventory improvement project, District Fiscal Services will evaluate staff access to the Banner fixed asset module.

According to District Purchasing Management and staff, refresher training was conducted on a “by request” basis and nothing formal or structured was presented to managers or staff District-wide. In addition, the District recently created a Performance Improvement Team in response to continued concerns within Purchasing, which also identified the need for training. Overall, Internal Audit concluded that the training provided in response to the initial audit recommendations, although well intentioned, was not effective or implemented in the manner intended to address the audit issues identified. District Purchasing Management stated that there is an effort underway to revamp the training and provide training videos that can be accessed by managers and staff throughout the District.

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<th>Recommendation</th>
<th>Management Action Plan &amp; Due Date</th>
<th>Implementation Status</th>
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<td>District Office should investigate the potential for allowing receiving staff “entry” access to the fixed asset module in Banner and allowing Fiscal staff to perform periodic independent reviews of fixed asset entries.</td>
<td>District and Campus Fiscal Offices will conduct training with campus personnel to process fixed assets in Banner and develop a plan to audit the entries on a quarterly basis. <strong>Responsible Party:</strong> Daniela Thompson, District Director Fiscal Affairs <strong>Due Date:</strong> September 2014</td>
<td>Incomplete/Ongoing. <strong>Responsible Party:</strong> Dana Swart, Controller <strong>Due Date:</strong> June 2017</td>
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<td>District Office and Campuses should ensure that purchases are delivered to</td>
<td>District Purchasing will arrange and conduct refresher training with campus</td>
<td>Incomplete/Ongoing.</td>
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assigned receiving personnel. personnel and their management involved with the receiving and delivery of purchases in accordance with the district accounting policies and procedures, and to ensure that they are followed. Responsible Party: John Erikson, District Purchasing Director Due Date: September 2014

District Office should provide refresher training to staff who enter purchase orders to ensure product descriptions and units of measure are entered accurately. District Purchasing will provide additional instruction and guidelines for all District Staff on the proper entry of product items and description layout. Responsible Party: John Erikson, District Purchasing Director Due Date: September 2014

In complete/Ongoing.

Responsible Party: Dana Swart, Controller Due Date: June 2017

Part 2 Report (Issued May 2014) Recommendations and Status

As stated above, District Fiscal Services is working toward completing an inventory project. Once this project is complete, the District staff will coordinate with the campus fiscal offices to evaluate the access to the Banner fixed assets module.

According to District Purchasing Management, the recommendations associated with the Purchasing Office have not been implemented. However, upon notification of the follow-up audit, District Purchasing Management stated that efforts were underway to implement Internal Audit’s recommendations. The District’s Purchasing Office stated that the recommendations should be implemented by July 2016; however it should be noted that the Purchasing Office is unable to demonstrate its ability to comply with Board Policy 6550.

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<td>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>
<td>The District and Campus Fiscal Offices discussed 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. Responsible Party: Daniela Thompson, District Director Fiscal Affairs, in coordination with campus fiscal directors. Due Date: Fall 2014</td>
<td>Incomplete/Ongoing. Responsible Party: Dana Swart, Controller Due Date: June 2017</td>
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<td>The Purchasing Office should transition its work practices to conform to Board Policy 6550.</td>
<td>The District Purchasing will update the tools to dispose of surplus (i.e. forms, procedures) to conform to Board Policy 6550 and provide training to District Staff on the new procedures. Responsible Party: John Erikson, District Purchasing Director Due Date: September 2014</td>
<td>Incomplete/Ongoing. Responsible Party: John Erikson, District Purchasing Director Due Date: December 2016</td>
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Part 3 Report (Issued June 2014) Recommendations and Status

According to Purchasing Management, some purchasing policies and procedures that are used internally were updated and revised in 2015, and there are currently efforts to continue to review and revise internal manuals as needed. According to Fiscal Management, a new Controller was hired in order to assist with developing and improving the District’s fixed asset protocols, among other duties. It is anticipated that review and revisions of associated Board Policies and Procedures should be completed by July 2017.

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<td>The District office should periodically evaluate its internal practices related to purchasing and fixed assets to ensure continued efficiency and effectiveness, and ensure applicable manuals and guides are revised as needed to reflect current practice and Board Policies and procedures.</td>
<td>Through the Office of the Vice Chancellor of Administrative Services, there is a District wide effort to review fixed asset policies &amp; procedures, ensure current policies &amp; procedures are followed for all property, including Measure M, and to implement recommendations from audit reports Part 1, 2, &amp; 3. <strong>Responsible Party:</strong> Andy Dunn, Vice Chancellor Administrative Services <strong>Due Date:</strong> December 2015</td>
<td>Incomplete/Ongoing. <strong>Responsible Party:</strong> Dana Swart, Controller <strong>Due Date:</strong> July 2017</td>
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<td>The District office should create and/or clarify procedures to ensure staff throughout the District and the Campuses are able to comply with the policy. This includes:</td>
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<td>District leadership should review Board Policy/ Administrative Policy 6535 and consider consolidating its contents with Board Policy/ Administrative Policy 6520.</td>
<td>Through the Office of the Vice Chancellor of Administrative Services, there is a District wide effort to review fixed asset policies &amp; procedures, ensure current policies &amp; procedures are followed for all property, including Measure M, and to implement recommendations from audit reports Part 1, 2, &amp; 3. <strong>Responsible Party:</strong> Andy Dunn, Vice Chancellor Administrative Services <strong>Due Date:</strong> December 2015</td>
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<td>District leadership should review and revise language of Board Policy 6550 to include delegated authority to the Chancellor and/or designee, and provide for Board ratification of surplus property decisions.</td>
<td></td>
<td>Incomplete/Ongoing. <strong>Responsible Party:</strong> Dana Swart, Controller <strong>Due Date:</strong> July 2017</td>
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## Summary of Results and Action Plan

**Finding 1:** The District Purchasing Office did not implement the initial recommendation related to manager and staff training as intended, creating an ineffective training model which produced limited to no improvement to purchasing entries in Banner.

**Recommendation 1:** District Purchasing Office should a) create a training mechanism that provides guidance to all staff District-wide on how to enter purchasing items into Banner and b) work with the District’s Executive Leadership Team to ensure managers and staff participate in the training and follow District purchasing procedures.

**Management Response/Action Plan:** Once the training videos are created, the Purchasing Office will track entries into Banner and evaluate the effectiveness of the training. The Purchasing Office will continue to deliver and modify training to ensure the results intended and improvements needed are garnered. The Purchasing Office will work with Executive Leadership to ensure relevant managers and staff participate in the training and follow the protocols established for the District.

**Due Date:** December 2016

**Responsible Party:** John Erikson, District Purchasing Director

**Finding 2:** District Fiscal Services has not completed work in the area of fixed assets and surplus for at least 2 years, continuing previously identified risks of inaccurate and incomplete information in our financial systems and potentially our financial reports, as well as non-compliance with Board Policies and Administrative Procedures.

**Recommendation 2:** The District Fiscal Office should develop an action plan and assign appropriate staff to ensure that the audit recommendations as identified in the three fixed assets reports are implemented.

**Management Response/Action Plan:** The Controller was hired in Spring of 2016 and is currently working on several projects, including year end close out. Improving fixed asset and surplus property operations at the District is an action item and there is a dedicated effort to ensure the recommendations from the reports are implemented by July 2017.

**Due Date:** July 2017

**Responsible Party:** Dana Swart, Controller