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Report No. 2018-01

TO: W. Glenn Wardell, Interim Director
Building Services

FROM: Hector Collazo Jr., Inspector General/Chief Audit Executive
Division of Inspector General 

DIST: Ken Burke, CPA, Clerk of the Circuit Court and Comptroller
Claretha Harris, Chief Deputy Director, Finance Division
Lourdes Benedict, Assistant County Administrator

SUBJECT: Inspector General's Observation of the Building Services
Annual Physical Inventory of Fixed Assets

DATE: January 10, 2018

This letter serves to inform you that the Division of Inspector General completed its observation of the annual physical inventory of fixed assets for Building Services on September 26, 2017.

Our objectives were to:

1. Interview and observe staff conducting the department's physical inventory to determine compliance with required inventory procedures.
2. Test and verify, on a sample basis, the assets recorded by staff.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances.

Our sample tests agreed with the inventory conducted by the Building Services staff. However, there are some areas of non-compliance with inventory policies and procedures as noted below.



1. There Is Insufficient Segregation Of Duties Within The Fixed Asset Process.

The Accountant 1, the designated Record Keeper, is responsible for the majority of the fixed asset inventory process. The Record Keeper is responsible for the following:

- Ordering inventory
- Receiving inventory
- Applying asset tags to the inventory
- Maintaining inventory records
- Creating and signing inventory documents
- Conducting the annual fixed asset inventory
- Removing assets from the inventory either through warranty exchanges or transfer forms

The Fixed Asset Custodian Authorization Form, provided to IG staff on September 26, 2017, lists the Accountant 1 as the Primary Custodian and the Record Keeper. The document lists the Administrative Support Specialist as the Alternate Record Keeper and the Inventory Taker. Documentation provided to IG staff during this audit was prepared by the Accountant 1, which is the role of the Record Keeper. However, the Record Keeper also signed that paperwork as the Primary Custodian. The Administrative Support Specialist signed each document provided to the IG staff as the witness. The Accountant 1 and the Administrative Support Specialist conducted the inventory during the IG site visit.

Per the American Institute of Certified Public Accountants (AICPA), segregation of duties is a basic building block of sustainable risk management and internal controls for a business. Internal control guides specify that segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud by ensuring that no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties. Generally, the primary incompatible duties within the fixed asset process that need to be segregated are:

- Authorization or approval
- Custody of assets
- Recording transactions

If internal controls are to be effective, there needs to be an adequate division of responsibilities among those who perform accounting procedures or control activities, and those who handle assets. Ideally, separate employees will perform each of the three major duties. In general, transaction processing should be designed so that the work of one individual is independent from and verifies the work of another individual.

The CCC Finance Fixed Asset Processing Manual has identified the different roles and responsibilities to be performed within the fixed asset process. The custodians must not perform the inventory because they act as reviewers of the process. The record keepers (primary and alternate) assign and affix asset tags, replace lost asset tags, maintain the asset records, manipulate the iAsset records, prepare transfers, and may perform the inventory. The

inventory taker is assigned the responsibility of performing the asset inventory. Ideally, each role is assigned to a different staff member in order to ensure the segregation of duties' internal control is in place.

Lack of sufficient separation increases the risk of undetected error and opportunities to misappropriate assets.

We recommend Management ensure sufficient segregation of duties by dividing the fixed asset roles and responsibilities among several employees with the appropriate level of authority in compliance with the CCC Finance Fixed Asset Processing Manual.

Management Response:

Partially Concur. There was an error in filling out the reporting forms listing the Accountant 1 as the Custodian, which is and should have been the Interim Director, a manager. The actual duties performed by the Accountant 1 did not include authorization, approval, or custody of the assets. Nor did the actual Custodian perform the inventory. Duties were and are segregated with the 1) Accountant 1 designated with the duties of Record Keeper, inventory contact, and performing the audit; and with the 2) Interim Director/Division Manager designated with the duties of Department Director and Custodian; and with the 3) Building Services Specialist designated as Alternate Record Keeper.

IG Comment:

The Accountant 1 was completing documentation to add and remove property from the fixed asset inventory as the Custodian during this audit while performing the function of the Record Keeper. The Accountant 1 performed the annual physical inventory of fixed assets with the IG staff on September 26, 2017. The Fixed Asset Custodian Form was updated by the department on December 18, 2017.

2. The Fixed Asset Transfer Forms Are Not Completed Properly.

The Accountant 1, the designated Record Keeper, improperly created Fixed Asset Transfer Forms to resolve discrepancies in the Building Services inventory. In order to transfer a fixed asset from the department to another department or surplus, the Fixed Asset Transfer Form must be completed. Completion requires the form be signed by the surrendering department's custodian, by a witness, and by the receiving department's custodian.

Per the Finance Division, department custodians must be management level employees with the appropriate level of authority to dispose of assets. The Fixed Asset Transfer Form states, "All transactions require the signatures of the authorized custodians and a witness before Oracle transfer."

The Accountant 1 created Fixed Asset Transfer Forms to transfer Assets #105256, #105257, #122828, and #122829 from the Building Services inventory to the Development Review

Services inventory, effective October 22, 2017. The Accountant 1 is not a management level employee, but signed the forms as the surrendering department custodian. A Development Review Services Permit Section Supervisor, who is not the designated custodian for the receiving department, signed as the receiving custodian.

During the audit, the Accountant 1 stated furniture listed as Asset #96767 was transferred to the Clerk of the Circuit Court's Office several years ago. The Fixed Asset Transfer Form to transfer Asset #96767 from the Building Services inventory to the Clerk of the Circuit Court's inventory had an effective date of October 22, 2017. The Accountant 1 is not a management level employee, but signed the form as the surrendering department custodian. A Development Review Services Permit Section Supervisor, who is not the designated custodian or an employee of the receiving department, signed as the receiving custodian.

IG staff contacted the Finance Division to inquire on what action transpired following receipt of the Fixed Asset Transfer Form for Asset #96767, dated October 22, 2017. Per the Finance Division, they did not receive the form and have no knowledge of furniture being transferred from Building Services. The Finance Division stated they have received the Building Services' inventory report, which showed the furniture was marked as unaccounted for property (UA). If Building Services does not know where the furniture is located, the procedures governing UA property should have been followed and no transfer form should have been created.

Circumventing internal controls increases the risk of error and opportunities to misappropriate assets.

We recommend Management review the inventory process and all documentation to ensure policies and procedures for Fixed Asset Transfer Forms are followed.

Management Response:

Concur. Obtain signatures from appropriate custodians for property transfer forms and follow alternate procedures specified for property that cannot be located, as applicable.

3. The Annual Inventory Director Approval Form Was Signed Prior To Inventory Completion.

The Annual Inventory Director Approval Form was signed by the Building Services' Interim Director on September 25, 2017. The IG inventory observation was conducted on September 26, 2017. As the form was signed prior to conducting or completing the inventory, the inventory review process was not followed. There is no confirmation the Interim Director reviewed or certified the inventory as complete and accurate.

The CCC Finance Fixed Assets Annual Physical Inventory Procedures and the CCC Finance Fixed Asset Processing Manual state the Department Director shall review the inventory and supporting documents and certify the inventory by signing and approving the inventory. Good

business practice is to sign documents certifying completeness and accuracy **after** the documents are completed and properly reviewed.

Circumventing internal controls increases the risk of error and opportunities to misappropriate assets.

We recommend Management adhere to the CCC Finance Fixed Assets Physical Inventory Procedures, the CCC Finance Fixed Asset Processing Manual, and good business practice by not signing inventory forms or documents until they are completed and reviewed.

Management Response:

Concur. Inventory was completed by the 25th in an effort to be fully prepared prior to the beginning of the audit on the 26th. Items found during observations were processed subsequent to discovery. In the future, inventory reporting will remain open and will not be signed until after any scheduled audits.

IG Comment:

The audit is an observation of staff conducting the department's required annual physical inventory of fixed assets. Staff may have conducted a preliminary review of the inventory prior to the site visit, but the staff identified the inventory being conducted on September 26, 2017 as the required inventory, which is also the inventory date on the Annual Inventory Director Approval Form.

We appreciate your staff's cooperation during this audit.