IT Asset Inventory

Audit Report # 19-109
August 29, 2019

The University of Texas at El Paso

Office of Auditing and Consulting

"Committed to Service, Independence and Quality"

The University of Texas at El Paso
Office of Auditing and Consulting Services

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August 29, 2019

Dr. Heather Wilson
President, The University of Texas at El Paso
Administration Building, Suite 500
El Paso, Texas 79968

Dear Dr. Wilson:

The Office of Auditing and Consulting Services has completed a limited- scope audit of IT Asset Inventory. During the audit, we identified opportunities for improvement and offered the corresponding recommendations in the audit report. The recommendations are intended to assist the department in strengthening controls and help ensure that the University's mission, goals and objectives are achieved.

We appreciate the cooperation and assistance provided by General Accounting and Inventory Services staff during our audit.

Sincerely,

Lori Wertz
Chief Audit Executive

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EXECUTIVE SUMMARY

The University of Texas at El Paso Office of Auditing and Consulting Services has completed a limited scope audit of Information Technology (IT) asset inventory. For purposes of this audit, IT asset inventory includes capital and controlled desktops, laptops, and tablets recorded in PeopleSoft and/or departmental inventory lists through March 31, 2019. We primarily tested assets in the Colleges of Education and Liberal Arts; however, we also tested a sample of high dollar inventory items campus wide for physical existence.

Based on the test work performed, we noted the following:

Inaccuracies in inventory records:

- Portions of the assets recorded in PeopleSoft were not found in college inventory listings, as well as the opposite; assets in inventory listings were not always recorded in PeopleSoft.
- Assets were not always recorded in the correct departments.
- Not all assets were recorded under the required State Property classification code.
- Some assets sent to the Surplus Department by the colleges still appeared as in service in PeopleSoft.
- There were assets physically located in the colleges that did not appear in PeopleSoft.

Incomplete Process for Monitoring Missing Inventory:

Although Inventory Services provides departments and colleges a missing inventory list after performing the annual physical inventory, there is not a consistent follow-up review process of missing inventory conducted. This was confirmed by our test work:

- A portion of the assets tested appearing in the missing inventory list for two consecutive years were physically located and in service at the colleges.
- Not all missing assets had the appropriate supporting documentation on file.

BACKGROUND

This audit only included capital and controlled desktop, laptop, and tablet computing devices due to the importance of their use in the daily operations of the University. Applicable state regulations governing the care and use of these assets include the following:

Texas Government Code Ann. Sec. 403.273 (Vernon Sup. 1993)

"The head of each state agency is responsible for the custody and care of state property in the agency's possession. Furthermore, it is each state employee's responsibility to use state personal property to official purposes only, and to exercise reasonable care for its safekeeping. The term "reasonable care" means that, at a minimum, steps have been taken to maintain the upkeep of any property in an acceptable manner, ensures the security of any asset, ensures that the property can be located at any time requested, and ensures that the person responsible for the asset is known."

In addition, The University of Texas at El Paso (UTEP) Inventory Manual provides employees with University-specific guidance for these assets:

"Controlled Property: IT assets including laptops, tablets and desktops (in accordance with the State Comptroller's policy and procedure) are inventoried as controlled property. These items are listed on the University's inventory, but are not considered capitalized unless the acquisition cost is $5,000.00 or greater."

The UTEP Inventory Department conducts a "wall to wall" inventory of all buildings on campus annually. Any missing items are reported and each individual department is expected to conduct a follow-up inventory on these items.

AUDIT OBJECTIVES

The objective of this audit was to determine whether UTEP:

- Information Technology (IT) asset inventory in PeopleSoft is complete, accurate, and up-to-date, and

- has adequate controls to monitor, track, and record IT asset inventory.

SCOPE AND METHODOLOGY

The scope of the audit includes all capital and controlled IT asset inventory including, desktops, laptops, and tablets recorded in PeopleSoft and/or departmental inventory lists through March 31, 2019.

The University had 12,513 in service IT assets recorded in PeopleSoft totaling $16,105,245 as of March 31, 2019.

Audit methodology included the following:

- Analyzing and comparing the PeopleSoft IT Asset Database with department records to identify potential errors.
- Judgmentally selecting a sample of 76 IT assets in the PeopleSoft database to test for physical existence. 65 items were included from the College of Education and the College of Liberal Arts, and 11 high dollar inventory items were selected campus wide.
- Judgmentally selecting 40 IT assets in the College of Education and the College of Liberal Arts to ensure the assets are properly recorded in PeopleSoft.
- Judgmentally selecting a sample of 20 IT assets in the College of Education and the College of Liberal Arts that appeared in the missing inventory list for two consecutive years.
- Reviewing supporting documentation of the selected IT assets.
- Reviewing policies, procedures, and state regulations.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the authoritative guidelines of the *International Professional Practice Framework* issued by the Institute of Internal Auditors.

RANKING CRITERIA

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for the rankings are as follows:

Priority - an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.

High – A finding identified by internal audit that is considered to have a medium to high probability of adverse effects to the UT institution either as a whole or to a significant college/school/unit level.

Medium – A finding identified by internal audit that is considered to have a low to medium probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

Low – A finding identified by internal audit that is considered to have minimal probability of adverse effects to the UT institution either as a whole or to a college/school/unit level.

AUDIT RESULTS

A. Inaccuracies in Inventory Records

1. <u>Analytical Observations Based on Inventory Tag Number</u>

   - 639 ($913,705) of 1,658 ($2,046,189), or 39%, of the IT assets recorded in PeopleSoft were not recorded in the inventory lists maintained by the colleges.

   - 174 out of 1,552, or 11%, of the IT assets in the colleges' inventory lists were not found in PeopleSoft.

   - 307 ($377,626) IT assets tested were recorded in the wrong departments in PeopleSoft.

   - 348 of 12,513 IT assets appeared in PeopleSoft without a tag number.

   - 233 tablets were classified under other IT asset classification codes for laptops and desktops. Only 20 tablets were recorded under the correct state classification code.

   - 18 of 48 of the colleges' IT assets sent to surplus still appear as In Service in PeopleSoft.

   - IT Assets were not always categorized correctly as capital or controlled. However, no material differences were noted in the Annual Financial Report classification.

2. <u>Physical Observation</u>

   - 7 of 40 IT assets tested, or 18%, were physically located in the colleges but did not appear in PeopleSoft.

Recommendation:

The Inventory Department should:

- *Provide a PeopleSoft inventory list to all the departments as part of their annual inventory process and request a copy of the department inventory list prior to the Annual Physical Inventory.*
- *Identify differences and implement a comprehensive reconciliation process to ensure internal IT asset inventory records agree to PeopleSoft records.*
- *Require Inventory and Department approval of the updated databases after differences are reconciled.*
- *Ensure all capital and controlled IT assets be tagged, and in the right department, category, and class code.*

Level: This finding is considered **MEDIUM** because the lack of reconciliation of Internal IT assets inventory records to PeopleSoft increases the risk of asset misappropriation and prevents the identification of missing assets.

Management Response:

Inventory Management partially agrees with reported findings. The official University database is PeopleSoft, which the Inventory department is committed to making accurate, dependable and reliable. Please note, however, that asset locations are currently only updated once per year as Inventory personnel scan the assets during the annual inventory. Additional features in the PeopleSoft upgrade will allow for electronic processing of asset transfers and real-time updates to asset locations, to include transfers to surplus.

The Inventory department will develop and implement a training program for all inventory custodians across campus. The training will include items related to inventory best practices, reconciliations, available queries and electronic processing of transfers In PeopleSoft.

Responsible Party:

Daniel Dominguez, Director of Accounting and Financial Reporting.

Implementation Date:

November 30, 2019

B. Incomplete Process for Monitoring Missing Inventory

1. Missing Inventory:

   Campus wide IT assets reported missing by the Inventory Department in the last two years:

   ➤ FY 2018: 478 assets valued at $603,244
   ➤ FY 2019: 548 assets valued at $762,444

A judgmental sample of 20 IT assets was selected for testing from the College of Education and the College of Liberal Arts. Nine of 20 IT assets that appeared in the missing inventory list for two consecutive years were physically located and in service at the colleges.

A missing inventory list is the only documentation provided to departments and colleges after performing the Annual Physical Inventory. Additionally, there is no communication between the Inventory Department and the departments after a follow-up review of missing items is conducted.

Consequently, there is no formal verification process to ensure departments are accountable for their missing inventory and the proper authorities are notified of any missing equipment.

2. Physical Existence

Per the Inventory Manual, departments and colleges must know where all assets are located at all times and should have a method of locating any inventory item under their control, whether on-site or off-side.

Upon verification of a loss, missing or stolen property must be reported immediately to the University Police Department. It should also be reported to Inventory Services, which will automatically initiate notification to the Vice President for Business Affairs, and subsequently the State Comptroller and State Auditor, if required by law.

- 31 of 76 ($193,589 of $897,566), or 41%, of the IT assets sampled from PeopleSoft could not be physically located.

- 12 of the 31 IT assets that were not physically located had been identified by the colleges and have support documentation on file.

College	Assets Tested	Assets Found	Identified Missing Assets *	Unidentified Missing Assets	Total Number of Missing	Total Value of Missing Assets
Education	30	17	8	5	13	$11,851
Liberal Arts	35	22	2	11	13	$30,800
Campus Wide	11	6	2	3	5	$150,938
Totals	76	45	12	19	31	$193,589
* Departments had supporting documenation on file.						

Recommendation:

The Inventory Department should:

- Arrange a meeting with the departments to clear all the remaining missing items to ensure the proper supporting documentation is submitted.
- Ensure disposition of missing IT assets are supported by a Notification of Missing Stolen Property Form.
- Ensure Departments submit inventory supporting documentation in a timely manner.

Level: This finding is considered **MEDIUM** because missing IT assets represent a financial loss of state funds and could affect the information security, privacy, and the protection of intellectual property.

In addition, the lack of monitoring over missing assets could lead to the disposition of in service IT assets, increasing the risk of misappropriation.

Management Response:

Inventory Management partially agrees with reported findings and observations. At the beginning of the physical inventory process, the Inventory Department contacts each campus department to notify them that the inventory team will start their physical inventory. After the conclusion of the first phase of the inventory (wall to wall scanning for every asset generally accessible), the Inventory Department provides each department with a list of missing assets and requests assistance to locate them, as well as access into restricted areas where assets may be located. The Inventory Department generally contacts the department two more times to follow up on missing assets. The Inventory Department will identify those departments with missing inventory at the conclusion of the follow-up visits and offer training on the correct procedures to follow and forms to utilize, to document a transfer or disposal of an asset. Training will emphasize the importance of

processing all inventory transactions on a timely manner. Additionally, Management will review current processes to ensure there are adequate controls and procedures in place once assets are identified as missing.

Responsible Party:

Daniel Dominguez, Director of Accounting and Financial Reporting.

Implementation Date:

December 31, 2019

C. Other Exceptions

Although these issues are beyond the control of the Inventory Department, it is important to disclose them.

- There was an unauthorized sale to a departing employee. Although the asset was purchased with state funds, the proceeds were deposited in a gift account.
- Equipment was removed from campus without the proper support documentation.

CONCLUSION

Based on the results of audit procedures performed, we conclude that:

- Information Technology (IT) asset inventory in PeopleSoft is not complete, accurate, and up-to-date.

- Controls to monitor, track, and record IT asset are not always adequate.

Improved processes are needed to reduce discrepancies in the reporting of inventory on campus.

The recommendations provided in the report reflect the conditions at the time of testing; however, as soon as the Inventory Department was notified of errors, they immediately began the process of making corrections.

In responding to the "*partial agreement*" with recommendations proposed in sections **A** and **B**, we are of the opinion that unless complete PeopleSoft inventory listings are provided to each department in order to reconcile to their own records, a comprehensive inventory listing is unlikely. We stand by our recommendations.

We wish to thank the management and staff of General Accounting and Inventory Services for their assistance and cooperation provided throughout the audit.