

Department of Education

Internal Audit

Fixed Assets Management Review

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Department of Education Fixed Assets Management Review

Executive Summary

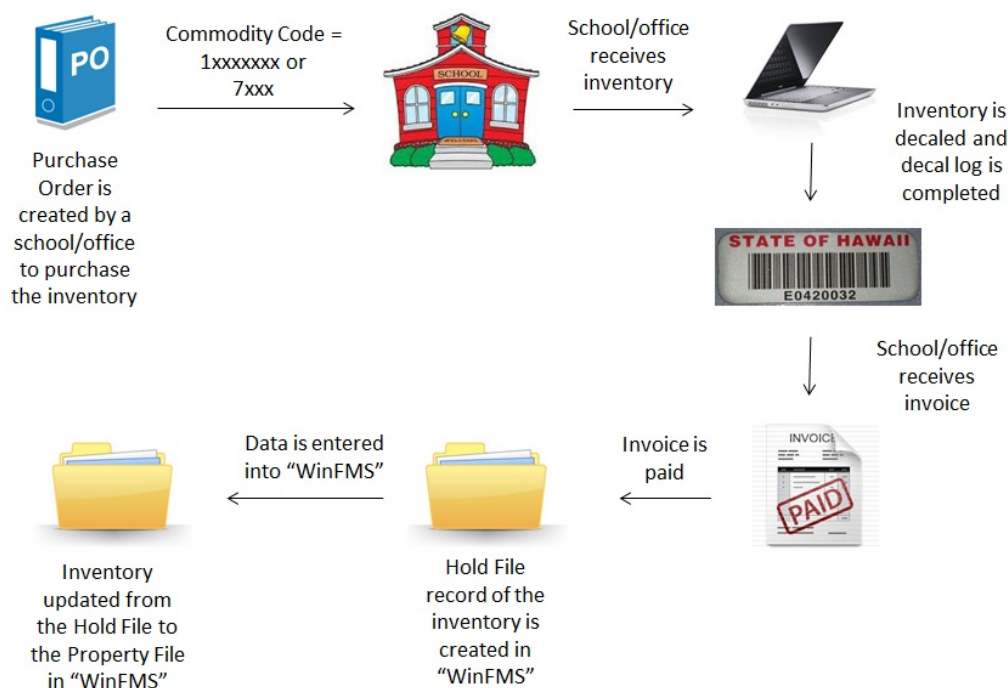
AUDIT OF: Fixed Assets Management Review	DATE: Fieldwork performed November 2015 – April 2015	AUDIT RATING: Acceptable [<input type="checkbox"/>] Marginal [<input checked="" type="checkbox"/>] Unacceptable [<input type="checkbox"/>]
<p>INTRODUCTION: In connection with the Department of Education’s (DOE) Updated Risk Assessment and Internal Audit Plan approved on August 5, 2014, Internal Audit (IA) performed a “<i>Fixed Assets Management Review</i>.” The purpose of this project was to review the adequacy of current Fixed Asset Management policies and processes as they relate to tracking and monitoring, recording and reporting, and disposing of fixed assets within the Accounting Services Branch (ASB); and to provide recommendations based on leading practices to improve the efficiency and effectiveness of fixed asset management.</p> <p>BACKGROUND: Hawaii Revised Statutes (HRS) 103D-1205 <i>Internal Control</i> requires that “The head of the department, or the head of any board, commission, agency, bureau, or office of the State and any county having the care, custody, or control of any state property is responsible for maintaining an adequate system of internal control to ensure the accountability, safekeeping, maintenance, and proper use of state property and verify that the internal control system continues to function effectively as designed.”</p> <p>Chapter 8 of the <i>Financial Management System User Policy and Process Flow Guide</i> (FMS User Guide) states that equipment is any property with a unit cost of two hundred fifty dollars (\$250.00) or more and with an expected life of one (1) or more years. Equipment may be purchased, donated, or transferred from another school/state office. As of fiscal year 2014, the DOE has over 490,000 pieces of equipment totaling over \$490,000,000.00. Schools and offices are responsible for updating and maintaining their respective inventory files. ASB in the Office of Fiscal Services (OFS) provides fiscal systems and support to serve the needs of the schools, complex areas, and state offices, including fixed assets inventory support.</p> <p>The inventory process begins with the purchase of a fixed asset. Whenever a school/office makes a purchase order with the commodity code that begins with a “1” and is seven (7) digits long or begins with a “7” and is four (4) digits long, a hold file record is created and a ten (10) digit property number is assigned. The hold file is a temporary file for newly purchased fixed assets, regardless of the purchase amount. The DOE uses a program called “WinFMS” to track the inventory items.</p> <p>When the inventory item and invoice has been received, the school or office is required to place a decal on the item and log the number in the decal log book. Schools or offices must also update the item with the location code, decal number, make, model, serial number, and license number (for motor vehicles) in “WinFMS” if the item cost more than \$250.00. This information will move the item from the hold file to the property file.</p> <p>Edits and changes generally require a change order form for any changes to location/detail location code, deletion of items below \$250.00, property file changes in cost, fund source, or received date. Edits and changes that do not require a change order form include changes to subclass, description, quantity (only grouped & classroom code), acquisition cost (only grouped & location code), responsible org ID, base reference number, decal number, make, model, serial number, license number, location code and acquisition method.</p>		

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Below is a depiction of the fixed assets inventory process as described above:

Fixed Asset Inventory Process



Disposals under \$250.00 must be reported on the "Request for Property File Adjustment" form (FMS-FA6). Disposals over \$250.00 must be reported on the "Request to Dispose" form (FMS-FA3) and submitted to the Inventory Unit. If an item was stolen, then the school/office must make a police report and complete the "Report of Loss or Damage to State Property" form (Form E-9) for submission to the Inventory Unit within 10 days of the incident in order to obtain reimbursement. The Inventory Clerk sends the listing of all disposals to the Accounting Director for approval. Upon approval, the Inventory Clerk returns a copy of the approved FMS-FA3 to the school or office for physical disposal of the asset and attaches a "Certificate of Disposal" form (FMS-FA8) for the school to complete when the physical disposal takes place. This form is then submitted to the Inventory Unit upon completion.

For transfers of assets between schools, schools are required to complete the "Request to Transfer" form (FMS-FA2) and submit it to the Inventory Unit.

Annually at the end of the fiscal year, inventory reports are generated by Enterprise Systems Branch (ESB) in the Office of Information Technology Services (OITS). The printed reports along with the "Certification of Annual Inventory Report" are sent to the schools and offices by the Inventory Clerk. The school/office is responsible for verifying the existence and accuracy of all items on the inventory listings received. The school/office must send back the approved "Certification of Annual Inventory Report" to the Inventory Unit by mid-August of the respective year.

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Amy Kunz is the Senior Assistant Superintendent and Chief Financial Officer of OFS. Her management staff includes Tom Ishimaru, Accounting Director, and Trisha Kaneshiro, Fiscal Specialist. Renee Igarashi is the Inventory Clerk in ASB.

Policies and procedures are documented in Chapter 8 of the FMS User Guide. Additional policies and procedures are posted in various sources including DOE Memos and Notes in Lotus Notes and the DOE Intranet under Financial Management System (FMS). Through research, IA identified Chapter 103D of the HRS and Chapter 130 of the Hawaii Administrative Rules (HAR), regarding Inventory Management as the main regulatory governance.

SCOPE and OBJECTIVES:

The scope of our review included an examination of the fixed assets management controls processes in the DOE. We reviewed the design and operating effectiveness of the existing control procedures in place. The scope of our review specifically focused on the processes related to the following subcategories that IA deemed as high risk:

- Purchasing
- Receiving
- Recording and Tracking
- Disposal and Transfers

The scope of the detailed testing covered fiscal year 2013-2014 and fiscal year 2015 up to fieldwork date. We selected one (1) school from each complex and one (1) office from each main state office for a total of 21 schools and offices for detailed physical inventory testing. Schools and offices were selected based on number of fixed assets, fixed asset costs, lost/damaged properties, location, and non-submittals of "Certification of Annual Inventory Report."

Although purchasing was identified as a high risk area, we performed limited testing on purchasing as it was covered by the "*Procurement & Contracting Process Review*" issued by IA in July 2012. We excluded testing on depreciation and useful life, which are areas reviewed by the external auditors annually. We also excluded detailed testing on capital construction assets as that will be reviewed in the "*Capital Construction Oversight and Management Implementation Follow-Up*" to be performed by IA during fiscal year 2018.

The objectives of our review included the following:

1. To obtain a general understanding of the design and operating effectiveness of the fixed assets inventory process.
2. To review, evaluate, and test the operating effectiveness of the fixed assets inventory process to ensure key controls have been adequately put into place and are in compliance with policies and procedures.
3. To determine whether fixed assets are adequately accounted for.
4. To verify fixed assets exist and all assets are properly recorded in "WinFMS."
5. To provide recommendations based on leading practices for improvement to enhance effectiveness and efficiency of fixed asset management.

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OBSERVATIONS:

Based upon our review, we found the DOE's controls related to fixed assets management controls are functioning at a "marginal" level. A marginal rating indicates that there may be a potential for loss to the auditable area and ultimately to the DOE. Some improvements are necessary to bring the unit to an acceptable status, and if weaknesses continue without attention, further deterioration of the rating to an unacceptable status may occur.

Please refer to the Risk Ratings section of this report for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

We discussed our preliminary findings and recommendations with management and they were receptive to our findings and agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations that will help to ensure that control gaps are addressed and, if enforced and monitored, will mitigate the control weaknesses. In summary, our observations are as follows:

1. Inaccurate reporting of fixed assets
2. Procedures not performed at the school/office level
3. Lack of current fixed assets policies and procedures (including training and guidelines)
4. Process inefficiencies regarding manual procedures

PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL AUDIT:

IA will follow up with management on their progress of completion for their action plans and report accordingly through the audit committee quarterly updates. In addition, IA has incorporated fixed assets testing into the school monitoring procedures.

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Rating Scale Definitions

OVERALL RATING SCALE	
Acceptable	No significant deficiencies exist, while improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department.
Marginal	Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.
Unacceptable	Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of management and may require significant amounts of time and resources to implement.

OBSERVATION RATING SCALE	
High (1)	<p>1 - The impact of the finding is <u>material</u>¹ and the likelihood of loss is probable in one (1) of the following ways:</p> <ul style="list-style-type: none"> ➤ A material misstatement of the DOE's financial statements could occur; ➤ The DOE's business objectives, processes, financial results or image could be materially impaired; ➤ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE's financial performance, operations or image. <p><i>Immediate action is recommended to mitigate the DOE's exposure</i></p>
Moderate (2)	<p>2 - The impact of the finding is <u>significant</u>¹ and the likelihood of loss is possible in one (1) of the following ways:</p> <ul style="list-style-type: none"> ➤ A significant misstatement of the DOE's financial statements could occur; ➤ The DOE's business objectives, processes, financial performance or image could be notably impaired; ➤ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE's financial performance, operations or image. <p><i>Corrective action by management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p>
Low (3)	<p>3 - The impact of the finding is moderate and the probability of an event resulting in a loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p>

¹ The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

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Observations

The detailed observations noted herein were based on work performed by IA through the last date of fieldwork and are generally focused on internal controls and enhancing the effectiveness of processes for future organizational benefit.

Obs. No.	Description	Page #
1	Inaccurate reporting of fixed assets	7-11
2	Procedures not performed at the school/office level	12-14
3	Lack of current fixed assets policies and procedures (including training and guidelines)	15
4	Process inefficiencies regarding manual procedures	16-17

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Observations

Observation Number: 1	
Observation: Inaccurate Reporting of Fixed Assets	Rating: High
<p>IA identified a number of issues with records in “WinFMS,” the accounting system for fixed assets, and the compliance with policies and procedures set by the DOE. The following table references the exceptions noted during our review, indicating inaccurate reporting of fixed assets. Further details are provided in the ‘Summary of Observations Noted’ column. Please refer to the appendix for a list of reports and forms related to fixed assets inventory.</p>	
Reference(s)	Summary of Observations Noted
Assets Not Located at Schools/Offices	
<ul style="list-style-type: none"> ➤ Chapter 8 of the FMS User Guide states that the official listing of fixed asset inventory provides a summary of each type of equipment by location. All assets on the report should be accounted for. 	<ul style="list-style-type: none"> ➤ IA was unable to physically locate 17 out of 294 fixed assets selected for testing, totaling \$108,422.06. In addition, for 19 out of 294 fixed assets samples, school/office staff informed IA that assets were disposed; however, disposal forms were not available. Also, in one (1) out of 294 fixed assets samples, school/office staff informed IA that the asset was transferred to another school; however, transfer forms were not available. ➤ During testing, IA found that one (1) Org ID is no longer in use; however, there are still fixed assets belonging to that Org ID which the office cannot identify the location of the assets.
Inaccurate Cost of Asset	
<ul style="list-style-type: none"> ➤ The cost of assets should be properly recorded on the property files. 	<ul style="list-style-type: none"> ➤ For seven (7) out of 471 fixed assets samples, the cost of the asset on the property file is much greater than the actual cost of the asset. In addition, for one (1) out of 471 fixed assets samples, the cost of the asset on the property file was \$0.00. <p>Findings were related to computers purchased in packs and then split for better tracking purposes. However, the cost of each computer was not split or entered correctly, as the cost of each computer remained at the cost of the entire pack of computers. The result was a significant overstatement of fixed asset costs.</p>

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Observations

Reference(s)	Summary of Observations Noted
Assets Not Located on Inventory Reports	
<ul style="list-style-type: none"> ➤ All fixed assets meeting the requirements to be inventoried should be recorded on the property files. 	<ul style="list-style-type: none"> ➤ IA was unable to locate 28 out of 177 fixed assets samples, 16%, on the respective school's/office's property files due to the following reasons: not enough information available to trace the asset to the property files, the information on the property files was not accurate, or item was deleted from inventory reports. ➤ Two (2) out of 21 schools/offices selected for testing incorrectly deleted four (4) items off the hold file records.
Items in Hold File	
<ul style="list-style-type: none"> ➤ Schools/offices are required to enter detailed information onto the hold file so that "WinFMS" can move the hold file record to the property files. 	<ul style="list-style-type: none"> ➤ 89 of 471 fixed assets samples, 19%, were still in the fixed asset hold file three (3) months after it was purchased. IA was not able to agree detailed information (i.e. Make, Model, Serial #, Decal #, etc.) to the inventory reports as the information was not available from the hold files. ➤ For the 21 schools/offices selected for testing, there was a total of 4,196 fixed assets, valued at over \$250.00, in the hold file/archived hold file as of June 30, 2014.
Improper Asset Decaling	
<ul style="list-style-type: none"> ➤ Chapter 8 of the FMS User Guide states that all equipment must be identified with Department of Accounting and General Services (DAGS) approved decal tags. 	<ul style="list-style-type: none"> ➤ 71 of 471 fixed assets samples, 15%, were not tagged with a DAGS approved decal tag or any other decal tag. ➤ Two (2) of 471 fixed assets samples contained a decal number on the asset that did not agree to the decal number on the property file.
Incorrect Asset Location Information	
<ul style="list-style-type: none"> ➤ Schools/offices are required to enter detailed information, including the location, onto the hold file so that "WinFMS" can move the hold file record to the property files. 	<ul style="list-style-type: none"> ➤ For 26 out of 471 fixed assets samples, the location of the physical asset did not agree with the location recorded in the property files. ➤ For the 21 schools/offices selected for testing, there was a total of 1,145 items with temporary location codes of 8888 and 9999.

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Reference(s)	Summary of Observations Noted
Other Incorrect Information	
➤ Schools/offices are required to input detailed information onto the hold file so that “WinFMS” can move the hold file record to the property files.	➤ Detailed information (i.e. Make, Model, Serial #, Decal #, etc.) was not included on the property files for 76 of the 471, 15%, fixed assets samples.
➤ Fixed assets still in use by school/offices should not be deleted off the property file.	➤ For one (1) out of 70 disposed fixed assets samples, the item was not disposed of but it was on the disposal report. IA verified that the school still had the item.

These observations indicate a weakness with the fixed assets management control procedures. Based on field visits, IA noted that the main factor attributed to the findings is that most schools/offices do not have dedicated inventory personnel to process inventory. Instead, the inventory function is tasked to office assistants, School Administrative Services Assistants (SASA), and secretaries that have other administrative duties. IA also noted that there were fewer findings at schools with dedicated inventory personnel. Through discussions with staff at schools/offices, although there is training available, they feel that more training should be conducted to help them get a better understanding of the fixed assets process.

Impact

Inaccurate reporting of fixed assets may lead to:

- Inaccurate financial reporting of fixed assets which may result in an over or understatement of DOE’s fixed assets.
- Improper safeguarding of fixed assets which may lead to theft and unauthorized use of the fixed assets.
- Improper confirmation that fixed assets actually exists.
- Misappropriation of fixed assets especially without proper unique identifiers to the asset.
- Inefficiencies when trying to perform physical inventory counts.

Recommendation

Recommendations to address inaccurate reporting of fixed assets include:

- Management should consider methods to automate fixed asset processes to help increase the accuracy of inventory records such as a bar-coded scanning process that could be integrated with the accounting system.
- More fixed assets training should be given to the field.
- Management should identify old Org IDs and clear out old/disposed fixed assets and transfer remaining fixed assets into new Org IDs.
- Management should periodically, on a test basis, review the items deleted off the hold file records for proper deletions.
- Management should periodically, on a test basis, check that fixed assets are moved from the hold file into the property file.
- Management should ensure the proper disposal of fixed assets.

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Observations

- Management should continue to send reminders throughout the year to the field for the following:
 - Timely submittal of disposal/transfer forms to the Inventory Unit to remove disposed/transferred fixed assets from the property file.
 - To move fixed assets from the hold file to the property files in a timely manner.
 - To decal all fixed asset items prior to distribution of the fixed asset.
 - To update the location of the asset if the asset is moved from its original location.
 - To update the location of the asset from temporary locations to actual locations.

Management Plan

The Fixed Asset maintenance is a DOE wide concern. An overall Corrective Action Plan is to formulate a Fixed Asset Management review committee, comprised of stakeholders at the school, complex, and State levels. The committee will be tasked to investigate areas of concern as outlined by IA, propose and execute viable solutions to resolve concerns in order to mitigate financial risk, and to address all system and process control deficiencies.

Policies and Procedures:

A review will be done on current policies and procedures to determine if documented processes are still applicable, and to identify any area where improvements can be made to make processes more efficient. All agreed upon revisions will be added to the policies and procedures manual, and communicated to the field through memos and updated SASA Academy training modules.

Training:

User Support Technicians (UST) provide training on FMS, where fixed assets are recorded. There currently is a wait list so a review will be conducted to determine how many users are on the list, what is the cause of the backlog, and what resources are needed to address the backlog. The training program will be reviewed to determine if the program materials are up-to-date, and if the presentation format is still relevant.

Data Maintenance:

Reports will be run to identify which schools/offices have fixed assets that are in old Org IDs, in the Hold File for an extended period of time, or should be removed due to disposition. These lists will be sent to the respective SASAs, Principals, and Complex Area Business Managers (CABM) for follow-up.

System Improvements:

A pilot bar-code system was rolled out 5 years ago but there were functionality issues, as well as interface issues with FMS, which is a 20+ year old system. OITS will be consulted to determine if a bar-code program will be cost effective and a viable means to gain operational improvements and workflow efficiency.

Communication:

Notices are sent out twice a year to remind the field to update their Fixed Assets records in a timely manner, as well as to certify their annual physical inventory reports. As stated above, reports of outstanding items will be generated and sent to respective schools/offices for follow-up. If positive responses are not received in a timely manner, assistance will be sought from the CABMs, as well as Leadership.

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Observations

Contract Person: Tom Ishimaru, Accounting Director
Accounting Services Branch
Office of Fiscal Services

Anticipated Completion Date: June 30, 2017 with the exception of System Improvement Implementation.
Target implementation date for that is December 31, 2020

Responsible Manager

Accounting Services Branch, OFS

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Observations

Observation Number: 2	
Observation: Procedures Not Performed at the School/Office Level	Rating: Moderate
DOE schools and offices are required to follow inventory policies and procedures. In addition, various forms and supporting documents are required to be completed, filed, and/or submitted in a timely manner. The following table references the exceptions noted during our review, indicating procedures not performed at the school/office level. Further details are provided in the 'Summary of Observations Noted' column. Please refer to the appendix for a list of reports and forms related to fixed assets inventory.	
Reference(s)	Summary of Observations Noted
Annual Certification of Inventory	
➤ Each school/office is required to complete and submit an Annual Certification of Inventory to the Inventory Unit, which is approved by the school's principal or the office's director/Assistant Superintendent. This was a finding in the Annual Financial and Single Audit for the fiscal year ended June 30, 2011.	➤ 343 out of 633 schools/offices, 54%, did not submit the "Annual Certification of Inventory" within the respective stipulated deadline. ➤ Three (3) out of 21 schools/offices surveyed stated that annual inventory counts were not performed during Fiscal Year (FY) 2014. One (1) of the schools/offices performed the physical inventory by reviewing the asset list for items/equipment that were previously disposed of, which does not represent a true inventory count.
Decals and Decal Log	
➤ Schools are required to complete decal logs as the information on the decal log is needed to update the item in the hold file and move it to the property file.	➤ 94 out of 349 fixed assets samples, 27%, were not on the respective school's/office's decal log. ➤ Detailed information (i.e. date, location, PO #, etc.) were not included on the decal log or the information on the decal log was inaccurate for 30 of the 349 fixed assets samples. ➤ Three (3) out of 21 schools/offices tested did not have a decal log and five (5) out of 21 schools/offices did not have a complete decal log with all the proper fields.
➤ Chapter 8 of the FMS User Guide states that all equipment must be identified with DAGS approved decal tags. Items should be decaled before being sent to the location where it will be used.	➤ Four (4) out of 21 schools/offices surveyed stated that items were not decaled prior to distribution.

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Observations

Reference(s)	Summary of Observations Noted
Disposal Forms	
➤ Schools/offices should keep disposal forms on file. Chapter 8 of the FMS User Guide states that original copy will be kept by the Inventory Unit and schools are to keep a copy of the approved disposal forms.	➤ Disposal forms ("Request to Dispose" form (FMS-FA3) and/or "Certificate of Disposal" form (FMS-FA8)) were not available for nine (9) out of 70 disposed fixed assets samples. IA was not able to locate the form at the school/office or from the Inventory Unit. ➤ Four (4) out of 70 disposed fixed assets samples did not have the FMS-FA3 on file at the school/office. IA was able to locate the original form from the Inventory Unit. ➤ Six (6) out of 70 disposed fixed assets samples did not have the FMS-FA8 on file at the school/office. IA was able to locate the original forms from the Inventory Unit.
➤ Chapter 8 of the FMS User Guide states that for the FMS-FA8, the top half of the certificate should be signed by a witness to the disposal and the second half of the certificate should be signed by the administrator/principal, the custodian of the property.	➤ For one (1) out of 70 disposed fixed assets samples, there was no authorizing signature on the FMS-FA8 on file at the school. IA was not able to locate the original form from the Inventory Unit. ➤ For three (3) out of 70 disposed fixed assets samples, there was no witness signature on the FMS-FA8 on file at the school. IA was not able to locate the original form from the Inventory Unit.
Transfer Forms	
➤ Schools/offices should keep transfer forms on file. Chapter 8 of the FMS User Guide states that original copy will be kept by the Inventory Unit and schools are to keep a copy of the transfer forms.	➤ Transfer forms were not available for two (2) out of 41 transferred fixed assets samples. IA was not able to locate the original form from the Inventory Unit. ➤ Eight (8) out of 41 transferred fixed assets samples, 20%, did not have transfer forms on file at the school/office. IA was able to locate the original form from the Inventory Unit.
Other Forms	
➤ Chapter 8 of the FMS User Guide states that staff members who wish to use State equipment at home or outside the school grounds for State/school activities should use a sign out form to maintain property accountability.	➤ Two (2) out of 21 schools/offices surveyed stated that they do not use the "Off-site use of State Equipment" form for the use of equipment off-site.

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Observations

<p>These observations indicate an additional weakness with the fixed assets management controls procedures. Based on field visits, IA noted that turnovers and misplacement of documents are additional factors attributing to the findings. In addition, there is only one (1) position in the Inventory Unit in the Accounting Section of ASB in OFS to handle all adjustments, disposals, transfers, and other areas related to inventory. Through discussions with staff at schools/offices, although there is training available, they feel that more training should be conducted to help them get a better understanding of the fixed assets process.</p>
Impact
<p>Procedures not performed at the school/office level may lead to:</p> <ul style="list-style-type: none"> ➤ Inaccurate reporting of fixed assets in the DOE. The untimely submission of documentation supporting the annual physical inventory counts may also lead to violations of the HRS. ➤ Inaccuracies of decal logs which may lead to inaccuracies of property files. ➤ Improper reporting, safeguarding, and confirmation of fixed assets. ➤ Improper accountability of equipment. ➤ Inconsistencies between practices and policies and procedures. Such inefficiencies could result in wasted resources and financial loss to the DOE.
Recommendation
<p>Recommendations to address procedures not performed at the school/office level include:</p> <ul style="list-style-type: none"> ➤ Management should continue its efforts to diligently obtain supporting documentation evidencing physical inventory counts by each school in a timely manner. ➤ Continued reminders should be sent to the field to properly conduct physical inventory counts at least on an annual basis. ➤ Management should issue an electronic standardized decal log template found in the SASA Academy Training for schools/offices to use for fixed assets recording. ➤ More fixed asset training should be given to the field. ➤ Management should continue to send reminders throughout the year to the field for the following: <ul style="list-style-type: none"> ○ To properly complete decal logs. ○ To properly decal items prior to distribution. ○ To properly complete disposal/transfer forms and have all disposal/transfer forms on file. ○ To use the proper forms for the use of equipment off-site.
Management Plan
<p>Please see Management's Plan in Observation #1.</p> <p>Contract Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: June 30, 2017 with the exception of System Improvement Implementation. Target implementation date for that is December 31, 2020</p>
Responsible Manager
Accounting Services Branch, OFS

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Observations

Observation Number: 3	
Observation: Lack of Current Fixed Assets Policies and Procedures (including Training and Guidelines)	Rating: Low
<p>Current policies and procedures used for inventory are based on Chapter 8 of the FMS User Guide issued in 1995. It does not give clear guidance on how to inventory certain fixed assets, such as camera surveillance systems, machine parts, computer software, subscription licenses, digital courseware, etc. In addition, there is limited guidance on consistency of decal logs, including which fields are required on the decal log, and how long to keep the decal log.</p> <p>Based on the testing performed, IA found inconsistencies in schools/offices in regards to software. Software is recorded in the property files for some schools/offices, while some schools/offices delete it off the hold file so that it does not appear on their property files. Refer to observation #2 for findings on decal logs. In addition, seven (7) out of 21 schools/offices surveyed stated that they do not feel that they are provided with adequate policies and procedures. Three (3) stated that they were not formally trained to process fixed assets. Through discussions with staff at schools/offices, although there is training available, they feel that more training should be conducted to help them get a better understanding of the fixed assets process.</p>	
Impact	
Lack of policies and procedures given to the field may lead to inconsistencies between practices and policies and procedures. Such inefficiencies may result in wasted resources and financial loss to the DOE.	
Recommendation	
Management should revise and update policies to give clarity to the inventory process. Training should be given to the field on the revised procedures and policies. Management should continuously revisit these policies and procedures for any changes or updates.	
Management Plan	
<p>Please see Management's Plan in Observation #1.</p> <p>Contract Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: June 30, 2017 with the exception of System Improvement Implementation. Target implementation date for that is December 31, 2020</p>	
Responsible Manager	
Accounting Services Branch, OFS	

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Observations

Observation Number: 4	
Observation: Process Inefficiencies Regarding Manual Procedures	Rating: Low
<p>During the review, IA noted some process inefficiencies in regards to manual procedures. The disposal process appears to be inefficient as there are too many points of authorization. As described in the background section of the report, in general, two (2) forms are required for the disposal of a fixed asset in the property file: “Request to Dispose” form (FMS-FA3) and “Certificate of Disposal” form (FMS-FA8). The FMS-FA3 is prepared by schools/offices and submitted to the Inventory Unit for approval. The Inventory Clerk sends the listing of all disposals to the Accounting Director for approval. Upon approval, the Inventory Clerk returns a copy of the approved FMS-FA3 to the school or office for physical disposal of the asset and attaches a FMS-FA8 for the school to complete when the physical disposal takes place. The school/office then completes the FMS-FA8 by having two (2) different people signing the form as a witness and as a certifier that the item has been disposed. The FMS-FA8 is then submitted back to the Inventory Unit to authorize the Inventory Clerk to delete the item from the property file.</p> <p>In addition, the “Report of Loss or Damage to State Property” form (Form E-9) is required when theft is involved. This form is also submitted to the Inventory Clerk. During fiscal year 2014, there were 103 fixed assets that were reported as theft or casualty loss on the disposal report. These fixed assets included computers, computer cart, cameras, camcorders, projectors, televisions, ukuleles, communications equipment, and miscellaneous equipment, totaling over \$69,000. Schools/offices are responsible for contacting the Safety, Security, and Emergency Preparedness Branch (SSEPB) in the Facilities Maintenance Branch (FMB) of the Office of School Facilities and Support Services (OSFSS) for reimbursements by the State. In certain cases, SSEPB has gone out to school sites to help with prevention of theft. In addition, SSEPB has given trainings to complex areas and principals on how to prevent losses and damages.</p>	
Impact	
<p>Inefficiencies resulting from manual procedures may lead to wasted resources and financial loss to the DOE. In addition, the lack of training performed for loss or damages to state property may lead to additional financial loss to the DOE.</p>	
Recommendation	
<p>Recommendations to address process inefficiencies regarding manual procedures include:</p> <ul style="list-style-type: none"> ➤ Management should revise and update policies to eliminate process inefficiencies with fixed asset disposals. ➤ ASB should provide SSEPB with the annual disposal report for all schools/offices that shows all the disposals in the DOE due to theft and casualty loss in the respective fiscal year. ➤ The SSEPB should summarize and analyze the types of fixed assets thefts and losses and customize their training to the types of losses/damage. In addition, SSEPB could identify the schools/offices/locations of where the majority of these losses are occurring and continue to perform site visits to ensure that risk areas are addressed and proper safety measures such as safe locations, locks, etc. could be recommended. 	

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Observations

Management Plan
<p><u>Accounting Services Branch Management Plan:</u></p> <p>Please see Management's Plan in Observation #1.</p> <p>Contract Person: Tom Ishimaru, Accounting Director Accounting Services Branch Office of Fiscal Services</p> <p>Anticipated Completion Date: June 30, 2017 with the exception of System Improvement Implementation. Target implementation date for that is December 31, 2020</p> <p><u>Safety, Security, and Emergency Preparedness Branch Management Plan:</u></p> <p>SSEPB will continue to issue risk management information and reminders to all school and offices annually. SSEPB will also work with ASB to summarize and analyze the data received, looking for trends and potential vulnerabilities, and report out to DOE leadership on a quarterly basis. Workshops as well as site vulnerability assessments will be held upon request. Once SSEPB are able to analyze the data received, focused training can be offered to Complex Area Superintendents.</p> <p>Currently two separate forms are required to report the loss or damage of state property (Form E-9) and to file a claim for reimbursement from DAGS, Risk Management Office (Form RMP-001). SSEPB will check if those two forms can be consolidated to reduce the amount of paperwork required to file a claim.</p> <p>Contract Person: Gilbert Chun, Acting Director Safety, Security, and Emergency Preparedness Branch Office of School Facilities and Support Services</p> <p>Anticipated Completion Date: June 30, 2016</p>
Responsible Manager
Accounting Services Branch, OFS Safety, Security, and Emergency Preparedness Branch, OSFSS

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Appendix

Fixed Asset Reports and Forms:

Reports and Forms Referred to in this Report	
<u>Report Number</u>	<u>Report Name</u>
DAFMZ514	Fixed Asset Inventory – School Level (property file)
DAFMZ514-A	Fixed Asset Inventory – School Level – Archived Records (archived property file)
DAFMZ517	Fixed Asset – Report of Hold File Records (hold file)
DAFMZ517-A	Fixed Asset – Report of Archived Hold File Records (archived hold file)
<u>Form/ Document Number</u>	<u>Form/ Document Name</u>
FMS-FA3	Request to Dispose
FMS-FA8	Certificate of Disposal
Form E-9	Report of Loss or Damage to State Property
FMS-FA2	Request to Transfer
FMS-FA6	Request for Property File Adjustment
N/A	Off-Site Use of State Equipment

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Acknowledgements

During the review, IA noted that the DOE records and decals all fixed assets with an inventory reporting threshold of \$250.00 or more, whether the items are theft sensitive or not. Each year, non-theft sensitive DOE assets valued at \$250.00 through \$999.99 are moved from the property file to an archived file. Under the State of Hawaii's inventory reporting policies, State of Hawaii records and decals all fixed assets with an inventory reporting threshold of \$1,000.00 and *only* theft sensitive fixed assets having a unit cost of \$250.00 through \$999.99. The State's records do not reflect non-theft sensitive fixed assets under \$1,000.00 and those fixed assets are not decaled. The DOE's additional tracking of non-theft sensitive items mitigates the risk of fixed asset losses and the DOE has more accountability and controls over fixed assets management.

During the review, IA noted that there were multiple schools/offices that performed exceptionally well (i.e. locations with low/moderate impact observations). IA would like to acknowledge these schools and offices for their performance.

In addition, we wish to express our appreciation for the cooperation and assistance afforded to the review team by management and staff during the course of this review.