



COMMISSIONERS COURT  
COMMUNICATION

REFERENCE NUMBER CO#127945

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DATE: 06/26/2018

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT FOR THE REVIEW OF CONTROLS OVER THE INVENTORY AND MOVEMENT OF COMPUTER-RELATED ASSETS**

**COMMISSIONERS COURT ACTION REQUESTED:**

It is requested that the Commissioners Court receive and file the Auditor's Report for the Review of Controls over the Inventory and Movement of Computer-Related Assets.

**BACKGROUND:**

On April 3, 2018, an audit report was presented to the Commissioners Court stating that the Information Technology Department (ITD) had not completed a 2017 inventory of computer-related assets, and therefore, the Auditor's Office could not fulfill its statutory responsibility described in Local Government Code, Section 262.011(i). ITD management provided a plan to complete the 2018 inventory which is currently underway.

The Auditor's Office also reviewed ITD's internal controls over the inventory and movement of computer-related assets and determined whether computer-related assets were recorded, transferred, and inventoried in accordance with County policy.

The County Administrator, County Auditor, Purchasing Agent, and the Chief Information Officer have collaborated during this process whereby recommendations and actions were discussed, including:

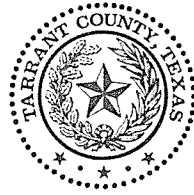
- Contracting with an outside firm to perform a full inventory of computer assets;
- Performing cycle counts throughout the year to verify the physical existence of computer assets;
- Designating what computer assets should be tracked;
- Amending the Purchasing Policy to clearly define the value of computer assets to be tracked; and
- Documenting detailed procedures for the inventory of computer assets.

Attached is management's response.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this item.

SUBMITTED BY:	Auditor's Office	PREPARED BY:	Kim D. Trussell
		APPROVED BY:	



## TARRANT COUNTY

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June 7, 2018

Mr. Christopher Nchopa-Ayafor, Chief Information Officer  
The Honorable District Judges  
The Honorable Commissioners Court  
Tarrant County, Texas

Re: Auditor's Report – Controls over Inventory and the Movement of Computer-Related Assets

### SUMMARY

On April 3, 2018, the Auditor's Office informed the Commissioners Court that the Information Technology Department (ITD) had not verified the existence of approximately 1,300 computer-related assets, and therefore, we could not satisfy our responsibility required by Local Government Code, Section 262.011(i). ITD management provided a plan to complete the 2018 inventory which is currently underway. Furthermore, the Auditor's Office, ITD, the Purchasing Department, and the Administrator's Office have met on several occasions to discuss procedures related to the annual inventory process. Specifically:

1. *We recommend that the County contract with an outside firm to perform a full inventory of computer-related assets to ensure an accurate beginning valuation.* A number of firms also provide inventory services that include bar code technology. We recommend that the County consider purchasing this technology to assist ITD with the tracking, transferring, and disposing of assets. This technology should include the automation of the Transfer Sheet currently used to document the chain of custody, or movement, of computer-related assets. This technology should integrate with SAP.
2. *We recommend that ITD perform "cycle counts" of computer-related assets to verify the physical existence of assets throughout the year.* Although Local Government Code 262.011(i) requires that the County Purchasing Agent file with the County Auditor an inventory of all property, it does not state that a complete physical inventory must be done within a specific timeframe or how to accomplish the inventory. Considering the County has over 19,000 computer-related assets, a physical inventory of these assets is an arduous task to complete in a short length of time. ITD plans to utilize System Center Configuration Manager (SCCM) and CompuTrace to verify the physical existence of computer-related assets. ITD currently uses SCCM, a Microsoft systems management software, to deploy software updates to computers on the County's network. CompuTrace is a proprietary software which has the ability to remotely locate, lock, and delete files on a device. Although both of these tools will assist with the annual inventory process, neither should eliminate cycle counts to verify the existence of computer-related assets.

- We recommend that computer-related assets that are vulnerable to theft and require maintenance and/or updates be tracked for inventory purposes, regardless of value.* The Tarrant County Purchasing Policy currently defines a “Technology Asset” as computers, IT systems, printers, cameras, and audio/video equipment with a value of \$750 or more. ITD recently purchased desktop computers for less than \$600 each. Although the value of each desktop is less than \$750, ITD purchases a large quantity of these desktops and these assets are vulnerable to theft. Furthermore, the federal government defines “controlled assets” as nonexpendable property having a useful life of more than one year and an acquisition cost of \$500 or more, but less than \$5,000. These controlled assets specifically include desktop and laptop computers, non-portable printers and copiers, communication devices, and media equipment.

We also reviewed ITD’s internal controls over the inventory and movement of computer-related assets. Specifically, we determined whether computer-related assets were recorded, transferred, and inventoried in accordance with County policy. As a result, we found that controls over computer-related assets were not adequate. We believe there is a lack of accountability of computer-related assets and, therefore, a significant risk of loss or theft exists. The Auditor’s Office has discussed this issue with ITD management and staff, and they agree that improvements should be made. Therefore, the Auditor’s Office will continue to collaborate with ITD management and staff, the Purchasing Department, and the Administrator’s Office to address this condition. The observations are described in greater detail below.

## OBSERVATIONS

- Current procedures related to the transfer, or movement, of assets are not adequate.* The Transfer Sheet used by ITD staff is the primary control over the physical movement of computer-related assets throughout the County. The purpose of the Transfer Sheet is to document the chain of custody of computer-related assets and to record the physical location of assets in SAP. However, staff does not always use it properly. We observed multiple instances where the location code recorded in SAP was not where the asset was physically located. For example, SAP showed that a particular laptop was located in the County Clerk’s Criminal Courts Office. We obtained the Transfer Sheet which showed that this asset was transferred to the County Clerk employee on November 28, 2017. We contacted this employee and she informed us that she did not have physical possession of the laptop. She stated that ITD still had possession of the laptop for imaging and testing the County Clerk’s internal applications. We confirmed this with ITD staff. The County Clerk employee did not physically receive the laptop until March 23, 2018. If the laptop was stolen or lost, the County Clerk could have been held responsible.

### **Action/Recommendation:**

ITD management is researching the feasibility of automating the Transfer Sheet, including integration into the SAP fixed asset system. The use of DocuSign may also be an option. As previously stated, we recommend that the County contract with an outside firm to perform a full inventory of computer-related assets to ensure an accurate beginning valuation. A number of firms also provide inventory services that include bar code technology that would assist in tracking the movement of computer-related assets.

Also, ITD management should ensure that staff understands the process and documentation required for the movement of computer-related assets. The actual physical location of all computer-related assets should be accurately recorded in SAP.

2. *Segregation of duties is not adequate.* The ITD Hardware Team is responsible for ordering new computer-related assets, receiving the assets, entering the goods receipt into SAP, assigning asset tags, tracking assets through their useful life, performing the asset inventory, and disposing of assets at the end of the asset's life. Since the Hardware Team is responsible for the annual inventory, an employee could conceal the location of an asset during the inventory process. We also observed that multiple ITD employees and one County Clerk employee have the ability to retire assets in SAP.

**Action/Recommendation:**

ITD management and the Auditor's Office is reviewing the overall process related to the complete life cycle of computer-related assets. This includes the receipt of an asset, recording the goods receipt into SAP, assigning asset tags, tracking assets, performing the annual inventory, and disposing of the assets. Incompatible duties should be segregated.

3. *Procedures related to the annual inventory of computer-related assets are not fully documented.* Although documentation exists describing the flow of the inventory and some high-level procedures, detailed procedures do not exist that show "how" to accomplish the individual tasks. Documented procedures should also include the timeline of the inventory process and align with the Purchasing Department's statutory requirements. Furthermore, the documented procedures should be detailed enough so that an ITD employee can clearly understand and execute the inventory process.

**Action/Recommendation:**

Currently, detailed procedures are being developed by ITD management. We also recommend that ITD management continue to collaborate with the Administrator's Office and the Purchasing Department, along with the Auditor's Office. These procedures should also be presented and approved by the Commissioners Court.

## BACKGROUND

Texas Local Government Code Section 262.011(i) states, "*On July 1 of each year, the county purchasing agent shall file with the county auditor and each of the members of the board that appoints the county purchasing agent an inventory of all the property on hand and belonging to the county and each subdivision, officer, and employee of the county. The county auditor shall carefully examine the inventory and make an accounting for all property purchased or previously inventoried and not appearing in the inventory.*"

According to Tarrant County Purchasing Policies and Procedures, ITD is responsible for tracking all computer-related assets and updating those assets into SAP, the County's general ledger. Currently, there are over 19,000 computer-related assets recorded in SAP. ITD is also responsible for performing an annual inventory of those assets. The Purchasing Department relies on the ITD inventory to prepare the Annual Asset Report filed with the County Auditor and the Purchasing Board.

**CLOSING REMARKS**

We appreciate the cooperation of the CIO and his staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renée Tidwell, CPA  
County Auditor

*Attachment:* Management's response

*Disbursement:* G.K. Maenius, County Administrator  
Jack Beacham, Purchasing Agent  
Keith Hughes, Director, Customer Resource Center  
William Allen, ITD Resource Manager

*Audit Team:* Kim Trussell, Audit Manager  
Julie Hillhouse, Senior Internal Auditor  
Ky Stafford, Internal Auditor



**Information Technology**  
*Business First,  
Technology Second*

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**Project Portfolio  
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Director**  
Anthony Jackson

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Michael Webb

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**DATE:** June 18, 2018

**TO:** Renee Tidwell  
Tarrant County Auditor

**FROM:** Chris Nchopa-Ayafor  
Chief Information Officer

**CC:** G.K. Maenius  
Tarrant County Administrator

**SUBJECT:** Auditor's Report – Controls Over Inventory and  
Movement of Computer-Related Assets

We appreciate the Auditor's Office recommendations and observations associated with Computer-Related Assets.

Under the summary section you have 3 recommendations to which we agree should take place.

Recommendation 1: suggest the County contract with an outside firm to perform a full inventory of computer-related assets. This recommendation, to our understanding, is already being researched by the Purchasing Department. The outcome will establish a baseline that should serve as a reference for future annual inventories.

Recommendation 2: suggest "cycle counts" of computer-related assets to verify their existence. The Information Technology Department (ITD) has no problem with this approach if all parties agree. If the County adopts an adjusted threshold for what is tagged and tracked, this will make the process more effective and efficient.

Recommendation 3: suggest within the body of the response that \$500 be set as the low value threshold for tagging and tracking. Attached is a document containing the ITD recommendation that effectively lines up with this Audit recommendation. Additionally, the supplied attachment has some benchmarking information from other major Counties in Texas that Tarrant County ITD used to formulate its recommendation.



**Information Technology**  
*Business First,  
Technology Second*

Under the Observation section, the Auditor's Office has 3 observations/actions/recommendations to which we also agree.

Observation 1: addresses procedures related to transfers, or movement of asset being inadequate. We agree and are actively working on improving the current process. We are looking to automate the transfer process, and Purchasing is reviewing the possibility of bringing a third party to perform or assist in an inventory to establish a baseline for future reference.

Observation 2: addresses segregation of duties as being inadequate. We agree this needs to be addressed going forward, with the understanding that staffing, training and logistics can sometimes play a part to what extent segregation can be accomplished. Additionally, we recognize that some staff have access to be able to retire assets within SAP, which is not appropriate. Detailed audit trails and reports exist, but to our knowledge there is no evidence to suggest this process of retirement has ever been performed by any ITD staff. This access will be removed.

Observation 3: addresses the need for fully documented procedures related to annual inventory of computer-related assets. We agree and are currently working to update and supply this documentation. A stakeholder meeting (County Administrator, Auditor, Purchasing Agent and ITD) was held on April 30, 2018 at which the general framework/workflow was presented. We continue to work on detailed procedures.

The entire asset management process in place today has not been updated for many years. ITD is in the middle of modernizing the whole process to comply with current standards, policies and expectations. The timing of the audit recommendations and observations is very helpful in providing us key information critical to the build out of our new and updated detailed procedures.

We appreciate the Auditor's Office work on this audit report.

Attachment: ITD Inventory Recommendation

# ITD INVENTORY RECOMMENDATION

## Technology Inventory Recommendation

- All individual hardware technology items with a value of \$5,000 or more (Fixed Asset)
  - All individual hardware technology items with a value of \$1,500 - \$4,999.99 (Volatile Asset)
    1. That are easily and readily transportable, marketable and consumable for personal use
  - All individual hardware technology items with a value of \$500 - \$1,499.99 (Technology Asset)
    1. That are easily and readily transportable, marketable and consumable for personal use and...
    2. Are shipped to the Information Technology warehouse for processing, tagging and distribution and...
      - Examples are Community Supervisions and Corrections Department (CSCD) and Elections
    3. Can easily be located electronically or has a warranty beyond the standard manufacturer warranty.
  - Eliminate (Trackable Low-Value Asset) – Which specifically targeted IT related items
- ✓ Current items meeting existing standards: 16,315
  - ✓ After applying above criteria items to be counted: 8,459
  - ✓ Reduction of 7,856 items or 48.15%

### \*\*\*\* Items that would effectively be removed from the ITD inventory:

- Most desktop scanners and printers (approximately 60%)
- Monitors
- Most APC UPS's

## Benchmarking Asset Inventory Values/Practices

- Collin County
  - Only items over \$5,000
  - Inventories performed by Audit or Purchasing
- Dallas County
  - All items provided by 3<sup>rd</sup> party hardware contract
    - Desktop, laptops, monitors, etc.
  - Inventories performed by Audit
- Bexar County
  - Only items over \$500



# ITD INVENTORY RECOMMENDATION

- Specifically excludes monitors, desktop printers and scanners
- Inventories performed by Purchasing
- Travis County
  - No response
- Denton County
  - IT tags and inventories based on type of item, not specifically value
    - Items tagged by IT: laptops, desktops tablets, printers – no matter the value
    - Items not tagged by IT: monitors, scanners and peripherals – no matter the value
    - All monitors, scanners and peripherals may or may not be tagged and counted by departments
  - Inventories performed by IT