



**NCUA**  
National Credit Union Administration

**OFFICE OF INSPECTOR  
GENERAL**

**AUDIT OF THE NCUA'S INFORMATION  
TECHNOLOGY EQUIPMENT INVENTORY**

**Report #OIG-19-05**

**March 28, 2019**





---

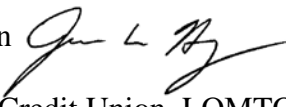
National Credit Union Administration

---

**Office of Inspector General**

SENT BY EMAIL

**TO:** Distribution List

**FROM:** Inspector General James W. Hagen 

**SUBJ:** Audit of the NCUA's Information Technology Equipment Inventory

**DATE:** March 28, 2019

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess NCUA's information technology (IT) equipment inventory. The objectives of our audit were to determine: 1) whether the NCUA has IT equipment inventory policies and procedures; and 2) whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition.

Results of our audit determined that the NCUA did not adequately monitor, account, and dispose of all of its IT equipment. In addition, we found although NCUA has an instruction on the disposition of personal property, including disposition of IT equipment, the instruction needs improvements, including broadening its application to the entire life cycle of IT equipment, not just its disposition. We also concluded the implementation of a comprehensive asset management system could provide NCUA management with reliable information to support decision-making and evaluate the performance of its inventory management program.

This report makes seven recommendations to NCUA management that we believe will help with the inventory management program. NCUA management agreed to all recommendations and provided corrective actions taken and planned.

We appreciate the effort, assistance, and cooperation NCUA management and staff provided to us during this audit.

**Distribution:**

Chairman J. Mark McWatters  
Board Member Rick Metsger  
Executive Director Mark Treichel  
General Counsel Michael McKenna  
PACA Director (Acting) Joy Lee  
Deputy Executive Director John Kutchey  
Chief Financial Officer Rendell Jones  
Chief Information Officer Robert Foster

Attachment

## Table of Contents

<b>Section</b>	<b>Page</b>
EXECUTIVE SUMMARY .....	1
BACKGROUND .....	2
RESULTS IN DETAIL.....	9
Improvements Needed for Inventory Instruction and Procedures .....	10
Recommendations 1, 2, 3.....	14
Inadequate Monitoring and Accounting for IT Equipment .....	15
Recommendation 4 .....	20
Recommendations 5, 6, 7 .....	21
APPENDICES:	
A. Objectives, Scope, and Methodology.....	22
B. NCUA Management Response .....	24
C. Acronyms and Abbreviations.....	27



## EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) conducted this self-initiated audit to assess the NCUA's information technology (IT) equipment inventory. The objectives of our audit were to determine: 1) whether the NCUA has IT equipment inventory policies and procedures, and 2) whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition. The scope of our audit covered the period from January 1, 2014, through June 30, 2017.

Our audit determined that although the NCUA has an instruction on the disposition of personal property, including the disposition of IT equipment, the instruction needs improvements, including broadening its application to the entire life cycle of IT equipment, not just its disposition. In addition, procedures implementing the instruction are needed, including requiring employees to sign receipts when they are issued IT equipment and requiring performance plans for employees responsible for IT equipment inventory management to have that criterion reflecting that responsibility.

The audit also determined that the NCUA did not adequately monitor, account, and dispose of all of its IT equipment.<sup>1</sup> We found that the NCUA did not follow its instruction to dispose of IT equipment "as promptly as possible" and that two offices within the NCUA did not effectively communicate with each other regarding equipment disposition. We also found that the NCUA did not use existing procedures to remove disposed equipment from its financial systems and that its current financial system did not provide reliable information for inventory verifications and was not a comprehensive asset management system. We determined that the implementation of such a comprehensive asset management system could provide NCUA management with reliable information to support decision-making and evaluate the performance of the inventory management program. We are making seven recommendations to address these issues and note that during our audit, NCUA management began drafting a new handbook titled *Accountable Property Operations Handbook* that will include new policies and procedures covering the life cycle of the NCUA's IT inventory process.<sup>2</sup>

We appreciate the cooperation and courtesies NCUA management and staff provided to us during this audit.

---

<sup>1</sup> NCUA management stated the agency has fairly and accurately reported the valuation of its inventory for audited financial statement reporting purposes.

<sup>2</sup> The NCUA's *Accountable Property Operations Handbook* is to provide detailed procedures and process workflows, and other standard guidance and instructions for the management of accountable property.



## BACKGROUND

### Structure, Funding, and Personal Property Authorities

The National Credit Union Administration (NCUA) is an independent federal agency created by the U.S. Congress to regulate, charter, and supervise federal credit unions. The NCUA's organizational structure consists of a central office, the Asset Management and Assistance Center, and three regional offices.<sup>3</sup> The NCUA had approximately 1,170 employees and 320 contractors to whom the Office of the Chief Information Officer (OCIO) has issued laptop computers and other information technology (IT) equipment.

The NCUA does not receive annual appropriated funding from Congress to carry out the agency's operations (apart from an appropriation for the Community Development Revolving Loan Fund). The NCUA is authorized to collect annual operating fees from credit unions. In addition, 12 U.S.C. 1755 defines the purpose for which these collections may be used, and uses the collections without fiscal year limitation for its operations.

The Federal Credit Union Act provides that the NCUA Board may acquire and dispose of, by lease or purchase, real or personal property without regard to the provisions of any other law applicable to executive or independent agencies of the United States.<sup>4</sup> The NCUA has an instruction, which it began revising after we announced our audit, titled *Receipt, Transfer, and Disposal of Accountable Property*;<sup>5</sup> the revised instruction will cancel the current Instruction 1710.5 (REV) titled *Disposition of Agency-Owned and-Leased Personal Property* (April 15, 2014).<sup>6</sup> The instruction states that the Board has delegated responsibility for property disposition procedures to the Director of the Division of Procurement and Facilities Management (DPFM). In addition, the instruction defines "accountable personal property" as:

*NCUA personal property requiring proper documentation, custody, and maintenance. Accountable personal property is defined as property owned, leased, or controlled by NCUA (i.e., other than real property) and recorded in the property management system.*

The NCUA's instruction requires the DPFM to "[m]aintain adequate inventory controls and accountability systems for the personal property under its control, continuously surveying that property to identify which is exhausted or excess." It further requires that the Director, DPFM will "[p]romptly report property identified as exhausted or excess, perform the care and handling

---

<sup>3</sup> Eastern, Southern, and Western.

<sup>4</sup> 12 United States Code (U.S.C.) § 1766(i)(2).

<sup>5</sup> As of the date of this report, the NCUA has not assigned a number for this instruction.

<sup>6</sup> The NCUA's draft handbook appears to incorporate the disposition of property; however, Instruction 1710.5 (REV) is the only current guidance on inventory management.



of such property, and transfer and dispose of it as promptly as possible in accordance with the NCUA personal property disposition as policies set forth in this instruction.”<sup>7</sup>

The U.S. General Accountability Office’s (GAO) *Standards for Internal Control in the Federal Government* (Green Book) provides managers criteria for designing, implementing, and operating an effective internal control system.<sup>8</sup> The Green Book defines internal control as a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives will be achieved. To achieve the objectives, the Green Book states in part, “[i]nternal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals and objectives of the entity.”

GAO’s *Internal Control Management and Evaluation Tool* (tool), which is based on the Green Book, is designated to assist agencies in maintaining or implementing effective internal control and, when needed, to help determine what, where, and how improvements can be implemented. The tool’s intent is to provide a systematic, organized, and structured approach to assess the internal control structure. GAO states that the tool may help meet the reporting requirements of the Federal Managers Financial Integrity Act (FMFIA) of 1982, 31 U.S.C. 3512(c), which requires federal agencies to annually report on internal controls.

The tool’s guidance provides that managers assess their internal control, that:

- equipment is physically secured and access to them is controlled;
- equipment is periodically counted and compared to control records, and exceptions are examined;
- identification plates and numbers are affixed to equipment and portable assets;
- no one individual is allowed to control all key aspects of a transaction or event; and
- responsibilities and duties involving transactions and events are separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving funds, reviewing and auditing, and the custodial functions and handling of related assets.

The Office of Management and Budget (OMB) Circulars A-123, issued in 2004 and 2016, provides further guidance that should be used in conjunction with the Green Book and the tool in improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control.

---

<sup>7</sup> This is consistent with the statutory requirements for executive agencies under 40 U.S.C. § 524.

<sup>8</sup> GAO-14-704G, (September 2014).



The 2004 Circular states in part, “[i]nternal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing” and that “[i]nternal controls should support the effectiveness and the integrity of every step of the process and provide continual feedback to management.”<sup>9</sup> In addition, the 2004 Circular states in part, “[e]ffective internal control is a key factor in achieving agency missions and program results through improved accountability” and “[m]anagement has a fundamental responsibility to develop and maintain an effective internal control.” Lastly, the 2004 Circular states “[f]ederal employees must ensure that federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives.”

The 2016 revision to OMB Circular A-123 provides updated implementation guidance to ensure federal managers are “[e]ffectively managing risks an Agency faces toward achieving its strategic objectives and arising from its activities and operations.”<sup>10</sup> The 2016 Circular also defines management’s responsibilities for enterprise risk management (ERM) and internal control. The Circular defines ERM as “[a]n effective agency-wide approach to addressing the full spectrum of the organization’s external and internal risks by understanding the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos.”

The 2016 Circular policy changes to modernize existing efforts by requiring agencies to “[i]mplement an ERM capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act, and the internal control processes required by FMFIA and the Green Book.” The 2016 Circular also states in part, “[t]his integrated governance structure will improve mission delivery, reduce costs, and focus corrective actions towards key risks.”

## NCUA IT Equipment Life Cycle

### Acquisition

During our audit review period, the NCUA replaced employee laptop computers by leasing new laptops in 2012 and in 2015.<sup>11</sup> The 2015 lease cost the NCUA nearly \$3 million, which it paid in quarterly installments.<sup>12</sup> The terms of the lease allowed the NCUA to either return, purchase, or extend the lease on the equipment. In addition, the lease provided that if loss or damage to the equipment was due to the NCUA’s fault or negligence, the NCUA would pay the vendor to

---

<sup>9</sup> *Revisions to OMB Circular A-123, Management’s Responsibility for Internal Control*, OMB Circular A-123, issued December 21, 2004.

<sup>10</sup> *Management’s Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123, issued July 15, 2016.

<sup>11</sup> Our audit scope covered NCUA’s IT equipment inventory and associated processes from January 1, 2014, through June 30, 2017. Within that period, the laptop lease periods were July 2012 through January 2015 and December 2014 through May 2018. The NCUA extended the latter date to December 2018.

<sup>12</sup> The lease increased to \$3.6 million when NCUA extended the terms of the lease, entering into a month-to-month contract from May 2018 through December 2018.



repair the equipment or pay the vendor an amount equal to the equipment's original purchase price.

The NCUA allowed staff to purchase, for their personal use, the 2012-leased laptops at fair market value prices determined by the NCUA's contracting officer and the vendor. Prices ranged from \$113.00 to \$204.00 per laptop. NCUA staff purchased approximately 530 of the laptops, which resulted in the NCUA collecting nearly \$99,000. The NCUA returned approximately 500 laptops to the vendor. The vendor conducted a quality inspection of the returned laptops and determined they did not pass inspection for a number of reasons including broken latches, cracked bases, and missing keys from the keyboard, resulting in the NCUA incurring a cost of approximately \$11,000. In 2018, the NCUA decided not to participate in the employee purchase program and instead returned all of the 2015-leased laptops back to the vendor.

### Receipt and Storage

#### *Office of the Chief Financial Officer (OCFO)*

OCFO's DPFM is responsible for the inventory of all laptops, monitors, portable printers, and external hard drives. DPFM manages a distribution center located in the NCUA's central office, which is staffed by contractors who accept all deliveries of IT equipment. The NCUA security guards, who are contractors, notify the distribution center staff of deliveries. The distribution center staff retrieve the items from the loading dock by signing for them, take the items to the distribution center, and enter the delivery date, article number, vendor, and the recipient office in the logbook, which the recipient office staff signs. After the distribution staff log the delivery, a DPFM supply technician obtains the serial number, make, and model from the IT equipment's box or the packing slip and enters them into an inventory spreadsheet.<sup>13</sup> The DPFM supply technician provides the invoice/packing slip to an OCFO accountant or the serial numbers when the packing slip is not available. The OCFO accountant then manually enters the make, model, and serial number of the IT equipment from the invoice/packing slip into Delphi. In addition to updating Delphi, the OCFO's Division of Financial Reporting and Analysis (DFRA) is also responsible for:

- Coordinating the bi-annual inventory verification in September and December;
- Providing DPFM the inventory listing from Delphi for the bi-annual inventory verification;
- Reviewing NCUA Form 1632-R, *Report of Unserviceable, Lost, Stolen, or Damaged Equipment*, and updating the financial system regarding the disposition of IT equipment.<sup>14</sup>

<sup>13</sup> The NCUA uses the serial number to track IT equipment for inventory purposes.

<sup>14</sup> Employees report unserviceable, lost, stolen, or damaged IT equipment using NCUA Form 1632-R.





Monitors and portable printers are stored in the distribution center and new laptops and external hard drives are stored in a locked storage closet located in the public garage in the NCUA's central office. The garage area is under 24/7 video surveillance and is routinely patrolled by the agency's security guards. Access to the distribution center is limited to DPFM and the Office of Continuity and Security Management staff and access to the locked storage closet is limited to OCFO staff.

Departing central office staff return their laptops, monitors, portable printers, or external hard drives to the DPFM supply technician. Departing regional staff receive a box from the DPFM supply technician with a return-tracking label to return IT equipment to DPFM. Once the DPFM supply technician receives the boxed equipment from departing staff, he removes the equipment's associated serial number and name from the DPFM inventory spreadsheet and also removes the departing employee's name associated with the equipment from Delphi. In addition to receipt and storage responsibilities, DPFM is also responsible for:

- Sending IT equipment to regional staff;
- Informing OCIO when additional IT equipment is needed (visual inspection);
- Receiving the annual inventory verification listing from OCFO to disseminate to OCIO and the regions;
- Providing OCFO with the responses from OCIO for IT equipment and from the regions for non-IT equipment of the annual inventory verification; and
- Maintaining completed NCUA Form 1632-R.

#### *Office of the Chief Information Officer*

Distribution center staff accept deliveries of new smart phones, tablets, and hotspot equipment on behalf of OCIO.<sup>15</sup> Once notified, OCIO service desk staff pick up the equipment and sign DPFM's logbook indicating receipt, then provide the equipment to the IT specialist in OCIO's Division of Information and Technology Assurance (DITA). The DITA IT specialist then enters the equipment's serial number, make, and model into Web HelpDesk.<sup>16</sup> OCIO stores the equipment in a secure closet within the OCIO's suite until needed. When processing an asset for delivery to staff, the IT specialist adheres an identification sticker on each piece of equipment to provide information on how to return the equipment in the event it is lost.

Departing staff, whether in the central office or a regional office, return cell phones, tablets, and hotspot equipment to the OCIO service desk. The DITA information technology specialist

---

<sup>15</sup> Hotspot is wireless access point created by a dedicated hardware device or a smartphone feature that shares the phone's cellular data, which can be used on an as-needed basis.

<sup>16</sup> Web HelpDesk is a helpdesk ticketing system software with various features such as IT asset management and help desk management.



obtains the equipment, resets it to the factory settings, updates Web HelpDesk to reflect the return of the equipment, and stores the equipment until needed.

### Distribution and Inventory

NCUA managers make requests for IT equipment for existing employees to the OCIO service desk, and for new employees, the Office of Human Resources directly contacts the DPFM supply technician.<sup>17</sup> When service desk staff receive a request for laptops, monitors, portable printers, or external hard drives, they notify the supply technician, who retrieves the equipment from storage, assigns it to staff on DPFM's inventory spreadsheet, and then notifies OCIO that the laptop and other equipment are ready for pick up. After picking up the equipment, an OCIO IT specialist configures the laptop according to the NCUA's specifications and provides it directly to employees in the central office or returns the equipment to the supply technician to ship to regional staff.

When service desk staff receive a request for cell phones/smart phones, tablets, or hotspot equipment, they notify the DITA IT specialist, who retrieves the equipment from storage, assigns it to the individual in Web HelpDesk, and provides the equipment to a service desk staff member for distribution to the employee.

As previously mentioned, OCFO's DFRA conducts an inventory verification of IT equipment bi-annually, which coincides with the NCUA's annual financial statement reporting. OCFO staff send an inventory list from the agency's financial system, Delphi, to DPFM's procurement management specialist requesting them to annotate the following:

- Whether the NCUA still has the equipment, indicating "P" for present or "G" for gone;
- If the NCUA no longer has the equipment, the reason why (e.g., equipment was disposed of, lost, stolen, went to surplus, cannot be located, etc.), and
- When it is unknown whether the NCUA has the item, an identification of the office assigned the equipment.

The DPFM procurement management specialist sorts the data into equipment controlled by the regions and equipment controlled by OCIO. The specialist then sends the listing to the respective regions/office. The regional inventory listing for verification includes such equipment as copiers, evacuation chairs, and televisions, and the OCIO listing consists of IT equipment such as smart phones, tablets, and hotspots, and other IT equipment such as servers.<sup>18</sup> The OCIO listing does not include laptops.<sup>19</sup>

---

<sup>17</sup> NCUA employees receive new laptops and contractors receive repurposed laptops.

<sup>18</sup> The scope of our audit did not include servers.

<sup>19</sup> OCFO's DFRA coordinates the bi-annual inventory verification process. Neither the DFRA nor the central office directorates verify IT equipment during this inventory process. Regional offices do not verify IT equipment within their regions, and the OCIO is responsible for verifying IT equipment for central office directorates, which does not include laptops.



When the OCIO receives the OCFO inventory listing, the DITA IT specialist generates an equipment report from Web HelpDesk on the same day that OCFO generated its inventory listing for reconciliation. The DITA IT specialist then validates the OCIO list by reviewing the unique serial number and once completed, provides a response to DPFM as to the existence of each piece of equipment. Regional staff conduct physical verification of non-IT items listed on the OCFO listing and report any discrepancies to DPFM. The DPFM procurement management specialist obtains and compiles the responses from the regions and OCIO and provides it to OCFO for updates to Delphi.

As previously mentioned, employees report unserviceable, lost, stolen, or damaged IT equipment using Form 1632-R. On the form, the Office Director or Regional Director (depending on where the employee is located) recommends to the Director of DPFM whether the employee should be held liable for the equipment. The Director of DPFM makes the final determination of liability. The NCUA fiscal officer is responsible for financial reconciliation of equipment cost or collection and the removal of equipment from Delphi and once complete, signs and dates Form 1632-R and submits it to DPFM to maintain.

### Disposition

The Director of DPFM is responsible for overseeing the disposal of equipment and ensuring that equipment is disposed of in accordance with agency policy. NCUA Instruction 1710.5 (REV) *Disposition of Agency-Owned and -Leased Personal Property*, provides the policy on disposition of agency owned and leased personal property and the guidelines and procedures that apply to disposals. During the scope period of our audit (January 1, 2014, through June 30, 2017), the NCUA did not dispose of any IT equipment, which remained in storage at the NCUA until August 2018, when it was recycled.

### *NCUA's Policies and Instructions*

NCUA management disseminated the following new draft policies, instructions and forms on June 27, 2018:

- *Accountable Property Operations Handbook* (handbook);
- NCUA Instruction, *Receipt, Transfer, and Disposal of Accountable Property*;<sup>20</sup>
- NCUA Instruction 1710.1 (Rev. 2), *Reimbursement*; and
- NCUA Form 1632-R, *Report of Lost Damaged or Stolen Property*.

---

<sup>20</sup> The NCUA has not assigned a number for this instruction.



## RESULTS IN DETAIL

The objectives of our audit were to determine: 1) whether the NCUA has IT equipment inventory policies and procedures, and 2) whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition. Our audit determined that although the NCUA had an instruction regarding disposition of personal property, including IT equipment, that policy needs to be strengthened and procedures implementing the instruction are needed. The audit also identified weaknesses in the NCUA's internal control environment in the management of its IT equipment. Specifically, that the NCUA did not adequately monitor, account for, and dispose of all of its IT equipment. The detailed results of our audit follow.

### Information Limitation

We identified an information limitation during this audit based on the multiple methods the NCUA uses to manage and track its IT equipment.<sup>21</sup> OCFO management could not assert to the completeness of the universe of the agency's IT equipment inventory from its multiple systems (i.e. equipment acquired and still on hand); however, OCFO management is confident that for financial reporting purposes, Delphi provides the NCUA the financial information necessary to fairly present the value of equipment that the NCUA has acquired. In addition, we could not perform a secondary test for completeness by reconciling NCUA Forms 1632-R and Employee Purchase Forms with Delphi because information on the disposition (retirement or removal) of the equipment from Delphi did not exist.

As previously mentioned, we concluded we could not rely on the data obtained from Delphi to provide a complete universe of all IT equipment for testing existence and completeness. Delphi is a financial system, and while it contains information on inventory, it is not a true inventory management system. Therefore, we were limited in the information we could obtain from it such as the type of equipment assigned to each employee, the serial number, model, date of service, employee name, and where the equipment was located. Instead, Delphi provided only some of these data elements but not enough for the OIG to conduct testing for physical existence or completeness (disposal). Most notably missing were the employee's name and the location of the equipment. Generally Accepted Government Auditing Standards require auditors, when confronted with such information limitations, to apply additional procedures, as appropriate.

We applied alternative procedures to test for existence and completeness by seeking independent, corroborating evidence from the two directorates that are responsible for maintaining portions of the NCUA's IT equipment inventory, OCFO and OCIO. We reviewed each of their IT inventory listings, removed any duplicates, and combined these listings to arrive at an inventory universe.

---

<sup>21</sup> To manage and track its IT equipment, NCUA's OCFO uses Delphi, the agency's financial system, the OCIO uses Web HelpDesk, and the DPFM uses Excel spreadsheets.



Consequently, despite encountering a significant information limitation, this report still presents valid findings and conclusions based on evidence we deemed to be sufficient and appropriate to support our conclusions. We did not identify fraud or any indicators of fraud during our audit. However, given the significant information limitation, we believe that the risk for fraud within the NCUA's inventory systems was high due to an ineffective internal control environment and therefore make no judgments as to its existence.

**Improvements Needed for Inventory Instruction and Procedures**

We determined the NCUA's instruction for IT equipment needs improvement and implementing procedures are needed. Specifically, we determined the NCUA's policy regarding its IT equipment inventory, Instruction 1710.5 (REV), *Disposition of Agency-Owned and -Leased Personal Property*, needs strengthening. Most

significantly, the instruction focuses on the disposition of accountable property, not on property acquisition, distribution, or inventory management.<sup>22 23</sup>

Federal internal control standards require that agencies design and maintain internal control activities—such as policies and procedures—to identify risks arising from mission and mission-support operations, and to provide reasonable assurance that agency property is safeguarded against waste, loss, or unauthorized use.<sup>24</sup> We believe the NCUA lacked procedures because there are no government-wide regulations on managing personal property or fulfilling this specific requirement. Although Instruction 1710.5 (REV), which focused on disposition, was consistent with the statutory requirement for agencies to continually survey property under its control to identify excess, we identified internal control deficiencies related to acquisition, distribution, and inventory management as described later in this report. Regarding Instruction 1710.5 (REV), we identified the following weaknesses:

*Definition of Accountable Property is not Sufficient*

Although we determined that the NCUA's new draft instruction and an accompanying handbook address the entire lifecycle of accountable property and appear consistent with standards for internal control, we determined that the definition of accountable property within Instruction 1710.5 (REV) did not provide useful guidance. Specifically, we determined that the instruction simply defines accountable property as that recorded in the property management system,

<sup>22</sup> During our audit, the OCFO began drafting an *Accountable Property Operations Handbook*, which provides procedures and processes for acquisition to disposition of accountable property.

<sup>23</sup> For purposes of this report, accountable property includes laptops, monitors, hotspots, external hard drives, portable printers, smart phones, and tablets.

<sup>24</sup> NCUA management can review these standards for guidance regarding internal controls and IT inventory management. See *Federal Personal Property: Opportunities Exist to Improve Identification of Unneeded Property for Disposal*, GAO-18-257 (February 2018), which cites *Standards for Internal Control in the Federal Government*, GAO-14-704G (September 2014) and *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (July 2016).



without defining what *should be* recorded in the system to begin with. The instruction defines “accountable personal property” as:

*NCUA personal property requiring proper documentation, custody and maintenance. Accountable personal property is defined as property owned, leased, or controlled by NCUA (i.e., other than real property) and recorded in the property management system.*

The NCUA has more specifically defined accountable property in its new draft handbook. This handbook in part appears to use the General Services Administration’s (GSA) definition of accountable personal property, which provides that accountable property is nonexpendable personal property with an expected useful life of 2 years or longer that an agency determines should be tracked in its property records based on an item’s acquisition cost and sensitivity. The GSA regulations further provide that each agency determine its own appropriate acquisition cost and sensitivity.<sup>25</sup>

In finalizing the handbook, NCUA management may wish to review a recent GAO study that looked at five agencies’ identification and disposal of unneeded personal property in which the GAO found that four of the agencies considered property with an original acquisition cost of \$5,000 or greater to be accountable and that one agency’s accountable threshold was \$10,000 or greater. In addition, GAO found that these agencies considered certain sensitive property, including laptop computers, to be accountable regardless of acquisition cost because they could be easily stolen or could store data or personal information.<sup>26</sup>

#### *Instruction Split Responsibilities for IT Inventory Between Two Offices*

Our audit identified a weakness in Instruction 1710.5 (REV) regarding splitting responsibilities for managing IT equipment between two different NCUA offices—OCFO and OCIO. We determined that this led to communication breakdowns, multiple yet incomplete ways of recording inventory, and a lack of accountability regarding the IT equipment, each of which are described later in this report. However, the NCUA’s new draft instruction assigns OCFO oversight of *all* the NCUA’s accountable property, including its acquisition, utilization, inventory, and disposition. The new draft instruction, once finalized, will make OCFO responsible for establishing monetary control in a system of general and subsidiary ledger accounts so that these accounts summarize the investment in and the depreciated value of fixed assets for which the NCUA is responsible, including the current value of property for which inventory will be maintained.

<sup>25</sup> 41 Code of Federal Regulations § 102-35.20.

<sup>26</sup> *Federal Personal Property: Opportunities Exist to Improve Identification of Unneeded Property for Disposal*, GAO-18-257 (February 2018).



### Instruction Did Not Require Employees to Attest to Responsibility for IT Equipment

Instruction 1710.5 (REV) did not require employees who are issued IT equipment to sign property receipts acknowledging receipt of the equipment and their responsibilities to properly use and safeguard the equipment. This lack of internal control could lead to confusion on the part of the employees regarding what their responsibilities are and challenges for management in holding employees accountable for equipment and use.

In contrast to employees, the NCUA held contractors responsible for NCUA-issued IT equipment by requiring them to sign and date the NCUA's property custody and maintenance record. This document describes the IT equipment issued to the contractor, including its serial and decal number, and contains the following statement of responsibility:

*I have received the item listed above on the date indicated. I accept personal responsibility for the property and will surrender it upon demand, transfer, or separation from the government. If I am unable to return the item, I realize that I may be held accountable for it.*

The NCUA's new draft instruction and handbook require that employees sign a *Record Receipt - Property Issued to Employee Form*, which provides a listing of all accountable property assigned to each employee. The draft instruction and handbook also state that employees must act in a reasonable and prudent manner to properly use, care for, and safeguard all NCUA property. However, this statement of responsibility is not included on the *Record Receipt - Property Issued to Employee Form* itself. We benchmarked against the Smithsonian Institution (Smithsonian) OIG's publicly available audit report, which included a reference to an attestation statement the Smithsonian requires its employees and contractors to sign before they are issued IT equipment. The statement reads as follows:<sup>27</sup>

*I received the item(s) listed below and accept personal responsibility for the property. As an employee, contractor, or other individual of the Smithsonian Institution to whom Smithsonian property has been entrusted, I clearly understand that: (1) I am responsible for the proper custody, care and safeguarding of the property whether in use or in storage; (2) I am authorized to use the property for official business only; (3) I will return the property to the issuing office when no longer required for the purpose intended, upon demand, transfer, or separation from the Smithsonian; (4) I am responsible for making good the loss or damage on the property and may be held financially liable unless I can show to the satisfaction of the Survey Officer, on a "Report of Survey" explaining the circumstances of the case, that the loss, damage, or destruction of the property was not occasioned by any fault, abuse or neglect of mine.*

We believe that the NCUA should include a similar statement of responsibility on its property receipts (Record Receipt - Property Issued to Employee Form) that employees and contractors

---

<sup>27</sup> Smithsonian Institution OIG audit report, *Personal Property Accountability*, A-09-06, dated November 18, 2009.



acknowledge issuance of assigned IT equipment, which would help make clear to employees and contractors what their responsibilities are and make it easier for management to hold employees accountable.

### Performance Plan Does Not Contain Inventory Management Criteria

Instruction 1710.5 (REV) does not require that performance plans for all employees responsible for IT equipment acquisition, issuance, and disposal contain performance criteria reflecting that responsibility. In addition, we determined that the performance plan for one of the two employees responsible for IT equipment did not have the criteria reflecting that responsibility.

We reviewed the performance plans of the OCIO and OCFO employees responsible for the NCUA's IT equipment. We determined that while the OCFO employee has content in their performance plan that addresses this area, the OCIO employee did not have performance criteria related to IT equipment in their performance plan even though they had been responsible for approximately one-third of the agency's IT equipment inventory for nearly six years. We did not find any instances where the employee did not manage the IT equipment appropriately. The employee told us that he did not have IT inventory management in his performance plan because his primary job responsibility related to the IT infrastructure of the agency. We believe not incorporating this employee's significant responsibility for the IT equipment inventory in his performance plan would make it challenging for management to hold the employee accountable in this area.

We found that the OCFO employee's performance plan contained the following performance criteria:

- Maintain adequate inventory of materials, supplies, and equipment (e.g., ensures necessary computer equipment and publications are in stock).
- Place or process orders for needed/requested materials or equipment (e.g., publications, computer equipment, supplies) in a timely manner.
- Inspect newly acquired materials or equipment for damage, adequacy, and quality.
- Maintains appropriate records to track supplies/inventory (e.g., records computer equipment inventory in inventory management software, maintains control records).
- Receive, store, and distribute materials, supplies, and equipment in accordance with established office procedures (e.g., packages and mails publications, distributes new computer equipment, takes back temporary computer equipment).

We believe similar performance criteria should be included in all NCUA employee's performance plans whose job responsibilities relate to managing the agency's IT equipment.





## Recommendations

Based on the issues we identified above related to Instruction 1710.5 (REV), we are making the following three recommendations to correct identified weaknesses.

We recommend NCUA management:

1. Finalize the draft handbook, *Accountable Property Operations Handbook*, and revise and/or cancel any other IT equipment inventory management related policies, procedures, and instructions that will be covered by the new handbook, as applicable.

### Management Response:

Management agreed with this recommendation. Management indicated they will issue the new NCUA Instruction, *Receipt, Transfer, and Disposal of Accountable Property*, and corresponding handbook, *Accountable Property Operations Handbook*, by September 30, 2019.

### OIG Response:

We concur with management's planned actions.

2. Develop and incorporate a responsibility statement to the *Record Receipt—Property Issued to Employee Form* that all employees, contractors, and others who are issued IT equipment must acknowledge (electronically or in writing) issuance of NCUA equipment. Reflect this requirement in applicable IT equipment inventory management policies and procedures.

### Management Response:

Management agreed with this recommendation. Management indicated they will add a responsibility statement to the *Record Receipt—Property Issued to Employee Form* concurrent with the release of the *Accountable Property Operations Handbook* by September 30, 2019.

### OIG Response:

We concur with management's planned action.

3. Ensure performance criteria are incorporated into performance plans for all employees who are responsible for managing the agency's IT equipment.



## Management Response:

Management agreed with this recommendation. Management indicated they will update performance plans by September 30, 2019 for staff assigned to defined roles under the new accountable property instruction and handbook with key responsibilities for the safeguarding of NCUA IT assets.

## OIG Response:

We concur with management's planned action.

### Inadequate Monitoring and Accounting for IT Equipment

The NCUA needs to strengthen its control environment over its IT equipment. Specifically, NCUA management needs to improve the acquisition, utilization, inventory, and disposition of its accountable property. The GAO's Green Book states

in part, "management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system." We identified numerous breakdowns in NCUA's control environment related to this issue, including:

#### The NCUA Could Not Account for All IT Equipment

We conducted a test of NCUA's inventory to determine whether NCUA could physically account for all its IT equipment. We determined that 25 percent of the NCUA's inventory records did not match to items on hand. Specifically, we determined that the agency had approximately 5,500 items of IT equipment at the end of our audit scope period and using statistical software, we determined that the agency's inventory records did not match the items on hand for 31 percent of this equipment.<sup>28</sup> However, based on discussions with OCFO management, we later excluded 1,560 monitors and portable printers from our results because OCFO management does not consider this equipment to be accountable property and going forward, they will not physically track this type of equipment for inventory purposes.<sup>29 30</sup> By

<sup>28</sup> Using Windows Regression Analysis of Time Series-Stats Statistical software and an industry standard confidence level of 95 percent and a precision range of 14 percent, we determined the sample size to be 200 records for the 5,479 universe using an anticipated rate of occurrence of 50 percent. In order to ensure each record within the universe had an equal chance to be randomly selected, we further stratified the universe based on a proportional percentage by asset type.

<sup>29</sup> Accountable property recorded in the agency's asset management system is an asset that can store data or contain removable storage devices; sensitive property; leased accountable property; capitalized property with an initial acquisition value of \$15,000 and above; and meets changing requirements such as those classified as unit-controlled property.

<sup>30</sup> We agree with OCFO management's viewpoint and removed monitors and portable printers from our overall test results and note that they do plan to continue to include monitors and printers in their bi-annual IT equipment verification process for financial statement audit purposes. However, we note that OCFO management included monitors and portable printers in their inventory listings and that the NCUA could not account for 46 percent of these items.



excluding the non-accountable property, our sample and universe were reduced to 144 and 3,919, respectively. We believe the agency's inventory records did not match the items on hand because OCFO had not performed an annual physical inventory of its IT equipment in many years, and therefore had no current documentation to provide to the OIG.

Our physical inventory inspection included obtaining the serial number, make, and model for 26 items located at the central office as well as the same information for 118 items located with regional staff. We compared the information provided by central office staff and regional staff with the NCUA's inventory listing. When IT equipment serial numbers did not reconcile with the NCUA's inventory listing, we requested staff provide a picture of the serial number from the piece of equipment for further verification. Table 1 (below) provides details of our accountable property test results for the 3,919 laptops, cell phones, tablets, hard drives, and hotspots that were included in our audit scope as of December 2017:

**Table 1**

<b>OIG Physical Inventory Test Results for NCUA Accountable Property</b>				
<b>Asset Type</b>	<b>Universe</b>	<b>Sample Size</b>	<b>Number of Items not Reconciled</b>	<b>Percentage</b>
Cell Phone	979	36	0	0
External Hard Drive	647	24	24	100%
Hotspot	714	26	1	4%
Laptop	1,449	53	11	21%
Tablet	130	5	0	0
<b>Total</b>	<b>3,919</b>	<b>144</b>	<b>36</b>	<b>25%</b>

The results of our testing determined that NCUA could not verify 25 percent of its accountable IT equipment. According to OCFO management, the reason they could not account for their IT equipment was that Delphi, which management used during the inventory verification, is an ineffective system for extracting IT equipment for the inventory listing and is not a comprehensive asset inventory system for inventory management. In addition, we determined that because Instruction 1710.5 (REV) did not provide responsibilities for managing the agency's IT equipment, both the OCFO and the OCIO each used their own separate methods to track the IT equipment for which they were responsible. As a result, not only could the NCUA not provide the OIG with a comprehensive list of all IT equipment on hand as of a given date, but



also could not statistically account for one-quarter of its IT equipment. We believe that a comprehensive asset inventory system could help the NCUA better account for its IT equipment

### *The NCUA Does Not Timely Reconcile IT Equipment Deliveries with Orders*

Upon delivery of IT equipment, the NCUA does not immediately reconcile what it ordered with what it received. Instead, OCFO relies on vendor invoice(s) provided after delivery, or other information provided by DPFM's supply technicians, such as serial numbers or information from packing slips to reconcile its deliveries. In addition, we learned OCFO does not timely update Delphi, creating lag time. To counter this lag time, a former OCFO staff member informed us that he would occasionally perform a workaround in Delphi by entering IT equipment information before receipt of the invoice so that DPFM supply technicians could respond promptly to equipment needs. A DPFM supply technician told us that he used to receive purchase orders that he would then compare to assets received in the distribution center, thus avoiding the need for a Delphi workaround. We believe the practice of providing purchase orders to DPFM supply technicians for comparison of assets received would be a useful practice to reinstitute.

As a result of not promptly reconciling IT equipment received with IT equipment ordered, the NCUA did not know whether all the equipment it ordered was in fact delivered, which risked the NCUA not receiving what it paid for. We believe that a comprehensive asset inventory system could help NCUA better manage its reconciliation process for its IT equipment deliveries.

### *The NCUA Did Not Timely Dispose of Laptops*

The NCUA did not dispose of IT equipment "as promptly as possible" as required by Instruction 1710.5 (REV). Specifically, in 2009, management did not dispose of approximately 300 laptops that it had identified as "exhausted or excess" until 2018. Instruction 1710.5 (REV) states that after reallocation and sales actions have been attempted and personal property remains unsold, excess and exhausted property may be donated or transferred *only upon approval of the Executive Director* and coordination of the *DPFM Director* to certain non-profit organizations, including schools.

During our audit, we observed hundreds of laptops stored in an OCIO office, the disposition of which, OCIO staff informed us, was the DPFM Director's responsibility. In October 2017, the DPFM Director informed us that he had planned to donate laptops that were identified as "exhausted or excess" to a school. However, he was not aware of OCIO's plans to recycle all of the laptops held in storage including the 50 he could have donated. In August 2018, OCIO disposed of the laptops through recycling and did not inform the DPFM Director until after the disposal. Because of OCIO's actions, the DPFM Director could not donate the 50 laptops.



### The NCUA Could Have Put Funds to Better Use

From December 2014 through December 2018, the NCUA stored its excess equipment in a locked storage room in the central office's public parking garage.<sup>31</sup> NCUA management spent approximately \$440,000 over the three-year lease on IT equipment they expected to deploy during the term of the lease. Specifically, the NCUA's \$2.7 million contract to lease IT equipment in 2015 included approximately 350 additional laptops and 90 external hard drives.

NCUA management explained to us that in 2015, they made the decision to lease this extra equipment based on what the agency experienced during the prior lease – continued growth in staff, contractors, and state examiners. However, the NCUA's projections were not accurate due to an unforeseen government-wide hiring freeze and an unanticipated 2017 agency reorganization that reduced staffing levels. As a result, the NCUA did not need the additional IT equipment and returned it to the vendor during our audit. We believe the \$440,000 spent on what turned out to be excess IT equipment could have been funds put to better use.

### NCUA Did Not Timely Remove IT Equipment from Delphi

OCFO staff did not timely remove IT equipment from NCUA's financial system, Delphi. Specifically, IT equipment that was unserviceable, lost, stolen, damaged, or purchased by NCUA employees remained in the agency's financial system fixed asset account. In addition, for the period we tested, OCFO staff did not update the financial system following the bi-annual inventory verification. This occurred because OCFO staff did not use reports provided from employees about unserviceable, stolen, damaged, or purchased IT equipment to update the financial system and because NCUA management did not have processes in place to ensure reliable reporting.

### NCUA Did Not Timely Update Delphi - Using NCUA Form 1632-R

OCFO staff did not use Form 1632-R to promptly remove IT equipment from Delphi despite employees submitting the form to DPFM to report IT equipment that was unserviceable, lost, stolen, or damaged.<sup>32</sup> We asked OCFO management why this occurred. OCFO management explained that the process is typically manual and can be untimely because it is a paper-based form initiated through OCIO or DPFM, which they periodically provide to OCFO's staff in bulk to retire assets in Delphi.

We reviewed all 137 Forms 1632-R collected by DPFM from January 2014 through June 2017 and compared the disposition noted on the selected forms to Delphi's fixed and retired asset listings as of June 30, 2017. We identified 28 (20 percent) pieces of IT equipment that were disposed of—according to the Form 1632-R—that were still listed in Delphi's fixed asset account. OCFO staff should have removed this equipment from Delphi because the Form

<sup>31</sup> As previously mentioned, the NCUA extended the terms of the lease through December 2018.

<sup>32</sup> OCFO is the only office that can update the financial system to reflect the status of equipment.



1632-R listed the status as either unserviceable, lost, stolen, or damaged. We asked OCFO management to provide additional information, in particular, the asset retirement date, for each of the 28 items, which they did.

Our analysis of the retirement date determined that it took an average of 416 days to retire 20 assets. In addition, we determined that an OCFO staff member retired 16 of the 20 assets on September 30, 2017, during our audit fieldwork, despite the related Form 1632-Rs having been submitted in 2014, 2015, 2016, and early 2017. OCFO management informed us that they retired an additional two assets prior to the issuance of our report. All totaled OCFO management retired 22 of the 28 assets during our audit.

The NCUA's new draft handbook, dated November 5, 2018, requires employees and contractors to report all lost, damaged, or stolen assets using NCUA Form 1632-R within three business days of the event. However, the handbook is silent on a deadline for OCFO staff to remove assets from the financial system. Because we found that OCFO staff did not timely remove IT equipment from NCUA's financial management system, we believe requiring a specific number of days to remove assets from the system would be useful.

#### *NCUA Did Not Timely Update Delphi Using Employee Purchase Forms*

The NCUA did not use forms that employees completed when purchasing retired IT equipment for their personal use to timely update its financial system, and could not determine the disposition of retired IT equipment purchased by employees in 2015, the last time employees were permitted to purchase retired IT equipment.

We obtained purchase forms from 2015 to determine the disposition of the assets in Delphi. Our review of the purchase forms identified approximately 370 serial numbers for approximately 530 laptops, one smart phone, and one smart tablet. Some purchase forms did not provide any serial numbers. We reconciled the serial numbers with OCFO's fixed and retired asset inventory listings and found 61 assets listed as retired, one asset remained on the fixed asset listing, and approximately 300 assets that we could not locate in either of Delphi's asset inventory listings (fixed or retired). Because we could not locate these 300 assets, we selected a judgmental sample of 30 (10 percent) to determine their disposition.

OCFO staff provided us screenshots from Delphi of the 30 IT equipment we selected for testing. Our review of the screenshots determined that Delphi listed none of them as retired or depreciated. OCFO staff inform us they categorized the laptops employees purchased in 2015 (that the agency acquired in 2012) as a lease and therefore they did not depreciate them. In addition, OCFO staff informed us that they could not provide additional evidence (screenshots) from Delphi to show that the 30 assets in question were retired. We asked OCFO staff to provide support regarding the disposition of the assets (laptops) that NCUA had sold to employees but they could not. We believe OCFO could not provide supporting documentation of the disposition of these 30 assets that should have been retired because they did not take timely and appropriate steps to properly close out these assets in Delphi.



*NCUA Did Not Timely Update Delphi After its Bi-annual Inventory Verification*

A former OCFO employee did not use the bi-annual inventory verification process to timely update the financial system in 2016, the year we selected to examine this process. Specifically, we determined that although the September 2016 inventory verification indicated that the NCUA no longer had certain IT equipment, the employee did not timely remove that equipment from Delphi. As a result, the equipment remained in Delphi's fixed asset account during the December 2016 inventory verification. In addition, we compared the September 2016 inventory verification results with the December 2016 inventory listing and determined that OCFO staff had timely removed five of the 15 IT equipment from Delphi's fixed asset account. However, we determined it took an average of 458 days to remove the remaining ten IT equipment. We asked the former OCFO employee why this occurred and he explained that he had other higher priority work. We also inquired about this with OCIO staff. OCIO staff acknowledged that corrections identified from one inventory verification did not always transfer to the next. When we informed OCFO management, they indicated that the responsible OCFO staff being new to their jobs more or less attributed to the delay.

**Recommendations**

We recommend NCUA management:

4. Implement a comprehensive asset management system that designated employees must update, within a specific number of days, upon acquisition, distribution, and disposition of IT equipment, in accordance with NCUA's instruction, handbook, and related documents.

**Management Response:**

Management agreed with this recommendation. Management stated the agency acquired an asset management system and performed an initial upload of IT hardware assets and that the asset management system will be fully operational by the end of 2019. In addition, management indicated they will incorporate the specific number of days to complete the processes of its IT equipment lifecycle into its new policies and procedures by September 30, 2019

**OIG Response:**

We concur with management's planned action.



5. Survey IT equipment at least annually to identify excess or exhausted equipment, and then sell, transfer, or donate within a specific timeframe, according to parameters established in NCUA's instruction, handbook, and related documents.

**Management Response:**

Management agreed with this recommendation. Management indicated that beginning in March 2020, they will annually survey IT equipment, including a physical inventory of accountable property and identification of excess or exhausted IT equipment. Management also indicated they will sell, transfer, or donate equipment according to established parameters.

**OIG Response:**

We concur with management's planned actions.

6. Ensure the new instruction, handbook, and related documents provide a specific number of days for the removal of assets from the NCUA's financial system.

**Management Response:**

Management agreed with this recommendation. Management indicated they will incorporate the requirement for a specific number of days for the removal of assets from NCUA's financial system into its policies and procedures.

**OIG Response:**

We concur with management's planned actions.

7. Consider in future contracts for IT equipment the ability to buy or lease assets on demand, which would reduce costs for equipment not needed.

**Management Response:**

Management agreed with this recommendation. Management indicated they will consider "on-demand" options, as well as, other flexible/cost saving alternatives, for future purchases and leases of IT equipment, as appropriate.

**OIG Response:**

We concur with management's planned action.





## Appendix A: Objectives, Scope, and Methodology

We developed our objectives for this engagement based on OIG's 2017 Annual Performance Plan. Specifically, our objectives were to:

- Assess the NCUA's IT equipment inventory policies, procedures, and practices, including its system of controls, and
- Determine whether the NCUA adequately monitors and accounts for its IT equipment from acquisition through final disposition.

As previously mentioned, management could not assert to the completeness of the universe of its IT equipment from the various systems they use to track IT equipment. As a result, we identified an information limitation related to the transactional activity obtained from these systems. We conducted this audit from September 2017 through February 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish our audit, we performed fieldwork at the NCUA's central office in Alexandria, VA. The scope of this audit focused on IT equipment inventory that included laptops, monitors, hotspots, external hard drives, portable printers, smart phones and smart tablets during the period of January 1, 2014, through June 30, 2017. We initially, planned to include IT equipment provided to state supervisory authorities; however, we found the process for providing such equipment required a different approach. Therefore, we did not include this equipment in the scope of this audit.

To achieve our objectives, we:

- Reviewed the NCUA's Draft *Accountable Property Operations Handbook*, dated November 5, 2018.
- Reviewed GAO's report *Federal Personal Property: Opportunities Exist to Improve Identification of Unneeded Property for Disposal*, GAO-18-257, dated February 2018.
- Reviewed the NCUA's Operating Fund Expense Policy (Policy on Capitalizing Expenditures), dated October 2015.
- Reviewed the NCUA's Instruction 1710.5 (REV), *Disposition of Agency-Owned and Leased Personal Property*, dated April 2014.
- Reviewed GAO's *Standards for Internal Control in Federal Government*, dated September 2014.



- Reviewed the NCUA's Delegations of Authority, Procurement and Property Management, dated March 2013.
- Reviewed GSA regulations related to accountable property, dated July 2011 and other federal regulations.
- Reviewed Smithsonian Institution OIG audit report, *Personal Property Accountability*, A-09-06, dated November 2009.
- Reviewed GAO's *Internal Control Management and Evaluation Tool*, dated August 2001.
- Reviewed the NCUA's Instruction 1710.1, *Reimbursement for Damage to or Loss of Agency-Owned Property*, dated April 1990.
- Applied alternative procedures to test for existence and completeness by seeking independent, corroborating evidence from other sources to identify a universe of IT equipment for testing.
- Selected a statistical sample of IT equipment from the OIG identified universe to conduct a physical inventory to test for existence and completeness through reconciliation to the NCUA's records.
- Utilized Microsoft Outlook to obtain location of staff for inventory verification.
- Compared the NCUA's Form 1632-R, *Report of Unserviceable, Lost, Stolen, or Damaged Equipment* to inventories maintained by OCFO, OCIO, and DPFM to determine the disposition of the assets.
- Conducted testing of IT equipment reported as unserviceable, lost, stolen or damaged in OCFO's fixed asset listing.
- Compared the DPFM's response for the September 2016 (fiscal year) inventory asset verification with the OCFO's December 2016 (calendar year) listing.
- Obtained End-of-Lease-Life Employee Purchase Forms for 2015 to compare serial numbers from the form with the OCFO's inventory of retired and fixed assets. Selected a judgmental sample of serial numbers not found in the retired or fixed assets inventory to determine disposition of the asset.
- Conducted walkthroughs of the NCUA's inventory methods and systems.
- Conducted observations of the storage locations where the NCUA held its IT equipment.
- Interviewed NCUA staff, senior management, and executive management involved in IT equipment management.
- Reviewed performance plans of staff managing IT equipment.



## Appendix B: Management Response

National Credit Union Administration  
Office of the Executive Director

SENT BY EMAIL

**TO:** Inspector General Jim Hagen

**FROM:** Executive Director Mark Treichel

A handwritten signature in blue ink that reads "Mark Treichel".

**SUBJ:** Management Response – Audit of the NCUA’s Information Technology Equipment Inventory

**DATE:** March 26, 2019

The NCUA concurs with the recommendations set forth in the Office of Inspector General’s draft report titled “*Audit of the NCUA’s Information Technology Equipment Inventory.*” The NCUA considers accountability of IT assets a fundamental aspect of information security and stewardship over resources entrusted to the agency.

One point of clarification regarding the report is the unaccounted property noted. The inventory test results included in the report could lead external parties to the conclusion the agency cannot locate a sizable portion of its inventory. This is not the case. On the list tested by the OIG are assets that are several generations past their useful life and have been retired. This includes the external hard drives listed as unaccounted property in the report. With that said, we are committed to enhancing the inventory controls and accounting for property.

### **OIG Recommendation**

1. Finalize the draft handbook, Accountable Property Operations Handbook, and revise and/or cancel any other IT equipment inventory management related policies, procedures, and instructions that will be covered by the new handbook, as applicable.

### ***Management Response***

Management will issue the new NCUA Instruction, *Receipt, Transfer, and Disposal of Accountable Property*, and corresponding handbook, *Accountable Property Operations Handbook*, by September 30, 2019.

### **OIG Recommendation**

2. Develop and incorporate a responsibility statement to the *Record Receipt – Property Issued to Employee Form* that all employees, contractors, and others who are issued IT equipment must acknowledge (electronically or in writing) issuance of NCUA equipment. Reflect this requirement in the applicable IT equipment inventory policies and procedures.

***Management Response***

Management will add a responsibility statement to the *Record Receipt – Property Issued to Employee Form* concurrent with the release of the *Accountable Property Operations Handbook* by September 30, 2019.

**OIG Recommendation**

3. Ensure performance criteria are incorporated into performance plans for all employees who are responsible for managing the agency's IT equipment.

***Management Response***

By September 30, 2019, management will update performance plans for staff assigned to defined roles under the new accountable property instruction and handbook with key responsibilities for the safeguarding of NCUA IT assets.

**OIG Recommendation**

4. Implement a comprehensive asset management system that designated employees must update, within a specific number of days, upon acquisition, distribution, and disposition of IT equipment, in accordance with NCUA's instruction, handbook, and related documents.

***Management Response***

The new policies and procedures targeted for update by September 30, 2019 will include the specific days to complete the processes in the lifecycle for IT equipment. The NCUA acquired an asset management system and performed an initial upload of IT hardware assets in December 2018 that will help facilitate these processes. The new system will be fully operational by December 31, 2019.

**OIG Recommendation**

5. Survey IT equipment at least annually to identify excess or exhausted equipment, and then sell, transfer, or donate within a specific timeframe, according to parameters established in NCUA's instruction, handbook, and related documents.

***Management Response***

Beginning March 31, 2020, management will annually survey the IT equipment, including a physical inventory of accountable property and identification of excess or exhausted IT equipment. We will sell, transfer, or donate equipment according to the parameters established.

**OIG Recommendation**

6. Ensure the new instruction, handbook, and related documents provide a specific number of days for the removal of assets from the NCUA's financial system.

***Management Response***

Management will incorporate this requirement in the policies and procedures scheduled for release by September 30, 2019.

**OIG Recommendation**

7. Consider in future contracts for IT equipment the ability to buy or lease assets on demand, which would reduce costs for equipment not needed.

***Management Response***

Management will consider "on-demand" options, as well as other flexible/cost saving alternatives, for future purchases and leases of IT equipment, as appropriate.

Thank you for the opportunity to review and comment on the report. We appreciate your contributions and insights, which will enhance the NCUA's stewardship over IT assets.



## Appendix C: Acronyms and Abbreviations

<b>DITA</b>	Division of Information & Technology Assurance
<b>DPFM</b>	Division of Procurement and Facilities Management
<b>DFRA</b>	Division of Financial Reporting and Analysis
<b>ERM</b>	Enterprise Risk Management
<b>FMFIA</b>	Federal Management Financial Integrity Act
<b>Form 1632-R</b>	NCUA Form 1632-R
<b>GSA</b>	General Services Administration
<b>Green Book</b>	Standards for Internal Control in the Federal Government
<b>GAO</b>	U.S. General Accountability Office
<b>handbook</b>	Accountable Property Operations Handbook
<b>IT</b>	Information Technology
<b>NCUA</b>	National Credit Union Administration
<b>OCFO</b>	Office of Chief Financial Officer
<b>OCIO</b>	Office of Chief Information Officer
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>Smithsonian</b>	Smithsonian Institution
<b>tool</b>	Internal Control Management and Evaluation Tool
<b>U.S.C.</b>	United States Code