

**NATIONAL CREDIT UNION
ADMINISTRATION**

OFFICE OF INSPECTOR GENERAL

**REVIEW OF
NOTEBOOK INVENTORY**

OIG-00-06 July 26, 2000



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Senior Auditor**

Released By:

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**Executive
Summary**

The National Credit Union Administration (NCUA) Office of Inspector General (OIG) performed a review of the NCUA's notebook computer inventory property management system and practices. The review objectives were:

1. To determine the accuracy of NCUA's notebook computer inventory and:
2. To evaluate the adequacy of internal controls over notebook computers.

Our review encompassed all agency notebook computers, including those leased to State Supervisory Authorities (SSA). Our primary review procedures consisted of:

- Reviewing agency notebook computer property management guidance
- Interviewing appropriate NCUA staff
- Comparing NCUA staff and SSA notebook computer confirmations to NCUA notebook computer property records

We are unable to conclude upon the accuracy of NCUA's accounting of notebook computers. This is due to several factors. Some of the major factors are as follows: First, there is no reconciliation performed between property recorded in the Agency's financial statements to the property accounted for via the personal property management system. Second, there has not been a recent physical inventory taken on all notebook computers. The OIG attempted to perform a notebook computer physical inventory and confirmation process which resulted in several unresolved discrepancies. We did not attempt to resolve all of the discrepancies. However, we did follow-up on a judgmental sampling of discrepancies and were unable to resolve all of those. Third, the accuracy of the initial distribution of the IBM notebook computers is suspect. Fourth, error in the personal property record input fields indicates an inaccurate accounting of assets; such as more than one record with a duplicate serial number, more than one record with a duplicate inventory tag number; assignee confirmation of assets not recorded in the property management system, and notebook computers assigned to contractors are not recorded in the property management system.

We concluded that the agency property management internal control system is weak due to the following reasons. First, there is a lack of segregation of duties. Second, there are few property management EDP or manual internal controls in place. And third, there is a lack of management oversight due to the absence of exception and edit reports for review.

Based upon our observations and conclusions, we have offered 24 recommendations for improving the property management system as it applies to notebook computers.

Introduction

In December 1999, NCUA committed \$6.5 million to a three year lease for 1,560 Compaq notebook computers. Because of this substantial commitment, the OIG decided to review the Agency's internal controls over its current inventory of notebook computers including a review of the Agency's notebook computer inventory property management system and practices. This review concentrated on the Agency's current property management system and practices, while at the same time gathered information regarding any new developments in property management as it related to the procurement of new notebook computers.

Background

Beginning in 1994, NCUA purchased IBM notebook computers to replace Toshiba notebook computers in use at that time. The IBM notebook computers were primarily for NCUA and State Supervisory Authority (SSA) examiners. The SSAs leased the IBMs from NCUA for an indefinite term. An NCUA property decal, with unique number, was affixed to each notebook computer. The IBMs were shipped to several locations where computer training was to be held. At these locations, the IBMs were distributed by the computer training trainers and assigned to individual NCUA examiners and SSAs. The Toshiba notebook computers were returned to NCUA and received in the Alexandria, Virginia central office where they were to be stored until disposed of. The Office of Administration recorded the IBM notebook computers and their assignees via a listing provided by the trainers into the NCUA property management system. Initially, the IBM notebook computers were under an extended service warranty contract with IBM. During this time, IBMs in need of repair were shipped to an IBM maintenance facility and a "loaner" IBM was shipped to the individual whose computer was broken. After the warranty term expired NCUA began repairing broken notebook computers in-house, when possible or shipping the computer to a contracted maintenance facility. In this case, the individual whose computer was broken was shipped a replacement computer to which they were now assigned. The broken computer upon repair would be used as a replacement when the need arose.

In 1996, the NCUA purchased new financial statement software. Upon configuring this new software, the NCUA implemented a new property management system. At that time, all property records were migrated from the old property management system to the new (current) property management system.

On December 17, 1999, the NCUA signed a three year lease for 1570 Compaq M700 notebook computers to replace the IBM notebook computers. All NCUA staff and SSA examiners were to receive these notebook computers. The SSAs were to sign subleases for use of the Compaq notebook computers. Bar coded serial numbers were affixed to the Compaq notebooks by the lessor. These serial numbers would replace the NCUA property tag number as the unique identifier for tracking purposes in the property management system. The Office of Chief Information Officer (OCIO) budgeted for and

prepared the purchase requisition for these computers. Per the OA approved purchase order, the computers are to be shipped to the attention of the OCIO. Upon receipt of the Compaq computers the Office of Administration (OA) will record these computers into the property management system and the OCIO is to prepare the goods receipt. Beginning as early as January 2000, Compaq notebook computers were received and distributed by the OCIO in the central office. The NCUA and SSA examiner staff Compaq distribution will take place during computer training in Denver, Colorado. This training will consist of staggered classes of one week each beginning March 20, 2000 and running through the beginning of June 2000. The lessor will ship the Compaqs to Denver via NCUA's delivery schedule. The OA will record these computers into the property management system via bar-code reader and assign and record the assignment to examiner and SSA staff similarly. Per the terms of the lease, the lessor will repair and maintain the computers. NCUA will ship loaner computers to staff when their computer is in need of repair.

Objectives

Our review objectives were: (a) to determine the accuracy of NCUA's notebook computer inventory and (b) to evaluate the adequacy of internal controls over notebook computers.

Scope and Methodology

This review was of limited scope and was performed under limited yellow book audit standards. For instance, we did not perform a physical inventory of notebook computers assigned to NCUA or SSA staff due to time and logistic constraints. We did not review for legal or regulatory compliance. Our follow-up procedures for possible exceptions was of limited scope. And we could not confirm the reliability of the computer generated information provided to us. However, we did perform the following review procedures in meeting our review objectives:

Accuracy of notebook computer inventory:

- Reviewed agency guidance regarding notebook computer property management
- Interviewed NCUA staff responsible for property management
- E-mailed all NCUA staff and SSAs request confirmation of notebooks computer assignment
- Reviewed the results of a similar confirmation request distributed by NASCUS to all SSAs
- Physically inspected computers on-hand in the central office and two regional offices
- Reviewed 100% of notebook computers as recorded in the NCUA personal property management system
- Reviewed select records in the personal property management system
- Reviewed select notebook computer personal property cards
- Ran select data queries of OIG confirmation and personal property management system databases
- Queried select comparisons between OIG confirmation and property management system databases.

Notebook Computer Review

Adequacy of internal controls over notebook computers:

- Reviewed NCUA guidance regarding notebook computer internal controls
- Interviewed NCUA staff responsible for property management
- Tested compliance with policies and procedures
- Reviewed above queries for indication of reporting errors or irregularities

REVIEW RESULTS

Our notebook inventory review, primarily concentrated on the inventory as it existed on our field work dates. These notebook computers were the IBM Thinkpads. However, we did inquire, observe and obtain some limited documentation regarding the leasing of the Compaq Armada notebook computers.

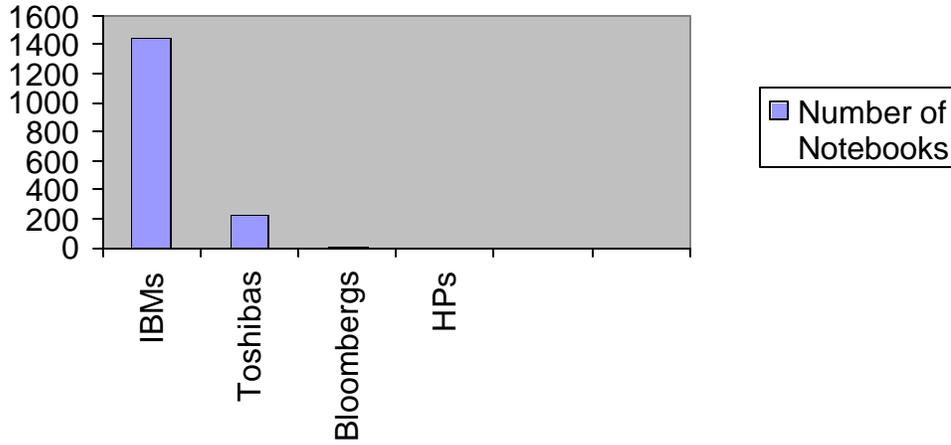
As we stated above, we had two primary objectives. One concerned the accuracy of the notebook inventory and the second concerned the internal controls regarding notebook computer inventory. These two objectives are not mutually exclusive and to a great extent are reliant upon each other. For instance, we may have found errors in the physical inventory which could indicate a lack of internal controls. Conversely, we may have found weaknesses in internal controls, which indicate the reliability of the notebook inventory may be suspect.

Inventory

We are unable to conclude upon the accuracy of NCUA's accounting for notebook computers. First, there is no reconciliation performed between property recorded in the Agency's financial statements to the property accounted for via the personal property management system. Second, there has not been a recent physical inventory taken on notebook computers. Third, the accuracy of the initial distribution of IBM notebook computers is suspect. And fourth, error in the personal property record input fields indicates an inaccurate accounting of assets.

The accuracy of any inventory system is reliant upon the physical controls over the actual inventory and the inventory monitoring and tracking controls in place. These types of controls should be in place during acquisition, receipt, distribution, assignment, transfer, and disposition of assets. As stated earlier, our first objective was to determine the accuracy of the NCUA's notebook computer inventory. Our primary method of making this assessment was by obtaining a third party confirmation of notebook computers on hand and comparing that to the NCUA property records of notebook computers being monitored. Our third party confirmations were sent via email requests to all NCUA staff and SSAs for notebook computers assigned/held by them as of November 30, 1999. Our listing of NCUA property records for notebook computers was via a report designed/queried by the OCFO of the Agency's personal property management system for all personal property as of December 8, 1999. From these two basic "databases" we ran comparison queries and select reports. Below is a chart depicting the 1,696 notebook computers per the personal property management system by type:

Number of Notebooks



INVENTORY SYSTEM RECONCILIATIONS

The OCFO is responsible for the Agency’s financial accounting. As such, the OCFO is responsible for the accuracy of stated fixed assets in the various NCUA fund financial statements. The OA is responsible for accounting for property management for all “accountable property” of the Agency. OA “accountable property” includes fixed assets and “expensed assets”.

The OCFO financial accounting of notebook computers essentially has an automated numbering system for assets acquired. The asset number generated could be for one or more assets and interacts with the purchase order system via an internal order. Thus, if an internal order is for 100 notebook computers, one asset number, in the fixed asset subsidiary, will be created for those 100 notebook computers. Quantities and dollar amounts, among other fields, are recorded in this system.

The OA personal property management system of notebook computers essentially has an automated numbering of assets generated for each asset. These asset numbers are different from the ones generated in the financial accounting system. Thus, the recording of 100 notebooks computers would generate 100 asset numbers in the property management system. Quantities, among other fields, but not dollar amounts of assets are recorded in this system.

Per the NCUA Property Management Procedures manual and per the current financial and property management system requirements, pre-award; the financial subsidiary fixed assets and personal property management systems should be reconciled.

Notebook Computer Review

Observation 01:

The financial accounting subsidiary fixed asset ledger and the personal property management system are not reconciled. The OCFO and OA readily admit that these two systems are not reconciled and opined that such a reconciliation may not be possible. Currently, there is no system or procedure in place to ensure that notebook computers procured or disposed of in the fixed asset subsidiary are recorded likewise in the property management system.

Conclusion:

Due to an inefficient workflow design and system implementation, the Agency has suspect reliance on the validity of the stated notebook inventory. In addition, maintaining two separate systems for personal property is inefficient and creates to a certain extent duplication of effort.

Recommendation 01:

Migrate the recording of assets and accountable property in the personal property management system to the assets established in the fixed asset subsidiary ledger and general ledger accounts of "expensed assets". Redesign the property management system, such that assets created in the fixed asset subsidiary will be the same asset number and/or sub asset numbers used in the property management system. It is our understanding that OA has discussed this issue with the fixed asset and property management system contractors.

OA RESPONSE: A joint effort between OA and OCFO to develop and implement a new and more secure property management system has been underway and is in the latter stages. All personal property is now being entered into the fixed asset system (3000 series) and no further entries are being made to the property system (6000 series). The property system will gradually be phased out as excess equipment is disposed of. This will have the effect of eliminating the above referenced inefficiency as well as avoiding the possibility of duplication. Procedures for maintaining the new fixed asset system in SAP will be developed by July 15, 2000.

OCFO RESPONSE: The use of the word "accounting" in this section seems to imply the NCUA's financial books are misstated, and that NCUA's financial books are inaccurate. We believe that the totals in our Property, Plant, and Equipment control accounts reflect the true cost of Agency capitalized assets. The real problem seems to be that OCFO's control totals for property, plant and equipment are not reproduced or are even reproducible in OA's inventory system because the inventory system has not been maintained accurately and because the two systems are not integrated/compatible. It is important to note that for the "new" laptops and peripherals, OCFO, OA and OCIO have developed new procedures and enhanced the asset system so that the asset record

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associated with a particular notebook/peripheral has been created only once in the system. This one record contains all of the views (Accounting, Inventory, Depreciation) necessary for accurate accounting and inventory. This new procedure and system for tracking the laptops will allow for an integrated and accurate way of accounting for and tracking them. In addition, OCFO is in the process of developing an inventory confirmation program in SAP that will not only provide employees with lists of the assets that they possess, but also require them to verify that our information is correct.

PHYSICAL ACCOUNTABILITY

According to the NCUA Property Management Procedures manual, annual physical inventories are required for personal property. The Director of Administration is designated as the agency's property management officer (PMO) with responsibility for developing policies and procedures of accountability for controlling, managing and using property. Office Directors and Regional Directors are designated as accountable officers (AO) with responsibility for executing policies and procedures, ensure physical inventories are taken and appoint custodial officers (CO). Custodial officers administer the policies and procedures, maintain records and conduct annual physical inventories. Property issued to employees "shall be charged to such employees as personal property". According to the minutes of the Automated Support Committee on April 10 and 11, 1995 discussing functional descriptions of the new personal property management system, "an annual inventory module will be available so each employee can electronically certify the decal number of items in their possession (only PC's for examiners)".

The Property Management Procedures manual indicates that the AO is responsible for issuing notebook computers since they are "designated the responsibility for the physical custody of personal property".

Observation 02:

According to the Directors of OA and E&I, the initial distribution of IBM computers in 1995 and subsequent recording was inaccurate. According to the Director of OA this was at least partly due to the fact that non-property management staff distributed and recorded the initial distribution. According to the Director of OCIO, staff collected completed property management cards for all distributed computers and these property cards were returned to OA. It appears that proper controls of receipt, distribution and/or recording were either not in place or were not adhered to. There have been "physical" inventories taken, approximately every other year. However, they have not been all inclusive of all personal property. For instance, OIG staff notebook computers have never been subject to a physical inventory. Also, there has been no recent physical inventory of notebook computers prior to the acquisition of the Compaq notebooks.

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Conclusion:

Due to the fact that the initial distribution of IBM notebook computers was admittedly inaccurate and comprehensive annual physical inventories have not been taken, the accuracy of the recorded beginning notebook computer inventory is suspect.

Recommendation 02:

Annual physical inventories should be taken. This should be comprehensive of all personal property and be performed with established procedures at a predetermined cut-off date. Any discrepancies between actual physical inventory and recorded inventory, should be adjusted to actual inventory. This procedure should be taken as close to the year end as possible to be of value for financial and property management purposes. It is our understanding that OA has plans to perform, at least annually, a confirmation process with all notebook computers assignees. We believe this process could address the need for an annual physical inventory of notebook computers.

OA RESPONSE: OA will conduct a physical inventory (negative confirmation) of laptops and related equipment once the distribution has been completed. We will conduct the inventory using e-mail and data loaded directly from SAP as of June 30, 2000. We will repeat the process semi-annually thereafter. In addition, we plan to do positive confirmations throughout the year on randomly selected pieces of equipment.

NOTEBOOKS ASSIGNED TO NON-NCUA STAFF

The NCUA considered state examiner needs when procuring the IBM Thinkpads. The NCUA purchased the IBM notebook computers and leased some of those computers to the SSAs. While the NCUA assigned computers were capitalized in the NCUA Operating Fund; the state leased computers were expensed in the National Credit Union Share Insurance Fund. NCUA leases notebook computers to 47 states. The SSAs request the number of notebook computers they need and the NCUA regional offices and Office of Examination and Insurance review for approval. If the state subsequently needs additional notebook computers they are to go through these same approval channels. If approved, OA will be notified to fulfill the request. Any notebook computers returned are shipped back to OA.

Observation 03:

Upon review of notebook computer lease agreements with State Supervisory Authorities (SSAs), we noted inconsistent documentation to support the number of notebook computers initially distributed, additional notebooks distributed and notebook computers returned to NCUA. In addition, notebook computers assigned to NCUA contractors are not recorded in the personal property management system. There is no contract as to the assignment or use of the notebook computers with these contractors other than a signed

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property card. The number of SSA lease files, with 100% supporting documentation, where the number of leased computers can be traced from inception to November 30, 1999 was 26 out of 47 states.

Conclusion:

The lack of a documented audit trail for the notebook computers held by SSAs and the non-recording of contractor held notebook computers in the property management system casts doubt on the accuracy of the notebook inventory recorded.

Recommendation 03:

Contracts (lease or otherwise) should be maintained for all notebook computers assigned to all non-NCUA staff. Additionally, all supporting documentation should be retained with such contracts for any additional or returned notebook computers with those parties.

OA RESPONSE: Lease agreements are on file for all SSAs which have been issued computers. Additionally, property cards for each computer issued to SSAs are maintained in both hard copy and electronic format. The machines are issued to the SSA and not individual state examiners. The SSA is solely responsible for each machine's safekeeping and working condition. The same system is in place for OCIO contractors who have been issued NCUA owned computers. All computers which have been received from the vendor are recorded in the property management system.

PROPERTY RECORD MONITORING

The NCUA property tags are stickers attached to the notebook computers, usually on the exterior of the notebook computer. The property tag was the main method of monitoring and tracking the notebook computers.

Observation 04:

Based upon our confirmations of notebook computers held by NCUA and SSA employees, 145 property tags were either missing or illegible on notebook computers. We also performed a search function in the property management system by property tag number and serial number and could not locate any record for six notebook computers which were confirmed by assignees. We discovered that until recently, the search function was not available in the property management system by serial number. We understand that the new Compaq computers will be monitored by serial number and not have a property tag number.

Conclusion:

Since the property tag number was the main tracking mechanism for all personal property, including notebook computers, the likelihood of unaccounted property is increased when

property tags are missing or are illegible. This is further encumbered when a search function is not available by property serial number.

Recommendation 04:

Property tag numbers, when used, should be permanently affixed to an asset and located in a place of least wear and tear. Additionally, a search function by serial number should be available in the property management system. Currently the property management system does not have a search capability by serial number.

OA RESPONSE: The new Compaq laptop computers have been leased for a three year period. The only identifying number being used is each unit's serial number. We requested serial number tags on each machine that would not wear off, or peel off, or become discolored, or unreadable, over a three to five year period. We have been assured by Compaq that the serial number tags meet our requested specifications.

PROPERTY MANAGEMENT SYSTEM ERRORS

The property management system has very few if any data input internal controls. Additionally, there are no edit or exception reports generated for supervisory review.

Observation 05:

Upon scanning the fields of all property records, we noticed six entries where a serial number was entered for a desktop computer, but the quantity was listed as 300 instead of 1. We also performed several inquiries on 100% of the records in the property management system. We discovered 22 records with duplicate serial numbers, all with differing property tag numbers and 19 with differing assignees. We discovered two records with the same property tag number, one with a possible typographical error in the serial number and the other with a differing assignee.

Conclusion:

With errors in quantity fields and duplicate serial and property tag number entries in the property management system, the accuracy of the number of assets is suspect as recorded.

Recommendation 05:

The property management system should incorporate EDP input controls for all required fields of entry. For instance, a duplicate serial number or tag number should not be able to be entered, at least unless an error message is displayed and an exception report generated. If a serial number is entered, then the default entry value in quantity should be one.

OA RESPONSE: OCIO contractors have developed, and we are using, a customized input screen for the data associated with the new Compaq laptop computers. The customized screen allows us to use optical scanners to enter serial numbers into the fixed asset system. The use of this screen prevents the input of duplicate serial numbers and an error message appears when one tries to enter a duplicate number. However, this does not apply to use of the normal SAP input screens which will allow duplication. We are working with the OCIO contractors to provide for input solely through the screens with edits. We have also limited write access to OA staff.

EXCESS PERSONAL PROPERTY

The IBM notebook computers essentially replaced the previous Toshiba notebook computers for use by assigned staff. The current procurement of Compaq computers will essentially replace the IBM notebook computers. OA is primarily responsible for disposing of excess equipment. The excess could be retained if needed, sold, donated or destroyed.

Observation 06:

The IBM notebook computers were procured approximately five years ago. Substantially all of the Toshiba notebook computers were returned and stored as excess property at NCUA's central office, pending disposal. As of December 8, 1999 198 Toshiba notebook computers were listed in the property management system and assigned to "warehouse". In a relatively short period of time, excess computer equipment loses its usefulness and becomes obsolete.

Conclusion:

Obsolete notebook computers take up storage space and run the risk of being disposed of improperly (being stolen); which could lead to an inaccurate portrayal of useful equipment on hand.

Recommendation 06:

Excess property should be disposed of in a timely fashion. As part of the notebook computer disposal plan, the Agency should provide the method(s) of disposal and target dates to accomplish these methods.

OA RESPONSE: NCUA had several models of Toshiba laptops. The vast majority were upgraded 3100s were used by field staff. Because of the age of the 3100s (7 years) and their obsolete technology, they had little or no value. Some were donated to small credit unions but most were given away to a salvage company that was willing to dispose of them at no cost to the agency. Some of the more advanced models were retained for continued use and retired gradually over a period of time. They had little or no value at the time they were retired. The Toshibas remaining in the warehouse were disposed of

earlier but not removed from the inventory in error. They will be removed from the property system immediately.

We disposed of the IBM desktops, which were replaced 3 years ago by the HP Vectras, by donating them to schools and non-profit organizations in accordance with our property disposal policy. Again, because of the age of the machines and their obsolete technology, it took months of followup work to get the organizations to pick them up.

OA has a large list of schools and non-profit organizations interested in the IBM laptops and HP Vectra desktops. Since they have more current technology, we don't anticipate having the difficulties we experienced in the past disposing of the equipment. Our target date for completion of the disposal is September 30, 2000.

Internal Controls

We concluded that the agency property management internal control system is weak due to the following reasons. First, there is a lack of segregation of duties. Second, there are few property management EDP or manual internal controls in place. And third, there is a lack of management oversight due to the absence of exception and edit reports for review. Proper internal controls are a key ingredient in ensuring the accuracy of any system. Internal controls over procuring, receiving, distributing, assigning and recording of notebook computers is vital to assist in the prevention of errors and irregularities. There are many types and degrees of internal controls, and the cost of internal controls needs to be weighed against the risk(s) incurred without controls. Some of the more common internal controls are physical security controls, EDP system controls, management oversight/authorization and segregation of duties.

CAPITALIZATION POLICY

NCUA Instruction 2100.9 Capitalization of Fixed Assets (dated January 10, 1995) states that tangible fixed assets acquired at a cost of \$1,000 or more per item will be capitalized. In addition, all personal computers, printers, modems, *selected* software and fax machines will be capitalized. Bulk purchases of equipment, where individual items cost less than \$1,000 will be capitalized on a *case-by-case* basis. All other tangible fixed assets, capitalized or *uncapitalized*, other than consumable supplies, with a cost of \$500 or more, will be recorded in NCUA's property management system and will be controlled by NCUA's accountable property officer. On January 13, 1997 the capitalization policy was revised with NCUA Instruction 2100.9(REV). The policy currently states that tangible fixed assest with a cost of \$5,000 or more will be capitalized. All other tangible fixed assets, capitalized or uncapitalized, other than consumable supplies, with a cost of \$500 or more, will be recorded in NCUA's property management system and will be controlled by NCUA's accountable property officer.

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The NCUA utilizes two asset classifications for capitalized personal property. This would include all furnishings and all equipment, including notebook computers. According to the personal property management system, as of December 8, 1999, this equates to 15,408 property records.

Observation 07:

A policy of accounting for non-capitalized assets increases the input and monitoring of “assets” which are not deemed material enough to track financially. By having only two asset classifications for personal property, the data extraction of like assets also becomes cumbersome.

Conclusion:

The concept of monitoring “assets” but expensing them financially complicates the process of reconciling personal property management records with financial records. The use of only two asset classifications diminishes the usefulness of the data for management use, considering the size of the data records.

Recommendation 07:

Establish a fixed dollar amount for capitalization of fixed assets. This can be established for all personal property or by asset classification. Either eliminate the personal property accounting for “expensed assets” under the \$5,000 capitalization threshold, or create an asset classification(s) for “other accountable property” deemed to be worthy of accountability due to its nature. This category of assets perhaps could be depreciated over a short time period (two years) and should contain a minimum of items. Establish more than two asset classifications for personal property, to enhance the usefulness of fixed asset data. For instance, notebook computers could be a separate asset classification.

OA RESPONSE: A joint OCFO/OA committee is currently working on establishing standard classes of assets. The classes will be based on the type of asset (e.g. computers and related equipment) and the cost. Target date for completion of policies and procedures is June 30, 2000.

PERSONAL PROPERTY CARDS

Personal property cards are maintained by OA in hard copy. These property cards are to be signed by all assignees of notebook computers. The property cards include the serial number, property tag number, assignee signature and date spaces. Property cards are filed alphabetically by NCUA staff assignee name, office or SSA file. If a notebook computer is subsequently returned or reassigned, the original property card is destroyed.

Observation 08:

Upon tracing a sample of the 22 duplicate serial numbers, we could not locate two property cards of the listed assignees. Upon tracing four records for SSA assigned notebook computers, two property cards could not be located in the assigned SSA file.

Conclusion:

Property cards are used to hold assignees accountable for property. If property cards are missing, accountability is lost. If property cards are destroyed after return or reassignment, an audit trail is lost for accountable persons.

Recommendation 08:

Property cards should be retained and filed for all assigned accountable property by the property (serial number or tag number); not individual assignee. The same property card should be used for subsequent reassignments for that particular property item. Additionally, at the time a physical inventory is taken a sampling of confirmed assigned assets should be traced to existing property cards.

OA RESPONSE: We agree. Currently, procedures call for maintaining hard copy property cards on file. If the property card does happen to get lost, we also have a record of the property (location, and to whom assigned) in the new property management system in electronic format. We are planning a semi-annual E-Mail inventory confirmation which will minimize the risk associated with hard copy property cards.

PROPERTY MANAGEMENT SYSTEM RECORD FIELDS

The property management system record fields are as follows:

- NCUA Property Tag number
- System generated asset number
- Asset Description
- Created on date
- Created by (data entry employee)
- Cost Center
- Serial number
- Purchase Order date
- Quantity
- Room
- Personnel number (of assignee)
- Change date
- Changed by

- Physical inventory date

The NCUA property tag number is a property tag sticker placed on the asset by OA. The asset number is generated by the personal property management system automatically in numeric sequence (note: in the financial accounting system a different asset number is created). The asset description describes the asset. The created on date is supposed to be the date the transaction occurred. Created by is the name of the employee who created the record. Cost center is always Undistributed. Serial number of the asset is entered if applicable. The purchase order date is the date the purchase order was approved to procure this asset. Quantity is the number of the assets accounted for in this record (note: the financial accounting system accounts for quantity by purchase order quantity and also includes total cost for the entire purchase order). Room is used to provide the location or assignee initials. Personnel number is the system employee ID number of an asset assignee. Change date is the date any change to the record occurred. Changed by is the data entry person making the change. Physical inventory date is the date of last physical inventory. Additionally, upon creation of an asset in the system, a selection of asset classification must be made.

Observation 09:

There is a lack of consistency in the use of the asset classifications for notebook computers. Of the 1,696 notebook computer records, as of December 8, 1999, 1,413 were recorded in asset class 6000 and 283 were recorded in asset class 6100. There is also a lack of consistency in the description of like assets. The 1,696 notebook computer records included IBM Thinkpads, Bloomburghs and Toshiba's. These notebook computers include a total of 29 different models. However, the descriptive field for these notebook computers had 84 differing entries.

Conclusion:

Since all personal property is included in only two asset classifications, the asset description field becomes the only other means of segregating like assets from total assets. Since the asset classification and description fields were used inconsistently, it makes "like asset" system queries difficult and prone to error.

Recommendation 09:

Incorporate standard descriptive fields or drop down menus for like assets and asset classifications. Consider linking the asset classification to the descriptive field to prevent any inadvertent entry of assets into the incorrect asset classification field.

OA RESPONSE: This is being addressed by the joint OCFO/OA committee (see comments under recommendation 7). Target date for completion of the associated policies and procedures is June 30, 2000.

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Observation 10:

The IBM Thinkpads in need of repair are repaired on-site at the NCUA Central Office. When repairs can not be made on-site, the notebook computer is sent to an off-site, repair service contractor. However, when the computer is sent off-site, the location and assignee remains as "warehouse" in the property management system. A hand generated list is used to monitor notebook computers sent to off-site repair service contractors. Not all notebook computers used by NCUA are assigned to an individual employee. Some computers are assigned to a room number, or an office. Notebook computers assigned to contractors (primarily consultants or programmers) are not entered into the system with the contractor as assignee. Room number is the only consistently used field to record assignee. Employee number is rarely used. Room number may include the actual room number where the asset is located, initials of the office location, the NCUA staff person's first and last name initials or the SSA's state initials.

Conclusion:

The lack of specific individual designation in the property management system adds to the inefficiency of monitoring the location and assignee of notebook computers. This provides for a weak monitoring tool.

Recommendation 10:

The personnel number field should be a required entry for all assignees. The system personnel number can be utilized for all NCUA employee assignees. A SSA number should be generated for use by SSA (state) assignees. A vendor number or other unique vendor number should be used for vendor assignees (either consultant or repair service). All notebook computers should be assigned to a specific individual, state or vendor. For notebook computers assigned to an NCUA office, the office director should be the assignee. The room field can be used for the location of the asset ; such as SSA state initials, vendor location, or NCUA employee room number, office or region and SE group.

OA RESPONSE: We agree and new procedures now in place cover all of the recommendations.

Observation 11:

The posting date (date created or date changed) in the property management system is supposed to be the date the individual asset property card was signed. We found 63 mismatches between our December 8, 1999 observed physical inventory of notebook computers in OA versus the December 10, 1999 personal property listing of notebook computers in "warehouse". We traced five of the "warehouse" computers as listed in the property management system to identify the last date of entry for that record. Four of the five had last entry dates prior to November 30, 1999, yet we did not observe them in the physical count of inventory in OA. One had a change entry date of December 13, 1999

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assigned to the State of Illinois. But the confirmation received from the state of Illinois received on December 15, 1999 did not include that computer.

Conclusion:

Either the dates posted are in error or the date posted is not the date of the transaction. This weakness would make any reconciliation for timing differences in reporting difficult, and could hamper the tracking of asset movement/reassignment.

Recommendation 11:

File created and change dates should reflect the date of the actual transaction. A posting date may be of value to determine if posting of transactions is done in a timely fashion and could possibly be system generated.

OA RESPONSE: This is being addressed by the joint OCFO/OA committee (see comments under recommendation 7). Target date for completion of the associated policies and procedures is June 30, 2000.

OIG CONFIRMATIONS VERSUS PERSONAL PROPERTY RECORD EXCEPTIONS

We received 190 confirmations of notebook computers which were not recorded in the personal property management system. One hundred six of those records were apparently typographical errors in either the serial number or property tag number. Since we were unable to physically inspect the 106 notebook computers, we could not determine if the apparent errors were in the OIG confirmation records or in the personal property management records. Fourteen confirmations were resolved due to various timing and input errors. Thirty were traced to SSA confirmations from another source where we did not receive confirmations. This left 40 unresolved "exceptions". We performed additional procedures on 22 of these records with the results as follows:

Observation 12:

Five OIG confirmations were received on the new Compaq notebook computers, but were not recorded in the personal property management system. We performed a March 2000 search for three of these records via their confirmed serial numbers and were unable to locate them in the personal property management system. We traced one of the Compaqs to a property card which was dated 1/9/00.

Four of the records had record changes subsequent to our confirmations per the personal property management system. Since there is no audit trail for changes, we were unable to verify our confirmations.

Four of our confirmed notebook computers were not listed in the personal property management system.

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Five of our confirmed notebook computers were listed as in the “warehouse” via the personal property management system however, they were absent from our physical inventory count.

Three records were discovered to be duplicate serial or tag numbers in the personal property management system.

One confirmed notebook computer’s personal property card could not be located.

Conclusion:

There is a lack of internal controls in the input record changes and in management oversight of the personal property management system. There are few EDP system data entry controls in place and there are no edit or exception reports reviewed by management.

Recommendation 12:

Develop EDP data entry edit checks for essential fields of input. For instance, new records should not be able to be created for existing records of identical serial number and property tag numbers. Serial numbers, if not scanned, should be entered and required to be entered again to confirm input. Procured notebook computers should be matched against property management entered notebook computers to confirm entry in both systems. Notebook computer confirmations should be conducted at least annually and all exceptions adjusted within 30 days. Audit trail information for any record changes should be retained and recorded via an edit report. Personal property management data entry edit and exception reports should be generated weekly and reviewed by management.

OA RESPONSE: In order to avoid reconciliation problems between the property system and fixed assets system encountered when the IBM Thinkpads were procured, (see observation 1 and recommendation 1), we decided to enter the Compaq laptops into the fixed asset system individually and not into the property system. When the first Compaq laptops were delivered to trainers, we were working with OCIO contractors to develop procedures to allow OA personnel into the fixed asset system. They therefore were assigned using only property cards and weren’t entered into the system. All noted in this review are now in the fixed asset system.

Use of the customized screen and new procedures (see comments to recommendation 5) should eliminate duplications including those input manually. Semi-annual confirmations scheduled to begin as of June 30, 2000 should complete the internal controls being implemented with the system changes.

PERSONAL PROPERTY RECORDS VERSUS OIG CONFIRMATIONS

There were 813 records listed in the personal property management system which were not confirmed in the OIG survey.

- 226 of the records were Toshibas, which were neither confirmed nor physically inspected by OIG.
- 183 records were listed with SSAs.
- 127 IBM notebook computer records were listed in the warehouse, as of 12/10/99.
- 106 records were apparently typographical errors in either the serial number or property tag number. Since we were unable to physically inspect the 106 notebook computers, we could not determine if the apparent errors were in the OIG confirmation records or in the personal property management records.
- 25 of these records were notebook computers listed as disposed of (EDPD).
- 5 records were listed as stolen, but not listed as “disposed of”.
- 4 of the records were Bloomberg notebook computers, which were not confirmed.

This left 137 unresolved exceptions.

Observation 13:

Of the 127 IBM notebook computer records listed as in the warehouse by the property management system, as of 12/10/99; 63 of those were not confirmed by OIG physical inspection on 12/8/99. An additional 53 were physically inspected by the OIG on 12/8/99 but not recorded as in “warehouse”. Per the February 2000 NCUA management report, the OCIO help desk reported 261 hardware technical support calls. This would equate to approximately nine (261 calls / 29 days) hardware problems per day. Additionally, the OIG inventoried on 12/8/99 approximately 12 notebook computers which arrived in the Central Office for repairs. Given our two days lapse between personal property records and physical inspection of IBM warehoused computers, a reasonable exception rate should be approximately 24 records (2 days x 12 repairs per day).

Conclusion:

Internal controls for receipt and distribution of warehoused computers appear to be lacking, in either the recording of, or in the timely recording of warehoused computers.

OA RESPONSE TO FOREGOING CONCLUSION: We don't fully agree with the conclusion. OIG appeared to be using a “snapshot” in time to confirm “moving target” over a three month period. Numerous IBM Thinkpads were received, repaired, and re-issued over the same period. A computer in the warehouse one day may not have been there the next day because it had been sent out to another examiner.

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We do, however, agree that our procedures could be tighter. We have, therefore, implemented the following changes which should ensure that at any given time, the system will accurately reflect the location of equipment:

- *Loaner equipment is assigned in the system when shipped or issued.*
- *Property cards are maintained on reassigned equipment thus providing a history of where the equipment has been assigned.*
- *Reassigned equipment is entered into the system ASAP after reassignment.*
- *Equipment received through acquisition or turned in is entered into or transferred to the warehouse ASAP.*

Recommendation 13:

Consider establishing and monitoring record fields for dates computers are shipped and received from one location to another.

OA RESPONSE: We agree. We will set up an E-Mail procedure to alert the receiver that he/she is to receive computer #xxxxxx which is on the way. We will ask them to please respond when the computer is received and to confirm its serial number. We will ensure a computer generated message will be sent when the message is read by the recipient. We will maintain both an electronic file and a hard copy file of this correspondence as a back up record.

Observation 14:

Of the 183 SSA notebook computer exceptions, we were able to confirm by alternative methods 112 of these records. Nineteen records could possibly have typographical errors in either the serial number or property tag number. We attempted to trace five property cards to the SSA file. We traced two to the SSA file, two property cards could not be located in the SSA file and one was traced to a different state file.

Conclusion:

The SSA held notebook computer internal controls appear to be lacking for data entry accuracy and property card maintenance.

Recommendation 14:

Periodic, at least annually, confirmations should be sent to SSAs and any adjustments to records resolved and recorded within 30 days.

OA RESPONSE: In early 2000, NASCUS conducted a confirmation of IBM Thinkpads assigned to SSAs. They reported numerous discrepancies between the property system and the confirmations. OA reconciled the differences and found they were due to:

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- *using a “snapshot” on a “moving target” (see comments under recommendation 12)*
- *transposition errors, and*
- *reporting errors by the SSAs (said they didn’t have them but found them when given a signed property card).*

As stated several times in the foregoing, we are planning to perform semi-annual confirmations.

Observation 15:

Of the 137 unresolved exceptions, we performed additional procedures on 56 of those records. Seventeen were subsequently confirmed and two were possible confirmations. Two property cards could not be located in the assignee’s file. Eleven records could not be traced to the property card, since the assignee designation was neither an NCUA employee or SSA. Six records had the last change date prior to our confirmation date, yet the employee assigned via the property system records did not agree with the employee confirmation. Two records when subsequently traced to the personal property management system showed two or more records with the same serial number. Each had a different assignee and tag number. Two records had changes made after our confirmations and original record download from the personal property management system, thereby making it impossible to confirm due to a lack of a change date audit trail. One record had the room listing as OTIS and assignee as a former employee of OTIS. This employee did not confirm assignment of the notebook computer and had left OTIS to work in another office prior to our confirmation date. Three OIG confirmations disagreed with the personal property management records. One record had insufficient information to trace. No confirmations were received on nine additional records.

Conclusion:

Property card controls, duplication of asset entry controls, and assignee controls have weaknesses.

Recommendation 15:

Timely asset confirmations and adjustments need to be performed. EDP controls for duplication of asset entries should be established. Edit and exception reports should be generated and reviewed by management.

OA RESPONSE: *See comments under previous recommendations.*

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Observation 16:

Upon our review of the personal property records, we noted inconsistencies in the fields of entry. We noted 238 notebook records which did not contain a serial number. All but five of these were Toshibas, but three of those five were IBM notebooks. The agency uses an evaluation code to note the "status" of notebook computers. EDPI is used for in service, EDPE is for excess and EDPD is EDP equipment disposed. Seven hundred thirteen out of 1696 records did not contain an evaluation group entry. The primary entry to record the assignee is via the room number. However, initials are used in this field. Of the 137 exceptions noted above, only 45 records contained employee number and name.

Conclusion:

The lack of required input lessens the usefulness in monitoring personal property use, location and, accountability.

Recommendation 16:

All fields of record should be required entries when applicable. For instance, all equipment should have a serial number as a required entry. Also, all assigned property should have a required entry for employee number and name.

OA RESPONSE: We agree. The procedure is in place and being used in the recording of all data pertaining to the new Compaq laptop computers and related equipment.

DISTRIBUTION CENTER PHYSICAL CONTROLS

The OA distribution center is the location where most excess and loaner notebook computers are held. In addition, this is the location for shipping and receiving goods at the Central Office. Access doors to the interior of the distribution center are locked and OA staff are on hand inside this location. During working hours there is a large open "customer window" for staff to obtain needed items from OA distribution center staff.

Observation 17:

While on-site in the distribution center, we observed OCIO staff with the assistance of an OA staff member (not the OA asset custodial officer) obtain and distribute to the training center warehoused notebook computers without first signing personal property cards and gaining permission from the asset custodial officer.

Conclusion:

Established policies and procedures were circumvented by NCUA staff thereby weakening internal controls over physical custody and security of notebook computers.

Recommendation 17:

Unauthorized staff should not have access to notebook computer inventory. Established policies and procedures should be adhered to. Sufficient notice (at least two days) should be provided to OA property management staff when requesting assignment of notebook computers.

OA RESPONSE: We agree. No unauthorized staff is allowed access to the notebook computer inventory, nor anywhere else inside the window of the distribution center. All distribution staff have been so instructed. However, we will continue to provide replacement notebook computers ASAP and as securely as possible.

Observation 18:

Agency policy is that the office that initiates the purchase requisition for goods and services also completes the goods receipt for those goods and services. All purchase requisitions are approved by OA prior to a purchase order being issued. Per OA, all goods received by the Central Office are to be delivered to the Distribution Center first to verify receipt. However, we were told by OA staff, that some notebook computers have been delivered directly to the OCIO. This was not known by OA distribution staff until approximately three weeks had elapsed. Additionally, the purchase order for the new Compaq computers lists the OCIO and a name of an OCIO employee as the requisitioning office. This same purchase order also lists the shipping destination as NCUA Central Office, attention to OCIO and the same OCIO employee who is listed as the requisitioning person.

Conclusion:

The current policy and procedures for receiving goods (specifically notebook computers) lacks segregation of duties for requisitioning and receipt of goods; conflicts with the OA distribution center function of receiving goods; and increases the risk of losing or not accounting for all notebook computers received.

Recommendation 18:

Goods shipped to the Central Office should be shipped during normal working hours to the OA distribution center only. An OA distribution center staff person, other than the asset custodial officer, should verify receipt of the goods and complete the goods receipt.

OA RESPONSE: To the extent possible, we will do as recommended. However, we do not believe we should delay entry into the system simply to segregate duties.

REGIONAL RESPONSIBILITIES

Regional directors are designated as Accountable Officers with the responsibility of executing policies and procedures, reporting damaged and excess property, ensuring annual physical inventory is taken, and appointing custodial officers. Custodial Officers administer policies and procedures, maintain records to locate and identify property and conduct physical inventories.

Observation 19:

Regional staff are somewhat unclear of their responsibilities and functionality regarding the personal property management system. Regions can add or change the assignee room number field within their region. However, the entries made or “coding” used by the regions, may not be understandable to the OA staff maintaining the property management system. For instance, OA may enter notebook computer assignee examiner John Doe as JD-EX; whereas the region may change that to GRP D (for SE group D). This may be due in part to a lack of training in the current personal property management system and the Property Management Procedures manual not being current with actual practice.

Conclusion:

Formal guidance has not been updated to reflect current responsibilities and practices.

Recommendation 19:

The Property Management Procedures manual, personal property management system responsibilities and procedure and current practices should all be brought current and be in agreement.

OA RESPONSE: As indicated previously, the joint OA/OCFO committee is developing policies and procedures for accounting for fixed assets. We have limited the regions’ access to the system to read only. Entries and changes can only be made by OA staff. Because of the limited acquisitions of fixed assets at the regional level, write access to the system will continue to be limited to OA staff.

SEGREGATION OF DUTIES

One of the basic foundation blocks of a traditional internal control program is segregation of duties for related functions. For notebook computer inventory, this would include procuring, receiving, distributing, recording and disposing of property.

Observation 20:

Queries (non-standard reports) into the personal property management system and fixed asset subsidiary ledger are difficult and require the services on one OCFO employee to perform such queries. This employee essentially performs the duties of a systems accountant in the OCFO office and is the only person in the agency (other than contractors) with sufficient in-depth knowledge of the fixed asset and personal property management systems to perform such queries.

Conclusion:

The agency is at risk with only one person having such broad reaching duties and responsibilities. We realize part of this is due to the complexity of the current financial and personal property management systems and the high cost of training and retaining such employees.

Recommendation 20:

Other Agency staff should be trained in system accountant responsibilities and duties divested from the single NCUA employee to these newly trained employees in appropriate areas of duty segregation for financial and personal property management purposes.

OA RESPONSE: We agree. Members of distribution staff, over the next few months, will work with OCFO to obtain the needed expertise to run the necessary reports from the property management system.

OCFO RESPONSE: OCFO agrees with the recommendation that more employees be trained in the system, as well as the underlying business processes

Observation 21:

The OA personal property custodial agent, enters all data into the property management system, receives and distributes notebook computers, and has custody of all personal property cards. In addition, there is not a fully trained back-up staff person to this position.

Conclusion:

The lack of segregation of duties in the personal property custodial duties increases the risk of errors and irregularities occurring.

Recommendation 21:

Data entry, receiving and distribution duties for personal property should be segregated. In addition, detailed procedures for each of these duties should be kept current and used to train backup personnel.

OA RESPONSE: To the extent possible, distribution staff will adhere to the recommendations. However, three individuals have authority to input property in the system. This provides backup when one person is unavailable.

POLICY, PROCEDURE AND GUIDANCE

The primary written guidance for property management is the Property Management Procedures manual which was printed in 1990. Additionally, there are some personal property management system written procedural instructions, NCUA Instructions and a few regional Instructions.

Observation 22:

The Property Management Procedures manual, personal property system procedures and current practices are not current and consistent. For instance regional custodial officers are to maintain records to locate and identify property. OA maintains the personal property records. The Property Management Procedures manual states property shall be identified by a property control serial number. The agency had been identifying property by decal number, but now has begun to identify Compaq computers by serial number. Per the Property Management Procedures manual, personal property cards are to be obtained and retained in the respective regions by the accountable and custodial officers. However, notebook computer property cards are retained in the OA. Each year, employees are to certify that they have property in their possession. However, this is not being done. The discussion on office machine repair service is outdated and states that regions may provide examiners with substitute "machines". Whenever a loaner computer is needed, OA ships the loaner to the examiner.

Conclusion:

Consistent guidance for personal property management is lacking.

Recommendation 22:

Update and consolidate all personal property policies and procedures into one manual with current practice and improved guidance.

OA RESPONSE: All policies and procedures will be incorporated into the Instruction under development and targeted for completion by June 30, 2000.

**Current Lease of
Notebook
Computers**

In December 1999, NCUA committed \$6.5 million to a three year lease for 1,560 Compaq notebook computers. Because of this substantial commitment, the OIG decided to review the Agency's internal controls over its current inventory of notebook computers including a review of the Agency's notebook computer inventory property management system and practices. NCUA is currently in the process of distributing the new Compaq computers to all NCUA and designated SSA staff. At the end of the lease term, NCUA has the option to extend, or end the lease. No property tag numbers will be attached to the notebook computers. Serial number stickers will be used to track the notebook computers. These have the serial number printed and a bar code. The NCUA will use a bar code reader to enter the notebook computers into the personal property management system.

Observation 23:

The leased Compaq notebook computer scannable serial number is not permanently affixed to the notebook computers. The serial number is located on the bottom of the computer where it is more likely to be damaged or rubbed off. In addition, the serial number is not displayed on the machine in any other known location.

Conclusion:

There is a risk that the serial number sticker may come off or become unreadable and thereby increase the chances that notebook computer assignees become unknown.

Recommendation 23:

Have all staff record their assigned Compaq computer serial number. In addition, in the future affix the serial number sticker on the inside cover of the machine to lesson its chance of wear, tear or loss.

OA RESPONSE: We partially agree. In our first confirmation scheduled for June 30, 2000, we will recommend staff record the serial number of the computer assigned and keep it in a safe place for future reference. However, as indicated in our response to recommendation 4, the serial numbers affixed to each computer are designed to last a minimum of 3 to 5 years. Our lease is for 3 years. We don't believe the risk of damage to the serial numbers is unacceptable.

Observation 24:

Notebook computers by the nature of their size are at greater risk of theft than desktop computers. All regional and central office staff are to receive notebook computers instead

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of desktop computers. The agency has issued guidance that notebook computers should be locked in a lockable storage location. The option of having locking mechanisms for “office” notebook computers which utilize a docking station was not adopted by the agency. In addition, new locking desks and credenzas furnished in the central office all use the same keys.

Conclusion:

Notebook computers are at greater risk for theft in an office environment with no notebook computer locking mechanisms and desks and credenzas using the same keys.

Recommendation 24:

The agency should reconsider purchasing locking mechanisms for regional and central office notebook computers. In addition, all desks and credenzas should have their own set of unique keys.

OA RESPONSE: We considered purchasing locks/alarms for laptops issued to staff. The cost was about \$50 per unit. If, therefore, 1500 laptops were leased, the cost of the security would be \$75,000 ($\$50 \times 1500 = \$75,000$) or \$25,000 for each year of the lease. Assuming a cost of \$4,000 for each laptop and related equipment, we would need to lose some 19 laptops over a three-year period ($\$75,000 / \$4,000 = 18.75$) in order to justify the cost of the security devices. Our historical records indicated that fewer than 20 IBM Thinkpads had been lost to theft over a five year period. Based on the above cost-benefit analysis, we concluded that the risk of losses due to theft didn't justify the additional cost of security devices.

Prior to issuing laptops to central office staff, we asked all offices to let us know if they needed keys made for desks, file cabinets, closets, and credenzas to secure the new equipment. We arranged for lock smith service for those who responded.

Although, not completely secure, the central office building and regional offices have restricted access. This significantly reduces the risk of thefts by outside individuals.

OIG RESPONSE: We recommended locking mechanisms for regional and central office computers, not all computers. This is estimated to be approximately 450 computers. Thereby the estimated cost being \$22,500 ($\50×450) or \$7,500 for each year of the lease. There are still several sets of desks in the Central Office which use the same set of desk keys. These recommended security measures are to lesson the risks of theft from “inside individuals” as well as individuals outside of NCUA.