



Bureau of Workers' Compensation Asset Management Audit

Audit Period: July 1, 2015 – December 31, 2015

Results Summary:

| Objective | Conclusion |
|--|--------------------|
| Evaluate the design and effectiveness of IT and NON-IT asset management controls | Improvement Needed |

* Please refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The mission of the Bureau of Workers' Compensation (BWC) is to protect injured workers and employers from loss as a result of workplace accidents, and to enhance the general health and well-being of Ohioans and the Ohio economy. BWC has a central office in Columbus and 14 customer service offices located across the state.

BWC provides insurance to about two-thirds of Ohio's workforce. The remaining workers receive coverage directly through their employers. These companies are part of a self-insurance program for large and financially stable employers who meet strict qualifications set by BWC. During our review, BWC had over 9,300 assets totaling approximately \$18.4 million. During calendar year 2015, BWC acquired 3,448 assets and retired 3,505 assets.

During the audit, OIA identified opportunities for BWC to strengthen internal controls and improve business operations. OIA conforms to the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank BWC staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's management of IT and Non-IT asset management for the audit period July 1, 2015 through December 31, 2015.

The asset management processes to include:

- Asset control
- Asset data collection and updates
- Asset inventory collection and reporting

The objective of the review was to evaluate the design and effectiveness of IT and NON-IT asset management controls

* Please refer to Appendix A for classification of audit objective conclusions.



Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. A low risk observation was discussed with individual agency management and is not part of this report. However, the low risk observation was considered as part of the audit objective conclusion.

Observation 1 - Asset Owner (Custodian) not updated

As authorized by Ohio Revised Code 125.16, the State of Ohio Asset Management Handbook requires that *“each agency shall assure that each property item location is current on its asset record, and that the agency still has possession and/or ownership of the asset. If the agency determines information about the assets have changed, such as location, active status, and/or if appropriate assignment of custodial accounts to, they must update these attributes on the asset records in OAKS AM or the agency’s in-house asset management system.”*

BWC does not assure each property location is current, nor does it track assignment of custodial accounts (Owner).

- 4 out of 25 (16%) of the floor assets did not have correct location information in the asset management database
- By design, the in-house asset management system does not track owner information

Not having complete and accurate tracking of asset information increases the risk of loss or theft of assets without being detected and is contrary to asset management best practices.

Recommendation

In order to reduce the risk of loss or theft of assets, BWC Inventory Control should:

- Maintain Owner (Custodian) information within the agency’s in-house asset management system in accordance with the State of Ohio Asset Management Handbook
- Establish policy and procedure for owner review and verification of asset owners; asset owners would verify ownership records are accurate and the records would be maintained by BWC Inventory Control

Implementation of these procedures will increase the assurance that BWC tracks the identity, location *and owner* of each asset meeting the criteria as an asset by ORC 125.16, the State of Ohio Asset Management Handbook, and BWC Inventory Control policy and procedure.



| Management Response | | |
|---|---------------------------|---------------------------|
| <p>BWC management recognizes that best practices should include the assignment of assets to individual custodians rather than just the assignment of assets to departments and locations. Management will investigate the possibility of assigning assets to individual owners and the resources required to make this change in our Oracle fixed asset system.</p> | | |
| Risk | Remediation Owner | Estimated Completion Date |
| Moderate | Inventory Control Manager | December 2016 |

Observation 2 - Segregation of Duties

| <p>Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent one employee from being assigned incompatible duties.</p> <p>BWC IT server management group responsible for installing equipment at the State of Ohio Computer Center (SOCC) delivers equipment on site without obtaining proof of delivery. Furthermore, the asset owner information is not updated in the agency in-house asset management system of record (Oracle) to record this change of ownership and location.</p> <p>BWC IT server management group lacks segregation of duties, as one person can request, receive, request tagging, and distribute IT assets.</p> <p>Not having segregation of duties within the IT asset management process increases the risk of loss or theft of valuable IT assets and improper financial reporting.</p> |
|--|
| Recommendation |
| <p>In order to enhance internal controls over the IT asset management process, BWC should separate delivery and receipt of assets and ensure that deliveries are documented and assets are updated in BWC's asset management system. BWC should also separate purchasing, tagging, and distribution of IT asset functions among different roles within the BWC IT server management group.</p> |



Management Response

Wherever possible, management will segregate the delivery and receipt of assets. Management will also ensure that the recipient of equipment always signs an Equipment Transfer Authorization (ETA) form to acknowledge the receipt of equipment. Finally, management will ensure that ETA form information is always sent to Inventory Control, so that the location of assets can be properly tracked in the Oracle Fixed Asset System.

Management will ensure that receiving equipment directly in the William Green building is an exception, and used for break/fix situations only. The normal process will be for equipment to be shipped to the Warehouse and tagged there.

For these exceptions where equipment must be sent directly to William Green or any location other than the warehouse, management will notify Inventory Control immediately upon receipt so that they can properly tag the equipment, per Inventory Control’s policy.

For both issues above, management will send a reminder to staff to follow the appropriate procedures.

| Risk | Remediation Owner | Estimated Completion Date |
|----------|-------------------|---------------------------|
| Moderate | Jerry Quick | March 2016 |

Observation 3 - Lack of Approval

Asset management should be performed according to ORC 125.16, the State of Ohio Asset Management Handbook, and BWC Inventory Control policy and procedure. These inventory policies and procedures emphasize the importance of state agencies’ stewardship responsibilities toward state-owned property – that state property is inventoried in an efficient, manageable, and standardized manner statewide. BWC asset management policy establishes the inventory control manager will approve receipt of assets directly by the customer.

BWC Policy states, “*There are instances when a customer orders an asset using their state issued procurement card (P-Card) for direct delivery. There are also instances when a customer requests that an asset purchased with a purchase order be delivered direct to the customer. In these instances, special tagging arrangements will be made by the customer through an email to Inventory Control; a request for an exception the normal operating procedure.*”



BWC Policy goes on to specify: “*Manager Review: The Inventory Control manager will review and approve all exceptions. The Inventory Control Manager will follow up on deliveries that are exceptions to the regular process.*”

During audit testing, OIA data analytics showed that 11 of the 25 assets selected for testing were received directly by the Customer. In all 11 cases where items were received directly by the Customer, approval from the inventory control manager to receive those assets directly was not obtained.

Not obtaining approval to receive assets directly by the customer increases the risk of loss or theft of assets, reduces efficiency, duplicates effort, and reduces accuracy and accountability in asset reporting.

Recommendation

In order to reduce the risk of loss or theft of assets, as well as reduce inefficiencies and duplication of effort within the asset management process, BWC should:

- Align management of all assets with standard BWC inventory control policy and procedures
- Ensure that BWC employees understand and follow the policy of obtaining approval from the BWC Inventory Manager when ordering assets directly
- Modify the weekly equipment report provided to Inventory Control to include all qualifying equipment purchases made via p-card and compare to approved exceptions; follow up with appropriate personnel on any purchases not approved

Management Response

BWC policy requires that exceptions to allow for direct delivery of assets to customers are to be approved by the Inventory Control manager. Inventory Control will work with senior management to educate customers regarding the need to obtain approval for exceptions to the delivery of assets to the centralized warehouse. Inventory Control will also work with Fiscal Operations to improve the weekly reporting of all assets purchased through procurement cards and standard purchase orders.

| Risk | Remediation Owner | Estimated Completion Date |
|-----------------|---------------------------|---------------------------|
| Moderate | Inventory Control Manager | December 2016 |



Observation 4 - Lack of request for salvage

BWC's policy and procedure regarding salvaging an asset, states, in part: *"a request is received via e-mail or telephone that the customer has excess or broken equipment and the customer is instructed to complete an Equipment Transfer Authorization form noting salvage as a reason for the transfer. The equipment is picked up by Inventory Control or Delivery Services and delivered to the BWC warehouse."* This procedure enables Inventory Control to be informed regarding the condition of the asset, reason for salvage, and whether the asset contains any sensitive data.

OIA found exceptions whereby BWC Inventory Control processed salvage items without an associated e-mail, telephone, or Equipment Transfer Authorization. BWC departments periodically drop off assets at the warehouse (or other location under inventory control management) without the accompanying paperwork. In such cases, inventory control staff use personal judgement as to what items should be salvaged by creating the appropriate DAS Surplus Property Turn in document and submitting to DAS for salvage approval. Not having proper requests for salvage (Equipment Transfer Authorization) increases the risk for loss or theft of assets, salvaging items not intended for salvage, or unintentional circulation of sensitive data.

Recommendation

In order to prevent unauthorized salvage of BWC assets in cases where salvaged items are not accompanied by a valid request and an Equipment Transfer Authorization, BWC Inventory Control should not process salvaged items until Equipment Transfer Authorization forms are completed by the applicable BWC department, or BWC Inventory Control Manager.

Management Response

BWC Inventory Control manager will instruct Inventory Control staff to adhere to BWC policy and procedures that requires all equipment salvage items to be accompanied by a valid request and properly completed Equipment Transfer Authorization form in order for the items to be processed.

| Risk | Remediation Owner | Estimated Completion Date |
|----------|---------------------------|---------------------------|
| Moderate | Inventory Control Manager | December 2016 |



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your agency in achieving improvements in internal controls, compliance, and operational efficiencies.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

| Conclusion | Description of Factors |
|--|---|
| Well-Controlled | The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor. |
| Well-Controlled with Improvement Needed | The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives. |
| Improvement Needed | Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread. |
| Major Improvement Needed | Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses. |

Classification of Audit Observations

| Rating | Description of Factors | Reporting Level |
|-----------------|--|---|
| Low | Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity. | Agency Management; State Audit Committee (Not reported) |
| Moderate | Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention. | Agency Management and State Audit Committee |
| High | Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation. | Agency Management and State Audit Committee |