



Office of the Chief Internal Auditor

Audit Report

*South Carolina Department of
Transportation*

Lap Top Inventory Audit

May 22, 2015



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Audit Report

Lap Top Inventory Audit

January 23, 2015



Commission

OFFICE OF THE CHIEF INTERNAL AUDITOR

Commission of the South Carolina Department of Transportation

The Honorable Lawrence K. Grooms, Chairman
South Carolina Senate Transportation Committee

The Honorable Hugh K. Leatherman, Sr., Chairman
South Carolina Senate Finance Committee

The Honorable Merita A. Allison, Chairman
South Carolina House Education and Public Works Committee

The Honorable W. Brian White, Chairman
South Carolina House Ways and Means Committee

Dear Distinguished Legislators:

The Office of the Chief Internal Auditor has completed an IT Laptop Audit in accordance with Section 57-1-360. On January 8, 2015 we communicated our preliminary results with the Agency. Based on our draft report dated January 23, 2015, the Office of the Secretary of Transportation submitted its response to our office regarding the audit findings and is attached to this report.

We conducted this audit in accordance with Generally Accepted Governmental 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 these findings and conclusions.

Please do not hesitate to contact us if you have any questions or comments.

Respectfully submitted,

A handwritten signature in black ink, reading 'Paul B. Townes', is written over a horizontal line. The signature is fluid and cursive.

Paul B. Townes, CPA
Chief Internal Auditor
Office of the Chief Internal Auditor

EXECUTIVE SUMMARY

Audit Objectives: to test whether 1) all laptops currently possessed by the Agency¹ have been properly recorded in the South Carolina Enterprise Information System (SCEIS), and 2) all laptops are accounted for, can be physically located, and safeguarded at the Agency's responsible cost centers² (Headquarters, District Offices, county offices, etc.).

Sampling and Testing Procedures: Using both random and judgmental sampling methods, laptop samples were selected from the SCEIS inventory report. Laptops located at the Agency's Headquarters and field offices³ were sampled and provided evidence to support the adequacy of the conclusion stated in this report. The auditor tracked laptops from the sample list to their physical locations and also matched some of the laptops from their fixed asset (FA) numbers to the SCEIS report. A total of 255 laptops were tested at ten different locations by physical examination or other means. Interviews with personnel, walkthrough of the laptop recording process, and review of applicable policies and directives were conducted during this audit process.

Summary of Findings and Recommendations (F&Rs):

F&R 1 - There is no laptop user name specified in SCEIS. Recommend adding user specification for each assigned laptop in SCEIS.

F&R 2 - Errors of desktop/laptop computers classification were noted. Recommend adding a special coding to SCEIS, which is beneficial in managing laptop inventory to enhance classification accuracy.

F&R 3 - Some laptops purchased before June 30, 2011 were not recorded in SCEIS. These laptops have since been added into SCEIS during this audit process.

F&R 4 - The laptop disposal process is not done in a timely manner at some of the district offices. A prompt disposal of unused laptops to "clean the house" should be completed before the end of the fiscal year.

F&R 5 - Inconsistent recording of some laptop custodians exists when transferring laptops between different offices within a district. Unified policies and directives regarding laptop transfer should be established to minimize the variation among districts.

F&R 6 - Information Resource Consultants (IRCs) at field offices have concerns getting timely approval to access SCEIS. Sufficient access to SCEIS should be granted to IRCs for conducting inventory management duties. The approval time for a request to access SCEIS should be expedited.

F&R 7 - Practices of laptop management vary among district offices. A centralized control

¹ Agency is referred as the South Carolina Department of Transportation throughout this report.

² Cost centers are master data objects that represent a business area's organizational structure. They can be posted to directly, cleared to/from orders and assessed or allocated to/from other cost centers. (Source from SCEIS, SAP Finance Knowledge Transfer Sessions)

³ Field offices include: district offices, county offices, program offices etc.

system (policy and manpower) managing laptops statewide should be established.

Testing Result and Conclusion:

O CIA was able to trace the sampled laptops from the SCEIS report to their physical locations and from the physical locations to the inventory with requested additional information. State property tags (also called green tags, which are fixed asset numbers) were attached to the sampled open-box laptops. The spare laptop inventories were kept in locked security rooms with limited access at the locations tested. Audit findings and recommendations are addressed in the attached report.

This audit process identified opportunities for strengthening internal control, and operational efficiency. Although SCEIS is the uniformed official laptop inventory for the Agency, practices of laptop inventory management vary among cost centers due to the lack of unified policies, directives, and management. While we recommend that the accountability of a laptop should be on the end-users (as the custodians of laptops), centralized controls by the Agency should be established to enhance the efficiency, and effectiveness of laptop management.

LAPTOP INVENTORY AUDIT

Audit Objectives and Authority

The laptop inventory audit was approved as a part of the Office of Chief Internal Auditor's (OCIA)'s 2013-2014 internal audit plan. According to the inventory report generated by the auditor from SCEIS on October 2, 2014, the Agency has 1,025 laptops as a part of the fixed asset inventories. The objectives of this audit are:

- To ensure laptops currently possessed by the Agency have been properly recorded in SCEIS so that the laptop inventory list is complete, and the data fields on the list contain adequate information for the laptop inventory.
- All laptops are accounted for and can be physically located by the SCEIS inventory and safeguarded at the Agency's responsible cost centers (Headquarters, District Offices, County Offices, etc.).

Audit Procedures

The audit procedure was approached from two perspectives in order to achieve the audit objectives. First, OCIA vouched each laptop from the sample list to its physical location to test the existence of the inventory. OCIA randomly selected laptops at local offices and matched the attached fixed asset numbers to the inventory report in SCEIS. The purpose of this procedure was to test the completeness of the inventory report in SCEIS. This audit was conducted at the SCDOT's Headquarters, Office of Materials and Research and five Engineering District Offices (One, Three, Four, Five, and Six). A total of 255 laptops were tested at 10 different locations by physical examination or other means.

AUDIT FINDINGS AND RECOMMENDATIONS

Finding 1:

Per our review, there are no laptop user names specified in the Agency's laptop inventory report in SCEIS. Instead, in most cases, the District Engineer Administrator's (DEA's) name is listed as the responsible person for his/her office laptop inventory. As a result, more than a hundred laptops are listed under one individual's name for some cost centers.

The way a laptop custodian was assigned historically was based on the Departmental Directive #8 "Procedures for Providing Accountable Custodian for Each Unit of SCDOT Property" revised October 15, 2007, which states: "The accountable custodian should be the employee at the highest level of authority who exercises immediate and continuous working authority or control over the property." This directive failed to put the accountability on the end user yet still presently remains in effect on the SCDOT website.

OCIA, with the assistance of IT Services, was able to obtain the laptop inventory lists with associated users' names from the Agency's Headquarters and the seven District Offices. This

information was forwarded to the Accounting Department in order to update the SCEIS fixed asset inventory.

Recommendation 1:

Based on our review, the responsibility of securing and maintaining laptops in good condition and preventing fraud, waste, or abuse should be accounted at the user level rather than “the employee at the highest level of authority”. Therefore, we recommend that the designated user name for each assigned laptop be included in SCEIS. By adding the user specification, the tracking ability for locating laptops is enhanced and users are encouraged to be more accountable in managing laptop inventories. We also recommend that the Departmental Directives regarding the accountable custodian for SCDOT property be updated, and posted to the Agency’s website promptly.

Finding 2:

During the period of this audit, an issue of classification for desktop/laptop computers was noted in two District Offices. Some computers were shown as laptops in SCEIS when in reality they were desktop computers. The converse was also encountered, some laptops were shown as desktop computers in SCEIS.

Recommendation 2:

We recommend that special attention be paid to the classification concerning desktop and laptop inventories when the Shopping Cart and the associated Asset Shell are created. Adding a special code into SCEIS to separate laptop from desktop inventories can effectively enhance the accuracy in the inventory classification. The correct classification should be verified upon receipt of inventories by the Information Resource Consultants (IRCs) at each responsible cost center to ensure laptops are properly recorded. Additionally, the current SCEIS inventory record should be corrected.

Finding 3:

During this audit, Information Resource Consultants at two district offices provided information that a total of 20 laptops were not recorded in SCEIS. These laptops were purchased for under \$1,000 each before or by June 2011. Fiscal Procedure Memorandum 69 issued April 2, 2009 required that any purchase of equipment be considered “as fixed assets with a purchase price of (\$1,000) one thousand dollars or more.” (Accordingly, these laptops had never been issued the fixed asset (FA) numbers (the green tag) nor recorded in the accounting system of STARRS, the prior system. Subsequently, when SCDOT’s accounting system was changed from STARRS to SCEIS, there were no records of these laptops being transferred. This issue was pointed out in a prior audit and again noted by this audit.

Recommendation 3:

The incident of laptops without records in SCEIS increases the risk exposure that losses of laptops could remain undetected. OCIA communicated this finding to the fixed asset personnel who added these laptops into SCEIS. We recommend that if any exception is identified in the

future, and the laptop is still in use, IRC should submit the pertinent information to the Accounting Department to include in SCEIS. If the laptop is no longer in use, IRC should submit the necessary documentation to IT Services to ensure that these unregistered laptops are properly disposed and that no impairment is caused to the IT network system at SCDOT.

Finding 4:

The laptop disposal process was not completed in a timely manner in some of the district offices. During the visits to district offices, OCIA noted old laptops which were not in production but in the computer inventory rooms waiting to be processed as surplus. IRCs at the district offices stated that the process for laptop disposal requires excessive documents and takes an extended time period to complete. Therefore, the disposal process had not been implemented by most of the field offices at the time of this audit. The IRCs also indicated that it takes a prolonged period for Surplus Property, an entity of the State Budget and Control Board (SBCB), to schedule a pick-up for the surplus laptops.

Recommendation 4:

We recommend each laptop cost center “clean the house” by examining its laptops to identify if there are any laptops that are no longer usable, execute prompt disposal of unused laptops and update the associated record in SCEIS. We suggest each cost center complete this process before the end of this fiscal year to ensure that the SCEIS balance of fixed assets (including laptops) is accurate and reliable for the Agency’s year-end financial statement.

In addition SCDOT should return to its prior policy of centralized disposal of computer equipment. This would eliminate accumulations of surplus equipment across the state awaiting approval from Surplus Property. The centralized location would encourage faster disposal from the Districts as well as easier access by Surplus Properties to expedite their review. Enhanced controls could also be a benefit.

Finding 5:

OCIA noted that there were some variations among each of the District Offices in managing, and recording laptop inventories. For example, in some District Offices, when a laptop was transferred from the district office to counties or operation programs, the custodian of the laptop remained in the District Office and the laptop was still listed as inventory under the District Office. On the other hand, in some district offices, the custodian of a laptop was changed as it was physically transferred from the District Office to county offices. The discrepancy among District Offices may create misleading information regarding the number of laptops owned by a particular cost center. IRCs at district offices indicated that there is no clear instruction regarding whether or not the custodian of a laptop computer should be changed when the inventory is physically transferred between different cost centers.

Department Directive #8 indicates: “Property Transfers (SCDOT Form 524) are used to relieve a custodian from accountability and to place accountability on another custodian. A custodian must request termination of responsibility by submitting a Request for Authority to Dispose of Accountable Property (SCDOT Form 3024)” (Revised October 15, 2007). Per our review, this direction should be updated since its last revision was in 2007 and it only applied to inventory property costing \$1,000 or more.

Recommendation 5:

We recommend that SCDOT update its guidance regarding the change of custodians when a laptop is relocated. The Agency should ensure the consistent management of laptop inventory records among District Offices and between the local offices and the SCEIS record at Headquarters. A unified policy direction is needed to minimize the variance in laptop management practice from one district office to another and to enhance effective and efficient use of laptops.

Finding 6:

Some IRCs expressed that their access to SCEIS for transferring laptops between different cost centers was limited. For example, while IRCs are able to transfer the laptops to other cost centers, they do not have the ability to change the custodian or location of the transferred laptop in SCEIS. The transferred laptop remains under the previous custodian, and cost center until the recipient actually accepts the transferred laptop in SCEIS. If the recipient does not have access to SCEIS in order to accept this transferred property, the laptop information will remain unchanged even though it has been physically moved to a different cost center.

Some IRCs also indicated that it takes longer than expected to receive the authorization rights to SCEIS. Two District Offices indicated that their requested access to SCEIS for IRCs to run inventory reports or to check inventory took a few months and they had not been granted access to SCEIS at the time of the audit visit to their offices.

Recommendation 6:

The Accounting Department should ensure that IRCs are granted sufficient access to SCEIS so they are able to conduct their inventory management duties efficiently, and effectively. Also, the approval time for an access request to SCEIS should be expedited to enhance the inventory management.

Finding 7:

O CIA found, there is no centralized control for managing computer (including laptop) inventory at the Agency as a whole. Specifically, practices vary among local offices in the areas of inventory control, use, transfer, disposal, and record-keeping. Although the Mobile Device Policy is in place, modified by IT Services on September 5th, 2014, the lack of comprehensive unified policies and procedures was demonstrated by variations in practices by District Offices. In addition, it appears unclear to some of the IRCs at the field offices if there is contact personnel available when laptop inventory issues are raised with SCEIS or when resolving any issues related to the laptop inventory.

Recommendation 7:

SCDOT should establish a centralized control system to track computer inventories statewide. Designated personnel in IT Services should be assigned to manage mobile devices, including laptops, to ensure that the Agency's information security and safety of the equipment are not compromised. The designated personnel should ensure that unified and clear policies and

procedures for mobile devices are in place and implemented statewide in the areas of purchasing, distributing, and disposal. Periodic reconciliation of laptops by IRCs at District Offices should be conducted and submitted to the designated mobile device security personnel at headquarters.

We also recommend the Accounting Department update its Fiscal Procedure Memorandum with regards to computers, including laptops. Accounting should ensure IRCs have sufficient access to SCEIS in managing laptops in the field office. Training for IRCs to use SCEIS to keep and monitor a proper laptop inventory can be provided either on-site or via the website. Fixed asset personnel within Accounting should be the central point of contact for technical assistance with the local offices regarding changing, recording, and removing inventory issues.

Finally, coordination and communication between IT Services and Accounting Department, as well as the District Offices is essential. The Agency should ensure that strong internal controls, and consistent management of laptops should be in place at SCDOT.

Department Response



South Carolina Department of Transportation

SCDOT Management Response

*South Carolina
Department of Transportation
IT Laptop Audit*

February 6, 2015

This report contains the South Carolina Department of Transportation's (SCDOT) responses to findings and recommendations presented in the IT Laptop Audit – January 23, 2015, performed by the Office of the Chief Internal Auditor (OCIA). We appreciate OCIA's efforts and their willingness to work with IT Services, the Districts, and our Accounting Office. As we did with the March 2013 laptop audit, we approached this effort as an opportunity to learn and improve, and are confident that our collaboration will ultimately yield an optimized management process. Listed below are our responses to each of the seven findings and recommendations outlined in the audit report.

While we recognize that this audit has identified opportunities for improvement, we also believe that our actions taken since the initial laptop audit in March 2013 have improved the management of our information technology resources. OCIA has been very helpful in recognizing concerns and working with SCDOT staff to identify additional areas for improvement.

Again, we appreciate the work of OCIA on this review. Efficient deployment and consistent management of our IT resources is important issues to our agency, and we will evaluate ways on an ongoing basis to continuously improve our performance.

Recommendation 1

There is no laptop user name specified in SCEIS. Recommend adding user specification for each assigned laptop in SCEIS.

Response #1

We evaluated the Agency's procedures for identifying and specifying the laptop user name in the South Carolina Enterprise Information System (SCEIS). We are implementing procedures for our Information Resource Consultants (IRCs) to send the Fixed Asset (FA) number, user name, location and county to SCDOT's Accounting Office as computers (desktops, laptops or tablets) are deployed. The accounting office has also submitted updates to the Departmental Directives outlining procedures for accountable custodians. The updated Departmental Directives will be posted on the Agency's website.

Recommendation 2

Errors of desktop/laptop computers classification were noted. Recommend adding a special coding to SCEIS, which is beneficial in managing laptop inventory to enhance classification accuracy.

Response #2

To ensure proper designation, IT Services will include the designation in the SCEIS shopping cart. As the computer is being deployed, the lead IRC will verify that the description and classification in SCEIS is accurate. In addition, the Accounting Office will continue to work with IT Services to correct existing SCEIS inventory records. Once resolved, the Accounting Office will maintain laptop and desktop records on the asset sub ledger.

Recommendation 3

Some laptops purchased before June 30, 2011 were not recorded in SCEIS. These laptops have since been added into SCEIS during this audit process.

Response 3

Some laptops purchased prior to FY 2012 were not recorded in SCEIS. The equipment inventory has been updated to include laptops purchased prior to June 30, 2011.

Recommendation 4

The laptop disposal process is not done in a timely manner at some of the district offices. A prompt disposal of unused laptops to “clean the house” should be completed before the end of the fiscal year.

Response 4

We concur that outdated equipment should be disposed of promptly. The previous state contract for electronic equipment recycling has expired and has not been rebid, so SCDOT will dispose of outdated computers at e-recycling facilities. We will update our Departmental Directive to establish an appropriate time frame for the disposal of obsolete information technologies. The updated Departmental Directive will be posted on the Agency’s website.

Recommendation 5

Inconsistent recording of laptop custodians exists when transferring laptops between different offices by district offices. Unified policies and directives regarding laptop transfer should be established to minimize the variation among districts.

Response 5

We concur that all SCDOT offices should follow the same procedures when transferring laptops among users. These procedures are specified in SCDOT’s Departmental Directive 8 (*Procedures for Providing Accountable Custodian for Each Unit of SCDOT Property*). We are reviewing updates to this Directive, regarding the accountability of our laptop inventory, including the transfer of inventoried items and termination of custodial responsibility. The updated Departmental Directive will be posted on the Agency’s website.

Recommendation 6

Information Resource Consultants (IRCs) at field offices have concerns with getting timely approval to access SCEIS. Sufficient access to SCEIS should be granted to IRCs for conducting inventory management duties. The approval time for a request to access SCEIS should be expedited.

Response 6

SCDOT will work with the state’s SCEIS staff to allow IRCs to update and view SCEIS information without conflicting with the segregation of duty requirements. The functionality to

ensure the segregation of duties in SCEIS does not currently exist. The required *Segregation of Duties Policy* will be considered when granting access to the SCEIS system.

Recommendation 7

Practices of laptop management vary among district offices. A centralized control system (policy and manpower) managing laptops statewide should be established.

Response 7

SCDOT's IT Services and Accounting Office will update the relevant Fiscal Procedure Memoranda regarding computers to clearly state unified policies and procedures for purchasing, maintaining, distributing, and disposal of fixed asset inventory, with specific emphasis on laptops. All computers (desktops, laptops and tablets), regardless of price, will have a fixed asset number assigned. This information will be communicated to employees. Also, the Accounting Office's Asset Manager is designated as the fixed asset central point of contact for all fixed asset inventory issues. The Asset Manager's contact information is listed on the Agency's website.

SCDOT is also revising its manpower structure to transfer all IRCs to IT Services. This unified management structure, along with SCDOT's revised Departmental Directives, will streamline the management of all information technology resources and ensure a strong and efficient centralized control system.