# METRO

## Asset Management:
*Systematic approach needed to manage risks*

October 2014
A Report by the Office of the Auditor

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for Auditing

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The Auditor's Office was the recipient of the Bronze Award for Small Shops by ALGA (Association of Local Government Auditors).  The winning audit is entitled *"Tracking Transportation Project Outcomes:  Light rail case studies suggest path to improved planning.*  Auditors were presented with the award at the ALGA conference in Tampa Bay, FL, in May 2014.   Knighton Award winners are selected each year by a judging panel and awards presented at the annual conference.

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# MEMORANDUM

October 8, 2014

To:     Tom Hughes, Council President
        Shirley Craddick, Councilor, District 1
        Carlotta Collette, Councilor, District 2
        Craig Dirksen, Councilor, District 3
        Kathryn Harrington, Councilor, District 4
        Sam Chase, Councilor, District 5
        Bob Stacey, Councilor, District 6

From:   Suzanne Flynn, Metro Auditor

**Re:     Audit of Asset Management**

This report covers our audit of Metro's management of non-capital assets. Our objectives were to determine if Metro was following best practices. We also wanted to find out if a sample of assets could be found and what weaknesses, if any, there were in the current system. This audit was included in our FY2013-14 Audit Schedule.

Metro uses a variety of assets to carry out its services and programs. Although this audit focused on the less expensive assets, there is still a need to protect them from loss or damage. Government has a responsibility to carefully manage public resources. We found procedures in place that matched best practices for the most part. We did not find, however, that these procedures were being followed consistently by the departments.

The Department of Finance & Regulatory Services last provided training on asset policies in 2009. Without this training, it would be difficult for managers to discover what a department's responsibility was. We found that staff were attempting in some cases to protect assets, but lacked direction on a uniform system.

We have discussed our findings and recommendations with Martha Bennett, COO; Scott Robinson, Deputy COO; Tim Collier, Director, Finance & Regulatory Services; and Rachel Coe, Director, Information Services. A formal follow-up to this audit will be scheduled within 2 years. We would like to acknowledge and thank all of the management and staff who assisted us in completing this audit.

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# Summary

An important aspect of protecting public resources is managing the assets a government uses to provide services. Metro's policies identify two types of assets. Capital assets are those that cost more than $5,000. Non-capital assets cost less than $5,000.

This audit focused on non-capital assets. The departments have the responsibility for managing these assets. Effective management of resources requires that reliable information be kept about what items are purchased, where they are located, and when they are retired.

Management and staff had made several uncoordinated attempts to track non-capital assets but there was not a single, unified list for each department or the agency as a whole. With few exceptions, Metro relied on the integrity of individual employees to manage these resources rather than formal processes.

Recommended practices identify four types of non-capital assets that require extra safeguarding. These assets are more susceptible to theft, a threat to public safety, have legal reporting requirements or are critical for operations. We attempted to locate a sample of items purchased in the last two years. Most of the items were found with the assistance of employees who had made the purchases. However, we were unable to locate a microphone, a tablet computer, and four computer monitors with a total cost of about $1,600.

The items that were missing pointed out some of the weaknesses in the current system. Employees with purchasing authority were not necessarily responsible for ongoing use of the items they purchased. Not only did this pose a risk or theft or loss, it also made the purchaser vulnerable to accusations of theft or loss.

Now is an opportune time to implement stronger measures to protect these assets. Policies and procedures are already in place and employees appear to be receptive to more guidance. There are also good practices that exist in some areas of Metro that can replicated or expanded. We recommend that Metro develop a systemic approach to managing non-capital assets and ensure that departments are following the approach.

# Background

Metro used a variety of assets to carry out its programs and deliver services. These assets represented a significant public investment. Metro's responsibilities for managing assets included making purchases, protecting them from loss or damage, and disposing of them appropriately when they are no longer needed.

For accounting purposes, assets were categorized as capital or non-capital. Typically, the type of asset and its total cost determined how it was defined. For the most part, Metro's accounting policies defined capital assets as those that cost at least $5,000 and had a useful life of one year. Finance and Regulatory Services was responsible for tracking Metro's capital assets to ensure they were accurately accounted for in its financial statements.

This audit focused on management of non-capital assets, which fell below the capital asset dollar threshold. Accounting policies placed responsibility for the management of non-capital assets with the department where they were used. Even though non-capital items did not need to be tracked for accounting purposes, Metro was responsible for their stewardship as public resources. See Exhibit 1 for examples of capital and non-capital assets.

**Exhibit 1**
Examples of capital and
non-capital assets

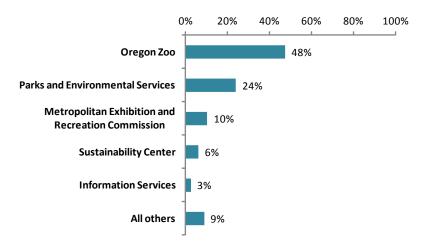| Capital Assets | Buildings<br>Motor vehicles<br>Heavy equipment<br>Railroad equipment |
|---|---|
| **$5,000** | |
| Non-Capital Assets | Kitchen equipment<br>Landscaping tools<br>Computers<br>Weapons |

*Source: Auditor's Office analysis*

On July 1, 2014, the minimum threshold to qualify as a capital asset was raised from $5,000 to $10,000. That change could shift how tracking was done for at least 298 assets valued at $2.3 million. Included in this total was a wide range of assets, such as printers, mowers and animal cages. About 80% were located at the Oregon Zoo, regional parks or solid waste facilities.

Although the cost of individual non-capital assets may be low, taken together they add up to a substantial investment. In fiscal years 2011-12 and 2012-13, Metro spent $7.7 million for items described as office or operating supplies.

These are the two accounting codes that are most likely to include non-capital assets. The total also included items such as animal food and office paper, which were not part of this audit. Exhibit 2 shows the percentage of these expenditures by department.

**Exhibit 2**
Expenditures for office and operating supplies by department FY 2011-12 and FY 2012-13

Oregon Zoo — 48%
Parks and Environmental Services — 24%
Metropolitan Exhibition and Recreation Commission — 10%
Sustainability Center — 6%
Information Services — 3%
All others — 9%

*Source: Auditor's Office analysis of expenditure data in Metro and MERC accounting systems*

# Scope and methodology

The purpose of this audit was to assess whether Metro effectively managed its non-capital assets. The objectives were to:

- Compare Metro's management of non-capital assets to best practices;
- Determine whether assets could be located, and;
- Assess causes of any identified control weaknesses.

The scope of the audit included purchases of non-capital assets in fiscal years (FY) 2011-12 and 2012-13. Because Metro had no reliable list of such assets suitable for this audit, we constructed one based on purchases coded to office and operating supplies. We obtained data from the accounting and procurement card systems used by Metro and the Metropolitan Exposition Recreation Commission (MERC). We also reviewed several software systems used by Metro departments that contained some asset information.

The assets in our scope were physical items expected to last longer than one year that cost less than $5,000. We excluded items that were consumed and replaced in a perpetual cycle, such as food used in catering operations, or retail goods for sale. We selected a judgmental sample of assets at the MERC venues, the Oregon Zoo, regional parks, and the Metro Regional Center. Operations at these departments and locations represented a variety of asset types, purchase frequencies, work sites, and risks. Forty-six transactions were tested to determine if the items purchased could be located. Six additional transactions were tested to assess whether public safety risks had been mitigated.

We reviewed management literature and audit reports from other jurisdictions. We interviewed management and staff. We also observed the process to verify kitchen equipment inventory at MERC venues related to a food and beverage contract.

During the audit, we brought two issues to management's attention that were outside of our scope. They may be topics for future audits.

This audit was included in the FY 2013-14 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Results

### Policy direction not followed by departments

Metro was responsible for managing both its capital and non-capital assets. It had procedures in place to document and account for its more expensive assets across the agency, and Finance and Regulatory Services (FRS) staff monitored these assets for accounting purposes. We found, however, that individual departments were not meeting their responsibilities to track Metro's less expensive assets.

The Government Finance Officers Association recommends that agencies undertake a systematic effort to identify all non-capital assets, prioritizing those that require extra safeguards. Examples include items that pose threats to public safety or legal liability, are attractive to thieves or easy to lose, or were purchased with funds that carry reporting requirements. Non-capital assets that are critical to operations also should be identified.

With few exceptions, Metro relied on the integrity of individual employees rather than formal processes that could be independently verified. Some of the policies and procedures FRS developed for managing both capital and non-capital assets followed recommended practices. However, managers were unaware of the policies for non-capital assets, and as a result, they were not implemented.

Exhibit 3 summarizes recommended practices for managing non-capital assets and compares them to Metro's accounting guidance and departmental implementation.

### Exhibit 3
Comparison of recommended practices to Metro policy and implementation

| Recommended practice | Metro's policy & procedures | Departmental implementation |
|---|---|---|
| Place responsibility at the department level | Place responsibility at the department level | Managers unaware of policy |
| Assign responsibility within each department | Instruct departments to assign a property coordinator | No property coordinators assigned |
| Develop a data collection system and an accurate asset inventory | Place responsibility for data collection at department level | No data collected for inventory purposes |
| Verify inventory periodically | Verify inventory periodically | Without inventory data, no verification can be conducted |
| Update inventory records | Place responsibility for updating records at department level | Without inventory data, no updating can be conducted |
| Certify to the central accounting function that updated data is available for inspection | Not addressed | Without inventory data, no certification can be made |
| Central accounting function periodically tests the departments' data | Provide authority for Finance and Regulatory Services to test data through field audits | Without inventory data, no testing can be conducted |

*Sources of recommended practices: Government Finance Officers Association, Government Accountability Office*

FRS provided training on asset policies in 2009.  Since then, it had not checked for compliance with non-capital asset policies.  Without training, it would be difficult for managers to discover on their own what Metro's expectations were for their role in safeguarding non-capital assets.  Guidance for those items in the accounting policies and procedures document was general in nature and scattered throughout.  The main purpose of the guidance was accounting for capital assets.

While no department was fully compliant with the policies, we observed one example of data collection and inventory verification.  Under terms of the agreement with a food and beverage vendor, FRS staff developed a list of kitchen equipment.  For the past three years, staff had annually verified the existence and location of the equipment and updated its inventory lists to ensure that Metro's assets were accounted for.

## Information to verify assets not kept by departments

Effective management requires reliable information about each asset over the three phases of its useful life.  The types of information needed to ensure accountability include:

- Purchase: Date, cost, fund code, description, vendor, and unique identification number(s);
- Storage or use: Owner, user, and location;
- Disposal: Date and method used to retire an asset, the recipient, and any revenue generated.

We reviewed several of Metro's data sources, and none contained enough information to generate a reliable inventory list.  Information about storage or use and disposal rarely were recorded.  Some lists had purchase information but not the owner, user, or location.  Others had location and user information, but only for some sections of a department.

We developed a list of assets from purchase records and relied on individual employees to find a sample of items.  Metro generally does not assign a unique identification number to non-capital assets.  Because of this, there was no way to determine if the asset we found was the same one we were looking for.  The exception was computers that had been purchased through Information Services, which assigned a unique number to each machine and added it to a master list.  However, the list did not reliably differentiate computers currently in use and by whom from those that had been disposed of.  There also were some computers being used that were not on the master list.

Management and staff across Metro had made several uncoordinated attempts to track assets, though none primarily for inventory verification purposes.  The variety of systems in use or under consideration was contrary to the recommended systematic approach to asset management.  Rather than coordinate internally to identify systems already in use, new processes were

implemented.  This resulted in greater complexity, incompatible software systems and lack of a unified list for each department or the agency as a whole.

For example, two separate software systems, AssetWorks and Bigfoot, were being used by various facilities managers to track maintenance of some assets. Metro also invested in an asset management module in PeopleSoft, which was used mostly for capital assets that needed to be accounted for in financial statements.  We also found examples of lists created by simpler and less expensive software options, such as Microsoft Excel.

While we do not endorse any one software system over another, it is important that Metro develop a standard approach to the types of information departments should collect to better manage the agency's non-capital assets and improve accountability.

## Missing assets demonstrate areas that need attention

Recommended practices identify four types of non-capital assets that require extra safeguards.  They are:

- Items at risk of theft or loss;
- Items that pose risks to public safety or create potential liability;
- Items with legal compliance requirements, and;
- Items critical for operations.

We attempted to find a sample of assets to test some of these risks.  A microphone, a tablet computer, and four computer monitors with a total cost of about $1,600 were missing.  Employees provided a variety of reasons the items could not be found, though no one we spoke to believed they had been stolen or would not eventually be located.

The circumstances of the missing items were similar.  All were used by different employees over time and their changing locations had not been documented. Once an employee who had been responsible for the item no longer possessed it, the likelihood that it would not be found increased if employees could not recall where it went.

The missing microphone had been placed in storage for the duration of a construction project.  When the project was completed, employees could not find the microphone and other equipment that had been stored with it. There was no documentation showing where it had moved.  An employee was confident it would be found, but it was not available when we asked to see it.

The missing tablet computer was an example of a direct purchase by an employee that was not added to Information Services' list and had not received an identification tag.  The purchaser left Metro, and there was no documentation of the tablet's subsequent users.  We were told two or three other employees had possession of it before it was lost sometime last year.

The missing computer monitors pointed to similar weaknesses in documentation and accountability. An employee purchased 20 monitors for a specific event. Afterward, the monitors were borrowed by other employees for different purposes, but no one documented their new locations. The purchaser led us on a tour of the building, and we eventually found 16 monitors being used in a variety of settings. Without the employee's help, we would not have been able to find as many monitors as we did.

The missing items demonstrated that employees with purchasing authority were not necessarily the ones responsible for the ongoing use of the items they buy. Without documentation of the person responsible for an asset, the purchaser may become vulnerable to accusations of theft or loss if it cannot be located, because their name is the only one associated with it.
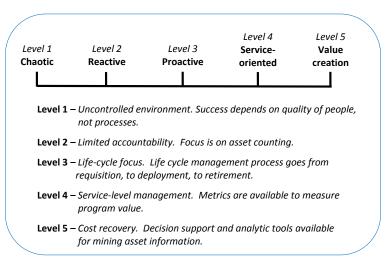
Our tests of assets that posed public safety risks showed that Metro had protections in place to limit access to them. Items such as weapons and pharmaceutical drugs were not in public view and were secured when not in use. Access to them was limited to a small number of trained employees

## Opportunities exist to improve asset management

Developing a systematic approach to non-capital asset management could reduce costs, make better use of assets, and lower risks. At its most basic, this means implementing existing policies.

We adapted a maturity model created by the State of Oregon for management of information technology assets to evaluate Metro's current status for non-capital assets. Maturity models focus on successive steps that build on each other to achieve the desired long-term results. See Exhibit 4 for a description of the levels.

**Exhibit 4**
Maturity model for asset management



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Level 1        Level 2        Level 3        Level 4          Level 5
Chaotic        Reactive       Proactive      Service-         Value
                                             oriented         creation
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**Level 1** – *Uncontrolled environment. Success depends on quality of people, not processes.*

**Level 2** – *Limited accountability. Focus is on asset counting.*

**Level 3** – *Life-cycle focus. Life cycle management process goes from requisition, to deployment, to retirement.*

**Level 4** – *Service-level management. Metrics are available to measure program value.*

**Level 5** – *Cost recovery. Decision support and analytic tools available for mining asset information.*

*Source: Metro Auditor's Office based on State of Oregon IT Asset Management Architecture*

Metro's non-capital asset management efforts mostly fell in the first stage of the maturity model. This stage is less than optimal with success depending on individual employees rather than systematic processes. Without baseline inventories, it was not possible to move to the next step of maturity, which includes counting assets and tracking changes over time.

Two areas in Metro were more advanced than others. Management of computer assets was moving toward the second level of the model. The inventory and verification process related to MERC's food and beverage contract was moving toward the third level. To advance to that level, MERC would need to manage assets from acquisition to disposal and link inventory records with financial and contractual data.

Increasing Metro's overall maturity will require leadership from FRS and Information Services and action by individual departments. FRS and Information Services need to establish the standards and definitions needed to create an agency-wide non-capital asset management process. The departments need direction about Metro's standards for data collection and the types of assets that should be tracked. FRS should follow accounting policies that authorize it to periodically verify assets (or a sample of assets) to ensure departments are implementing the standards as intended.

Clearly defining what types of assets need to be tracked will be critical to ensuring an appropriate balance of safeguards and risks. Not all non-capital assets need the same level of control. As Metro begins to improve non-capital asset management, it will be important to prioritize improvements based on the risks associated with different types of assets.

Once an asset is categorized by risk type (what could happen), departments should then determine the likelihood of something actually happening. Another consideration is the negative effect if the asset was stolen or lost or used to harm someone. More effort should be made to protect assets whose loss or misuse could have negative effects on the public, Metro's operations, or the public's trust in Metro's stewardship. Exhibit 5 provides examples of how assets could be prioritized by risk type.

**Exhibit 5**
Potential prioritization framework

| Risk Type | Examples |
|---|---|
| **Theft or loss** | Items that are physically small and have a relatively high value, such as laptops, tablet computers, audio and visual equipment and tools that are important to operations, such as leaf blowers, mowers and portable generators. |
| **Public safety and/or potential liability** | Items that require additional security or need to be kept from public access, such as weapons and pharmaceutical drugs. |
| **Legal compliance** | Any assets purchased with funds received through contracts or grants that have reporting requirements. |
| **Criticality to operations** | Items without which program or service quality would suffer. |

*Source: Metro Auditor's Office*

For a  number of reasons, now is an opportune time to implement stronger measures to protect non-capital assets:

- Departments are newly responsible for tracking more non-capital assets given the change in accounting thresholds.  Those records already are in PeopleSoft, which provides a starting point for departmental inventory lists.

- Policies and procedures are already in place.  That means the focus can be on implementation.

- There are good practices being used in some parts of the agency that can be replicated or expanded.

- Employees and managers appear to be receptive to more guidance, making it more likely that quick progress can be made.

# Recommendations

To create an agency-wide system to protect non-capital assets, Metro should:

1. Develop a systematic approach to managing non-capital assets by:

    a. Establishing definitions for the assets that require extra safeguards;

    b. Defining the types of data that should be collected;

    c. Training employees on expectations; and,

    d. Testing a sample of assets periodically to ensure compliance.


2. Ensure that departments are tracking non-capital assets by:

    a. Assigning a property coordinator;

    b. Establishing a list of non-capital assets aligned with recommendations 1a and 1b.

    c. Verifying periodically the accuracy of their lists; and,

    d. Communicating to Finance and Regulatory Services when their lists have been updated and are available for testing.

## Management response

| Date: | October 3, 2014 |
| --- | --- |
| To: | Suzanne Flynn |
| From: | Martha Bennett, Chief Operating Officer |
| | Scott Robinson, Deputy Chief Operating Officer |
| | Rachel Coe, Director of Information Services |
| | Tim Collier, Director of Finance and Regulatory Services |
| Subject: | Management Response to Small Asset Audit |

Thank you for the opportunity to respond to your recent audit on the tracking and maintaining those assets under the $10,000 capitalization threshold, or non-capital assets. The audit is very useful in helping us further identify how to improve our processes and utilize our systems and training to improve our overall performance.

In this memorandum we respond to how we will implement your recommendations and highlight some of the areas of the report that we believe have significance to our processes.

The audit did point out that we currently do have a Capital Asset Management Policy, updated and approved by Council in 2013. While this policy has been in place, we need to strengthen our training program and expectations with departments on how to comply with that policy. This will be the keystone of our program, and integral in improving the overall tracking of our assets.

It also pointed out two areas in which we are further ahead in our program than in the others, the management of our computer assets and the tracking process as it relates to the MERC food and beverage program. These areas are either in or moving to the second level of the maturity model for asset management. We will continue to look to these programs as an example on how better to continue to improve and move through the maturity model for asset management.

And the last point is that this audit focused on non-capital assets and did not look at the larger capital asset program. We believe that we are much further along in the maturity model for those assets than with the non-capital assets.

As to the recommendations, we believe that these are solid recommendations and are similar issues that many government agencies struggle with. However, with that we can use these recommendations to develop a much stronger overall asset management program.

*Recommendation:* 1. Develop a systematic approach to managing non- capital assets, by:

a. Establishing definitions for the assets that require extra safeguards;

b. Defining the types of data that should be collected;

c. Training employees on expectations; and,

d. Testing a sample of assets periodically to ensure compliance.

*Response*: As mentioned in the audit we currently have an overarching policy that directs small asset management. We will invest the time in training on that policy with the additions below and will tie that into the overall FRS training program.

To determine the criteria of which non-capital assets should be tracked, FRS will work with each department to develop more detailed definitions on the type of non-capital assets that should be included. FRS and Information Services will form a project team in November to

work through the non- capital asset definition process, with direct input and membership from the departments.  Once we have established the criteria, we can then work through what data needs to be included at the point of purchase and what system(s) are available to track that data.  Staff will conduct a gap analysis to assess the suitability of existing systems to meet the data tracking requirements identified.  The analysis will also include the upgrade of PeopleSoft that is already in process which will be a critical tool to assist with data collection as we implement new business processes.  Business process changes in the procurement and payables areas are a large part of upgrade project.

FRS will then work with the individual departments on testing the process, reporting on any findings and offering recommendations on how to improve the data collection and tracking systems.  FRS and Information Services will also develop recommendations and options for resolving any gaps in systems or processes required for data collection.

*Recommendation* 2. Ensure that departments are tracking non- capital assets by:

a. Assigning a property coordinator;

b. Establishing a list of non-capital assets aligned with recommendations 1a and 1b.

c. Verifying periodically the accuracy of their lists; and,

d. Communicating to Finance and Regulatory Services when their lists have been updated and are available for testing.

*Response*: The recommendations here are directly tied to the process above.  Our current Capital Policy already requires that departments assign a property coordinator.  We must work on regular training and continued implementation of that policy.  The process above to determine the criteria of what items should be tracked, will work to determine what is included in the list.  Our policy also currently has the departments responsible for their asset list, FRS will work with the departments to assist them in ensuring the accuracy of the data in the system.  Once we have the data updated FRS will begin the periodic review mentioned above to help improve the systems and tracking requirements.