

**Inspection Report
Actions Taken to Improve Internal Control Over Fixed Assets
Report 03-08, August 20,2003**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) assessment of actions taken to improve internal control over fixed assets.

Background

The Railroad Retirement Board (RRB) is a federal agency in the executive branch of government. The Director of the Bureau of Supply and Service (BSS) is the agency's Chief Property Management Officer and is responsible for establishing policies, procedures and controls to ensure effective and efficient utilization of property acquired by the RRB. The agency's balance sheet reported capital assets of \$27.6 million that had been depreciated to a net book value of \$2.4 million as of September 30, 2002.

In October 2000, the OIG reported that internal control over fixed assets was neither efficient nor effective.¹ We found that existing controls, as designed and placed into operation, did not ensure the accuracy and usefulness of the agency's accountable property record. We recommended that BSS develop and implement a new, comprehensive system of fixed asset accounting and internal control distributing responsibility for record maintenance throughout the agency.

In response to the OIG's recommendation, the RRB replaced its previous fixed asset management program. The previous system assigned most of the responsibility for recordkeeping and inventory to BSS. The new program places extensive responsibility on the organizations to which assets have been assigned. In addition, a new, more flexible software package was procured to support record maintenance.

The WiseTrack system, a dedicated computer application designed to control and manage fixed assets, was introduced in May 2002 at which time BSS began the process of loading and reviewing fixed asset information. By September 2002, WiseTrack had replaced the old fixed assets database. Other aspects of the new fixed asset management program were phased-in during the succeeding months. During the first nine months of FY 2003, BSS personnel have continued the work of perfecting the data in the WiseTrack system, begun the process of training responsible staff in other organizations, and secured approval of revisions to administrative circular BSS-2, "Tracking, Maintenance and Disposal of Agency Accountable Property."

The RRB's strategic plan states that "we will ensure efficient operations through effective management control and quality assurance programs" as the agency's second strategic objective in meeting its overall goal of prudent stewardship. This audit inspection supports that objective.

¹"Review of Internal Control Over Fixed Assets," OIG audit report #00-01.

Objective, Scope and Methodology

The objective of this review was to assess the effectiveness of agency actions to improve fixed asset management. To accomplish our objective, we:

- obtained and reviewed RRB administrative circular BSS-2;
- interviewed responsible personnel in BSS;
- interviewed responsible personnel in organizational units other than BSS;
- obtained and analyzed a download of data from the WiseTrack system; and
- tested the accuracy of the WiseTrack record by tracing a random sample of assets to their physical locations using the data in the system.

Tests and analysis were performed using WiseTrack data as downloaded from that system on May 13, 2003. The details of the sampling methodology and results are presented in Appendix I.

Our work was performed in accordance with the President's Council on Integrity and Efficiency's "Quality Standards for Inspections," May 1993, as applicable to the objective. Fieldwork was conducted on-site at RRB Headquarters during May through July 2003.

RESULTS OF INSPECTION

BSS has improved the RRB's system of fixed asset management by implementing a comprehensive system of fixed asset accounting that includes revised policies and procedures supported by a dedicated software application.

The new fixed asset management program is a substantial improvement over its predecessor. However, the review and revision of historical data has not yet been completed and controls designed to ensure the accuracy of the agency's accountable property record have not been fully implemented.

Based on the actions taken to date, the OIG will replace its prior, broad recommendation for a new management system, with specific recommendations based on the findings of this inspection.

An Improved System of Fixed Asset Management Has Been Implemented

In response to the OIG's prior audit recommendation, BSS has implemented a new system of fixed asset management that addresses the issues raised by the OIG in its prior report. The new system:

- is supported by a dedicated software application resident in the agency's local area network;
- distributes responsibility for record maintenance throughout the agency;
- provides for the input of purchase orders by BSS as a control over the later entry of detailed asset information by the recipient organization;
- supports financial accounting for capital assets and leasehold improvements; and
- facilitates inventory activities through the use of scannable bar codes.

The new software is now in use; responsible staff have been trained and the system provides the periodic reports on the depreciation required to support related financial accounting activities.

Based on agency actions taken to date, the OIG will consider its prior recommendation that BSS "develop and implement a new, comprehensive system of fixed asset accounting and internal control" as implemented.

However, tests of the data maintained on WiseTrack indicate that the agency's completed efforts to date are not yet fully effective in ensuring the accuracy of the accountable property record. Our findings with respect to the accuracy of WiseTrack data follow, along with a recommendation for continued improvement.

Accuracy and Completeness of the Master Accountable Property Record

WiseTrack was initially loaded with historical data from multiple sources. BSS personnel have undertaken the difficult job of verifying the data, standardizing descriptions, and eliminating redundancy. However, the process of reviewing and revising this historical data has been lengthy and continues. At the same time, new assets are being acquired and existing assets are being re-deployed. Our examination of the accountable property record maintained on the WiseTrack system indicates that an acceptable level of accuracy has not yet been achieved.

Our analysis of WiseTrack data, as downloaded on May 13, 2003, disclosed 259 assets that had not been assigned to a category, 269 items for which a location had not been recorded, and 45 assets for which the acquisition date was later than the in-service date.²

We also selected a random sample of 45 non-capital assets with a purchase price under \$5,000 from the data downloaded on May 13. On May 16, we attempted to locate each asset in the sample. We were unable to locate 5 of the 45 sample items because the

²"Category" identifies the status of an individual asset. BSS has established categories that distinguish depreciable assets from other accountable property, identify assets that have been declared surplus and those of which the agency has disposed.

WiseTrack record had not been revised timely. In addition, the barcode label was incorrect on one item.

In general, the results of our analysis and testing are consistent with the process of perfecting the data in a recently implemented system. BSS has advised us that they are still in the process of coordinating operations with other organizations and training responsible staff in those units. In addition, the process of replacing all of the barcode labels in headquarters and the field offices must be completed before it will be possible to conduct the agency's fixed asset inventory by scanning.

Although an improved fixed asset management program has been formally adopted, it would be premature to conclude that it is fully effective in achieving management's control objectives.

Recommendation

We recommend that BSS complete the process of data review and revision.

Management's Response

Management concurs with the findings and recommendation. They anticipate a 95% accuracy level when the data update and revision have been completed. The full text of management's response is included as Appendix II to this report.

SAMPLING METHODOLOGY AND RESULTS

We tested, on a sample basis, the effectiveness of controls over the accuracy of the master accountable property record as maintained on the WiseTrack system.

SAMPLE OBJECTIVE:

To determine whether WISETRACK had been implemented in a manner that would support independent verification of accountable property with a purchase price under \$5,000. The test was designed to assess the effectiveness of controls of data accuracy by direct testing of the data.

This was not a test of the accountability of asset users and other custodians.

SCOPE:

- WISETRACK System as of May 13, 2002
- Assets designated as "FIXED ASSETS <\$5000" for which the both the location and user assignment fields were not blank.
- Assets identified to agency Field Offices, the Board Members, their Assistants and the Secretary to the Board were excluded from this test.

POPULATION: 2,222

SAMPLING TECHNIQUE: Upper Limit Acceptance Sampling

TOLERABLE ERROR: 5%

CONFIDENCE: 90%

SAMPLE SIZE: 45

SAMPLE EVALUATION

If no errors were identified during the sample review, we could conclude, with 90% confidence, that internal controls were adequate to ensure the timeliness and accuracy of the data with no more than 5% errors.

SAMPLE RESULTS

On May 16, 2003, OIG auditors attempted to locate the 45 randomly selected assets using only the information available on WiseTrack. Five of the 45 assets had been re-located or replaced and were no longer at the location identified in the system. A sixth item carried an incorrect barcode label.

Based on the sample result, we could not conclude that the WiseTrack system was at least 95% accurate as of May 13, 2003.

SAMPLING METHODOLOGY AND RESULTS

Based on the type and number of errors identified by the sample review and the overall data analysis, the OIG believed that expanded testing would not result in a more favorable conclusion. Accordingly, we did not expand testing to determine the actual rate of errors in the population from which we sampled or test the accuracy of records in other asset categories such as depreciable assets or surplus equipment.



UNITED STATES GOVERNMENT

MEMORANDUM

Appendix II

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

August 18, 2003

TO : Henrietta B. Shaw
Assistant Inspector General, Audit

FROM : Henry M. Valulis
Director of Administration

SUBJECT: Inspection Report

This is in response to your August 13, 2003 draft subject report.

We have reviewed the draft report and concur with the findings and recommendation. We are especially pleased that the auditors found the new fixed asset management program a substantial improvement over its predecessor, a recommendation made by the OIG, audit report No. 00-01. While the sampling results show a confidence level of 90%, data update and revision has not yet been completed. When completed, this percentage should improve to at least 95% accuracy.

Thank you for the opportunity to review and comment on the subject draft report.