



Denali Commission
Office of Inspector General
Anchorage, AK 99501

May 6, 2016

MEMORANDUM FOR: Joel Neimeyer
Federal Co-Chair

FROM: David Sheppard
Inspector General

SUBJECT: *Improvements are Needed in the Denali Commission Inventory Management and Equipment Acquisition Process—Final Report No. DCOIG-16-005-A*

This memorandum provides our final report on the Denali Commission's inventory management and equipment acquisition process. Our objective was to determine whether the Commission's processes and procedures for inventory management and equipment acquisition are sufficient to ensure that federal assets and funds are being appropriately managed.

Based on this review, we determined that improvements are needed in the Commission's inventory management and equipment acquisition process. Specifically, the Commission needs to (1) implement inventory policies and procedures, (2) restrict access to the inventory record, (3) update inventory records, (4) segregate duties in the equipment acquisition process, and (5) disseminate and enforce the equipment purchase policy.

We did not receive a response to our draft report and therefore no agency response is included in our final report. Please submit to OIG—within 60 days of this final report—the detailed actions you plan to take to implement our recommendations.

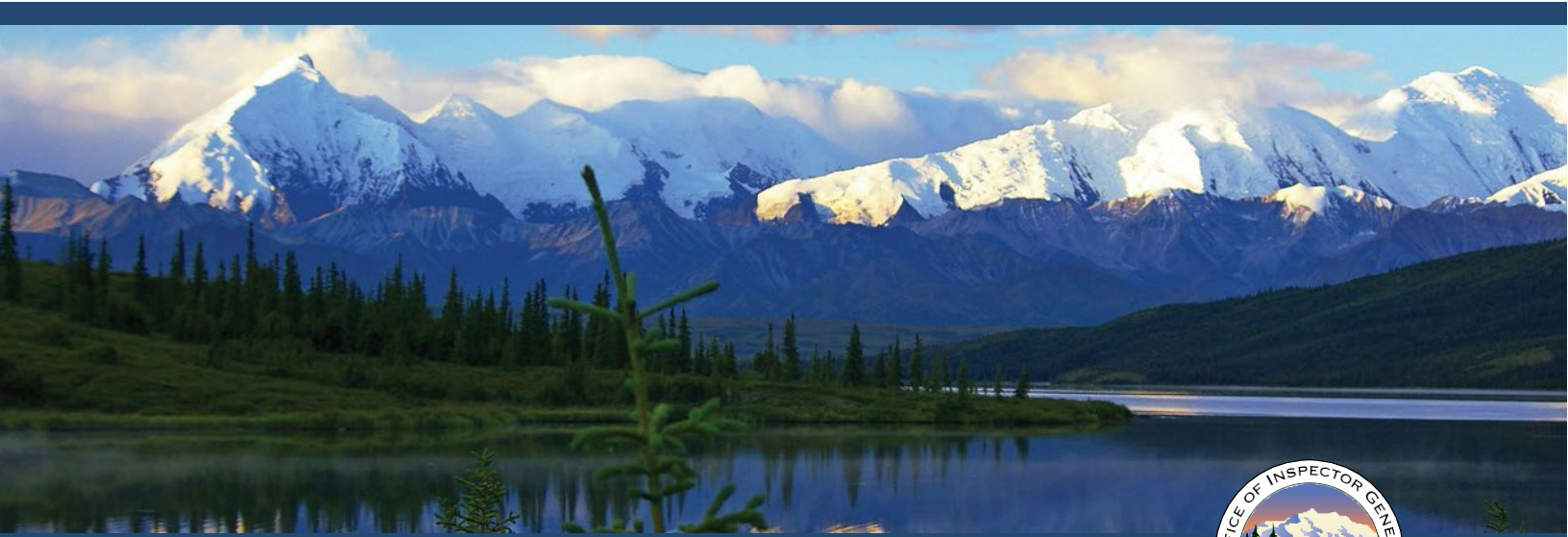
We would like to thank the Commission staff for their cooperation and courtesies during our audit. Please contact me at (206) 220-7970 if you would like to discuss the results of this review.

Attachment

cc: Denali Commissioners
Corrine Eilo, Chief Financial Officer, Denali Commission
David Smith, Deputy Inspector General, U.S. Department of Commerce

DENALI COMMISSION

Improvements are Needed in the Denali Commission Inventory Management and Equipment Acquisition Process



FINAL REPORT

May 6, 2016

DCOIG-16-005-A

DENALI COMMISSION
OFFICE OF INSPECTOR GENERAL

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Introduction

The Denali Commission Act established the Denali Commission (the Commission) in 1998 as a federal agency with the statutory purpose of providing job training and economic development services, rural power generation and transmission facilities, modern communication systems, water and sewer systems, and other infrastructure needs to rural areas of Alaska. By statute, there are seven members of the Commission, known as commissioners: a federal co-chairperson (Federal Co-Chair)—a federal employee appointed by the Secretary of Commerce who directs Commission staff—and six additional commissioners from the state of Alaska and specific Alaska business, labor, academic, and native and community organizations. The Act requires that the commissioners annually solicit proposals for projects from local governments and other entities and organizations and develop a proposed work plan for projects in Alaska that provide for rural and infrastructure development and necessary job training.

The Commission has a staff of 13 full-time and 1 part-time personnel, consisting of the Federal Co-Chair, the general counsel, 5 administrative staff, and 7 program staff employees. The Commission's program assistant is part of the administrative staff and is the primary purchase card holder and equipment custodian responsible for maintaining the inventory record as well as the purchasing, receiving, and recording of new equipment on the inventory record. Also involved in the inventory process are the supervisors and the Commission's Chief Financial Officer (CFO), who must approve all new equipment purchases before they are made. The Commission maintains equipment for its employees in their Anchorage office as well as in the employees' designated telework duty stations. The type of equipment the Commission provides its employees includes, but is not limited to, desktop computers, laptops, printers, personal tablets, and computer accessories such as keyboards and mice. Between December 4, 2014, and December 3, 2015, the Commission purchased 23 new equipment items valued at \$23,748.

Objective, Findings, and Recommendations

We conducted an audit to determine whether the Denali Commission's processes and procedures for inventory management and equipment acquisition are sufficient to ensure that federal assets and funds are being appropriately managed. The scope of our review included the Commission's inventory record, current as of December 1, 2015, and all purchases made by Commission staff from December 4, 2014, through December 3, 2015.

Improvements Are Needed in the Denali Commission's Inventory Management

We found that improvements are needed in the Commission's inventory management. Specifically, the Commission (1) maintained an inaccurate and inconsistent inventory record, and (2) allowed unrestricted access to its official inventory record.

Inventory records are inaccurate and inconsistent.

The Commission maintains an inventory record for equipment items owned by the Commission and purchased with federal funds. We performed a book-to-floor and floor-to-book inventory and found the Commission's inventory record is inaccurate and inconsistent. For the purposes of the floor-to-book inventory, we used the U.S. Department of Commerce's (DOC's) definition of sensitive items for accountability because the Commission has not established a definition of accountable property.¹ These items include, but are not limited to 1) desktop and tower computers, 2) laptops, notebooks, hand-held, and other portable computers, 3) color and laserjet printers, 4) graphic tablets, and 5) digital cameras. In addition to these items, we also included items similar to those already on the Commission's inventory record to maintain consistency.

The Commission's inventory record is inaccurate.

We performed a 100 percent book-to-floor inventory and were unable to locate 8 of 94 equipment items identified on the Commission's inventory record. These items consist of: 5 laptop computers, a desktop computer, a printer, and a USB drive.

We also performed a floor-to-book inventory to identify any equipment in the office that we believed should be accountable that was not on the inventory record. We identified 33 potentially accountable equipment items in the office that were not on the inventory record but were all consistent with the DOC's definition of sensitive items. These items included high dollar value equipment such as 3 desktop computers, 3 laptops, and a touchscreen computer as well as several pilferable items including a smartphone and a digital camera. The Commission should update their inventory record to accurately and consistently reflect all Commission-owned equipment.

In addition to the items both missing and not maintained on the inventory record, there were duplicate line items and items inaccurately assigned to employees on the inventory record. The Commission does

¹ U.S. Department of Commerce *Department Personal Property Management Manual*, October 2007, Section 3.401, states, "Non-expendable items that may be converted to private use, or have a high potential for theft shall be recorded and controlled as accountable equipment."

not have a policy or process for inventory management and does not require the equipment custodian to perform periodic inventories. The United States Code for public buildings, property, and works requires each executive agency to (1) maintain adequate inventory controls and accountability systems for property under its control; and (2) continuously survey property under its control to identify excess property.² In order to accomplish this, the Commission should implement inventory policies and procedures, to include required inventories and a definition of accountable equipment. Without an adequate accountability system and accurate inventory record, the Commission lacks the internal control to safeguard equipment purchased with federal funds.

The Commission's inventory record is inconsistent.

During our inventory we also found the Commission's inventory record is inconsistent. Some employees have nearly everything purchased for them tracked on the inventory record, including USB cables and computer mice, while others have only computers tracked. This is primarily because the Commission has not defined what constitutes accountable equipment nor does it have a policy for what type of equipment is maintained on the inventory record. Without a definition for accountable equipment and a consistent inventory record, staff lacks the tools to properly determine what is accountable equipment and accurately capture those items on the inventory record.

The Denali Commission does not appropriately restrict access to the inventory record.

The Denali Commission's official inventory record is available for all staff members to access; as it is openly maintained as a spreadsheet on the Commission's shared drive. In addition, the spreadsheet is not kept in a restricted folder nor is it password protected to prevent unauthorized access or changes. The Commission should implement appropriate access restrictions to the inventory record. Without properly restricting access to the inventory record, the Commission lacks the internal control necessary to safeguard equipment purchased with federal funds. The current system for maintaining the inventory record compromises its integrity by allowing staff to alter the record as well as hinders the Commission's ability to hold staff accountable for lost or stolen equipment.

Improvements Are Needed in the Denali Commission's Equipment Acquisition Process

We found that Commission's stated equipment acquisition procedures are not being followed and key duties in the process are not sufficiently segregated.

Denali Commission employees do not always follow the equipment acquisition approval process.

The Commission's employees and purchase card holder do not always follow the stated equipment purchasing process or document the required approvals. The Commission's stated equipment purchase

² Public Law 107-217, Codifying Title 40, United States Code-Public Buildings, Property, and Works, Section 524 (a)(1) and Section 524(a)(2).

process requires employees to obtain approval for the equipment from their supervisor as well as approval from the CFO for any purchase over \$50. We reviewed equipment purchase documentation from December 4, 2014, through December 3, 2015, and identified that 18 of 23 purchases were made without documentation of the supervisor or CFO's approval. Of the 18 purchases identified, 5 of those purchases were made without documentation of any of the required approvals. The Commission established a written policy for the equipment purchasing process on December 16, 2015. Prior to this policy, the purchase card holder would verbally remind employees of the process and requirement to gain supervisor approval before a purchase could be made. The Commission should disseminate the new purchase policy to all employees and enforce the process for equipment purchases. Without a documented process for employee reference and enforcement of the equipment acquisition process, the Commission increases the risk of staff purchasing unauthorized equipment.

The Denali Commission does not adequately segregate duties in the equipment acquisition process.

The Denali Commission does not have adequate segregation of duties in the equipment acquisition process. Management is responsible for developing and maintaining internal control activities that provide reasonable assurance regarding prevention or prompt detection of unauthorized acquisition, use, or disposition of assets. Control activities include proper segregation of duties to ensure separate personnel are responsible for authorizing, processing, and reviewing transactions.³ Currently at the Commission, the purchase card holder is responsible for purchasing new equipment, receiving the equipment in the office, and recording new equipment on the inventory record. According to the Commission, the reason they have inadequate segregation of duties is due to insufficient staffing. However, they have a full-time staff of 13 employees and only 3 are needed to separate duties between purchasing, receiving, and recording inventory. Therefore, the Commission should segregate key duties in the equipment acquisition process. Without adequate segregation of duties, the Commission lacks the internal control to safeguard equipment purchased with federal funds and significantly increases the risk of fraud within the organization.

³ Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control, December 21, 2004, Section II. *Standards* and Section II.C. *Control Activities*.

Recommendations

We recommend that the Commission strengthen its inventory management and equipment acquisition process by formalizing the following processes:

1. implement inventory policies and procedures, to include required inventories and a definition of accountable equipment;
2. appropriately restrict access to the inventory record;
3. update inventory records to accurately and consistently reflect Commission-owned equipment;
4. segregate key duties in the equipment acquisition process; and,
5. disseminate the equipment purchase policy to all employees and enforce the process for equipment acquisition.

Summary of Agency Response and OIG Comments

OIG did not receive a response to the draft report from the Denali Commission; therefore, we did not include an agency response in this final report. The Denali Commission is required to submit to OIG within 60 days of this final report the detailed actions it plans to take to implement our recommendations.

Appendix A: Objective, Scope, and Methodology

Our objective was to determine whether the Denali Commission's processes and procedures for inventory management and equipment acquisition are sufficient to ensure that federal assets and funds are being appropriately managed. We conducted fieldwork from November 2015 to January 2016 in Anchorage, Alaska.

To accomplish our audit objective, we did the following:

- Communicated with Denali Commission officials and administrative support personnel to gain an understanding of the inventory and equipment acquisition processes and procedures.
- Requested, obtained, and analyzed the Commission's inventory record.
- Performed a book-to-floor inventory of all Commission-owned equipment to determine whether all property was accounted for.
- Performed a floor-to-book inventory to identify equipment in the office that was not on the inventory record.
- Requested, obtained, and analyzed purchase documentation for one year from December 4, 2014, through December 3, 2015, to identify equipment purchases and determine whether the purchase documentation included all required approvals.

For our review of inventory management and the equipment acquisition process, we did not rely on computer-generated data. We used manual records to perform the inventory and review equipment purchase documentation. We established data reliability by comparing manual inventory records to serial numbers on the equipment. While comparing manual inventory records to serial numbers in our book-to-floor inventory, we also performed a floor-to-book inventory to compare actual equipment to manual records. For the purposes of the floor-to-book inventory, we used DOC's definition of sensitive items for accountability because the Commission has not established a definition of accountable property. In addition to items Commerce identifies as sensitive, we also included items similar to those already on the Commission's inventory record to maintain consistency. We established data reliability by comparing equipment purchase documentation to the inventory record. Based on our review, we determined the manual records are incomplete; however, when viewed with other available evidence, we determined the data used were sufficiently reliable to support our audit conclusions.

During our review we identified deficiencies in the Commission's internal control that are significant within the context of the audit objectives by interviewing officials, reviewing policies and procedures, performing an inventory, and analyzing equipment purchase documentation. As described in our findings, procedural and documentary controls are insufficient to certify that that federal funds and assets are being expended and safeguarded as intended. We did not identify any incidents of fraud, illegal acts, violations of laws, or abuse in our audit.

We performed this review under authority of the Inspector General Act of 1978, as amended. 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.

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