



INTEROFFICE MEMORANDUM

DATE: January 17, 2019

TO: Members of the Milwaukee Board of School Directors

From: Mr. Paul Geib *PG*

RE: Audit #2019- 032: Fixed Asset Management Best Practices Review

C: Dr. Keith Posley
Dr. Jacqueline Mann
Mr. Christopher Hauser
Ms. Leia Sceptur
Ms. Martha Kreitzman
Mr. Chad Meyer
Mr. Matt Chason
Mr. Michael Trueblood
Ms. Nita Farrow

Transmitted herewith is our report on the Audit #2019-032 *Fixed Asset Management Best Practices Review*. The audit report and recommendations have been reviewed in detail with the Senior Director of Technology and Interim Chief Financial Officer. Their concerns relative to the audit criteria, findings and conclusions along with responses to the audit recommendations have been incorporated in the audit report. The responses show general concurrence with all of the recommendations and include action plans for implementation. If you have any questions regarding this report or would like the report to be placed on a committee agenda, please contact our office. We intend to perform a follow-up review to determine the status of our recommendations next year. At that time we will provide you with a status report.

We appreciate the cooperation and assistance we received from MPS personnel as we conducted the audit.



Fixed Asset Management Best Practices Review

Audit: 2019-032

January 2019



MILWAUKEE
PUBLIC SCHOOLS

Office of Board Governance-Audit Services

FIXED ASSET MANAGEMENT BEST PRACTICES REVIEW

AUDIT: 2019-032

JANUARY 2019

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Objective

Audit Services conducts school audits to determine if controls are adequate related to proper recording and safeguarding of district assets. Over the past three years, these audits have identified that the internal controls over the district’s fixed assets, including portable technology equipment, are often inadequate, placing these assets at a high risk of theft, loss, or misappropriation. Audit Services has designed a survey tool for twenty-five (25) school districts to identify best practices to address areas of fixed-asset inventory management, including controls over acquisition, disposal, and tracking of assets. This feedback was used to identify effective fixed-asset-management-system-and-control processes for district administration’s consideration.

As a special review, this report is not considered an audit under Generally Accepted Government Auditing Standards (GAGAS); however, we believe the evidence obtained provides a reasonable basis for our findings and conclusion.

Background

Audit Services performs audits of both MPS district and charter schools that test fixed-asset controls at the school level. The purpose of testing fixed-asset controls is to determine the adequacy of internal controls and processing procedures (e.g., that transactions are properly authorized, recorded, documented, and safeguarded). At the end of each school year, Audit Services prepares a report to identify the fixed-assets findings that are noted during our audits.

Over the past three school years, the data identifies a trend whereby the majority of the audits that we conducted have a fixed-asset finding that many schools have inadequate controls over fixed assets. In our current analysis for FY18, we noted that, of twenty-six (26) audits conducted in which fixed assets were tested, 22 (or 85%) had such findings. The analysis of fixed-asset audit findings also became the benchmark for the survey that we conducted for other school districts as part of this review. The review of the findings for fixed assets for FY16, FY17, and FY18 identified the following:

School Audit Finding	Number of Schools			Total
	FY16	FY17	FY18	
Assets were not tagged	17	15	9	41
Assets were not recorded in IFAS	24	20	11	55
No separate file for additions/disposals	4	1	1	6
No annual inventory	10	11	8	29
No equipment loan form on file	—	3	2	5
Improper disposal of assets	2	1	1	4
Incorrect budget code when ordering	3	2	-	5
Yearly Checklist Not Completed	1	5	1	7

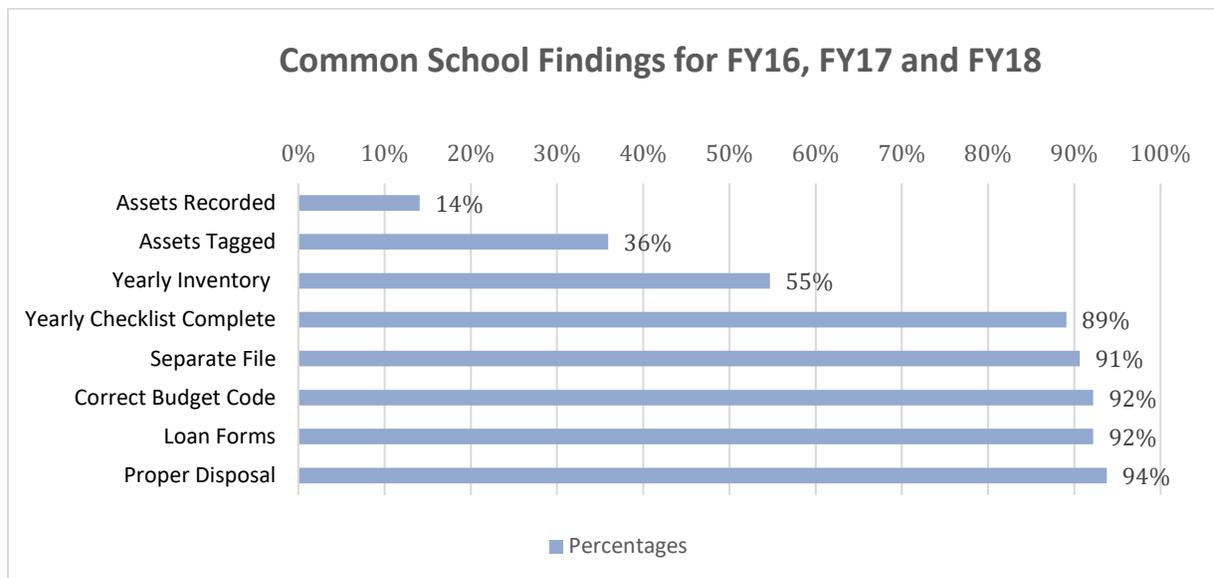
Source: MPS Audit Services Reports and website.

From the data above, it was clear that there were trends of non-compliance. The chart below represents three consecutive schools years and the number of schools that were compliant in

various areas. The chart identifies eight (8) common areas of compliance and demonstrates the high rates of non-compliance in critical areas including:

1. Assets recorded (only 14% of schools tested)
2. Assets tagged (only 36% of schools tested)
3. Yearly inventory (only 55% of schools tested)
4. Yearly checklist complete (only 89% of schools tested)

Compliance rates for the above categories should have been close to 100% for these critical areas. When Audit Services discussed the fixed-asset findings with school staff, the majority indicated that there is a lack of coordination between the staff responsible for the fixed-asset inventory and that schools are not able to dedicate sufficient staff to update and maintain fixed-asset inventories.



Source: MPS Audit Services Reports and website.

MPS's current tracking system for assets is the Integrated Finance and Accounting System (IFAS). There is a Fixed Asset tab that has all the resources for schools and departments to add and dispose of fixed assets, including how to run specific asset reports. At the school level, the staff that have access to IFAS are the school secretaries, bookkeepers, and the principal. The school secretaries and bookkeepers are able to make the necessary entries to fixed assets, including adding and deleting items, but to maintain proper segregation of duties, these school staff do not tag the assets, which is assigned to the Technology Support staff.

Controls at the School Level

We interviewed several key management staff in the MPS Technology Department (Technology), including the Senior Director and the School Technology Support Manager. We conducted an initial interview with the Senior Director of Technology to discuss the objectives of our review and to obtain additional information on Technology's equipment, including policies and procedures. For portable school equipment, the district has Chromebooks, interactive flat panels,

laptops, and Surface Pros. The Chromebooks and interactive flat panels are all shipped to the MPS warehouse and then delivered to the schools. Per the Senior Director of Technology, Surface Pros are delivered to schools without the MPS image, and the IT Service Technician for the school must receive a heat ticket to image the computer and join it to the MPS domain. In addition, laptops have the MPS image when delivered to the schools and warehouse, but the IT Service Technician must name the device and join it to the MPS domain.

The Senior Director of Technology indicated that they did not develop policies and procedures related to storage or inventory, set-up, and support and were unclear on how the process works with assets that have been stolen and those that had been assigned to principals that have either been reassigned or have resigned— staff rely on the MPS Finance Department (Finance). Finance has policies and procedures for schools to follow relating to defining the fixed asset, physical inventory, reconciliation at the end of the year, when assets should be recorded in IFAS, and loaning out equipment to school staff. All fixed-asset purchases must follow Administrative Policy 3.09, Purchasing and Bidding Requirements.

Currently there are no specific policies and procedures for the schools when it comes to receiving and storing inventory. This demonstrates that there are no accountability measures or means to hold anyone accountable. When the warehouse is about to deliver technology to the school, the principal receives an email with all the specific details of what the school will be receiving. For example, the email lists the type of product, quantity, date of delivery, and expectations of the school engineer's handling of the delivery.

According to Technology management, there is some guidance for schools when it comes to what their specific IT Service Technicians can perform. Currently, there are thirty (30) IT Service Technicians who can assist their schools with inventory and disposal of technology. Their duties consist of the following:

- assisting with applying asset tags on new technology
- supplying updated inventory information to bookkeeper or principal.
- repairing Chromebooks under warranty
- monitoring HEAT tickets for work orders
- maintaining and installing all types of computing and technology devices:
 - laptops
 - desktops
 - Chromebooks
 - tablets
 - cell phones (administrators)
 - printers
 - scanners
 - projectors
 - SMART boards and interactive flat panels.

Per Technology management, while IT Service Technicians can assist the schools with tagging assets, they don't have access to IFAS to enter the asset tag's information. This information has

to be communicated to the bookkeeper or school secretary to enter into IFAS. At the departmental level, either the secretaries are tagging and entering the information in IFAS or it does not get done at all.

MPS Technology Expenditures and Vendors

The following is an analysis of what is spent on portable technology to identify the high-risk nature of having inadequate controls based on the high dollar expenditures for technology equipment. The Technology Department created a list of vendors that are currently used for purchasing portable technology:

- CDW Government LLC (chrome books and carts)
- Paragon Development Systems (HP desktops, laptops and accessories)
- Speranza (interactive flat panels, stands and mounts)
- InfoCor (interactive flat panels, stands and mounts)
- Tierney Brothers (smartboards)
- Ricoh (printers and copiers)

The following was spent on portable fixed assets in the FY17 and FY18 school years:

Vendor	Expenses	
	FY17	FY18
CDW Government LLC	\$13,706,129	\$5,912,661
Paragon Development Systems (PDS)	\$2,876,641	\$1,730,795
Speranza	\$486,245	\$235,602
InfoCor	\$1,159,631	\$1,042,230
Tierney Brothers	\$95,401	\$35,698
Total	\$18,324,047	\$9,316,986

Source: MPS IFAS

In FY17, more than \$18 million dollars was spent on technology, while approximately half of that was spent in the FY18 school year. According to the Senior Director of Technology, there was an initiative to ensure that all MPS schools had a certain number of Chromebooks, with the final goal being that each student will have one. Also the longevity of the Chromebooks is approximately three to five years, which has been compared to the life of a smart phone. The Senior Director of Technology also stated that Chromebooks should be replaced every four years, to ensure that students always have access to a working current device.

Controls at the Department Level

In addition to reviewing the expenses for FY17 and FY18, Audit Services randomly reviewed ten (10) MPS departments at Central Services to determine if they are properly recording and reporting all new fixed-asset purchases. The testing of the 10 departments identified the following:

Summary of Results	Quantity
Number of Departments Tested	10
Total number of assets ordered	128
Total number of assets tested	34

Source: MPS IFAS

Testing Results	Quantity	Percentage Noncompliant
Assets not listed on IFAS Fixed Asset Listing	26	76.4%
Assets not located in the department	18*	53.0%
Assets not tagged	8	24.0%
Assets with no equipment loan form on file	17	50.0%

Source: MPS IFAS

*assets are with staff that work off-site.

Overall, we found that:

- More than 75% of MPS Central Service departments tested are not recording new purchases in IFAS in a timely manner.
- More than 50% could not be located in the department, which was due in part to staff at particular schools having the assets.
- More than 20% are not properly tagged.
- 50% are loaned out to staff with no equipment-loan form on file.

Discussion with various MPS Central Service staff determined that the majority of the staff that were ordering the assets were not aware that the assets had to be entered into IFAS for tracking and did not know that the equipment-loan forms existed for those staff that use the assets off site. In addition, the staff that were ordering assets did not notify their department's secretary of the purchase so that it could be entered into IFAS.

Survey and Other School District Audit Report Review Results

Audit Services developed a survey tool in an attempt to identify other school district’s fixed-asset-management practices. In addition, Audit Services obtained other school districts’ audit reports related to fixed-asset management. Our review identified some commonalities with MPS, including:

- Not having consistent inventories conducted by schools and departments.
- No reconciliation of asset-listings to schools and departments.
- Tracking systems that detail the assets, including purchased, donated, and lost or stolen items.
- Tagging of the assets conducted at each school and department.

Improved Inventory Tracking Needed

As previously noted, MPS currently uses IFAS to record all fixed assets. MPS is planning on implementing a new financial and human resources system (INFOR) which will replace IFAS and PeopleSoft in 2019. It is unknown at this time as to the capabilities of the new INFOR system to record, reconcile and report on MPS’s fixed assets. In addition to the IFAS system, there is another system currently being used to record certain MPS fixed assets. This system is called Destiny, and uses two modules created by Follett School Solutions: Destiny Library Manager (LM) and Destiny Resource Manager (RM). The LM, which is where MPS tracks all of the library books, is framed around Marc records (according to the website of the Library of Congress, “The MARC formats are standards for the representation and communication of bibliographic and related information in machine-readable form”) and library-specific data.

The RM, which tracks all of MPS’s textbooks, is currently the system that tracks all of the portable technology that is purchased with Library funds. Although the RM system originally had been designed to support all school district resources outside of library materials, when school districts became interested in tracking other resources — such as curriculum, special education, athletics, technology, etc. — the RM was built to provide flexible fields based on other resources that could be defined by the school districts.

In contemplating a new system to be used for an entire school district, whether it be in IFAS, INFOR or another system, these are some of the pros (opportunities) and cons (challenges) to be considered:

Pros	Cons
Automated system	Develop the Asset Manager
Scan all assets	Base point for adding assets
Upload spreadsheets	Champion
Greater efficiency	User licensing

While the use of a new system, may pose some challenges — including identifying the champion or key point person, establishing the base for a comprehensive inventory of existing portable

items, and developing the system — these challenges can be offset by the greater efficiency gained by a more automated process with strengthened internal controls over the proper recording, tracking, safeguarding, and reporting of district assets. It will be essential for the MPS administration to identify a more efficient process than entering all of the assets into the current IFAS system, which is all manual with limited access.

Conclusion

Our review confirmed that there continues to be a significant deficiency in internal controls over fixed-asset management, including tracking all portable technology at schools and Central Service departments and improvements in how MPS safeguards fixed assets are required to address the fixed-asset internal control concerns.

Recommendation

It is recommended that, in consultation with the Department of Finance, the Technology Department:

1. Develop formal policies and procedures for Technology and staff at all MPS sites to follow when receiving assets, storing assets, transferring assets, and recording disposals and inventory of assets.
2. Determine whether IFAS, INFOR or another systems solution can be effectively implemented to ensure technology items are recorded, reconciled and accurately reported.
3. Identify staffing resources to assist in recording portable assets into IFAS, INFOR or another system solution.

Administration's Response

Staff from the Department of Finance and the Department of Technology reviewed and collaborated concerning the internal controls over fixed assets audit services special report. The report stated that the data identifies a trend whereby the majority of the audits conducted have a fixed-asset finding that many schools and central services departments have inadequate controls over fixed assets. The critical areas were assets recorded, assets tagged, yearly inventory and yearly checklist completion.

The Finance and Technology team agreed that the issues brought to light through the report were important and should be addressed promptly. The numbered items below are the recommendations from the report. Below each item is a response from the Department of Finance and the Department of Technology in identifying solutions to the proper safeguarding of technology equipment. Improved strategies will be developed and implemented by July 2019.

1. Develop formal policies and procedures for Technology and staff at all MPS sites to follow when receiving assets, storing assets, transferring assets, and recording disposals and inventory of assets.

Procedures, roles, and accountability for action needs to be better defined, communicated, and trained. Along with reviewing for enhancement the District's Fixed Asset Policy and developing integrated procedures for Technology and staff at all MPS sites to follow when receiving assets, storing assets, transferring assets, and recording disposals and inventory of assets the team agreed that professional development would need to take place. Working with school administration training will be developed that will be rolled out to regional school teams and identified central services staff. The training will incorporate policies and guidance along with best practice procedures.

2. Determine whether IFAS, INFOR or another systems solution can be effectively implemented to ensure technology items are recorded, reconciled and accurately reported.

In determining whether technology items can be reconciled to IFAS, INFOR or another systems solution, it was decided that using two systems would not solve the problem of lack of data entry and that new procedures should be enacted. The official financial system of record (currently IFAS) is where those assets will be held. A new procedure for items delivered directly to the district warehouse that provides the ability to upload a spreadsheet from the supplier into the financial system will be investigated and implemented pending appropriate testing. In this way most of the needed information on technology items purchased will be recorded centrally and location specific information such as the exact room the item is placed would be entered by the school or division. Uploading the information centrally will ensure that items are recorded promptly and correctly.

3. Identify staffing resources to assist in recording portable assets into IFAS, INFOR or another system solution.

The financial system of record will be the place where assets will be recorded. Department of Technology staff will receive the technology delivered to the district warehouse, build data sheet templates used for import, receive files from approved providers monthly and import them into the financial system as mentioned in the response to recommendation number 2. In addition, staff will be identified to conduct ongoing professional development related to fixed asset policies and procedures.