

ASD INTERNAL AUDIT REPORT

2023-02 ASD

Fixed Assets Controls

Anchorage School District

September 25, 2023

MUNICIPALITY OF ANCHORAGE
Office of Internal Audit
632 W 6th Avenue, Suite 710
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



OFFICE OF INTERNAL AUDIT
Scott Lee
Acting Director
Phone: (907) 343-4438
E-Mail: scott.lee@anchorageak.gov



MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

September 25, 2023

Anchorage School District Superintendent and Members of the Anchorage School Board:

I am pleased to present for your review **ASD Internal Audit Report 2023-02, Fixed Assets Controls, Anchorage School District**. A summary of the report is presented below.

We have completed an audit of the Anchorage School District's Fixed Assets Controls. The objective of this audit was to determine if the Anchorage School District properly monitors and accounts for fixed assets. Specifically, our audit included a review of fixed assets selected from the inventory results submitted by the schools in 2023. We also reconciled the inventory results to BusinessPlus fixed assets records for selected schools. In addition, we reviewed the fixed assets inventory and surplus procedures to determine if the procedures complied with applicable Anchorage School Board policies and if there were adequate internal controls to ensure whether the fixed assets records in BusinessPlus were accurate.

Overall, the controls over the Anchorage School District's fixed assets can be improved. Specifically, our review found that centralized assets at the Anchorage School District were not always tracked and inventoried properly, and schools were not tracking and maintaining decentralized assets. In addition, the fixed assets disposal process did not always comply with Anchorage School Board policy. Moreover, the truck transfer form that is currently used for transferring and surplusizing fixed assets did not always include needed information to accurately track the fixed assets history in BusinessPlus. Finally, schools did not always submit the fixed asset inventory count to Central Accounting by the due date.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.

Scott S. Lee
Acting Director, Internal Audit



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ASD Internal Audit Report 2023-02
Fixed Assets Controls
Anchorage School District

Introduction. The Anchorage School District's (District) Fixed Assets Guide (Guide) states "The Anchorage School District is responsible for the accountability and reporting of fixed assets purchased by the District. This is done by an inventory system that provides assurance that items owned and maintained by the district are kept secure and that the reported valuation of those items is done in accordance with Generally Accepted Accounting Principles (GAAP). This responsibility is shared by numerous ASD personnel...The District has developed a two-fold inventory system that uses a centralized and decentralized system for tracking assets." According to the Guide, centralized assets are defined as "equipment purchases with a value of \$5,000 or greater," and decentralized assets are defined as "assets such as electronics, music instruments, tools, or high theft assets valued between \$100 and \$4,999." The responsibility for recording and inventorying the fixed assets is shared by many District personnel which includes performing a fixed assets inventory and a reconciliation every two years. The most recent fixed asset inventory reconciliation was due to Central Accounting (Accounting) on January 31, 2023. BusinessPlus is the accounting software the District uses for tracking and reporting financial transactions to include fixed assets. The fixed assets inventory process includes generating a fixed asset inventory listing report from BusinessPlus for each location then verifying each item on the report prior to submitting the inventory list to Accounting. Per the Guide, remarks to be included on the fixed asset inventory include "'verified', 'cannot be located', 'transferred', and 'surplused'." In addition, remarks such as "IT" are used to identify fixed assets that are verified by the Information Technology Department when submitting the inventory results to Accounting.

Objective and Scope. The objective of this audit was to determine if the District properly monitors and accounts for fixed assets. Specifically, our audit included a review of fixed assets selected from the inventory results submitted by the schools in 2023. We also reconciled the inventory results to BusinessPlus fixed assets records for selected schools. In addition, we reviewed the fixed assets inventory and surplus procedures to determine if the procedures complied with applicable Anchorage

School Board (Board) policies and if there were adequate internal controls to ensure whether the fixed assets records in BusinessPlus were accurate.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. 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. The audit was requested by the Anchorage School Board Finance Committee.

Overall Evaluation. Controls over the District's fixed assets can be improved. Specifically, our review found that centralized assets at the District were not always tracked and inventoried properly, and schools were not tracking and maintaining decentralized assets. In addition, the fixed assets disposal process did not always comply with the Board's policy. Moreover, the truck transfer form that is currently used for transferring and surplusing fixed assets did not always include needed information to accurately track the fixed asset history in BusinessPlus. Finally, schools did not always submit the fixed asset physical inventory count to Accounting by the due date.

FINDINGS AND RECOMMENDATIONS

1. Centralized Assets Were Not Always Tracked and Inventoried.

- a. Finding.** Centralized assets at the District were not always tracked and inventoried properly. As a result, the fixed assets records in BusinessPlus were unreliable. Specifically, during our inventory review of selected schools, we were not able to find multiple fixed assets schools had reported as verified. For example, an audio system selected for review at an elementary school was marked as "accounted for" on the inventory results submitted to Accounting. However, it was not found during our inventory review and school staff were not able to confirm where the asset was located.

In another case, while conducting the inventory review at a charter school, we attempted to find two notebook computers that were reported as “verified”. School staff informed us those assets were not found when they had conducted the inventory. However, the school staff found two other notebook computers of the same brand and model with asset tag numbers that were not on the school’s fixed assets report. School staff stated that they were concerned if the computers were reported as cannot be located, it would potentially have a negative impact on the school which is why they reported the computers as “verified”. In addition, at an alternative school we attempted to find an asset with a description of “Bed-Hydraulic Facial” that was reported as “verified”. However, we were not able to find the asset and another school staff told us that the asset had been surplused (removed) years prior.

Moreover, while conducting our review we found numerous tagged fixed assets that were either not in the BusinessPlus fixed asset inventory system or were reported under a different location from the identified school. For example, while performing the inventory at a high school, we found several asset tags attached to Wenger brand risers in the music theater. However, none of those asset tags were found on the fixed asset report within BusinessPlus. We also found multiple computer charging carts at different schools. However, the fixed assets report in BusinessPlus listed the computer charging carts at different locations and/or the tag numbers on the computer charging carts were not found on the fixed asset report within BusinessPlus. In another case, floor scrubbers were found at an elementary school that had its location coded to the Operations Department.

Finally, our review found that all assets under the school’s location were not inventoried. Specifically, at an alternative school, we found 20 centralized assets totaling \$122,700 were not inventoried. School staff assumed a different department

was responsible for verifying those assets. Further review found that the staff at the alternative school had run the fixed assets report for a single department while the school location had fixed assets belonging to 40 different departments, resulting in 1,200 fixed assets on the school location that were not reviewed. The Guide states, "A physical inventory count is required for centralized assets," and "Items at each location must be verified against the list." However, the Guide does not specify who should be responsible for reviewing assets when a school location had assets from multiple departments and repeatedly states "school or department" with no clarifying information on the responsibility of verifying the fixed assets. In addition, Accounting staff was not able to tell us who would be responsible for verifying the assets nor if the assets were ever verified by anyone. In addition, staff stated that training had not been provided for performing the fixed asset inventory at the school level. Fixed assets not correctly verified can cause a potential loss to the District by not detecting thefts and losses in timely manner and inaccurate reporting on the District's Annual Comprehensive Financial Report.

- b. **Recommendation.** The Chief Financial Officer (CFO) should ensure the Guide is updated to specify individual responsibility and how to perform inventories at schools with assets from multiple departments. In addition, Accounting should provide adequate training to school staff on how to perform accurate fixed asset inventory. Finally, the CFO should consider that the fixed assets report should be run by Accounting, then sent to the schools in a format which would ensure data cannot be removed while accounting for all fixed assets.

- c. **Management Comments.** Management stated, "Management agrees with the auditor's recommendations and will work to ensure adequate training for specified individuals is conducted. Additionally, the accounting department will ensure that users have access to, or will provide, reports that show all the assets by location. Currently,

users may be restricted to viewing just assets that were purchased with funding associated with their school. For instance, the CTE department or Carl Perkins grant may have purchased items located at King Tech but don't show up on the King Tech report as it's limited by user access.

"Other issues brought up in this finding regarding assets being at different locations will need to be addressed as well. As the District centralized computer distribution during the pandemic, devices were collected, repaired, and updated and then distributed to schools based on need and which devices had completed the updating process. IT assets are tracked remotely via access to the districts network and the fixed asset policy will need to be updated to reflect tracking of this specific class of assets. Other assets being at a location differing from the inventory list are due to the surplus process and will be addressed later on in that finding.

"Additional guidance to school and department staff responsible for inventorying assets will be provided to ensure that inventory counts are being conducted with fidelity to ensure accuracy rather than trying to avoid negative impacts to the school.

"Management expects greater accuracy in the fixed asset counts going forward as the tagging threshold has moved from \$500 to \$5,000 allowing for fewer assets needed to be counted as lower value items age out and get replaced. The volume of assets that need to be counted at schools under the previous tagging threshold of \$500 is untenable for staff that already have full-time jobs. Without a substantial investment in personnel whose only responsibility would be to track, count, and distribute assets at each facility, inventory counts would always have a variance."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **No Accountability for Decentralized Fixed Assets.**

a. **Finding.** Schools were not tracking and maintaining decentralized assets. The Guide states that “Decentralized tagging will be done at the school/department level for controlled assets valued between \$100 to \$4,999.” The Guide also states that schools need to track at a minimum, electronics, tools, musical instruments, IT equipment, and other items susceptible to theft. However, while conducting the fixed asset inventory review at selected schools, we found that none of the schools we visited were tracking decentralized assets. The reasons given for not tracking the decentralized assets were:

- *Lack of training provided and guidance from Accounting* – In July 2020, the District updated the tagging threshold for fixed assets by increasing the threshold from \$500 to \$5,000, but did not provide training nor guidance on how to account for the inventory when tracking decentralized assets. As a result, many schools became unsure how to handle the decentralized assets still on BusinessPlus records.
- *Lack of requirement in the Guide* - The Guide states “It is recommended that each school and department tag and record information....” but does not require the schools complete the tracking. The Guide also states “...school/department may record their decentralized tagged items by using any electronic format” but is unclear on the tagging requirement.

Without clear guidance for tracking decentralized assets, schools do not have proper accountability for assets purchased between \$100-\$4,999 and cannot maintain accountability for the use of public funds.

- b. **Recommendation.** The CFO should ensure schools are tracking all decentralized assets. In addition, the Fixed Assets Guide should be updated to provide clear guidance on how decentralized assets should be tracked and accounted for at the schools, as well as, providing training on how to optimize tracking and maintaining those records.
- c. **Management Comments.** Management stated, "Management agrees that the decentralized guidance should be updated and clarified as to roles, responsibilities, and requirements as well as ongoing training for those responsible for tracking inventory. Administration will review the requirements to ensure changes in policy will be feasible as the current threshold creates the same issues that is experienced in the centralized assets where there is a lack of resources to accurately count a huge volume of assets without the appropriate personnel in place to do so."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Fixed Assets Disposal Process Needs Improvement.**

- a. **Finding.** The fixed assets disposal process did not always comply with the Board's policy. Specifically, when a school submitted the physical inventory results with a remark of "cannot be located", or "surplus", Accounting then removed the fixed asset from the inventory report in BusinessPlus without further verification or approval of the Board. The Anchorage School Board Policy, AR-3270, states that "The Administration will submit to the Board for approval the method of disposal of any such personal property which is non-perishable and has an expected net sale or auction value of over two hundred fifty dollars (\$250) for the individual item." However, we did not find any evidence that these requests were submitted to the Board for approval. For example, a fixed asset that was purchased in 2020 for \$5,000 was incorrectly removed from BusinessPlus due to the remark of "can't identify, no

corosponding [SIC] tag”. However, upon further review, the fixed asset was identified as a “quad rack dimmer system,” for lighting in the middle school theater. This asset was subsequently removed from the BusinessPlus fixed asset listing, resulting in a reduced balance for the fixed assets despite the asset still being at the school. If additional research had been completed prior to removing the inventory from BusinessPlus the parties might have identified the asset as a lighting system.

For the same middle school, we found 166 items from the fixed asset inventory result submitted by the school marked as “cannot be located” and subsequently removed from BusinessPlus without further research. In addition, the middle school reported 531 assets as surplusd that were then removed from BusinessPlus without further verification. However, we were not able to find any evidence these surplusd assets were submitted to the Board for approval. Overall, the fixed asset balance in BusinessPlus was reduced by \$11.2M from \$135.6 Million tin January 2023 to \$124.4 Million in June 2023 due to the inventory of assets marked as “cannot be located” and/or “surplusd”.

In addition, the inventory results submitted to Accounting from the schools were not reconciled to BusinessPlus, resulting in fixed assets being missed due to lack of verification as Accounting did not verify if all assets at the all department locations were being included on the fixed assets report ran by the schools. According to the Office of Management and Budget (OMB) Federal Regulations 200.313, “A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.”

- b. **Recommendation.** The CFO should ensure the Board policy are being followed for disposal of all assets with a current value of \$250 or more, in addition to updating Fixed Assets Guide to ensure more research is completed prior to removing a fixed asset from

BusinessPlus. In addition, the CFO should ensure the fixed assets workbooks submitted to Accounting are reconciled.

- b. **Management Comments.** Management stated, "Management agrees with this finding and will update the fixed asset policy to include instructions for disposal and ensure that schools and departments are trained in the procedures. Tagged assets should be sent to the Purchasing/Warehouse to estimate the auction value, determine if the auction value exceeds the \$250 threshold in Board policy, and then determine the method by which assets are disposed. While Purchasing/Warehouse does a good job of following Board policy when disposing of assets that enter the warehouse, many of these items have been disposed of at the school level when they are broken or have otherwise become obsolete.

"The surplus process and the associated timing in which assets are removed from Business Plus is also an issue that will need to be addressed by management. During the fixed asset count, items marked as surplus by the schools were removed from the fixed asset inventory, however, marking the assets as surplus and sending them to the warehouse does not necessarily mean the assets were actually disposed of. Many of these items, especially furniture, remain at the warehouse for other schools/departments to get in lieu of purchasing new items. This practice leads to having assets at schools/departments that are no longer on the inventory rolls in Business Plus.

"In management's review of the assets removed from inventory, the vast majority had exceeded the useful life of the asset and were below the current tagging threshold of \$5,000. Some of these assets date back as far as 1985 and were likely disposed of years ago and are just being identified with the most recent inventory counts. There were a little over 12,000 assets removed from the inventory list with an average age of 12.5 years and the average value of each item was \$913."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Truck Transfer Form Missing Needed Information.**

- a. **Finding.** The truck transfer form that is currently used for transferring and surplusizing fixed assets did not always include needed information to accurately track the fixed asset history in BusinessPlus. Specifically, information such as the asset tag number, serial number, and model type were not mandatory fields, and the form could be submitted without this information. In addition, the form required data fields that were not familiar to school staff. For example, the “Asset ID” is requested on the form which is a system generated number not available on the BusinessPlus fixed asset report used by school staff. While the truck transfer form is an online form, the process requires the data to be manually compiled in a spreadsheet which is then updated in BusinessPlus. In addition, there was no review or approval process to ensure correct information was accurately updated in BusinessPlus.

In addition, school staff told us that they did not always follow the truck transfer form process. The school staff stated that they send several assets for surplus that were not included on the truck transfer form instead. As a result, during our review with school staff, we were told inventory previously submitted as surplus continued to appear on the BusinessPlus report. When we spoke with Accounting, we were told this could be due to the tag number not being placed in the correct area of the truck transfer form, the incorrect tag number being included, including additional items on the pallet to the warehouse that were not input on the truck transfer form, or missing removing the entry from BusinessPlus. When an asset is selected for surplus, after the surplus is approved by the Board, the asset should be updated in BusinessPlus timely, in addition to ensuring the asset is disposed of properly in the software. When the tag number is not a required field and there is no verification process of the surplus items to the form, this is inevitable.

- b. **Recommendation.** The CFO should work with Accounting, the Warehouse, and the schools to update the truck transfer form to only include necessary data in addition to ensuring specific data is a required. Additionally, school staff should be trained on how to properly complete the form and the importance of accurately completing the form to ensure the communication of the fixed assets is being tracked. Lastly, the CFO should ensure data submitted by the schools is updated timely in BusinessPlus, in addition to ensuring the fixed asset process is cross trained between Accounting staff to assist when needed.

- c. **Management Comments.** Management stated, “Management agrees with this finding and is working to update the truck transfer process to include staff training and potentially updating the truck transfer request form. Currently the transfer form does not require a tag number as many items that are transferred do not have tags. As indicated in the finding, schools often send many items on a pallet that aren’t identified and a lot of times the person submitting the transfer request doesn’t know what is on the pallet as teachers, paraprofessionals, BPOs, and student nutrition workers may be adding items to the pallet without informing the requestor. The Warehouse receives about 8000+ transfer requests in a given year and simply does not have the manpower to depalletize each one to ensure the items on the form match what is on the pallet before disposal so making all staff aware of the policies will help ensure more accurate reporting.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Schools Did Not Always Submit the Fixed Asset Physical Inventory Timely.**

- a. **Finding.** Schools did not always submit the fixed asset physical inventory count to Accounting by the due date. Specifically, our review found that 11 schools did not submit the fixed assets report to Accounting by the January 31, 2023 due date. The

due date for the fixed asset physical inventory count was not included in the Guide, and the only announcement for the due date was on the District's online bulletin. In addition, for 2023 the due date for the fixed asset inventory was moved from the end of school year to the beginning of the calendar year. Beside the bulletin announcement, no other notification and/or reminder was provided.

- b. **Recommendation.** The CFO should ensure Accounting provides adequate notification and reminder to the school staff about the fixed inventory due date.
- c. **Management Comments.** Management stated, "Management agrees with this finding and will ensure additional notification and reminders go out to responsible staff."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate District officials on July 18 and August 16, 2023.

Audit Staff:
Meredith Basdaras