

CITY AUDITOR'S OFFICE



AUDIT OF DEPARTMENT OF INNOVATION AND TECHNOLOGY

HARDWARE ASSET CONTROLS

Report IT010-2324-03

June 17, 2024

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BACKGROUND

The city of Las Vegas utilizes a wide range of technologies in support of its mission and goals, including thousands of hardware assets such as servers, routers, switches, and computers. The city's Department of Innovation and Technology (IT) has responsibility for periodically verifying the status (e.g., in use, retired) and location of its hardware assets.

IT maintains records of the city's IT hardware assets via an asset management system called ServiceNow also known as CLVService. As of April 2024, over 22,000 hardware assets are managed by IT via this asset management system. IT staff utilize barcoded stickers ("asset tags") as unique identifiers on their hardware assets. These tags are scanned with handheld scanners when IT staff is performing asset verification procedures.

The city requires departments to classify and record machinery and equipment purchases as follows:

Fixed Assets (aka Capitalized Assets) – machinery and equipment with a value of \$5,000 or more and having a useful life of more than one year. For financial reporting purposes, these assets are capitalized. Per the city's fixed asset policy, these fixed assets "must be properly accounted for when procured; inventoried and safeguarded throughout their useful life; and properly accounted for at the time of disposal."

Controlled Non-capitalized Assets – machinery and equipment with a value less than \$5,000 that are deemed by a city department to be sensitive, portable, or prone to theft. Examples of IT hardware assets that might fall into this category could include a laptop computer, a portable device such as a tablet or a phone, or any asset that could present a security concern if lost. These assets are required to be controlled as if they were fixed assets.

The city's Finance Department (Finance) requires that departments verify their fixed asset records against those of Finance bi-annually, and that departments prepare a report of their controlled non-capitalized assets annually. In April 2023, Finance requested both of these asset reports to be submitted by IT. This audit includes our review of IT's response to Finance's requests.

For purposes of this report, the above two classifications of IT hardware assets are referenced together as **controlled assets**.

OBJECTIVES

Our objectives in completing this audit were to determine whether:

- IT is appropriately verifying the location and status of controlled assets.
- IT's controlled asset reports to Finance are complete and accurate.

Why is this audit important?

It is vital that IT maintain accurate and current records of their controlled assets for the following reasons:

- **Compliance:** The Nevada Revised Statutes (NRS)¹, as well as the city's own policies contain requirements regarding property management and accountability. Verifying the continued existence of controlled assets ensures that these requirements are being followed.
- **Security:** By having complete and accurate records of these controlled assets, IT can more readily identify and remove unauthorized assets that could be security liabilities. This is especially important as cybersecurity threats are on the rise.
- **Risk Management:** Monitoring these controlled assets helps mitigate risks associated with unauthorized equipment.
- **Cost Management:** Maintaining records of controlled assets helps to identify underutilized equipment that can be redeployed or retired, saving money on unnecessary purchases and licenses.
- **Efficiency:** Knowing where controlled assets are located and their specifications allows IT to quickly respond to maintenance needs and user requests.
- **Planning and Budgeting:** Current information on controlled assets helps with budgeting for future purchase needs and upgrades.

SCOPE AND METHODOLOGY

The scope of our work was limited to the IT management controls surrounding the recording and tracking of IT's controlled assets and the reporting of these assets to Finance in April and May 2023. We did not audit Finance's controlled asset oversight procedures, nor did we conduct our own asset verification procedures to validate the accuracy or completeness of records in the asset management system.

Our audit methodology included:

- A review of IT's compliance with sections related to controlled assets within the following policies:
 - FN210 – Fixed Asset Policy/Procedure²

¹ See Appendix C: NRS 354.625

² See Appendix A: FN210

- IT155 – IT Asset Management Policy³
- An evaluation of the information retained on controlled assets within the asset management system.
- An analysis of the controlled asset reports submitted by IT to Finance in response to their April 2023 request.
- Interviews with city management and staff.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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 last fieldwork date of this audit was May 16, 2024.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

The results of our audit procedures for each of our audit objectives are found below:

Objective 1: Determine whether IT is appropriately verifying the location and status of controlled assets.

Conclusion:

The IT asset management system lacks a clear categorization strategy to identify assets that require periodic verification. It is not clear which assets are considered controlled assets. **See Finding #1.**

IT's asset verification procedures are not documented, and the results of verification activities are not always recorded in the asset management system. **See Finding #2.**

Objective 2: Determine whether IT's controlled asset reports to Finance are complete and accurate.

Conclusion:

The controlled asset reports that IT submitted to Finance were incomplete and inaccurate and did not confirm the existence of all controlled assets. IT management did not review and approve the reports before they were submitted. **See Finding #3.**

³ See Appendix B: IT155

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1. INADEQUATE IDENTIFICATION OF CONTROLLED ASSETS

Per city policy, IT is responsible for conducting regular verification procedures for controlled assets, which includes those considered fixed assets and non-capitalized controlled assets. During the course of our fieldwork we noted the following deficiencies.

Controlled assets are not distinguished from other assets in the asset management system.

The asset management system includes many items such as monitors and laptop docking stations that do not meet the thresholds of value or security risk to require regular asset verification procedures. Having controlled and non-controlled asset data within the same system presents a need for clear identification of which assets are considered controlled assets (and thus subject to asset verification requirements) and which are not.

Upon review, the data housed in the asset management system does not differentiate between controlled and non-controlled assets. We were thus unable to determine the number of controlled assets which have been subject to proper verification procedures.

IT has not documented criteria for identifying controlled non-capitalized assets.

In addition to non-capitalized controlled assets not being clearly identified in the asset management system, IT has no documented definition of what they consider to be non-capitalized controlled assets. In the absence of such a definition or a complete list, we were unable to evaluate IT's adherence to asset verification requirements for non-capitalized controlled assets.

RECOMMENDATIONS

- 1.1 IT management should clearly distinguish which hardware assets within the asset management system are subject to asset verification procedures, identifying each asset in the asset management system as one of the following classifications:
 - a fixed asset (controlled)
 - a non-capitalized controlled asset (controlled)
 - other (non-controlled)
- 1.2 IT management should develop and document a set of criteria for identifying controlled non-capitalized assets, and ensure that the identification of controlled non-capitalized assets in the asset management system is complete and accurate.

2. LACK OF DOCUMENTED PROCEDURES FOR CONTROLLED ASSET VERIFICATION

We conducted a review of IT's practices for maintaining and updating the controlled asset records in the asset management system, including how the accuracy of the records is periodically verified. We identified the following deficiencies in IT's asset verification procedures for controlled assets.

Asset verification procedures have not been documented.

The IT Asset Management policy notes the need for an asset management system and emphasizes IT's responsibility for verifying the accuracy of the information within it, but lacks specific documented procedures for controlled asset verification. Our inquiries confirmed that no additional procedure documentation is available for staff conducting these verification activities. This absence of documented procedures hinders effective training of new staff and creates the risk of losing process knowledge with employee turnover. Furthermore, the lack of documented procedures increases the likelihood of inconsistent practices by employees during asset verification procedures.

Verification history is not recorded in the asset management system for all controlled assets.

During the course of our fieldwork, we observed that IT has been conducting recurrent asset verification procedures throughout the city, using a combined approach of visual inspection, online status verification, and manual scanning of asset tags using handheld scanners.

One of the asset verification methods utilized by IT is to scan the barcoded asset tag of a controlled asset with a handheld scanner. This process logs a "last scanned" timestamp into the asset's record in the asset management system, leaving a record of verification. We noted, however, that there are many controlled assets in the asset management system that have timestamps that are years old, or have no timestamp at all.

While a timestamp is captured in the asset management system when an asset is verified using a handheld scanner, no comparable information is recorded for assets verified using online tools or by visual inspection.

RECOMMENDATIONS

- 2.1 IT management should develop and document controlled asset verification procedures that are performed at a minimum once every year and ensure that the following information is captured during these procedures:
 - Status and location of each controlled asset
 - Verification date
 - Method of verification
 - Name of verifier
- 2.2 IT management should implement the documented controlled asset verification procedures and ensure that each controlled asset has been verified within the past year.

3. INADEQUATE REPORTING OF CONTROLLED ASSETS

The city classifies machinery and equipment with a value of \$5,000 or more and having a useful life of more than one year as fixed assets. In April 2023, Finance provided IT with its record of IT's fixed assets, and asked IT to confirm the accuracy of this list against IT's current records.

The city classifies machinery and equipment with a value less than \$5,000 that are deemed by a department to be sensitive, portable, or prone to theft as controlled non-capitalized assets. These assets are required to be controlled as if they were fixed assets. In April 2023, Finance requested that IT provide them with a report of their controlled non-capitalized assets.

We obtained and evaluated both of these reports submitted by IT in response to Finance's requests. We identified the following deficiencies with these reports.

IT did not confirm the status and location of all fixed assets in their report to Finance.

Finance requested that IT confirm whether the 261 items listed on the fixed asset report were still in their current inventory of hardware assets and if not, to document what had happened to them (e.g., disposed of, auctioned, transferred). IT responded that 172 (66%) of the 261 fixed assets were confirmed to be in their inventory or had been properly retired through disposal, donation, or auction. The remaining 89 (34%) fixed assets with a total cost of \$2,168,105 were reported as not being found in their asset management system. No additional explanation was provided for these unconfirmed assets.

The discrepancy between Finance's and IT's fixed asset records raises concerns about whether IT is verifying the existence of their fixed assets in accordance with city policy. IT management acknowledged that they did not review and approve the accuracy and completeness of the responses within the fixed asset report provided to Finance.

IT submitted an inaccurate report of their controlled non-capitalized assets to Finance.

The controlled non-capitalized asset report provided to Finance included an unusually large number of hardware assets (21,956) including assets such as monitors, desk phones, and laptop docking stations that are low-cost and low-risk. IT management acknowledged that the report did not accurately represent what they consider to be non-capitalized controlled assets and was inappropriately provided to Finance without proper review and approval.

RECOMMENDATIONS

- 3.1 IT management should develop, document, and implement a process to ensure compliance with the city's controlled asset reporting requirements, including supervisory review and approval of fixed asset reports and controlled non-capitalized asset reports provided to Finance.
- 3.2 IT management should reconcile their records of fixed assets with those of Finance and provide to Finance a complete and accurate report of fixed assets, including current status and location information for each asset.
- 3.3 IT management should provide to Finance a complete and accurate report of controlled non-capitalized assets, including current status and location information for each asset.

APPENDIX A - FN210: Fixed Assets Policy/Procedure (excerpts)
[Original effective date: 4/18/2016]

Fixed assets acquired by the city must be properly accounted for when procured; inventoried and safeguarded throughout their useful life; and properly accounted for at the time of disposal.

The department designee is responsible for:

- Overseeing the department/division fixed asset inventory;
- Providing information for asset additions and dispositions, including real property.

The Department of Information Technologies is responsible for:

- Establishing and maintaining machinery and equipment records and adequate inventory controls.

Due to their sensitive, portable, or theft-prone nature, certain property items with a cost of \$500 but less than \$5,000 must be subject to control as if they were fixed assets.

Each department is responsible for maintaining a record of controlled non-capitalized machinery and equipment items.

- a. This assignment should be documented within the department and communicated to the Fixed Asset Analyst in Accounting Operations.
- b. At the close of each fiscal year the individual(s) responsible for controlled non-capitalized items should perform an inventory verification and prepare a report containing a list of the items and an explanation of changes from the previous year. This list should be maintained in the department and available for inspection.
- c. The Fixed Asset Analyst should be informed that the listing of non-capitalized items is on file and available for inspection.
- d. The Department of Finance may periodically verify the records of the controlled non-capitalized items. This review should be done at least every five years, and more frequently for particularly sensitive items.
- e. Each department manager is responsible for implementing measures to prevent and detect theft of city property.

APPENDIX B - IT155: IT Asset Management Policy (excerpts)
[Original effective date: 6/18/2020]

An asset tracking system/database must be established, managed, and controlled for an established scope of IT Assets.

- The system must contain all information on IT Asset ownership, purpose, classification, version, location/portability, details of compliance requirements, licensing details, and lifecycle status.
- Changes to the IT Asset (transfer, usage, lifecycle and disposal) with according dates must be tracked in the IT Asset system/database.
- Department of Information Technologies will conduct a period citywide inventory count to ensure the accuracy of the IT Asset tracking system.

An asset tracking system/database must be established, managed, and controlled for an established scope of IT Assets.

All IT Assets, as defined in this policy, must be registered within the asset tracking system/database.

The asset tracking system/database can be populated from both manual and automated discovery mechanisms. It must be protected against data loss and alteration by unauthorized persons.

All IT Assets must have a unique assigned IT number from a centrally managed pool or standard. The unique assigned ID number must be maintained throughout the lifecycle of the IT Asset.

The Asset tracking system must provide capability to track IT Assets based on their ID. The system must contain all information on IT Asset ownership, purpose, classification, version, location/portability, details of compliance requirements, licensing details, and lifecycle status. Changes to the IT Asset (transfer, usage, lifecycle and disposal) with according dates must be tracked in the IT Asset system/database.

Asset ownership information must be maintained to enable governance, escalation, and budget allocation/reconciliation purposes and in accordance with Records Retention requirements.

Tracking of location of IT Assets assigned to a department is the responsibility of that department. Department of Information Technologies will conduct a period citywide inventory count to ensure the accuracy of the IT Asset tracking system.

APPENDIX C - Nevada Revised Statutes: NRS 354.625

Records relating to property and equipment; control of inventory. The governing body of every local government shall:

1. Cause to be established and maintained adequate property and equipment records and, where appropriate, adequate inventory controls. Any local government created after July 1, 1975, shall establish such records and controls within 1 year after its creation unless the Department of Taxation grants an extension of time.
2. Require that all such property, equipment and inventory records clearly indicate specific ownership.
3. Designate, by entry in the minutes of the governing body, the officer, employee or officers or employees responsible for the maintenance of property and equipment records and, where appropriate, inventory records, and notify the Department of Taxation of such designation.

MANAGEMENT RESPONSE

1. INADEQUATE IDENTIFICATION OF CONTROLLED ASSETS

1.1 IT management should clearly distinguish which hardware assets within the asset management system are subject to asset verification procedures, identifying each asset in the asset management system as one of the following classifications:

- a fixed asset (controlled)
- a non-capitalized controlled asset (controlled)
- other (non-controlled)

Management Action Plan: Management has implemented new reportable categories within our asset management system to differentiate between fixed assets and non-capitalized (controlled) assets. Enhancements to the asset tracking system are ongoing, with the recent addition of categories to meet audit recommendations. Further testing and validation are still required.

Estimated Date of Completion: January 2025

1.2 IT management should develop and document a set of criteria for identifying controlled non-capitalized assets, and ensure that the identification of controlled non-capitalized assets in the asset management system is complete and accurate.

Management Action Plan: Management is reviewing the criteria for identifying controlled non-capitalized and fixed assets in the Hardware Asset Management Policy IT155. Changes to current policies and procedures will be implemented to meet the audit recommendations. Additional comprehensive review and validation of these policies are still necessary.

Estimated Date of Completion: January 2025

2. LACK OF DOCUMENTED PROCEDURES FOR CONTROLLED ASSET VERIFICATION

2.1 IT management should develop and document controlled asset verification procedures that are performed at a minimum once every year and ensure that the following information is captured during these procedures:

- Status and location of each controlled asset
- Verification date
- Method of verification
- Name of verifier

Management Action Plan: Management has revised the hardware asset management procedures document to ensure the requested information is captured. A thorough review and validation of inventory assets will be undertaken to ensure compliance with the updated policy amendments.

Estimated Date of Completion: July 2025

- 2.2 IT management should implement the documented controlled asset verification procedures and ensure that each controlled asset has been verified within the past year.

Management Action Plan: Management will implement the newly documented procedure and ensure the accuracy and integrity of the collected data through a thorough validation process.

Estimated Date of Completion: July 2025

3. INADEQUATE REPORTING OF CONTROLLED ASSETS

- 3.1 IT management should develop, document, and implement a process to ensure compliance with the city's controlled asset reporting requirements, including supervisory review and approval of fixed asset reports and controlled non-capitalized asset reports provided to Finance.

Management Action Plan: Management has created a comprehensive desktop procedure for generating the required report. This procedure outlines the steps for obtaining supervisory and management approvals before the report's distribution. Currently, the procedure is undergoing testing, validation and management review.

Estimated Date of Completion: January 2025

- 3.2 IT management should reconcile their records of fixed assets with those of Finance and provide to Finance a complete and accurate report of fixed assets, including current status and location information for each asset.

Management Action Plan: Management has reviewed the findings and identified items within the dataset that were either incorrectly categorized or properly disposed of but not documented according to policy. We are addressing these inconsistencies promptly. Since undertaking the review, all indications suggest that all items have been accounted for. Management is working with Finance to validate the fixed asset records and ensure a complete and accurate accounting.

Estimated Date of Completion: March 2025

- 3.3 IT management should provide to Finance a complete and accurate report of controlled non-capitalized assets, including current status and location information for each asset.

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Management Action Plan: Management will reconcile the non-capitalized (controlled) asset records with the Finance Department and provide a complete and accurate report to ensure alignment and accuracy.

Estimated Date of Completion: March 2025