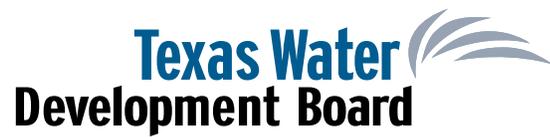


**Report to Management**

**AUDIT OF CAPITAL AND CONTROLLED ASSETS  
INVENTORY PROCESS**

**April 25, 2011**



**Texas Water Development Board**

**Internal Audit**

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**KEY POINTS OF INTEREST**

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**Overall Conclusion**

Observations and testing of the capital and controlled asset inventory process (inventory process) indicate the agency is recording and controlling assets in accordance with Texas Government Code, standards set forth by the Texas Comptroller of Public Account's (Comptroller's) procurement manual, the State Property Accounting (SPA) system's policies and procedures, and the *Federal Grant Management Handbook*. Tests and review of the inventory process indicate the agency's assets appear to be appropriately valued, accurately recorded in the SPA system, and compliant with appropriate state and federal standards.

**Key Facts and Observations**

*TWDB Personal Property Policies and Procedures* (revised 3/10/11) are complete and in compliance with Texas Government Code, the Comptroller's procurement manual, State Property Accounting (SPA) systems policies and procedures, and the *Federal Grant Management Handbook*.

The assets are recorded in SPA based upon properly authorized documents (Expenditure Requisitions, Purchase Orders, Invoices, etc.) that adequately determine the value of the asset.

Asset holders (agency employees) are required to sign a receipt indicating their possession of, and responsibility for, the asset. Employee responsibilities for the care of state property and the safeguarding of agency assets are noted in the *TWDB Personal Property Policies and Procedures*.

An inventory of agency assets is conducted annually. This is in accordance with the *TWDB Personal Property Policies and Procedures*, which incorporates by reference Texas Government Code Section 403.273(e), *A state agency shall conduct an annual physical inventory of all property in its possession.*

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A. Management Summary

1. Purpose

The purpose of this report is to present the conclusion and observations from an audit of the Capital and Controlled Assets Inventory Process. This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards.

The government standards require the audit to be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for observations and conclusions based on the selected audit objectives. The evidence obtained provides a reasonable basis for the observations and conclusions based on these objectives.

2. Background

Texas Water Development Board policy requires all property (whether purchased with state or federal funds) to be processed and managed the same way through the procurement, receiving, inventory and surplus processes. The policy also requires the agency to comply with the Comptroller's procurement manual, the State Property Accounting (SPA) system's policies and procedures, and the *Federal Grant Management Handbook*.

Assets are designated as "Capital Assets" (property with an estimated life greater than one year and a single-unit value of \$5,000); "Capitalized Assets" (property with a single-unit value that exceeds the capitalization threshold for its asset type); and "Controlled Assets" (property that, due to its high-risk nature, is required to be reported in the SPA). For the purpose of this report all assets, whether "capital," "capitalized," or "controlled," will be referred to as either "assets" or "property."

Texas Government Code Section 403.273(e) requires an annual inventory of all property. TWDB's policy states in part:

*The annual physical inventory will be performed by the agency Property Manager. This process generally begins in May of each year and proceeds until completion. The deadline for completion is August 31 of each fiscal year. The Property Manager, with assistance from the Support Services staff, will verify location and assignment of each personal property item and will make any adjustments on the SPA system. Staff will be required to certify that all property assigned to them is accounted for. Once all agency property is accounted for, the Property Manager will certify the annual report and submit to the Comptroller.*

The annual physical inventory was completed on April 22, 2011.

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3. Scope and Objectives

The scope of this audit encompassed the examination and evaluation of the adequacy and effectiveness of the internal controls in relation to the Capital and Controlled Assets Inventory Process. The scope included specific program steps designed to assess:

- Compliance with state and federal laws, rules, and regulations;
- Reliability and integrity of information; and
- Safeguarding of assets.

The objectives included procedures designed to determine if:

- Agency policies and procedures for the control of assets properly reflect state and federal standards;
- Assets are properly recorded in the State Property Accounting (SPA) system;
- Assets purchased with federal funds are identified separately in the SPA system;
- Disposed assets are appropriately deleted from the SPA system;
- Existence of assets listed in SPA is verified on a periodic basis;
- Values of agency assets are appropriate and documented; and
- Disposed assets are appropriately valued.

4. Conclusion

Observations and testing of the capital and controlled asset inventory process (inventory process) indicate the agency is recording and controlling assets in accordance with Texas Government Code, standards set forth by the Comptroller's procurement manual, SPA system's policies and procedures, and the *Federal Grant Management Handbook*. Tests and review of the inventory process indicate the agency's assets appear to be appropriately valued, accurately recorded in the SPA system, and compliant with appropriate state and federal standards.

5. Action Plans

No action plans are required.

**B. Detailed Observations**

**1. The Inventory Process Complies with Appropriate Policies, Rules, and Regulations**

The audit comprised a review of the agency's asset policies and procedures, observation of the inventory process, and test counts of the inventory. The *TWDB Personal Property Policies and Procedures* (revised 3/10/11) were complete and in compliance with Texas Government Code, the Comptroller's procurement manual, State Property Accounting (SPA) system's policies and procedures, and the *Federal Grant Management Handbook*.

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The TWDB Property Manager and Support Services staff were very familiar with the *TWDB Personal Property Policies and Procedures* and the laws, rules and regulations that pertained to the agency inventory. Capitalized and controlled assets are entered by Support Services staff into the SPA system. Assets that do not meet the capitalized and controlled asset definitions appear to be appropriately excluded from the SPA system.

In addition to capital and controlled assets, TWDB policy addresses salvage and surplus (disposed) property. Depending upon the type of property, surplus items may be sold, transferred, or reassigned. For example: Surplus vehicles are announced for sale to other state and local agencies. If, after 10 days of the announcement, another agency has not purchased the vehicle, it is transferred to Texas Facilities Commission (TFC) for sale.

Disposal procedures also address requirements for assets purchased with federal funds. According to the policies and procedures, 75% of the proceeds from disposed assets (both state and/or federally funded) are to be transferred to the State General Revenue Fund. The remaining 25% are appropriated back to the agency for expenditure within the same fiscal year the proceeds are received.

The inventory process appears to follow the *TWDB Personal Property Policies and Procedures*, is in compliance with the applicable laws, rules and regulations, and addresses the addition and disposition of agency capital and controlled assets.

**Recommended Action Plan 1:** None Required.

2. **The State Property Accounting System (SPA) Accurately Records Agency Assets**

As part of the inventory process review, Support Service staff were observed as they entered newly-acquired property into the SPA system. Support Services staff review supporting documentation before entering the purchase of new assets into the SPA system. The fund, object code, method of finance, description of asset (including cost) and other information from the agency Purchase Order and Expenditure Requisition Form are verified before being entered into SPA. The description of the asset included appropriate identifying information (i.e., vehicle identification number) when available.

Assets partially/fully purchased with federal funds are identified in the SPA system (the method of finance indicates if federal funds were used in the purchase of the asset). The total cost of the asset is listed and any federal component of that cost for the asset is listed in another field in the system.

The expected useful life of the asset is determined by the object code and verified by the Support Services staff for reasonableness upon entry into the SPA system. Assets that are sold as surplus or otherwise disposed are deleted from the system upon completion of those transactions.

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The SPA system appears to accurately represent the description and value of agency capital and controlled assets and appropriately does not include assets that do not meet those definitions.

**Recommended Action Plan 2:** None Required.

**3. Agency Assets are Properly Safeguarded**

All assets are assigned to the Property Manager or to appropriately designated agency staff. Each staff member is required to sign a receipt indicating their possession of, and responsibility for, the asset. Employee responsibilities for the care of state property and the safeguarding of agency assets are noted in the *TWDB Personal Property Policies and Procedures*.

The existence of assets listed in the SPA system is verified annually in accordance with Texas Government Code Section 403.273, which states: *A state agency shall conduct an annual physical inventory of all property in its possession.* The responsible staff sign and date documentation asserting the asset exists. This documentation is kept on file by Support Services staff.

The annual inventory of all assets is performed by the Support Services section, which reports to the Support Services and Contract Administration Director. The Director is also the designated Property Manager for TWDB.

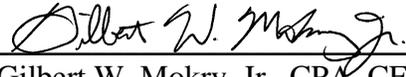
The 2011 physical inventory for TWDB was conducted during the course of this audit (April 2011). IA observed the inventory process and conducted test counts of inventory at selected agency areas. No discrepancies were noted.

Some assets not located at the main agency office (i.e., field office assets or assets permanently located in the field) are verified by Support Services through communication with their designated recipients. Agency vehicles assigned to the main office are kept in a state parking garage in an area which is locked during non-business hours.

As a result of observation and test counts of the physical inventory, review of agency employees' receipts of assets, and review of the SPA and inventory procedures, it appears TWDB's assets are properly safeguarded.

**Recommended Action Plan 3:** None Required.

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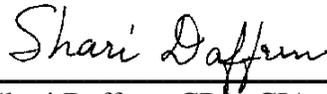
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