

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

July 9, 2020

Reference Number: 2020-10-039

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HIGHLIGHTS: The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement



Final Audit Report issued on July 9, 2020
Reference Number 2020-10-039

Why TIGTA Did This Audit

This audit was initiated because TIGTA previously conducted a review of the IRS's processes for tracking high-risk information technology (IT) assets; however, TIGTA has not previously reviewed the IRS's processes for tracking non-IT assets. The prior TIGTA review concerning IT assets identified that key data fields were not recorded properly in the IRS's inventory system, assets were not recorded timely in the inventory system, and asset inventory certification objectives were not always met. This review was initiated to evaluate the IRS's controls over purchased non-IT asset inventory.

Impact on Taxpayers

Without appropriate adherence to established guidance, the IRS cannot ensure the complete and accurate inventory of its non-IT assets. Additionally, without sufficient accountability over non-IT assets purchased with taxpayer funds, employees or contractors could remove property from IRS facilities for personal use or sale without timely detection.

What TIGTA Found

The IRS has established procedures governing the management of purchased and certain leased non-IT assets; however, Facilities Management and Security Services (FMSS) organization personnel do not always follow inventory certification guidance. In addition, management processes to monitor whether staff are following guidance are not always effective.

TIGTA conducted a physical inventory of a statistically valid stratified sample of 197 purchased non-IT assets at seven IRS facilities, but could not locate nine (4.6 percent) of the 197 sampled assets. For assets that were located, TIGTA checked the inventory system data fields that are required to be validated annually and found 35 errors, *e.g.*, wrong serial number. In addition, TIGTA also identified 26 assets that were not recorded in the inventory system but should have been. These assets included x-ray machines, audio visual equipment, and utility vehicles.

TIGTA also identified instances in which similar assets were not consistently classified as either IT assets or non-IT assets in the inventory system. In total, \$4.3 million in assets, or 12 percent of the value of the non-IT assets listed in the inventory system, were misclassified and should have been classified as IT assets.

Furthermore, in June 2018, FMSS personnel retired 72 assets with a total value of more than \$500,000; however, according to FMSS personnel, these assets were excessed between 2008 through 2015. These assets were not timely removed from the inventory system, and FMSS personnel annually certified (in some cases for up to 10 years) that the IRS was in possession of them. Lastly, TIGTA evaluated the IRS's certification process for non-IT assets at remote locations and determined that the FMSS did not always maintain documentation to support that non-IT assets were remotely verified.

What TIGTA Recommended

TIGTA recommended that the Chief, FMSS, 1) ensure that monitoring procedures are designed to reasonably assure the controls established over the management of non-IT assets are properly adhered to by FMSS staff and 2) review and update the existing guidance to establish standardized procedures for remote inventory certification.

IRS management agreed with both recommendations and plans to take appropriate corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 9, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Annual Inventory Certification Process
for Non-Information Technology Assets Needs Improvement
(Audit # 201910019)

This report presents the results of our review to evaluate the Internal Revenue Service's controls over purchased non-information technology asset inventory. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Achieving Operational Efficiencies*.

Management's complete response to the draft report is included as Appendix III.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Heather M. Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

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The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

Background

Property management includes the processes, people, and systems that provide effective accounting and internal controls over personal property, also known as assets, throughout its lifecycle.¹ Within the Internal Revenue Service (IRS), the Facilities Management and Security Services (FMSS) organization Headquarters (HQ) Property and Asset Management (P&AM) program oversees the management of all IRS non-information technology (IT) assets (hereafter referred to as non-IT assets) and maintains physical accountability over non-IT assets throughout their lifecycle. Examples of non-IT assets include projectors, utility vehicles, televisions, cameras, forklifts, and mailing equipment.

The IRS's Knowledge, Incident/Problem Service Asset Management – Asset Manager (KISAM-AM) system (hereafter referred to as the inventory system) is the central repository used for the processing of lifecycle actions related to IRS assets, such as recording and tracking asset acquisitions, transfers, and disposals. The Internal Revenue Manual describes the types of non-IT assets entered, tracked, and disposed of through the inventory system.² Non-IT assets required to be inventoried include assets:

- With an acquisition cost of \$5,000 or more.
- Designated as high risk with an acquisition cost of \$1,000 or more.³
- Leased for 90 days or more, as well as all owned or leased motor vehicles.

Each fiscal year, the FMSS is required to certify its non-IT assets by conducting an inventory of all non-IT assets listed in the inventory system. The inventory cycle begins on October 1 and must be completed by June 30 each year. The FMSS has 12 Territories, and each Territory is responsible for the physical inventory of its non-IT assets. The annual inventory certification is conducted through both physical and remote inventories of non-IT assets, which validate not only the presence of the asset, but also the associated data fields recorded in the inventory system. A physical inventory is an on-site review that compares the property on hand, as verified by a physical count, with the property on record (which is listed in the inventory system) and reconciles any differences. During the on-site review, the facility also should be examined for assets that meet the requirements to be tracked in the inventory system, but are not currently recorded. Remote inventories are conducted for asset verification at locations without Territory property staff on-site to perform the verification or to reduce travel to an outlying post of duty. To conduct a remote inventory, the asset contact listed in the inventory system is e-mailed and requested to verify that the asset is still in use.

In Fiscal Year 2019, the FMSS certified the existence of 3,210 non-IT assets. During the Fiscal Year 2019 annual inventory certification, FMSS officials asserted that they conducted a complete inventory of all non-IT assets requiring certification and that the following data fields for the assets were correct in the inventory system: barcode, serial number, assignment, building code,

¹ See Appendix IV for a glossary of terms.

² Internal Revenue Manual 1.14.4 (Apr. 30, 2018).

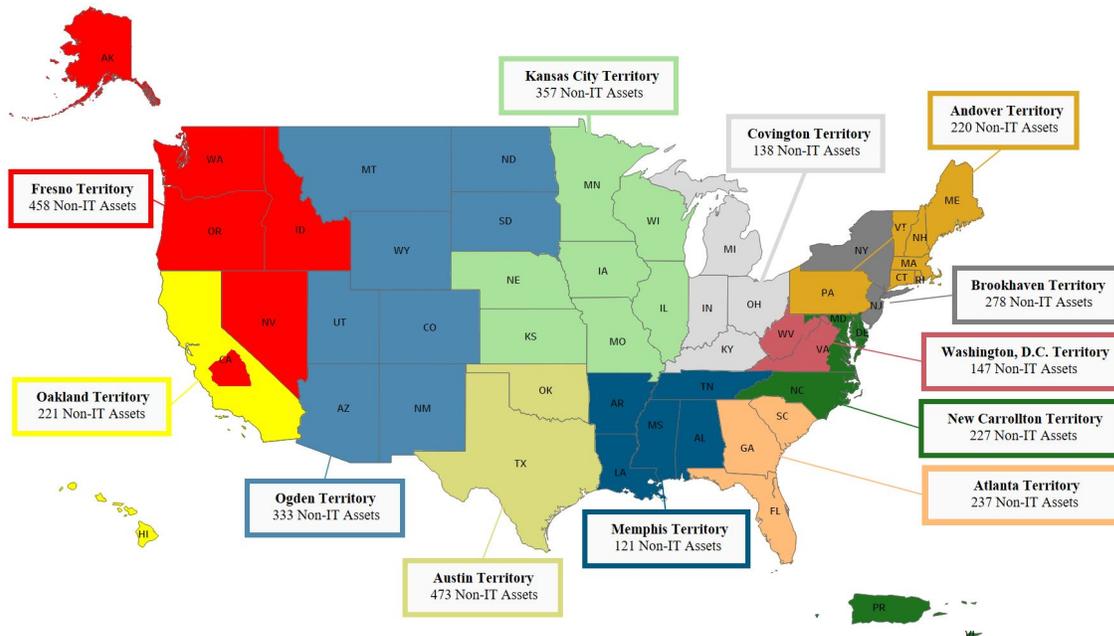
³ The IRS issued a memorandum effective January 1, 2020, stating the threshold for tracking high-risk non-IT assets in the inventory system will be raised from assets with an acquisition cost of \$1,000 or more to assets with an acquisition cost of \$2,500 or more. The memorandum also states fleet vehicles will no longer be tracked in the inventory system, as they are already tracked by FMSS HQ Fleet Management Program staff.



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user, location, and contact name. Figure 1 shows the number of assets certified in each Territory.

Figure 1: Non-IT Assets Annually Certified by Territory



Source: FMSS Fiscal Year 2019 Annual Inventory Certification memorandums.

Results of Review

Annual Inventory Certification Does Not Ensure That Non-Information Technology Assets Are Properly Managed

The IRS has established procedures governing the management of purchased and certain leased non-IT assets through the development of the P&AM program Desk Guide (hereafter referred to as the Desk Guide). However, these IRS-established procedures were not sufficiently followed by FMSS staff to ensure the accuracy of inventory system data or accountability of non-IT assets at IRS facilities. In addition, management processes to monitor whether staff are following guidance are not always effective. Based on our physical inventories of non-IT assets, analysis of inventory system records, and review of associated documentation, we determined:

- Non-IT assets recorded in the inventory system could not be located.
- The inventory system contained inaccurate information, *e.g.*, erroneous serial numbers.
- Non-IT assets were not documented in the inventory system.



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- IT assets were misclassified as non-IT assets.
- Retired assets were not timely removed from the inventory system.
- Documentation of the verification of non-IT assets at remote locations, *i.e.*, remote certification, was inadequate.

Without appropriate adherence to established internal guidance, the IRS cannot ensure the complete and accurate inventory of its non-IT assets as required.⁴ Additionally, without sufficient accountability over IRS non-IT assets purchased with taxpayer funds, employees or contractors could remove property from IRS facilities for personal use or sale without timely detection.

Non-IT assets recorded in the inventory system could not be located

We conducted a physical inventory of a statistically valid stratified sample of 197 purchased non-IT assets at seven IRS facilities.⁵ We were unable to locate nine (4.6 percent) of the 197 sampled assets during our site visits. The nine assets that could not be located included projectors, sorting tables, and a high-density filer and were associated with three of the seven facilities (Brookhaven, New York; Ogden ARKA, Utah; and Martinsburg, West Virginia) we visited. Based on our sample results, we estimate 66 purchased non-IT assets recorded in the inventory system are missing.⁶

The inventory system contained inaccurate information

For non-IT assets we located as part of our sample testing, we checked inventory system data fields that are required to be validated as part of the annual inventory certification and found that data fields within the inventory system were not always accurate.⁷ We found 35 data fields associated with 33 non-IT assets that were not recorded accurately.⁸ Figure 2 shows that information recorded in the inventory system did not always match the non-IT assets we located when conducting our physical inventory reviews. For example, some assets either a) did not have an affixed barcode or had an unofficial barcode, b) had serial numbers that did not match the inventory system, c) were found in areas that did not match the asset locations documented in the inventory system, or d) had a point of contact listed in the inventory system records who was not a current IRS employee.

⁴ Treasury Directive 73-01 requires the IRS, and other Department of the Treasury bureaus, to create and maintain accurate inventory control and accountability record systems for personal property (September 28, 2001).

⁵ The stratified sample of 197 active purchased non-IT assets was selected from a population of 2,369 purchased non-IT assets listed in the inventory system for 30 IRS facilities. See Appendix I for details on our sampling methodology.

⁶ See Appendix II. The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the actual total number of assets with missing items is between nine and 171.

⁷ According to the Desk Guide, data fields in the inventory record must be correct and reflect the most current information on all assets.

⁸ Multiple errors can be associated with a single asset. For strata one through four, the standard error percentage in the sample was 1.63 percent. However, the standard error percentage for stratum five was 38.43 percent. Due to the highly skewed standard error percentage in the fifth stratum, we did not project to the entire population, as doing so would make any projection imprecise.



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Figure 2: Inaccurate Data Fields

IRS Facility	Total Errors	Barcode	Serial Number	Location	Point of Contact
New Carrollton	19	9	2	8	-
Brookhaven	6	1	4	-	1
Ogden	6	4	1	1	-
Martinsburg	2	-	-	2	-
Austin	1	-	-	-	1
Fresno	1	-	-	1	-
Ogden ARKA	-	-	-	-	-
Totals	35	14	7	12	2

Source: Analysis of the inventory system data fields associated with non-IT assets we located during site visits to seven IRS facilities.

Non-IT assets were not documented in the inventory system

In addition to our review of a statistically valid stratified sample of non-IT assets that were recorded in the inventory system, we also searched for assets that were similar to non-IT assets that are tracked in the inventory system to determine whether these similar assets were properly recorded in the inventory system. We identified 26 assets at six of the seven facilities we visited that were not recorded in the inventory system, but should have been. These assets included x-ray machines, audio visual equipment, utility vehicles, and filing equipment. These 26 assets appeared to have met the acquisition cost thresholds, but were not entered into the inventory system.⁹ According to the Desk Guide, any non-IT assets that are located without barcodes and not identified in the inventory system during the annual inventory process should be entered into the inventory system. Additionally, the Internal Revenue Manual requires all assets meeting the IRS-established threshold to be maintained in the inventory system.¹⁰

IT assets were misclassified as non-IT assets

During our site visits, we identified instances in which similar assets were not consistently classified, leading to both the FMSS and IT organizations having responsibility for the same asset type and the value of non-IT asset inventory to be overstated. As part of our physical inventory review of a statistically valid stratified sample of non-IT assets recorded in the inventory system, we verified the existence of four mail inserters. However, during our physical inventory, we noted a total of 10 mail inserters. We later learned that six of the mail inserters were classified as IT assets. FMSS and IT organization personnel discussed the inconsistency and determined that all 10 mail inserters should be considered IT assets. We then reviewed the inventory system for other mail inserters classified as non-IT assets in the inventory system. In total, the inventory system contained seven mail inserters misclassified as non-IT assets, having a total acquisition cost of \$4.3 million or 12 percent of the value of the non-IT assets listed in the inventory system.

⁹ Some non-documented assets had barcodes that were not entered into the inventory system. An asset can be barcoded before it is added to the inventory system. According to the Desk Guide, a non-IT asset meeting the acquisition cost threshold requirements should have a unique barcode number and be entered into the inventory system within 10 working days of receipt.

¹⁰ Internal Revenue Manual 1.14.4 (Apr. 30, 2018).



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The physical inventory procedures in the Desk Guide do not provide guidance to staff on how to determine if assets are properly classified. However, the Desk Guide states that the assets listed in the inventory system should be verified by a physical count and any differences reconciled. In the previous example, we believe FMSS staff should have noted that only four of the 10 mail inserters were listed as non-IT assets in the inventory system and determined there was an inconsistency in how these assets were classified. Proactively identifying similar assets during physical inventory verification would help ensure that all assets are appropriately accounted for and consistently classified.

Retired assets were not timely removed from the inventory system

In June 2018, FMSS personnel retired numerous assets with a total value of more than \$500,000; however, we were later informed that these assets were excessed between 2008 through 2015.¹¹ We analyzed inventory system records and selected a judgmental sample of assets retired from October 1, 2017, through June 30, 2019, and found that a large percentage of assets retired as lost property were associated with several facilities in Illinois.¹² We reviewed documentation the FMSS provided that indicated that 72 assets with a total value of approximately \$584,000 were potentially excessed between 2008 and 2015; however, these assets were not removed from the inventory system. FMSS personnel annually certified (in some cases for up to 10 years) that the IRS was still in possession of these assets. This discrepancy was not discovered until an employee, who had never previously conducted a non-IT asset inventory in Illinois, completed the annual inventory certification in June 2018, could not locate a large quantity of non-IT assets, and reported the assets lost as required.¹³

In this instance, several different processes intended to ensure accountability over non-IT asset inventory did not function as intended. First, according to the Desk Guide, the final disposition of excess property must be recorded in the inventory system within 10 workdays after the assets are physically removed from the IRS's possession. Therefore, if these assets were excessed between 2008 and 2015 as indicated by FMSS personnel, they should have been removed from the inventory system at that time. Second, FMSS staff should have noted during the annual certification process that non-IT assets were missing. Instead, some assets were certified as being in the IRS's possession year after year, even though that was not the case. Lastly, according to the Desk Guide, FMSS HQ P&AM staff are responsible for oversight by conducting ad hoc program reviews and monitoring the certification process in each FMSS Territory.

However, we did not observe evidence suggesting that FMSS HQ P&AM staff routinely carry out their oversight duties in a manner that reasonably ensures that the program is operating effectively or that the FMSS has accountability over non-IT assets. Instead, FMSS HQ P&AM staff stated that they are responsible for providing the FMSS's policy, processes, and guidance for overseeing the IRS's non-IT asset inventory, but the execution of the policy and processes is the

¹¹ While the IRS could not provide any excess forms or documentation to support these claims, the National Archives and Records Administration General Records Schedule, Excess Personal Property Reports state that these records can be destroyed after three years. Given the time frame when these assets were said to have been excessed, we would not expect the IRS to maintain supporting documentation for the excessing of these assets.

¹² A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population. These losses account for 72 (61 percent) of all 118 assets retired as lost from October 1, 2017, through June 30, 2019, and \$583,929 (80 percent) of the total value of \$732,857 for those assets.

¹³ These lost assets were reported to the Treasury Inspector General for Tax Administration's Office of Investigations through the Situational Awareness Management Center.



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responsibility of FMSS Territory field staff and their managers. FMSS staff also indicated that the FMSS went through a realignment in July 2016 and, prior to this, FMSS Territory staff assigned to conduct annual certifications may not have been aware of, or fully understood, their responsibility for ensuring the accuracy of the non-IT asset inventory.¹⁴

Documentation of the verification of non-IT assets at remote locations was not adequate

We also evaluated the FMSS's remote certification process and determined that the FMSS did not always maintain documentation to support that non-IT assets were remotely verified. In addition, based on supporting documentation that was available for review, we determined the process for performing remote certifications was not completed consistently.

The inventory system does not document which non-IT assets are remotely certified. Therefore, we judgmentally selected 136 purchased assets from the 12 FMSS Territories based on several factors such as distance from inventory coordinators, cost of assets, and dates of inventory certifications.¹⁵ FMSS officials confirmed that 116 of the assets we selected for review were remotely certified. According to the Desk Guide, all documentation used to complete a remote inventory certification must be maintained in the Territory inventory file as supporting documentation. FMSS officials maintained supporting documentation related to the remote inventory certification for 71 (61 percent) of 116 remotely verified assets.

Three of the 12 FMSS Territories provided no supporting documentation. When reviewing the supporting documentation provided by the remaining Territories, we observed that the process of remote certification was not conducted consistently. In some Territories, FMSS officials would provide inventory system data fields related to an asset and ask the asset point of contact to confirm whether they still had the asset in their possession. In other territories, FMSS officials would provide certain key data fields and have the asset point of contact fill in the remaining information, such as barcode, serial number, and location. Additionally, in certain instances, FMSS officials indicated that the asset was remotely certified via telephone.

Three of 12 FMSS Territories could not provide documentation to support that assets were remotely certified.

We believe the inconsistencies in remote inventory certification between FMSS Territories result from unclear language in the Desk Guide. The Desk Guide first states that the IRS user or contact point:

...is emailed and requested to verify that the asset is still in use and to provide back to the Territory Property officer, either the serial number or the barcode number of the asset.

However, the Desk Guide later states:

At a minimum, in the email request, provide the brand, model, and location of the equipment so the User/Contact can identify the equipment. If the barcode

¹⁴ During our audit, the FMSS P&AM Program Manager retired in December 2019 and a new Program Manager was assigned in January 2020. The new Program Manager did not have any knowledge of monitoring procedures that were previously implemented over this program.

¹⁵ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



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and serial number are not provided in the request for verification, the User/Contact must provide those in their response.

Therefore, the Desk Guide does not clarify if a Territory should provide the asset point of contact all key inventory system data fields and receive a positive confirmation that the asset is still in use, or if the Territories should intentionally leave certain key inventory system data fields blank for the contact to fill in as part of their response.

We believe intentionally leaving certain data fields blank ensures greater accountability over an asset during the remote inventory certification process. Requiring certain data fields to be filled in as part of the process reduces the risk of an asset point of contact automatically responding without properly verifying the asset, helping to ensure that the asset is still in IRS custody.

The Chief, FMSS, should:

Recommendation 1: Ensure that monitoring procedures are designed to reasonably assure the controls established over the management of non-IT assets are properly adhered to by FMSS staff.

Management's Response: The IRS agreed with this recommendation. The IRS will update monitoring procedures to reasonably assure controls established over the management of non-IT assets are properly adhered to by staff.

Recommendation 2: Review and update the existing Desk Guide to establish standardized procedures for remote inventory certification that ensures uniform completion and maintenance of supporting documentation.

Management's Response: The IRS agreed with this recommendation. The IRS will review the existing process, including the training provided, and update guidance to establish standardized procedures for remote inventory certifications.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to evaluate the IRS's controls over purchased non-IT asset inventory. To accomplish our objective, we:

- Determined the controls in place governing the management of non-IT assets within the IRS by reviewing applicable guidance and interviewing applicable IRS personnel.
- Assessed whether the IRS asset management process over purchased non-IT assets was sufficient to ensure accuracy of inventory system data.
- Selected a statistically valid stratified sample of 197 active purchased non-IT assets from a population of 2,369 purchased non-IT assets listed in the inventory system for 30 IRS facilities, which accounted for 95 percent of the total purchase price of non-IT assets listed in the inventory system as of July 2019. The Treasury Inspector General for Tax Administration's contracted statistician assisted us with selecting a sample. A statistically valid sample was used as we intended to project our results. We developed five strata based on the dollar value of non-IT assets at each of the 30 facilities. Strata one through four each represented an individual facility with the highest dollar amount of purchased non-IT assets. Strata five represented the remaining 26 facilities from which we randomly selected three facilities to review. We performed physical inventory testing at each of the seven IRS facilities to determine whether selected assets could be located and if key data fields in the inventory system, *e.g.*, barcode, serial number, location of asset, contact name, were accurate. While at these seven facilities, we also searched for assets that were similar to non-IT assets that are tracked in the inventory system to determine whether these similar assets were properly recorded in the inventory system.
- Selected a judgmental sample of 136 non-IT purchased assets from the inventory system that we believed FMSS officials could have verified remotely.¹ The inventory system does not identify which non-IT assets were verified remotely; however, FMSS officials confirmed that 116 of the non-IT assets we selected for review were verified remotely. We judgmentally selected assets from each of the 12 Territories based on several factors such as distance from inventory coordinators, cost of assets, and dates of inventory certifications. We used a judgmental sample because we did not intend to project our results. For 116 non-IT assets, we requested documentation to support that these assets were remotely verified.
- Selected a judgmental sample of 72 retired purchased non-IT assets from a population of 293 purchased non-IT assets that were marked as retired on the inventory system from October 1, 2017, through June 30, 2019, based on factors such as disposal code, costs, and quantity of retired assets per IRS facility.² We used a judgmental sample

¹ A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

² The judgmental sample was expanded from 35 selected retired assets to 72 retired assets located in Illinois due to documentation the IRS provided that indicated a concentrated number of assets were disposed of in one month during the 2018 annual inventory certification.



The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

because we did not intend to project our results. For the 72 retired purchased non-IT assets, we requested documentation and explanations to determine if the IRS adhered to the proper procedures for documenting the assets as retired.

Performance of This Review

This review was performed with information obtained from the FMSS HQ P&AM program and at the following IRS locations: Fresno, California; New Carrollton, Maryland; Brookhaven, New York; Austin, Texas; Ogden, Utah; and Martinsburg, West Virginia, during the period May 2019 through February 2020. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Heather Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); Troy Paterson, Director; Lindsay Steward, Audit Manager; Michael Russell, Lead Auditor; Sharon Downey, Auditor; and Nina Hill, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data from the inventory system. We evaluated the data by 1) performing electronic testing of required data fields, 2) conducting a physical inventory at selected IRS locations to determine if what was recorded in the inventory system was accurate and reliable for the purposes of managing non-IT asset inventory, and 3) testing remote certification procedures to ensure that assets remotely certified were properly documented. We determined that, while the data extract we received from the IRS was sufficiently reliable for the purposes of this audit, the testing surrounding the management of non-IT assets showed that the IRS asset management process over purchased non-IT assets was not sufficient to ensure the accuracy of inventory system data.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRS policies, procedures, and practices for administering the property and asset management program. We evaluated these controls by interviewing FMSS staff responsible for overseeing and implementing the P&AM program, testing the effectiveness of the annual inventory certification process through physical reviews of non-IT asset inventory, and analyzing documentation related to remote inventory certifications and retired assets.



Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 66 non-IT purchased assets listed in the inventory system that are potentially missing (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We conducted a physical inventory of a statistically valid stratified sample of 197 purchased non-IT assets at seven IRS facilities.¹ We were unable to locate nine of the 197 sampled assets during our site visits. Based on our sampling, the number of missing purchased non-IT assets found in the inventory system is estimated to be 66 assets.²

Type and Value of Outcome Measure:

- Reliability of Information – Potential; 26 assets that were not recorded in the inventory system, but should have been (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We conducted a physical inventory of a statistically valid stratified sample of 197 purchased non-IT assets at seven IRS facilities. During our physical inventory at the selected IRS facilities, we identified 26 assets that were not recorded in the inventory system, but should have been.

Type and Value of Outcome Measure:

- Reliability of Information – Potential; \$4.3 million of non-IT assets listed in the inventory system that are misclassified (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We identified instances in which similar assets were not consistently classified, leading to both the FMSS and IT organizations having responsibility for the same asset type. As a result, IRS officials agreed that assets valued at \$4,293,287 should have been classified as IT assets instead of non-IT assets.

¹ See Appendix I for information on our sampling methodology.

² The point estimate projection is based on a two-sided 95 percent confidence interval. We are 95 percent confident that the actual total number of assets with missing items is between nine and 171.



**The Annual Inventory Certification Process for
Non-Information Technology Assets Needs Improvement**

Appendix III

Management's Response to the Draft Report



CHIEF
FACILITIES MANAGEMENT AND
SECURITY SERVICES

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

June 18, 2020

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard L. Rodriguez Richard L. Rodriguez Digitally signed by Richard L. Rodriguez
Date: 2020.06.18 14:43:29 -0400
Chief, Facilities Management & Security Services

SUBJECT: Draft Audit Report – The Annual Inventory Certification Process
for Non-Information Technology Assets Needs Improvement
(Audit # 201910019)

Thank you for the opportunity to review and comment on the draft audit report. The timing of this audit is welcomed and appreciated as it provides insight to potential program weaknesses and recommendations for corrective actions in a program that is undergoing several major turnovers and improvements.

We agree with both of your recommendations and have already begun making progress addressing your recommendations. For example, we have assigned a Property & Asset Management (P&AM) Headquarter Program Analyst to each of the three FMSS Operations Areas. This will provide greater oversight of the P&AM Program, a very heavily regulated program, in each of the twelve FMSS territories. Two responsibilities of these P&AM Program Analysts are to 1) train/educate each territory Section Chief in their role of P&AM program oversight, and 2) establish and execute FMSS territory audit-like reviews. The audit-like reviews should reduce future errors and findings.

As stated in the report, the Information Technology (IT) assets that were tracked, although misclassified, have now been correctly classified as IT or Non-IT assets, as appropriate. FMSS collaborated with IT to discuss and analyze IT versus non-IT asset classifications, and will continue to do so in the future, to ensure asset classification is accurate.

We appreciate the continued support and assistance provided by your office. If you have any questions, please contact me at 202-317-4480, or a member of your staff may contact Kevin F. Schultz, associate director, Project Management, Facilities Management and Security Services, at 801-391-7234.

Attachment



The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

Attachment

TIGTA RECOMMENDATION #1:

The Chief, Facilities Management and Security Services (FMSS) should ensure that monitoring procedures are designed to reasonably assure the controls established over the management of non-IT assets are properly adhered to by FMSS staff.

CORRECTIVE ACTION #1:

We agree with this recommendation. By August 15, 2021, the Chief, FMSS will ensure that monitoring procedures are updated to reasonably assure the controls established over the management of non-IT assets are properly adhered to by FMSS staff.

IMPLEMENTATION DATE:

August 15, 2021

RESPONSIBLE OFFICIAL:

Chief, FMSS

CORRECTIVE ACTION MONITORING PLAN:

Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.

TIGTA RECOMMENDATION #2:

The Chief, FMSS should review and update the existing guidance to establish standardized procedures for remote inventory certification.

CORRECTIVE ACTION #2:

We agree with this recommendation. By August 15, 2021, the Chief, FMSS will review the existing process, including the existing training provided, and make appropriate updates to the existing guidance to establish standardized procedures for remote inventory certification.

IMPLEMENTATION DATE:

August 15, 2021

RESPONSIBLE OFFICIAL:

Chief, FMSS

CORRECTIVE ACTION MONITORING PLAN:

Corrective actions are entered into the Joint Audit Management Enterprise System (JAMES) and are monitored monthly through completion.



**The Annual Inventory Certification Process for
Non-Information Technology Assets Needs Improvement**

Appendix IV

Glossary of Terms

Term	Definition
Acquisition Cost	The original cost to the Government of an item as it is recorded in the financial and accounting records.
Asset Type	General description or classification of a property item in the KISAM-AM system.
Barcode	A self-contained message with information encoded in the widths of bars and spaces in a printed pattern that is easily read and printed by machine with a unique number assigned to each property asset for identification purposes.
Desk Guide	The P&AM program Desk Guide provides guidance to effectively manage all of the IRS's personal property.
Excess Property	Any non-expendable property under the control of the IRS not required for its mission needs or its responsibilities. This includes personal property determined unserviceable by the Territory property officer.
Fiscal Year	The Federal Government's accounting period, which begins on October 1 and ends on September 30, and is designated by the calendar year in which it ends.
High-Risk Assets	A unique classification given to specific assets meeting the dollar amount threshold to be included in the inventory system due to the inherent nature of their size or ease of removal or misplacement, <i>e.g.</i> , digital cameras, video cameras, or data show projectors.
Internal Revenue Manual	The primary, official source of IRS instructions to staff related to the organization, administration, and operation of the IRS.
Knowledge, Incident/Problem Service – Asset Manager	The inventory management platform used to control accountable IT and non-IT non-expendable personal property.
Knowledge, Incident/Problem Service – Asset Manager Coordinator	The FMSS individual in the respective Territory assigned responsibilities for maintaining asset records in the inventory system. This may be the same individual(s) as the Territory property officer.
Location	A field in the inventory system for a floor, room, column, or workstation number within an IRS office where an asset physically resides.



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Non-Information Technology	A unique classification within the KISAM-AM system used to identify assets other than IT equipment.
Personal Property	All tangible property other than real estate. This generally includes movable items not permanently attached or affixed to the real estate. In determining whether an item is personal or real property, the manner in which it is affixed to the real property and the intention of the owner with regard to the removal at the lease expiration period is considered.
Serial Number	A unique combination of alpha characters and numeric digits affixed to an asset.
Territory Property Officer	A designated individual or coordinator within each FMSS Territory who oversees the entire Property Program and is responsible for accountability of property within their agency or Territory. The Territory property officer may delegate many of the analysis, inventory, or investigative responsibilities in property management to FMSS Territory staff or KISAM-AM system coordinators.



The Annual Inventory Certification Process for Non-Information Technology Assets Needs Improvement

Appendix V

Abbreviations

FMSS	Facilities Management and Security Services
HQ	Headquarters
IRS	Internal Revenue Service
IT	Information Technology
KISAM-AM	Knowledge, Incident/Problem Service Asset Management – Asset Manager
P&AM	Property and Asset Management