# State of North Carolina

Office of the State Auditor

Beth A. Wood, CPA

# North Carolina Department of Public Safety

## Division of Information Technology

Raleigh, North Carolina

Investigative Report

May 2018

NC OSA

The Taxpayers' Watchdog

# EXECUTIVE SUMMARY

## PURPOSE

The Office of the State Auditor received an allegation through its Hotline concerning the Department of Public Safety (Department), Division of Information Technology's (IT Division) inability to locate computers.

## BACKGROUND

The overall mission of the Department of Public Safety is to improve the quality of life for North Carolinians by reducing crime and enhancing public safety.

The IT Division provides information technology tools to help the Department's employees. These tools address problems and needs at the working level, offer logistical support to the Department, and provide decision support to management.

## FINDING

- $3.5 Million in Computers Distributed Without Reasonable Precautions to Prevent Loss or Theft

## RECOMMENDATIONS

Department management should enforce its Fixed Assets Policy and ensure that:

- Asset tags are attached to all fixed assets
- Computers and related equipment are recorded in the inventory module within the North Carolina Accounting System (NCAS)
- Inventory counts of all IT fixed assets are performed annually

STATE OF NORTH CAROLINA
Office of the State Auditor

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# AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Eric Hooks, Secretary, North Carolina Department of Public Safety

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c)(16)*, we have completed an investigation of allegations concerning the North Carolina Department of Public Safety. The results of our investigation, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with *G.S. §147-64.6(c)(12)*. We appreciate the cooperation received from the management and employees of the Department of Public Safety during our investigation.

Respectfully submitted,

Beth A. Wood

Beth A. Wood, CPA
State Auditor

**Beth A. Wood, CPA**
**State Auditor**

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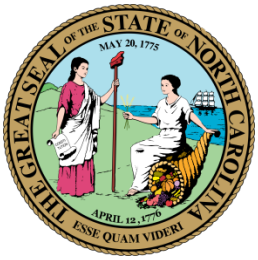
Article 5A, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.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# BACKGROUND

The Office of the State Auditor initiated an investigation in response to a Hotline complaint concerning the Department of Public Safety (Department), Division of Information Technology's (IT Division) inability to locate computers.

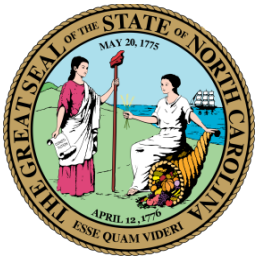
Our investigation of this allegation included the following procedures:

- Review of the Department's Fixed Asset Policy
- Examination and analysis of available documentation related to purchase orders, receiving reports, and invoices
- Interviews with personnel from the IT Division within the Department

This report presents the results of the investigation. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c) (16)*.

The Department's overall mission is to improve the quality of life for North Carolinians by reducing crime and enhancing public safety.

The IT Division provides information technology tools to help correction employees manage offenders. These tools address problems and needs at the working level, offer logistical support to the Department, and provide decision support to management.




# FINDING AND RECOMMENDATIONS

## $3.5 MILLION IN COMPUTERS DISTRIBUTED WITHOUT REASONABLE PRECAUTIONS TO PREVENT LOSS OR THEFT

The Department of Public Safety (Department) distributed $3.5 million worth of computers without taking reasonable precautions to account for them, which increased the risk of loss and theft. The failure to properly account for the computers resulted from management override of Department policy.

### Computers Distributed Without Proper Accountability

Between June 2014 and October 2015, the Department purchased and received 8,638 computers valued at $3,539,618.

| Computer Type | Cost Incurred | Quantity Received |
|---|---|---|
| Desktops | $2,527,587 | 7,036 |
| Laptops | $1,012,031 | 1,602 |
| Total | $3,539,618 | 8,638 |

The computers were shipped to a Raleigh warehouse, and the Department distributed the computers to users.

However, the Department did not perform the procedures necessary to properly track and account for the computers. Specifically, the Department's Information Technology Division (IT Division) did not:

- Attach inventory tags to the computers
- Record the computers in the inventory module within the North Carolina Accounting System (NCAS)
- Perform inventory counts of information technology fixed assets (servers, desktops, laptops, etc.) after July 2012

According to the IT Division, it began efforts to locate the computers and account for them in February 2016. The IT Division:

- Contacted Department offices throughout the State in an effort to determine if any of the computers were there
- Relied on help desk tickets submitted by users containing information such as model number, serial number, etc. to locate the computers
- Relied on individuals who received the computers to contact the IT Division and provide the asset's location

If the computer's location was identified, asset tags were attached to the units (if on-site) or mailed to the IT personnel at the remote locations to attach to the computers.

However, these methods were not always successful. Some users did not volunteer information, locations did not respond to requests, or users did not experience problems with the computer that required IT Division attention.

Investigators could not inspect the computers to determine exactly how many did not have asset tags because the IT Division did not know where all 8,638 computers were located.

However, a comparison of fixed asset information within the NCAS Fixed Asset Module to the list of computers received in June 2014 and October 2015 showed that 1,924 (22%) computers were unaccounted[1] for two-and-a-half years later.

| Computer Type | Amount not recorded in NCAS | Quantity not recorded in NCAS |
|---|---|---|
| Desktops | $689,395 | 1,912 |
| Laptops | $7,581 | 12 |
| Total | $696,976 | 1,924 |

Investigators identified that 46 of the computers (valued at $19,097) were already sent to State Surplus Property for disposal.

**Resulted in Increased Risk of Loss and Theft**

Because the Department distributed computers without tagging, recording, or inventorying them, there was an increased risk that loss or theft could occur and not be detected.

Computers can easily be converted to personal use, and failure to take reasonable precautions against such an occurrence increases the risk that taxpayer dollars used to pay for state computers could be wasted.

**Caused by Management Override of Department Policy**

Although IT Division personnel were aware of the Department policy that required computers to be tagged, recorded in the inventory module within NCAS, and included within the annual physical inventory, IT Division personnel overrode the policy for various reasons.

IT Division personnel cited the unusually large shipment as the primary reason for the decision not to tag and record the inventory in the inventory module within NCAS. IT Division personnel explained that the large shipment was necessary to replace computers with outdated operating systems. The IT Director stated, “The volume we were dealing with is something this agency has never done before.” The Chief Information Officer (CIO) said, “We knew at the time that we were taking on some risk,” and “The administrative clean up...became an afterthought.”

The CIO noted asset tags were not attached to inventory in an effort to send the inventory out to users as quickly as possible. The IT Director stated IT Technicians, from various locations, would request equipment from the IT Division. IT Division personnel would quickly

[1] For purposes of this report, we define the term “unaccounted” as items which were not tagged, counted, and entered into NCAS by IT Division personnel.

provide the IT Technicians with the equipment, without ensuring the computers were properly tagged.

When asked why, after two-and-a-half years, some items had not been entered into NCAS, the IT Director stated, "Unfortunately, we didn't realize this until we had our most recent internal audit." The IT Director also cited a lack of internal communication as a cause.

Additional management override resulted in the failure to conduct physical inventories. When asked why the IT Division did not conduct annual physical inventory counts, the CIO stated, "I didn't commission that done." The CIO's failure to enforce physical inventories resulted in no performance of a physical inventory of IT fixed assets for more than five years.

**Department Policy Required Proper Accountability**

The Department's Fixed Assets Policy required Department personnel to take reasonable precautions to account for computers and prevent their loss or theft. Specifically, the policy required that:

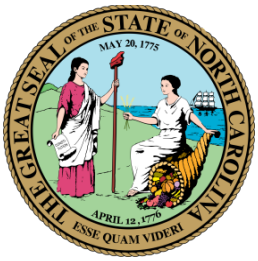
- "Items… defined as… inventoried assets[2], listed in the NCAS Fixed Asset Module shall receive an Asset Identification Label."
- "Inventoried assets are recorded in NCAS..."
- "Each individual location shall conduct a physical inventory of all fixed assets at least once annually around April of each year, which shall correspond to the receipt of the Annual Fixed Asset Inventory Report sent from the Controller's Office.**"**

**RECOMMENDATIONS**

Department management should enforce its Fixed Assets Policy and ensure that:

- Asset tags are attached to all fixed assets
- Computers and related equipment are recorded in the inventory module within NCAS
- Inventory counts of all IT fixed assets are performed annually

[2] The Department's Fixed Assets Policy defines inventoried assets as assets valued at $1,000 to $4,999, except for computers which shall be added to NCAS as inventoried items regardless of cost.




# RESPONSE FROM THE DEPARTMENT OF PUBLIC SAFETY

**North Carolina Department of Public Safety**
*Prevent. Protect. Prepare.*

Roy Cooper, Governor

Erik A. Hooks, Secretary

May 1, 2018

The Honorable Beth A. Wood, CPA
State Auditor
North Carolina Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27600-0600

Re: Report of investigation dated April 2018 pertaining to the Information Technology Section's failure to properly account for computers before distributing them to end-users

Dear Ms. Wood:

I am in receipt of your letter dated April 18, 2018 and accompanying Investigative Report. The report states that your office initiated an investigation in response to a Hotline complaint concerning the Department of Public Safety, Information Technology Section's inability to locate computers. The Department accepts the finding from your report and has already begun to put your recommendations into practice. Attached you will find our response and the corrective action plan outlining the improved internal controls we have implemented.

The Department appreciates the opportunity to respond to this report, as well as the courtesy and professionalism with which your staff conducted this investigation.

Sincerely,

Erik A. Hooks
Secretary

Cc: Bob Brinson, Chief Information Officer
Casandra Hoekstra, Chief Deputy Secretary for Administration
Pamela Cashwell, Chief Deputy Secretary for Professional Standards, Policy & Planning
Jane Gilchrist, General Counsel

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**Finding**
The Department's IT Section distributed $3.5 million worth of computers without taking reasonable precautions to account for them, which increased the risk of loss and theft.

**Response**
During 2014 and 2015, the Department of Public Safety (Department) purchased 7,036 desktops and 1,602 laptops as part of the statewide project to replace all computers using Windows XP. The Department's Information Technology Section (IT Section) was under a tight deadline to get the machines installed and had to hire 36 temporary technicians to complete the project on time.

When the new computers were received by the department, they were entered into the IT Section's cost center and installed across the state. After the installation, the IT Section began the process of assigning the machines out to the receiving cost centers representing the organizational unit or facility that received the machine.

Although the IT Section had internal tracking mechanisms in place that allowed IT Section staff to "see" the new machines on the network, the IT Section did not at that time ensure the machines were entered into the North Carolina Accounting System (NCAS). That error has since been addressed.

All of the machines have been recorded in NCAS, though not all have been assigned to the appropriate receiving cost center. Fixed asset tags have been created for all machines and have been sent out to the responsible cost centers, where identified.

Presently, there are 188 desktops and 27 laptops remaining in the IT Section's cost center, while staff conducts a walk-through inventory of all facilities in order to locate and properly assign these remaining machines. The inventory will close on April 30, 2018. Any machines not accounted for will be recorded as missing in NCAS, but efforts to locate those machines will continue.

**Recommendations**
Department Management should enforce its Fixed Assets policy and ensure that:

- Asset tags are attached to all fixed assets
- Computers and related equipment are recorded in the inventory module within NCAS
- Inventory controls of all fixed assets are performed annually

**Response**
The Department has implemented the following improvements, creating a chain of control from initial purchase order, to receiving, and then to physical transfer of the machines to each permanent Department facility cost center:

- Future bulk buys of computers will be brought into a central clearing account and will not be commingled with IT staff equipment.
- The IT Section will designate two staff members as the bulk buy coordinators who will oversee the process from start to finish.
- The IT Section will also designate a staff member as the fixed asset/inventory management coordinator responsible for entering the computers into the IT Section's MIS Equipment Management System (METS) and NCAS contemporaneously at the outset of the process, before machines are distributed.

- The vendor will deliver all machines to the Department's Central Warehouse in Garner.
- The bulk buy coordinators will accept delivery, review the shipping list, scan the pallets, and create an Excel-based receiving document. The coordinators will compare the receiving document and shipping list to identify any discrepancies. If there are discrepancies, the coordinators will inform IT Section management and work with the Department's Purchasing and Logistics Section to resolve them.
- Once any discrepancies are resolved, the bulk buy coordinators will forward the receiving document to the fixed asset/inventory management coordinator who will enter the equipment into METS and NCAS.
- After the equipment has been entered into METS and NCAS, the bulk buy coordinators will work with each facility scheduled to receive equipment and make arrangements for the facility to pick up the equipment from the Central Warehouse and sign the DC-272 form (Equipment Transfer Form). The signed DC-272 will then go to the fixed asset/inventory management coordinator who will forward the information to the Accounting section of the Department Controller's Office. Accounting will assign asset tags and transfer the equipment to the receiving facility's cost center.
- As the DC-272 transfer forms are processed and the equipment is transferred to the appropriate cost center, the clearing account will diminish. After all machines have been distributed and assigned, the clearing account will zero.

In addition, the IT Section has developed a reporting schedule for its network management tool, Microsoft's System Center Configuration Manager (SCCM), which will "know" what assets it should expect to "see" on the network and produce a continuous aging report. If an asset disappears from the network view for 60 days, the IT Section will get an alert and then contact the asset owner to request that the device be connected to the network. The matter will be escalated to Department management in the event of noncompliance. This process will operate as continuous inventory confirmation, and will also improve security by assuring that machines get patches on a regular basis.

With regard to servers and other networking equipment, the IT Section is working with the Controller's staff to better record complex server assemblies, using NCAS fixed asset component codes if needed, rather than recording high cost parts as independent assets. The IT Section can then use software tools to inventory the server rather than shut down the system to open the server, disrupting service and possibly damaging components or causing an outage.

# ORDERING INFORMATION

**COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:**

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For additional information contact:
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This investigation required 224 hours at an approximate cost of $23,072.