



F L O R I D A
INTERNATIONAL
UNIVERSITY

**OFFICE OF
INTERNAL AUDIT**

**University Asset Management
Accounting Observations**

Report No. 09/10-MAS-01

December 17, 2009



DATE: December 17, 2009

TO: Kenneth A. Jessell, CFO & Sr. V.P., Finance and Administration
Charlene Blevens, Interim Controller

FROM: Allen Vann, Audit Director

SUBJECT: University Asset Management Accounting Observations
Report No. 09/10-MAS-01

A handwritten signature in blue ink that reads "Allen Vann".

The Office of Internal Audit (OIA) has completed several audits and investigations that highlight a number of issues relating to University personal property accounting that requires the attention of the Controller's Office.

- With regard to surplus media, there is a need to strengthen current procedures so as to ensure that sensitive data are properly removed to avoid a data breach. Also, before donating surplus property to nonprofit organizations better communication to the University community might identify internal needs. When the decision is made to donate the property, the Asset Management group, within the Controller's Office needs to ensure that only bona-fide nonprofit organizations are allowed to participate.
- There needs to be greater accountability over attractive property items that fall under the \$1,000 property recording threshold.
- Inventory records need to more accurately reflect personal property locations.

The Controller's Office has implemented, or is in the process of implementing, all of the ten recommendations contained in this report. Details follow:

1. Surplus Computers

As part of a recommendation from our **IT** Security Controls over the Surplus Property Process audit, in April 2009, the Division of **IT** hired an individual to sanitize all media surplused to Asset Management. The Division of **IT** has estimated that on an annual basis the University surpluses approximately 3,000 computers, not to mention other media equipment.

Based on an incident reported to us, we conducted a review into how surplus computers are handled. We found that an Asset Management warehouse employee did not follow procedures with regard to three notebook computers that had not been sanitized by the University's IT Media Sanitization Specialist.

Four computers had been surplused by the Administrative Software Unit (ASU), the unit responsible for the recent Panther Soft upgrade, per a "Request for Surplus/Pick-Up of Equipment" form. Sometime between September 25th and 30th of 2009 the Asset Management warehouse employee noticed the four computers that had been placed by the entrance to the ASU portables for collection by the IT Department's Media Sanitization Specialist for sanitization.

On October 2, 2009, the University's Media Sanitization Specialist went to ASU to complete the requested sanitization expecting to find the four computers but found that the three notebooks were missing. Since the missing notebook computers were not sanitized, it was feared that a potential security breach had occurred. An investigation was initiated.

The warehouse employee's statements were inconsistent as to his recollection of whether a media sanitization sticker was present on the notebooks when he took them from ASU. Subsequently, the warehouse employee admitted that he did not follow required procedures.

Our investigation revealed that the notebook computers had already been given to a nonprofit organization. Upon being contacted, the notebook computers were returned for review. After testing was performed on the notebooks, the Information Technology Security Office determined that they did not contain "personal information." Consequently, a data breach as defined under the Florida Data Breach Statute, 817.5681(5) had not occurred.

During our review we determined that:

1. The University did not provide effective communication to the University community detailing the need for media sanitization to prevent employees from exposing personal information.
2. The "Request for Surplus/Pick-Up of Equipment" form references a Media Sanitization policy that does not exist.
3. The Manual is outdated as it relates to Media Sanitization.
4. Asset Management was not aware of the IT Security Incident Communication Procedures.

Recommendations

The Controller's Office should:

- 1.1 Work with the Division of IT to provide effective communication to the University community (University-Wide email, website instructions, etc.) regarding the disposition of surplus computers and related media.**

Management Response: The Division of IT reminded the University's Faculty and Staff of the policy regarding the disposal or transfer of computer storage devices on November 5, 2009.

- 1.2 Change or update the "Request for Surplus/Pick-Up of Equipment" form to accurately reflect the referenced Media Sanitization guidelines.**

Management Response: The "Request for Surplus/Pick-Up of Equipment" form has been updated to reflect the Media Sanitization Guidelines. The updated form can be viewed on the Controller's website.

- 1.3 Ensure that the Asset Management Manual is updated to include the current procedures involving data media.**

Management Response: The Asset Management Manual has been updated to include the current procedures involving data media. The updated manual can be viewed on the Controller's website.

- 1.4 Ensure that Asset Management employees understand the Media Sanitization procedures and receive training on reporting data breaches.**

Management Response: Procedures related to Media Sanitization have been reviewed with Asset Management employees.

2. Donation of Surplus Property

During our investigation of the potential data breach, we noted that a particular organization regularly visited the surplus warehouse to acquire property items using its nonprofit status. We subsequently learned that Asset Management had recently taken action to disallow the organization from continuing to obtain property items. In August 2009 Asset Management noted that the entity had been an inactive nonprofit corporation with the Florida Division of Corporations

since September 2007 and had no evidence of having a determination letter from the Internal Revenue Service (IRS) as a charitable organization. Florida Statute (F.S.) 273 requires the entity to qualify under IRS section 501.

The entity in question had acquired a total of 164 property items during five visits to the surplus warehouse from April through July 2009. Following the notification by the University of the disallowance of any future donation to the nonprofit entity, on July 20, 2009, the owner incorporated a second nonprofit entity with the same mission as the original inactive nonprofit entity. Our investigation also found that in August 2009 the entity owner had numerous other active corporations some of which appeared to be in the computer business by the names of: *Sale Your Laptop.com, Inc.; Sell Your Laptop.biz, Inc.; and Advance Computers and Electronics Recycling, Inc.*

We reviewed 23 recent donations and related Donation Acceptance forms from April through October 2009. An examination of the forms revealed that in one instance the supporting documentation did not relate to the entity picking up the items. This was considered a clerical error. There were two instances in which an outdated review of the Florida Division of Corporations' website was used and one instance in which the support was dated one day after the items were picked up. In addition, the IRS determination letters reviewed and used as support by Asset Management were in many cases preliminary determinations whose status had long expired.

According to F.S. Chapter 273.055(3)(b): "Custodians may dispose of property certified as surplus by selling or donating the property to any private nonprofit agency." Private nonprofit agency is defined in F.S. Chapter 273.01 as a nonprofit charitable organization which has been held to be tax-exempt under the provisions of section 501 of the Internal Revenue Code of 1954, and which has as its principal mission: (a) public health and welfare; (b) education; (c) environmental restoration and conservation; (d) civil and human rights; or (e) the relief of human suffering and poverty.

A review of Asset Management's current procedures found that:

1. There was no distinction being made as to the entity's private or public classification or the mission of the nonprofit entity to which items were being donated. In many cases donations were being provided to religious organizations which were not permitted under the Statute.
2. Asset Management does not question the entity's need for unusually large quantities of items.

3. No consideration is given to selling these items to the nonprofits which is allowable by the Statute.
4. There is no means by which the University community, the primary intended user of these items, is informed of the availability of these items.

Recommendations

The Controller's Office should:

- 2.1 Ensure that Asset Management document that only bona-fide nonprofit agencies are permitted to obtain surplus inventory from the University's warehouse and consider requiring nonprofit agencies to certify their compliance with state statutes.**

Management Response: A Certification of Private Nonprofit Agency form has been created. A completed form will be a part of the requirements for all future donation requests. Additional steps will be taken when reviewing the status of the requestor to ensure that the requestors are bona-fide nonprofit agencies.

- 2.2 Establish better communications with the University community concerning available surplus property and evaluate whether it may be possible to sell surplus property no longer needed as opposed to donating the property.**

Management Response: An announcement has been created to notify the University community about equipment stored in the Surplus Warehouse. The announcement will advertise in the University Announcements weekly starting in January 2010.

3. Attractive Property Items

While in the process of performing an investigation into the misuse of University grant funds, our procedures identified a potential weakness in the University's control over "attractive property" items. Current University procedures require the tagging of accountable property, defined as property with a value of \$1,000 or more. Property valued under that threshold does not have to be tracked by Asset Management. Within the non-tagged property classification are items known as attractive property.

Asset Management's Manual defines attractive property as "property that has the characteristics of accountable property, but is less than \$1,000 in value, and includes VCRs, cameras, printers, monitors, etc., which by their nature are

physically small in size and subject to conversion to personal use. Although such property may not be tagged or inventoried annually, departments should make every effort to safeguard this property.” In addition, the Manual states that “to maintain adequate property insurance coverage, each department must keep their own inventory list for items valued less than \$1,000. This list is submitted yearly to the Office of Environmental Health & Safety [EHS].”

The Property Manual states the responsibilities of the Accountable Officer as, “Has the custodial accountability for all University property assigned to the department.” It does not distinguish between tagged and untagged property. During our investigation, we noted that the Accountable Officer did not maintain such a list. According to EHS personnel, although it is a requirement that departments provide their office with such a list yearly, no one at the University is complying.

As a result, during our investigation we were unable to track any items under \$1,000, including a list of attractive property items that had been allegedly taken off-campus for personal use. Such attractive property items present not only a valuable resource for the University but a risk if it were to contain sensitive data.

One option that might be explored is to enforce the use of the Off-Campus form by accountable officers when non-tagable University attractive property, i.e., desktops, laptops, and notebooks, is removed from campus. Although the current Manual requires the use of the Off-Campus form when “property” is to be removed from Campus, the University is only applying it to accountable property.

Recommendation

3.1 The Controller’s Office should re-evaluate its current policies and procedures regarding “attractive” property items in light of the University’s actual practices.

Management Response: An “Attractive Property Inventory” form has been created. Notification will go out to the University Community reminding them of the requirements to track these items.

4. Asset Tracking

An audit trail for surplus media and related equipment that may contain sensitive information is essential in providing a means to help accomplish several security-related objectives, including accountability, reconstruction of events (actions that happened to a computer system and who had custody at the time), and compliance with specific laws and internal policies and/or procedures.

In the process of reviewing the whereabouts of the three missing notebooks we reviewed the audit trail and asset tracking process for the Media Sanitization Specialist and Asset Management. We received a selected list of items the Media Sanitization Specialist had cleansed and compared them to items that had been received by Asset Management. After reviewing the disposition of all 42 items from the list, we found 4 items without the required "Request for Surplus/Pick-Up" form, and 10 items listed as being in the surplus warehouse, which we were unable to physically locate. In addition, we found another 28 items whose location per the property master file was listed as the surplus warehouse, but which we subsequently learned were located at other campus units. While detailed transaction records reflected their actual location, the master inventory was not updated.

Recommendations

The Controller's Office should ensure that Asset Management:

- 4.1 Account for all "Request for Surplus/Pick-Up" forms for inventory items which have been entrusted to them.**

Management Response: Procedures related to "Request for Surplus/Pick-Up" forms have been reviewed with Asset Management employees. The review included process for receiving paperwork as well as submitting paperwork to proper personnel for data entry.

- 4.2 Secure and account for all items in their possession.**

Management Response: Procedures related to securing and accounting for all equipment has been reviewed with Asset Management employees.

- 4.3 Timely record an item's physical location change in the master inventory file.**

Management Response: Procedures related to recording changes in physical locations timely have been reviewed with Asset Management employees.

PRIOR AUDIT RECOMMENDATIONS

In addition to the observations noted above, we reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to asset management accounting to determine whether management had effectively addressed prior audit concerns.

On February 20, 2009, our Office issued an audit of "IT Security over the Surplus Property Process," Report No. 08/09-04. In reviewing the recommendations issued therein and subsequent follow-ups with management, we noted that although management had previously reported certain recommendations as having been implemented, our current observations suggest otherwise.

Previous Recommendations	Current Observations
Adopt official media sanitization policy and/or procedures and disseminate it to the University community.	While good policies and procedures were developed, they should have been more effectively communicated to the University community.
Property Control should develop written procedures explaining the sanitization process and should include this information in their manual.	In response to our original recommendation, management stated that they posted procedures on the University's Procedure library maintained by the FIU Compliance Office. However, our current review indicated that this was not the case. As noted in our current observations, the media sanitization procedures were not previously included in the property manual.
Property Control should develop secure procedures to ensure that all surplus IT assets including non-tagged items are properly secured.	Our current review indicated that Asset Management could not locate 10 items presumably in the surplus warehouse.
Property Control should protect all surplus property in the warehouse.	Based on our current observations it was apparent that Asset Management has not been securing and accounting for all items in their possession.

C: Albert Maury, Chair, and Members of the Finance and Audit Committee
Mark Rosenberg, University President
Javier Marques, Chief of Staff, Office of the President