



**OFFICE OF THE INSPECTOR GENERAL
LAUREL, MARYLAND**

**CONTROLLED ASSETS COMPLIANCE
AUDIT**

FINANCE DEPARTMENT



OIG PROJECT NUMBER 23-MAA-01

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OG #20221227-02214



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THRU: JON T. RYMER, INSPECTOR GENERAL
OFFICE OF THE INSPECTOR GENERAL 

FROM: DANA E. WHITING, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT
OFFICE OF THE INSPECTOR GENERAL 

DATE: DECEMBER 20, 2023

SUBJECT: CONTROLLED ASSETS COMPLIANCE AUDIT

We have performed an audit of Controlled Assets. The detailed report is attached for your review. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards (GAGAS)*. We have already discussed with management issues of concern and their action plans are included in this report.

We appreciate the assistance provided by management and other personnel. We hope the information and recommendations presented in our report are helpful.

Attachment

cc: Chief of Staff (C. Knight-Lee)
Chief Financial Officer (M.T. Musara)
Deputy General Manager Mission Support (J. Beach)
Performance & Accountability Director (R. Maloney)
General Services Director (A. Roshdieh)
Budget Division Manager (L. Carolina-Powell)

EXECUTIVE SUMMARY



Why The OIG Did This Audit

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year (FY) 2023 Risk-Based Work Plan and the authority granted to the OIG pursuant to Public Utilities Article, § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted an audit of the WSSC's Controlled Assets. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards.

WSSC makes substantial investments towards the acquisition of various capital moveable assets to support or enhance its numerous programs and activities. In keeping with the best practices of maintaining appropriate systems to protect against loss or misuse, the capital asset management and accounting functions for WSSC are handled centrally by the Accounting Division in the Finance Department. WSSC developed policies, procedures, and programs to safeguard and account for these capital moveable assets.

On June 30, 2020, WSSC's new Capital Moveable Assets Program was approved by the WSSC General Manager/CEO, primarily to (1) update terminology from "moveable assets" to "capital moveable assets," (2) increase the capitalization threshold, (3) provide guidance to Department Directors on how to manage all assets, including those under \$10,000 – now called "controlled" assets, and (4) provide [guidance on] how losses, thefts, or damage to assets should be reported.

Strategic Alignment

This report addresses WSSC's Priority: Spend Customer Dollars Wisely.

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CONTROLLED ASSETS PROGRAM WARRANTS SOME IMPROVEMENTS

What the OIG Found

The audit's objective is to provide WSSC management with an independent assessment of whether it adhered to Chapter 5.200.020, WSSC Manual of Standard Procedures, WSSC Water Capital Moveable Assets Procedure Manual (July 2020), and WSSC Water Inventory Control Guidelines - Controlled Assets (July 1, 2020). The audit covered information and activities related to WSSC's controlled assets included in the Capital Moveable Assets program for the period between July 1, 2021, to June 30, 2022.

During this audit, the evidence disclosed that WSSC's Controlled Assets Program follows WSSC's Manual of Standard Operating Procedure Chapter 5.200.020, WSSC Water's Capital Moveable Assets Procedure Manual, and WSSC Water Inventory Control Guidelines. However, the audit disclosed the management of WSSC's Controlled Assets Program warrants improvement in the areas listed below:

- Controlled assets are not secured nor tracked; and
- All departments are not conducting annual inventories and audits.

The OIG presented the following recommendations to WSSC's management to enhance its policies and procedures:

- Secure and Track all Controlled Assets with Sensitive Data; and,
- Conduct Annual Inventories and Periodic Audits.

WSSC management has addressed each of the OIG's recommendations, and where applicable, presented operational improvements or provided corrective action plans with anticipated due dates.

OIG accepts management's response and will track the status of management's remediation plan.



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BACKGROUND

In accordance with the Washington Suburban Sanitary Commission's (WSSC) Office of the Inspector General's (OIG) Fiscal Year (FY) 2023 Risk-Based Work Plan and the authority granted to the OIG pursuant to Public Utilities Article, § 17-605 (a)(6) of the Annotated Code of Maryland, the OIG conducted an audit of the WSSC's Controlled Assets. The OIG conducted the audit in accordance with the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards (GAGAS)*.¹

WSSC makes substantial investments towards the acquisition of various capital moveable assets to support or enhance its numerous programs and activities.² In keeping with the best practices of maintaining appropriate systems to protect against loss or misuse, the capital asset management and accounting functions for WSSC are handled centrally by the Accounting Division in the Finance Department.³ WSSC developed policies, procedures, and programs to safeguard and account for these capital moveable assets.⁴

On June 30, 2020, WSSC's new Capital Moveable Assets Program was approved by the WSSC General Manager/CEO, primarily to (1) update terminology from "moveable assets" to "capital moveable assets," (2) increase the capitalization threshold, (3) provide guidance to Department Directors on how to manage all assets, including those under \$10,000 – now called "controlled" assets, and (4) provide [guidance on] how losses, thefts, or damage to assets should be reported.⁵ WSSC also developed the *WSSC Water Capital Moveable Assets Procedure Manual (Manual)* and the *Inventory Control Guidelines (Guidelines)* in July 2020, to assist the WSSC staff in understanding the requirements and procedures for managing, accounting, and preserving the capital moveable assets.

Capital Moveable Assets are defined as business property items, or improvements to business property items, with a unit cost of \$10,000 or more and a useful life of one year or longer.⁶ Effective July 1, 2020, the dollar threshold for capital moveable assets increased from \$500 to \$10,000. The primary management of those assets remained with the WSSC Finance Department.

Controlled Assets are defined as business property items with a purchase price of less than \$10,000 that should be monitored due to their sensitive, portable, or theft-prone nature.⁷

¹ In March 2023, an independent external peer review was conducted of the OIG in accordance with GAGAS, and a satisfactory rating was assessed.

² See WSSC Water Capital Moveable Assets Procedure Manual (July 2020); see also WSSC Water Inventory Control Guidelines (Controlled Assets) (July 1, 2020).

³ See GAO Executive Guide: Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property (GAO-02-447G) (March 2002).

⁴ See WSSC Manual of Standard Procedures (SP), § 5.200.50 (requiring the Finance Department to develop capital moveable assets procedures).

⁵ See WSSC, Capital Moveable and Controlled Assets Information, <http://wsscconnect.wssc.ad.root/> (Last visited July 12, 2023); see Manual, § 1(D).

⁶ See WSSC SP, § 5.200.020 (c)(1); see also Manual, § 2(A).

⁷ See WSSC SP, § 5.200.020 (f)(1); see also Manual, §§ 2(A) and (C); WSSC Guidelines, § 2(A).

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Primary responsibility for tracking and maintaining controlled assets was transferred to the respective WSSC departments.

OBJECTIVE

The objective of the audit is to provide WSSC management with an independent assessment of whether it adhered to all related WSSC policies and procedures. Specifically, the auditors evaluated WSSC's compliance with the following:

- Chapter 5.200.020, WSSC Manual of Standard Procedures;
- WSSC Water Capital Moveable Assets Procedure Manual (July 2020); and
- WSSC Water Inventory Control Guidelines - Controlled Assets (July 1, 2020).

SCOPE AND METHODOLOGY

The OIG's scope included information and activities related to WSSC's controlled assets included in the Capital Moveable Assets program (Program) for the period between July 1, 2021, to June 30, 2022. To accomplish the audit objective, the OIG performed the following tasks:

- Reviewed applicable laws, WSSC policies, procedures, and guidelines to determine applicable criteria for the audit;
- Interviewed Directors, Officers, Controlled Assets Coordinators, Finance staff, and other management responsible for the changes to the Controlled Assets Program to obtain information and an understanding of associated processes;
- Extracted a sample and completed an analysis of the controlled assets purchased for the fiscal year under review;
- Verified and analyzed controlled assets inventory at the Seneca Wastewater Treatment Plant, Anacostia Depot, Lyttonsville Depot, Temple Hills Depot, Gaithersburg Depot, the Support Center (formerly RGH Building), and the Consolidated Lab; and
- Verified the existence of controlled assets purchased by various teams throughout the Commission.

GAGAS requires the OIG to plan and perform the audit, obtain sufficient, appropriate evidence, and provide a reasonable basis for our findings and conclusions based on the audit objectives. Accordingly, the evidence obtained provides a reasonable basis for our findings and conclusion based on the scope and objective.

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CONCLUSION

Overall WSSC's Controlled Assets Program follows WSSC's Manual of Standard Operating Procedure Chapter 5.200.020, WSSC Water's Capital Moveable Assets Procedure Manual, and WSSC Water Inventory Control Guidelines. However, the audit disclosed the management of WSSC's Controlled Assets Program warrants improvement in the areas listed below:

1. Controlled assets are not secured nor tracked; and
2. All departments are not conducting annual inventories and audits.

The OIG commends the Utility Services Department (USD) for successfully implementing supplemental internal operating procedures (IOP) titled "Controlled Assets" to track and establish accountability for its controlled assets. The USD's IOP describes the criteria for tagging, tracking, and accessing controlled assets. The USD's IOP also includes requirements for performing annual inventory reconciliations and establishes the responsibilities of USD managers to manage controlled assets and the process for certifying controlled assets inventory.

The OIG would also like to commend the Information Technology (IT) Team for adopting supplemental procedures to safeguard WSSC's controlled assets. IT has embedded software that assists with restricting access to and removing sensitive data from WSSC's computer equipment. Further, a tracking system is deployed to assist IT with locating lost or unreturned computer equipment and tracking access to WSSC's network.

We appreciate the Information Technology Team, General Services, Utility Services, Finance, and Engineering & Construction Departments, Police & Homeland Security Division, and other WSSC personnel for their timely responses and cooperative support throughout the audit.

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FINDINGS, MANAGEMENT RESPONSES AND ACTION PLANS

Finding 1: Controlled Assets are not Secured nor Tracked

Risk Rating: HIGH

According to section 2(B) of the Inventory Control Guidelines, each department is required to (1) secure and track controlled assets, and (2) develop a system to do so. Departments should track controlled assets with a purchase price of less than \$10,000 that are sensitive, portable, or prone to theft. Division Managers will assign a Controlled Asset Coordinator, who is responsible for monitoring, transferring, and disposing of controlled assets in accordance with the guidelines.⁸

During our review of inventory records and a walk-through of eight (8) WSSC facilities, we observed IT-related controlled assets (i.e., monitors, CPUs, motherboards, etc.) in the Process Control and Physical Security Divisions' locations that were not secured nor tagged for tracking purposes. Those assets were placed on accessible desks, shelves, floors, and in cubicles.

See the illustrations below:



Figure A: Controlled Assets
Source: OIG 04/19/2023



Figure B: Controlled Assets
Source: OIG 04/19/2023



Figure C: Controlled Assets
Source: OIG 04/19/2023

The review of the inventory records also indicated hundreds of controlled assets labeled “missing or not found.” For example, one of the eleven (11) Sections in the Utility Services Group has 285 items labeled missing with an accumulated cost of \$500,570.67 over ten years.

According to WSSC management, the reasons the assets were not secured or tagged are because:

⁸ See WSSC Guidelines, § 2(B).

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1. computer equipment has a limited shelf life and little value which is why everything is not secured or tagged;
2. controlled assets on the inventory records could not be located and others were missing tags preventing them from being accounted for in the record; and
3. controlled assets in the Utility Services Department are subject to weather and job conditions, which impacts the surface where asset tags are affixed and the tags come off.

All areas that housed this equipment were not properly secured, potentially exposing the Commission's confidential and sensitive data to damage or theft.

Recommendation 1: Secure and Track all Controlled Assets with Sensitive Data:

The OIG recommends that:

1. The Security and Process Control Divisions secure, tag, and track controlled assets (laptops, monitors, video equipment, etc.) in accordance with IT's IOP - *Asset Receiving Process*;
2. Management discards outdated and obsolete controlled assets containing sensitive data immediately and in accordance with IT's IOP - *Asset Retirement and Disposal Process* and WSSC's surplus property procedures; and
3. Management establishes a tracking mechanism for portable and theft-prone assets whose surfaces are subject to weather conditions that impact the asset's tags.

Implementing the recommendations will establish consistency in the security and tracking of controlled assets (particularly computer and electronic equipment) and improve the handling of sensitive data stored on unused and obsolete equipment.

Management Response and Action Plan (including anticipated due date):

Management concurs with the recommendation. Standard Procedure 5.200 Capital Moveable Assets explicitly states that every department Director must appoint a Controlled Asset Coordinator. This individual is responsible for tagging and/or tracking controlled assets as per the guidelines and instructions provided by the Director. The Finance team will work with the Security and Process Control Divisions to:

- Develop a process to tag, track and dispose of controlled assets in accordance with existing IT IOPs and,
- Add additional controls, such as periodic re-tagging, over controllable assets that are subject to weather conditions.

The process and additional controls will be implemented by February 5th, 2024.

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Finding 2: All Departments are not Conducting Annual Inventories and Audits

Risk Rating: MEDIUM

The *WSSC Manual* and *Guidelines* require that annual inventories of controlled assets be conducted by May 31st.⁹ Further, it requires that the controlled assets inventory records be updated to satisfy any audit testing.¹⁰ Specifically, “Departments should certify each year to the central accounting function (or other designated finance function) that an updated list of controlled capital-type items are on file and available for inspection.”¹¹ Additionally, the Government Finance Officers Association’s (GFOA) best practice recommends that “[n]o less than once every five years on a rotating basis (more frequently for particularly sensitive items), the central accounting function (or other designated finance functions) should ensure that procedures are performed to verify the reliability and completeness of the lists on file in each department . . .”¹² The GFOA represents public finance officials throughout the United States and Canada and is deeply involved in planning, financing, and implementing thousands of governmental operations in each of their jurisdictions.¹³

During the audit, OIG auditors determined that not all departments were conducting the annual inventories by May 31st, nor did they participate or perform random audits of their respective controlled assets, as required. We interviewed eight of the top purchasers of controlled assets in the Commission. Of the groups interviewed, we verified six (6), or 75% of the groups did not perform random audits. The OIG auditors were informed that the policy is not clear on who will perform the audits and when. The decentralization of functions and the lack of oversight contributed to the identified inconsistencies.

The lack of conducting an annual inventory impacts WSSC’s ability to track and safeguard the existence of controlled assets in accordance with the *Manual and Guidelines*.

Recommendation 2: Conduct Annual Inventories and Periodic Audits

The OIG recommends that:

- Departments conduct annual inventories in accordance with the *Manual and Guidelines* and submit an annual certified list of controlled assets to the Finance Department; and
- In accordance with GFOA, the Finance Department performs an independent limited audit of Controlled Assets once every five years on a rotating basis.

Implementing the recommendations will improve management’s oversight, tracking, and accountability of Controlled Assets.

⁹ See WSSC Manual, § 2(C); WSSC Guidelines, § 4(A).

¹⁰ *Id.*

¹¹ <https://www.gfoa.org/materials/control-over-items-that-are-not-capitalized>

¹² *Id.*

¹³ <https://www.gfoa.org/about>

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Management Response and Action Plan (including anticipated due date):

Management agrees that annual inventories should be performed by the Departments over the controllable assets, with a certified list being submitted to a responsible central office, and that a limited audit should occur every five years on a rotating basis. Management is in the process of determining which central office will have oversight of this and will create the timelines associated with each action (annual inventory and periodic audit) and share it with the departments. The responsible department will be identified, and the preliminary plan developed by February 5th, 2024.