



Texas Department *of* Motor Vehicles

HELPING TEXANS GO. HELPING TEXAS GROW.

Inventory Management Audit Report 24-04

Internal Audit Division
October 2024



Inventory Management Audit, 24-04

Executive Summary

The Texas Department of Motor Vehicles (TxDMV or Department) partners with 254 Tax Assessor Collector offices (TACs) in providing equipment for the TACs, TAC substations, and Full-Service Deputy locations to provide title and registration services. In fiscal year 2023, TxDMV maintained 11,786 controlled assets totaling \$14.8 million. The assets include items such as routers, laptops, desktop computers, and network devices. The objective of this audit was to evaluate Department processes on accounting for and reporting controlled assets throughout the State.

WHAT WE FOUND

The audit found that audit processes are at a Level 3 – Established: The function achieves its purpose in an organized way, following established processes, but those processes may not be consistently followed or well communicated. The Internal Audit Division (IAD) issued three results related to the audit objectives.

- **Result #1:** The Department segregated duties and tracked assets.
- **Result #2:** While the Department conducts onsite inventory verifications, there are opportunities to improve the verification and reporting process.
- **Result #3:** The Department is moving towards a more efficient way of conducting annual inventory verifications by leveraging technology.

WHAT WE RECOMMEND

IAD made five recommendations in this audit related to the following areas:



Using current inventory reports to conduct onsite inventory verification



Continuing the use of technology to manage assets and potentially expanding its use



Developing a process to update the Statewide Accounting System (SPA) with results from the onsite inventory verification



Identifying assets that have not been used in a set period with technology to more effectively manage inventory



Reconciling assets and updating SPA monthly or quarterly.

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Background

The Texas Department of Motor Vehicles (TxDMV or Department) partners with 254 Tax Assessor Collector offices (TACs) and provides equipment necessary for the TACs, TAC substations, and Full-Service Deputy (FSD) locations to provide title and registration services (see **Figure 1**). In fiscal year 2023, the Department tracked 11,786 controlled assets totaling \$14.8 million. The assets include items such as routers, laptops, desktop computers, and network devices (see **Figure 2**).

Figure 1: Title and Registration Services Provided by Tax Assessor Collector Offices

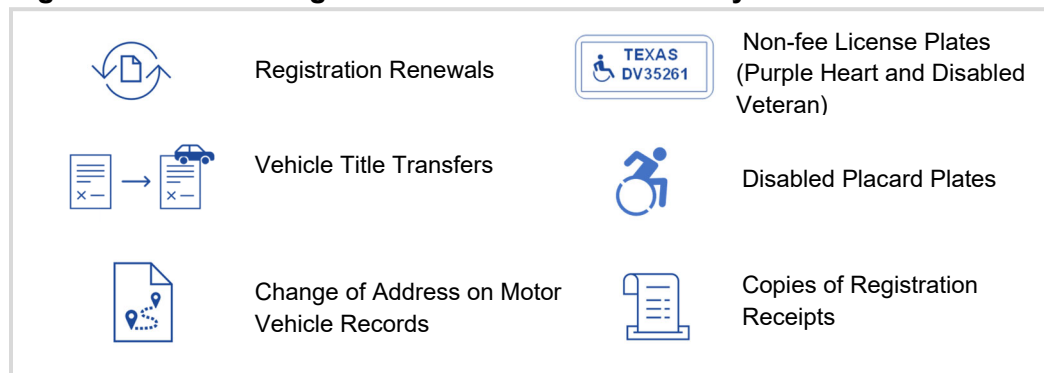





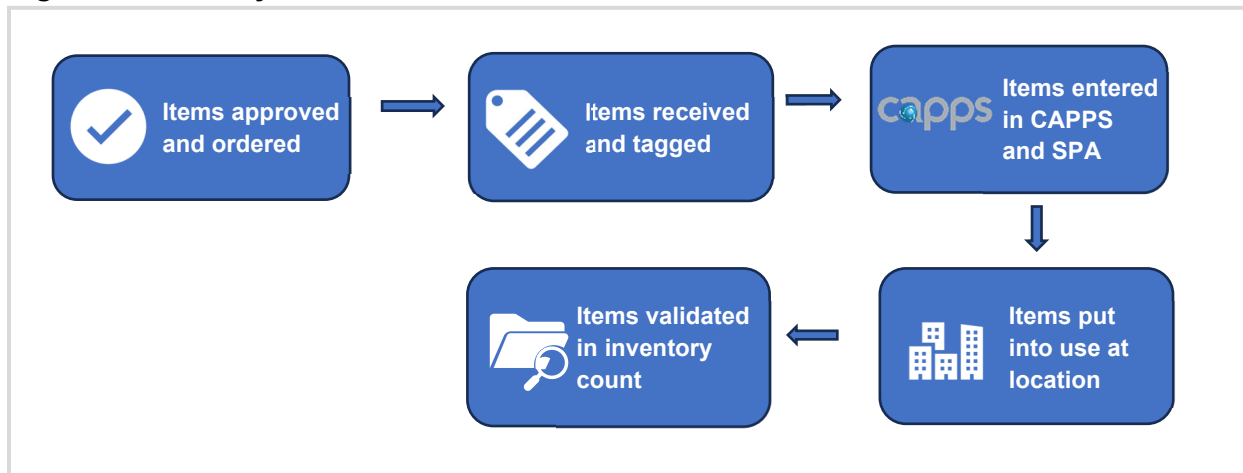
Figure 2: Department Inventory by Location and Amount

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Location Type	Number of Tracked Equipment	Total Amount
Tax Assessor Collector Offices	4,265	\$ 3,084,734
Tax Assessor Collector Office - Substations	3,092	2,326,058
Full Service Deputy Locations	315	264,411
Department Headquarters	3,458	6,999,207
Department Regional Service Centers	656	2,097,595

Inventory Process. After inventory items are approved and ordered, the Department's Finance and Operations (FAO) Asset Management Team (Asset Team) receive the asset, physically inspect the asset, and verifies the order quantity and item description against the purchase order. The assets are entered into the state's Centralized Accounting and Payroll/Personnel System (CAPPS). Generally, property that is over \$500 is defined as a controlled asset with assets greater than \$5,000 defined as capitalized. The Property Manager from the Asset Team assigns the asset tags for these assets, which must also be recorded in the State Property Accounting System (SPA).

Once assets are tagged and recorded in SPA, they are distributed to TACs, TAC substations, and FSD locations for use and included in the Department's inventory count (verification) process which is conducted by the Enforcement Division's (ENF) Compliance Specialists (see **Figure 3**).

Figure 3: Inventory Process



Compliance Specialists coordinate with the TACs to visit the county for the inventory verification, documenting missing assets or additional items found.

The audit scope focused on Fiscal Year 2023 controlled asset inventory management, which includes asset receiving and reporting.

Strengths

- The Finance and Operations inventory asset team has identified areas for asset management improvement and initiated new inventory processes for fiscal year 2024 inventory verification. New processes include utilizing asset tracking technology to assist with county-controlled asset inventory verification that improves efficiencies.
- FAO and ENF communication has improved and collaboration has increased.

Audit Engagement Team

The audit was performed by Jason Gonzalez (Principal Internal Auditor) and Salem Chuah (Internal Audit Director).

Audit Results

Audit Results #1: The Department segregated duties and tracked assets

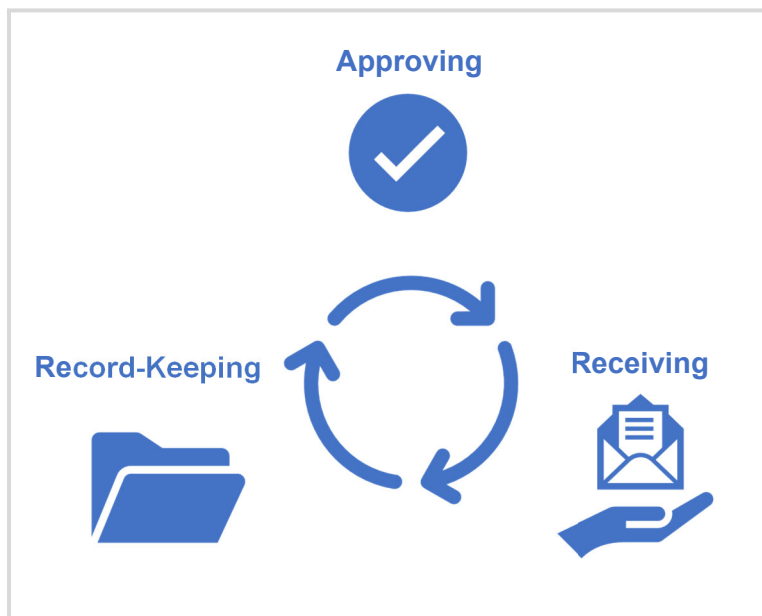
IAD selected a sample of 20 purchase orders and found that all were ordered and received by different employees, demonstrating appropriate segregation of duties.

Each purchase order can include multiple line items for different types of equipment. The 20 purchase orders contained a total of 68 line items associated with equipment such as routers, laptops, desktop computers, and network devices. For example, one purchase order may contain three line items, with the items being 100 laptops, 5 tablets, and 5 server jump boxes. All line items were received with the same quantities and price as approved in the purchase orders.

Further, all equipment (asset) over \$500 from the purchase orders had an asset number in CAPPS which means that these assets are tracked throughout the equipment's lifecycle.

According to the Committee of Sponsoring Organization of the Treadway Commission, organizations should establish control activities and ensure duties are divided among different individuals to reduce the risk of errors or inappropriate or fraudulent actions (see **Figure 4**).

Figure 4: Segregation of Duties



Audit Results #2: While the Department conducts onsite inventory verifications, there are opportunities to improve the verification and reporting process.

Inventory Reports. ENF Compliance Specialists use Preliminary Asset Inventory Reports (Inventory Reports; see **Appendix 3**) to perform onsite inventory verifications at TACs, TAC substations, and FSD locations. The Inventory Reports are generated at the end of the previous fiscal year by FAO and used by the Compliance Specialists for onsite inventory verifications throughout the year (see **Figure 5**).

Figure 5: Inventory Verification



Since the Inventory Reports are not generated immediately prior to the onsite visits, the Inventory Reports may not reflect the most current inventory status. This timing issue can lead to discrepancies, such as:

- **New Inventory:** Additional items not listed in the Inventory Report might be found during onsite visit due to the office receiving inventory during the fiscal year.
- **Missing Inventory:** Items listed in the Inventory Report may be missing if those items were disposed of during the fiscal year.

Inventory Reports - New Inventory. When Compliance Specialists find additional assets during onsite visits that are not included in the Inventory Report, they document those assets in the Additional Items Found, But Not Listed Worksheet (see **Appendix 4**).

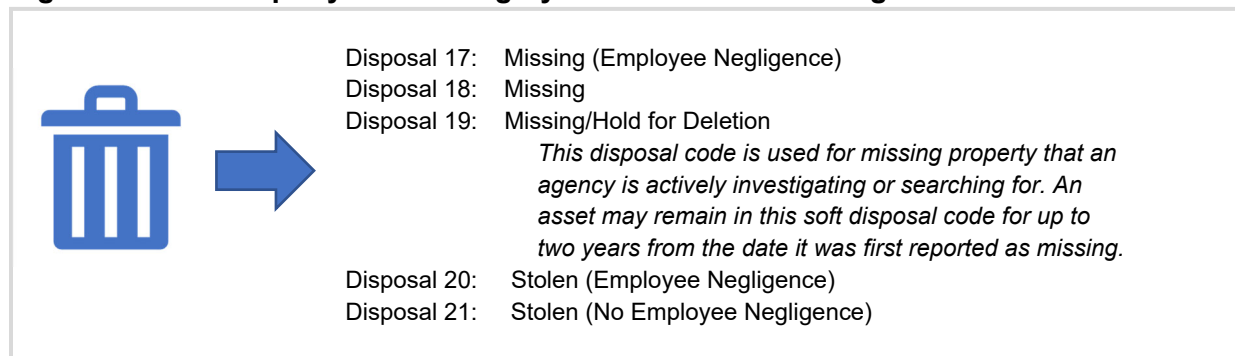
In a sample of 50 assets contained in the Found Inventory Item worksheet, almost all were accurately documented as active assets in both CAPPS and SPA. However, one asset was mistakenly listed as disposed in SPA even though it was documented by the Compliance Specialist as an active asset. This asset was transferred to the Department to be disposed of and then subsequently reinstated as an active asset.

Inventory Reports - Missing Inventory. When Compliance Specialists are unable to locate assets during onsite visits that are included in the Inventory Report, they document those items in the Missing/Stolen/Damaged Property Report (see **Appendix 5**).

In a sample of assets that were documented as missing, 20 (57 percent) of 35 missing assets reported by Compliance Specialists were reported accurately in SPA as missing (disposed). Of the remaining 15 assets:

- 9 of 15 were found, taking an average of 124 days to locate. During this period, the assets could have been reported as missing in SPA (see **Figure 6**).
- 6 of 15 were never found and incorrectly reported as active assets in SPA.

Figure 6: State Property Accounting System Codes for Missing/Stolen Assets



The manual reporting process may contribute to the inaccuracies. Compliance Specialists submit results to FAO's Inventory Team for review. According to FAO, it is possible that submitted documents were lost resulting in assets not being reported in SPA.

Using outdated Inventory Reports can result in:

1. Additional time and effort for the Compliance Specialists to fill out the Additional Items Found Form for inventory items found or searching for inventory items that have already been disposed of and completing the Missing/Stolen/Damaged Property Forms (Missing Forms).
2. Additional work for Department staff to validate whether inventory is indeed new or missing and updating CAPPs and SPA as necessary.

Inventory Disposal. Inventory assets for disposal due to damage or end-of life are documented on the Surplus Transfer Form. All 35 assets selected for disposal were accurately reflected as disposed in SPA. On average, the assets were disposed in SPA within 40 days of disposal recommendation on the Surplus Transfer Form.

Inventory Reconciliation Process. Each month, the Department performs reconciliations and identifies discrepancies between SPA and CAPPs balances. While reconciliations were performed for all months in fiscal year 2023, adjustments are not reported through journal entries until year-end reporting in October.

Reporting once annually could create inefficiencies in reporting. Additionally, reporting assets more than once per year could improve the Department's inventory management by identifying missing or additional assets throughout the fiscal year.

Texas Administrative Code, Public Finance (Title 34) Chapter 5 requires state agencies to maintain property records and inventory information, including tracking and reporting state property on a unit basis. Further, the SPA User's Guide requires temporary disposal (soft disposal) of missing assets while investigations or searches are being conducted for a period of up to two years.

Also, *Government Code, Section 403.271* states that each state agency is responsible for ensuring that its fiscal year-end capitalized asset balance reflected in SPA is accurate and

materially correct, reflecting the agency's financial position when reported in its annual financial report.

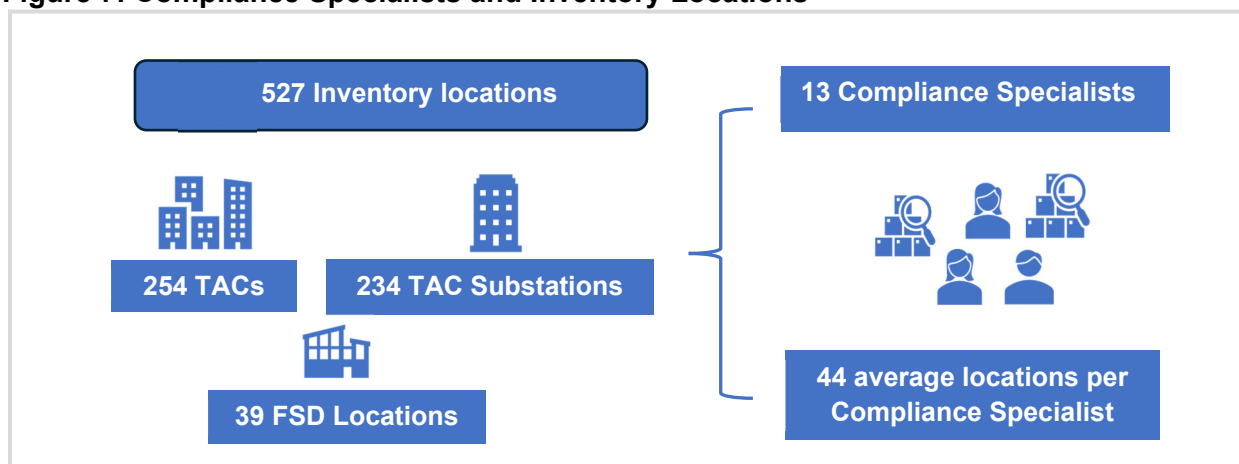
Recommendations

1. The Department should use Preliminary Asset Inventory Reports that are generated immediately prior to the onsite visits (or as closely to this date as possible) for use by the Enforcement Division's Compliance Specialists so that there is a more accurate record of inventory items to locate while onsite.
2. The Department should establish a process to ensure that additional inventory items found or inventory items marked as missing by the Enforcement Division's Compliance Specialists are accurately and timely reported in the State Property Accounting system.
3. The Department should consider reconciling assets and make accounting adjustments in the State Property Accounting system monthly or quarterly, rather than annually.

Audit Results #3: The Department is moving towards a more efficient way of conducting annual inventory verifications by leveraging technology.

Inventory Verifications. Compliance Specialists documented physical inventory verifications at all 527 TACs, TAC substations, and FSD locations in fiscal year 2023. These 527 locations include 254 TACs, 234 TAC substations, and 39 FSD locations. Compliance Specialists visited locations ranging from 3 to 69 in one fiscal year. Each location has 2 to 209 equipment that were verified by the Compliance Specialists ranging from approximately \$1,300 to \$142,000 in total asset value. On average, each Compliance Specialists visited 44 locations in one year (see Figure 7).

Figure 7: Compliance Specialists and Inventory Locations



The SPA Process User's Guide states that each state agency is required to conduct an annual physical inventory of capitalized and controlled personal property in the agency's possession at a time of its own choosing during the fiscal year.

Leveraging Technology for Inventory Verifications. In May 2024, the Department managed a total of 4,744 desktops and laptops and 716 network devices such as routers and switches. The Department's Information Technology Services Division (ITSD) uses Ivanti LANDESK to document inventory locations for desktops and laptops and monitors network devices through SolarWinds. Both software programs provide real time inventory data that includes the asset location and asset name.

While the Department used a manual inventory verification process to conduct annual inventory in fiscal year 2023, it began using Ivanti LANDESK to locate desktops and laptops electronically for fiscal year 2024. By using Ivanti LANDESK, the Department can drastically reduce the time spent looking for assets by Compliance Specialists to physically locate inventory items that have been found electronically.

Since the Department has the capability to provide inventory information for devices that are online, there is an opportunity to be more proactive in managing inventory at locations by identifying assets that have not been online in a set period. This information could help the

Department identify inventory that may be missing or not used to more effectively manage inventory. Also, the Department could explore using SolarWinds to expand its use of electronic verification of assets for network devices to further increase efficiencies.

The SPA User's Guide includes allowable verification methods which include physical or electronic verification methods to locate inventory and inventory locations.

Recommendations

4. The Department should continue leveraging technology to manage assets and consider expanding its use to include network devices to drive efficiency in its annual inventory verification process.
5. The Department should consider identifying assets that have not been used within a specified period with Ivanti LANDESK, SolarWinds, or other technology so that it can be more proactive in managing assets.

Appendix 1: Objectives, Scope, Methodology, and Rating Information

Objectives

The objective of this audit was to evaluate Department processes on accounting for and reporting controlled assets throughout the State.

Scope and Methodology

The scope of the audit included inventory transactions and inventory counts from September 2022 to August 2023.

Methodology in this audit included the following:

- Interviewed Finance and Operations (FAO) division staff and management.
- Interviewed Enforcement (ENF) division staff.
- Interviewed ITSD asset management and network staff.
- Reviewed asset management policies and procedures.
- Reviewed inventory count sheets for all 527 county, county substation, and full-service deputy locations.
- Selected a sample of 50 assets identified as additional found assets.
- Selected a sample of 35 assets identified as missing.
- Selected a sample of 35 assets recommended for disposal.
- Reviewed CAPPs and SPA asset reporting.
- Selected a sample of 20 purchase orders.
- Reviewed CAPPs inventory receipts.
- Reviewed SolarWinds and Ivanti LANDesk asset tracking technologies.

This audit was included in the FY2024 Internal Audit Plan. IAD conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the Internal Standards for the Professional Practice of Internal Auditing. Those standards require that IAD plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on our audit objectives. IAD believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Report Distribution

In accordance with the Texas Internal Auditing Act, this report is distributed to the Board of the Texas Department of Motor Vehicles, Governor's Office of Budget, Planning, and Policy, Legislative Budget Board, and the State Auditor's Office.

Ratings Information

Maturity Assessment Rating Definition

IAD derived the maturity assessment ratings and definitions from the Control Objectives of Information and Related Technologies (COBIT) 5 IT Governance Framework and Maturity Model, the Enterprise Risk Management (ERM) Maturity Model, and the ISACA Maturity Model. The model was adapted for assurance audit purposes and does not provide a guarantee

against reporting misstatement and reliability, non-compliance, or operational impacts. The ratings and definitions are provided in Table 1.

Table 1. Maturity Assessment/Process Capability Rating Definitions

Rating	Name	Definition
1	Minimal	The function may have policies and procedures established for some activities but relies on intuition and handles issues on an ad-hoc basis.
2	Informal and Reactive	The function achieves its purpose with basic processes and activities that are not very organized or followed.
3	Established	The function achieves its purpose in an organized way, following established processes, but those processes may not be consistently followed or well communicated.
4	Predictable	The function fully achieves its purpose, is well-defined, and its performance is quantitatively measured. The function is fully integrated within the Department, the function has full resources to achieve business objectives, and policies and procedures are regularly improved.
5	Optimized	The function fully achieves its purpose, is well-defined, and its performance is quantitatively measured. There is continuous improvement that is pursued, and technology is heavily leveraged to automate workflow and improve quality and effectiveness of processes.

Appendix 2: Management Response and Action Plan

The Finance and Operations Division provided the following responses:

Recommendation	Responsible Department and Section/Unit	Department Response	Completion Date
1. The Department should use Preliminary Asset Inventory Reports that are generated immediately prior to the onsite visits (or as closely to this date as possible) for use by the Enforcement Division's Compliance Specialists so that there is a more accurate record of inventory items to locate while onsite.	FAO Director of Operations	The Department agrees with this recommendation. This procedure is now standard operating procedure for the annual inventory process and was implemented during the FY 2024 inventory. Enforcement Compliance Specialist (ENF CS) requests an updated preliminary asset inventory report 3-5 days before conducting onsite county office visits. Upon request the asset team compiles and emails a digital inventory packet that includes a new (clean) asset inventory report, and all required inventory forms (i.e., missing or additional items found forms).	07/31/2024
2. The Department should establish a process to ensure that additional inventory items found or inventory items marked as missing by the Enforcement Division's Compliance Specialists are accurately and timely reported in the State Property Accounting system.	FAO Director of Operations	<p>The Department agrees with this recommendation. The new process was implemented during the FY 2024 inventory count. Returned (emailed) inventories from ENF Compliance Specialists were processed, all issues were "investigated" and updates or adjustments were generally completed on the same day reports were received. Reports that were not resolved on the same day were investigated until all means were exhausted. All HQ/RSC inventories followed the same procedures when the IC sent their inventory reports to the asset management team.</p> <p>The missing item form is used to track assets identified as missing during inventories. Listed information technology (IT) assets go to the IT division to conduct additional research. Operations asset management team conducts internal research for non-IT related assets. The division directors (or their representative) sign the missing asset form(s) for each asset not located after all research of the discrepancies are exhausted. The final step is inputting updates into CAPPS and SPA and reconciling the two systems.</p>	07/31/2024

Recommendation	Responsible Department and Section/Unit	Department Response	Completion Date
3. The Department should consider reconciling assets and make accounting adjustments in the State Property Accounting system monthly or quarterly, rather than annually.	FAO Director of Operations	The Department agrees with the recommendation. Plans are being developed to run periodic reconciliation reports throughout the year. Additionally, adjustments to SPA and CAPPs are made when assets are received, delivered, transferred or surplus.	11/01/2024
4. The Department should continue leveraging technology to manage assets and consider expanding its use to include network devices to drive efficiency in its annual inventory verification process.	FAO Director of Operations	The Department agrees with the recommendation. The department currently uses electronic verification to locate assets connected to the network; computers, WIFI routers, and servers. Electronic verification will remain a permanent process and will be included in the operations asset management standard operating procedures. As technological changes take place, the asset team will work with IT to keep the process relevant and accurate.	07/31/2024
5. The Department should consider identifying assets that have not been used within a specified period with Ivanti LANDESK, SolarWinds, or other technology so that it can be more proactive in managing assets.	FAO Director of Operations	The Department agrees with this recommendation. We will work with IT to develop a way to further incorporate technology into the asset management process.	11/01/2024

Appendix 4: Missing/Stolen/Damaged Property Report



Missing/Stolen/Damaged Property Report Texas Department of Motor Vehicles (608)

Print Form
TxDMV-1 (Rev 3/15)

Asset Number: _____
(One incident per report)

Date of this report: _____

Use back of this form if more than one asset

Serial Number: _____

Description: _____

Date Discovered Missing: _____

According to the State Comptroller's website: Property that has been stolen MUST be reported to the Comptroller's office and law enforcement WITHIN 48 HOURS and reported to the Office of Attorney General's Office WITHIN 72 HOURS after discovery. Property that is missing or damaged due to negligence must be reported to the Comptroller's Office WITHIN 72 HOURS after discovery.

Root Cause Of Missing Asset:

Attach Supporting Documentation

✓ Correct Reason	Code	Reason	Police Report # _____ with _____ (agency) attached. Date reported: _____
<input type="checkbox"/>	A	Missing	
<input type="checkbox"/>	B	Stolen	
<input type="checkbox"/>	C	Damaged	

Property Custodian

Signature

Date

Division Director

Signature

Date

For Internal Use Only:

Determination by Executive Director:

☐ With Negligence

☐ Missing

☐ Stolen

☐ Damaged

☐ Without Negligence

☐ Missing

☐ Stolen

☐ Damaged

Comments: (If more space is needed, please attach additional sheets to this form)

Executive Director or Designee

Signature

Date

