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An Audit Report on Property Reported as Lost or Stolen

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Members of the Legislative Audit Committee:

The results of our statistical testing at four agencies and universities indicate that state property with a total book value of \$12.8 million may be missing. While the percentage of missing items at each of the four entities meets limited available standards for acceptable property loss, improvements in property management procedures could reduce the risk of loss or theft of state assets. The percentage of missing test items varied from 1.7 percent at the Department of Human Services (DHS) to 3.8 percent at both the Department of Mental Health and Mental Retardation (MHMR) and The University of Texas Medical Branch at Galveston (UTMB). Notably, the percentage of missing test items at Texas A&M University (Texas A&M) was zero, indicating that we were able to find or account for each of the property items in the sample we tested there.

The wide range of results from our testing suggests that agencies and universities would benefit from the establishment of a state standard or benchmark for reducing property losses and measuring management of the State's \$7 billion property inventory. In May 2001, the 77th Legislature included within the General Appropriations Act a provision that requires agencies and universities to meet current American Society for Testing and Materials (ASTM) standards for minimizing property loss. The ASTM standards specify that a property inventory variance rate between 2 and 5 percent, depending on the type of asset, is acceptable.

The ASTM benchmarks are quite broad and apply to a variety of industries ranging from construction to manufacturing. For this reason, we recommend that the State Office of Risk Management analyze the State's property loss data in relation to this criteria during the next two years to assess whether modifications are needed to tailor the benchmarks to state entities. In performing its analysis, the State Office of Risk Management should consult with the Comptroller of Public Accounts, the State Auditor's Office, and selected agencies and universities as needed.

Specific property inventory issues at the four agencies and universities we audited included the following:

- The entities' projected property loss based on statistical sampling, in comparison to the total book value of inventory, were as follows:

	Projected Property Loss	Total Book Value of Inventory
– UTMB	\$7,551,459	\$359,253,125
– MHMR	\$2,990,432	\$127,018,848
– DHS	\$2,270,403	\$151,446,843
– Texas A&M	None	\$412,842,087

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- DHS, UTMB, and MHMR were missing certain computer and electronic equipment such as a video conferencing systems, desktop computers, and laptop computers. Those items had individual book values ranging from \$734 to \$5,121.
- The information in UTMB's property accounting system may not accurately reflect some assets. Thirty-four of 233 sample items we reviewed (14.59 percent) were not recorded in UTMB's property accounting system. The Comptroller of Public Accounts requires agencies to record assets with a book value of \$1,000 or more. While some of the sample items not recorded in UTMB's system may fall below the \$1,000 book value threshold, other items not recorded in the system were complex medical or electronic equipment including a dialysis machine, a centrifuge, and a video conferencing monitor. Lack of records for these items increases the risk that they could be lost without UTMB's detection.
- Most of MHMR's missing sample items were associated with two of MHMR's regional facilities.

Agencies and universities should:

- Increase monitoring of high-risk assets such as computer or electronic equipment by conducting random tests to locate such items between annual inventories.
- Ensure that appropriate personnel have adequate training in property management procedures.
- Hold individual departments (offices) within the agency or university accountable for adhering to benchmarks for reducing property loss.

The attachment contains more detail on the results of our property inventory tests. We provided specific recommendations in management letters we sent to the four agencies and universities audited. Each agency and university has agreed to implement our recommendations.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Objective, Scope and Methodology

The objectives of this audit were to determine the following:

- Whether selected agencies and universities have inventory and asset management practices to prevent or minimize the loss of state property
- The cost to the State of weaknesses in inventory and asset management

We randomly selected 233 assets from the property accounting system of each agency and university we visited. We tested the sample items for existence, condition, proper recording, and description. Our sampling methodology was generally based on a 95 percent confidence level with a 2 percent margin of error and a 2.5 percent sample error. Our asset selection methodology varied at some agencies due to the number of facilities at which some entities maintained property.

The audit was conducted in accordance with generally accepted government auditing standards.

A vendor performed fieldwork and summarized results under contract with the State Auditor's Office. The vendor conducted fieldwork from September through November 2000, provided the overall results of the audit in February 2001, and finalized its results in April 2001.

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Based on audit results, the projected property loss at each agency and university ranged from \$0 to \$7.5 million (see Table 1). Note that self-reported losses at the same entities varied greatly between fiscal years 1997 and 2000 (see Table 2). Some agencies have asserted that the increase in reported losses during the past few years was a result of improved accuracy in their annual physical inventories.

Statistical sampling is used to test part of a population in order to determine the characteristics of an entire population. For purposes of our property inventory testing, we considered the population to be the total inventory of assets managed by each entity. We used a sampling methodology because it was not feasible or efficient to test over 200,000 individual property items across entities.

Table 1

Projected Book Value of Missing Property at Selected State Entities Fiscal Year 2001				
Agency or University Audited	Book Value of Total Inventory	¹ Book Value of Sample Items Tested	Book Value of Missing Sample Items	Projected Book Value of Missing Sample Items to Total Inventory
Department of Human Services	\$151,446,843	\$748,228	\$11,217	\$2,270,403
Department of Mental Health and Mental Retardation	\$127,018,848	\$507,110	\$11,939	\$2,990,432
Texas A&M University	\$412,842,087	\$1,882,772	\$0	\$0
The University of Texas Medical Branch at Galveston	\$359,253,125	\$928,026	\$19,507	\$7,551,459
Total				\$12,812,294

¹ We randomly tested 233 items from the property accounting system of each agency or university. We excluded buildings, land, and other fixed assets from our sample.

Source: State Auditor's Office

Table 2

Value of Self-Reported Lost, Missing, or Stolen Items Fiscal Years 1997 Through 2000				
Agency or University	FY 1997	FY 1998	FY 1999	FY 2000
Department of Human Services	\$327,620	\$156,625	\$869,798	\$1,905,940
Department of Mental Health and Mental Retardation	\$59,454	\$550,522	\$975,549	\$4,729,277
Texas A&M University	\$3,242,954	\$1,623,490	\$938,768	\$2,272,534
The University of Texas Medical Branch at Galveston	\$46,274	\$104,371	\$6,153,010	\$7,144,195

Source: Comptroller of Public Accounts

ATTACHMENT