July 2026 *Report No. 26-01*

Report on the Audit of Fixed Assets Inventory

Overall Conclusions

The Fixed Assets Inventory Audit examines whether fixed assets are accurately recorded, verified through physical inventory procedures, certified in a timely manner, and safeguarded by effective internal controls. The Texas General Land Office (GLO) manages a broad portfolio of state-owned real and personal property assets that support the agency's departments, administered programs, and the Permanent School Fund (PSF). The Cash Management Division, Property Accounting Section, oversees the agency's property inventory, performs periodic reviews, and manages property acquisition and disposition in accordance with legislative authority. The division plays a key role in maintaining accurate property records and supporting compliance with state requirements for the stewardship of public assets.

The audit confirmed that the agency completed the required certification processes for both the physical inventory and fiscal balance of fixed assets in accordance with the Texas State Comptroller of Public Accounts (TXCPA) User Guide. However, the audit noted that certifications were not consistently completed within the required timeframes.

Furthermore, this audit evaluated whether the agency's controls and processes support the accurate maintenance, recording, accounting, and certification of fixed assets in accordance with applicable policies and federal and state requirements. While controls are generally in place, opportunities exist for Property Accounting to improve process effectiveness, enhance operational efficiency, and strengthen compliance with managing the agency's fixed assets.

The following areas were identified in which controls should be strengthened:

1. Year-end capital asset reconciliation and certification process to ensure fiscal balances are timely submitted and certified through the Capital Asset Note Submission System (CANSS) in accordance with state requirements.

2. Asset disposal process to ensure disposals are properly authorized, communicated, and timely recorded in the State Property Accounting (SPA)[1] system and the agency's asset inventory system.

This report's "Detailed Results" section provides additional information on the recommendation items mentioned above.

Management's Summary Response

Management concurs with the recommendations. The "Detailed Results" section of this report contains management's response to each observation.

Acknowledgments

We appreciate the assistance and cooperation provided by the management and staff of Financial Management and Information Technology Services (ITS). For questions about this report, please contact me at (512) 463-6078.

Tracey Hall, CPA, CISA, CIA
Chief Auditor, Office of Audit and Compliance

[1] The SPA system is a centralized database managed by the TXCPA. The SPA tracks state agency capital assets, ensuring property is accounted for and assisting with the annual financial reporting process.

Background Information

Fixed assets represent a significant component of the GLO's operational resources and financial reporting responsibilities. These assets include equipment, vehicles, and other capital assets acquired to support agency programs and operations. Effective fixed asset management requires established capitalization thresholds, accurate asset tagging and tracking, periodic physical inventories, and timely reconciliation between Property Accounting and Financial Reporting.

The audit assessed the annual inventory certification process, asset inventory policies and procedures, and fixed asset transactions for Fiscal Year (FY) 2025 and the first quarter of FY 2026, including related IT processes. The scope covered all asset categories except Construction in Progress and Real Estate.

GLO Property Accounting is responsible for overseeing the agency's physical inventory processes and certification to ensure compliance with Texas Government Code §403.273. In addition, the team certifies the physical inventory in accordance with the TXCPA SPA User Guide for inventory certification.

GLO Financial Reporting prepares the agency's Annual Comprehensive Financial Report (ACFR) in compliance with the Governmental Accounting Standards Board (GASB) standards and guidance, Texas Government Code §2101.011, and the reporting requirements established by the TXCPA. The Financial Reporting team is responsible for ensuring that the capital asset[2] information is accurately recorded, reconciled, and properly disclosed in the agency's financial statements, and for certifying the agency's fiscal inventory in accordance with the TXCPA SPA User Guide.

[2] The agency's capital assets include land, buildings, construction in progress, equipment, vehicles, and other capital assets acquired to support agency programs and operations.

Periodic physical inventories conducted by Property Accounting serve as a critical internal control to verify the existence, location, condition, and accountability of agency assets. These inventories help detect discrepancies, such as missing, unrecorded, improperly disposed of, or relocated assets, and provide assurance that asset records are complete, accurate, and current. Additionally, inventory activities support compliance with applicable accounting standards, state property requirements, and agency policies governing asset acquisition, capitalization, transfer, depreciation, and disposal.

The GLO discloses capitalization thresholds, asset classifications, and valuation methodologies in the agency's Unaudited Annual Financial Report (AFR) and related financial statement notes[3]. Given the scale and complexity of the GLO asset portfolio, effective internal controls over fixed assets are essential to maintaining accountability for state resources and ensuring the accuracy of financial reporting. The agency's fixed asset profile provides important context for evaluating the design and effectiveness of management controls, compliance with applicable requirements, and overall stewardship of state-owned assets within the scope of this audit.

Based on the FY 2025 AFR Statement of Net Position, GLO reported total assets of approximately $8.4 billion. Capital assets totaled $240.8 million, representing approximately 2.9% of total assets. Of the capital asset balance, $104.3 million, or 43.3%, relates to depreciable assets.

See the following chart, which further categorizes the depreciable assets:

Depreciable Asset Category – FY2025

Depreciable Asset Category	Percentage of Total	FY2025 Amount
Buildings	82%	$85,277,359.58
Facilities and Other Improvements	14%	$14,088,932.37
Furniture and Equipment	3%	$2,786,892.41
Other Capital Assets	0%	$149,126.53
Vehicles, Boats, and Aircraft	2%	$1,986,015.56
Grand Total	**100%**	**$104,288,326.45**

[3] The AFR includes Notes to the Financial Statements; Note 1, presents the *Summary of Significant Accounting Policies* including agency Fund Structure (e.g., Capital Asset Adjustment Fund – Fund 9998), Assets, Fund Balance/Net Position, and Interest on Capital Assets. Note 2 presents the summary of changes in capital assets for the FY.

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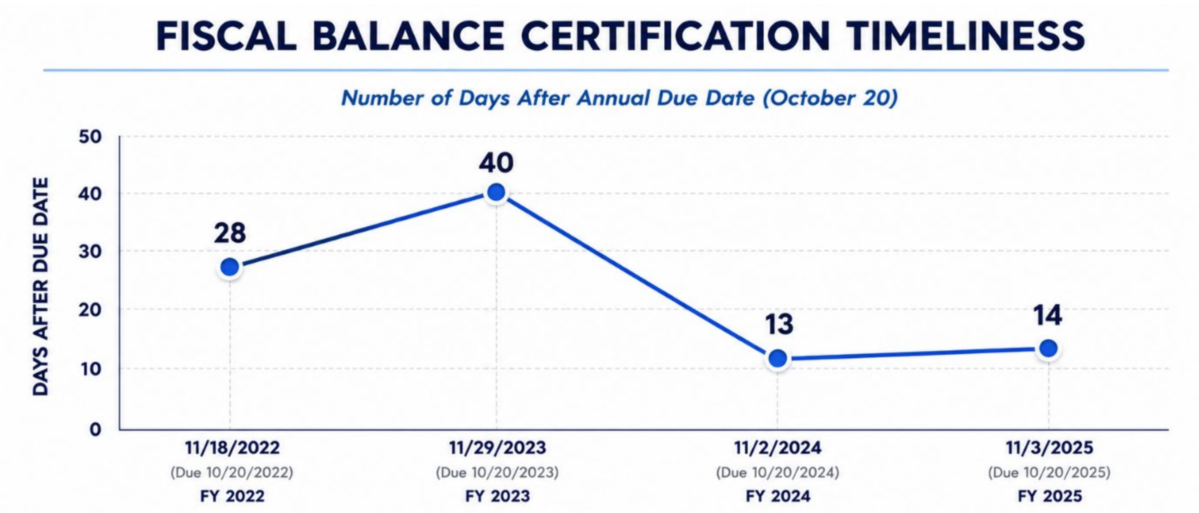
Detailed Results

Chapter 1

Ensure the Timely Reporting and Certification of Fiscal Balances

State guidance[4] requires agencies to ensure that capitalized asset balances reported in SPA are accurate, material, and reflective of the agency's financial position as reported in the AFR. Full Reporting Agencies (FRAs)[5], such as the GLO, are required by the TXCPA to certify SPA fiscal balances and Capital Assets (listed in Note 2 of the AFR) by October 20 of each fiscal year in the Capital Asset Note Submission System (CANSS).

The agency did not submit its CANSS certification by the required deadline for fiscal years 2022 through 2025. Review of submission records identified that certifications were submitted an average of 24 days after the required due date.



Financial Management performs monthly reconciliations across 47 Business Type and Government Type funds before certifying capital asset balances in CANSS. According to Financial Reporting, the volume and complexity of the agency's capital asset inventory, including Construction in Progress, extends the year-end reconciliation process and contributes to delays in completing the required certification.

[4] TXCPA SPA User Guide, Chapter 2, General Policies, *SPA Fiscal Year-End Reconciliation and Certification of Fiscal Balances*, requires AFR Full Reporting agencies to certify SPA fiscal balances and Capital Asset Note 2 in CANSS by October 20 each fiscal year. Additionally, Texas Government Code Section 403.271 requires agencies to ensure capitalized asset balances reported in SPA are accurate, materially correct, and reflective of the agency's financial position as reported in the AFR.

[5] An FRA is a Texas state agency or higher education institution required to submit detailed financial conversion entries to support accurate full accrual reporting in the state's ACFR.

Untimely CANSS certification increases the risk of noncompliance with state reporting requirements and may affect the timely preparation and reconciliation of capital asset balances reported in the AFR.

Recommendation

Financial Management (Property Accounting and Financial Reporting) should strengthen controls over the year-end capital asset reconciliation and certification process to ensure CANSS submissions are completed by the required deadline. This could include establishing a documented timeline with key milestones, monitoring progress, escalating delays, and identifying opportunities to complete reconciliation activities earlier to support timely year-end certification.

Management's Response

Management agrees with the recommendations.

Delays in the submission of the CANSS certification in the past few years were partially attributable to the agency's transition to the CAPPS Asset Management module as well as SPA adjustments that required assistance from the TXCPA. Since its implementation in FY 2024, Property Accounting, in collaboration with the Financial Management Business Innovation Team (FinBIT), has continued to enhance its understanding of CAPPS Asset Management functionality, SPA interfaces, and error-resolution processes, improving the team's ability to identify and resolve reconciliation issues more efficiently.

To strengthen internal controls and support compliance with certification deadlines, Property Accounting and FinBIT have already enhanced procedures to emphasize monthly capital asset reconciliations throughout the fiscal year, rather than relying primarily on year-end reconciliations. This approach allows discrepancies to be identified and resolved earlier, reducing outstanding issues during year-end close.

To improve the year-end capital asset reconciliation and certification process, Financial Reporting has developed a well-defined timeline that includes critical checkpoints and responsibilities. This document can be shared with other applicable areas to ensure understanding. We will continue to track progress throughout the fiscal year, escalate any delays, and identify ways to improve the reconciliation process. These steps will help ensure the CANSS certification is completed by the required deadline.

Responsible Parties: *Senior Director of Financial Reporting & Accounting and the Director of Cash Management*

Implementation Date: *April 2026*

Chapter 2

Ensure the Timely Recording and Proper Disposal of Assets

During the audit, a selected sample of 22 assets was selected for physical inventory verification against records in the SPA system. One sampled asset, with an original value of $30,000, assigned to a Field Office, could not be located. Further review determined the asset had been disposed of by field office personnel on September 13, 2025; however, it remained recorded as active in SPA and the agency inventory system approximately six months later.

The asset was disposed of without prior notification to or authorization by Property Management and without following applicable TXCPA disposal requirements[6] or agency disposal procedures[7]. As a result, the agency's asset records were not updated to reflect the disposal.

Untimely and unauthorized asset disposals increase the risk of inaccurate capital asset records, theft or loss of assets, financial reporting errors, noncompliance with state property-disposal requirements, and reduced accountability for agency assets. The issue occurred, in part, because Field Office personnel were not fully aware of the required IT equipment disposal procedures, and communication among the Field Office, ITS, and Property Management was insufficient to ensure proper authorization, notification, and recording of the asset disposal.

Recommendation

Property Management should strengthen controls over the asset disposal process to ensure disposals are properly authorized, communicated, and recorded in SPA and Asset Panda in a timely manner. Specifically, property management should:

1. Direct Field Office personnel to follow the agency's established asset disposal procedures, including required notification and approval processes prior to disposal of assets;
2. Provide required training or guidance to Field Office and ITS personnel regarding agency asset disposal procedures and TXCPA SPA requirements;
3. Ensure that the current process clearly establishes roles, responsibilities, and communication protocols among Field Offices, ITS, and Property Management for processing asset disposals.

[6] TXCPA SPA User Guide, Appendix C – Disposal Methods, requires agencies to properly process and record asset disposals in SPA using approved disposal methods to ensure accurate property records and financial reporting.

[7] GLO Property Accounting Standard Operating Procedure -Disposal and Surplus Process - SPA-tracked assets must follow the full surplus disposal process and may not bypass the Texas Facility Commission surplus process unless explicitly approved as a DM03.

Management's Response

Management agrees with the recommendations.

Upon review, it was determined that personnel in the Oil Spill Prevention and Response Department contacted ITS regarding the asset's disposition and received guidance to discard the equipment due to its condition. However, Property Accounting was not notified prior to disposal and, therefore, was unable to ensure the asset was processed through the agency's established surplus and disposal procedures in accordance with state requirements. The absence of a property tag on the asset at the time of disposal also contributed to the breakdown in the process.

Management recognizes that Property Accounting should have been included in the disposal process to ensure proper authorization, documentation, and timely removal of the asset from agency records. While this appears to be an isolated incident and Property Accounting routinely works with Oil Spill personnel on surplus activities, additional measures will be implemented to reinforce compliance and accountability.

To address the recommendation, Property Accounting has begun developing formal training materials covering asset receiving, inventory management, and surplus processing. These materials will be available to Field Office personnel. Refresher training and quick-reference guides will also be developed to reinforce roles, responsibilities, communication protocols, and disposal requirements. These efforts are intended to strengthen coordination among Field Offices, ITS, and Property Accounting and help ensure future asset disposals are properly authorized, communicated, and recorded in a timely manner.

Responsible Parties: *Director of Cash Management*

Implementation Date: *September 2026*

Appendix

Objective

To assess the agency's controls and processes to ensure that fixed assets are accurately maintained (additions and disposals), recorded, accounted for, and certified in accordance with applicable policies, procedures, and federal and state requirements.

Scope & Methodology

The audit assessed the annual inventory certification process and current asset inventory policies and procedures. The review included fixed asset transactions for FY2025 and the first quarter of FY 2026, including related IT processes supporting asset inventory management.

The audit methodology followed a risk-based approach and included process observations, information gathering, procedural testing, and analysis and evaluation of information.

The audit was conducted in accordance with *Government Auditing Standards* and *Global Internal Audit Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

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