County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Richard Jackson, Chief Information Officer
Information Technology Services

Date: October 22, 2009

From: Christine L. Cohen

Subject: AUDIT OF CHANGE IN DIRECTOR FOR INFORMATION TECHNOLOGY SERVICES

EXECUTIVE SUMMARY

We have completed our audit of the change in director for Information Technology (IT) Services. Our overall objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. As part of our audit, we also evaluated inventory controls, focusing on areas identified in our last follow-up audit of inventory procedures dated November 25, 2003. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

Overall, IT Services satisfactorily transferred accountability and administrative functions from the preceding to the succeeding director. For example, we verified that *Statements of Economic Interests* and signature authorizations were filed in a timely manner. We confirmed that County property assigned to the prior director was accounted for properly and that security measures were updated. We also verified that certain expense reimbursements received by the prior director were appropriate.

However, opportunities were available to improve the transition process and strengthen certain department operations. Specifically, we found that actions were needed to:

- Ensure the transfer and confirmation of fixed asset accountability as required by the Government Code.

- Perform periodic physical inventories of sensitive non-fixed assets as required by County policy.

- Strengthen inventory controls and management by:

    - Limiting access to storage areas.
    - Ensuring inventory removals can be traced to work orders or vehicles.
    - Compensating for the lack of segregation of duties between inventory receiving and recording functions.
    - Improving year-end inventory count procedures.
    - Developing relevant performance measurements.

IT Services management initiated corrective action to address our findings. Corrective action is planned to be completed by June 30, 2010.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Marty Robinson, County Executive Officer

ATTACHMENT

AUDIT OF CHANGE IN DIRECTOR
FOR INFORMATION TECHNOLOGY SERVICES

BACKGROUND:

Information Technology (IT) Services plans, analyzes, develops, operates, and maintains computer-assisted systems to support the information processing requirements for the County. IT Services provides County agencies with general business systems, acquisition, and development guidelines, and can also provide requesting agencies with short-term and long-term IT planning assistance.

IT Services also stocks inventory to support installations and repairs. At the time of the change in director, voice and data parts were received and stored at the Service Building at the Ventura County Government Center. Radio/wireless parts were received and stored at the County's vehicle service and repair facility in Saticoy. IT Services is currently in the process of completing the transition of all parts to be received at the Saticoy location. As of June 30, 2008, the inventory balance at the Service Building was approximately $496,000 and the balance at the Saticoy facility was approximately $397,000.

The current director, Richard Jackson, was appointed to replace J. Matthew Carroll as IT Services director effective March 9, 2008, upon the prior director's transfer to the County Executive Office. IT Services was authorized 187 positions for fiscal year 2008-09 and a combined budget of over $43 million.

SCOPE:

Our overall audit objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. Specifically, we:

- confirmed that fixed assets were accounted for properly and evaluated controls over sensitive non-fixed assets (e.g., laptop computers, etc.);
- verified that required documents, such as *Statements of Economic Interests* and signature authorizations, were completed;
- reviewed actions taken to update security measures, including the deactivation of facility access cards and termination of computer access;
- confirmed that County equipment was collected from the prior director and accounted for properly;
- verified that expenses incurred by the outgoing director in the months before the outgoing director's transfer were appropriate; and
- evaluated inventory controls, focusing on improvements implemented since our last follow-up audit of inventory procedures dated November 25, 2003.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period January 2007 through July 2009.

FINDINGS:

Overall, we found that IT Services satisfactorily transferred accountability and administrative functions from the preceding to the succeeding director. We verified that *Statements of Economic Interests* were filed properly by both the preceding and succeeding IT Services directors and that signature authorizations were filed in a timely manner. We confirmed that County property assigned to the prior director was either returned or transferred to the County Executive Office and that security measures were properly updated to reflect the prior director's transfer. We also verified that expense reimbursements received by the prior director during the 6 months prior to transferring to the County Executive Office were appropriate.

However, we identified several areas where actions were needed to improve accountability of departmental assets and inventory. Specifically, procedures were needed to formalize the transfer of fixed assets upon a change in director and to ensure the timely filing of annual fixed asset inventory affidavits in accordance with the Government Code. Periodic physical inventories of sensitive non-fixed assets were also needed to confirm that these assets were accounted for properly.

In addition, we recognize the conversion to the Service Now inventory management system, implemented to interface with the Information Systems Request (ISR) system to improve controls over inventory purchase requisitions, goods received, and parts master file data. We also recognize that, with the implementation of this new system, certain key inventory management features that were previously cost prohibitive, such as the identification of reorder points, are planned to be addressed. However, our review of inventory procedures disclosed that few changes had been made since the 2003 audit to strengthen controls to limit inventory shortages, improve year-end inventory count practices, and develop performance measurements.

Following are details of the areas where improvements were needed. IT Services management initiated corrective action during the audit as noted.

1. Asset Accountability. Improvements were needed to account for fixed assets and sensitive non-fixed assets properly and to comply with the Government Code and County Administrative Policy Manual. Specifically, we noted that fixed asset accountability was not transferred upon the change in director and annual fixed asset affidavits were not always submitted to the Auditor-Controller in a timely manner. We also noted that sensitive non-fixed assets were placed at risk due to the lack of periodic physical inventories.

   A. Transfer of Fixed Asset Accountability. Accountability was not transferred for over $37 million in fixed assets from the preceding director to the succeeding director. The preceding director transferred to the County Executive Office effective March 9, 2008, without transferring accountability with a signed receipt to the succeeding director as required by Government Code Section 24051. Therefore, for 4 months from March 9 to July 10, 2008, when the succeeding director properly certified the fixed asset inventory, accountability was not established over fixed assets. Management's improvement of director exit procedures would ensure appropriate transfer of accountability.

      Management Action. IT Services management stated: "Personnel in the Admin and Fiscal divisions will be updated in the requirements of Government Code 24051 in preparation of future changes in Director."

B. Affidavit of Annual Fixed Asset Inventory. The prior director's final *Affidavit of Annual Inventory of County Property* was not filed with the Auditor-Controller in a timely manner. Government Code Section 24051 and the County Administrative Policy on *County Fixed Asset Inventory Control* [Policy No. Chapter VII (B) – 2] require all departments to file fixed asset inventories under oath no later than July 10 of each year. Although we recognize that the 2008 and 2009 affidavits were submitted timely by the current director, the prior director's 2007 affidavit was submitted on December 4, 2007, nearly 5 months after the deadline.

Management Action. IT Services management stated: "Department procedures have been implemented which ensure timely submission of the Affidavit of Annual Inventory of County Property."

C. Periodic Inventory of Sensitive Non-Fixed Assets. IT Services did not conduct periodic physical inventories of sensitive non-fixed assets as required by the County Administrative Policy on *County Non-Fixed Asset Inventory Control* [Policy No. Chapter VII (B) – 3]. Sensitive non-fixed assets are non-capitalized items with a value of less than $5,000 and are subject to pilferage and misappropriation if not properly controlled. Although IT Services defined and tracked sensitive non-fixed assets, which included 181 desktop computers, 26 laptop computers, 6 servers, and 20 cell phones, the items have not been inventoried. Without periodic physical inspections of these items, theft or loss could occur without timely detection.

Management Action. IT Services management stated: "Physical inventory procedures will be developed and a physical count performed on all Department sensitive non-fixed assets prior to the end of the current fiscal year and annually thereafter."

2. Inventory Procedures. Improvements to inventory procedures were needed in several areas to better account for and manage inventory. Our review of 2008 inventory count sheets for approximately $489,000 in inventory disclosed that the counts identified a net shortage of approximately $101,000 (21%). Therefore, attention was needed to strengthen internal controls, including: limiting access to inventory; ensuring inventory removals can be traced to work orders or vehicles; and compensating for the lack of segregation of duties between inventory receiving and recording functions. In addition, we identified opportunities to improve year-end inventory count procedures and enhance inventory management through the use of performance measurements.

A. Safeguarding Inventory. Additional measures were needed to better control and limit access to inventory to mitigate losses. Our test counts of 30 part numbers in the main warehouse costing approximately $88,000 disclosed a shortage of over $16,000 (18%). We recognize that the number of employees with 24-hour, card-reader access to the main warehouse was significantly reduced from 41 to 27 (34%) since our last audit. However, additional oversight procedures had not been implemented, such as management's review of employee entry reports to identify employees who entered the warehouse when warehouse staff was not present. In addition, our review of the *Inventory Log Out Sheet* from September 17 to October 7, 2008, disclosed at least two cases where an employee signed out part(s), but did not have documented authority to enter the warehouse. Further, because signatures on the *Inventory Log Out Sheet* were not always provided or printed legibly, we could not conclusively identify the number of occurrences in which other unauthorized personnel may have removed items.

Management Action. IT Services management stated: "Inventory safeguarding controls have been strengthened with the recent relocation of all parts inventory to the Saticoy location as access has been limited to inventory personnel. We are in the process of reviewing after hour access policy and procedures, modifications to which will be implemented prior to the end of the calendar year."

B. Accounting for Inventory Removals. Controls over *Inventory Log Out Sheets* were not always adequate to ensure that work order numbers or vehicle numbers were provided when inventory was removed from the warehouse. Specifically, our review of *Inventory Log Out Sheets* from February 2007 to October 2008 disclosed that 25 out of approximately 450 (6%) line item removals were not assigned to a work order or vehicle. As a result, reasonable assurance could not be provided that these inventory costs were recovered through work order charges or could be traced to vehicles.

Management Action. IT Services management stated: "Accounting for inventory removal procedures were modified with the recent transition of the parts inventory to the Saticoy facility in that all removals are performed and documented by the employee accountable for the inventory accuracy. All disbursed inventory is assigned to a work order and/or vehicle (vehicles are assigned parts for break/fix activity)."

C. Segregation of Duties. Duties were not properly segregated between inventory receiving and recording functions. Because the same person who physically received the goods also recorded the quantity received into the electronic inventory system, the items were at risk of misappropriation. For example, false recording of inventory received could occur to skim portions of the shipment. Although hiring additional staff to separate these functions would be cost prohibitive, sufficient consideration had not been given to implementing additional controls to compensate for the lack of segregation of duties. For instance, fiscal management could improve oversight by periodically verifying that quantities entered in the inventory system agreed with quantities shown on receiving reports.

Management Action. IT Services management stated: "Segregation of duties control procedures will be implemented prior to the end of the current calendar year."

D. Year-End Inventory Count. Controls over the year-end counting of inventory were in need of improvement to ensure the integrity and accuracy of initial counts and subsequent recounts.

i. Count Practices. The inventory count practices used by IT Services were not always sufficient to support that proper segregation of duties was employed during the count. During our prior audit, we found that each technician counted inventory in his/her own vehicle and work area using count sheets that listed expected quantities on hand. This called into question the integrity of the counts because counters had the ability to adjust inventory shortages discovered in vehicles and work areas without detection. Because the 2008 inventory count sheets did not include the names of the count teams, assurance could not be provided that independent accounting staff actually performed the counts. In addition, without assurance that count teams were independent of custodial duties, continuing to list expected quantities on hand put the counts at risk of improper influence.

Management Action. IT Services management stated: "Annual physical count procedures were implemented for the FY 08/09 physical inventory to address the control deficiencies noted. Physical counts are presently performed utilizing two employee count teams with one team member being from the fiscal division while tally sheets include the initials of the two team members."

ii. Recounts. Although management stated that minimal inventory recounts were required during the 2008 inventory, recount results were not documented to support adjustments to the initial counts. Management explained that, if a recount was required, staff not involved in the initial count was contacted to perform a recount, and the results were phoned over to IT Services' Fiscal Division. If the recount agreed with the original count, no further action was taken; however, the results of the recount were not documented. If a discrepancy from the original count was noted, a third count was performed, and the count that agreed with one of the two previous counts was used as the final physical inventory count; however, again no documentation existed to support this count.

Management Action. IT Services management stated: "The physical count procedures implemented for the FY 08/09 year end inventory addressed these deficiencies as the required recounts were observed on the day of the physical inventory with a fiscal team member participating in the recount process."

E. Performance Measurements. Opportunities were available to better manage inventory by developing performance measurements to evaluate the effectiveness of inventory operations. Although IT Services has established certain tracking mechanisms for areas such as billable labor hours and billable parts dollars, these measurements do not contribute to management's ongoing monitoring of inventory. Developing performance measurements from basic inventory calculations, such as inventory turnover, could enhance decision-making and identify where improvements may be necessary.

Management Action. IT Services management stated: "Inventory performance measures will be implemented by the end of the current fiscal year."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by June 30, 2010.

We appreciate the cooperation and assistance extended by you and your staff during this audit.