

Internal Audit Report 2018-017

**Riverside County Information Technology,
Change of Department Head Audit
(Chief Information Officer)**

Report Date: March 4, 2019



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March 4, 2019

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Chief Information Officer
Riverside County Information Technology
3450 14th Street
Riverside, CA 92501

**Subject: Internal Audit Report 2018-017: Riverside County Information Technology,
Change of Department Head Audit (Chief Information Officer)**

Dear Mr. Rogers:

In accordance with Board of Supervisors Resolution 83-338, we completed a change of department head audit for Riverside County Information Technology (Chief Information Officer). This audit is conducted to assess internal controls over the transfer and safeguarding of revolving funds and capital assets when there is a change in department head.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we determined:

- 1) Transfer of responsibility for revolving funds and capital assets to the newly appointed Chief Information Officer was processed timely and documented with required forms.
- 2) Internal controls are inadequate and not operating effectively for the safeguarding of the revolving funds and capital assets. Specifically, revolving fund reconciliations did not show evidence of adequate segregation of duties. Also, capital assets with an estimated value of \$2.8 million, were not adequately tracked and were not recorded in the Riverside County's financial system.

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Head Audit (Chief Information Officer)**

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

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Executive Summary

Overview

Riverside County Information Technology (Information Technology) is an Internal Service Fund with 100% reliance on revenues received from services. They offer services such as comprehensive technological services and support, secure systems, and project management to county departments.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls and safeguarding over the transfer of revolving funds and capital assets when there is a change in department head.

Audit Conclusion

Based upon the results of our audit, we determined:

- 1) Transfer of responsibility for revolving funds and capital assets to the newly appointed Chief Information Officer was processed timely and documented with required forms.
- 2) Internal controls are inadequate and not operating effectively for the safeguarding of the revolving funds and capital assets. Specifically, revolving fund reconciliations did not show evidence of adequate segregation of duties. Also, capital assets with an estimated value of \$2.8 million, were not adequately tracked and were not recorded in the Riverside County's financial system.

Revolving Funds

Background

Under the authority of Government Code Section 29320-29334, the Riverside County Board of Supervisor's adopted Board Resolution 74-156 on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The Board of Supervisors adopted Board Resolution 83-338, authorizing the Riverside County Auditor-Controller to audit revolving funds of any officer accountable for such resources upon transfer of such resources to a new officer.

The Riverside County Information Technology (Information Technology) has one revolving fund, with an authorized balance of \$8,000, maintained in the form of a bank account and petty cash. We reviewed and verified Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form*, was completed and filed with the Riverside County Auditor-Controller's Office for the transfer of custodianship of the revolving funds to the new department head. Riverside County Information Technology has an established process in place for the safeguarding of the revolving funds. Access to the revolving fund/petty cash is limited to the fund custodian and three back-up individuals. We physically observed the petty cash funds are kept in locked boxes in a safe with access limited.

Objective

To determine if the required forms for the transfer of accountability of revolving funds from the predecessor to the new appointed department head were completed, and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of the revolving funds.

Audit Methodology

To accomplish these objectives, we:

- Reviewed Riverside County Auditor-Controller Standard Practice Manual Form AR-1, *Revolving Fund Request Order & Change Form* for the establishment and transfer of the revolving funds
- Interviewed key personnel and reviewed department procedures over the revolving funds
- Verified revolving fund reconciliations were prepared
- Performed a surprise cash count and reconciled to the fund assignment amounts
- Reviewed for adequate segregation of duties

Finding 1: Fund Reconciliations

Preparation and review of monthly revolving fund reconciliations are not evidenced with date and signature from the preparer and reviewer. As such, there is no evidence that proper segregation of duties exists, reconciliations and reviews are performed in a timely manner, and that adequate reviews at the appropriate level are being performed. The Auditor-Controller's Standard Practice Manual 603, *Revolving Funds*, states, "Reconciliations must be properly reviewed and approved by a supervisor..." Further, Standard Practice Manual 1001, *Internal Controls*, states, "Duties are divided or segregated so that no one person has complete control over a key function or activity." Information Technology staff did not follow county policies and procedures. Signatures from the preparer and reviewer provide reasonable assurance that errors or fraudulent activities do not go undetected.

Recommendation 1

Ensure monthly fund reconciliations are evidenced with dates and signatures by the preparer and reviewer.

Management's Response

Concur. RCIT has updated the department's Revolving Fund Bank Reconciliation form to include a preparer's name, date and signature and a reviewer's name, date and signature."

Actual/estimated Date of Corrective Action: **October 3, 2018**

"RCIT revolving fund bank reconciliation as of September 30, 2018 has been modified to incorporate this change."

Capital Assets

Background

Capital assets are tangible assets of significant value which have a utility that extends beyond the current year, and are broadly classified as land (valued at \$1 or more), buildings and improvements, infrastructure, and equipment (acquisition cost of \$5,000 or greater).

Per the Riverside County Auditor-Controller's Standard Practice Manual, Policy Number 515, *Transfer of Accountability on Capital Assets*, it states that upon retirement or termination of a department head, accountability for capital assets must be transferred to the new or acting department head and notification filed with the Riverside County Auditor-Controller's Office.

As of May 12, 2017, the time the new director became acting director and acknowledged receipt of capital assets from the outgoing officer, Riverside County Information Technology maintained 2,878 capital assets in the Riverside County Financial System Asset Management Module (Asset Management Module), consisting of servers, office equipment, and routers and switches with the combined acquisition cost of \$183.8 million.

Objective

To determine if the required Standard Practice Manual Form AM-1, *The Inventory of County Property for Capital Assets*, for the transfer of accountability of capital assets from the predecessor to the new appointed department head was completed and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of capital assets.

Audit Methodology

To accomplish these objectives, we:

- Obtained an understanding of board policies and applicable standards
- Established the date of the department head change
- Verified proper forms were completed for transfer of accountability of capital assets and submitted to the Riverside County Auditor-Controller's Office
- Obtained a listing of capital assets tracked in the Asset Management Module
- Selected a random sample and verified the existence of capital assets that were transferred to the new department head

Finding 2: Tracking of Capital Assets

Information Technology is not properly tracking capital assets. Out of 15 capital assets tested, we identified the following:

- Five assets could not be located
- One asset had the incorrect serial ID

Standard Practice Manual 513, *Capital Asset Tags*, states, "Each department is responsible for the tagging and tracking of all movable assets." Information Technology staff did not properly track and tag capital assets. When not accounted for or properly identified in the Asset Management Module, an overstatement or understatement of capital assets occurs. Further, not having adequate monitoring controls increases the risk of theft and misappropriation.

Recommendation 2.1

Ensure capital assets are properly tracked and tagged in accordance with Standard Practice Manual 513, *Capital Asset Tags*.

Management's Response

"**Concur.** The five assets that could not be located at the time of the audit were located by RCIT technical staff. During future audit visits, RCIT will ensure that the appropriate staff are assigned to assist with locating assets in a prompt manner. Additionally, the asset that had the incorrect serial ID has now been corrected and updated in PeopleSoft."

Actual/estimated Date of Corrective Action: **December 31, 2018**

"RCIT will soon begin its annual process of certifying capital assets for FY 18/19. RCIT will verify that all locations are correct. In addition, RCIT will begin random audits to ensure compliance."

Recommendation 2.2

Develop a policy to ensure all capital assets purchased are placed into service and added to the Asset Management Module in a timely manner.

Management's Response

"**Concur.** RCIT has updated its Capital Asset Management procedure, Asset Management procedure for Third Party Payments and the IT Procurement Process. Staff has been trained on updates to ensure assets are added in a timely manner."

Actual/estimated Date of Corrective Action: **November 1, 2018**

“RCIT will distribute and post updated procedures on its SharePoint website.”

Finding 3: Purchase of Capital Assets

The capital assets approved for purchase by the Riverside County Board of Supervisors through the purchase of the Riverside County Collaboration Center on November 14, 2013, valued at \$2.8 million, have not been recorded in the Asset Management Module. Additionally, we found the following other conditions in our review of these assets:

- After the purchase, the assets were clustered as one asset and documented as construction in progress as a temporary measure to have them uploaded in the Asset Management Module and assess the true value of the assets. Five years later, the assets have not been updated in the Asset Management Module for proper tracking and accounting.
- Assets have not been capitalized nor have they been depreciated since the assets have not been reclassified from construction in progress to active assets in the Asset Management Module.
- Information Technology could not provide a listing of active assets clustered in this group valued at \$2.8 million. Further, we were not able to identify any of these assets in the Asset Management Module as evidence they are being adequately tracked in the system.
- We were not able to verify the locations or physically verify the assets.
- The true value of the assets is not documented. These assets were purchased together with the Riverside County Collaboration Center without an appraisal report determining the value of each asset.

When assets are inadequately recorded, identified, tracked, and reported, internal controls over the safeguarding of assets are significantly weakened. Furthermore, it understates or overstates the capital assets in the government wide financial statements of Riverside County.

Recommendation 3.1

Ensure capital assets acquired in purchase approved by the Riverside County Board of Supervisors on November 14, 2013 are properly recorded to ensure capitalization and depreciation occurs in accordance with Standard Practice Manual 502, *Guidelines for Useful Lives*.

Management's Response

“**Concur.** All capital assets have been identified and will be properly recorded.”

Actual/estimated Date of Corrective Action: **December 15, 2018**

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“RCIT has been working with ACO capital assets principal accountant to have these assets properly recorded into PeopleSoft.”

Recommendation 3.2

Ensure all capital assets are correctly and accurately added to the Asset Management Module and costs are assigned in accordance with Standard Practice Manual 501, *Cost Basis for Capital Assets and Capitalization Thresholds*.

Management’s Response

“**Concur.** All capital assets have been identified and the cost of the assets have been determined.”

Actual/estimated Date of Corrective Action: **December 15, 2018**

“RCIT Fiscal has been working with ACO capital assets principal accountant to have the assets properly recorded into PeopleSoft.”

Recommendation 3.3

Ensure capital assets are properly tagged and tracked in accordance with Standard Practice Manual 513, *Asset Tags*.

Management’s response

“**Concur.** All capital assets have been identified and will be properly tagged and tracked.”

Actual/estimated Date of Corrective Action: **November 15, 2018**

“RCIT Fiscal has been working with the ACO capital assets principal accountant to have the assets properly recorded into PeopleSoft.”

Recommendation 3.4

Reclassify and uniquely identify assets that are clustered as construction in progress.

Management’s Response

“**Concur.** All capital assets will be reclassified and transferred from construction in progress.”

Actual/estimated Date of Corrective Action: **December 15, 2018**

“RCIT Fiscal has been working with the ACO capital assets principal accountant to have the assets properly recorded into PeopleSoft.”