

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: County Auditor-Controller

SUBMITTAL DATE:
January 12, 2009

SUBJECT: Internal Audit Report 2007-016: Transportation Department, Transportation Garage

RECOMMENDED MOTION: Receive and file Internal Audit Report 2007-016: Transportation Department, Transportation Garage.

BACKGROUND: The Auditor-Controller completed an audit of the County of Riverside Transportation Department, Transportation Garage. Our purpose was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the Department's processes and fiscal procedures.

Based upon the results of our audit, improvements are needed for the internal controls over; obsolete inventory items, reporting capitalized assets, accountability for non-capitalized assets, preventive maintenance actions, equipment repair costs, calculating depreciation expenses, developing shop rates and information security.

Management concurred with the audit report findings and recommendations and provided a corrective action plan. We will follow-up within one year to verify that management took corrective action.

Departmental Concurrence

Robert E. Byrd

Robert E. Byrd
County Auditor-Controller

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

County Executive Office Signature

Consent
 Policy

 Consent
 Policy

 Dep't Recomm.:
 Per Exec. Ofc.:

Prev. Agn. Ref.: | **District:** | **Agenda Number:**



County of Riverside

INTERNAL AUDIT REPORT

Transportation Department Transportation Garage

August 8, 2008

Office of
Robert E. Byrd, CGFM
County Auditor-Controller

4080 Lemon Street
P.O. Box 1326
Riverside, CA 92502-1326



OFFICE OF THE
COUNTY AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER
Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, MBA
ASSISTANT
AUDITOR-CONTROLLER

August 8, 2008

Mr. Juan C. Perez, Director
Transportation Department
Transportation Land and Management Agency (TLMA)
4080 Lemon Street, 14th Floor
Riverside, CA 92502

Subject: **Internal Audit Report 2007-016: Transportation Department, Transportation Garage**

Dear Mr. Perez:

We have completed an audit of the TLMA Transportation Garage. We conducted the audit during the period July 1, 2007 through December 31, 2007 for operations of July 1, 2005 through November 21, 2007.


Our primary objective was to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's processes and fiscal procedures.

We conducted our audit in accordance with the auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, improvements are needed for the internal controls over; obsolete inventory items, reporting capitalized assets, accountability for non-capitalized assets, preventive maintenance actions, equipment repair costs, calculating depreciation expenses, developing shop rates and information security. Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management. In management's August 5, 2008 response to our December 2007 draft report they indicated that some of our recommendations had been implemented as early as January 1, 2008. We will follow-up within one year to verify that management implemented the corrective actions.

We thank the Transportation Department management and staff for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", written over a horizontal line.

By: Michael G. Alexander, MBA, CIA
Deputy Auditor-Controller

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury
George Johnson, Director, Transportation and Land Management Agency

Table of Contents

	Page
Executive Summary.....	1
Objectives and Methodology.....	2
Results.....	4
Inventory.....	4
Capitalized Assets.....	6
Non-Capitalized Assets.....	11
Operations.....	13
Information Security.....	19
Management's Response.....	Appendix

Executive Summary

Overview

In November of 1991, the Board of Supervisors created the County Transportation and Land Management Agency (TLMA) with Transportation as one of the departments within the new agency. Transportation's stated mission is "to provide the citizens of Riverside County with increasingly more courteous, efficient and cost effective services dedicated to improving the quality of life and orderly economic development by the provision and management of a safe, efficient and convenient transportation system, enhancing the mobility of people, goods and services within the integrated agency activities."

The Transportation Garage operates under the highway operations section of Transportation Department. The Garage provides inventory management, warehousing of supplies and equipment and maintenance of the heavy construction equipment.

During fiscal years 2005/06 and 2006/07, Transportation Garage had more than 7,000 repair orders totaling approximately \$4.5 million in repair and maintenance costs.

Overall Objective

Our overall audit objective was to assess the adequacy of controls and compliance with policies and procedures in the following areas:

- Inventory
- Capitalized Assets
- Non-Capitalized Assets
- Operations
- Information Security

Overall Conclusion

Based upon the results of our audit, we determined improvements are needed for the internal controls over; obsolete inventory items, reporting capitalized assets, accountability for non-capitalized assets, preventive maintenance actions, equipment repair costs, calculating depreciation expenses, developing shop rates and information security.

One of the findings detailed in the capitalized assets result section of this report require corrective action by the Riverside County Purchasing Department.

Details about our audit methodology, results, findings, and recommendations are provided in the body of our report.

Detailed Objectives

Our detailed audit objectives were:

- to determine the adequacy of controls over the department's warehouse inventory per the Auditor-Controller's Office Standard Practice Manual (SPM) 1206 - *"Inventory Materials and Supplies;"*
- to determine if the warehouse inventory recorded in Fleet Focus represents a complete listing of materials and supplies and such assets are physically on hand;
- to determine the adequacy of controls over damaged and/or obsolete items;
- to determine if the fuel inventory system reflects actual fuel transactions;
- to determine if the inventory valuation (based on count at the end of fiscal year 2006/07) matches what is recorded and the inventory value was accurately reported to the Auditor Controller's Office;
- to determine the existence and adequacy of internal controls over the acquisition, safeguarding, valuation, and useful life estimation of capitalized assets;
- to determine the existence and adequacy of internal controls over the acquisition, recording, and management of non-capitalized assets per Board of Supervisors' Policy H-26 - *"Non-Capitalized Asset Management;"*
- to determine if the internal controls related to operations ensured timely and cost-effective repair and maintenance services for equipment and vehicles;
- to determine if repair/maintenance services and related costs were adequately tracked, recorded, and recovered (when appropriate);
- to determine if there was adequate accountability and reporting of capitalized and non-capitalized assets that have been retired per Auditor-Controller's Standard Practice Manual (SPM) 922 - *"Asset Retirements;"*
- to determine if assets that were cannibalized were adequately monitored;
- to obtain a general understanding of the departments Information Technology function and determine if areas of risk are adequately mitigated;

- to determine the adequacy of internal controls over critical data stored electronically; and
- to determine the adequacy of internal controls over applications critical to division operations.

Methodology

To accomplish our objectives, we:

- conducted Internet research related to the Transportation and Land Management Agency, Fleet Focus Fleet Management Software, various fleet equipment descriptions and uses, and obtained general background information, best practices and applicable regulations related to the audited areas;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- performed a financial analysis for the period of July 1, 2004 through June 30, 2007;
- conducted and documented interviews and walk-throughs with department personnel;
- performed a risk analysis of areas to be reviewed during the audit;
- observed, analyzed, and documented information security processes;
- performed limited testing of information security processes. We did not complete vulnerability scans or technical assessments of the departments network system and application related controls;
- reviewed and performed detailed testing of the departments warehouse inventory, operations, and fuel management processes to evaluate adherence to relevant Board of Supervisors' Policies, Auditor-Controller's Standard Practice Manual and Internal Control Handbook Standards; and
- reviewed supporting documentation and performed detailed testing for more than 125 capitalized and non-capitalized assets to evaluate the existence and adequacy of internal controls related to their acquisition, management, and disposal.

Results

Inventory

The garage and warehouse are located on Washington Street in Riverside and serve as the center for receiving, warehousing, distributing, and disposing of supplies and equipment for the department. Warehouse personnel consisted of five individuals supervised by a warehouse supervisor.

The garage utilizes the Fleet Focus Fleet Management System to manage inventory. This system has been in use for more than five years. Warehouse personnel use this system and a manual card system to record the receipt of purchases and the distribution of equipment parts and supplies.

Personnel request supplies and equipment using a pre-numbered stock request form. A copy of the request is sent to the Transportation equipment manager when the request is related to equipment; the additional copies are maintained at the warehouse.

An inventory of warehouse items is completed in cycles beginning in August. Tires are inventoried at least five times a year and all other garage supplies and equipment at least once a year. At the end of Fiscal Year 2006/07 the garage reported an inventory value of \$173,353 which included an adjustment to increase the inventory value by \$12,808 for the net value of unrecorded transactions over the year.

We physically inspected the garage warehouse, interviewed personnel, reviewed documentation, and performed inventory counts and analysis to determine if the department had an adequate system of internal controls over the warehouse inventory. We also evaluated whether management had appropriate procedures in place for the handling of damaged/obsolete items and the disposing of surplus assets.

Finding 1

The department does not have a formal system for identifying and labeling obsolete items. As a result, approximately 18 percent of the inventory items we reviewed were obsolete and no longer in use. These items were originally purchased for \$18,180.

Additionally, obsolete items identified by the Transportation Department were sold to a salvage yard at fair market value or returned to the vendor for credit toward future purchases. In some cases, the warehouse supervisor handled all aspects of the transaction including authorizing the sale or return of the item, handling cash, updating the electronic inventory system to reflect the

reduction in inventory, and reporting the transaction details to the department's fiscal unit. Documentation to confirm the details of the transactions were not consistently obtained from vendors.

Lack of controls over obsolete items results in lost opportunity to sell or return items for maximum value and increased risk of misappropriation.

Recommendation 1.1 Develop, document, and implement policies and procedures to ensure obsolete assets are identified in a timely manner and accurately categorized in the electronic inventory system.

Management's Reply Concur. Parts are kept in stock until the equipment they fit no longer exists. By the very nature of some of our equipment, parts may be slow or have no movement for a long time. This does not mean they are obsolete. Quarterly, before inventory, parts are checked and the obsolete items are removed from the inventory electronic system (FleetFocus). Their cards are pulled from the backup Cardex System and maintained in a section for obsolete parts. The Cardex System is maintained to track the obsolete parts until they are disposed of or returned.

Changes implemented January 1, 2008

Recommendation 1.2 Ensure that duties related to sale and disposal of obsolete items are adequately segregated. The department should also maintain detailed documentation for all credits obtained from vendors in exchange for returned obsolete items. The documentation should contain details of transaction and be signed by the authorized representative of the vendor.

Management's Reply Concur. Items in the inventory system are updated by the Fleet Accounting staff. The warehouse manager maintains the documentation for items returned for cash or credit, or sold as scrap. Cash and checks collected from sales and returns are given by the warehouse manager to the fleet accounting staff for processing.

Changes implemented January 1, 2008

Results

Capitalized Assets

Capital assets are broadly characterized as land, buildings, and equipment, or intangible items with significant value having utility that extends beyond one year. The value of an asset includes all costs necessary to place the asset in service. Departments must submit an annual certification of their capital asset equipment (not including land, buildings, or infrastructure) on or about July 10th to ensure accurate reporting of capital asset inventories. Departments are also required to notify the Auditor-Controller's Office within 30 days of acquisition, betterment, or disposal to provide effective controls over the recording of capital assets. At the end of fiscal year 2006/07 the Transportation Garage reported more than \$27.5 million in capitalized assets with an estimated salvage value of \$1.8 million.

We performed audit tests to verify the existence and adequacy of internal controls related to the acquisition and disposals of capital asset equipment listed in the PeopleSoft Asset Management (AM) Module. We also analyzed the useful life and salvage value estimates for these capitalized assets and determined if the process for calculating these estimates was adequate.

Finding 2

The department did not report capitalized asset acquisitions and disposals to the Auditor-Controller's Office in a timely manner. Of the 78 asset acquisitions and disposals reviewed, none were reported within 30 days. It took the department an average of 206 days to report acquisitions and an average of 278 days to report disposals after they had been sold at auction.

Asset acquisitions and disposals were not reported in a timely manner due to a lack of segregation of duties within the department's asset management function. There was one individual responsible for multiple duties including the reporting of asset status changes to the Auditor-Controller's Office. The department reports that duties had to be prioritized in the order of its importance to operations. Although reporting asset status changes was considered important, it did not take precedence over duties that were essential to daily operations. The department also stated that County Purchasing does not immediately notify them of the sale of equipment at auction and that this contributed to the delay in reporting disposals to the Auditor-Controller's Office.

During our review we noted three assets purchased and six assets disposed during fiscal year 2005/06 were not reported until the end of the next fiscal year. This resulted in the 2005/06 financial statements reflecting ownership of more than \$240,000 in assets that were no

longer owned by the department and more than \$100,000 in unrecorded assets.

Recommendation 2.1 Distribute personnel operational responsibilities to ensure timely reporting of capital asset acquisitions and disposals.

Management's Reply Concur. The acquisitions will take on a more accurate and timely dynamic with the addition of technical staff to support the audit requirement.

Estimated Date of Corrective Action: A New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation 2.2 Transfer assets to County Purchasing using AM Form 6 – "Capital Asset Transfer" and submit the appropriate documentation to the Auditor-Controller's Office within 30 days.

Management's Reply Concur. The transfer of assets will be assigned to the Accountant II (new position for FY09) so as to comply with the 30 day submission to the Auditor-Controllers Office.

Estimated Date of Corrective Action: New position (Accountant II) has been added to Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Finding 3 The department used equipment cost as the basis for calculating useful life. This method did not consider the quality, application, and environment of the asset. Consequently, the useful life estimates were not accurate for many assets and directly impacted depreciation expenses and equipment rates.

We selected eight equipment categories to illustrate the impact of this method. Currently, the useful life estimate impact is as follows¹:

Equipment Category	Average Annual Usage	Useful Life	Yearly Depreciation	Depreciation Rate Per/ Usage Hour	Recovered Depreciation Expenses
AM	1,865.3	120	\$27,582.00	15.12	\$28,203.34
C	69,636.3	60	\$359,401.00	7.78	\$541,770.41
D	6,586.8	60	\$20,579.00	5.94	\$39,125.59
E	18,166.0	84	\$133,819.00	7.12	\$129,341.92
G	18,263.3	144	\$97,571.00	7.06	\$128,938.90

¹ Figures were based on proposed Fiscal Year 2007/08 Shop Rates. Differences are due to rounding.

PT	6,948.0	144	\$71,122.00	10.57	\$73,440.36
Z	21,485.5	120	\$148,036.00	5.87	\$126,119.89
ZT	7,977.5	120	\$96,833.00	14.98	\$119,502.95
Total					\$1,186,443.36

Expected depreciation expense recovery for one year would be \$1.1 million using the current method for estimating useful life.

If the useful life had been based on historical figures²:

Equipment Category	Average Annual Usage	Useful Life	Yearly Depreciation	% Difference from Current Figures	Recovered Depreciation Expenses
AM	1,865.3	215	\$15,394.60	55.8%	\$15,741.40
C	69,636.3	150	\$143,760.40	40.0%	\$216,708.17
D	6,586.8	175	\$7,055.66	34.3%	\$13,414.49
E	18,166.0	192	\$58,545.81	43.8%	\$56,587.09
G	18,263.3	292	\$48,117.21	49.3%	\$63,586.31
PT	6,948.0	169	\$60,600.99	85.2%	\$62,576.40
Z	21,485.5	250	\$71,057.28	48.0%	\$60,537.54
ZT	7,977.5	248	\$46,854.68	48.4%	\$57,824.01
Total					\$546,975.40

Expected depreciation expense recovery for one year would be \$546,975.40. This is a reduction of \$639,467.95 or approximately 53.9%. This amount more accurately matches the rate in which depreciation expenses are incurred over the life of the asset.

Recommendation 3.1 Develop and implement a process for estimating useful life that considers the quality, application, and environment of the asset.

Management's Reply Concur. The development of a more appropriate useful life process was created in 2004 but not implemented at that time.

Estimated Date of Corrective Action: We are planning to review the 2004 depreciation plan during the calculation of our equipment rates for Fiscal Year 2008/2009.

² Figures were based on proposed Fiscal Year 2007/08 Shop Rates. Differences are due to rounding.

Finding 4 The property list submitted with the Inventory of County Property for Capital Asset Form (AM-1) for fiscal year 2006/07 was inaccurate.

We reviewed the listing attached to the AM-1 submitted to the Auditor-Controller's Office and determined that it was missing 24 assets that were owned and in use by the department. The property list was based on a query of PeopleSoft records prepared by department personnel. These 24 assets were not included due to an error in the department's query settings. The error was not detected because the department does not perform a physical inventory of assets to validate the query results.

The AM-1 is used to certify that the property inventory list was true and correct. The department certified the listing without adequately verifying its accuracy.

Recommendation 4.1 Perform a physical inventory of capitalized assets and ensure that the Capital Asset property listing is complete and accurate prior to its submission to the Auditor-Controller's Office.

Management's Reply Concur. We have revised the query which was not providing accurate information. We have also established the criteria to implement the physical inventory per each location.

Changes implemented January 1, 2008

Finding 5 County Purchasing did not transfer the proceeds from the sale of assets to the Transportation Garage in a timely manner. We reviewed the documentation for 34 assets sold at auction on behalf of the Transportation Department. On average it took 112 days to transfer the proceeds to the appropriate Transportation account.

Some of these proceed transfers took place over two fiscal years. Transportation revenue from the sale of equipment was understated by \$45,431.88 during fiscal year 2005/06 while County Purchasing assets/cash was overstated by the same amount.

Recommendation 5.1 County Purchasing should revise its business process so that documentation is processed at the time of sale. Proceeds should be transferred in a timelier manner.

Management's Reply Concur. We have revised our policy to transfer funds to the department within 30 days of receipt of the proceeds from the auction house or buyer of the equipment, not "time of sale." It often takes some time to receive funds and the Department cannot be paying funds to other departments before we receive the funds. In addition,

where appropriate, payment is requested to be made directly to the using department rather than to the Purchasing Department.

Estimated Date of Corrective Action by Purchasing Department:
2/15/2008

Results

Non-Capitalized Assets

Non-capitalized assets are similar to capital assets, except they have an acquisition cost of less than \$5,000. Non-capitalized assets which are small, mobile, easily converted for personal use, and have a fair market value of at least \$200 are classified as "walk-away assets." Examples may include, but are not limited to, laptop computers, personal digital assistants (PDAs), global positioning system (GPS) receivers, and cellular phones.

Non-capitalized assets owned by the department include various tools used to provide repair and maintenance services (e.g., hydraulic lifts and diagnostic computer scan tools). Mechanics also utilize their personal tools to perform job duties. As negotiated by the Laborers' International Union of North America, each mechanic that is a member of this union is given an annual \$250 tool allowance to assist with the purchase of these tools. An employee tool inventory list is maintained for each mechanic per Union agreement. County owned tools checked out to personnel are also listed on this inventory list.

We performed audit testing to verify the existence and adequacy of internal controls over the acquisition and management of non-capitalized assets.

Management of each department in the County of Riverside is responsible to account for county property in his/her possession or charge, as required by Board of Supervisors' Policy H-26. This included tracking walk-away assets in the Asset Management module. Additionally, Standard Practice Manual 104 requires that all assets be adequately safeguarded.

Finding 6

The department did not maintain a list of non-capitalized assets nor did it conduct a regular inventory to ensure these items were safeguarded. Additionally, assets were not consistently labeled as property of the County of Riverside; as a result, these assets could be commingled with tools owned by department personnel.

The department has a vast number of non-capitalized assets. The nature of services provided requires that tools and equipment move to different locations and personnel. The garage management believes the cost related to hiring the number of personnel needed to manage these assets outweighs the benefit of managing these assets. Consequently, the department has not developed or implemented formal policies and procedures regarding non-capitalized assets to ensure these assets are properly monitored.

The likelihood of intentional or unintentional errors related to non-capitalized assets is significantly increased with the absence of an effective system of internal controls over these assets.

Recommendation 6.1 Develop and implement formal policies and procedures to ensure the internal controls over the management of non-capitalized assets are adequate and record "walk-away" assets in the PeopleSoft Asset Management module.

Management's Reply Concur. We have completed the development process and a procedure has been written. Forms have been created to ensure internal control.

The new process was implemented on February 7, 2008 to move forward and capture all purchases starting July 1, 2008.

Results

Operations

The garage operations include repair and maintenance of heavy equipment. Routine preventative maintenance and non-routine repairs are performed at the main garage on Washington Street or at one of the 13 satellite yards where equipment is assigned. The requesting party submits a Form RD-001, "Service Request Form" to garage personnel. A repair order is then generated in the Fleet Focus System and a mechanic is assigned to complete the repair order. The time used to complete repairs and all related costs are tracked in the Fleet Focus System.

Upon completion of the repair order the service hours and parts charged are reviewed and verified for accuracy. The repair order is then submitted to the department's accounting section for processing and then closed in the Fleet Focus System. Repair costs performed by outside parties (i.e. painting) are also tracked in the Fleet Focus System.

The department also had fueling stations located at Washington Street and each of the satellite yards. Other departments utilize the fueling stations and are directly billed. Fuel usage is tracked using the County Fuel Force System. This system requires the use of an identification number.

We performed audit tests to verify that repair/maintenance services and related costs were adequately tracked, recorded, and recovered. We also evaluated the timeliness and cost effectiveness of these services. Additional tests were performed to determine if fuel inventory, fuel usage, and any fuel-related costs and revenues were adequately monitored and recorded. We performed limited testing on the classification and appropriateness of interfund and intrafund transfers.

Standard Practice Manual 104 requires that all county departments and agencies establish, document, and maintain an effective system of internal control to ensure the efficiency and effectiveness of operations. Standard Practice Manual 704 provides guidelines for interdepartmental charging.

Finding 7

Internal controls related to operations did not ensure timely and cost effective repair and maintenance services for equipment. We reviewed the preventative maintenance history for 65 items and found that 39 (60%) did not receive preventative maintenance as required. Additionally, our analysis of 15 assets with total acquisition cost of approximately \$590,000 determined that more than \$790,000 in repair

and maintenance costs was incurred over the life of the assets. About 23% of the repair and maintenance cost was incurred in the last two years.

Department personnel indicated that although there are alerts to perform preventative maintenance in the Fleet Focus system, personnel do not always ensure this maintenance is completed. Equipment may be transferred to another location before maintenance can be performed or the preventative maintenance alert is overlooked. They also indicated that maintenance and repair cost exceeding the original cost of the equipment was incurred because funds needed to replace the equipment were not immediately available. The department created an annual budget and did not always have the funds available to replace equipment for several years after the need was identified.

Failure to complete preventative maintenance in a timely manner may have negatively impacted the performance of the equipment and resulted in the department incurring repair costs that exceeded the amount paid for the equipment by more than \$190,000.

Recommendation 7.1 Ensure garage personnel complete preventative maintenance when required by the maintenance scheduled. This may be accomplished by assigning the responsibility for tracking and setting up preventative maintenance appointments by personnel not directly involved in the use of the equipment.

Management's Reply Concur. The tracking and setting up of preventative maintenance appointments will be handled by the Fleet Accounting Staff in cooperation with the Garage Supervisor.

Estimated Date of Corrective Action: New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008. This position will assume responsibility for the preventative maintenance schedules.

Recommendation 7.2 Develop a comprehensive equipment replacement plan that covers the useful life of department equipment. This will help ensure that equipment is replaced before maintenance and repair costs exceed the benefit of keeping the equipment.

Management's Reply Concur. There is a module within the FleetFocus software that would allow replacement to become more efficient in the future. We are waiting for senior management approval to begin setup criteria.

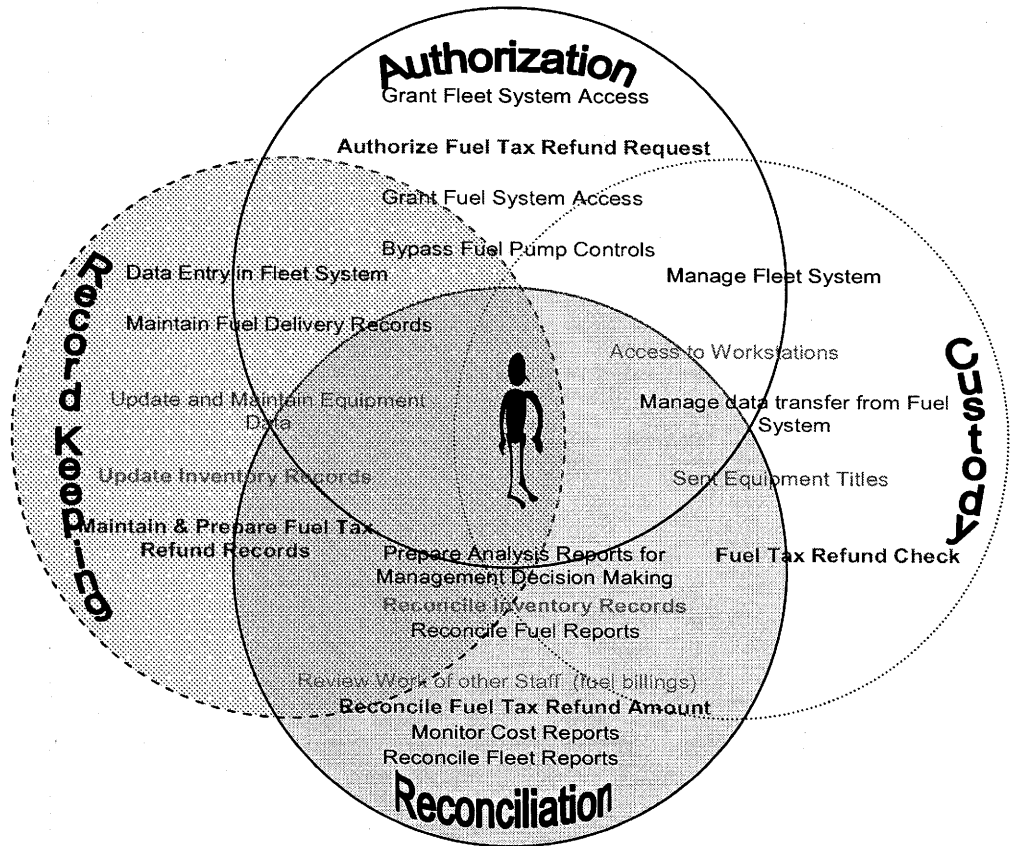
Estimated Date of Corrective Action: There will be a plan in place by July Fiscal Year 08/09.

Finding 8

The department's operational process lacked appropriate separation of job responsibilities. Ideally, different positions would perform each of these four major functions: authorization, custody, record keeping, and reconciliation. No one person should have a role within a process that would allow control of two or more of these functions.

The department had one employee responsible for multiple incompatible duties. For example, one employee prepared and recorded fuel billings, served as administrator for the Fleet Management System, and reconciled fuel balances on occasion. The risk of undetected errors was high as there were no other personnel with significant involvement in the process.

The department attempted to compensate for this weakness by obtaining a Supervising Accountant to assist with daily duties. Although some tasks were delegated to the supervising accountant, the position continues to be responsible for multiple duties that are incompatible:



This employee had been with the department for many years and had extensive knowledge of the operational process and the software used to manage operations and the fuel system. The department

believed it more expedient to allow this employee to continue to handle multiple duties than to train another employee to assist in completing the more complicated tasks.

The lack of adequate separation of roles within the operational process put the department at risk for inefficiencies, errors, and abuse. Additionally, this coupled with the lack of adequate written policies and procedures significantly increased the risk of disruption of operations in the event of employee turnover or extended absences.

Recommendation 8.1 Provide training to personnel to ensure adequate separation of duties.

Management's Reply Concur. Along with the Supervising Accountant who is responsible for the Authorization process for access, refunds and Bypass Controls, we have included in our budget for Fiscal Year 2008/2009, an Accountant II as the position responsible for the Reconciliation of the fuel reports, fleet reports, monitor cost reports and prepare the fleet and fuel analysis reports.

Estimated Date of Corrective Action: New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation 8.2 Ensure that duties related to department operations are adequately segregated.

Management's Reply Concur. Along with the Supervising Accountant who is responsible for the Authorization process for access, and refunds, the garage Fleet Equipment Manager has the authority to Bypass Controls in the case of an emergency. We have included in our budget for Fiscal Year 2008/2009, an Accountant II as the position responsible for the Reconciliation of the fuel reports, fleet reports, monitor cost reports and prepare the fleet and fuel analysis reports.

Estimated Date of Corrective Action: New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation 8.3 Develop a written policy and procedure manual that details how to perform all operation related duties. Procedures within the manual should conform to Standard Practice Manual 104 requirements.

Management's Reply Concur. Written detailed policies and procedures have been completed for all positions in the Fleet Accounting unit. There is also a maintenance manual for the Fuel system which documents performance and trouble shooting functions in that system.

Changes implemented January 1, 2008

Finding 9

The likelihood of errors or improprieties related to fuel are significantly increased with the absence of an effective system of internal control. We reviewed department policies, procedures, and records related to fuel inventory. We noted that while there were significant variances in the Fuel Force Tank Watch Reports, generated from the automated fuel inventory system, management did not investigate these variances to determine the causes. There may have been several causes for these variances:

- Inventory of fuel levels was not manually measured on a periodic basis,
- Records were not always updated with fuel deliveries,
- Perpetual inventory records were not regularly reconciled with manually measured inventory, and
- Inaccurate Fuel tank gauges.

Additionally, fuel pump controls can be bypassed by personnel responsible for maintaining the records within the system and selected personnel at the fuel inventory locations. These methods for bypassing the fuel pump controls could only be detected by maintaining adequate fuel inventory records and conducting regular manual fuel inventories.

Recommendation 9.1 Develop, document and implement a system of internal controls over fuel. This system of controls should ensure that personnel with responsibility over fuel inventory records will not have the authority to bypass fuel controls.

Management's Reply Concur. The Fleet Accounting Staff member who is responsible for the Inventory record keeping does not now have the authority to bypass fuel controls.

Changes implemented January 1, 2008

Recommendation 9.2 Ensure inventory records are updated for all fuel deliveries and fuel tank gauges are calibrated on a regular basis.

Management's Reply Concur. All locations have been reviewed for faulty pumps, meters and gauges. The Washington Street Yard gauges have been calibrated; Perris Yard pumps are being upgraded; Thermal Yard gauges are set to be calibrated.

Changes completed January 1, 2008

Recommendation 9.3 Perform monthly manually measured fuel level inventories and reconcile with perpetual inventory records.

Management's Reply Concur. In the past, the fuel was measured and reconciled on a quarterly basis. Per your recommendation, we now have procedures in place and have implemented a monthly process.

Changes implemented January 1, 2008

Results

Information Security

The scope of the information security review was limited to determining if county security policies and practices were maintained and were adequate for protecting critical, valuable, and sensitive information. We did not perform vulnerability scans or technical assessments of the network system and controls. Our audit was comprised primarily of reviewing processes and practices which we accomplished through interviews, observation, and testing of administrative controls.

Board of Supervisors' Policy A-58, Enterprise Information Systems Security Policy, established a security policy to protect the confidentiality, integrity, and availability of information.

Finding 10

Five former employees of the department had access to department servers from three to 24 months after they had terminated employment. The Network Administrator was not notified of employee discharges in a timely manner. Unauthorized accounts caused information systems to be more vulnerable to attacks and intrusions.

Recommendation 10.1

Disable or delete the unauthorized accounts to prevent further vulnerability to the information system.

Management's Reply

Concur. This issue will be addressed with our department's network administrator. When an employee leaves permanently for any reason, the process will be to create documented correspondence with our Information Department and a follow-up to finalize and verify that the person has been disabled or deleted. The document (printout of email) will then go in the employees file.

Changes implemented January 1, 2008

Recommendation 10.2

Develop and implement a process that will ensure the department's network administrator is notified of employee terminations in a timely manner.

Management's Reply

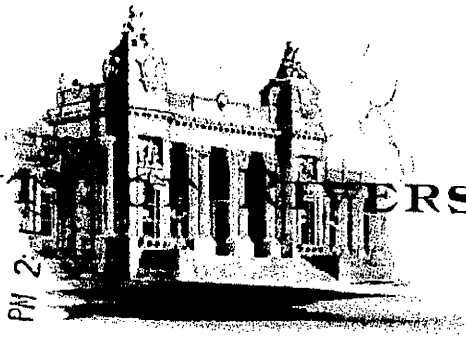
Concur. This issue will be addressed with our department's network administrator. When an employee leaves permanently for any reason, the process will be to create documented correspondence with our Information Department and a follow-up to finalize and verify that the person has been disabled or deleted.

Changes implemented January 1, 2008.

COUNTY OF RIVERSIDE

RIVERSIDE COUNTY
AUDITOR-CONTROLLER

08 FEB 27 PM 2:47



PURCHASING AND FLEET SERVICES

ROBERT J. HOWDYSHHELL
DIRECTOR

PURCHASING
SUPPLY
CENTRAL MAIL
PRINTING
FLEET

MEMORANDUM

DATE: February 8, 2008
TO: Auditor Controller, Audits and Specialized Accounting Division
FROM: Robert Howdyshell, Director, Purchasing and Fleet Services Department
SUBJECT: Reply to Draft Audit Report – TLMA - Transportation Garage

Recommendation Number: 5.1

County Purchasing should revise business process so that documentation is processed at time of sale. Proceeds should be transferred in a timelier manner.

a. Management position concerning the recommendation:

X Concur Disagree

b. Comments:

(Explain if you:

- Disagree with recommendation
- Implement an alternative corrective action
- Need/desire to provide clarification)

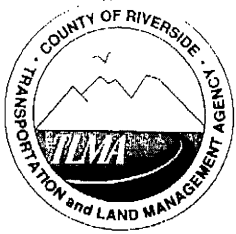
c. Actual/Estimated Date of Corrective Action: 2/15/2008

We have revised our policy to transfer funds to the department within 30 days of receipt of the proceeds from the auction house or buyer of the equipment, not "time of sale." It often takes some time to receive funds and the Department cannot be paying funds to other departments before we receive the funds. In addition, where appropriate, payment is requested to be made directly to the using department rather than to the Purchasing Department.

d. Estimated Cost to Implement Recommendation (If Material)

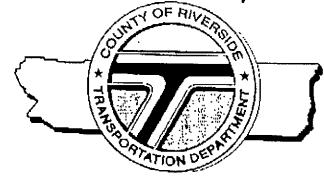
\$ 0

RH:ll



COUNTY OF RIVERSIDE
TRANSPORTATION AND
LAND MANAGEMENT AGENCY

Transportation Department



Juan C. Perez, P.E., T.E.
Director of Transportation

DATE: August 5, 2008
TO: Auditor-Controller
Audits and Specialized Accounting Division
FROM: Juan C. Perez, Director of Transportation Department
SUBJECT: Reply to Draft Audit Report

Recommendation Number 1.1:

Develop, document, and implement policies and procedures to ensure obsolete assets are identified in a timely manner and accurately categorized in the inventory system.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:** Changes implemented January 1, 2008

Parts are kept in stock until the equipment they fit no longer exists. By the very nature of some of our equipment, parts may be slow or have no movement for a long time. This does not mean they are obsolete. Quarterly, before inventory, parts are checked and the obsolete items are removed from the inventory electronic system (FleetFocus). Their cards are pulled from the backup cardex system and maintained in a section for obsolete parts. The cardex system is maintained to track the obsolete parts until they are disposed of or returned.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 1.2:

Ensure that duties related to sale and disposal of obsolete items are adequately segregated. The department should also maintain detailed documentation for all credits obtained from vendors in exchange for returned obsolete items. The documentation should contain the details of transaction and the signature of the vendor's authorized representative.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

Items in the inventory system are updated by the Fleet Accounting staff. The warehouse manager maintains the documentation for items returned for cash or credit, or sold as scrap. Cash and checks collected from sales and returns are given by the Warehouse manager to the Fleet Accounting Staff for processing.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 2.1:

Distribute personnel operational responsibilities to ensure timely reporting of capital asset acquisitions and disposals.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

The acquisitions will take on a more accurate and timely dynamic with the addition of technical staff to support the audit requirement.

c. **Actual/estimated Date of Corrective Action:**

New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation Number 2.2:

Transfer assets to County Purchasing using AM Form 6 – Capital Asset Transfer and submit the appropriate documentation to the Auditor-Controller's Office within 30 days.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:** The transfer of assets will be assigned to the Accountant II (new position for FY09) so as to comply with the 30 day submission to the Auditor-Controllers Office.

c. **Actual/estimated Date of Corrective Action:**

New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation Number 3.1:

Develop and implement a process for estimating useful life that considers the quality, application, and environment of the asset.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

The development of a more appropriate useful life process was created in 2004 but not implemented at that time.

c. **Actual/estimated Date of Corrective Action:**

We are planning to review the 2004 depreciation plan during the calculation of our equipment rates for Fiscal Year 2008/2009.

Recommendation Number 4.1:

Perform a physical inventory of capitalized assets and ensure that the Capital Asset property listing is complete and accurate prior to its submission to the Auditor-Controller's Office.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

We have revised the query which was not providing accurate information. We have also established the criteria to implement the physical inventory per each location.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 5.1:

County Purchasing should revise business process so that documentation is processed at the time of sale. Proceeds should be transferred in a timelier manner.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

This issue will have to be addressed by our County Purchasing Department.

Recommendation Number 7.1:

Develop and implement formal policies and procedures to ensure the internal controls over the management of non-capitalized assets are adequate and record "walk-away" assets in the PeopleSoft Asset Management Module.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

We have completed the development process and a procedure has been written. Forms have been created to ensure internal control.

c. **Actual/estimated Date of Corrective Action:**

The new process was implemented on February 7th, 2008 to move forward and capture all purchases starting July 1st, 2008.

Recommendation Number 8.1:

Ensure garage personnel complete preventative maintenance when required by the maintenance scheduled. This may be accomplished by assigning the responsibility for tracking and setting up preventative maintenance appointments by personnel not directly involved in the use of the equipment.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

The tracking and setting up of preventative maintenance appointments will be handled by the Fleet Accounting Staff in cooperation with the Garage Supervisor.

c. **Actual/estimated Date of Corrective Action:**

New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008. This position will assume responsibility for the preventative maintenance schedules.

Recommendation Number 8.2:

Develop a comprehensive equipment replacement plan that covers the useful life of department equipment. This will help ensure that equipment is replaced before maintenance and repair costs exceed the benefit of keeping the equipment.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

There is a module within the FleetFocus software that would allow replacement to become more efficient in the future. We are waiting for management approval to begin setup criteria.

c. **Actual/estimated Date of Corrective Action:**

There will be a plan in place by July Fiscal Year 08/09.

Recommendation Number 9.1:

Provide training to personnel to ensure adequate separation of duties.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

Along with the Supervising Accountant who is responsible for the Authorization process for access, refunds and Bypass Controls, we have included in our budget for Fiscal Year 2008/2009, an Accountant II as the position responsible for the Reconciliation of the fuel reports, fleet reports, monitor cost reports and prepare the fleet and fuel analysis reports.

c. **Actual/estimated Date of Corrective Action:**

New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation Number 9.2:

Ensure that duties related to department operations are adequately segregated.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

Along with the Supervising Accountant who is responsible for the Authorization process for access, and refunds. The garage Fleet Equipment Manager has the authority to Bypass Controls in the case of an emergency. We have included in our budget for Fiscal Year 2008/2009, an Accountant II as the position responsible for the Reconciliation of the fuel reports, fleet reports, monitor cost reports and prepare the fleet and fuel analysis reports.

c. **Actual/estimated Date of Corrective Action:**

New position (Accountant II) has been added to the Fiscal Year 2008/2009 budget. New Accountant will start July 17, 2008.

Recommendation Number 9.3:

Develop a written policy and procedure manual that details how to perform all operation related duties. Procedures within the manual should conform to SPM 104 requirements.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

Written detailed policies and procedures have been completed for all positions in the Fleet Accounting unit. There is also a maintenance manual for the Fuel system which documents performance and trouble shooting functions in that system.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 10.1:

Develop, document and implement a system of internal controls over fuel. This system of controls should ensure that personnel with responsibility over fuel inventory records will not have the authority to bypass fuel controls.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

The Fleet Accounting Staff member who is responsible for the inventory record keeping does not now have the authority to bypass fuel controls.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 10.2:

Ensure inventory records are updated for all fuel deliveries and fuel tank gauges are calibrated on a regular basis.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

All locations have been reviewed for faulty pumps, meters and gauges. The Washington Street Yard gauges have been calibrated; Perris Yard pumps are being upgraded; Thermal Yard gauges are set to be calibrated.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 10.3:

Perform monthly manually measured fuel level inventories and reconcile with perpetual inventory records.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

In the past, the fuel was measured and reconciled on a quarterly basis. Per your recommendation, we now have procedures in place and have implemented a monthly process.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 11.1:

Disable or delete the unauthorized accounts to prevent further vulnerability to the information system.

a) **Management position concerning the recommendation:**

Concur

b) **Comments:**

This issue will be addressed with our department's network administrator . When an employee leaves permanently for any reason, the process will be to create documented correspondence with our Information Department and a follow-up to finalize and verify that the person has been disabled or deleted. The document (printout of email) will then go in that employees file.

c) **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008

Recommendation Number 11.2:

Develop and implement a process that will ensure the department's network administrator is notified of employee terminations in a timely manner.

a. **Management position concerning the recommendation:**

Concur

b. **Comments:**

This issue will be addressed with our department's network administrator . When an employee leaves permanently for any reason, the process will be to create documented correspondence with our Information Department and a follow-up to finalize and verify that the person has been disabled or deleted. The document (printout of email) will then go in that employees file.

c. **Actual/estimated Date of Corrective Action:**

Changes implemented January 1, 2008