



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: OC Information Technology Capital Assets

For the Year Ended December 31, 2018

Audit No. 1732

Report Date: December 30, 2019

Number of Recommendations

0

Critical Control
Weaknesses

1

Significant Control
Weaknesses

2

Control Findings

OC Board of Supervisors

Chairwoman Lisa A. Bartlett
5th District

Vice Chair Michelle Steel
2nd District

Supervisor Andrew Do
1st District

Supervisor Donald P. Wagner
3rd District

Supervisor Doug Chaffee
4th District



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
OC Information Technology Capital Assets

December 30, 2019

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of OC Information Technology's (OCIT) capital assets process for the year ended December 31, 2018.						
RESULTS	We concluded that OCIT's oversight of the contractor's management of computer-related assets should be improved to ensure assets are properly inventoried, valued, correctly depreciated, and properly recorded in the County's financial statements.						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> • Inaccurate or irregular inventory records. • Undetected theft, loss, damage, or destruction of equipment. • Inaccurate assessment of fines/fees against the vendor. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1247 391 1545"> <tr> <td data-bbox="99 1247 201 1346">0</td> <td data-bbox="201 1247 391 1346">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1346 201 1444">1</td> <td data-bbox="201 1346 391 1444">SIGNIFICANT CONTROL WEAKNESS</td> </tr> <tr> <td data-bbox="99 1444 201 1545">2</td> <td data-bbox="201 1444 391 1545">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	1	SIGNIFICANT CONTROL WEAKNESS	2	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> • Complete the biennial inventory and update County accounting records. • Designate OCIT staff as the Property Officer or designee. • Trace capital assets back to the Configuration Management Database (CMDB) by selecting a non-random sample.
0	CRITICAL CONTROL WEAKNESSES						
1	SIGNIFICANT CONTROL WEAKNESS						
2	CONTROL FINDINGS						

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

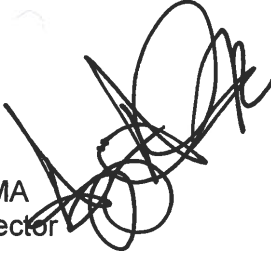
Audit No. 1732

December 30, 2019

To: Joel Golub
Chief Information Officer

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Internal Control Audit:
OC Information Technology Capital Assets



We have completed an Internal Control Audit of OC Information Technology's (OCIT) capital assets process for the year ended December 31, 2018. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCIT concurred with all of our recommendations and the Internal Audit Department considers OCIT's management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCIT's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442, or Assistant Director Scott Suzuki, at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- CEO Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Edie Bailly, LLP, External Auditor

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ OCIT is working with the new contract vendor to complete a wall-to-wall inventory of capital assets. The wall-to-wall inventory will be used to determine actual inventory.
 - ✓ Once a site has been inventoried, signs are posted indicating the site has been inventoried and no changes should be made. The sign provides contact information for Central IT ServiceDesk, if services are needed.
-



<p>FINDING NO. 1</p>	<p>Inventory and Recording of Capital Assets</p> <p>On September 10, 2013, the Board of Supervisors approved a Master Service Agreement (MSA) for voice and data network services. The MSA required the vendor to provide an end-to-end solution, whereby, the vendor owned and managed software, hardware, and resources to supply services to the County. In the initial contract, the County had no control over adding, removing, replacing, inventorying, tagging, or modifying any of the capital assets installed under the MSA at over 130 County locations.</p> <p>County Accounting Manual FA-5 Physical Inventory of Fixed Assets Section 200.313 requires physical inventories of capital assets to be completed at least once every two years. In addition, Generally Accepted Accounting Principles require assets to be recorded in an entity's financial records/system (CAPS+) based on historical cost and should be depreciated throughout the useful life of that asset.</p> <p>OCIT had not completed an inventory of all of their capital assets under this contract and had not fully recorded the capital assets in CAPS+ due to the department not having control over the capital assets that were owned and managed by the vendor. In June 2015, the Auditor-Controller asked OCIT to estimate the value of the capital assets used by the vendor under this contract. OCIT estimated that the capital assets were valued at approximately \$27.6 million (\$14.6 million in assets, \$13 million in labor). However, as of June 2015, only \$14.1 million (51%), which reflected capital assets and labor, had been recorded in CAPS+.</p> <p>OCIT management was restricted in their efforts to both complete an inventory and adequately track and value inventory by the lack of control over asset management included in the initial contract. Specifically, the initial contract did not define ownership of capital assets and did not include provisions requiring the contractor to track asset costs, purchase date, asset movement, replacements, etc. As a result, OCIT did not have all the necessary information to accurately record the capital assets in CAPS+ and has had to rely on estimates developed based on value and acquisition date, making it very difficult and time consuming to accurately record all the assets.</p> <p>We were informed by OCIT that in March 2019, the voice and data network contract expired and a new contract was entered into that clearly delineates that OCIT is responsible for equipment purchases (and the recording of capital assets in CAPS+) and the contractor is responsible for performing periodic inventories.</p>
<p>CATEGORY</p>	<p>Significant Control Weakness</p>
<p>RISK</p>	<p>Inaccurate or irregular inventory records where theft, loss, damage, or destruction of equipment could go undetected.</p>



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RECOMMENDATION	<p>OCIT:</p> <ul style="list-style-type: none"> A. Ensure biennial inventories of capital assets are completed and all capital assets are appropriately recorded in the County's financial system. B. Complete recording any remaining capital assets in CAPS+ to accurately reflect the inventory value and related depreciation for all the capital assets acquired during the prior voice and data service contract. C. Ensure contracts clearly define ownership of capital assets and assign responsibilities for asset tracking.
MANAGEMENT RESPONSE	<p>[Concur.] OCIT will ensure that biennial inventories of capital assets are completed and all capital assets are appropriately recorded in the County's financial system.</p> <p>We are pleased to report that OCIT has now provided Auditor-Controller with the complete capital assets inventory acquired from the prior Atos voice and data services contract for recording in CAPS+. In addition, the current service contracts clearly define ownership of capital assets and assign responsibilities for asset tracking.</p>

FINDING No. 2	<p>Property Officer</p> <p>The property officer for OCIT equipment is an employee from another CEO division.</p> <p>The Fiscal Services Manager at CEO/Finance is the property officer for OCIT. The property officer is a department employee who has been designated by the department head as being accountable for equipment for which the department is responsible, e.g., develops and implements procedures necessary to safeguard assets.</p>
CATEGORY	Control Finding
RISK	Inaccurate or irregular inventory records where theft, loss, damage, or destruction of equipment could go undetected.
RECOMMENDATION	CEO designate an OCIT employee as the property officer or designee.
MANAGEMENT RESPONSE	[Concur.] OCIT will work with the Fiscal Services Manager at CEO/Finance to designate an OCIT employee as the property officer or designee.



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FINDING NO. 3	<p>Inventory Control Oversight</p> <p>OCIT's contract for voice and data network services includes service level requirements (SLR) that have to be met in order to avoid having fee reductions or penalties imposed on the contractor. Specifically, SLR 21, Asset Tracking and Management, requires the contractor to track the inventory including 19 key data elements including asset location and serial number. The contractor tracks the inventory in a database.</p> <p>To evaluate this SLR, on a quarterly basis, OCIT randomly selects a sample from the database and traces the sampled items to the actual equipment to ensure the items exist and key data elements related to the equipment were recorded. To that end, OCIT noted several non-compliance issues and assessed over \$35,000 in penalties to the vendor. However, OCIT does not do reverse testing for completeness by selecting a sample of equipment and tracing it back to the database. Although the contract did not require reverse sampling, testing for completeness is important to ensure that all inventory is appropriately recorded in the County's financial system.</p>
CATEGORY	Control Finding
RISK	The CMDB could be incomplete resulting in inaccurate inventory records, an understatement of inventory valuation, (e.g., assets could exist and not be listed in the CMDB), and inaccurate assessment of fines/fees against the vendor.
RECOMMENDATION	OCIT test the inventory records for completeness by tracing a sample of voice and data network equipment at a selected location to the database.
MANAGEMENT RESPONSE	[Concur.] OCIT will include testing the asset inventory records for completeness by tracing a sample of voice and data network equipment at a selected location to the database as part of the quarterly inventory check.

AUDIT TEAM	<table> <tr> <td>Scott Suzuki, CPA, CIA, CISA</td> <td>Assistant Director</td> </tr> <tr> <td>Michael Dean, CPA, CIA, CISA</td> <td>Senior Audit Manager</td> </tr> <tr> <td>Zan Zaman, CPA, CIA</td> <td>Audit Manager</td> </tr> <tr> <td>Virginia Nguyen, CPA</td> <td>Senior Auditor</td> </tr> </table>	Scott Suzuki, CPA, CIA, CISA	Assistant Director	Michael Dean, CPA, CIA, CISA	Senior Audit Manager	Zan Zaman, CPA, CIA	Audit Manager	Virginia Nguyen, CPA	Senior Auditor
Scott Suzuki, CPA, CIA, CISA	Assistant Director								
Michael Dean, CPA, CIA, CISA	Senior Audit Manager								
Zan Zaman, CPA, CIA	Audit Manager								
Virginia Nguyen, CPA	Senior Auditor								



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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	Our audit objective was to assess internal control over OCIT's oversight of contractor's management of computer-related assets to ensure these capital assets are properly inventoried, valued, correctly depreciated, and properly recorded in the County's financial statements.
SCOPE & METHODOLOGY	Our audit scope was limited to internal control over OCIT's capital assets for contracted Shared Services and Managed Services for the year ended December 31, 2018. Our methodology included inquiry, observation, and examination of documentation.
EXCLUSIONS	Our audit scope did not include a review of controls over capital assets outside of the Master Services Agreement for voice and data network services (MSA No. MA-017-13012100). We also did not review controls over the procurement process of capital assets.
PRIOR AUDIT COVERAGE	We have not issued any audit reports for OCIT with a similar scope within the last ten years.
BACKGROUND	<p>OC Information Technology's (OCIT) mission is "to provide innovative, reliable, and secure technology solutions that support County agencies and departments in the delivery of quality public services."</p> <p>OCIT provides voice, network, internet access, data center services, and applications development to County departments and agencies.</p> <p>On September 10, 2013, the Board of Supervisors (Board) approved MSA No. MA-017-13012100 between County of Orange and Xerox State & Local Solutions Inc. (later changed to Atos Governmental IT Outsourcing Services, LLC) for voice and data network services. The Agreement was for five years with an option for two one-year renewals. As of December 31, 2018, the Agreement has had five Amendments. Amendment No. 6 was approved by the Board in 2019. The Agreement with Atos expired on March 16, 2019. The new vendor for network, voice, and security services is Science Applications International Corporation (SAIC).</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to: resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



APPENDIX B: REPORT ITEM CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



APPENDIX C: OC INFORMATION TECHNOLOGY MANAGEMENT RESPONSE

From: [Golub, Joel](#)
To: [Dean, Michael](#); [Alonso, Aggie](#); [Suzuki, Scott](#); [Zaman, Zan](#)
Cc: [Vu-Le, Thuy](#); [Roestenberg, KC](#)
Subject: FW: Revised Draft Report for Audit No. 1732
Date: Tuesday, December 24, 2019 12:45:07 PM
Attachments: [image001.png](#)
[1732 REVISED_FINAL DRAFT FINAL VERSION.docx](#)
[Internal Audit Report.pdf](#)

Michael, Scott and Aggie,

OCIT concurs with the attached, revised report for Audit No. 1732. We concur with all findings and recommendations.

Per Internal Audit's recommendations, OCIT will:

1. Ensure that biennial inventories of capital assets are completed and all capital assets are appropriately recorded in the County's financial system.
2. Work with the Fiscal Services Manager at CEO/Finance to designate an OCIT employee as the property officer or designee.
3. Include testing the asset inventory records for completeness by tracing a sample of voice and data network equipment at a selected location to the database as part of the quarterly inventory check.

We are pleased to report that OCIT has now provided Auditor-Controller with the complete capital assets inventory acquired from the prior Atos voice and data services contract for recording in CAPS+. In addition, the current service contracts clearly define ownership of capital assets and assign responsibilities for asset tracking.

I appreciate you and your team's collaboration and understanding of the unique contract situation the County had with Atos.

Joel

