

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

630



FROM: County Auditor-Controller

SUBMITTAL DATE:
October 25, 2010

SUBJECT: Internal Audit Report 2010-310: Transportation and Land Management Agency, Transportation Garage, Follow-up.

RECOMMENDED MOTION: Receive and file Internal Audit Report 2010-310: Transportation and Land Management Agency, Transportation Garage, Follow-up.

BACKGROUND: The Auditor-Controller has completed a follow-up audit of the Transportation and Land Management Agency, Transportation Garage. Our audit was limited to reviewing actions taken to correct the ten findings referenced in our Internal Audit Report 2007-016 dated August 8, 2008. The original audit report contained ten findings, all of which required corrective action and therefore were reviewed as part of this audit. This follow-up audit found eight of the findings were corrected and two findings were partially corrected. We will perform another follow-up to verify management took corrective action on the two partially corrected findings.

Bruce Kincaid

BRUCE KINCAID - ASST. AUDITOR - CONTR.

for 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

☐

Requires 4/5 Vote

☐

C.E.O. RECOMMENDATION:

APPROVE

BY:

Karen L. Johnson
Karen L. Johnson

County Executive Office Signature

Dep't Recomm.:
☐ Policy

Per Exec. Ofc.:
☐ Policy

☒ Consent

☒ Consent

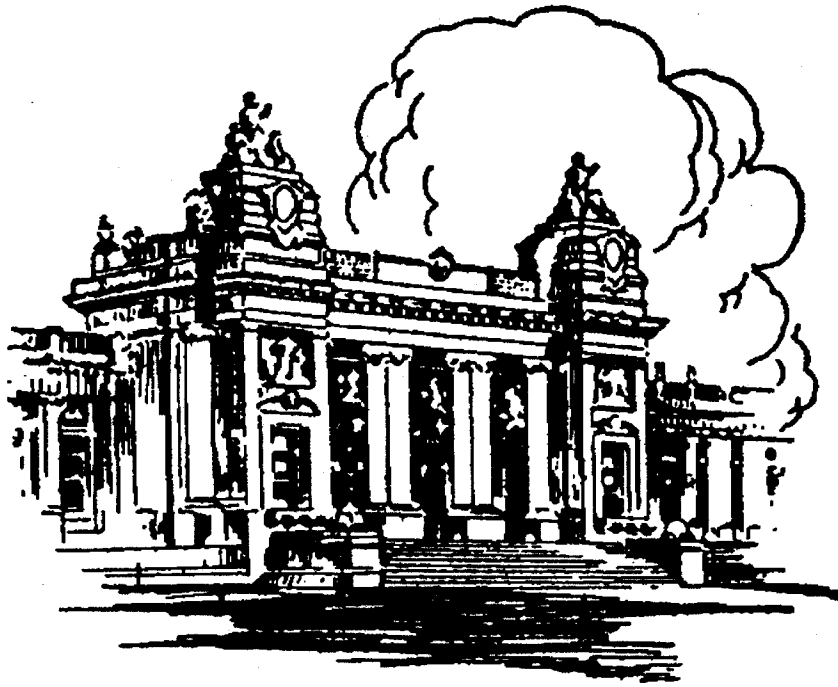
Dep't Recomm.:

Per Exec. Ofc.:

Prev. Agn. Ref. ATTACHMENTS FILED District: ALL
WITH THE CLERK OF THE BOARD

Agenda Number:

2.3



County of Riverside

INTERNAL AUDIT REPORT

2010-310

Transportation and Land Management Agency

Transportation Garage

Follow-up

October 25, 2010

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

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



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

October 25, 2010

Mr. Juan Perez, Director
Transportation Department
County of Riverside
Transportation and Land Management Agency
4080 Lemon Street, 8th Floor
Riverside, CA 92502

Subject: Internal Audit Report 2010-310: Transportation and Land Management Agency (TLMA) Transportation Garage, Follow-up

Dear Mr. Perez,

We have completed a follow-up audit of the TLMA Transportation Garage. Our audit was limited to reviewing actions taken to correct the ten findings referenced in our Internal Audit Report 2007-016 dated August 8, 2008.

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 reasonable assurance that our objective, as described in the preceding paragraph is achieved. Additionally, the standards require that we conduct the audit to provide sufficient, reliable, and relevant evidence to achieve the audit objectives. We believe the audit provides a reasonable basis for our conclusion.

The original audit report contained ten findings, all of which required corrective action and therefore were reviewed as part of this audit. For an in-depth understanding of the original audit, please refer to Internal Audit Report 2007-016 at www.auditorcontroller.org.

This follow-up audit found that of the ten findings:

- Eight findings were corrected; and
- Two findings were partially corrected.

A detailed status of the findings and recommendations identified in the original audit are provided in the body of this report.

We appreciate the cooperation and assistance extended to us by management and staff of the Transportation Department during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM
Auditor-Controller

A handwritten signature in cursive script that reads "Melissa S. Bender".

By: Melissa S. Bender, CIA
Audit Manager

cc: George Johnson, TLMA
Board of Supervisors
Executive Office
Grand Jury

Inventory

Finding 1: The department does not have a formal system for identifying and labeling obsolete items. As a result, we determined that approximately 18 percent of the inventory items reviewed were obsolete and no longer in use. These items were originally purchased for \$18,180.

Additionally, we determined that obsolete items identified by the 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.

Current Status: Corrected. TLMA Transportation Garage has developed a formal system to ensure that duties related to sales and disposal of obsolete items are adequately segregated. Specifically, the warehouse supervisor maintains the documentation for items returned to the vendor or sold as scrap. The department's fiscal unit handles the cash, maintains transaction documentation and updates the electronic inventory system. In addition, the department conducted an inventory every quarter and removed obsolete items from the electronic inventory system (Fleet Focus) in a timely manner.

Capital Assets

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 to the Auditor-Controller's Office 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.

Current Status: Corrected. During the period of January 1, 2008, through April 30, 2010, the department took on average 28 days to report 42 asset acquisitions. The Auditor-Controller's Office is currently implementing disposal procedures to be able to report an asset's out of service date and the subsequent disposal date once it has been sold at auction.

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.

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 figures, expected depreciation expense recovery for one year would be \$546,975.40. This is a reduction of \$639,467.95 or approximately 53.9%.

Current Status: Partially Corrected. Although the department did develop and implement a more comprehensive process that estimates useful life based upon the quality, application, and environment of the assets; there have not been any assets purchased after the implementation of the process. As a result, we were unable to test to determine if the useful life of assets are recorded in accordance with the department's policy.

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.

Current Status: Corrected. Transportation Garage performed a physical inventory of capitalized assets to ensure the AM-1 listing was complete and accurate prior to submission to the Auditor-Controller's Office for fiscal years 2007/08 and 2008/09.

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.

Current Status: Corrected. The Department has worked with County Purchasing on a continual basis to resolve the finding.

Non-Capital Assets

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.

Current Status: Corrected. The department currently maintains a list of non-capitalized assets and is in the process of developing a comprehensive database of non-capitalized assets. A sample of non-capitalized assets found that all items were consistently labeled as property of the County of Riverside.

Operations

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.

Current Status: Corrected. Transportation Garage developed a comprehensive equipment replacement plan that considers timely and cost effective preventative maintenance. Additionally, a preventative maintenance report is prepared weekly to identify equipment requiring maintenance. All preventative maintenance is performed within the department's documented policies.

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 lack of adequate separation of roles within the operational process puts 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.

Current Status: Corrected. The department ensured adequate segregation of duties are in place and implemented desk procedures to notify employees of their roles and responsibilities.

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, a report generated from the automated fuel inventory system, management did not investigate these variances to determine the causes. Some of the possible causes for these variances include:

- 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 the manual inventory counts; and
- Fuel tank gauges were inaccurate.

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.

Current Status: Corrected. Transportation Garage developed a system of internal controls over fuel by ensuring the individual who has responsibility over fuel inventory records does not have the authority to bypass fuel controls. Additionally, bypass transactions are investigated and resolved timely.

Inventory records are updated for all fuel deliveries and fuel levels are manually measured on a monthly basis. Perpetual inventory records are regularly reconciled with monthly measurements. Lastly, the department is in the process of replacing the damaged dials on fuel meters.

Information Security

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.

Current Status: Partially Corrected. Based on our testing of seven employees terminated since January 1, 2008, four (57%) terminated employees' access was not deleted or disabled from the

system immediately upon termination, two did not have access and one was disabled the day prior to termination. It took 70 days to delete one employee's access and on average 13 days to delete the remaining three employees' access from the system. We reviewed the department's fuel records and did not identify any instances where the terminated employees obtained fuel using their account after their termination date.