



Management Audit of the District's Controls – Laptop Computers

Final Report

Peter Sakai, Temporary District Auditor

3/3/2011

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TABLE OF CONTENTS

Final Report.....	1
District Response.....	Attachment 1

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Management Audit of the District's Controls - Laptop Computers Final Report – March 3, 2011

The Temporary District Auditor has completed his management audit of the District's Controls over laptop computers as requested by the Board at its November 10, 2009 meeting. The audit included an examination of written policies/procedures and practices for the safeguarding of laptop computers acquired with District funds. The audit also included interviews with District staff and examination of records used by District staff to account for laptops in use by District employees.

District records show a total of 321 portable laptop computers in use, with a total value of \$1.059 million (hardware and software). This information is based on a spreadsheet generated by the Information Technology Unit from an automated tracking system that shows laptops recently active on the District's network. This tracking system shows the location of each laptop, name of the assigned user, SCVWD Asset Tag Number, Serial Number, Product Model, operating system type, and estimated cost.

According to Information Technology staff, the District also has in possession approximately 75 obsolete or broken (considered as surplus) laptops pending disposal. Prior to disposal, surplus laptops are stored at the Winfield Warehouse and in the storage room maintained by the Information Technology Unit. When necessary, Information Technology staff may use these laptops as a source for parts to maintain laptops currently in use.

It was noted in reviewing the District's budget that the District reduced the funds budgeted for computer replacement (desktops, laptops and other computer equipment) in the Equipment Service Fund from \$622,676 for Fiscal Year 2008-2009 down to \$35,000 per year for Fiscal Years 2009-2010 and 2010-2011. Information Technology staff maintain a replacement/upgrade schedule for computers based on estimated useful life. However, due to funding limitations, replacement of computers is on largely on an individual as-needed basis.

Information Technology staff stated that the number of laptops reported stolen or lost in the last 3 years has been minimal, with only 2-3 instances and in each case, a police report is filed.

Consistent with the Board's Executive Limitation Policies on Asset Protection, the District maintains a number of policies and procedures to safeguard District computing resources and its data network. Pending completion of the District's ongoing efforts to consolidate its internal operating policies and procedures under the ISO Compliant Quality and Environmental Management System, these policies and procedures are contained within 4 different documentation systems; 1) the Administrative Policies and Procedures Manual, 2) Administrative Bulletins, 3) Santa Clara Valley Water District Policies and Procedures, and 4) Quality and Environmental Management System (QEMS):

- Ad-7.2.101 (Administrative Policies and Procedures Manual) establishes general policies to control the security and use of computer equipment.
- Ad-7.8 (Administrative Policies and Procedures Manual) contains general policies and procedures for the security of computer resources. This provision (as well as Ad-7.2.101) requires that portable computers be under personal supervision, in a locked space, or secured with a locking device at all times, especially when traveling.
- Pursuant to Ad-7.2.107 (Administrative Policies and Procedures Manual), the District maintains technical and operational standards for data networking and computing District-wide.
- Administrative Bulletin 2002-10 (July 2002) and Ad-7.2.107 (Administrative Policies and Procedures Manual) sets forth the approval process for computer acquisitions. Under existing practice, all laptop purchase requests require Information Technology approval to ensure that the hardware requested meets District standards. However, Information Technology does not initiate purchase requests for all orders for new laptops.
- QEMS W741D23 prohibits District staff from using a District Purchasing Card (P Card) for the acquisition of computer equipment/software.
- Roles and responsibilities for inventory controls for fixed asset equipment are contained in Ad-3.3.108 (Administrative Policies and Procedures Manual), and 4-601 (Santa Clara Valley Water District Policies and Procedures)
- Roles and responsibilities for inventory controls for District owned personal property are stated in 4-610 (Santa Clara Valley Water District Policies and Procedures).

In summary, while the audit found that reasonable checks and balances exist to ensure that laptop purchases are approved appropriately; controls should be strengthened to safeguard newly acquired laptops and to ensure the reliability and completeness of laptop inventory records. The following findings were discussed with the Chief Administrative Officer, Deputy Administrative Officer – Procurement and Operational Services Division, Chief of the Information Management Services Division, and Unit Manager of the Procurement, Warehouse Services and Contract Administration Unit on November 18, 2010.

Findings

1. **Inventory Controls** - As stated above, the current practice for tracking and maintaining laptop inventory is based on an automated log of laptops connected to the District's data network. Information Technology staff are confident in the reliability of this information as a reasonably accurate representation of laptop inventory. However, the examination of policies, procedures and practices resulting from this audit disclosed a number of weaknesses in management controls as follows:

- a. Periodic physical inventories of laptops and periodic reconciliations of laptops purchased /acquired or disposed of through the surplus disposal process to laptops shown on the inventory list are not conducted to verify all laptops acquired are accounted for in the inventory records.
 - b. Accountability for incoming purchases of laptops is not established immediately upon receipt with issuance and installation of an inventory tag and updating of the District's laptop inventory records. Under existing practice, all incoming shipments of computer hardware, peripherals and accessories are received and stored at the Winfield Warehouse pending delivery to the requester. Winfield Warehouse staff, pursuant to Administrative Bulletin 2002-10 delivers these items directly to the requester. Although the Winfield Warehouse logs in all incoming shipments, newly acquired laptops are not immediately entered into inventory records and issued an inventory tag.
 - c. Inventory tags are not issued or installed until the laptop is received from the requester by Information Technology staff for setup and software installation. It is the requester's responsibility (per Administrative Bulletin 2002-10) to call the Information Technology Help Desk within 2 working days of receiving the computer hardware to schedule software installation. Consequently, a period of several days or longer may transpire before an inventory tag is issued and affixed and inventory records are updated for a newly acquired laptop. This creates a situation where, a laptop could be ordered, received by the Winfield Warehouse, delivered directly to an employee and if Information Technology is not contacted, the laptop would not be reflected in the inventory records maintained by the Information Technology Unit.
 - d. Incompatible duties are assigned to Information Technology staff. They approve purchase requests, maintain laptop inventory records with unlimited access, and also have access to unissued/unassigned laptops stored either at the Winfield Warehouse or in the Information Technology Unit storage area. This condition, combined 1a, 1b, and 1c, above, create a situation where errors, omissions, and losses could go undetected.
2. **Obsolete/Conflicting Procedures** – Existing procedures for Fixed Asset Inventory Control (Santa Clara Valley Water District Policy and Procedure 4-601), and Personal Property Inventory Control (Santa Clara Valley Water District Policy and Procedure 4-610) are outdated. Procedure 4-601 defined the value of fixed asset equipment for inventory purposes, at \$1,000. This was partially replaced by Fixed Asset Inventory Control Ad-3.3.108, which changed the value of fixed asset equipment to \$5,000. Procedure 4-610 requires inventory control and accountability for personal property with a value between \$500 and \$999.99. Procedure 4-610 has not been updated and the General Services Division, which

was responsible for implementing 4-610, no longer exists and it appears that this procedure is no longer being implemented on a District-wide basis.

Recommendations

To strengthen its implementation of the Board's Executive Limitation on Asset Protection (EL-7), District management should:

1. Evaluate the dollar value level of inventory accountability desired for District owned personal property and update its internal policies/procedures for personal property accountability as a replacement to Procedure 4-610.
2. To promote transparency, establish a CEO Interpretation for Board Policy EL-7 to codify the value levels it defines for fixed and personal property assets to be inventoried and controlled. *(Note, as a result of actions being taken by District management to update its procedures during the audit and subsequent to the issuance of the initial draft audit report, as reported at the March 3, 2011, Board Ad Hoc Audit Committee meeting, this recommendation is rescinded).*
3. In updating its personal property and fixed asset control procedures, District management should include provisions for periodic physical inventories and reconciliations; and, ensure that adequate separation of incompatible duties exists in defining individual roles and responsibilities.
4. Establish a priority to establish systems and procedures necessary to ensure that inventory control and accountability is established as soon as practical for newly acquired laptops (as well as other personal property and fixed assets with a value above an amount specified in the updated procedures per Recommendation 1, above).
5. Give priority to conducting a reconciliation of laptops purchased over the last three years to the inventory records maintained by the Information Technology Unit. This will identify any laptops that might have been purchased but are unaccounted for in the Information Technology Inventory.

ATTACHMENT 1

DISTRICT RESPONSE

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TO: Peter Sakai, Temporary District Auditor

FROM: Sharon Judkins, Chief
Administrative Officer

SUBJECT: Response to December 2, 2010 audit of the
District's Controls – Laptop Computers

DATE: January 7, 2011

Recommendation 1

Evaluate the dollar value level of inventory accountability desired for District owned personal property and update its internal policies/procedures for personal property accountability as a replacement to Procedure 4-610.

Response: The District agrees with this recommendation.

This recommendation will be addressed by the Controlled Asset Management (W741D33) ISO procedure. W741D33 will be finalized by January 31, 2011 and will replace Procedure 4-610.

As defined in W741D33, a controlled asset is:

“Personal property with a single unit value less than \$5,000 which, due to its commercial appeal and portability, is particularly susceptible to theft..Examples of controlled assets include, but are not limited to, computers and related peripherals, desktop copiers, fax machines, cameras, radio communication equipment, GPS units, cell phones, motorized equipment and office furniture. There is no minimum dollar threshold for controlled assets”

NOTE 1: Controlled Asset Management (W741D33) is attached for your reference.

NOTE 2: Although the audit recommendation is specific to laptops only, W741D33 will cover all personal property valued up to \$5,000.

Recommendation 2

To promote transparency, establish a CEO Interpretation for Board Policy EL-7 to codify the value levels it defines to be inventoried and controlled.

Response: The District partially agrees with this recommendation.

The District agrees that value levels for fixed and personal property assets should be codified. However, establishment of a CEO Interpretation is not necessary, as these value levels have been codified in the following procedures:

- Controlled Asset Management (W741D33)
- Fixed Asset Inventory Control System-Equipment (Procedure 4-601)

Recommendation 3

In updating its personal property and fixed asset control procedures, District management should include provisions for periodic physical inventories and reconciliations; and, ensure that adequate separation of incompatible duties exists in defining individual roles and responsibilities.

Response: The District agrees with this recommendation

This recommendation is addressed in the following procedures:

- Controlled Asset Management (W741D33) requires periodic physical inventory reconciliations of personal property assets be conducted at least annually.
- Fixed Asset Inventory Control System-Equipment (Procedure 4-601) requires periodic physical inventory reconciliations of fixed assets be conducted at least annually.

Recommendation 4

Establish a priority to establish systems and procedures necessary to ensure that inventory control and accountability is established as soon as practical for newly acquired laptops (as well as other personal property and fixed assets with a value above an amount specified in the updated procedures per Recommendation 1, above).

Response: The District agrees with this recommendation.

This recommendation is addressed in the following procedures:

- Controlled Asset Management (W741D33)
- Fixed Asset Inventory Control System-Equipment (Procedure 4-601)

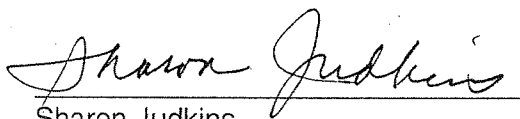
Recommendation 5

Give priority to conducting a reconciliation of laptops purchased over the last three years to the inventory records maintained by the Information Technology Unit. This will identify any laptops that might have been purchased but are unaccounted for in the Information Technology Inventory.

Response: The District agrees with this recommendation.

The District will prioritize the task of confirming the status of the laptop inventory.

This task will be completed by January 31, 2011.



Sharon Judkins
Chief Administrative Officer

cc: ~~Patty Ross~~ *Beau Goldie, Mary Ann Ruiz*

Downloaded or printed copies are for reference only. Verify this is the current version prior to use. See the District website for released version.

1. PURPOSE AND SCOPE

The purpose of this work instruction is to establish a standard system for accountability and tracking of District personal property identified as controlled assets. Controlled assets are acquired through a variety of procurement methods, including purchase orders, blanket purchase orders (standing orders and requirements contracts), and purchasing cards.

Some operating units have been given District-wide responsibility for the purchase of specific types of assets, such as technology equipment and furniture. If this is the case, those units initiate the purchase of those restricted assets and issue the assets to individuals throughout the District. The purchase of other, non-restricted types of controlled assets are initiated by District operating units for issuance to employees within those units. This work instruction applies to all District operating units.

This work instruction does not apply to personal property defined by District accounting policy as a fixed asset.

2. DEFINITIONS

Controlled Asset – Personal property with a single unit value less than \$5,000 which, due to its commercial appeal and portability, is particularly susceptible to theft. Examples of controlled assets include, but are not limited to, computers and related peripherals, desktop copiers, fax machines, cameras, radio communication equipment, GPS units, cell phones, motorized equipment and office furniture. There is no minimum dollar threshold for controlled assets.

Controlled Asset Log – A log maintained within each operating unit which includes a current list of all controlled assets in the possession of that unit.

Personal Property – Property owned by the District that is movable and not affixed to real property.

2. ROLES AND RESPONSIBILITIES

Chief Officers – Each Chief Officer is responsible for ensuring compliance with this work instruction and for requiring the conduct of periodic physical inventories of controlled assets within his or her area of responsibility.

District Employees – Each District employee to whom a controlled asset has been assigned is responsible for safeguarding the asset, for ensuring that the asset is used only in the conduct of District business, and for notifying the unit manager whenever one of the following events occurs:

- The employee obtains possession of a controlled asset, regardless of method of acquisition;
- A controlled asset is transferred to another unit or individual;
- A controlled asset is lost or stolen; or
- The asset is no longer usable or is no longer required.

Operating Unit Managers - Operating unit managers with District-wide responsibility for acquiring specific types of assets, such as computer equipment, furniture, etc., are accountable for managing controlled assets during the time they are physically within their unit's possession. In addition, such

managers shall maintain a controlled asset log for each asset acquired for assignment to individuals throughout the District as well as to individuals within that unit.

All other operating unit managers are accountable for all controlled assets in the possession of their units from the initial date of asset receipt by the individual to whom it is assigned through the date the assignment ends. In addition, operating unit managers are responsible for ensuring that:

- All subordinates are familiar with and in compliance with this work instruction;
- All controlled assets assigned to individuals within the operating unit are registered in a controlled asset log;
- Loss or theft of controlled assets is investigated and disciplinary action initiated, as appropriate;
- Unit employees return all assigned controlled assets to the operating unit upon transfer to another unit within the District or upon termination of employment; and
- Controlled assets that are unusable or no longer needed are declared surplus and transferred to Procurement staff for disposal.

Warehouse Staff – Winfield Warehouse staff are accountable for all controlled assets in their possession from the date and time delivery is accepted from the supplier through the date and time the asset is delivered to the acquiring operating unit.

3. MONITORING AND MEASUREMENT

Periodic physical inventories shall be conducted of all controlled assets in the possession of each operating unit.

4. PROCEDURE

DETAILS	X REF	QUALITY RECORDS
<p>(1) Maintain an up-to-date controlled asset log.</p> <p>(Operating Unit Managers)</p> <ul style="list-style-type: none"> • At a minimum, include the following information about each controlled asset in the possession of the unit: description of asset; make, asset make, model and serial number; name of individual to whom the asset is assigned; date of asset receipt within the unit; date and reason asset is no longer assigned to the identified individual, such as transfer to another operating unit, transfer to Procurement as surplus, etc.). • Make the initial entry of a controlled asset in the log as soon as possible, but no later than three (3) business days following its receipt within the operating unit. • Update each controlled asset entry in the log whenever the following events occur: <ul style="list-style-type: none"> ○ The asset is assigned to another individual or operating unit. ○ The asset is lost or stolen. ○ The asset is declared surplus and transferred to Procurement for disposal. ○ Whenever anything else occurs that will impact the District's ability to locate the asset. 		<p>Controlled Asset Log</p>
<p>(2) Conduct periodic physical inventories of the controlled assets listed on the controlled asset log.</p> <p>(Operating Unit Managers)</p> <ul style="list-style-type: none"> • Physically locate each controlled asset identified on the controlled asset log as being within the possession of unit employees. • Correct the information on the log, as required. • Investigate missing assets and take disciplinary action, as appropriate. • Reassign all unused controlled assets, as appropriate. • Declare surplus all assets that are no longer needed and transfer to Procurement for disposal. 		

5. QUALITY RECORDS

QUALITY RECORD	FILING ORDER	COMMENTS
Controlled Asset Log	Per Operating Unit Procedures	

6. CHANGE HISTORY

DATE	REVISION	COMMENTS
	A	Initial release into QEMS, effective _____.