June 26, 2013

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Subject: Review of Information Systems Hardware

Overview

The Internal Audit Department has completed a review of information systems hardware. The purpose of the review was to evaluate the adequacy of controls, policies, and procedures over acquisition, inventory, and disposition of non-capital asset information systems hardware. Based on this review, the Internal Audit Department has determined that controls in place are generally adequate; however, recommendations were made to improve security over computer equipment and to periodically verify inventory.

Recommendation

Direct staff to implement recommendations provided in the Review of Information Systems Hardware, Internal Audit Report No. 13-524.

Background

The majority of information systems hardware is purchased by the Information Systems (IS) Department. The IS Department is responsible for purchasing computer equipment as part of the organization-wide replacement schedule and at the request of individual departments.

Members of the Orange County Transportation Authority's (OCTA) Board of Directors and limited OCTA management employees are eligible to utilize an OCTA-provided iPad. The IS Department maintains a tablet policy with procedures for these purchases. Macintosh (MAC) computer equipment utilized by External Affairs Division (External Affairs) staff is purchased directly by the business unit analyst in that division. External Affairs maintains procedures and asset inventory listings for this equipment.

OCTA defines a non-capital asset as "An item with a value of less than $5,000 that is susceptible to loss; such as cameras, printers, computers and minor

tools." These items are not depreciated and are fully written off as an expense at the time of acquisition.

The IS Department utilizes the Cherwell Software application (Cherwell) to track OCTA computer, printer and monitor equipment. MAC equipment is tracked in an ACCESS database by External Affairs. When items are removed from service and determined to be surplus or obsolete the items are held in storage until a reasonable number are available to be sent to a third party auction firm where they are sold.

Discussion

The Internal Audit Department (Internal Audit) observed that surplus inventory is stored within a caged area behind a locked door; however, there was no documentation on file of the number or assignment of keys to the storage room or to the lock on the caged area. To improve security over inventory, Internal Audit recommended that locks be changed and documentation be developed and maintained to reflect the total number of keys and individuals to whom keys are assigned. Management agreed and had the locks changed and documentation developed prior to finalization of this report.

Internal Audit also noted several discrepancies between the actual location of computer equipment and the location as identified in the Cherwell system. In most cases, equipment had been moved to a nearby location and, in one case, an item had been moved to storage. To improve inventory control, Internal Audit recommended that management coordinate periodic inventories to verify the accuracy of the information maintained in the Cherwell system. Management responded that a physical hardware inventory will be conducted every two years, with the first hardware inventory scheduled to begin in January 2014, after the completion of the Windows 7 migration project.
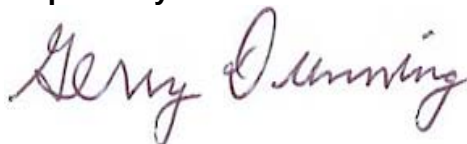
Summary

Based on the review, Internal Audit has determined that controls in place are generally adequate; however, recommendations were made to improve security over computer equipment and to periodically verify inventory.

Attachment

A.   Review of Information Systems Hardware, Internal Audit Report No. 13-524

Prepared by: **Approved by:**

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Orange County Transportation Authority
Internal Audit Department

Review of Information Systems Hardware

INTERNAL AUDIT REPORT NO. 13-524

June 14, 2013

Internal Audit Team: Janet Sutter, CIA, Executive Director, Internal Audit
Gerry Dunning, CIA, CISA, CFE, Senior Internal Auditor

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Review of Information Systems Hardware
June 14, 2013

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CONCLUSION

The Internal Audit Department (Internal Audit) has completed a review of information systems hardware. The purpose of the review was to evaluate the adequacy of controls, policies, and procedures over acquisition, inventory, and disposition of non-capital asset information systems hardware. Based on this review, Internal Audit has determined that controls in place are generally adequate; however, recommendations were made to improve security over computer equipment and to periodically verify inventory.

BACKGROUND

Hardware Acquisition

The majority of information systems hardware is purchased by the Information Systems (IS) Department. The IS Department is responsible for purchasing computer equipment as part of the organization-wide replacement schedule and at the request of individual departments. Requesting departments must complete and obtain approval on an Information Systems Purchase Information (ISPI) form. The IS Department purchases the equipment using either a purchasing card (for purchases up to $2,500), or through a requisition that is entered and processed by the Contracts Administration and Materials Management Department (CAMM).

Members of the Orange County Transportation Authority's (OCTA) Board of Directors and certain OCTA management employees are eligible to receive an OCTA-provided iPad. The IS Department maintains a tablet policy with procedures for these purchases.

Macintosh (MAC) computer equipment utilized by External Affairs Division (External Affairs) staff is purchased directly by the business unit analyst in that division. External Affairs maintains procedures and asset inventory listings for this equipment.

The OCTA Capital Asset Management Manual defines a non-capital asset as "An item with a value of less than $5,000 and is susceptible to loss, such as cameras, printers, computers, and minor tools." These items are not depreciated and are fully written off as an expense at the time of acquisition and not added to the capital asset inventory.

Inventory Tracking

The IS Department utilizes the Cherwell software application (Cherwell) system to track OCTA computer, printer, and monitor equipment. IS Department staff receives equipment and enters pertinent details into the Cherwell system, including manufacturer, model, description, warranty dates, and the status of each item. The system generates a unique identification number and the equipment is tagged and the location recorded in the system.

MAC equipment is tracked in an ACCESS database by External Affairs.

Disposition

When items are removed from service and determined to be surplus or obsolete, IS places the items in temporary storage. Periodically, these computers, printers, and monitors are transferred to the Garden Grove Annex where they are prepared for sale by CAMM staff. The majority of obsolete and surplus hardware is sold through auction. The disposition process was not included for this review as these procedures were reviewed and tested during the Review of Maintenance Materials Management, Internal Audit Report No. 09-022.

OBJECTIVES, SCOPE, AND METHODOLOGY

The <u>objective</u> of this review was to evaluate the adequacy of controls, policies, and procedures related to acquisition, inventory, and disposition of information systems hardware. The <u>scope</u> of the review included non-capital asset computers, printers, and monitors purchased from January 1, 2012 through February 28, 2013, and active inventory as of April 1, 2013. The review <u>methodology</u> included, but was not limited to, the following:

- Interview with applicable personnel related to the policies, procedures, and controls for acquisition, maintenance, and disposition of IS hardware;
- Review of OCTA Policies and Procedures related to acquisition, inventory, and disposition of IS hardware;
- Testing of a random sample of IS hardware purchases through the CAMM procurement system for compliance with purchasing and inventory procedures;
- Testing of a random sample of IS hardware purchases using a purchasing card for compliance with purchasing and inventory procedures;
- Testing of a random sample of computers, monitors, and printers listed in the Cherwell system to determine the accuracy of inventory information;
- Observation of storage areas used to hold inventory of computers, monitors, and printers and testing of access control documentation related to the area.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Comments, Recommendations, and Management Responses

Inventory Security

Surplus inventory is stored within a caged area behind a locked door. The caged area is secured with a chain and lock. When a large scale replacement campaign is underway, the area may house a few hundred new computers at one time.

The asset management administrator in the General Services Section of the Finance and Administration Division coordinates the issuance of locks and keys for storage areas; however, there was no documentation on file documenting the number and assignment of keys to the storage room or the lock to the caged area.

Recommendation 1:

To improve security over inventory, Internal Audit recommends that documentation be maintained to reflect the total number of keys and individuals to whom keys are assigned. Where the total number of keys cannot be determined, the locks should be changed.

Management Response:

Management concurs. Three doors in the basement have been rekeyed and a limited number of keys have been created. Keys have been distributed to selected individuals that need access to the basement. General Services has developed a log that tracks all individuals that have a key and will maintain that log going forward. The padlock to the storage area has been replaced with a combination lock and records of individuals assigned the combination are maintained by Information Systems.

Periodic Asset Inventory

Testing identified several discrepancies between the actual location of computer equipment and the location identified within the Cherwell inventory system. In most cases, the equipment had been moved to a nearby location and, in one case, an item had been moved to storage.

Recommendation 2:

To improve inventory control, Internal Audit recommends that management coordinate periodic inventories to verify the accuracy of the information maintained in the Cherwell system.

Management Response:

Management concurs. A physical hardware inventory will be conducted every two years. The next hardware inventory is scheduled to begin in January 2014, after the completion of the Windows 7 migration project. Future hardware inventories will be completed on a bi-annual basis to coincide with the Capital Asset Inventory schedule.