



County of Riverside

INTERNAL AUDITOR'S REPORT

Department of Child Support Services

August 20, 2007

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

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**COUNTY OF RIVERSIDE
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August 20, 2007

John Replogle, Director
Department of Child Support Services
2041 Iowa Avenue
Riverside, CA 92507

Subject: Internal Auditor's Report #2007-010 – Department of Child Support Services

Dear Mr. Replogle:

We have completed an audit of the Department of Child Support Services (DCSS). We conducted the audit during the period September 19, 2006 through December 19, 2006, for operations of July 1, 2004 through December 19, 2006. We performed additional audit work on August 15, 2007 to ensure management took corrective action to resolve the conditions noted.

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.

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, we determined DCSS has an adequate system of internal controls over the revolving fund process. However, we identified several opportunities for improvement over the capitalized and non-capitalized asset process. As of August 15, 2007, DCSS had taken the necessary actions to correct all conditions noted.

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

Robert E. Byrd, CGFM

By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury

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Executive Summary

Overview

In 1999, former Governor Gray Davis signed legislation creating the California Department of Child Support Services whose stated mission “is to promote the well-being of children and the self-sufficiency of families by delivering effective child support services to help meet the financial, medical, and emotional needs of children.” In addition, the legislation required each county within the state form a department responsible for administering the Child Support Enforcement Program. In response, Riverside County formed the Department of Child Support Services (DCSS).

Riverside County DCSS is responsible for determining paternity and enforcing the obligation of non-custodial parents to provide financial and medical support to their minor children. DCSS achieves these responsibilities by locating non-custodial parents, investigating their income and assets, and taking any legal action necessary to obtain support for their children. Prior to February 1, 2006, DCSS also received and processed child support payments. However, in order to comply with the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the State of California centralized the child support payment process and created the State Disbursement Unit.

Funding for DCSS is mandated by the Social Security Act Title IV Part D. The department's operating budget for fiscal year 2006 exceeded \$41 million, of which two-thirds was provided through federal funds and the remainder through State funds.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the department's processes and accounting procedures, including: asset management and revolving fund usage. In addition, we verified the adequacy and existence of internal controls over the department's credit cards, the results of which is reported in Internal Auditor's Report #2007-005 - Countywide Credit Cards.

Overall Conclusion

Based upon the results of our audit, we determined DCSS has an adequate system of internal controls over the revolving fund process. However, we identified several opportunities for improvement over the capitalized and non-capitalized asset process. As of August 15, 2007, DCSS had taken the necessary actions to correct all conditions noted.

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

Objectives

To determine:

- the existence and adequacy of internal controls over the acquisition, monitoring and disposal processes of capitalized and non-capitalized assets;
- if all asset acquisitions meeting capitalization threshold requirements have been capitalized;
- the adequacy of the internal controls over revolving funds; and,
- if proper management controls are maintained over the authorization and usage of credit cards.

Methodology

To accomplish our objectives, we:

- performed a financial analysis for the period July 1, 2004 through June 30, 2006;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- conducted interviews and performed walk-throughs with department personnel;
- completed narratives of the department's revolving fund and asset management processes;
- performed a risk assessment of the department's operations;
- conducted operational reviews and observations;
- performed detailed testing of the department's asset acquisition process;
- physically verified the department's capitalized and non-capitalized assets; and,
- performed detailed testing of revolving fund transactions.

Results

Capitalized Assets

Capital assets are tangible or intangible assets with significant value and a utility beyond one fiscal year. Capital assets include land, land improvements, easements, and buildings, building improvements, vehicles, machinery, equipment and infrastructure. Vehicles, machinery and equipment with a cost over \$5,000 qualify as a capital asset, as described in the Auditor-Controller's Office Standard Practice Manual Section 913 issued on December 12, 2005.

Capitalized costs include the value paid for the asset, sales tax, interest, transportation charges, insurance while in transit, and costs associated with preparing the asset for its intended use, such as, special foundations and installation costs. The cost of capital assets should be systematically expensed (depreciated) over its useful life. However, some assets are inexhaustible, such as land and land improvements, and are not depreciated since they retain their value.

The management staff of each department or agency within the County of Riverside is required to account for County property in his/her possession or charge. This responsibility should include performance of the annual inventory and establishment of controls over the acquiring, monitoring, and disposal of capital assets. In addition, it is also the responsibility of the department to record asset acquisitions into the PeopleSoft Asset Management Module.

As of November 7, 2006, DCSS reported 93 capitalized assets in the PeopleSoft Asset Management Module. These assets had a recorded cost exceeding \$1.5 million and a net book value of \$252,190, and included items such as copiers, servers and other technology related equipment.

Finding 1

DCSS does not maintain an adequate system of internal controls to safeguard and monitor capitalized assets. Specifically:

- Five of thirty-five assets selected for testing could not be located nor could the disposition of these assets be confirmed; however, one of these assets has subsequently been reported missing to the Auditor-Controller's Office and another appears to be an expired software license. Four of these items were fully depreciated resulting in a net book value of zero; the fifth has a net book value of \$758.34, as of November 11, 2006.
- Six of thirty-five assets had no asset tags, although tag numbers were assigned to the assets in the PeopleSoft Asset Management Module.

- The serial numbers for two of the thirty-five assets were reported incorrectly in the PeopleSoft Asset Management Module.

Standard Practice Manual (SPM) III-E-2-1.1 requires the Auditor-Controller's Office be "notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets." In addition, each department head is required to certify the capital asset inventory on an annual basis. This certification should be based on a physical inventory to ensure changes to the list are appropriately recorded. SPM 903, Capital Asset Tags, requires each department to affix an asset identification tag to all capital assets. The tags are provided by the Auditor-Controller's Office and correspond to the Asset Identification Number in PeopleSoft's Asset Management Module.

Recommendation 1.1 Perform a physical inventory of capitalized assets to ensure the accuracy of DCSS' capitalized asset list.

Management's Reply Concur. The Department is currently in the process of completing a physical inventory of capitalized assets.

Auditor's Comment Per our follow-up review on August 15, 2007, DCSS conducted an inventory of capitalized assets at fiscal year end.

Recommendation 1.2 Request a discharge of accountability for missing assets, in accordance with SPM III-E-2-1.1.

Management's Reply Concur. The Department will process a request for removal of the fully depreciated assets noted from the capitalized assets list.

Auditor's Comment Per our follow-up review on August 15, 2007, DCSS had submitted documentation to the Auditor-Controller's Office requesting missing assets be removed from the capitalized asset list. DCSS is working with the Auditor-Controller's Office to ensure such assets are removed from the list.

Recommendation 1.3 Affix asset tags to all capitalized assets in accordance with SPM 903.

Management's Reply Concur. The department will affix asset tags to all capitalized assets in accordance with SPM 903.

Replacement tags for the six assets noted have been requested from the Auditor-Controller and will be affixed when received.

Auditor's Comment Per our follow-up review on August 15, 2007, an asset tag has been affixed to four of the six assets identified. The two remaining assets were disposed.

Finding 2 Assets meeting the capitalization requirement were excluded from the fixed asset list. Specifically, seven assets with a combined cost exceeding \$67,000 were not capitalized. In addition, four of these assets, with a combined cost of \$46,023.32, were purchased with Appropriation 2 funds, though Appropriation 4 funds were budgeted and available for the purchase of fixed assets. SPM 901 defines capital assets as "moveable personal property with a relatively permanent nature" valued at \$5,000 or more. In addition, SPM III-E-2-1.1 requires the Auditor-Controller's Office be notified within 30 days of acquiring assets meeting the defined threshold.

Recommendation 2 Ensure assets valued at \$5,000 or more are properly recorded in the PeopleSoft Asset Management Module within 30 days of acquisition.

Management's Reply Concur. The two invoices that were determined to be fixed assets but were not processed as such were entered after consultation on November 28, 2006 with the Auditor-Controller's Office into the PeopleSoft Asset Management Module to ensure proper depreciation. A review was completed with accounting and purchasing staff covering the criteria for properly determining capitalization and identification of fixed assets through the accounts payable voucher process as well as the appropriate procedure for determining fixed or non-fixed status prior to requisition.

Auditor's Comment Per our follow-up review on August 15, 2007, DCSS updated the PeopleSoft Asset Management Module to include the seven assets noted above.

Results

Non- Capitalized Assets

Non-capitalized assets are valuable and highly desirable equipment items, such as personal computers, printers, FAX machines and personal digital assistants (PDA's) with a cost less than \$5,000. 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 the Auditor-Controller's Office Internal Control Handbook (ICH) Chapter 7. This responsibility should include the establishment of controls over the acquiring, monitoring and disposal of capitalized and non-capitalized assets. On September 12, 2006, a new policy, Board Policy H-26, was approved which provides guidance over the accountability of non-capitalized assets to include recording all walk-away items in the Asset Management Module.

Finding 3

The department's internal controls are inadequate to effectively monitor non-capitalized assets. Specifically, of 70 non-capitalized assets selected for testing, 27 could not be located during our initial site visit. Upon further review, 13 of these assets were determined to be salvaged and 8 were found by the department and verified during a second site visit. Failure to appropriately update the department's non-capitalized assets list as items are acquired or salvaged increases the likelihood of theft, loss or misappropriation. Currently, DCSS utilizes an Access database to track and monitor non-capitalized assets. However, the department is in the process of complying with Board Policy H-26, and indicated the intent to complete an inventory of all non-capitalized assets.

Recommendation 3

Establish a more comprehensive method of monitoring non-capitalized assets in accordance with Board Policy H-26.

Management's Reply

Concur. The Department is implementing on March 16, 2007 a revamped non-capitalized asset monitoring policy and procedure in accordance with Board Policy H-26, utilizing centralized asset processing and tracking through PeopleSoft, and as noted is completing an inventory of all non-capitalized assets.

Auditor's Comment

Per our follow-up review on August 15, 2007, DCSS has completed a full inventory of all assets valued over \$200 and has implemented a comprehensive policy to monitor such assets. The method is in full compliance with Board Policy H-26.

Results

Revolving Funds

Per the Auditor-Controller's Office and the County Treasurer's Office records, DCSS is assigned one revolving fund with an authorized fund balance of \$15,000. Revolving Fund #49 is used for miscellaneous expenses incurred by the department, such as fees for the release of liens placed on property owned by non-custodial parents. Of the \$15,000 allocated for this fund, \$1,050 is maintained in cash, with a \$250 petty cash and \$800 used as change funds. The remainder of the fund is kept on deposit with Bank of America.

Based upon the results of our testing, we determined no significant issues existed over the revolving fund process. Overall, the department had a good system of internal controls in place to ensure the appropriate use of the revolving fund.



JOHN REPLOGLE
DIRECTOR

COUNTY OF RIVERSIDE
Department of Child Support Services

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(951) 955-4100

JAMES P. FULLMER
CHIEF DEPUTY CHILD SUPPORT ATTORNEY

JOHN STEELE
ADMINISTRATIVE MANAGER

February 6, 2007

TO: Auditor-Controller
Audits and Specialized Accounting Division

FROM: John Replogle, ^{gr}Director
Department of Child Support Services

SUBJECT: Reply to Draft Audit Report

Recommendation Number 1.1

Perform a physical inventory of capitalized assets to ensure the accuracy of DCSS' capitalized asset list.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

The Department is currently in the process of completing a physical inventory of capitalized assets.

c. Actual/estimated Date of Corrective Action:

5/1/07

d. Estimated cost to implement recommendation (if material)

\$ 0

Recommendation Number 1.2

Request a discharge of accountability for missing assets, in accordance with SPM III-E-2-1.1.

a. Management position concerning the recommendation:

Concur Disagree

b. Comments:

The Department will process a request for removal of the fully depreciated assets noted from the capitalized asset list by 3/16/07.

c. Actual/estimated Date of Corrective Action: 3/16/07

d. Estimated cost to implement recommendation (if material)

\$ 0

Recommendation Number 1.3

Affix asset tags to all capitalized assets in accordance with SPM 903.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

The Department will affix asset tags to all capitalized assets in accordance with SPM 903.

Replacement tags for the six assets noted have been requested from the Auditor-Controller and will be affixed when received.

c. Actual/estimated Date of Corrective Action: 3/16/07

d. Estimated cost to implement recommendation (if material)

\$ 0

Recommendation Number 2

Ensure assets valued at \$5,000 or more are properly recorded in the PeopleSoft Asset Management Module within 30 days of acquisition.

a. Management position concerning the recommendation:

_____X_____ Concur _____ Disagree

b. Comments:

- (1) The two invoices that were determined to be fixed assets but were not processed as such were entered after consultation on 11/28/2006 with the Auditor-Controller's Office into the PeopleSoft Asset Management Module to ensure proper depreciation. A review was completed with accounting and purchasing staff covering the criteria for properly determining capitalization and identification of fixed assets through the accounts payable voucher process as well as the appropriate procedure for determining fixed or non-fixed status prior to requisition.

c. Actual/estimated Date of Corrective Action: 2/1/07

d. Estimated cost to implement recommendation (if material)

\$ _____0_____

Recommendation Number 3

Establish a more comprehensive method of monitoring non-capitalized assets in accordance with Board Policy H-26.

a. Management position concerning the recommendation:

 X Concur Disagree

b. Comments:

The Department is implementing on 3/16/07 a revamped non-capitalized asset monitoring policy and procedure in accordance with Board Policy H-26, utilizing centralized asset processing and tracking through PeopleSoft, and as noted is completing an inventory of all non-capitalized assets.

c. Actual/estimated Date of Corrective Action: 3/16/07

d. Estimated cost to implement recommendation (if material)

\$ 0

