



County of Riverside

INTERNAL AUDITOR'S REPORT

Human Resources Department

November 6, 2006

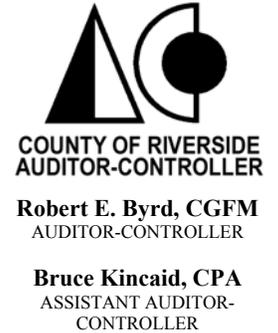
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County Auditor-Controller

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COUNTY OF RIVERSIDE
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November 6, 2006

Ron W. Komers
Assistant CEO/Human Resources Director
Department of Human Resources
4080 Lemon Street
Riverside, CA 92502

Subject: Internal Auditor's Report #2006-015 – Human Resources Department

Dear Mr. Komers:

We have completed an audit of the Human Resources Department. We conducted the audit during the period May 1, 2006 through August 31, 2006, for operations of July 1, 2003 through June 30, 2006.

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 the department had an adequate system of internal controls over non-capitalized assets; however, adequate internal controls were not in place to properly safeguard and monitor capitalized assets. Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

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

Robert E. Byrd, CGFM
County Auditor-Controller

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

cc: Board of Supervisors
Steve Schubert, Executive Office
County Counsel
Grand jury

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Executive Summary

Overview

The Human Resources Department is responsible for attracting, recruiting and retaining employees for the County of Riverside. The Department is comprised of 16 divisions that provide services to the public and County of Riverside employees. The following are examples of services provided by the Human Resources Department:

- benefit information to employees regarding all benefit options;
- training opportunities to all levels of employees;
- free confidential counseling for employees and family members for personal or work related issues;
- coordinate county compliance with disability laws;
- evaluate and recruit candidates for employment with the County of Riverside;
- operate and promote the rideshare program; and,
- assist county employees with work related injuries.

Overall Objective

Our primary audit objective was to determine the existence and adequacy of internal controls over the capitalized and non-capitalized assets processes.

Overall Conclusion

Based upon the results of our audit, we determined the department did not have adequate controls in place to properly safeguard and monitor capitalized assets.

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

Methodology

To accomplish our objectives, we:

- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes and regulations;
- conducted interviews and performed walk-throughs with department personnel; and,
- reviewed and performed detailed testing of the department's acquisition, monitoring, and disposal process of capitalized and non-capitalized assets.

Results

Capitalized Assets

As of June 30, 2006, the Department reported 27 capitalized assets on the annual asset inventory certification submitted to the Auditor-Controller's Office. These assets had a recorded cost of \$500,137 and a net book value of \$100,529, and included items such as copiers, servers and other technology related equipment.

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.

Ten of the department's twenty-seven assets were acquired during our review period of July 1, 2003 through June 30, 2006. We reviewed purchasing documents supporting the acquisition of the 10 assets and found the sales tax, installation and freight/shipping charges were not routinely included in the total capitalized cost of each asset in the PeopleSoft Asset Management Module. Standard Practice Manual (SPM) Policy 913, Capitalization Thresholds, states that asset valuation includes all costs necessary to place the asset into service. Upon notification of this finding, the department took corrective action to adjust the values of the understated assets to account for freight/shipping and installation. The correction was made on August 30, 2006 and took effect for fiscal year 2005-06 because the ledgers were still open. The department also excluded sales tax on two items whose total value was approximately \$11,000. If the sales tax would have been included, the items would have met the capitalization threshold. Since the department did not include the sales tax, the items were not capitalized and were incorrectly expensed. The department has taken corrective action and has capitalized the two items in the PeopleSoft Asset Management Module. The department has obtained a copy of Policy 913 and will ensure that all relevant costs of newly acquired assets will be capitalized.

Finding 1

Human Resources Department does not maintain an adequate system of internal controls to safeguard and monitor capitalized assets. The department maintains a current list of capitalized assets, however the detailed description, serial number, and location of the assets was not always accurate. Records were not appropriately updated when capitalized assets were transferred in or out of the Human Resources Department's facilities. Specifically:

- Four of the twenty-seven capitalized assets selected for testing could not be located, nor could the disposition of these assets be

confirmed; however, we did verify that the assets were fully depreciated resulting in a net book value of \$0.

- Fifteen of the twenty-seven capitalized assets had a different physical location from the Capitalized Asset Listing report.
- Nine of the twenty-seven capitalized assets' information, such as the model or serial number, did not match the Capitalized Asset Listing report.
- Seven of the twenty-seven capitalized assets did not have county tags to match to the Capitalized Asset Listing report.

Standard Practice Manual III-E-2-1.1 requires the Auditor-Controller's Office to be "notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets." If records are not updated to reflect changes in the ownership of capitalized fixed assets, a loss or misrepresentation of these assets may occur.

Recommendation 1.1 Obtain concurrence of the Director of Purchasing to remove the missing assets from the Capitalized Asset Listing, in accordance with SPM III-E-2.1.1.

Management's Reply Concur. We will process the request to remove missing assets. Corrective action to be taken effective November 1, 2006.

Recommendation 1.2 Utilize PeopleSoft Asset Management Module to achieve a more comprehensive tracking and monitoring system for the department's capitalized assets, including asset detailed description, serial number, county tag number, location, and the individual accountable for the asset.

Management's Reply Concur. Staff currently uses the PeopleSoft Asset Management Module. Additional training will be provided to insure that all data fields are utilized with identifying information for each asset. Corrective action to be taken effective October 2, 2006.

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. For the period July 1, 2003 through June 30, 2006, the Human Resources Department purchased over \$819,000 of non-capitalized computer equipment. The department utilizes a barcode system to track and monitor non-capitalized assets.

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 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. The absence of internal controls over the safeguarding of non-capitalized assets could result in theft, loss or misappropriation.

Based upon the results of our testing, we determined no significant issues existed over the non-capitalized asset process. The Department is currently in the process of administering the recording of their non-capitalized assets in the Asset Management Module as required by Board Policy H-26. Overall, the Department had a good system of internal controls in place to monitor and safeguard non-capitalized assets.



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RONALD W. KOMERS, IPMA-CP
Asst. County Executive Officer/
Human Resources Director

BARBARA A. OLIVIER, SPHR
Asst. Human Resources Director

DATE: October 20, 2006

TO: Auditor-Controller
Audits and Specialized Accounting Division

FROM: Ronald W. Komers *RLK*
Assistant CEO/Human Resources Director
Department of Human Resources

SUBJECT: Reply to Draft Audit Report # 2006-15 Human Resources Department

Recommendation Number 1.1:

Obtain concurrence of the Director of Purchasing to remove the missing assets from the Capitalized Asset Listing, in accordance with SPM III-E- 2.1.1.

a. Management position concerning the recommendation:

X concur disagree

b. Comments:

Department concurs with recommendation. We will process the request to remove missing assets.

c. Actual/estimated Date of Corrective Action: November 1, 2006

d. Estimated cost to implement recommendation:

\$ none

Recommendation Number 1.2:

Utilize PeopleSoft Asset Management Module to achieve a more comprehensive tracking and monitoring system for the department's capitalized assets, including detailed description, serial number, county tag number, location, and the individual accountable for the asset.

a. Management position concerning the recommendation:

X concur disagree

b. Comments:

Department concurs with recommendation. Staff currently uses the PeopleSoft Asset Management Module. Additional training will be provided to insure that all data fields are utilized with identifying information for each asset.

c. Actual/ Estimated Date of corrective Action: October 2, 2006

d. Estimated cost to implement recommendation:

\$ none