

Internal Audit Department

**CAPS+ AUDIT ALERT NO. 3:
REVIEW OF INTERNAL CONTROLS IN
CAPITAL ASSETS DOCUMENTATION****as of December 31, 2008**

This CAPS+ Audit Alert No. 3 addresses our review of internal controls contained in the CAPS+ Capital Assets documentation. We find that the CAPS+ Capital Assets documentation identifies several internal controls that **if implemented properly** will facilitate appropriate segregation of duties, reviews and approvals, audit trails, and account reconciliations.

We also identified **nine recommendations** that will improve the planned internal controls and/or improve the system implementation documentation.

The CAPS+ Steering Committee concurred with all nine of our recommendations.

The scope of our review did not include certain open items as further described in page 3 of our report.

The purpose of the CAPS+ Audit Alert is to promptly bring to the CAPS Steering Committee's attention important potential issues for their immediate assessment and, if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely completion and dissemination of audit issues so as to not impede progress of the CAPS+ Implementation Project.

AUDIT NO: 2845-A**DATE: MARCH 17, 2009**County Internal Auditor: [Peter Hughes, Ph.D., MBA, CPA, CITP](#)Deputy Director: [Eli Littner, CPA, CIA, CISA](#)Sr. Audit Manager: [Autumn McKinney, CPA, CIA, CISA](#)IT Audit Manager: [Wilson Crider, CPA, CISA](#)

ORANGE COUNTY BOARD OF SUPERVISORS'

Internal Audit Department**RISK BASED AUDITING***Peer Review Compliant 2001, 2004, 2007*

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2845-A March 17, 2009

TO: CAPS Steering Committee:
David Sundstrom, Auditor-Controller, Chair
Bob Franz, Chief Financial Officer,
Vice-Chair
Satish Ajmani, Chief Information Officer
Carl Crown, Human Resources Director
Shaun Skelly, Auditor-Controller, Senior
Director of Accounting & Technology

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: CAPS+ **Audit Alert** No. 3

Attached is our **CAPS+ Audit Alert No. 3** for the CAPS+ Implementation Project.

Each month I submit an **Audit Status Report** to the BOS. Accordingly, the results of this CAPS+ **Audit Alert** will be included in a future status report to the BOS.

Unlike our traditional audit reports, we will not perform a follow-up audit for this CAPS+ **Audit Alert** in six months. However, depending on the materiality, any recommendations not implemented could be included in a future CAPS+ **Audit Alert**.

We will request the CAPS Steering Committee to complete a **Customer Survey** of our services. You will receive the survey shortly after the distribution of our final CAPS+ **Audit Alert**.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully address or mitigate difficult audit issues. Please feel free to call me should you wish to discuss any aspect of our CAPS+ **Audit Alert**.

ATTACHMENTS

Other recipients of this CAPS+ **Audit Alert** are listed on page 4.

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OC Internal Auditor's Executive Report



Audit No. 2845-A

March 17, 2009

TO: CAPS Steering Committee:
David Sundstrom, Auditor-Controller, Chair
Bob Franz, Chief Financial Officer, Vice-Chair
Satish Ajmani, Chief Information Officer
Carl Crown, Human Resources Director
Shaun Skelly, Auditor-Controller, Senior Director of
Accounting and Technology

FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: CAPS+ Audit Alert No. 3

CAPS+ Audit Alert

The purpose of a CAPS+ **Audit Alert** is to quickly bring to the CAPS Steering Committee's attention important potential issues for their assessment and if necessary, corrective action.

Because of the CAPS+ Implementation Project's schedule, timely feedback is critical. As such, this CAPS+ **Audit Alert** is not subject to the same rigor and formality of a traditional report in that we have not fully developed the issues and have not verified the accuracy of all information.

The CAPS+ **Audit Alerts** have an accelerated management response timeline to ensure the timely dissemination of audit issues so as to not impede progress of the CAPS+ Implementation Project.

OBJECTIVE

We have performed a review of the *draft* CAPS+ Capital Assets documentation provided by the CAPS+ Project Implementation Team. There is additional documentation that needs to be completed as described below in Scope Exclusions on Page 3.

The primary purpose of our review is to review and provide feedback whether the *draft* CAPS+ Capital Assets documentation contains appropriate internal controls in the key areas of:

1. Proper segregation of duties;
2. Appropriate reviews and approvals;
3. Audit trails related to preservation of source documents and recording of reviews and approvals; and
4. Sound account reconciliations.

Our review provides feedback that should be considered by the CAPS+ Implementation Team as they finalize the documentation.

BACKGROUND

As described in our MOU dated August 29, 2007, the Internal Audit Department's role on the CAPS+ Implementation Project is reviewing and providing feedback on the internal controls contained in the internal control documents (ICDs) and written procedures developed by the CAPS+ Project Implementation Team for the new system.

Capital Asset Process Overview

Capital Asset transactions include acquisition, modification/change, improvement/addition, disposition, transfer/internal sale, and depreciation.

OC Internal Auditor's Executive Report



The County departments will be required to complete standardized manual forms for each transaction which are then forwarded to the Auditor-Controller Capital Assets Group for data entry into CAPS+ via system "documents." In CAPS+, a "document" is a method by which transactions are created and update the system.

CAPS+ also provides the capability to electronically "workflow" a document. Workflow refers to the steps required to finalize a system "document" and provides the ability to establish varying levels of review/approval before a document becomes final and updates the system. Workflow provides the ability to enforce certain configurable controls that if properly implemented can strengthen internal controls.

There are ten (10) Capital Asset system "documents" planned for implementation. All 10 system documents will be workflowed.

There are fourteen (14) Capital Asset user maintained tables with update capability planned for implementation, not including the system option and special account tables.

Other CAPS+ data entry/transaction options include queries with update actions, inbound interfaces, and batch jobs. There are no updateable queries or inbound interfaces planned for CAPS+ Capital Assets. An annual mass depreciation batch job will be performed for CAPS+ Capital Assets, as well as possibly some system assurance jobs (to verify integrity of data posted to the system) that would be run for the system as a whole.

SCOPE

Our review consisted of inquiry and a review of provided documentation to identify internal controls related to:

- Proper segregation of duties;
- Appropriate reviews and approvals;
- Audits trails related to preservation of source documents and recording of reviews and approvals; and
- Sound account reconciliations.

For this CAPS+ **Audit Alert** No. 3, our review and feedback is limited to the below four "draft" documents. We collectively refer to these as the CAPS+ Capital Assets documentation:

1. OC CAPS+ Department Procedure Manual – Capital Assets (as of 12/5/08)
2. Workflow Process Flow Chart – Capital Assets Documents (as of 11/7/08)
3. Internal Control Document – Capital Assets Workflow Documents (as of 1/12/09)
4. Security Roles Spreadsheet – Capital Assets (as of 12/24/08 Version 4). The spreadsheet has some open items and is subject to change.

In addition, we interviewed the CAPS+ Capital Assets Functional Team to supplement our understanding of the internal controls and to identify any additional relevant controls not included in the above *draft* documents. We also obtained the following documents to gain a better background understanding of CAPS+ Capital Assets functionality:

OC Internal Auditor's Executive Report



- AMS Advantage Fixed Assets User Guide
- CGI Training materials for Fixed Assets
- Fit Analysis - Capital Assets
- As Is Processes - Capital Assets documents
- To Be Processes - Capital Assets documents
- Job Aids for FP, FA, FM, FC, FD, and FI documents (as of 12/5/08)
- Issues Log - Capital Assets (as of 12/17/08)

SCOPE EXCLUSIONS

Our review was not subject to the same rigor and formality of a traditional audit in that we have not fully developed the issues and have not verified the accuracy of all information. We relied predominantly on documentation provided by the CAPS+ Project Implementation Team for our review. Additionally our review is based on planned internal controls which could change.

Open Items

As of 12/31/08, the following documentation was not completed by the CAPS+ Implementation Team and therefore, was not available for our review. We were informed by CAPS+ Project Management that some documents may be in process, some documents are dependent on other tasks being finalized, and some documents may not be as critical until after go-live.

- Centralized Procedures for Capital Assets: These are the CAPS+ written procedures to be performed by the Auditor-Controller Capital Assets Group.
- Segregation of Duties Analysis: This is a documented analysis of system user access to ensure conflicting roles are not assigned to a single user.
- IT Security Administration Function: This is documentation describing the procedures for the IT security administration function including: maintaining user access, reviewing security violations, monitoring powerful use activity, monitoring inappropriate user activity, and reviewing access to sensitive data (i.e., social security numbers, bank account information, HIPAA, etc.).
- Audit Log Strategy: This is documentation identifying which tables and user roles to log activity and who should be reviewing the logs and following-up as deemed appropriate.

CAPS+ Project Management has informed us that it plans to complete the above documentation when appropriate in the system development life cycle.

RESULTS

Based on our review, we find that the provided *draft* CAPS+ Capital Assets documentation identifies several internal controls that, **if implemented properly**, will facilitate appropriate segregation of duties, reviews and approvals, audit trails, and account reconciliations.

We also identified **nine (9) recommendations** for your assessment that will improve the planned internal controls and/or improve the implementation documentation which are noted in the Detailed Observations, Recommendations and Management Responses section of this report.

OC Internal Auditor's Executive Report



ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel of the CAPS+ Implementation Team and the CAPS Steering Committee. If you have any questions regarding our CAPS+ **Audit Alert** No. 3, please call me directly at 834-5475 or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

CAPS+ Project Advisory Committee:

Bill Castro, Director, Auditor-Controller/Satellite Operations
Phil Daigneau, Director, Auditor-Controller/Information Technology
Frank Kim, Director, CEO/Budget
Jan Grimes, Director, Auditor-Controller/Central Operations
Joel Manfredo, Chief Technology Officer, CEO/Information Technology
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David Schulman, GCAP, CAPS+ Security and Workflow Team Member

Other Auditor-Controller Personnel:

Colin Hoffmaster, Auditor-Controller/General Accounting, Senior Manager
Joanne Taylor, Auditor-Controller/Capital Assets Group, Senior Accountant

Detailed Observations, Recommendations and Management Responses



1. Segregation of Duties

As a control objective, CAPS+ should have controls that prevent the same individual from entering, processing, reviewing/authorizing, and verifying/reconciling a transaction in order to establish proper segregation of duties throughout the process. This can be accomplished for Capital Assets by having separate individuals performing the following key tasks:

- Requisitioning/purchasing a capital asset;
- Manually completing a capital asset form;
- Manually reviewing/approving a capital asset form;
- Creating a capital asset "document" in CAPS+;
- Approving a capital asset "document" in CAPS+; and
- Performing a biennial physical inventory.

An analysis of segregation of duties also often includes analysis of sensitive roles (powerful users) and sensitive data (i.e. social security numbers, bank information, HIPAA, etc.).

Positive Comments:

Internal Audit identified the following internal controls relating to segregation of duties:

User Roles and Sensitive Access:

- The CAPS+ application utilizes a role based authorization methodology providing the capability to properly segregate duties.
- The *draft* Capital Assets Security Roles Spreadsheet lists each user role and their assigned access to each Capital Asset application resource (documents, tables, and queries). This document can assist with the segregation of duties analysis discussed below in Observation No. 1. The spreadsheet has some open items and is subject to change.
- For the user maintained Capital Asset tables, update access is generally limited to two user roles (FA_Accountant and FA_Admin). However, for the first six (6) months after the system go-live date of July 1, 2009, the table updates will be performed by the CAPS+ Functional Team members. Limiting update access to tables is important because the table update actions are not subject to approval by another user. See related Observation No. 5 below regarding the audit logging of these tables.
- We were informed that centralized approvers of the UDOC (system "document" that creates and maintains user roles) will review the document to ensure no conflicting roles are assigned to a user.
- We were informed that no Capital Asset user roles will have "override access," which is the ability to override system errors.

Detailed Observations, Recommendations and Management Responses



Document Workflow and Configurable Controls:

- All of the Capital Asset system “documents” will be electronically workflowed. Workflow provides the ability to establish varying levels of review/approval before the electronic document becomes final and updates the system. Workflow also provides the ability to enforce certain configurable controls that if properly implemented can strengthen internal controls.
- The Internal Control Document (ICD) defines the configurable controls for the workflowed Capital Asset system documents. All of the Capital Asset system documents will be configured with the same settings:
 1. Self Approval (Creator/Submitter Restricted): A user entering a system “document” can not approve their own document.
 2. Single Approval (Enforced): If there are multiple approvers required for a system “document”, a user can only be an approver once.
 3. Override Authority (No) and Bypass Approval (Not Allowed): A user can’t override the approval requirements for a system “document” (document control table setting) and a user can’t bypass any of the required approvals for a system “document” (access control table setting). Both tables are set to enforce this control.
 4. Ad hoc routing (Not allowed): A user can’t change the approval routing of a system “document” to another user.

OC CAPS+ Department Procedure Manual:

- The completion of the Capital Asset forms and the entering of data into CAPS+ is performed by separate individuals (department vs. centralized Auditor-Controller function);
- The Auditor-Controller generates the asset listing to be used in the biennial physical inventory performed by the departments;
- The biennial physical inventory is to be performed by two people (locator and recorder) that have no purchasing or capital asset duties;
- The biennial physical inventory is certified by the department head.

If implemented properly, these planned control features will facilitate properly segregated duties. We also identified the following suggestions for improvement:

Observation No. 1: Open Item - Segregation of Duties Analysis

A segregation of duties analysis has not been documented for CAPS+. A documented analysis would ensure that proper segregation of duties exist between the various functions (i.e., Capital Assets, Accounts Payable, and Procurement). After go-live, the document could also assist centralized staff when reviewing the UDOC to help ensure conflicting duties are not assigned to a single user. We were informed by CAPS+ Project Management that it is working to identify the best way to approach this and plans to perform this analysis when the security roles are more finalized. Internal Audit also plans to provide input on how to best develop this analysis.

Recommendation No. 1:

We recommend that the CAPS Steering Committee ensure that a segregation of duties analysis is performed and documented.

Detailed Observations, Recommendations and Management Responses



CAPS Steering Committee's Response:

Concur. The CAPS+ Security and Workflow Team is developing a matrix that will list all CAPS+ financial and procurement roles along with all non-CAPS+ document processes (i.e., vendor invoice approval, Request for Check, etc.) and identify any conflicting roles. The matrix will be reviewed by the CAPS+ Functional teams, the Auditor-Controller, County Procurement Office, CAPS Project Management Office (PMO), and Internal Audit. The project is expected to be completed by June 1, 2009.

Observation No. 2: Open Item - Security Administration Function

The CAPS+ security administration function has not been defined yet. Security administration includes: maintaining user access, reviewing security violations, monitoring powerful users (i.e. system administration and functional analysts) activity, monitoring inappropriate user activity, and reviewing access to sensitive data (i.e., social security numbers, bank account information, HIPAA, etc.). The CAPS+ Project Management informed us this has been deferred until the single sign-on (LDAP) implementation strategy is finalized.

Recommendation No. 2:

We recommend that the CAPS Steering Committee ensure the CAPS+ security administration function is defined and written procedures are developed.

CAPS Steering Committee's Response:

Concur. The CAPS+ Security and Workflow team will be responsible for the security administration of the system for the first 6 months after the system is implemented. The procedures for these activities will be documented and transitioned to other organizational entities during this period. The project is expected to be completed by December 31, 2009.

2. Reviews and Approvals

As a control objective, the CAPS+ Capital Assets should have controls to ensure that Capital Asset transactions are properly reviewed and approved before processing continues. In addition, the controls should prevent a user from entering and reviewing/approving the same transaction.

Positive Comments:

Internal Audit identified the following internal controls relating to reviews and approvals:

Document Workflow and Configurable Controls:

- All CAPS+ Capital Asset system "documents" are required to be approved by a second person. As discussed above in the Segregation of Duties section on pages 5 and 6, CAPS+ system controls enforce the review of CAPS+ Capital Assets system documents.
- We were informed that the Auditor-Controller's Capital Assets Group will be responsible for monitoring the system "document" catalog to ensure the timely processing of system "documents."

Detailed Observations, Recommendations and Management Responses



OC CAPS+ Department Procedure Manual:

- Only the Department Head, Chief Deputy, Assistant Director or designee (per an authorized signature list) are authorized to approve the CAPS+ Capital Asset forms.
- We were informed the Auditor-Controller Capital Assets Group will compare the Department Head (or designee) signatures on the CAPS+ Capital Asset forms with the authorized signature lists.
- Only the Department Head may certify the physical inventory.

If implemented properly, these planned control features will facilitate the establishment of appropriate reviews and approvals. We also identified the following suggestions for improvement:

Observation No. 3: Capital Asset Forms Should Be Approved by a Second Individual

The *draft* OC CAPS+ Department Procedure Manual allows a single individual to prepare and approve the Capital Asset forms and forward to Auditor-Controller's Capital Assets Group for data entry. Requiring a second individual to review and approve the forms would provide assurance that the capital asset for the completed form was actually received. The written procedure should explain the individual approving the Capital Asset form would be certifying receipt of the capital asset.

In addition, different sections of the written procedure had conflicting information regarding who would sign the form (Property Officer vs. Department Head or designee). Based on our discussions with the Capital Assets Functional Team, it is intended for the Property Officer to prepare and sign the form and the Department Head or designee to approve and sign the form. The Auditor-Controller Capital Assets Group would then compare the signatures on the form to an authorized signature list.

Recommendation No. 3:

We recommend that the CAPS Steering Committee revise the written departmental procedure to require the Capital Asset forms be signed by the preparer and a separate individual verifying accuracy of the information including the physical receipt of the capital asset. The written procedure should also clarify who is able to prepare and approve the forms.

CAPS Steering Committee's Response:

Concur. The written procedures will be revised to state that Inventory Certificates and Relief of Accountability forms will require Department Head approval. For all other Capital Asset documents, the required signature will be the Property Officer and the department head or their designee. The Capital Asset procedures will be updated and posted to the CAPS+ Implementation website by March 13, 2009.

Observation No. 4: Open Item - Centralized Procedures

Draft departmental user procedures for Capital Assets have been created by the CAPS+ Implementation Team. This is an important achievement as the prior system implementation of CAPS did not include the development of written user procedures.

However, written procedures for the centralized Auditor-Controller CAPS+ Capital Assets functions have not been developed yet. This was the subject of our CAPS+ Audit Alert No. 1, dated April 29, 2008.

Detailed Observations, Recommendations and Management Responses



However, written procedures for the centralized Auditor-Controller CAPS+ Capital Assets functions have not been developed yet. This was the subject of our CAPS+ Audit Alert No. 1, dated April 29, 2008.

We were informed that in order to meet project due dates, the CAPS+ Implementation Team will not document the centralized CAPS+ procedures until sometime after the system go-live date of July 1, 2009.

To help mitigate the lack of centralized written procedure for Capital Assets, the centralized users will be trained and provided with written job training aides before July 1, 2009. Additionally, for the first six (6) months after the system go-live date of July 1, 2009, table updates will be performed by the CAPS+ Functional Team members, rather than the centralized Auditor-Controller staff.

It is planned that the table updates will eventually be transitioned to a limited number of professional level staff (2) in the Auditor-Controller's Capital Assets Group.

As a starting point, the Auditor-Controller Capital Assets Group has prepared a listing of needed Capital Asset Procedures. The written centralized procedures should include:

- The steps for processing capital asset transactions (documents) and updating tables in CAPS+;
- The reconciliation of capital asset acquisition forms submitted by the departments with the CAPS+ monthly report of capital asset purchases;
- A comparison of signatures on capital asset forms with authorized signature lists;
- The annual mass depreciation job including a review/reconciliation of the output;
- As applicable, system assurance jobs including a review of the output/results; and
- Other key reconciliations as described below on page 11.

Recommendation No. 4:

We recommend that the CAPS Steering Committee ensure that centralized written procedures for Capital Assets are prepared. The first step should be to identify the resources and timelines for preparing the procedures.

CAPS Steering Committee's Response:

Concur. The Auditor-Controller is currently preparing desk procedures for the central Capital Asset processes. The project is expected to be completed by April 30, 2009.

3. Audit Trails Including Source Documents

As a control objective, the CAPS+ Capital Assets should have sufficient audit trails to document each Capital Asset transaction activity including review and approval. This would enable management to track transactions from the source to the ultimate result and to trace backward from the results to identify the transactions and events recorded.

Positive Comments:

Internal Audit identified the following internal controls relating to audit trails:

Detailed Observations, Recommendations and Management Responses



System Features:

- The system maintains a history (log) of system "document" activity including: comments, version number, function (new, modification, cancellation), and user ID. The preparer and approver user IDs are documented. If a change is made to a final system "document", the original final "document" is preserved as a historical final "document."
- CAPS+ preserves copies of the depreciation records.
- Table activity may be logged including: table name, last update date, action, user ID, original value, and new value.

OC CAPS+ Department Procedure Manual:

- Standardized Capital Asset forms have been created for the departments to ensure the proper data is consistently and completely gathered. Forms have been created to support each type of Capital Asset system "document."
- The departments submit the standardized form, along with source documents, to the Auditor-Controller Capital Assets Group. The Auditor-Controller Capital Assets Group retains the completed form and source documents to support the Capital Asset system "document" entered into CAPS+.
- A pre-numbered asset tag is affixed on all capital asset equipment.

If implemented properly, these planned control features will facilitate the establishment of audit trails and source documents to document each transaction activity including review and approval. We also identified the following suggestions for improvement:

Observation No. 5: Open Item - Audit Log Configuration

CAPS+ is capable of performing audit logging of system activity; however, documentation has not been created to address configuration of audit logs for Capital Assets. Audit log configuration documentation should include which tables, transactions, and users to log and who will review the logs. We were informed the CAPS+ Security and Workflow Team is gathering requirements for this.

Recommendation No. 5:

We recommend that the CAPS Steering Committee develop documentation for configuring the system audit logs.

CAPS Steering Committee's Response:

Concur. The CAPS+ Security and Workflow Team is analyzing the current CAPS system audit logs to determine which tables will be replicated in CAPS+ and to identify additional tables that will require logs. After completion of the analysis, the Team will document the CAPS+ audit logs. The CAPS+ Security and Workflow Team will review the audit logs for the first 6 months after implementation of CAPS+ while training the CAPS Project Management Office on the process. Detailed procedures for reviewing the audit logs will be developed and transitioned to another organizational entity during this 6 month period. The project is expected to be completed by March 16, 2009.

Detailed Observations, Recommendations and Management Responses



Observation No. 6: Departmental Procedures Do Not Define Source Documents

The *draft* OC CAPS+ Department Procedure Manual states that the department should submit the source documents along with the completed Capital Assets forms to the Auditor-Controller's Capital Assets Group. Except for the Notice of Completions for Capital Projects and Memos for Capital Asset Transfers, the procedures do not detail or explain what types of source documents should be submitted along with the forms.

Also, the procedures require "original" source documents. However, as "original" documents may be used to support the payment request, feasibility of the "original" may need further evaluation. Providing details regarding source document requirements would ensure that all necessary information is gathered to support the capital asset transactions.

Recommendation No. 6:

We recommend that the CAPS Steering Committee ensure the written departmental procedures specify which source documents should be submitted to the Auditor-Controller Capital Assets Group.

CAPS Steering Committee's Response:

Concur. The Capital Asset procedures will be revised and include detailed instructions on what types of source documents are required for each Capital Asset document. The project is expected to be completed by March 13, 2009.

4. Account Reconciliations

As a control objective, the CAPS+ Capital Assets should have controls to ensure that sound account reconciliations are performed. This could include reviews or comparisons of system output for reasonableness.

Positive Comments:

Internal Audit identified the following internal controls relating to account reconciliations:

System Features:

- Year end depreciation calculations are performed by the system. The annual mass depreciation job output should be reconciled. See related observation No. 4 regarding need for centralized written procedures.

OC CAPS+ Department Procedure Manual:

- A biennial physical inventory is required to verify the existence of recorded assets.

Centralized Auditor-Controller Procedures:

- We were informed the Auditor-Controller's Capital Assets Group plans to reconcile a monthly report of capital asset purchases with department submitted capital asset acquisition forms to help ensure the completeness of recorded capital assets.
- We were informed the Auditor-Controller's Capital Assets Group plans to perform a reconciliation of accounting records to equipment, land, and construction in process (CIP) balances and a reconciliation between CIP and Structures/Infrastructure (completed projects).

Detailed Observations, Recommendations and Management Responses



If implemented properly, these planned control features will facilitate sound account reconciliations. We also identified the following suggestions for improvement:

Observation No. 7: Departmental Procedures Do Not Address Monitoring of CAPS+ Data Entry

The *draft* OC CAPS+ Department Procedure Manual does not address the departments' monitoring of the centralized Capital Assets data entry. Without adequate monitoring and review of the CAPS+ Capital Asset reports, inadvertent data entry errors made by the Auditor-Controller Capital Assets Group may not be detected by the departments until the biennial physical inventory. This could be facilitated by sending an email notice to the department when the system "document" is approved so the department can verify the asset was recorded properly.

Recommendation No. 7:

We recommend that the CAPS Steering Committee consider developing departmental procedures to verify Capital Assets data is properly recorded by the Auditor-Controller.

CAPS Steering Committee's Response:

Concur. The Auditor-Controller agrees that data should be reviewed to ensure that information is correctly recorded into the Capital Asset system. As an alternative to A/C Capital Assets sending emails as each system "document" is approved, departments should routinely reconcile their CAPS+ Capital Asset reports to their internal records. In addition to departmental reconciliations, the A/C Capital Asset Unit will monthly reconcile the CAPS+ Capital Asset records to the actual Capital Asset expenditures.

With A/C and departments performing reconciliations, we feel that errors will be caught in a timely manner, and the Capital Asset data will be properly recorded.

5. Other Suggestions

During our review of the provided Capital Assets documentation, we identified the following additional suggestions for improvement:

Observation No. 8: CAPS+ Shell Functionality Not Utilized

CAPS+ is capable of creating a "shell" capital asset document based on the purchase commodity code (i.e. the automatic initiation of a system "document"). This "shell" functionality is not being utilized for Capital Assets. In lieu of this, departments will submit a manually prepared Capital Asset form to the Auditor-Controller Capital Assets Group who will then create a Capital Asset system "document." We were informed that the County needs the "shell" to be based on the object (expenditure) code and CAPS+ currently does not offer the functionality.

Because the "shell" functionality could better facilitate the data entry process reducing the likelihood of data entry errors and unrecorded capital assets, the County should continue to monitor the status of any future changes made by the system vendor regarding the "shell" functionality.

**Recommendation No. 8:**

We recommend that the CAPS Steering Committee continue to monitor any future opportunities to implement the Capital Asset "shell" functionality.

CAPS Steering Committee's Response:

Concur. The Auditor-Controller will assess the use of the Capital Asset shell functionality in future Advantage software releases.

Observation No. 9: Penetration Testing Scope May Be Limited

Internal Audit was informed that the CAPS+ Implementation Project Team, in conjunction with CEO/Information Technology, will have a penetration test performed of the CAPS+ application. However, based on our discussions the scope of the testing might be limited to external access points (i.e., single sign on authentication) because the application will be available only to County employees (via the intranet). However, it would be prudent to perform a broader scope of testing because of the importance of CAPS+. Additional testing should include access vulnerabilities, traffic sniffing, system patches, cross site scripting, buffer overflows, SQL injection, denial of service attacks, and other vulnerabilities.

Recommendation No. 9:

We recommend that the CAPS Steering Committee consider requiring the scope of the penetration testing for CAPS+ to include the above mentioned vulnerabilities.

CAPS Steering Committee's Response:

Concur. The CAPS+ Project Team is developing the penetration testing plan in April 2009 for execution in May. The Team will forward the plan to Internal Audit for review.

Detailed Observations, Recommendations and Management Responses



ATTACHMENT A: CAPS Steering Committee Response



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March 13, 2009

TO: Dr. Peter Hughes
Director, Internal Audit Department

SUBJECT: Response to Internal Audit Alert No. 3 – Review of Internal Controls in Capital Assets

On January 22, 2008, your department issued Audit No. 2845-A, Audit Alert #3, Review of Internal Controls in Capital Asset Documentation for the CAPS+ Implementation Project. The attached response has been reviewed and approved by the CAPS Steering Committee.

If you have any questions, please contact Larry Chanda, CAPS+ Project Manager at 834-2181 or Larry.Chanda@ceoit.ocgov.com.

David E. Sundstrom
Auditor-Controller

DS:dms

Detailed Observations, Recommendations and Management Responses



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Audit Alert No. 3 Response
March 13, 2009
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DISTRIBUTION

CAPS Steering Committee	Bob Franz, CEO, Chief Financial Officer Shaun Skelly, Auditor-Controller, Senior Director Accounting & Technology Satish Ajmani, CEO, Chief Information Officer Carl Crown, Human Resources Director
CAPS+ Project Advisory Committee	Jan Grimes, Auditor-Controller, Director, Central Accounting Operations William Castro, Auditor-Controller, Director, Satellite Accounting Operations Phillip Daigneau, Auditor-Controller, Director Information Technology Steve Rodermund, CAPS Program Manager Joel Manfredo, CEO, Chief Technology Officer Ron Vienna, CEO, County Purchasing Agent Frank Kim, CEO, Budget Director
CAPS+ Project Management Team (excluding vendors)	Larry Chanda, Project Manager Denise Steckler, Assistant Project Manager Bill Malohn, Auditor-Controller IT John Humann, CEO Purchasing Steve Winings, CEO IT Mitch Tevlin, CEO Budget Cecilia Novella, Project Communications

Detailed Observations, Recommendations and Management Responses



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Internal Audit Alert #3 – Review of Internal Controls in Capital Asset Response	
Internal Audit Recommendation	Response
Recommendation No. 1: We recommend that the CAPS Steering Committee ensure that a segregation of duties analysis is performed and documented.	Concur: The CAPS+ Security and Workflow Team is developing a matrix that will list all CAPS+ financial and procurement roles along with all non-CAPS+ document processes (ie, vendor invoice approval, Request for Check, etc.) and identify any conflicting roles. The matrix will be reviewed by the CAPS+ Functional teams, the Auditor-Controller, County Procurement Office, CAPS Project Management Office (PMO), and Internal Audit. Expected Completion Date: June 1, 2009.
Recommendation No. 2: We recommend that the CAPS Steering Committee ensure the CAPS+ security administration function is defined and written procedures are developed.	Concur: The CAPS+ Security and Workflow team will be responsible for the security administration of the system for the first 6 months after the system is implemented. The procedures for these activities will be documented and transitioned to other organizational entities during this period. Estimated completion date: December 31, 2009
Recommendation No. 3: We recommend that the CAPS Steering Committee revise the written departmental procedure to require the Capital Asset forms be signed by the preparer and a separate individual verifying accuracy of the information including the physical receipt of the capital asset. The written procedure should also clarify who is able to prepare and approve the forms.	Concur: The written procedures will be revised to state that Inventory Certificates and Relief of Accountability forms will require Department Head approval. For all other Capital Asset documents, the required signature will be the Property Officer and the department head or their designee. Estimated Completion Date: The Capital Asset procedures will be updated and posted to the CAPS+ Implementation website by March 13, 2009.

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Detailed Observations, Recommendations and Management Responses



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Internal Audit Alert #3 – Review of Internal Controls in Capital Asset Response	
Internal Audit Recommendation	Response
Recommendation No. 4: We recommend that the CAPS Steering Committee ensure that centralized written procedures for Capital Assets are prepared. The first step should be to identify the resources and timelines for preparing the procedures.	Concur: The Auditor-Controller is currently preparing desk procedures for the central Capital Asset processes. Estimated completion date: April 30, 2009.
Recommendation No. 5: We recommend that the CAPS Steering Committee develop documentation for configuring the system audit logs.	Concur: The CAPS+ Security and Workflow Team is analyzing the current CAPS system audit logs to determine which tables will be replicated in CAPS+ and to identify additional tables that will require logs. After completion of the analysis, the Team will document the CAPS+ audit logs. The CAPS+ Security and Workflow Team will review the audit logs for the first 6 months after implementation of CAPS+ while training the CAPS Project Management Office on the process. Detailed procedures for reviewing the audit logs will be developed transitioned to another organizational entity during this 6 month period. Estimated completion date: March 16, 2009
Recommendation No. 6: We recommend that the CAPS Steering Committee ensure the written departmental procedures specify which source documents should be submitted to the Auditor-Controller Capital Assets Group.	Concur: The Capital Asset procedures will be revised and include detailed instructions on what types of source documents are required for each Capital Asset document. Expected completion date: March 13, 2009.

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Detailed Observations, Recommendations and Management Responses



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Internal Audit Alert #3 – Review of Internal Controls in Capital Asset Response	
Internal Audit Recommendation	Response
Recommendation No. 7: We recommend that the CAPS Steering Committee consider developing departmental procedures, including email notifications, to verify Capital Assets data is properly recorded by the Auditor-Controller.	<p>Concur: The Auditor-Controller agrees that data should be reviewed to ensure that information is correctly recorded into the Capital Asset system. As an alternative to A/C Capital Assets sending emails as each system "document" is approved, departments should routinely reconcile their CAPS+ Capital Asset reports to their internal records. In addition to departmental reconciliations, the A/C Capital Asset Unit will monthly reconcile the CAPS+ Capital Asset records to the actual Capital Asset expenditures.</p> <p>With A/C and Departments performing reconciliations, we feel that errors will be caught in a timely manner and the Capital Asset data will be properly recorded.</p>
Recommendation No. 8: We recommend that the CAPS Steering Committee continue to monitor any future opportunities to implement the Capital Asset "Shell" functionality.	<p>Concur: The Auditor-Controller will assess the use of the Capital Asset shell functionality in future Advantage software releases.</p>
Recommendation No. 9: We recommend that the CAPS Steering Committee consider requiring the scope of the penetration testing for CAPS+ to include the above mentioned vulnerabilities.	<p>Concur: The CAPS+ Project Team is developing the penetration testing plan in April 2009 for execution in May. The Team will forward the Plan to Internal Audit for review.</p>

3.13.09 - Prepared by CAPS+ Project Management

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