

INTERNAL AUDIT SERVICES

**REVIEW OF SOLANO COUNTY
HEALTH & SOCIAL SERVICES
INVENTORY OF NEW COMPUTER EQUIPMENT
& COMPUTER PURCHASE AND DISTRIBUTION PROCESS**



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**Review of the Solano County Health & Social Services Inventory of New Computer
Equipment & Computer Purchase and Distribution Process**

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INTRODUCTION

In accordance with the fiscal year 2009/10 Audit Plan, we conducted a review of Health & Social Services Inventory of New Computer Equipment & Computer Purchase and Distribution Process. We conducted our review in accordance with Standards for the Professional Practice of Internal Auditing.

BACKGROUND

Health & Social Services computer purchases and distribution are accomplished through a coordinated effort between the Health & Social Services Department and the Department of Information Technology. (The Department of Information Technology contracts with Affiliated Computer Services (ACS) for various services including computer installation.) Health & Social Services Department maintains an estimated 1,700 computers.

Solano County has a policy, based on industry data and best practices, that recommends replacing Personal Computers with the goal of minimizing the total cost of ownership of a PC while also maximizing the County's ability to provide a secure computing environment. The refresh policy had been set at 4-years but was increased to 5-years (or when a specific need is identified) in January 2009 due to the County's financial challenges. DoIT uses the IFAS system to track the age of computer equipment. Annually, DoIT produces an IFAS computer equipment report that is provided as an equipment recommendation to departments for budgeting purposes. It is then up to Departments to budget for PC-refresh in accordance with the recommendations. However, there is no requirement for Departments to refresh their equipment according to these recommendations, and many of them haven't done so due to budget constraints.

Health & Social Services Administration initiates or confirms computer equipment purchases in accordance with established County purchasing procedures. New computer equipment, including PCs and laptops for County staff are ordered through the ACS contract with Dell Computer. The equipment is delivered to the Department of Information Technology located at 675 Texas Street. ACS receives and tags the new equipment as a County asset. Once tagged, the equipment is delivered to Health & Social Services and placed in the locked storage cage at 275 Beck Ave. or, when space prohibits, the equipment will remain at the Department of Information Technology at

675 Texas Street. The computer equipment remains in storage pending installation. Installation instructions, which outline the user assigned, the software to be installed and other necessary installation information, are completed through a coordinated effort between Health & Social Services and the Department of Information Technology. Health & Social Services staff complete and provide installation instructions to ACS staff who then schedule the installation of the new equipment with the end user. The equipment is then delivered from storage to the end user location. In fiscal year 2009/10 the Health & Social Services Department purchased approximately 118 computers and 47 monitors at a cost of \$144,000.

OBJECTIVE

The objective of our review was to perform an unannounced inventory of new computer equipment held in storage locations at 275 Beck Ave. and 675 Texas St. in Fairfield, CA. and to obtain an understanding of the Health & Social Services and Department of Information Technology policies and procedures to ensure computer purchase and distribution process are properly controlled.

SCOPE & METHODOLOGY

Our scope included the performance of an unannounced inventory of new computer equipment held in storage at 275 Beck Ave. and 675 Texas St. in Fairfield, CA. The scope of our review was limited to procedures deemed necessary to complete the inventory and gain an understanding of the process and internal controls over the Health & Social Services computer purchase and distribution process. To achieve our objectives, we conducted a physical inventory at the two storage locations noted above, interviewed key individuals, reviewed records, and evaluated control procedures.

CONCLUSION

Our review identified 205 Dell computers, 226 monitors, and 23 printers valued at over \$245,000 which were purchased and held in storage pending installation for a period from six months to over three years.

Based on our review, the failure to timely install computer equipment was the result of several deficiencies in internal controls, including but not limited to:

- The process for purchasing and distributing computer equipment in Health & Social Services is cumbersome and inefficient requiring numerous staff and management from four departments.
- The assignment of new computers to the end user goes through many changes, making this process difficult to manage.
- The roles and responsibilities for the completion of installation sheets, which provide instructions on installation, have not been clearly defined between Health & Social Services and the Department of Information Technology.
- The annual physical inventory conducted by Health & Social Services requires freezing inventory movement for extended periods of time and takes several months to complete. As a result, computer equipment purchases at or near year end are held in storage pending completion of the physical inventory creating a backlog of equipment to be installed.

As a result, over \$245,000 in computer equipment was held in storage from six months to over three years, warranty periods on new equipment expire before installation, staff spend excessive time completing computer installations, and County resources are used to purchase and store equipment for excessive periods of time.

The following pages provide a detailed description of the findings identified and the related recommendations. These recommendations will assist Health & Social Services and the Department of Information Technology to improve the business processes and controls in the purchase, inventory and distribution of computers.

FINDINGS & RECOMENDATIONS

1. MASTER LISTING OF COMPUTER EQUIPMENT USED TO DETERMINE THE PURCHASE AND ASSIGNMENT OF COMPUTER EQUIPMENT IS NOT ACCURATE

Under the PC Refresh Policy, the Department of Information Technology (DOIT) recommends a timeline for departments to replace outdated equipment. DoIT issues a master aging listing of computer equipment to Departments in budget instructions based on a replacement cycle approved by the CAO's office. DOIT generates the master aging listing of computer equipment from IFAS.

Based on our review, the master listing of computer equipment, which is the basis for purchasing and assigning new purchases of computer equipment, is not accurate. Our review noted the following:

- Health & Social Services (H&SS) and DOIT each maintained separate listings of computers which are subject to constant change and could not be reconciled.
- Updating information in the Integrated Financial Accounting System (IFAS) for computer equipment purchases, transfers to surplus, user transfers, etc. is distributed among a number of departments and can take several months to complete. As such, the master listing in IFAS at a point in time is not an accurate listing of computers.
- The equipment replacement can take several months to complete from the point of obtaining the listing of equipment for replacement to delivery and installation to the end user. During this time, numerous changes to the assignment of computer equipment frequently occur. In cases where the end user is no longer in need of the equipment, due to already receiving a replacement machine, the equipment is reassigned to another user delaying the installation of the equipment.

As a result of the above, the basis for assigning a computer ordered under the PC Refresh policy to a specific end user is cumbersome and inefficient, requiring significant staff time to complete.

RECOMMENDATION:

Department of Information Technology & Health & Social Services

- A. Review and revise policies, procedures, roles and responsibilities for the maintenance of the master listing of computer equipment under the PC Refresh Policy.

MANAGEMENT RESPONSE:

Department of Information Technology

- A. DoIT concurs that the policies, procedures, roles and responsibilities for the maintenance of a master listing of computer equipment should be reviewed and improved. DoIT is currently responsible for only part of the maintenance process and is willing to work with the ACO and General Services on re-aligning responsibilities to streamline the maintenance and control of this data.

Health & Social Services

- A. H&SS concurs that the policies, procedures, roles and responsibilities for the maintenance of a master listing of computer equipment under the PC Refresh Policy should be reviewed and revised.

2. ROLES AND RESPONSIBILITIES FOR INSTALLATION INSTRUCTIONS OF COMPUTER EQUIPMENT

The roles and responsibilities for the completion of installation sheets, which provide instructions on the assignment and location of the end user, the type of hardware and software to be installed, and serve as the order to install, has not been clearly defined or assigned. Our review identified the following:

- Based on initial inquiry, staff from the Department of Information Technology and Health & Social Services did not agree on who was responsible for completing the installation sheets.
- Health & Social Services Inventory Clerk who completes installation sheets does not have the technical expertise in computer hardware and software necessary to evaluate the user needs of over 1,000 Health & Social Services staff.

Confusion in the roles and responsibilities for completion of the Installation sheets, combined with the assignment of staff without the appropriate level of technical expertise in assessing software and hardware needs resulted in the significant backlogs and delays in the installation of new equipment. Thus, boxed, unopened equipment were left to stay in storage while warranties expire.

RECOMMENDATION:

Department of Information Technology & Health & Social Services

- A. Review roles and responsibilities for completion of Installation Sheets.

MANAGEMENT RESPONSE:

Department of Information Technology

- A. DoIT established the current process for completion of computer installation sheets in 2006. Training and instructions were provided to all departments in November, 2006 so that this task could be performed efficiently and with minimal, ongoing involvement of technical staff. DoIT will review this process again with H&SS staff and will work with H&SS to ensure that appropriate staff from H&SS and DoIT are involved in the process,

Health & Social Services

- A. DoIT provides the Installment Sheet template and technical specifications for equipment. The H&SS Inventory Clerk will link the tagged equipment to the end-user and initiate the Installation Sheet. H&SS recommends that the template be revised to include a non-technical section for the Inventory Clerk to complete; and a technical section for only DoIT to complete.

3. PURCHASE AND DISTRIBUTION PROCESS OF COMPUTER EQUIPMENT

The process for purchasing and distributing computer equipment in Health & Social Services is cumbersome and inefficient.

Our review identified the process for purchasing and distributing one computer requires significant effort and involves several layers of review and approval from various staff and managers from four departments (Health & Social Services, Department of Information Technology, General Services,

and Auditor-Controller). In addition, for purchases related to certain State funded programs, State approval of equipment specifications are also required.

Strong business practices and efficient systems and controls should ensure the processes for the purchase and distribution of computer equipment are accomplished within the least possible time and cost, while ensuring controls are sufficient to ensure computer equipment purchases are properly approved.

The Department of Information Technology and Health & Social Services have implemented numerous steps and controls and are in the process of evaluating process and workflow in an effort to streamline the steps required for the purchase and distribution of computer equipment. However, the process remains inefficient and ultimately contributed to the delay in installation of computer equipment.

RECOMMENDATION:

Department of Information Technology & Health & Social Services

- A. Continue efforts to document and evaluate processes and workflow for the purchase and distribution of computer equipment. Focus on process simplification by reducing layers of review and approval, streamlining coordination between departments, and reducing the complexity of the process where possible.

MANAGEMENT RESPONSE:

Department of Information Technology

- A. DoIT works within the County's policies and procedures for purchasing, receiving, and inventory control. DoIT will continue to work with H&SS, ACO, and General Services on streamlining the purchase and distribution processes for computer equipment.

Health & Social Services

- A. Because of the availability of state funding, H&SS will continue to experience some delays in deployment of equipment that is purchased (in a prior fiscal year) in anticipation of new

programs that will be implemented in a subsequent fiscal year. In this scenario, the equipment will remain in storage until the programs are implemented.

- a. H&SS Staff Analyst has created a SharePoint site to provide the status of all pending and approved Advanced Planning Documents (APD's) for equipment to be utilized in social services programs.
- b. H&SS will revise its internal approval process to reduce and simplify layers of review and approval for peripheral computer equipment/software. Currently, the Asst. Director – Operations approves the initial Supply Requisition Form (formerly called Non-Stockless Requisition Form). Upon receipt of the TIF (technical information form), a subsequent approval is obtained. H&SS will eliminate the 2nd approval to streamline the purchasing process.
- c. The H&SS Inventory Clerk will input data into the “Purchase Order, Receiving, and Distribution Log,” to track workflow process from start to finish.

4. ANNUAL PHYSICAL INVENTORY

Annually, Health & Social Services completes an inventory of all assets including computer equipment. This inventory includes an estimated 5,000 items in use in 33 physical locations.

Inventory counts and the subsequent reconciliation of the physical inventory in prior years were performed manually, and were completed over several months. During this time inventory movement ceased. While inventory control procedures require inventory movement to cease to ensure accuracy, inventory counts should be performed in the least amount of time to limit any negative impact on operations.

As a result of extended timelines in completion of the physical inventory, computer equipment purchased at or near year end is being held in storage pending completion of the physical inventory, creating a backlog of equipment installations.

While this issue has been a challenge in prior years, contributing to the buildup of equipment awaiting installation, in the most recent physical inventories of FY 2009/10 and FY 2010/11 the Health & Social Services Department with the assistance of the Auditor-Controller's office implemented the use of scanners for the physical inventory, thus automating the process and decreasing the time to complete the inventory is frozen from movement and installation.

RECOMMENDATION:

Health & Social Services

- A. Continue to utilize automated inventory procedures to reduce the time required for physical inventory.
- B. Establish policies and procedures to monitor and escalate physical inventory issues to ensure counts are performed timely.
- C. Establish a deadline for the completion of the annual physical inventory and the related freeze of inventory movement.

MANAGEMENT RESPONSE:

Health & Social Services

- A. H&SS has purchased a scanner and will continue to utilize automated inventory procedures to reduce the time required for the physical inventory.
 - a. In 2009, movement of inventory ceased for about six (6) weeks, during the Annual Fixed Asset Audit.
 - b. In 2010, H&SS recorded its second successful year of automated inventory scanning. Movement of inventory ceased about four (4) weeks.
- B. H&SS will utilize its scanner to conduct quarterly inventory spot checks, in December, February, April, and June. This procedure will allow H&SS to resolve inventory-related issues, prior to the annual inventory.
- C. H&SS will establish a deadline of at least four (4) weeks to complete the annual physical inventory and reconciliation. In 2011, H&SS will have the capacity to utilize both the ACO and H&SS scanners and further reduce the freeze of inventory movement.

5. DELL COMPUTER EQUIPMENT WARRANTY EXPIRATION

Dell computer equipment is purchased from the manufacturer with a three year warranty. The warranty period begins on the date of shipment from Dell.

Our review identified 205 Dell computers purchased by H&SS held in storage for an extended period of time and were not put into service timely. All of these machines had ship dates over 6 months prior to our inventory count. As a result the warranty period is expiring or in some cases expired.

Purchased computer equipment should be installed immediately upon receipt to ensure equipment is in operation for the entire period under warranty.

RECOMMENDATION:

Department of Information Technology & Health & Social Services

- A. Immediately install all Dell Machines held in storage.
- B. Establish procedures and controls to ensure timely install of all computer equipment.
- C. Monitor warranty periods on equipment held for install.

MANAGEMENT RESPONSE:

Department of Information Technology

- A. PCs noted as being “held in storage” during this audit have been installed. DoIT is not aware of any backlog of pending computer installations.
- B. DoIT does not hold PCs in storage. DoIT installs PCs as soon as possible once installation instructions are received from user departments. DoIT can install 15 to 20 PCs per week at current staffing levels. Users may experience installation delays if large numbers of PCs are purchased at one time. DoIT will work with Purchasing and H&SS to ensure that we do not order more PCs than we have the capacity to install. However, given the complexity of budget planning with the State we may not be able to always optimize delivery schedules.
- C. DoIT monitors the warranties of all computer equipment. Due to the extension of our PC refresh cycle PCs are now being purchased with a 4-year warranty.

Health & Social Services

- A. Upon notification by DoIT of receipt of computer equipment; and H&SS' receipt of the tag assignment list, the H&SS Inventory Clerk will arrange for delivery of the equipment to Beck Ave. Within fourteen (14) business days after actual receipt of the equipment, Installations will be prepared and submitted to DoIT. DoIT will initialize and install equipment for the end-users. The exception will apply to those programs that will subsequently be implemented.
- B. H&SS and DoIT will meet to establish reasonable procedures and controls to ensure timely installation of all computer equipment.
- C. The H&SS Inventory Clerk will distribute monthly notices to programs regarding computer equipment that is pending installation. Beginning FY 2010/2011, H&SS has been informed that the manufacturer's warranty for Dell computers has been increased to four (4) years.