



David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

February 23, 2007

Assignment 10140

To: Distribution List

Subject: Internal Audit Custody Report – ISD

We have completed a custody audit of the Information Services Department (ISD) as of June 30, 2006. We conducted the audit from August 2006 through February 2007.

We thank the staff of ISD for their cooperation. Their assistance contributed significantly to the successful completion of the audit.

Respectfully submitted,

Signatures on file.

David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

Distribution List:

Cherie Dawn, Administrative Services Manager II, ISD
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COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

**Custody Audit – Information Services
Department**



Assignment 10140
February 23, 2007

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Executive Summary

Conclusion Based upon the results of our testing, we express an unqualified opinion on the \$10,631,819 of reported assets. We had one \$198,110 inventory adjustment to the reported assets.

The Information Services Department is in agreement with this report.

Audit Objective and Scope The objective was to perform a financial audit of the reported assets as specified by the County Charter. The scope of the audit included:

- Testing internal controls over the assets
- Verifying the existence, valuation and completeness of amounts of the assets
- Determining whether the assets under the department's control are fairly presented in conformity with generally accepted accounting principles as of June 30, 2006.

Audit Background Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Ms. Joyce Wing was named as Interim Chief Information Officer when Mr. Satish Ajmani resigned in December 2005. Since over seven months had passed between the transfer and the start of our audit in August 2006, we mutually agreed to establish the audit date of June 30, 2006.

We conducted our audit in accordance with the Professional Practices Framework established by the Institute of Internal Auditors.

Signatures on file.

David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

Finding and Recommendation

Finding

The Information Services Department has \$198,110.38 of obsolete telecommunications inventory listed on their current assets.

The department never disposed of the obsolete inventory, nor adjusted their accounting records when the inventory became obsolete due to the replacement of the telecommunication system in 1999.

California State Controller's Office Division of Accounting and Reporting's *Accounting Standards and Procedures For Counties* defines current assets as "...those assets that will be used-up or converted into cash within one year..."

The County has overstated current assets because they are not in compliance with the California State Controller's Office Division of Accounting and Reporting. In addition, storing this inventory has been an unproductive use of space.

Recommendation

ISD should remove the obsolete inventory from the inventory dollar amount being carried as current assets. (Priority 2)

Management Action

ISD has disposed of all obsolete inventory and they have properly reflected the disposal in the accounting records.

INDEPENDENT AUDITOR’S REPORT

Joyce Wing, Chief Information Officer
Information Services Department
San Jose, California

We have audited the accompanying Statement of Assets of the Information Services Department (ISD) as of June 30, 2006. This statement is the responsibility of ISD. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement of Assets is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Assets. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Statement of Assets. We believe that our audit provides a reasonable basis for our opinion.

Inventory, as initially reported, was adjusted as described in Note 5. Additionally, the Statement of Assets is presented to report the assets for which the manager has custodial responsibility and is not intended to present fairly the financial position and results of operations of ISD.

In our opinion, the adjusted Statement of Assets referred to above, presents fairly, in all material respects, the assets under the control of the department as of June 30, 2006, in conformity with generally accepted accounting principles.

February 1, 2007

Signatures on file.

David G. Elledge
Controller-Treasurer

Bill Perrone, CIA
Supervising Internal Auditor

Santa Clara County, Internal Audit Division

**COUNTY OF SANTA CLARA
INFORMATION SERVICES DEPARTMENT
STATEMENT OF ASSETS
JUNE 30, 2006**

		Reported Assets	Audit Adjustments	Adjusted Balance
Cash and Investments	(Note 2)	\$ 8,384,050.27		\$ 8,384,050.27
Petty Cash	(Note 3)	300.00		300.00
Accounts Receivable	(Note 4)	193,806.80		193,806.80
Inventory	(Note 5)	685,164.06	<198,110.38>	487,053.68
Prepaid Expenses	(Note 6)	302,049.59		302,049.59
Fixed Assets	(Note 7)	<u>1,066,448.57</u>		<u>1,066,448.57</u>
TOTAL		<u>\$ 10,631,819.29</u>	<u><\$ 198,110.38></u>	<u>\$ 10,433,708.91</u>

The accompanying notes are an integral part of this statement.

**COUNTY OF SANTA CLARA
INFORMATION SERVICES DEPARTMENT
NOTES TO THE STATEMENT OF ASSETS
JUNE 30, 2006**

Note 1 Summary of Significant Accounting Policies

The Information Services Department's Statement of Assets is prepared in accordance with generally accepted accounting principles (GAAP). The Statement of Assets is presented to report the assets for which ISD has responsibility and is not intended to present fairly the financial position and results of operations of ISD. The following is the summary of significant accounting policies.

ISD accounts for its financial activities in an Internal Service Fund using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Note 2 Cash and Investments

Cash investments for the internal service fund are maintained in the County's cash and investment pool. The Internal Audit Division audits the cash in the pool monthly; therefore, Internal Audit did not include testing for the cash and investment pool in this custody audit.

Note 3 Petty Cash

The Controller-Treasurer issues petty cash funds to departments for minor purchases. Internal Audit audits the petty cash for valuation and compliance with the Controller's cash handling policy.

Note 4 Accounts Receivable

The Information Services Department records revenue receivables quarterly as required by the Controller-Treasurer's policies and procedures.

Note 5 Inventory

The inventory is recorded at original cost in the County's accounting system. The inventory balance has two sections:

Printing Services Division - - inventory consists of paper and toner used to print for internal customers.

Voice Communication Operations Division - - inventory consists of hardware and software. The division determined that some of the inventory is obsolete. An audit adjustment was made for the obsolete inventory.

Note 6 Prepaid Expenses

Prepaid expenses are recorded at the negotiated total cost for the term of the contract. At year-end, prepaid expenses are reduced to reflect the proper remaining balance on the individual contracts.

Note 7 Fixed Assets

Fixed Assets are recorded at original cost less depreciation. The fixed assets consist of buildings, equipment and low value assets.

Buildings	569,549.60
Equipment	5,589,790.08
Low Value Assets	<u>981,998.77</u>
Subtotal	7,141,338.45
Less: Accumulated Depreciation	<u><6,074,889.88></u>
<i>Net Fixed Assets</i>	<u>1,066,448.57</u>