DGS **MEMORANDUM**

Date: March 7, 2008 File No. 8162

To: Gary Grootveld, Acting Deputy Director
Telecommunications Division
610 Sequoia Pacific Blvd.
Sacramento, CA 95814

From: **Department of General Services**
Office of Audit Services

Subject: **REVIEW OF SYSTEMS OF INTERNAL CONTROL FOR SENSITIVE PROPERTY ITEMS**

This report presents the results of our review of the Telecommunications Division's (TD) systems of internal control for sensitive property items. After a number of items of computer equipment were stolen from the TD in late 2006 and early 2007, the Department of General Services' (DGS) Director requested that the Office of Audit Services conduct a review of the TD's sensitive property control system. Our review was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing[1].

The objective of our review was to determine the adequacy and effectiveness of the systems of internal control maintained by the TD for sensitive property items. Sensitive property items are commonly defined as items costing less than $5,000 that are subject to loss or misuse due to their portable and highly desirable nature. These include items such as cameras, cell phones, camcorders, laptop computers and, of particular importance at the TD, tools and test equipment.

Our review of sensitive property primarily involved determining whether sufficient policies and procedures have been implemented to provide reasonable assurance that those assets are safeguarded against loss from unauthorized use or disposition. Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. These actions should result in material errors and improper or illegal acts being prevented or detected and corrected within a timely period by employees in the normal course of performing assigned duties.

Based on the results of our fieldwork conducted during the months of July through October 2007, we concluded that the TD has established adequate and effective systems of internal control over its sensitive property items. The TD's systems of internal control provide reasonable assurance that its sensitive property items are adequately safeguarded in accordance with State and DGS property management requirements. Specifically, we found that the TD's internal control system for sensitive property includes: (1) a central property unit responsible for overseeing the division's property management processes, including property item receipts, decals, transfers, surveys and physical inventories; (2) written operating policies and procedures, including detailed security policies governing laptop computers; (3) the maintenance of a property register containing detailed information on each sensitive property item, including date acquired, description, identification number and cost; (4) the tagging of

[1] Per the referenced audit standards, an external quality assurance review was due to verify the OAS' compliance with the standards by January 1, 2007. Therefore, the OAS is not in full compliance with the standards pending the completion of an external assessment. The OAS' external assessment is planned for early 2008.

sensitive property items as State property; (5) the maintenance of a physical security system, including monitoring activities through the use of a system of interior and exterior cameras; and, (6) the conduct of biennial physical inventories.

To determine the adequacy and effectiveness of the systems of internal control for sensitive property, we reviewed the TD's written policies and procedures, interviewed parties involved, observed operations, tested records and transactions and performed other tests as deemed necessary. Our examination included verifying that the TD is controlling its sensitive property items in accordance with State Administrative Manual Chapter 8600 and DGS Department Manual Sections 1710 and 1720. Our fieldwork was limited to TD headquarters' operations.

Management should be aware that controls cannot prevent all problems because they would not be cost-effective. Moreover, the effectiveness of controls change over time. Limitations which may hinder the effectiveness of an otherwise adequate system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by an audit.

We greatly appreciated the cooperation and assistance provided by the TD's' personnel.

If you need further information or assistance on this report, please contact me at 376-5058, or Gray Pattillo, Management Auditor, at 376-5062.

RICK GILLAM, Chief
Office of Audit Services

cc: Will Bush, Director
Jon Robertson, Chief, Office of Administrative Services, TD