SANTA CLARA VALLEY WATER DISTRICT

Assessment of Information Technology
Equipment Surplus Processes

July 1, 2021 through June 30, 2022

December 13, 2023

Executive Summary

Macias Gini & O'Connell LLP (MGO) was engaged by the Santa Clara Valley Water District (Valley Water) to assess Valley Water's Information Technology (IT) equipment surplus processes and recordkeeping and provide recommendations for improvement. MGO interviewed staff, reviewed policies and procedures, and reviewed available documentation related to IT equipment surplus for fiscal year (FY) 2021-22 (July 1, 2021 through June 30, 2022).

MGO identified the following **<u>observations</u>**:
- Valley Water did not comply with Administrative Policy 5.5 – *Disposition of Surplus Valley Water Property (Policy)* when disposing of surplus computer electronics as the work instructions for disposal conflicted with the Policy.
- IT did not have adequate controls or processes in place to track surplus computer electronics and to safeguard Valley Water's data stored on machines during the disposal process.
- Valley Water's surplus computer electronic records were not reconcilable to the vendor's receipts due to discrepancies in available information from Valley Water and the vendor.

MGO identified the following **<u>recommendations</u>**:
- Valley Water should revise work instructions W-751-073 - *Disposal of Computer Electronics and Non-Computer Electronics Work Instructions* to be consistent and comply with the Policy and W-741-092 – *Disposition of Surplus Valley Water Property*.
- IT should:
  - Implement an asset management system for tracking all of its IT equipment.
  - Maintain a log of all items placed in the disposal boxes and document when and how the items were disposed of.
  - Work with the Purchasing Unit to determine an appropriate and consistent disposal method for categories of surplus IT equipment identified for disposal.
  - Implement a process to factory reset and/or wipe all hard drives of Valley Water data before placing items in the disposal boxes.
  - Work with the Purchasing Unit to obtain and maintain certifications of destruction for all hard drives.

Valley Water Management acknowledged the recommendations and has taken actions to implement the recommendations. See responses in the Detailed Results section.

See the Detailed Results section for more information on the observations, recommendations, and management responses.

<u>Disclaimer:</u> This consulting engagement was conducted in accordance with the Statements on Standards for Consulting Services issued by the American Institute of Certified Public Accountants (AICPA). The results reported do not constitute an examination made in accordance with attestation standards, the objective of which would be to express an opinion or conclusion; respectively, we do not express such an opinion. Furthermore, this includes any opinion or representation related to the accuracy or completeness of the information provided by management. The sufficiency of these procedures is solely the responsibility of Valley Water. We make no representation regarding the sufficiency of the procedures performed to disclose all significant matters or reveal errors in the underlying information, instances of fraud, or illegal acts, if any. We have no obligation to update our report or to revise the information contained herein to reflect events and transactions occurring subsequent to the date of this report. This report is intended solely for the information of the Valley Water's management and is not intended to be, and should not be, used by anyone other than these specified parties.

Objectives

The objective of the engagement was to assess Valley Water's IT equipment surplus processes and recordkeeping and provide recommendations for improvement.

Scope and Methodology

The scope of the engagement was Valley Water's IT equipment surplus during fiscal year (FY) 2021-2022, July 1, 2021 through June 30, 2022.

The methodology included the following procedures:
- Interviewed executive management and staff in Purchasing and IT.
- Reviewed Valley Water's policies and procedures related to surplus property.
- Identified gaps in controls, processes, and policies.
- Reviewed the following documentation provided by Valley Water:
  - Valley Water's IT equipment surplus forms FC 1733.
  - Vendor's receipts for the collection of surplus items.
  - Vendor's annual summary reports related to the collection of surplus items.
- Reconciled Valley Water's data to the vendor's receipts and annual summary reports.
- Provided feedback on Valley Water's draft request for proposal for a surplus vendor.
- Provided feedback on Valley Water's draft work instructions related to surplus property.

Detailed Results

Observation 1 – Policy and Work Instructions

Valley Water did not comply with Administrative Policy 5.5 – *Disposition of Surplus Valley Water Property (Policy)* when disposing of surplus computer electronics as the work instructions for disposal conflicted with the Policy. The Policy was effective in January 2017 and replaced Administrative Policy 4-602 – *Disposal of Valley Water Personal Property,* which was issued in 1992. The Policy changed the definition of Valley Water property from personal property classified as fixed assets to all moveable Valley Water property, including computer electronics. The Policy also specifically stated that only the Purchasing Unit is authorized to dispose of surplus property.

There are two work instructions with procedures on how staff are to dispose of surplus property – one for non-electronic property and one for electronic property. The work instructions for non-electronic property, W-741-092 – *Disposition of Surplus Valley Water Property*, was effective in March 2016, and aligned with the Policy. The work instructions for electronic property, W-751-073 - *Disposal of Computer Electronics and Non-Computer Electronics Work Instructions,* were effective in July 2009; and IT is responsible for the storage and disposal of surplus computer electronics. The work instructions also have a section for the disposal of non-computer electronic surplus items, which does not correspond to work instruction W-741-092 or the Policy. The work instructions were revised in February 2018, but only the owner of the work instructions was changed.

According to staff interviewed, IT was told to follow work instructions W-741-092 and was not aware that the work instructions did not align with the Policy until questions arose in the fall of calendar year 2022. On December 8, 2022, the Chief Operating Officer directed IT to adhere to the Policy and send all surplus computer electronics for disposal to the Purchasing Unit. The inconsistencies between the Policy and applied work instructions resulted in unauthorized disposals of computer electronic property by IT over approximately a five (5) year period. From April 2021 through November 2022, Valley Water staff identified 40 computer electronic items to be surplused through the use of the FC-1733 forms provided by Valley Water.[1]

The timeline below depicts the dates when the policies and work instructions related to surplus property were initially released, as discussed above.

Santa Clara Valley Water District
Release of Policies and Work Instructions

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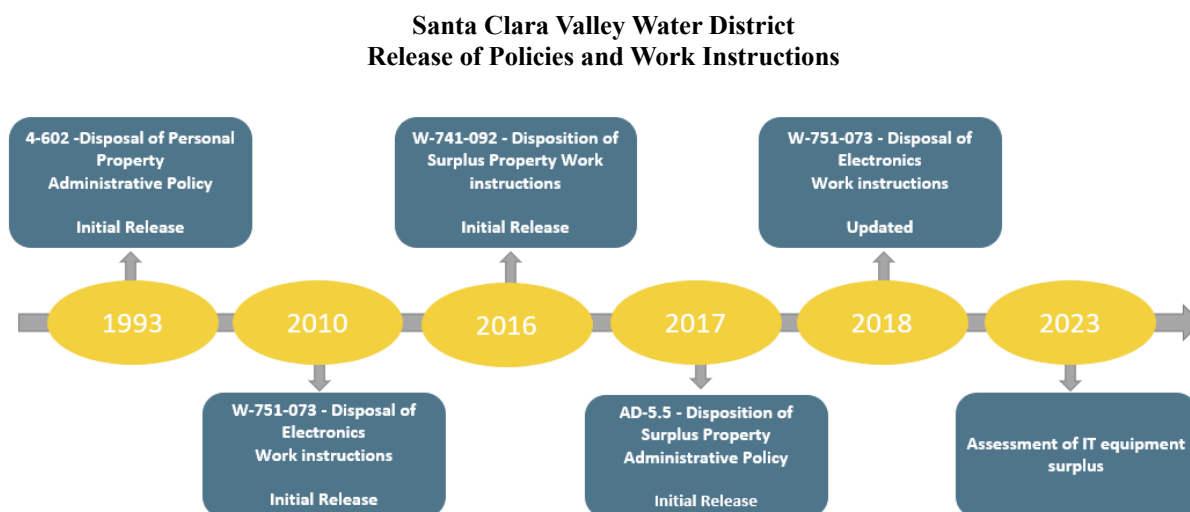
[1] As discussed in Observation 3, 2,499 surplus computer electronics were most likely disposed of during April 2021 through November 2022. The majority of these items were from IT due to its cleanup of the IT warehouse and disposal of items collected during the pandemic, such as desktops, monitors, and desk phones. (See Observation 3 for more information.)

Recommendation 1:

Valley Water should revise work instructions W-751-073 - *Disposal of Computer Electronics and Non-Computer Electronics Work Instructions* to be consistent and comply with the Policy and W-741-092 – *Disposition of Surplus Valley Water Property*.

Valley Water Management Response: Acknowledge. The work instruction is being updated.

Observation 2 – Asset Management and Data Destruction

At the time of the assessment, IT did not have adequate controls or processes in place to track surplus computer electronics and to safeguard Valley Water's data stored on machines during the disposal process.

Asset Management
IT does not have an asset management system to track the computer electronics it was responsible for, including location, end user assignment, or status of the item in use; surplus inventory in the IT warehouse; or disposals. In addition, logs are not maintained of the disposal of surplus items placed in boxes in the IT warehouse awaiting pick up by the third party surplus vendor. IT only contacted the surplus vendor for pick up once the boxes were full. IT operates under the assumption that all computer electronics that are no longer connected to Valley Water's network have been returned and disposed of. The lack of an asset management process increases the risk and opportunity for computer electronics to be misappropriated.

Disposal Method Options
IT opts for all computer electronics to be recycled and has not evaluated other disposal options, such as auction or donation.

Data Destruction
For computer electronics with hard drives, such as desktop computers and laptops, IT did not factory reset or wipe the hard drives of the items before the items were placed in the disposal boxes. The surplus vendor was expected to remove and destroy the hard drives and provide a certification of destruction. However, IT stated it did not receive the certifications of destruction and does not have a method to follow up with the surplus vendor to verify the hard drives were in fact destroyed.

From April 2021 through November 2022, IT disposed of approximately 796 computer electronics with hard drives. There was a large number of desktops disposed of in 2021 and 2022 due to the pandemic and Valley Water switching from desktops to laptops. The lack of processes to safeguard Valley Water's data during the disposal of its hard drives increased the risk that Valley Water could experience a data breach. It was noted also during the assessment that the surplus vendor ceased operations in June 2023 after filing for bankruptcy.

Recommendation 2:

IT should:

a. Implement an asset management system for tracking all of its IT equipment.

b. Maintain a log of all items placed in the disposal boxes and document when and how the items were disposed of.

c. Work with the Purchasing Unit to determine an appropriate and consistent disposal method for categories of surplus IT equipment identified for disposal.

d. Implement a process to factory reset and/or wipe all hard drives of Valley Water data before placing items in the disposal boxes.

e. Work with the Purchasing Unit to obtain and maintain certifications of destruction for all hard drives.

Valley Water Management Response:

a. This recommendation has been completed. The Information Technology Department has deployed ServiceNow CRM with an Asset Management module in July 2023 to track computers, cell phones, servers, and other computing assets. The system does not track consumable items such as keyboards, mice, or monitors. If any asset potentially contains confidential data, they must go through this process, even when they are not classified as a computer system. Some examples include copiers and various radio communication devices. Note: Original tracking of IT assets has three goals: GASB Statement 34 for capitalization of individual assets over $5k; NIST 800-88 for the destruction of sensitive information, grant-related requirement for asset destruction conformation; and various statutory regulations regarding the use of public funds.

b. This recommendation has been addressed. The ServiceNow software provides for the ingesting and disposal of computer assets. The assets go through state transitions during their useful life, ultimately being handed over to the warehouse for donation, destruction, or reuse. As they are transitioned to the warehouse, the items are marked appropriately. We are working with ServiceNow to extend their capability to our warehouse team so they can electronically verify the disposal using the same system. This will automate a closed-loop process.

c. Acknowledge. The work instruction, which includes instruction on the methods of disposal for equipment categories and asset types, is being updated.

d. Acknowledge. We have a written plan in place but will incorporate IT Asset Management (ITAM) in the Information Technology Infrastructure Library (ITIL).

e. Acknowledged. The certificates of destruction will be manually entered into the ServiceNow system.

Observation 3 – Asset Surplus and Disposal Records

Valley Water's surplus computer electronic records were not reconcilable to the vendor's receipts due to discrepancies in the available information from Valley Water and the vendor. As discussed in Observation 2, Valley Water did not maintain documentation tracking the status of the disposal of surplus computer electronics. While Valley Water staff completed form FC 1733 – *Surplus Electronic Equipment* when identifying specific items of surplus computer electronics returned to IT, the items were not further identified for retention/re-use or disposal. In addition, the vendor's pickup receipts did not include the number of items picked up in total or by type. The vendor's receipts only had a high level listing of the types of assets collected, such as monitors, laptops, and miscellaneous, which was completed by Valley Water (IT). While the vendor provided an annual summary report, it contained the number of pallets and total weight of items received and did not include the number of items by asset type. Based on the information available, the actual number of computer electronic items disposed of from April 1, 2021 through November 2022 is indeterminable.

On the following page is an estimate of computer electronics identified as surplus in fiscal years 2021 and 2022. It was compiled from the FC 1733 forms Valley Water provided for April 1, 2021 through November 2022.

Computer Electronic?	Category	FY 2021 Count	FY 2022 Count	Total Count	Percent of Total	Hard Drive?
**Santa Clara Valley Water Valley Water** **Estimated Surplus Computer Electronics** **FY 2021 and FY 2022**					
Yes	Desk phone	258	946	1,204	48%	
Yes	Desktop/PC	260	684	644	26%	Yes
Yes	Monitor	156	54	210	8%	
Yes	Wireless Access Point	36	70	106	4%	
Yes	Accessories	21	79	100	4%	
Yes	Laptop	52	45	97	4%	Yes
Yes	Tablet	23	15	38	2%	Yes
Yes	Printer	27	9	36	1%	Yes
Yes	Power supply	15	1	16	1%	
Yes	Scanner	10	4	14	1%	Possibly
Yes	Router	0	6	6	1%	
Yes	Data Server	0	5	5	0%	Yes
Yes	Digital camera	0	5	5	0%	
Yes	Projector	2	2	4	0%	
Yes	Video camera	3	0	3	0%	
Yes	Fax Machine	0	2	2	0%	Yes
Yes	Network video recorder	2	0	2	0%	Possibly
Yes	Tape Library	2	0	2	0%	
Yes	Conference phone	0	1	1	0%	
Yes	Digital video cassette recorder	0	1	1	0%	
Yes	Power monitor	1	0	1	0%	
Yes	Receptionist phone console	0	1	1	0%	
Yes	Touch screen panel	0	1	1	0%	
No	TV	1	7	8	0%	
No	Ultrasonic measurement device	2	0	2	0%	
No	VCR	2	0	2	0%	
No	DVD player	0	1	1	0%	
No	Silt density index analyzer	1	0	1	0%	
	Total	**874**	**1,639**	**2,513**		

Recommendation 3:

IT should:

a. Implement an asset management system for tracking all of its IT equipment.

b. Maintain a log of all items placed in the disposal boxes and document when and how the items were disposed of.

Valley Water Management Response:

a. This recommendation has been completed. ServiceNow deployed in July 2023 with an asset management module.

b. IT Now has a written process for designating assets and closing the surplus/deactivation of deployed asset resources within the ServiceNow system.