



*Final
Report*

County of San Diego, California

Auditor and Controller

Health & Human Services Agency Officers' Transition Audit

Office of **A**udits & **A**dvisory **S**ervices

July 2009
Report No. A09-009



COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

July 22, 2009

TO: Nick Macchione, Director
Health & Human Services Agency

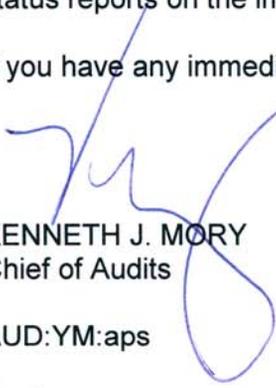
FROM: Kenneth J. Mory
Chief of Audits

FINAL REPORT: HEALTH & HUMAN SERVICES AGENCY OFFICERS' TRANSITION AUDIT

Enclosed is our report on the Health & Human Services Agency Officers' Transition Audit (Shepard – Macchione). The report includes various audit findings and recommendations.

We have reviewed your responses and have attached them to the audit report. The actions taken and planned, in general, are responsive to the findings and recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations.

If you have any immediate concerns about the report, please contact me at (858) 495-5662.


KENNETH J. MORY
Chief of Audits

AUD:YM:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Terry Hogan, Group Finance Director, Health & Human Services Agency

HEALTH & HUMAN SERVICES AGENCY OFFICERS' TRANSITION AUDIT

In accordance with the County Charter, the Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Health & Human Services Agency (Agency). The OAAS conducts such an audit when County officers leave and assume office to determine if certain affidavits, authorizations, disclosures, and reports are properly completed and processed. These actions provide for an orderly transition of officers, establish proper accountability for public assets, and promote the County's General Management System (GMS) including its key disciplines of accountability, fiscal stability, regional leadership, and continuous improvement.

Accordingly, we audited the reports filed by the outgoing and incoming officers of the Agency. Jean Shepard and Nick Macchione were required to file outgoing and incoming officers' reports, respectively, as of June 6, 2008. The reports are the responsibility of the officer who signs them. Our purpose is to provide an opinion on the reports based upon our audit.

AUDIT SCOPE AND METHODOLOGY

The audit scope was to determine whether the outgoing and incoming officers took appropriate actions and filed complete and reasonably accurate reports as County officers in compliance with California Codes and the County's regulatory requirements as explained in the instruction letter provided to each officer. Tests were performed in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236 to determine if there is reasonable assurance that the information provided was accurately presented.

AUDIT RESULTS

In our opinion, the outgoing and incoming officers filed complete and reasonably accurate reports in compliance with California law and the County's regulatory requirements in connection with an officer's transition, except for the following items:

Finding I: Capital Equipment Control Procedures should be Improved

OAAS tested a small sample of capital equipment and found that the control procedures should be improved to properly safeguard and account for the capital equipment for the following reasons:

- Two copiers (Tag #21851300 and #24543700) could not be located;
- Four projectors (Tag #25870500, #25870600, #25870800, and 25870900) were located at facilities different from the ones recorded in the Oracle Fixed Asset Module (OFAM);
- A copier (Tag #25143500) had not been removed from OFAM even though it was sent to the Purchasing & Contracting Department's Property Disposal in June 2003; and

- The capital equipment items "Charged But Not Sighted" were not reported on the Capitalized Property Inventory Certificate.

The County's Administrative Manual (Admin Manual) states that County officers and department heads are responsible for identification and control of capital assets, the filing of inventories, and the submission of reports. It also requires each department to take physical inventory triennially in accordance with the Auditor and Controller's Fiscal Year-End Closing Manual (Year-End Manual) to verify that their inventory is in agreement with the OFAM records.

Finding II: Minor Equipment Control Procedures should be Improved

OAAS tested a small sample of minor equipment and could not obtain reasonable assurance that the Minor Equipment and Books Inventory Certificates have been accurately presented for the following reasons:

- Three low orgs selected for testing had not updated their minor equipment listing since the last physical inventory in 2006. Two low orgs reported the minor equipment amount as of the transition date based on the 2006 listing, and the other reported an increase of \$13,351 over the 2006 balance without an updated listing to support the reported amount;
- The value of some minor equipment items could not be verified due to lack of acquisition documents, including two fax machines, two dictation machines, and a refrigerator, among others. Where acquisition documents were available, there were two items for which the invoiced amount was different from the assigned value on the minor equipment listing. Although the differences were small, Agency personnel indicated that the value is often assigned based on the staff's estimate rather than on the actual invoice;
- One laptop listed as minor equipment could not be located. It was explained that one of the Northrop Grumman owned laptops was mistakenly included on the minor equipment listing; and
- None of the sampled minor equipment items had "County of San Diego" decals.

The Admin Manual states that department heads are required to maintain a listing of minor equipment items for which they are responsible, adding new items as they are received and deleting items that are disposed of or no longer in use. The listing should also provide sufficient information to permit the County to establish appropriate levels of insurance coverage and to prepare claims for insurance recovery in the event of loss. The Admin Manual also requires departments to establish a control system over all minor equipment and affix "County of San Diego" decals to them.

Finding III: Insufficient Recordkeeping to Support the "Materials and Supplies Inventory Certificate"

OAAS tested a small sample of materials and supplies. One low org could not provide OAAS with the detail listing to support the reported amount. The Year-End Manual requires that the actual physical counts of inventories be listed on the Inventory Listing Sheet (Form AUD179) when a biannual physical inventory is taken where the total balance exceeds \$5,000. This form should be priced and extended, and also should be retained by the department.

RECOMMENDATIONS

OAAS recommends that the Agency take the following actions to properly safeguard and account for the County assets in accordance with the Admin Manual:

1. Conduct a review of internal controls associated with capital equipment to ensure that the controls over additions, changes, deletions, recordkeeping, identification, and marking of capital equipment are adequate and have been properly implemented. In addition, during each physical inventory, the Agency should:
 - Identify all capital assets with incorrect location code in OFAM and file Property Loan and Transfer Requests (Form 253) with the Auditor and Controller's Central Projects and Accounting Services (CPAS) to correct the codes to agree to their physical locations;
 - Ensure that each Capitalized Property Inventory Certificate is properly supported with a detail listing of the exception (Form 243) and Form 253 in accordance with the Year-End Manual; and
 - Review all unsighted items and follow up with CPAS to ensure that applicable assets are properly removed from the OFAM by filing Form 253.
2. Conduct a review of internal controls associated with minor equipment to ensure that the controls over additions, changes, deletions, and recordkeeping of minor equipment are adequate and have been properly implemented. The adequate controls should include:
 - Ensuring that each region and division maintain an accurate and complete minor equipment listing on an ongoing basis;
 - Ensuring that each Minor Equipment Inventory Certificate is properly supported with the updated minor equipment listing;
 - Maintaining acquisition documents such as invoice to properly support the assigned values on the minor equipment listing; and
 - Affixing "County of San Diego" decals to all minor equipment items.

3. Ensure that each region and division maintain detail listing to support the Materials and Supplies Inventory Certificate where the total balance is over \$5,000.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courtesousness and cooperation extended by the Health & Human Services Agency's officers and staff throughout this audit.

AUDIT TEAM

Yuki Matsuura, Senior Auditor
Angela Chen, Auditor I

DEPARTMENT RESPONSE



County of San Diego

HEALTH AND HUMAN SERVICES AGENCY

NICK MACCHIONE, FACHE
DIRECTOR

TERRY HOGAN
FINANCE DIRECTOR

1700 PACIFIC HIGHWAY, SAN DIEGO, CALIFORNIA 92101-2417
(619) 515-6555 Fax (619) 515-6556

July 16, 2009

TO: Ken Mory, Chief of Audits
Office of Audits and Advisory Services, O-305

FROM: Terry Hogan, Executive Finance Director
Financial and Support Services Division

RECEIVED

JUL 20 2009

OFFICE OF AUDITS &
ADVISORY SERVICES

RE: HEALTH & HUMAN SERVICES AGENCY OFFICERS' TRANSITION AUDIT

We have reviewed the recommendations noted in the June 30, 2009, *Final Draft Report: Health & Human Services Agency Officers' Transition Audit*. The span of controls cited in the report pertain to the following three areas; Fixed Assets, Minor Equipment, and Material/Supplies. We have coordinated the responses to your recommendations in Attachment A. The responses indicate actions that comply with the cited recommendations.

If you have any questions, please contact Jim Lardy at (619) 338-2278.

Handwritten signature of Terry Hogan in blue ink.

TERRY HOGAN, Executive Finance Director
Financial and Support Services Division

TH/dm
Attachment

cc: Nick Macchione, HHSA Director, P501
Paula Landau-Cox, HHSA Director of Operations, P501
Jim Lardy, HHSA Finance Officer, W403
Alan Makinson, HHSA Facilities & Support Services Manager, P502L
Fiscal, W403

Attachment A

COUNTY OF SAN DIEGO
 Response Schedule

Recommendation	RESPONSE
<p>1. Conduct a review of internal controls associated with capital equipment to ensure that the controls over addition, changes, deletions, recordkeeping, identification, and marking of capital equipment are adequate and have been properly implemented. In addition, during physical inventory the Agency should:</p>	<p>We agree with the recommendation. A review of the HHS Asset Control Policy is in progress. This review's scope includes compliance with Admin Manual 0050-02-1 and strengthening controls to track fixed asset changes. Training of personnel involved in taking inventory will be held prior to the September 2009 Triennial Inventory to address these changes.</p>
<p>1.1 Identify all capital assets with incorrect location code in OFAM and file Property Loan and Transfer Request (Form 253) with the Auditor and Controller's Central Projects and Accounting Services (CPAS) to correct the codes to agree to their physical locations.</p>	<p>We agree with the recommendation. Completion of an ongoing asset inventory project to correct location codes and other errors in OFAM is planned in conjunction with the September 2009 Triennial Inventory.</p>
<p>1.2 Ensure that each Capitalized Property Inventory Certificate is properly supported with a detail listing of the exception (Form 243) and Form 253 in accordance with the Year-End Manual; and</p>	<p>We agree with the recommendation. Planned training of inventory personnel will strengthen reporting. We will also make inventory control the subject of MCI for FY 09/10 to incorporate a more comprehensive control structure.</p>
<p>1.3 Review all unsighted items and follow up with CPAs to ensure that the applicable assets are properly removed from the OFAM by filing Form 253.</p>	<p>We agree with the recommendation. HHS personnel will continue to work with Property Disposal staff to identify both assets previously transferred without identification of asset numbers or not recorded as sold by Property Disposal.</p>
<p>2. Conduct a review of internal controls associated with minor equipment to ensure that the controls over additions, changes, deletions, and recordkeeping of minor equipment are adequate and have been properly implemented. The adequate controls should include:</p>	<p>We agree with the recommendation. Minor Equipment tracking improvements is included in the in progress review noted in response to Recommendation 1</p>
<p>2.1 Ensuring that each region and division maintain an accurate and complete minor equipment listing on an ongoing basis;</p>	<p>We agree with the recommendation. Planned training of inventory personnel will strengthen reporting. We will also make inventory control the subject of MCI for FY 09/10 to incorporate a more comprehensive control structure.</p>
<p>2.2 Ensuring that each minor Equipment Inventory Certificate is properly supported with the updated minor equipment listing;</p>	<p>We agree with the recommendation. Planned training of inventory personnel will strengthen reporting. We will also make inventory control the subject of MCI for FY 09/10 to incorporate a more comprehensive control structure.</p>

Attachment A

COUNTY OF SAN DIEGO
 Response Schedule

<p>2.3 Maintaining acquisition documents such as invoice to properly support the assigned values on the minor equipment listing; and</p>	<p>We agree that invoices for minor equipment should be retained which is a normal part of our business processes. Our alternate approach to maintaining a separate system is to access invoices as needed on Oracle.</p>
<p>2.4 Affixing " County of San Diego" decals to all minor equipment items.</p>	<p>We agree with the recommendation. 10,000 additional Property Stickers have been purchased and made available to low Orgs. Review of HHSA Asset Policy will address any needed clarification of proper use. The proper use of tags will be addressed at inventory training.</p>
<p>3. Ensure that each region and division maintain detail listing to support the Material and Supplies Inventory Certificate where the total balance is over \$5,000.</p>	<p>We agree with the recommendation. Planned training of inventory personnel will strengthen reporting. We will also make inventory control the subject of MCI for FY 09/10 to incorporate a more comprehensive control structure.</p>