

# OFFICE OF AUDITS & ADVISORY SERVICES



## DEPARTMENT OF GENERAL SERVICES - PROCUREMENT CARD PROGRAM AUDIT

### *FINAL AUDIT REPORT*

Chief of Audits: James L. Pelletier, CIA, CICA  
Senior Audit Manager: Tom Philipp, CIA, CCSA  
Senior Auditor: Laura Flores, CIA, CFE, CGAP  
Auditor I: Kathleen Whitehead, CGAP, CICA

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**COUNTY OF SAN DIEGO**  
**INTER-DEPARTMENTAL CORRESPONDENCE**

July 23, 2010

TO: April F. Heinze, Director  
Department of General Services

FROM: James L. Pelletier  
Chief of Audits

**FINAL REPORT: DEPARTMENT OF GENERAL SERVICES - PROCUREMENT CARD  
PROGRAM AUDIT**

Enclosed is our report on the Department of General Services - Procurement Card Program Audit. We have reviewed your responses to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the 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. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Laura Flores, Project Lead at (858) 495-5654.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER  
Chief of Audits

AUD:LF:aps

Enclosure

c: Mikel D. Haas, Deputy Chief Administrative Officer, Community Services Group  
Donald F. Steuer, Chief Financial Officer  
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller  
Kaye Hobson, Group Finance Director, Community Services Group  
Lou Cavagnaro, Assistant Director, Department of General Services

## INTRODUCTION

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**Audit Objective** The Office of Audits & Advisory Services (OAAS) completed an audit of the Department of General Services (DGS), Fleet Management Division (Fleet). The objective of the audit was to determine whether internal controls are adequate to ensure that items purchased via procurement card (p-card) for the repair and maintenance of vehicles are valid, authorized, managed, safeguarded, and accounted for properly and completely.

**Background** Fleet is responsible for maintenance of all County vehicles. They have developed a comprehensive program to ensure that all vehicles are properly maintained. This program emphasizes preventive maintenance, safety and reliability of vehicles, and meeting warranty conditions. There are three key elements in Fleet's current plan: customer service, cost competitive maintenance services, and recording of maintenance activities in the Fleet Management Information System (FMIS).

Fleet provides vehicle repairs services at eight locations throughout the County. Each location maintains small inventories of frequently needed parts such as brake pads, oil filters, and tires with a total value of approximately \$670,000 as of January 2010.

**Audit Scope & Limitations** The scope of the audit included p-card transactions and inventory activities conducted during FYs 2008-09 and 2009-10.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

**Methodology** OAAS performed the audit using the following methods:

- Reviewed the County P-Card Policies and Procedures Manual (P-card Manual) to understand p-card participants' responsibilities and procedures;
- Interviewed Fleet management and staff to identify policies and procedures related to Fleet parts inventory management;
- Identified and evaluated practices related to p-card purchases, receipt, custody, and recording of Fleet parts inventory and other items; and
- Assessed the adequacy of internal controls over p-card transactions and Fleet parts inventory by conducting the following analytical procedures:
  - Selected a judgmental sample of 30 p-card purchases to determine compliance with p-card requirements;

- Selected a judgmental sample of 90 line items from the parts inventory report to determine if the items were on hand as listed in the inventory records; and
- Selected a judgmental sample of 30 items listed as salvaged items to determine whether adequate procedures were followed.

## AUDIT RESULTS

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### Summary

Within the scope of the audit, we determined that Fleet lacks an adequate system of internal controls to ensure that p-card purchases of parts and other items for the repair and maintenance of vehicles are valid, authorized, managed, safeguarded, and accounted for properly and completely.

### Finding I:

#### **Lack of Segregation of Duties Related to Fleet Parts Inventory Activities**

OAAAS determined that each Fleet Parts Specialist is responsible for ordering, receiving, maintaining custody, transferring, and recording parts inventory purchased with County p-cards. FMIS also allows the same staff to process adjustments to inventory quantities recorded in the system with no management authorization required. Additionally, there were no documented policies and procedures regarding segregation of inventory activities.

Proper segregation of certain key duties is required to adequately safeguard County assets. Segregation of duties ensures that no employee is in a position to both perpetrate and conceal errors or fraud in the normal course of their duties. Lack of segregation of duties increases the risk of errors, inappropriate activities, and loss or misappropriation of assets.

Operating policies and procedures are necessary to ensure that management directives are distributed to and understood by applicable personnel. Also, they provide the basis to determine accountability, measure results, and enforce compliance. The absence of written policies and specific guidance results in unclear responsibilities and expectations from staff, as well as inconsistent processes across locations.

### Recommendation:

In order to reduce the risk of inappropriate activities, Fleet management should:

1. Establish adequate segregation of duties. At a minimum, the key incompatible duties to be segregated are:
  - Custody of parts inventory;
  - Authorization or approval of related transactions affecting parts inventory (ordering and receiving parts inventory); and

- Recording or reporting of related transactions.
2. Develop and implement written departmental policies and procedures for inventory control activities. Staff must be trained on departmental policy and procedures to promote consistency of operations, delineate segregation of duties, and to assist employees understanding their roles and responsibilities.

**Finding II:** **Lack of Management Oversight of Key Inventory Activities**  
OAAS found that key activities such as the purchase of stock parts inventory, inventory quantity adjustments, disposal, and salvage of parts inventory do not require management review and approval. This could result in inappropriate purchases, inadequate inventory adjustments, and loss or misappropriation of assets. Additionally, there were no documented policies and procedures regarding review and approval of inventory activities.

Management approval is critical to providing assurance that activities or transactions conform to established policies and procedures and that they are reasonable and acceptable.

**Recommendation:** In order to improve management oversight of key inventory activities, Fleet management should:

1. Identify key activities or transactions related to parts inventory that directly affect inventory balances;
2. Ensure that these activities are properly authorized and documented before they are performed by staff; and
3. Develop and implement written departmental policies and procedures that outline inventory related transaction authorization requirements.

**Finding III:** **Inadequate Physical Security Over Property Susceptible to Loss or Theft**  
OAAS noted that there is a lack of controls related to physical security over parts inventory. Specifically, OAAS observed that physical access to the parts room is not restricted. While the parts room has a door with cipher lock, the door is either kept open or the code to the lock is known by all staff.

Staff indicated that allowing unrestricted access to stock inventory during operating hours was common practice.

County assets must be appropriately safeguarded and maintained, used for the purposes intended, periodically accounted for, and properly disposed. Inadequate physical security of inventory items could result in parts inventory being misappropriated, lost, or stolen.

**Recommendation:** In order to enhance physical security over inventory items susceptible to loss or theft, Fleet management should properly safeguard parts

inventory on hand by limiting and controlling physical access to inventory.

**Finding IV:**

**Lack of Inventory Data Integrity**

Inventory balances reported in the FMIS system were found to be inaccurate and unreliable. OAAS selected a judgmental sample of 90 inventory line items at the San Marcos location as recorded in FMIS. We conducted a physical count of these items and reconciled it to inventory reports. We found discrepancies with 68 (76%) of the inventory line items selected for review. Specifically, the following was observed:

<b>Discrepancies</b>		<b>No. of line items</b>
Inventory line items not on hand		29
Physical count of individual items on hand	Less than quantity recorded	27
	More than quantity recorded	12
<b>Total</b>		<b>68</b>

According to management, a complete physical inventory count of Fleet parts and other items has not been conducted for over five years. Also, as discussed in Finding I, access to FMIS inventory data has not been restricted allowing Fleet Parts Specialists to make adjustments to inventory quantities.

An adequate system of internal controls establishes that complete physical counts of inventory should be conducted on a periodic basis to ensure that inventory records reflect actual quantities on hand. Also, according to the County Fiscal Year-End Closing Manual 2008-09, physical counts of materials and supplies are required every other year to be reported to the Auditor and Controller.

The lack of a complete physical inventory count prevents management from timely detecting, researching, and correcting variances between recorded and actual inventory. Inaccurate inventory data can lead to inefficiencies in operations when parts recorded in inventory are not on hand. Also, annual year-end reporting regarding Materials and Supplies is incorrect.

**Recommendation:**

In order to maintain high levels of data accuracy and to prevent unauthorized data modification, Fleet management should:

1. Ensure that parts inventory is counted on a periodic basis in accordance to County policy;
2. Properly document, research, and correct variances found between recorded and actual inventory quantities; and
3. Restrict the ability to adjust inventory quantities within FMIS.

**Finding V: Supporting Documentation for Salvaged Assets was Missing**

OAAS found that sufficient documentation to validate proper asset disposal was not maintained by Fleet. OAAS selected a sample of 30 salvaged items as recorded in FMIS to determine whether items recorded as salvaged were actually disposed of following the County salvage process.

Fifteen of the 30 items tested (50%) did not have a Form 253 on file. Therefore, no documentation regarding management review and approval of salvaged property was maintained. Fleet staff was unsure whether the required supporting documentation was ever completed at the time of the transfer.

Consequently, OAAS was unable to verify that items recorded as salvaged property had been actually transferred to P&C for disposition. Lack of supporting documentation increases the risks of County property being misappropriated, lost, or stolen.

According to Board Policy A-94, materials and supplies should be monitored as they become obsolete or when not utilized and transferred to Purchasing and Contracting (P&C) for disposition or salvage. P&C requires that Form 253 should be completed for all items sent to salvage. This form should include management approval from the transferring department.

**Recommendation:** Fleet management should establish sufficient internal controls over the salvage and disposal process including:

1. Developing and establishing policies and procedures regarding property disposal and salvage; and
2. Ensuring that adequate documentation is completed and maintained for property disposed of and salvaged, including management review and approval.

**Finding VI: Non-compliance with P-Card Manual**

OAAS found that specific P-card Manual procedures were not being followed by Fleet staff. OAAS conducted audit testing on a judgmental sample of 30 p-card transactions to determine compliance with the P-card Manual. Documentation related to the transactions selected for review was not in compliance with the requirements set forth in the P-card Manual. The required purchase log for 28 (93%) of the selected p-card transactions was either missing or not signed by the cardholder (CH) and the Approving Official (AO). Also, Fleet staff could not provide itemized receipts or invoices for three p-card transactions in the sample (10%).

The AO confirmed that the review and validation of p-card transactions before payment approval has not been conducted on a regular basis due to conflicting priorities. In addition, the AO stated that p-card documentation requirements were not always enforced by former management.

As a result, the risk of inappropriate or prohibited p-card purchases is increased. Further, fictitious or duplicate purchases can not be timely identified.

The P-card Manual requires CHs to submit complete documentation supporting p-card purchases for the review and validation of transactions by the AO. The P-card Manual also specifies the AO and CH responsibilities to ensure that each transaction is appropriate, authorized, and necessary.

**Recommendation:** In order to establish compliance with the P-card Manual, Fleet management should:

1. Enforce p-card requirements, including the submission of complete p-card packages to the AO for approval;
2. Ensure that the AO conducts a thorough review and validation of p-card documentation before invoice payment approval; and
3. Consider re-training CHs and the AO to ensure that p-card requirements and responsibilities are clearly understood and followed.

## COMMENDATION

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The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the officers and staff of the Department of General Services, Fleet Management throughout this audit.

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### Office of Audits & Advisory Services

**C**ompliance    **R**eliability    **E**ffectiveness    **A**ccountability    **T**ransparency    **E**fficiency

**VALUE**

## **DEPARTMENT'S RESPONSE**



# County of San Diego

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Director  
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DEPARTMENT OF GENERAL SERVICES

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PROJECT MANAGEMENT  
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REAL ESTATE SERVICES  
(858) 694-2291

June 25, 2010

RECEIVED

TO: James L. Pelletier  
Chief of Audits

FROM: April F. Heinze, P.E., Director  
Department of General Services

JUN 25 2010  
OFFICE OF AUDITS &  
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: PROCUREMENT CARD PROGRAM AUDIT

**Finding I:** Lack of Segregation of Duties Related to Fleet Parts Inventory

**OAAS Recommendation:** In order to reduce the risk of inappropriate activities, Fleet management should: Establish adequate segregation of duties. At a minimum, the key incompatible duties to be segregated are:

1. Custody of parts inventory; Authorization or approval of related transactions affecting parts inventory (ordering and receiving parts inventory); and Recording or reporting of related transactions.
2. Develop and implement written departmental policies and procedures for inventory control activities. Staff must be trained on departmental policy and procedures to promote consistency of operations, delineate segregation of duties, and to assist employees understanding their roles and responsibilities.

**Action Plan:** Concur. Departmental Policy and Procedure in Process

**Planned Completion Date:** August 30, 2010

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

**Finding II:** Lack of Management Oversight of Key Inventory Activities

**OAAS Recommendation:** In order to improve management oversight of key inventory activities, Fleet management should:

1. Identify key activities or transactions related to parts inventory that directly affect inventory balances;
2. Ensure that these activities are properly authorized and documented before they are performed by staff; and
3. Develop and implement written departmental policies and procedures that outline inventory related transaction authorization requirements.

*MISSION: To provide cost-effective, efficient, high quality and timely support services to County departments, groups and agencies*

**Action Plan:** Concur. Departmental Policy and Procedure in Process

**Planned Completion Date:** August 30, 2010

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

**Finding III:** Inadequate Physical Security Over Property Susceptible to Loss or Theft

**OAAS Recommendation:** In order to enhance physical security over inventory items susceptible to loss or theft, Fleet management should properly safeguard parts inventory on hand by limiting and controlling physical access to inventory.

**Action Plan:** Partial concur. We agree to enhance security over inventory but it is impractical to restrict access due to the number of technicians and frequency of their access to parts that is required. We believe the intent of this recommendation will be satisfied by implementing enhanced use of the Fleet Asset Management Information System (FAMIS) system, separation of functions, coupled with annual inventory audits, augmented by random quarterly inventory audits.

**Planned Completion Date:** Ongoing

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

**Finding IV:** Lack of Inventory Data Integrity

**OAAS Recommendation:** In order to maintain high levels of data accuracy and to prevent unauthorized data modification, Fleet management should:

1. Ensure that parts inventory is counted on a periodic basis in accordance to County policy;
2. Properly document, research, and correct variances found between recorded and actual inventory quantities; and
3. Restrict the ability to adjust inventory quantities within FMIS.

**Action Plan:** Concur. Departmental Policy and Procedure in Progress

**Planned Completion Date:** August 30, 2010

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

**Finding V:** Supporting Documentation for Salvaged Assets was Missing

**OAAS Recommendation:** Fleet management should establish sufficient internal controls over the salvage and disposal process including:

1. Developing and establishing policies and procedures regarding property disposal and salvage; and
2. Ensuring that adequate documentation is completed and maintained for property disposed of and salvaged to include management review and approval.

**Action Plan:** Concur. Departmental Policy and Procedure In Progress

**Planned Completion Date:** August 30, 2010

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

**Finding VI:** Non-Compliance with P-Card Policies and Procedures Manual

**OAAS Recommendation:** In order to establish compliance with the P-card Manual, Fleet management should:

1. Enforce p-card requirements including the submission of complete p-card packages to the AO for approval;
2. Ensure that the AO conducts a thorough review and validation of p-card documentation before invoice payment approval; and
3. Consider re-training CHs and the AO to ensure that p-card requirements and responsibilities are clearly understood and adhered

**Action Plan:** Concur. Refresher training for AO and CH to be scheduled at earliest convenience, contingent on P&C training calendar.

**Planned Completion Date:** September 30, 2010

**Contact Information Implementation:** Sharyl Blackington, Manager, Fleet Operations

  
APRIL F. HEINZE, P.E., Director  
Department of General Services

**OFFICE OF AUDITS & ADVISORY SERVICES'**  
**REPLY TO THE DEPARTMENT'S RESPONSE**

**Finding III:** Subsequent to the audit, a physical inventory conducted by the Department resulted in a significant negative variance in their parts inventory balance. While the Department's action plan stated in their response to Finding III does not include the implementation of physical security over this inventory, the Department's alternative solution appears to be a reasonable approach to addressing the lack of controls as well as the significant variance of the reported discrepancy and in accordance with the County and OAAS' Charter, a follow-up audit will be conducted at a future date to evaluate the effectiveness of controls implemented.