

OFFICE OF AUDITS & ADVISORY SERVICES



COUNTYWIDE FIXED ASSETS AUDIT

FINAL AUDIT REPORT

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November 16, 2011

TO: Winston F. McColl, Director
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Tracy M. Sandoval
Assistant Chief Financial Officer/Auditor and Controller

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: COUNTYWIDE FIXED ASSETS AUDIT

Enclosed is our report on the Countywide Fixed Assets 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 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
Ronald J. Lane, Deputy Chief Administrative Officer, Public Safety Group
Nick Macchione, Director, Health & Human Services Agency
Donald F. Steuer, Chief Financial Officer
William D. Gore, Sheriff, Sheriff's Department
Kaye Hobson, Group Finance Director, Community Services Group
Brian M. Hagerty, Group Finance Director, Finance & General Government Group
Michael Van Mouwerik, Executive Finance Director, Health & Human Services Agency
Dorothy Y. Thrush, Group Finance Director, Public Safety Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of Countywide Fixed Assets Administration. The objective of the audit was to determine existence, completeness, and accuracy of fixed assets (FA or assets) reported by County departments, and to determine compliance with County FA policies.

Background

The County of San Diego (County) Administrative Manual, Item No. 0050-02-1, Control of Capital Assets and Minor Equipment (Admin Manual) identifies the various classes of assets owned by the County, outlines the controls necessary to account for such assets, and defines departments' responsibilities. These responsibilities include identifying, recording, valuing, and safeguarding of these assets, as well as filing results of physical inventory counts, and submitting required forms.¹

The Oracle Fixed Asset Module (OFAM) is the system of record for fixed assets details, location, and accountability. The OFAM is managed by the Auditor and Controller (A&C) Projects, Revenue and Grants Accounting (PRGA) Division. PRGA is responsible for updating the OFAM based on information reported by departments.

According to the Admin Manual, departments must verify their fixed asset records by conducting physical inventory counts on a biennial basis. Discrepancies noted during the physical inventory counts must be reported to PRGA for an appropriate update of fixed asset data in the OFAM.

The Admin Manual establishes capitalization thresholds for tangible and intangible assets. Tangible assets such as land should be capitalized regardless of acquisition cost; buildings, improvements to land, improvements to buildings, and infrastructure of \$50,000 should be capitalized;² vehicles, machinery, equipment, works of art and historical treasures of \$5,000 or more should be capitalized.

Fixed assets are recorded at the acquisition cost in accordance with the capitalization threshold. The book value recorded in the County's balance sheet takes into account accumulated depreciation and some of the assets reviewed were fully depreciated.

The Admin Manual also states that assets no longer serviceable or needed by a County department should be forwarded to Purchasing & Contracting (P&C) for property disposal. If such property is not reused by another County department, the property must be disposed of through auction, sealed bid (silent auction), or recycling (trash or scrap).

¹ FA related forms: Form 243 – Fixed Assets; Form 253 – Property Loan or Transfer Request; Form 255 – Capitalized Property Inventory Certificate; and Form 257 – Asset Impairment Certificate.

² Infrastructures of special districts (permanent road division, sanitation, flood control, and other special districts governed by the Board of Supervisors) the capitalization threshold is \$25,000.

Audit Scope & Limitations

The scope of the audit included fixed asset data from FY 2006-07 to present. The audit focused on Countywide FA controls as well as controls within selected departments. The departments selected for detailed testing included: Sheriff's Department (Sheriff), Public Health Services (PHS), and P&C.

The scope of the audit also included a review of P&C's property disposal procedures and related transactions processed during FYs 2009-10 and 2010-11.

This audit focused on the internal controls underlining the process associated with FA and did not include an evaluation of the County's financial statements.

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 applicable accounting standards, County policies and procedures, Fiscal Year-End Manual, and required forms;
- Reviewed and analyzed fixed asset data recorded in the OFAM to gain an understanding of the type of assets owned by the County, recorded value, and asset status;
- Assessed risks and controls independently and in coordination with PRGA staff;
- Interviewed management and staff from A&C's PRGA, Sheriff, PHS, and P&C;
- Interviewed Property Custodians from selected departments to determine whether adequate controls over the administration of fixed assets had been established;
- Selected and reviewed a judgmental sample of 160 fixed assets owned by the Sheriff, PHS, and P&C to determine:
 - Existence of fixed assets recorded;
 - Completeness and accuracy of data reported; and
 - Whether fixed assets decals were affixed to County property; and
- Evaluated property disposal procedures and examined a sample of 30 assets submitted to P&C, Property Disposal to determine adequacy of procedures.

AUDIT RESULTS

Summary

In our opinion, within the scope of the audit, fixed assets reporting by County departments is generally accurate, complete, and in compliance with County policies and procedures. However, OAAS' evaluation of Countywide FA administration found opportunities to strengthen physical inventory count procedures as well as guidance in the Admin Manual. Additionally, OAAS' assessment of Property Disposal procedures identified lack of internal controls over the property disposal process.

To further strengthen current controls and enhance current processes for fixed assets, and to address Property Disposal control weaknesses, OAAS has the following findings and related recommendations.

Recommendations that are specific to a certain department are labeled with the department's abbreviation.

Finding I:

Physical Inventory Controls Need to be Strengthened

OAAS identified multiple issues related to the fixed asset physical inventory process and related controls. Specifically, we found the following:

- **Physical Inventory Results Not Accurate and Complete** – Testing was conducted on a sample of 160 fixed assets across three County departments to determine whether these assets were accurately and completely recorded. A total of 58 exceptions were noted as shown in Table 1.³

TABLE 1. Fixed Asset Data Exceptions

Exception Type	Total Exceptions	%
FA sighted but not properly recorded in OFAM	2	1%
FA recorded in OFAM but not sighted	5	3%
Incorrect FA description in OFAM	3	2%
Incorrect FA location in OFAM	25	16%
FA decal missing/incorrect decal attached	23	14%

- **Status of Unsighted Assets Not Properly Reported** – Departments are not properly filing the required documents (Forms 243 and 253) to report assets not sighted for the first time (unsighted 1 or U1), assets not sighted for the second time (unsighted 2 or U2), or to completely remove the assets from the OFAM. OAAS reviewed physical inventory documents filed by three County departments to determine whether discrepancies were properly reported to PRGA. OAAS tested reported discrepancies for 30 assets and found that required documents to update the status of 29 assets were not properly completed. Also, the required forms to retire 14 assets were not submitted. Finding II provides additional details related to unsighted assets.

³ In the course of the audit, all exceptions detected were corrected by management.

- **Segregation of Duties Not Documented** – OAAS was unable to verify proper segregation of duties during physical inventory counts for the three departments tested. There was no evidence (e.g., signature lines) to demonstrate that physical inventory counts were conducted by staff with no custodial or record-keeping responsibilities.

OAAS identified the following factors that limit the departments' ability to conduct effective physical inventory counts:

- Departments are not detecting and correcting FA data inaccuracies as part of physical inventory procedures;
- FA status information (e.g., U1 or U2) is not readily available in the FA Register Report (FARR) utilized for physical inventory counts. While fixed asset status information is available in the Oracle Discoverer Physical Inventory Report (Discoverer Report),⁴ not all department personnel interviewed were aware of the existence of this report;
- Department personnel indicated that they had not received sufficient guidance and training for conducting an effective physical inventory count;
- Personnel responsible for conducting physical inventory counts stated that requirements for reporting physical inventory results (e.g., completion of separate Forms 243 for U1 and U2) were unclear; and
- Department personnel indicated that requirements related to segregation of duties were not communicated.

A strong system of internal controls includes communication of policies and procedures and sufficient training in the administration of FA inventory. An effective physical inventory counts produces accurate and complete results and ensures corrective actions are taken for discrepancies noted.

Department personnel responsible for the administration of fixed assets should have sufficient knowledge and understanding of basic accounting requirements related to fixed assets. This staff should be able to provide adequate oversight to Property Custodians that may not have an accounting background.

Failure to properly identify and report discrepancies during physical inventory counts results in incorrect data recorded in the OFAM. Inappropriate or missing fixed asset decals impede an accurate count of inventory. Also, lack of segregation of duties for FA responsibilities increases the risk of errors being unreported.

⁴ Oracle Discoverer is an ad-hoc query, reporting, analysis, and web publishing tool that provides access to information beyond that provided by standard Oracle reports. A Physical Inventory Report has been developed that contains additional asset details.

Recommendation: While the Admin Manual has been revised to clarify required forms needed to report discrepancies identified during a physical inventory count, the following recommendations will increase the accuracy and effectiveness of physical inventory counts:

PRGA.1.a

Enhance and clarify procedural guidelines to be used as a tool by departments for conducting physical inventory counts. Physical inventory guidelines should include, but not be limited to:

1. Completing required documents (e.g., Forms 243 and 253) to report discrepancies noted during the physical inventory counts and ensuring that asset status is properly updated and/or assets are retired as needed;
2. Reviewing asset location and description recorded in the FARR to ensure that data recorded is accurate;
3. Verifying that appropriate decals are affixed to assets (i.e., replacing lost or missing decals and removing decals for assets reclassified as minor equipment);
4. Using FA reporting tools available, such as the Discoverer Report, to properly identify current asset status and other key data; and
5. Establishing segregation of duties and maintaining a complete audit trail that identifies staff conducting the physical count of assets.

PRGA.1.b

Develop and provide training to staff conducting physical inventory counts (e.g., Learning Management System web based training). This training should cover physical inventory procedures developed in PRGA.1.a.

Finding II: Unsighted Assets are Not Located or Retired Within a Reasonable Period

Unsighted FA can be maintained in the OFAM for years without corrective action. Current Admin Manual allows departments to report assets that have been unsighted during physical inventory counts and maintain them in the FARR for two biennial inventory cycles.⁵

Additionally, departments are not consistently and timely updating the status of unsighted assets. OAAS reviewed Countywide FA data as of June 30, 2007 and as of March 30, 2011 to identify assets recorded as U1 and U2. The status of a significant percentage of assets included in the June 30, 2007 report remained unchanged in the March 30, 2011 report, as shown in Table 2.

⁵ Administrative Manual 0050-02-01, Control of Capital Assets and Minor Equipment, Section II General Procedures, Inventory Control Procedures states that “property charged but not sighted” for the first time (biennial inventory #1) and “property charged but not sighted” for the second time (biennial inventory #2) should be reported in separate forms 243.

TABLE 2. Unsighted Assets

Status	As of June 30, 2007	Unchanged As of March 30, 2011	%
U1	554	316	57%
U2	422	309	73%

FA status data should be accurate and reliable. Variances identified during physical inventory counts should be reported and promptly resolved. Maintaining unsighted assets in the OFAM without corrective action taken within a reasonable time compromises the integrity of FA data.

Recommendation: To ensure that unsighted assets are located or retired within a reasonable time, the following recommendations should be implemented:

PRGA.2.a

Revise the Admin Manual to ensure timely retirement of unsighted assets. Consider eliminating U2 status for assets recorded in the OFAM and require that all unsighted assets resulting from physical inventory counts are researched and located by departments within a reasonable period.

PRGA.2.b

Develop a method for departments to monitor and ensure compliance with policy changes regarding timely asset status update.

PRGA.2.c

Admin Manual changes above should be included in the FA training.

Finding III: **Clarifying Specific Key Concepts Included in the Admin Manual and Communicating Requirements would Promote Compliance**

Department personnel that were interviewed did not fully understand specific key concepts of the Admin Manual in the following areas:

- **Capital Asset Valuation** – The policy states that capital (fixed) assets should be recorded at their historical cost. While the policy lists some ancillary costs that should be included in historical cost, it does not provide clear guidance that the unit cost and applicable taxes should also be included;
- **Capitalization Thresholds** – The policy does not specify that assets should be capitalized only when the unit cost meets the established capitalization thresholds before taxes and ancillary costs;⁶ and
- **Assets Acquired by Donation** – The policy does not specify that Form 253 should be completed by departments to add donated fixed assets into the system.

⁶ Administrative Manual, Item No. 0050-02-01, Control of Capital Assets and Minor Equipment, Section I. Policy, states the following capitalization thresholds for tangible assets: land should be capitalized regardless of acquisition cost; buildings, improvements to land, improvements to buildings, and infrastructure – established threshold of \$50,000; vehicles, machinery, equipment, works of art and historical treasures – established threshold of \$5,000.

Departments' staff indicated that they have not received sufficient training for the administration and reporting of fixed assets. Staff responsible for the administration of fixed assets stated that they are not always aware of policy changes.

The capitalization policy should be designed to ensure that the reporting of fixed assets is accurate, complete, and in accordance with GASB 34 requirements.⁷ The policy should provide clear and consistent guidance for the administration of fixed assets.

The lack of clarity in the policy could result in incorrect classification and valuation of fixed assets, as well as incomplete recording of donated fixed assets. Also, lack of proper understanding of policies and procedures could lead to misinterpretation of requirements and non-compliance with policy.

Recommendation: PRGA.3.a

The Admin Manual should be revised to reflect the following:

1. Include the unit cost and applicable sale taxes in the historical cost;
2. Clarify that vehicles, machinery, equipment, works of art and historical treasures should be capitalized only when the unit cost is \$5,000 or greater; and
3. Include sufficient guidance regarding addition of assets acquired by donation other than real property.

PRGA. 3.b

PRGA should develop and provide training to departments on FA policies and procedures to ensure a clear and consistent understanding of requirements. This training should be offered periodically or as needed by departments through the Learning Management System.

Finding IV: Lack of Internal Controls Over the Property Disposal Process

OAAS found that P&C, Property Disposal has not established adequate controls over the disposal of surplus property and related transactions.

OAAS conducted detailed testing on a sample of 30 assets listed in Property Disposal's intake database to identify and evaluate internal controls over property disposal procedures. OAAS identified that internal controls were not designed and operated effectively in the following areas:

- **Inadequate Accountability of Assets Received for Disposal** – Property Disposal does not have an adequate database to properly track and record assets from intake to final disposition. As a result, Property Disposal is unable to account for all assets received for

⁷ Per Government Accounting Standards Board (GASB) No. 34, historical cost of acquiring an asset includes the costs necessary to bring the asset to the condition and location for its intended use. Thus, the cost of an asset should include the asset's purchase price and any sales taxes, freight, and installation costs incurred by an entity.

disposal. Out of the 30 assets reviewed, 2 assets were located on site. However, Property Disposal was unable to verify the disposition or identify the location of 13 assets.

Proper internal controls over the accountability of assets include procedures to ensure that all assets are accounted for from purchase through final disposition. Lack of adequate policies and procedures for the accountability of assets received and disposed contributed to the control weakness noted.

- **Fixed Assets and Minor Equipment are Commingled Upon Intake** – Assets received for disposal are not clearly identified as FA or minor equipment (ME). Therefore, Property Disposal is unable to properly segregate fixed assets and ensure that County procedures for reporting disposition of fixed assets are followed. For instance, out of the 30 assets in our sample, OAAS determined that while all 30 assets were designated as fixed assets in the Property Disposal intake database, only 12 were classified as fixed assets in the OFAM.
- **Inconsistent Notification to PRGA of Fixed Asset Disposition** – Out of the 28 assets, 11 were currently classified as FA in the OFAM. Property Disposal did not complete the Form 253 to notify PRGA of the final disposition of these assets. The lack of notification to PRGA of final disposition of the 11 FA resulted in 5 assets (45%) that remained in the OFAM after disposition. One of these assets was reported as unsighted asset and subsequently retired by the owning department. The other four assets remained in Oracle as of the completion of audit fieldwork.

Failure to complete Form 253 and notify PRGA of final disposition of assets prevents fixed assets from retirement and results in inaccurate data in the OFAM.

- **Lack of Documentation for Assets Designated as Scrap or Trash** – Property Disposal does not have a process in place for documenting assets that are placed in trash or scrap receptacles.

Two of the 30 assets sampled were designated as material with no dollar value by Property Disposal staff and were discarded as trash. Disposition of assets designated as scrap or trash is not recorded in the asset tracking database. Therefore, Property Disposal could not provide adequate documentation to verify the disposition of these assets.

As a result, Property Disposal is unable to quantify total assets that have been scrapped or trashed. Also, in the event that a fixed asset is determined to be scrap or trash, notification to PRGA of the final disposition of the asset is not being processed. This prevents fixed assets from retirement in the Oracle accounting system.

An adequate system of controls involves procedures to properly account and control assets owned by an organization. This should include maintaining complete records for all assets disposed, including assets designated as trash or scrap.

Recommendation: In order to establish adequate controls over the administration of property disposal operations and increase the effectiveness of related activities, the following recommendations should be implemented:

P&C.4.a

Policies and procedures should be developed and implemented. At a minimum, property disposal procedures should include the following:

Asset Intake

1. Develop a database to adequately record and track assets from intake to final disposition, including separate records for FA and ME;
2. Require that FA and ME are identified in separate Forms 253 when sent for disposal; and
3. Ensure that Property Disposal staff review the accuracy of data recorded in Form 253 and that property decals are affixed or included with the asset.

Asset Disposition

4. Maintain database records of assets that are designated as scrap or trash and document the justification for such decision; and
5. Complete Form 253 upon final disposition of fixed assets, including fixed assets that are scrapped or trashed, and promptly notify PRGA for timely retirement of fixed assets.

P&C.4.b

Communicate expectations and specific requirements for property disposition to County departments to facilitate the proper identification of assets.

P&C.4.c

In coordination with PRGA, develop two forms for the transfer of assets to Property Disposal. This may include assigning unique identifiers to Form 253, one to be used for FA and another one for ME.

P&C.4.d

In coordination with PRGA, modify the Admin Manual, Disposition of Assets section to ensure that reporting requirements for the disposition of fixed assets, roles, and responsibilities are clearly outlined.

Finding V: Cash Handling Related Responsibilities Need To Be Properly Segregated

Property Disposal has not segregated incompatible duties related to the cash handling process. Specifically, OAS found that one employee is responsible for controlling surplus property received, receiving cash for the

sale of this property, reconciling daily cash collections, depositing cash collection into the bank, and accessing the safe.

Segregation of incompatible duties or mitigating controls, were not properly considered by management when responsibilities were assigned. Lack of segregation of duties could allow errors or irregularities to go undetected. In addition, it increases the risk for misappropriation of assets. A fundamental element of adequate internal controls is the segregation of key duties such as authorization, custody, and record keeping.

Recommendation: P&C.5

To minimize errors and irregularities, the duties performed by the Property Disposal employee should be separated to the extent possible. In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors or irregularities.

Observation

Sheriff's Invoice Duplicate Payment

During audit fieldwork performed at the Sheriff's Department, OAAS identified a duplicate payment of an invoice processed at the Crime Lab Unit. Specifically, payment of an invoice totaling \$7,977 was processed by the use of a procurement card (p-card) in January 2009 and by a County warrant in March 2009.

The County has established a system to detect duplicate payments resulting from the use of p-card and County warrants. While split transactions are allowed for orders against Blanket Purchase Agreements, this transaction was unnecessarily split into two amounts (\$3,803 and \$4,174). Therefore, established controls were unable to detect the duplicate payment.

Adequate invoice review should be conducted to ensure that invoices paid by p-card are not released for payment via County warrant.

Sheriff's management was immediately alerted of this issue and obtained reimbursement from the vendor.

Office of Audits & Advisory Services

Compliance

Reliability

Effectiveness

Accountability

Transparency

Efficiency

VALUE

DEPARTMENT'S RESPONSE
(PURCHASING & CONTRACTING)



Winston F. McColl
Director

County of San Diego

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November 9, 2011

RECEIVED

NOV 14 2011

TO: James L. Pelletier
Chief of Audits

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Winston F. McColl, Director
Department of Purchasing and Contracting

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A11-010 – COUNTYWIDE FIXED ASSETS

Finding IV: Lack of Internal Controls Over the Property Disposal Process

OAAS Recommendations:

P&C.4.a Policies and procedures should be developed and implemented. At a minimum, property disposal procedures should include the following:

Asset Intake

1. Develop a database to adequately record and track assets from intake to final disposition, including separate records for FA and ME;
2. Require that FA and ME are identified in separate Forms 253 when sent for disposal; and
3. Ensure that Property Disposal staff review the accuracy of data recorded in Form 253 and that property decals are affixed or included with the asset.

Asset Disposition

4. Maintain database records of assets that are designated as scrap or trash and document the justification for such decision; and
5. Complete Form 253 upon final disposition of fixed assets, including fixed assets that are scrapped or trashed, and promptly notify PRGA for timely retirement of fixed assets.

P&C.4.b Communicate expectations and specific requirements for property disposition to County departments to facilitate the proper identification of assets.

P&C.4.c In coordination with PRGA, develop two forms for the transfer of assets to Property Disposal. This may include assigning unique identifiers to Form 253, one to be used for FA and another one for ME.

**DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: A11-010 – COUNTYWIDE
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P&C.4.d In coordination with PRGA, modify the Admin Manual, Disposition of Assets section to ensure that reporting requirements for the disposition of fixed assets, roles, and responsibilities are clearly outlined

Action Plan 4.a: The Department of Purchasing and Contracting (P&C) concurs with the audit recommendations. P&C has already begun taking steps to enhance tracking procedures to accurately record and track assets from intake to disposition. Specifically, the tracking system has been enhanced by the following steps:

Asset Intake

1. A single tracking log was used to track both FA and ME. The log has now been separated into two (2) distinct documents, one each for FA and ME.
2. Effective October 2011, P&C began requiring FA and ME to be identified in separate Forms 253 when sent for disposal. County departments are notified of this requirement when they schedule an appointment with property disposal staff to drop off property.
3. Property Disposal staff have been instructed to examine incoming Forms 253 and reconcile the forms to the property being received. In case of a discrepancy staff has been instructed to notate corrections on the Form 253 and, when possible, to obtain a signature from the person dropping off the items confirming the change. Staff would not be able to obtain a signature when the property is dropped off by a hired driver rather than County staff, a common occurrence. In these instances, Property Disposal staff has been instructed to so notate the Form 253 and to notify the originating department of the correction(s).

Property Disposal staff has been instructed to verify that asset tags are affixed to property identified on the Form 253 as FA, and to ensure that the number on the asset tag and Form 253 match.

Asset Disposition

4. Fields have been added to the asset tracking log to include designation of scrap and trash and staff has been instructed to document the justification for the decision on the log.
5. P&C's position is that the delay in completing Form 253 is related to P&C misclassifying assets upon intake, and not because the process of completing the Form 253 is inadequate. In the past, P&C has disposed of FA that was mistakenly identified as ME. These mistakes were sometimes caused by P&C, and at other times were caused by the originating department. In some instances these errors were not discovered until years after final disposition. Although Form 253 was completed promptly once the errors were discovered, there was a significant delay between final asset disposition and notification to PRGA.

P&C believes that corrective actions 1 – 3 above will result in greater accuracy in classifying assets which in turn will result in timely notification to PRGA at the time of FA final disposition.

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Action Plan 4.b:

P&C concurs with the audit recommendations. Property Disposal staff communicate expectations and specific requirements for property disposition to County departments to facilitate the proper identification of assets. Specifically, when County departments contact staff to schedule appointments for property disposal, staff notifies them of the requirement to prepare separate Form 253s for FA and ME, and that lack of proper documentation shall be the basis for refusal to accept the transfer of the property into the warehouse.

Action Plans 4.c and 4.d: P&C concurs with the audit recommendations. P&C will work in coordination with PRGA to strengthen the process for transferring assets to Property Disposal, which may include the development of unique forms or identifiers to be used exclusively for FA and another one for ME.

P&C will work in coordination with PRGA to modify the Admin Manual, Disposition of Assets section, to ensure that reporting requirements for the disposition of fixed assets, roles, and responsibilities are clearly outlined

Planned Completion Date: Action Plans 4.a and 4.b were implemented in October 2011. Action Plans 4.c and 4.d will commence as soon as a PRGA contact is identified.

Contact Information for Implementation: Miwa Pumpelly, Administrative Services Manager, (858) 537-2507.

Finding V: Cash Handling Related Responsibilities Need To Be Properly Segregated

OAAS Recommendation:

P&C.5 To minimize errors and irregularities, the duties performed by the Property Disposal employee should be separated to the extent possible. In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors or irregularities.

Action Plan 5: P&C concurs with the audit recommendations. While P&C concurs that duties should be separated to the extent possible, it has not been possible to segregate duties further due to staffing constraints and operational considerations. Mitigating and compensating controls have always been in place and P&C believes that these controls, described below, adequately address risks.

Bids are opened by P&C staff not assigned to the warehouse, and all bids are posted publicly. Customers remit payments to the Accounting Technician (AT) assigned to the warehouse when they pick up their merchandise. At that time the AT gives a receipt to the customer and the transaction is entered on the cash register. At the end of the day the AT prepares a deposit ticket to prepare the funds for deposit to a Wells Fargo Bank account. Upon deposit, the AT

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obtains a receipt from the bank verifying the deposit amount. At all times during this process the AT works closely with an Associate Accountant (AA) assigned to P&C's Willow Creek site.

The AT then emails the following documentation to the AA:

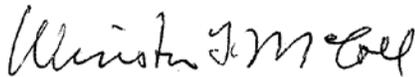
- Bank generated receipt documenting the deposit amount;
- Deposit worksheet, a spreadsheet designed P&C to record and reconcile sale prices and revenue receipts, and
- Bid sheets

The AA reviews all of the documentation to ensure a three way match between the bid sheets, deposit slip, and bank receipt. Once the reconciliation is complete the AA completes a MTB-D and the revenue is posted to the appropriate account.

Planned Completion Date: Completed.

Contact Information for Implementation: Miwa Pumpelly, Administrative Services Manager, (858) 537-2507.

If you have any questions, please contact me at (858)537-2580.



WINSTON F. McCOLL, Director
Department of Purchasing and Contracting

DEPARTMENT'S RESPONSE
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October 21, 2011

RECEIVED

NOV 04 2011

TO: James L. Pelletier
Chief of Audits

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Tracy M. Sandoval
Assistant Chief Financial Officer/Auditor and Controller

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: COUNTYWIDE FIXED ASSET
AUDIT

FINDING I: Physical inventory controls need to be strengthened.

OAAS Recommendation:

PRGA.1.a Enhance and clarify procedural guidelines to be used as a tool by departments for conducting physical inventory counts. Physical inventory guidelines should include, but not be limited to:

1. Completing required documents (e.g., Forms 243 and 253) to report discrepancies noted during the physical inventory counts and ensuring that asset status is properly updated and/or assets are retired as needed.
2. Reviewing asset location and description recorded in the FARR to ensure that data recorded is accurate.
3. Verifying that appropriate decals are affixed to assets (i.e., replacing lost or missing decals and removing decals for assets reclassified as minor equipment).
4. Using FA reporting tools available, such as the Discover Report, to properly identify current asset status and other key data.
5. Establishing segregation of duties and maintaining a complete audit trail that identifies staff conducting the physical counts of assets.

PRGA.1.b Develop and provide training to staff conducting physical inventory counts (e.g. Learning Management System web based training). This training should cover physical inventory procedures developed in PRGA.1.a.

Action Plan:

1. The Auditor and Controller will revise the following policies and procedures, as necessary, to further clarify the procedural guidelines for conducting physical inventory counts:

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- a. Administrative Manual 0050-02-1 Control of Capital Assets and Minor Equipment
 - b. Year End Manual
 - c. Instructions for Form 253
 - d. Instructions for Form 243
2. In addition to updating the policies, procedures, roles and responsibilities listed above, the Auditor and Controller will develop an LMS training course that addresses inventory procedures and proper segregation of duties.

Planned Completion Date: March 31, 2013

Contact Information for Implementation:

Michele Crichlow, Senior A&C Manager, Projects, Revenue and Grants Accounting
(619) 531-5334

Maryann Reed, Senior A&C Manager, Financial Accounting and Reporting
(619) 531-5351

FINDING II: Unsighted assets are not located or retired within a reasonable period.

OAAS Recommendation:

PRGA.2.a Revise the Administrative Manual to ensure timely retirement of unsighted assets. Consider eliminating U2 status for assets recorded in the OFAM and require that all unsighted assets resulting from physical inventory counts are researched and located by departments within a reasonable period.

PRGA.2.b Develop a method for departments to monitor and ensure compliance with policy changes regarding timely asset status update.

PRGA.2.c Administrative Manual changes above should be included in the FA training.

Action Plan: The Auditor and Controller will update the Administrative Manual and develop a report that allows departments to monitor and ensure compliance with policy changes regarding timely asset status updates.

Planned Completion Date: March 31, 2013

Contact Information for Implementation:

Michele Crichlow, Senior A&C Manager, Projects, Revenue and Grants Accounting
(619) 531-5334

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FINDING III: Clarifying specific key concepts included in the Administrative Manual and communicating requirements would promote compliance.

OAAS Recommendation:

PRGA.3.a The Administrative Manual should be revised to reflect the following:

1. Include the unit cost and applicable sales taxes in the historical cost;
2. Clarify that vehicles, machinery, equipment, works of art and historical treasures should be capitalized only when the unit cost is \$5,000 or greater; and
3. Include sufficient guidance regarding addition of assets acquired by donation other than real property.

PRGA.3.b PRGA should develop and provide training to departments on FA policies and procedures to ensure a clear and consistent understanding of requirements. This training should be offered periodically or as needed by departments through the Learning Management System.

Action Plan: The Auditor and Controller will revise the Administrative Manual and prepare LMS training on FA policies and procedures.

Planned Completion Date: March 31, 2013

Contact Information for Implementation:

Michele Crichlow, Senior A&C Manager, Projects, Revenue and Grants Accounting
(619) 531-5334

If you have any questions or concerns, please do not hesitate to contact Tracy Drager, Deputy Controller at (619) 531-5338.



TRACY M. SANDOVAL
Assistant Chief Financial Officer/Auditor and Controller

AFC:TD:lr