

OFFICE OF AUDITS & ADVISORY SERVICES



CLERK OF THE BOARD OF SUPERVISORS OFFICERS' TRANSITION AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
Audit Manager: Laura R. Flores, CIA, CFE, CGAP
Auditor II: Wasim Akand, MPA
Auditor I: Kotomi Johnson, CPA

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County of San Diego

TRACY M. SANDOVAL
DEPUTY CHIEF ADMINISTRATIVE OFFICER/
AUDITOR AND CONTROLLER

AUDITOR AND CONTROLLER
OFFICE OF AUDITS & ADVISORY SERVICES
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JUAN R. PEREZ
CHIEF OF AUDITS

June 12, 2015

TO: David Hall, Clerk of the Board of Supervisors
Clerk of the Board of Supervisors

FROM: Juan R. Perez
Chief of Audits

**FINAL REPORT: CLERK OF THE BOARD OF SUPERVISORS OFFICERS' TRANSITION
AUDIT**

Enclosed is our report on the Clerk of the Board of Supervisors Officers' Transition Audit (Pastuszka to Hall). We have reviewed your response 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 of Supervisors 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 Wasim Akand at (858) 694-2248.

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

JUAN R. PEREZ
Chief of Audits

AUD:WA:aps

Enclosure

c: Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Damien Quinn, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Clerk of the Board of Supervisors (COB). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, Thomas Pastuszka, and incoming officer, David Hall, took appropriate actions and filed required reports as of January 2, 2015 in compliance with California Codes, County regulatory requirements, and County policies and procedures. These requirements were explained in the instruction letter provided to each officer.
Background	The County Charter, Section 801.1(a), requires that the OAAS conduct such an audit when County officers leave or 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, transparency and ethical conduct; fiscal stability; and continuous improvement and innovation.
Audit Scope & Limitations	<p>The reports are the responsibility of the officer who signs them. The OAAS' responsibility is to provide an opinion on the reports based upon the audit.</p> <p>This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.</p>
Methodology	OAAS reviewed all the reports filed by the outgoing and incoming officers, obtained supporting documentation, and performed limited internal control testing.

AUDIT RESULTS

Summary	In our opinion, there is reasonable assurance that the outgoing and incoming officers took appropriate actions and filed required reports in compliance with California Codes, County regulatory requirements, and County policies and procedures in connection with an officer's transition. However, OAAS noted the following exceptions:
Finding I:	Internal Controls Over Minor Equipment and Material and Supplies COB's internal controls over their minor equipment and material and supplies need improvement. As such, OAAS could not obtain reasonable assurance that the balances reported in the Minor Equipment and Books Inventory Certificate and the Materials and Supplies Inventory Certificate are accurately presented. Specifically:

- **Valuation for Materials and Supplies Inventory was Missing.** OAAS identified 92 items included in the materials and supplies inventory list with no value assigned.

According to COB staff, they were unsure how to properly value these items; therefore a zero dollar amount was assigned.

According to the San Diego County Fiscal Year-End Closing Manual, inventories of materials and supplies are to be priced at cost or market value and filed by all departments for fire insurance purposes.

Lack of estimate pricing for materials and supplies inventory results in understated end-of-year materials and supplies balance reported to the Auditor & Controller (A&C).

- **Minor Equipment Incorrectly Classified as Materials and Supplies.** OAAS' review of the materials and supplies inventory list determined that based on the item description, some of the items should be classified as minor equipment.

Audit work determined that a physical inventory of materials and supplies has not been properly conducted to allow the identification of assets incorrectly classified as materials and supplies.

In accordance with the County Administrative Manual (Admin Manual) 0050-02-01, Section I (I), department heads are required to maintain listings of minor equipment identifying the quantity and nature of minor equipment items, their location and assigned value. In addition, Section I (H) states that unit costs between \$500 and \$4,999 should be classified as minor equipment.

Insufficient accountability of minor equipment leads to understated end-of-year minor equipment balances reported to A&C.

Recommendation

To improve accuracy and reliability of the minor equipment inventory and material and supplies list, COB should:

1. Ensure that each item on the physical inventory of materials and supplies has a recorded value as required by the County Fiscal Year-End Closing Manual.
2. Identify items from the materials and supplies list that meet the minor equipment unit cost threshold and properly classified them as minor equipment.

Finding II

Accountability of Historical Artwork Needs Improvement

COB is the custodian of 16 historical art pieces consisting of 13 paintings and 3 murals on the County Administration Center's (CAC) walls.

The audit found that COB does not have clear accountability of the artwork assigned to them. Specifically, OAAS found that the 13 paintings are incorrectly included in the materials and supplies inventory list with no assigned value. While COB management provided separate inventory records for 15 of the 16 pieces of artwork, the appraised value was outdated or missing. In addition, OAAS found that one of the paintings, the Portrait of President Roosevelt, was not accounted for in the inventory records.

Further audit work identified a current appraised value of \$431,500 for 15 of the 16 historical art pieces. However, COB did not have records to document the appraised value of the Portrait of President Roosevelt painting.

COB staff indicated that they were uncertain how to properly account and track historical artwork and how to report the appraised value of these assets.

According to the A&C's Financial Accounting and Reporting Division—(FAR), individual artwork that is not capitalized¹ should be treated as minor equipment and listed in the minor equipment inventory listing at their individual appraisal value.

As a result, the balances reported for minor equipment are understated. Further, inadequate accountability of historical artwork could result in assets being lost or stolen without detection.

Recommendation: To improve accountability of historical artwork, COB should:

1. Obtain an appraised value for the Portrait of President Roosevelt painting and include in inventory records.
2. Ensure that historical artwork is included in the minor equipment inventory at their current appraisal value, as suggested by the A&C-FAR.

Finding III: Insufficient Oversight of Leased Assets

During a walkthrough of the COB facility, OAAS located a Canon copier that had not been accounted for. According to research conducted by COB staff, the copier was a lease that started in May 2006 and ended in May 2014, but has not been returned or replaced by the vendor.

Per COB staff, former staff did not maintain adequate documentation for the leased asset. A number of attempts have been made by current COB staff to obtain such documentation from the Department of Purchasing and Contracting (DPC) and from Canon Copiers. Those attempts have been unsuccessful. As of the conclusion of fieldwork,

¹ The paintings in the historical artwork collection under custody of the COB were donated to the County a long time ago with no appraised value available. As such, these assets were not recorded as capital assets at the time of donation.

COB was unable to provide documentation to confirm the lease and identify the terms of the lease.

Insufficient oversight of assets under COB's custody increases the risk of assets being lost or misappropriated without being detected.

According to County Administration Code Section 80 and 91.1 through 91.3, County Officers and department heads are responsible for all County property (assets) in their charge, including capital (fixed) assets and minor equipment. These responsibilities include the identification and control of these assets, the filing of inventories and the submission of reports as specified by the Board of Supervisors.

Recommendation: COB management should:

1. Continue efforts to work with DPC to confirm the lease and identify the specific terms of the lease.
2. Based on the terms of the lease, either:
 - a. Return the copier to the vendor, or
 - b. Retain the copier and consult with A&C to determine how to correctly account for the equipment.
3. Ensure that proper documentation related to leased assets is retained to facilitate transition of responsibilities.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

DAVID HALL, CCB
EXECUTIVE OFFICER/CLERK

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NICOLE C. TEMPLE
ASSISTANT CLERK OF THE BOARD

June 5, 2015

RECEIVED

TO: Juan R. Perez
Chief of Audits

FROM: David Hall
Clerk of the Board of Supervisors

JUN 09 2015

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: CLERK OF THE BOARD OF SUPERVISORS OFFICERS' TRANSITION AUDIT

This memo has been prepared in response to your office's Clerk of the Board of Supervisors Officers' Transition Audit, Final Draft Report dated May 27, 2015. As you know, we have worked closely with your office since the transition of Department Heads on January 2, 2015 to help ensure a thorough and complete audit. We appreciate the constructive relationship that exists between the Office of Audits and Advisory Services and the Clerk's Office.

Finding I: Internal Controls over Minor Equipment, Material and Supplies

OAAS Recommendation:

Ensure that each item on the physical inventory of materials and supplies has a recorded value as required by the County Fiscal Year-End Closing Manual.

Identify materials from the materials and supplies list that meet the minor equipment unit cost threshold and properly classify them as minor equipment.

Action Plan: We agree with the recommendations and they have been completed.

Planned Completion Date: COMPLETE

Contact Information for Implementation: Karina Jauregui (619) 531-5430

Finding II: Accountability of Historical Artwork Needs Improvement

OAAS Recommendation:

Obtain an appraised value for the Portrait of President Roosevelt painting and include in inventory records.

Ensure that historical artwork is included in the minor equipment inventory at their current appraised value, as suggested by the A&C FAR.

Action Plan: We agree with the recommendations. All historical artwork has been added to the minor equipment inventory at the most recently appraised value. The Portrait of President Roosevelt has been assigned an estimated value of \$5,000. A licensed appraiser has been contacted to conduct a professional appraisal of the Portrait of President Roosevelt.

Planned Completion Date: July 2015.

Contact Information for Implementation: Karina Jauregui (619) 531-5430

Finding III: Insufficient Oversight of Leased Assets

OAAS Recommendation:

1. Continue to work with DPC to confirm the lease and identify the specific terms of the lease.
2. Based on the terms of the lease, either:
 - a. Return the copier to the vendor, or
 - b. Retain the copier and consult with A&C to determine how to correctly account for the equipment.
3. Ensure that proper documentation related to leased assets is retained to facilitate transition of responsibilities.

Action Plan: We agree with the recommendations. The Canon copier in question has been replaced by a Xerox copier and the lease documentation associated with the Xerox copier has been retained. We are currently working with DPC to arrange the pick-up of the Canon copier by the vendor.

Planned Completion Date: July 2015

Contact Information for Implementation: Karina Jauregui (619) 531-5430

I would like to express my appreciation for the professionalism and the cooperative approach of your staff. It is through this constructive relationship that we are able to jointly identify opportunities to improve our services. Implementation of your recommendations has improved the manner in which we account for departmental assets.

Respectfully,



DAVID HALL

Clerk of the Board of Supervisors