

OFFICE OF AUDITS & ADVISORY SERVICES



DEPARTMENT OF GENERAL SERVICES OFFICERS' TRANSITION AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
Audit Manager: Laura R. Flores, CIA, CFE, CGAP
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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

April 14, 2017

TO: Marko Medved, Director
Department of General Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: DEPARTMENT OF GENERAL SERVICES OFFICERS' TRANSITION AUDIT

Enclosed is our report on the Department of General Services Officers' Transition Audit (Heinze to Medved). 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: April Heinze, Deputy Chief Administrative Officer, Community Services Group
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Brian Hagerty, Group Finance Director, Community Services Group

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Department of General Services (DGS). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, April Heinze, and incoming officer, Marko Medved, took appropriate actions and filed required reports as of September 19, 2016 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 identified opportunities to improve internal controls in the following areas:
Finding I:	Insufficient Oversight of Outstanding Accounts Receivable DGS is responsible for managing all revenue leases of County owned real property. According to DGS Department Procedures for revenue lease administration, if all attempts to collect from a lessee have been unsuccessful and a judgment for back rent has been obtained through the courts the delinquent account may be referred to the Auditor and Controller (A&C), Office of Revenue and Recovery (ORR) or to an outside collection agency, if appropriate, for collection.

OAAS selected a sample of seven accounts receivable (A/R) balances and identified two accounts that have been outstanding for over 1,000 days with no action taken by DGS. See Table 1 for details.

Table 1. A/R Outstanding Balances With No Follow-up Activity

A/R No. 12303-11100	Amount	Last Invoice/ Payment	Follow-up Date	Outstanding Days Before Follow-up
Lease 502871-01	\$24,800	Payment collected on 7/21/11	3/27/15	1,345
Lease 502871-02	\$61,364	Invoice sent 8/1/11	6/4/14	1,038

- Lease 502871-01** – On 3/29/10 DGS obtained a court judgment for the collection of this account with the first payment due on 5/1/10. Payments from the debtor stopped after 7/21/11. There were no further attempts to collect on the unpaid balance until 3/27/15 when DGS contacted County Counsel about the account. County Counsel responded that they would review the delinquent account and determine the best course of action. Although the department provided information on their communications with Counsel in 2015, it does not appear that there have been any further communications regarding this account, or efforts to collect on the unpaid balance.
- Lease #503087-02** – This note was due on 12/4/08, however the debtor of this account stopped making payments in 2009. On 8/1/11, DGS sent invoice no. 34978 with the outstanding balance. There were no further attempts to collect on the outstanding account. On 6/4/11, DGS contacted Treasurer-Tax Collector to discuss the sale of the land due to non-payment. The land was ultimately sold through public auction and DGS submitted a Discharge of Accountability for the remainder of the debt.

Pursuant to Board Policy B-29 of the San Diego County Code of Administrative Ordinance, Departments are responsible to recover the full cost of all services they provide to agencies or individuals outside the County of San Diego organization on a contractual or fee basis or when obtaining grant funding.

In addition, a strong system of internal controls involves adequate processes in place over A/R to ensure that outstanding accounts are monitored regularly and cleared in a timely manner.

Insufficient oversight over the administration of A/R balances increases the risk of non-payment and further delays write-off of uncollectable balances, overstating the A/R amount reported.

Recommendation: DGS should increase management oversight on the administration of A/R related to lease revenue, including:

1. Ensure that outstanding accounts are monitored regularly and managed in accordance with Department procedures.

2. When appropriate, write off accounts in a timely manner and in accordance with County policy.

Finding II:**Errors in Minor Equipment Reported**

DGS reported a balance of \$3,002,242 in the Minor Equipment (ME) and Books Inventory Certificate. Audit work performed identified errors in the inventory balances reported for ME. As such, OAAS could not obtain reasonable assurance that the balances reported for ME are accurately presented. Specifically:

- **Inaccurate Inventory Balance Reported for Radios** – The ME inventory balance reported to OAAS included one radio with an assigned value of \$2,738. However, based on a review of perpetual inventory records provided by DGS, 33 radios were on inventory as of October 2016, with an assigned value of \$80,775. This results in an understated ME inventory balance of \$78,037. OAAS also verified that the ME inventory balance submitted to A&C as part of the year-end process for FY 2015-16, was understated as the number of radios reported was incorrect.
- **COC Fitness Center Equipment not Reported** – During a walkthrough of the County Operation Center (COC) Fitness Center, OAAS sighted three ME items that could not be traced to the ME inventory list provided by DGS. Upon OAAS' inquiry, DGS provided additional inventory records for 22 assets located in the COC Fitness Center valued at \$55,257. These assets were not included in the ME and Books Inventory Certificate provided to OAAS. Also, OAAS verified that the ME inventory balance submitted to A&C as part of the year-end process for FY 2015-16, was understated since it did not include the equipment in the COC Fitness Center.
- **Minor Equipment Recorded but Not Sighted** – During the audit testing, a waste oil tank (asset no. 258101) selected for review could not be found. According to DGS, the waste oil tank, valued at \$4,954, was salvaged. However, DGS could not provide any documentation to verify that the waste oil tank had been salvaged.
- **Missing Minor Equipment Decals** – OAAS identified 7 out of 29 assets selected for review that did not have "County of San Diego" property decals. These assets included various tools, a hand held radio, and a TV.

Resulting from the ME inventory balance errors discussed above, the ME and Books Inventory Certificate reported to OAAS, as part of the transition audit, and A&C, as part of the year-end process for FY 2015-16 is understated by an estimated total of \$128,340. In addition, missing minor equipment decals increases the risk of theft, loss, and/or misappropriation of assets.

According to DGS, the errors in the inventory balances reported for ME were due to staff oversight.

To determine the total amount of minor equipment and books on hand at the end of each fiscal year, as required by the County Administrative Code, Section 91.1 and 91.3, departments are required to maintain and report a complete list of their minor equipment and books for which they are responsible. Also, according to the County of San Diego Administrative Manual Item 0050-02-01 (Admin Manual), departments should establish a control system over all minor equipment and affix unnumbered "County of San Diego" decals to these assets.

Additionally, the Admin Manual, Disposition of Assets Section states that assets no longer serviceable or needed by a County department must follow Property Disposal (PD) procedures for the disposal of surplus property. These procedures include completing the appropriate forms (list minor equipment on P&C form 203) for disposed items.

Recommendation: DGS should strengthen their inventory controls over ME to ensure that inventory balances reported are accurate and complete. Specifically, DGS should:

1. Provide a revised ME and Books Inventory Certificate to OAAS with the accurate inventory balances adding items not included and removing assets not sighted.
2. Ensure that the physical inventory of ME conducted for the year-end process consist of a complete count of all ME items including radios and fitness equipment.
3. Ensure that "County of San Diego" decals are affixed to all ME.
4. Provide training to DGS staff responsible for the administration of assets to ensure that inventory and salvage procedures are properly followed.

Finding III:

Obsolete Auto Parts Reported Under Materials and Supplies

The inventory records for materials and supplies reported by DGS contain items that are deemed obsolete or no longer in use. Specifically, OAAS identified a number of auto parts on hand valued from \$0.01 to \$0.00 with a total assigned value of \$23. Further inquiry with DGS staff determined that the items were deemed obsolete because they would be useless on vehicle models that are currently part of the County's fleet. However, these items have an estimated market price of approximately \$328,034. See Table 2 for details.

Table 2. Underpriced Materials and Supplies

Part Description	Quantity On Hand	Unit Price Assigned	Total Value Reported
VIB ANT & Module (Blue)	122	\$0.01	\$1
VIB ANT & Module (Yellow)	1616	\$0.01	\$16
Fuse Holder (NAPA)	600	\$0.01	\$6
VIB Kit Yellow	29	\$0.00	\$0
Total Value			\$23

According to DGS, these items were listed with minimum value because they are obsolete and have not been used since 2006. DGS intended to discard or salvage the parts; however, there has been no action taken to remove the parts from inventory.

Maintaining obsolete inventory in stock increased the risk of misappropriation of County property without detection. Also, it creates additional work when the physical inventory of auto parts is conducted.

According to County property disposal procedures, departments should complete the appropriate forms (items under \$5,000 should be recorded on P&C Form 203) for items determined by the department to be unsalable, and suitable for onsite scrapping or disposal.

Recommendation: To strengthen the inventory controls over auto parts maintained by DGS, they should:

1. Follow discard/salvage procedures to remove obsolete parts from inventory, as required by County property disposal procedures.
2. Ensure that inventory held at the parts warehouse is monitored periodically to identify obsolete or damaged inventory and removed timely from inventory.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE

DEPARTMENT'S RESPONSE

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OFFICE OF AUDITS &
ADVISORY SERVICES

County of San Diego

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5560 OVERLAND AVENUE, SUITE 410, SAN DIEGO, CA 92123

April 7, 2017

TO: Juan R. Perez, Chief of Audits
Office of Audits and Advisory Services

FROM: Marko Medved, Director
Department of General Services

**Department Response to Audit Recommendation: Department of General Services
Officers' Transition Audit**

Finding I: Insufficient Oversight of Outstanding Accounts Receivable

OAAS Recommendation: DGS should increase management oversight on the administration of A/R related to lease revenue, including:

1. Ensure that outstanding accounts are monitored regularly and managed in accordance with Department procedures.
2. When appropriate, write off accounts in a timely manner and in accordance with County policy.

Action Plan: The Department of General Services (DGS) agrees with this audit recommendation. DGS will ensure the two accounts listed are paid or written off and will revise internal policies and procedures to ensure the necessary controls are in place to monitor and manage A/R balances.

Planned Completion Date: June 30, 2017

Contact Information for Implementation: Danielle Enriquez, Chief, Departmental Operations (Budget/Fiscal), Department of General Services (858) 694-2396

Finding II: Errors in Minor Equipment Reported

OAAS Recommendation: DGS should strengthen their inventory controls over ME to ensure that inventory balances reported are accurate and complete. Specifically, DGS should:

1. Provide a revised ME and Books Inventory Certificate to OAAS with the accurate inventory balances adding items not included and removing assets not sighted.

2. Ensure that the physical inventory of ME conducted for the year-end process consist of a complete count of all ME items including radios and fitness equipment.
3. Ensure that "County of San Diego" decals are affixed to all ME.
4. Provide training to DGS staff responsible for the administration of assets to ensure that inventory and salvage procedures are properly followed.

Action Plan: The Department of General Services (DGS) agrees with this audit recommendation. Physical inventory is scheduled for completion by DGS in December 2018. DGS is working to ensure all minor equipment is properly accounted for and will submit the corrected the ME and Books Inventory Certificate, apply decals on the items missing tags, and provide training to department staff.

Planned Completion Date: June 30, 2017

Contact Information for Implementation: Danielle Enriquez, Chief, Departmental Operations (Budget/Fiscal), Department of General Services (858) 694-2396

Finding III: Obsolete Auto Parts Reported Under Materials and Supplies

OAAS Recommendation: To strengthen the inventory controls over auto parts maintained by DGS, they should:

1. Follow discard/salvage procedures to remove obsolete parts from inventory, as required by County property disposal procedures.
2. Ensure that inventory held at the parts warehouse is monitored periodically to identify obsolete or damaged inventory and removed timely from inventory.

Action Plan: The Department of General Services (DGS) agrees with this audit recommendation. DGS Fleet anticipates the completion of a physical inventory by June 30, 2017. DGS Fleet is working to ensure that parts are monitored periodically and to remove obsolete or damaged items from inventory throughout the year. Staff will be reminded of the procedures in place and training will be provided when necessary.

Planned Completion Date: June 30, 2017

Contact Information for Implementation: Sharyl Blackington, Chief, Departmental Operations (Fleet Services), Department of General Services (858) 694-2878

If you have any questions, please contact me at (858) 694-2527.



MARKO MEDVED, Director
Department of General Services