

OFFICE OF AUDITS & ADVISORY SERVICES



INVENTORIES AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
Auditor I: Mercedes Pereira-Trent, MBA
Auditor I: Nicholas Gierut
Auditor I: Ganesh Subramanyam

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County of San Diego

TRACY DRAGER
AUDITOR AND CONTROLLER

AUDITOR AND CONTROLLER
OFFICE OF AUDITS & ADVISORY SERVICES
5530 OVERLAND AVENUE, SUITE 330, SAN DIEGO, CA 92123-1261
Phone: (858) 495-5991

JUAN R. PEREZ
CHIEF OF AUDITS

March 20, 2023

TO: Migell Acosta, Director
County Library

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: INVENTORIES AUDIT

Enclosed is our report on the Inventories Audit. We have reviewed your response to our recommendations and have attached it 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. You or your designee will receive email notifications when these quarterly updates are due, and these notifications will continue until all actions have been implemented.

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

A handwritten signature in blue ink, appearing to read "Juan R. Perez".

JUAN R. PEREZ
Chief of Audits

AUD:MPT:nb

Enclosure

c: Sarah Aghassi, Deputy Chief Administrative Officer, Land Use & Environment Group
Tracy Drager, Auditor and Controller
Jennifer Lawson, Chief Operations Officer, Land Use & Environment Group
Aimee Leighton, Interim Group Finance Director, Land Use & Environment Group



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JUAN R. PEREZ
CHIEF OF AUDITS

March 20, 2023

TO: Randy Mize
Public Defender

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: INVENTORIES AUDIT

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JUAN R. PEREZ
Chief of Audits

AUD:MPT:nb

Enclosure

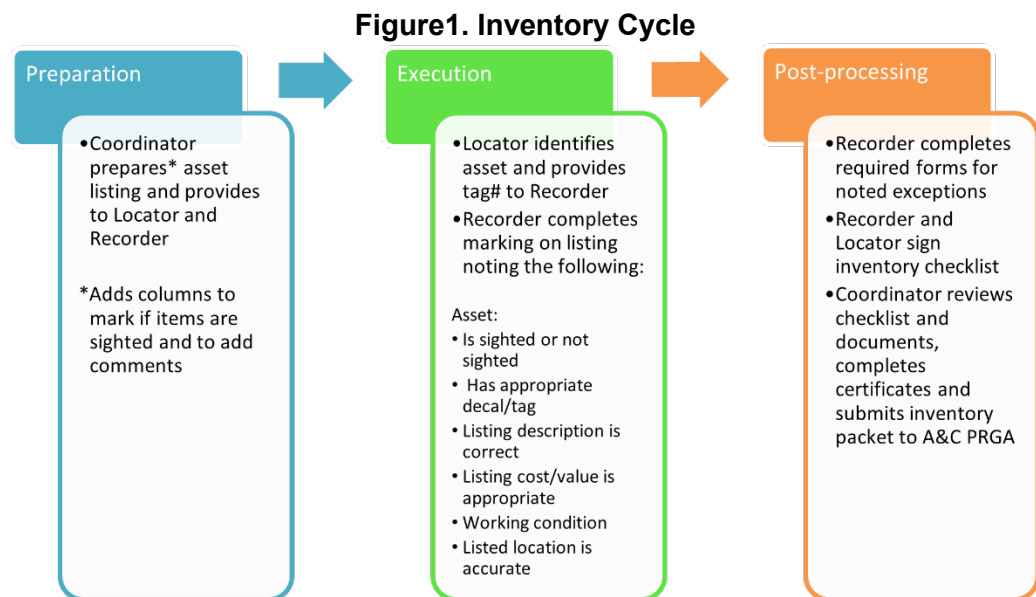
c: Holly Porter, Deputy Chief Administrative Officer, Public Safety Group
Tracy Drager, Auditor and Controller
Rosemarie Degracia, Group Finance Director, Public Safety Group

INTRODUCTION

Audit Objective The Office of Audits & Advisory Services (OAAS) completed an audit of the biennial inventories of capitalized assets and minor equipment. The objective of the audit was to conduct direct observation of physical inventories for a sample of County departments, to assess the adequacy of related internal controls and reporting processes.

Background Government Code Section 24051 and Administrative Code Sections 80 and 91.1 through 91.3 confer to County officers and department heads the responsibility for all County property (assets) in their charge, including capital 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 County Board of Supervisors.

County of San Diego Administrative Manual (Admin Manual) Item 0050-02-01 states that County departments are required to conduct a complete physical inventory of all capital assets, minor equipment, and books on a biennial basis. Additionally, Government Code Section 26881 provides authority for the County Auditor & Controller to prescribe, supervise and review departmental and Countywide internal controls, including forms and methods of keeping the accounts of all offices. Accordingly, inventories are to be conducted according to the schedule published in the Auditor and Controller (A&C) Fiscal Year-End Closing Manual. All physical inventories must be signed and certified by the department head. The inventory process is described in the Biennial Physical Inventory of Capital Assets guide published by A&C and available in the A&C website. The inventory process includes three phases as described in Figure 1.



Audit Scope & Limitations

The scope of the audit included observing the biennial inventories of capitalized assets and minor equipment for FY 2021-22 and assessing departments' conformance with A&C guidelines. OAAS selected a sample for audit detail testing that included the El Cajon Branch of the County Library and two locations of the Public Defender Department (Public Defender).

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.

Methodology

OAAS performed the audit using the following methods:

- Reviewed applicable audit standards, County policies and procedures, the Fiscal Year-End Manual, and required forms.
- Reviewed best practices for physical inventory of assets.
- Selected a County Library Branch and two Public Defender locations for detailed testing.
- For the sample of locations selected for testing performed the following:
 - Conducted an unannounced visit for testing during the time the biennial inventories were being conducted.
 - Interviewed management and staff in charge of the biennial inventories for the selected locations to determine their awareness of County policies and procedures for conducting inventories.
 - Verified that the inventories were conducted in accordance with the Admin Manual Item 0050-02-01 and the Biennial Physical Inventory of Capital Assets procedures.
 - Reviewed the Oracle Fixed Asset Module (OFAM) to ensure that it did not have any unsighted asset listed. If unsighted assets were listed, verified that the department followed up on the procedures to locate or dispose of the assets.

AUDIT RESULTS

Summary

Within the scope of the audit, OAAS observed that the inventories were conducted in accordance with the Admin Manual Item 0050-02-01 and the schedule established in the Year-End Manual for the Biennial Physical Inventories. However, we identified opportunities for the County Library and Public Defender to further improve existing controls and strengthen compliance with County policies and procedures.

Finding I: El Cajon Library Branch Used Inaccurate Capitalized Property Inventory Listing

The Capital Asset Listing Report used by the County Library El Cajon Branch included assets that should have been removed.

Un sighted Assets: OAAS reviewed the County Library OFAM dated September 29, 2021, before conducting the observation of physical inventories and noted three (3) unsighted capitalized assets listed on the OFAM. See Table 1.

Table 1. County Library Unsighted Assets

Asset No.	Tag Number	Description	Location	Cost
1013571	26036500	Digital Duplicator RISO	Library Operations & Administration	7,023.27
1030634	26329800	Touch Screen/Table 67.5" x 40"x32"	Fallbrook Branch	13,895.70
1020357	26178100	Projector, Canon Realis SX-7 Multimedia	Julian Branch	5,674.80
Total of Unsighted Assets				26,593.77

We discussed the status of the unsighted items with Library personnel, and they stated that the assets were disposed of in December 2019. Form AUD253 was issued and submitted to the Auditor and Controller's Projects, Revenue, and Grant Accounting Division (PRGA). However, the Library didn't follow the correct procedures to ensure the assets were properly removed from the OFAM.

An inaccurate or incomplete OFAM report may prevent the County Library from conducting an accurate physical inventory. Further, it increases the risk that the total value of the inventory is not accurately represented and doesn't provide sufficient information to allow the County to establish appropriate levels of insurance coverage and prepare claims for insurance recovery in the event of loss.

An effective system of internal controls over assets involves the establishment of control activities designed to ensure accurate recording and accounting of assets. These activities include, but are not limited to, adequate records of inventory with an asset description, identification tag, location, and historical cost.

County Admin Manual Item No. 0050-02-01 states that department heads are responsible for all County property in their charge. These responsibilities include identification and control of these assets, filing of inventories, and submission of reports as specified by the Board of Supervisors.

Recommendation: To improve internal controls over the administration of assets, adequacy of controls over inventory taking, and reporting processes and ensure compliance with the Admin Manual, the County Library should:

1. Develop appropriate internal controls over the administration of department assets to ensure that individuals in charge of the assets have a clear understanding of their duties and responsibilities and are aware of County policies related to the administration of assets, including but not limited to, following up the correct procedures to ensure that assets were properly removed from the OFAM, and updating Minor Equipment inventory listings as needed.
2. Submit Form AUD253 to the Auditor and Controller-PRGA to correct the capitalized property discrepancies noted.

Finding II: Public Defender Department Controls Over Capitalized Assets and Minor Equipment Inventories Need Improvement

On May 9, 2022, OAAS observed Public Defender conducting inventories of capitalized assets and minor equipment located at 450 B Street, San Diego, CA 92101, and 5530 Overland Avenue, San Diego, CA 92123, and noted the following:

Capitalized Assets:

OAAS observed that Asset No.1769517 HITACHI Project was taken out of service in 2017 and has not been disposed.

OAAS reviewed Public Defender's Biennial Physical Inventory Packet submitted to A&C and noted that Form AUD253 was not completed to dispose of the asset. Additionally, the asset was recorded as sighted, and it is still listed on the OFAM as of November 9, 2022.

Admin Manual Item No. 0050-02-01 states that department heads are responsible for all County property in their charge. These responsibilities include identification and control of these assets, filing of inventories, disposing of assets, and submission of reports as specified by the Board of Supervisors.

Board of Supervisor Policy A-94 states that department heads responsible for County-owned personal property should continually monitor the use of capital assets and minor equipment, to ensure that personal property, when no longer needed or not utilized as trade-in on new acquisition, is reported to the Director of Purchasing and Contracting for timely redistribution and/or disposal in accordance with Sections 419 through 422 of the Administrative Code of the County of San Diego.

Minor Equipment:

Public Defender manages its inventory of minor equipment using a software application called Asset Cloud.

OAAS observed Public Defender conducting the inventories of minor equipment by scanning the minor equipment barcode tag using a handheld scanner. The data scanned was sent to the cloud-based software recording the minor

equipment items being inventoried. When all inventories are concluded Asset Cloud produces an audit report outlining all of the sighted items and exceptions.

We reviewed Public Defender's Biennial Physical Inventory Packet submitted to A&C and noted that the Minor Equipment Listing submitted with the packet only included minor equipment sighted. According to the Public Defender inventory records, there were 25 unsighted minor equipment items for a total of \$18,619.84, that had not been located as of November 4, 2022.

OAAS inquired with Public Defender for the written procedures to conduct the minor equipment inventories using the software application, to determine if their procedures comply with County policies and procedures. They stated that they did not have written procedures specific to the use of the software when conducting inventory.

We noted that the inventory practices used by Public Defender differed from the County Procedures for conducting inventories. Therefore, we were not able to confirm the following: a) description of the equipment agreed with the Minor Equipment Listing; b) items were properly valued; c) correct location of the equipment; d) equipment missing a Minor Equipment Decal was either on the Minor Equipment Listing or was new equipment that needed to be added; and e) unsighted minor equipment assets were located or disposed. Additionally, OAAS observed that the individual with the role of locator is also the coordinator of the inventories.

Deficiencies in internal controls related to the tracking of capitalized assets and minor equipment increase the risk of asset misappropriation, misuse, or loss. Furthermore, inaccurate, or incomplete inventory listings may hinder the County's ability to establish appropriate levels of insurance coverage.

Inadequate segregation of duties increases the risk of error and fraud when a single individual can adversely affect the accuracy and integrity of the count.

County Administrative Manual Item No. 0050-02-01 states that department heads are responsible for all County property in their charge and are required to maintain listings of minor equipment items, adding new items as they are received and deleting items that are disposed of or no longer in use. Lists must identify the quantity and nature of the minor equipment items, their location, and assigned value. Departments must establish a control system over all minor equipment and affix unnumbered "County of San Diego" decals to these assets.

The County Biennial Physical Inventory of Capital Assets procedures state that inventories should be conducted by three individuals: 1) a Coordinator responsible for monitoring the department's assets, reviewing and researching discrepancies, and completing the required inventory forms; 2) a Locator, responsible for identifying and calling out the asset information to the recorder, 3) a Recorder, responsible for marking the assets on the Minor Equipment Listing Report as called out by the Locator, and completing the required inventory forms.

Recommendation: To improve internal controls over conducting inventories of capitalized assets and minor equipment reporting processes, and ensure compliance with the Admin Manual, and the Biennial Physical Inventory of Capital Assets procedures, Public Defender should:

1. Develop internal control procedures for managing the inventories of minor equipment using the software application to comply with County policies, and to ensure that the individuals in charge of the inventories have a clear understanding of their duties and responsibilities conducting the inventories and submitting the required documentation to Auditor and Controller.
2. Submit Form AUD253 to the Auditor and Controller-PRGA to remove Asset No.1769517 HITACHI Project from the OFAM.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

DEPARTMENT'S RESPONSE
(COUNTY LIBRARY)



County of San Diego

MIGELL ACOSTA
LIBRARY DIRECTOR

COUNTY LIBRARY
5560 OVERLAND AVENUE, SUITE 110, SAN DIEGO, CA 92123
858-694-2415 Fax 858-495-5981
www.sdcl.org

DONNA M. OHR
DEPUTY DIRECTOR

SUSAN MOORE
DEPUTY DIRECTOR

March 2, 2023

TO: Juan R. Perez, Chief of Audits
Auditor & Controller

FROM: Migell Acosta, Director
San Diego County Library

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: INVENTORIES AUDIT

Finding I: El Cajon Library Branch Used Inaccurate Capitalized Property Inventory Listing

OAAS Recommendation: To improve internal controls over the administration of assets, adequacy of controls over inventory taking, and reporting processes and ensure compliance with the Admin Manual, the County Library should:

1. Develop appropriate internal controls over the administration of department assets to ensure that individuals in charge of the assets have clear understanding of their duties and responsibilities and are aware of County Policies related to the administration of assets, including but not limited to, following up the correct procedures to ensure that assets were properly removed from the OFAM, and updating Minor Equipment inventory listings as needed.
2. Submit Form AUD253 to the Auditor and Controller-PRGA to correct the capitalized property discrepancies noted.

Action Plan: The Library Department has reviewed the findings and recommendations of the audit report and agree to the recommendations above. In response to these recommendations the following actions have been incorporated into the procedures for conducting Capitalized Property Inventory.

Inventories Audit Response to A&C

March 2, 2023

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This has been corrected by an internal training process for any staff handling salvage requests for the department. All capital asset tracking is now reported using the correct Form 253 and in the case of request for removal that form is forwarded to DPC for signature and confirm that the form is received by PRGA.

- Planned Completion Date: February 1, 2022
- Contact Information for Implementation: Amber Torres, Senior Facilities Analyst.

If you have any questions, please contact me at (858) 967-7554.

Sincerely,

A handwritten signature in blue ink, appearing to read "Migell Acosta".

MIGELL ACOSTA, Director
San Diego County Library

DEPARTMENT'S RESPONSE
(PUBLIC DEFENDER)

PRIMARY PUBLIC DEFENDER
451 A Street, Suite 900
San Diego, CA 92101
619-338-4700
Fax: 619-338-4811



County of San Diego

ALTERNATE PUBLIC DEFENDER
451 A Street, Suite 1200
San Diego, CA 92101
619-446-2900
Fax: 619-446-2955

OFFICE OF ASSIGNED COUNSEL
451 A Street, Suite 840
San Diego, CA 92101
619-338-4800
Fax: 619-338-4743

DEPARTMENT OF THE PUBLIC DEFENDER

RANDY MIZE
PUBLIC DEFENDER

MULTIPLE CONFLICTS OFFICE
451 A Street, Suite 1210
San Diego, CA 92101
619-446-2909
Fax: 619-446-2941

DATE: March 13, 2023
TO: Juan Perez
Chief of Audits
FROM: Randy Mize, Public Defender
Department of the Public Defender

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: Inventories Audit Report No. A22-004

Finding I: Public Defender Department Controls Over Capitalized Assets and Minor Equipment Inventories Need Improvement

OAAS Recommendation: Develop internal control procedures for managing the inventories of minor equipment using the software application to comply with County policies, and to ensure that the individuals in charge of the inventories have a clear understanding of their duties and responsibilities conducting the inventories and submitting the required documentation to Auditor and Controller.

Action Plan: The department will create written procedures that detail roles and responsibilities of the inventory team specific to the use of Asset Cloud digital inventory software.

Planned Completion Date: 05/30/2023

Contact Information for Implementation: Lance Edwards, Administrative Analyst III

OAAS Recommendation: Submit Form AUD253 to the Auditor and Controller-PRGA to remove Asset No.1769517 HITACHI Project from the OFAM.

Action Plan: Hitachi Projector Asset Number 1769517 was delivered to the County contracted property disposal and auction services vendor on 3/1/23 and is pending final dispensation. Department will follow-up on final sale and removal from OFAM.

Planned Completion Date: 05/30/2023

Contact Information for Implementation: Lance Edwards, Administrative Analyst III

PRIMARY PUBLIC DEFENDER
451 A Street, Suite 900
San Diego, CA 92101
619-338-4700
Fax: 619-338-4811



County of San Diego

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San Diego, CA 92101
619-446-2900
Fax: 619-446-2955

OFFICE OF ASSIGNED COUNSEL
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619-338-4800
Fax: 619-338-4743

DEPARTMENT OF THE PUBLIC DEFENDER

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San Diego, CA 92101
619-446-2909
Fax: 619-446-2941

If you have any questions, please contact Lance Edwards at (619) 338-4826.

A handwritten signature in blue ink, appearing to read "Randy Mize".

Randy Mize
Public Defender