

320
**SUBMITTAL TO THE BOARD OF SUPERVISORS
 COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



FROM: Auditor-Controller

SUBMITTAL DATE:
 July 17, 2014

SUBJECT: Internal Audit Report 2014-005: Purchasing & Fleet Services Department, [District: All]: [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2014-005: Purchasing & Fleet Services Department

BACKGROUND:

Summary

We have completed an audit of the Riverside County Purchasing & Fleet Services Department to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, liabilities, materials and supplies records management, and revenues. The audit covered the period July 1, 2011 through June 30, 2013.

(Continued on page 2)

Paul Angulo
 Paul Angulo, CPA/M.A.
 County Auditor-Controller

Departmental Concurrence

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: n/a	

C.E.O. RECOMMENDATION:

APPROVE

BY: *Karen L. Johnson*

Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Tavaglione, seconded by Supervisor Benoit and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Tavaglione, Stone, Benoit and Ashley
 Nays: None
 Absent: None
 Date: September 9, 2014
 xc: Auditor

Kecia Harper-Ihem
 Clerk of the Board

By: *Kecia Harper-Ihem*
 Deputy

Prev. Agn. Ref.:

District: ALL

Agenda Number:

- A-30
- Positions Added
- 4/5 Vote
- Change Order

2-13

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: County of Riverside Auditor-Controller's Office - Internal Audit Report 2014-005: Purchasing & Fleet Services Department, [District: All]:[\$0]

DATE: July 17, 2014

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to capital and non-capital assets, cash handling, materials and supplies, records management, and revenues. We determined the Purchasing & Fleet Services Department has adequate internal controls over accounts/vouchers payable.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: County of Riverside Auditor-Controller's Office - Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Internal Audit Report 2014-005

Purchasing & Fleet Services Department

Report Date: June 25, 2014



Office of Paul Angulo, CPA, M.A.
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, M.A.
AUDITOR-CONTROLLER

June 25, 2014

Mr. Robert Howdyshell, Director
Purchasing & Fleet Services Department
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Dear Mr. Howdyshell:

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Riverside County Purchasing & Fleet Services Department to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, liabilities, materials and supplies records management, and revenues. The audit covered the period July 1, 2011 through June 30, 2013.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency, compliance with laws and regulations, reliability of financial and non-financial information, and to safeguard county assets. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to capital and non-capital assets, cash handling, materials and supplies, records management, and revenues. We determined Purchasing & Fleet Services Department has adequate internal controls over accounts/vouchers payable.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

report. Management's responses are included in the report. We will follow-up in one year to verify that management implemented the corrective actions.

We thank the Riverside County Purchasing & Fleet Services Department management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, M.A.
County Auditor-Controller

Mark W. Cousineau

By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Capital Assets	7
Cash Handling	11
Materials and Supplies	14
Non-Capital Assets	19
Records Management	21
Revenues	23

Executive Summary

Overview

Purchasing & Fleet Services Department's (Department) primary function is to provide materials and services to County Departments and agencies within the County of Riverside. The Department consists of five divisions, Purchasing, Printing, Central Mail, Fleet Services and Supply Services. The Purchasing division function operates as a general fund while the Printing, Central Mail, Fleet and Supply services are Internal Service Funds.

Purchasing involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Other services include providing training to County departments' purchasing staff; preparing bid specifications; initiating formal quotations; proposals and bids; conducting public bid openings; evaluating bids; and awarding and administering contracts until final completion or termination. Purchasing Services' powers and authority are defined in County Ordinance No. 459.4.

Printing Services consists of providing quality printing, copying, finishing, payroll and warrant printing, business card printing offset printing such as graphics, press, bindery and color printing to County departments.

Central Mail Services is responsible for handling the County's incoming and outgoing mail and providing daily interoffice courier services.

Fleet Services manages County's light vehicle fleet to provide reliable and safe transportation for a wide range of local government functions. Fleet Services performs various functions for County departments including purchasing vehicles, maintaining vehicles, and monitoring the use of vehicles in accordance with Board Policy.

Supply Services orders and distributes office and janitorial supplies, orders systems furniture and disposes surplus items such as retired office equipment. Specifically, Supply Services prepares office supply orders, including delivery, coordinates systems furniture orders, bulk purchases and blanket orders to reduce paperwork and cost, processes returns to vendors, coordinates warranties and repairs, maintains storage facilities, redistributes and disposes surplus property, transports records management material, and handles Connex storage rentals.

The following charts summarize the results of operations and general fund support over the past five fiscal years. The last two fiscal years were the period under audit review:

FIVE FISCAL YEAR GOVERNMENTAL FUND ANALYSIS (Dollars)			
Fiscal Year	Revenues	Expenditures	General Fund Support
FY2008/09	552,540	2,211,731	(1,659,191)
FY2009/10	551,186	1,910,900	(1,359,714)
FY2010/11	539,760	1,651,461	(1,111,701)
FY2011/12	671,641	1,512,931	(841,290)
FY2012/13	611,432	1,450,345	(838,913)
Total	2,926,559	8,737,368	(5,810,809)

FIVE FISCAL YEAR PROPRIETARY FUND ANALYSIS (Dollars)			
Fiscal Year	Revenues	Expenditures	Surplus/(Deficit)
FY2008/09	64,077,471	59,161,117	4,916,354
FY2009/10	54,085,570	50,437,302	3,648,268
FY2010/11	49,910,986	48,139,264	1,771,722
FY2011/12	49,569,512	48,345,015	1,224,497
FY2012/13	46,369,641	44,934,570	1,435,071
Total	264,013,180	251,017,268	12,995,912

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, liabilities, materials and supplies, records management, and revenues.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to capital and non-capital assets, cash handling, materials and supplies, records management, and revenues. We determined Purchasing & Fleet Services Department has adequate internal controls over accounts/vouchers payable.

Capital Assets

Background

The Auditor-Controller Standard Practice Manual 913 *Capitalization Thresholds*, (SPM 913), defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure (or, long-lived assets), buildings and improvements, equipment, livestock, and intangible assets. Capital assets include real property such as building (structures), land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 913 requires all *real property* with a value of \$1 (one dollar) and all capital assets with a value of \$5,000 or more to be recorded in the PeopleSoft Asset Management Module (Asset Module). Auditor-Controller Standard Practice Manual 903, *Capital Asset Tags*, (SPM 903), requires that capital assets be tagged or marked as County property. If the County property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

The responsibility for processing and maintaining an accurate record of capital assets primarily resides with the Department. Department management also have roles related to these assets, including following proper purchasing procedures when acquiring assets, properly recording the asset and value into the Asset Module and performing an annual physical inventory to account for all assets under the department head's responsibility.

As of June 30, 2013, the Department maintained 36,617 capital assets in the Asset Module, consisting of servers, equipment, vehicles, buildings, and structures, with the combined value of \$117,986,452.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Department personnel.

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement.
- Verified appropriate levels of management review and approval.
- Selected samples of capital asset transactions to perform detailed testing.

Finding 1: Improving Capital Asset Management

Capital assets were not properly tagged and/or identified in the Asset Module. We excluded vehicles and structures from our sample and selected 30 capital assets from the Asset Module and 5 capital assets from the actual location. Based on our review, Six (17%) of the 35 capital assets selected for review either contained partial inaccurate record information or had the wrong or no asset tag attached. These inaccuracies resulted from the Department focusing on the existence of capital assets while performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Failure to properly record capital assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets.

Management's Response to the Finding

"Concur. The finding noted above is for equipment owned by Printing Services. The six items deemed not in compliance were examined and we found a Press Tek Plate Maker, a major piece of equipment which is identifiable by its description and serial number had no asset tag affixed.

We do not concur with other findings of non-compliance. We found no wrong or inaccurate information that would rise to the level of non-compliance. Serial numbers and asset tags were found. Asset descriptions are accurate. On request, detailed information can be provided.

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place."

Recommendation 1

Conduct physical inventories and update the Asset Module to ensure accuracy and completeness of asset identification information and ensure all assets are properly tagged or marked as County Property.

Management's Response

"Concur. Purchasing and Fleet Services will continue to track capital assets in the County Peoplesoft system and, for assets such as vehicles, in a department system as well. The department process has for years undertaken an annual review of fixed assets. The recommendation suggests nothing that is not already in place. If an error in a model number or serial number is found, it will be corrected.

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.”

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Auditor's Comments

Purchasing's response does not address the underlying issue of incorrect information being entered and maintained in the Asset Module. Accurate and complete information is key to timely and optimal decisions. Failure to ensure the Asset Module contains accurate information leads to inefficiency and impairs the Asset Module's effectiveness as a decision support tool.

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the Auditor-Controller's Office (ACO) in a timely manner. Our review of thirty acquisitions and thirty retirements from July 1, 2011 through June 30, 2013 disclosed documents for twenty (67%) of the thirty acquired assets were submitted for asset capitalization on average 74 days after the assets were placed in service and fifteen (97%) of the thirty retired asset from inventory were submitted 57 days after the assets was sold at auction. This occurred because the requirement to report capital asset transaction within 30 days to the ACO was not included in the Department's capital assets policies and procedures manual. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Management's Response

“**Concur.** We concur the 30 day deadline is not met. For additions, asset records are not updated until a purchase is completed. For example, a vehicle is not recorded as an asset in the County PeopleSoft system until payment is made, which is generally 30 days after a vehicle is received. For disposals, an asset record is not updated until proceeds from a sale are received or a transfer to County Surplus is completed. For example, a vehicle is not removed from the County Surplus is completed. For example, a vehicle is not removed from the County fixed asset system until the auction or scrap proceeds are received, which can be weeks or months after a vehicle is sold.

Asset accounting is on-going. Given the processes to acquire and dispose of fixed assets, a strict 30 day deadline is difficult to meet and, sometimes, not possible. We will take note of the finding and make improvements where possible.”

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 73,000**

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Recommendation 2.1

Update the capital assets policies and procedures manual to include a 30 day reporting requirement for acquisitions and retirements to the ACO.

Management's Response

"**Concur.** Purchasing and Fleet Services will update its internal policy manual to include a 30 day reporting requirement for fixed assets."

Actual/estimated Date of Corrective Action: **September 30, 2014**

Estimated cost to implement recommendation: \$ 0

Recommendation 2.2

Regularly monitor capital asset acquisition and retirements are reported to the ACO promptly after the transaction occurs.

Management's Response

"**Concur.** As noted in finding 2, Purchasing and Fleet Services will work to more promptly record fixed asset records."

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: \$ 0

Cash Handling

Background

The Department receives checks from non-County agencies for office products, auction sales, fuel, vehicle maintenance, mail delivery and postage as well as Cash received from vending machine sales. Cash receipts are recorded in PeopleSoft.

All checks received should be restrictively endorsed when received and recorded on a check log with all negotiable instruments. The check log should be maintained and reconciled to the amount deposited and recorded in PeopleSoft.

Cash deposits should be secured in office safes with limited access until picked up by armor courier services and/or delivered to the bank or delivered to the Treasurer by office personnel. In outlying areas, funds are deposited directly into a County Consolidated Zero Balance Account (ZBA). The bank debits the ZBA for the amount of the deposit and transmits a credit for the amount to the Office of the Treasurer-Tax Collector.

The Auditor-Controller's Standard Practice Manual 705 *Receiving Payments Deposits of Monies and Applying Payments*, (SPM 705), indicates "at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasury, or an authorized ZBA, or secured per an authorized daily deposit exemption. If the business day ends after the deadline for making Treasury deposits, the cash collected must be secured in a locked facility and deposited the next business day."

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walkthroughs with office personnel.
- Utilized PeopleSoft queries to identify the volume, location, and frequency of cash receipt.
- Verified appropriate levels of management review and approval.
- Selected samples of deposits to perform detailed testing.
- Verified safeguarding of cash.

Finding 3: Adherence to Daily Deposit Requirement

The department did not post and/or deposit checks in a timely manner nor obtain a daily deposit exemption with the Auditor-Controller's Office. Our review of 47 deposits disclosed 35 (74.4%) were not deposited and/or posted in a timely manner. These late submissions resulted from the Department holding checks until they reached \$5,000 in the aggregate rather than depositing checks when received. Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks. The areas noted included:

7 of 47 (14.8%) checks deposited late;
1 of 47 (2.1%) check posted late; and
10 of 47 (21.2%) checks posted and deposited late.

Subsequent to our fieldwork, the department has obtained an approval for a daily deposit exemption that allows the department to make deposits to the Office of the Treasurer-Tax Collector when there is more than \$5,000 or every two weeks, whichever comes first. Since the department has obtained approval for daily deposit exemption, no recommendation is required.

Management's Response

"Concur. Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013."

Actual/estimated Date of Corrective Action: **December 17, 2013**

Estimated cost to implement recommendation: **\$ 0**

Finding 4: Restrictively Endorsing Checks

Our review of internal controls revealed that cash handling staff did not restrictively endorse checks or record checks in a check log upon receipt. This occurred because Management was concerned that the receptionist receiving mail could not determine whether checks belong to the Department or perform research to determine where check should go. The Department's accounting personnel restrictively endorse checks and enter checks into a check log when forwarded from the receptionist. However, failure to restrictively endorse checks and record checks in a check log upon receipt may result in fraudulent activity with unauthorized cashing of a check.

Subsequent to our completion of fieldwork, the receptionist obtained an endorsement stamp and check log and is currently restrictively endorsing checks upon receipt and recording checks in a check log. Since the department made immediate changes, no recommendation is required.

Management's Response

"Concur. Purchasing and Fleet Services modified its cash handling process on October 31, 2013 to have a receptionist endorse checks when mail is opened."

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Actual/estimated Date of Corrective Action: **October 31, 2013**

Estimated cost to implement recommendation: **\$ 0**

Materials and Supplies

Background

Supply Services manage materials and supplies for the County. Supply Services completes office supply orders (including delivery), coordinates systems furniture orders, processes bulk purchases and blanket orders to reduce paperwork and cost, processes returns to vendors, coordinates warranties and repairs, maintains storage facilities, redistributes and disposes surplus property, transports records management materials, and manages Connex storage rentals.

Purchases of materials and supplies are requested through the web store on the County's intranet. A search can be accomplished by description, category, or product ID. Departments submit an Access Request Form Number 116-425 for an Identification number and password. Orders placed through the web store create a pick ticket in the warehouse. A Supply Services employee receives the pick ticket and pulls the item(s) from stock. A mini laptop is used to scan bar codes of the item pick to update records in the Compiere Warehouse Management System database.

Some stock items have a shelf life assigned by the manufacturer. When a shelf life item is purchased, Supply Services staff selects the oldest items first for issue. The Compiere Warehouse Management System database can prepare a shelf-life item list that can be used for shelf-life management.

Demand levels are established for items with high turnover rates. Supply Services staff utilized past experience and knowledge of item usage to create demand levels. Although this is an acceptable method for establishing demand levels, Supply Services Management should work with Information Technology staff on developing a report from the Compiere Warehouse Management System database that would identify the highly used items and their annual usage rates.

Demand levels are reviewed annually to determine if changes or additions are required. A Replenishment Report from the Compiere Warehouse Management System is used to determine what items require reordering. Free shipment of items is utilized during the reordering process. Some vendors provide free shipment if orders reach a certain dollar amount. In these cases, items may need to be reordered but the total dollar amount has not reached the amount for free shipment, Supply Services staff review the list to see if the vendor has any other items close to the reordering level so it can be included in the request to get free shipping.

A complete physical inventory of all materials and supplies is accomplished at year-end to update the materials and supplies inventory value. The adjusting ending inventory value is provided to the Auditor-Controller's Office for financial reporting purposes. Cycle inventory counts are performed on a monthly and quarterly basis. A portion of inventory is physically counted to

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

reconcile any differences that occur between the physical on-hand balance and the recorded system balance.

Supply Services staff utilizes a Usage Report from the Compiere Warehouse Management System to determine what items to surplus and what items to discount for customers. Supply Services staff process surplus property as a method of transferring materials from one department to another or for final disposition through sale at public auction or to scrap. Transferring surplus property to other departments is always the first option with sales through public auction the second option. Sales through public auction are accomplished by selling items in place or through open bidding to the public through use of an auctioneer.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over materials and supplies inventory.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures performed by Supply Services personnel.
- Identified and reviewed laws, codes, and regulations, BOS' ordinances, applicable policies and procedures.
- Obtained and understood policies and procedures regarding materials and supplies.
- Performed tests to ensure internal controls were adequate over materials and supplies.

Finding 5: Materials and Supplies Accountability

A high percentage of Materials and supplies line items required adjustments. Inventory for Fiscal Year 2011/12 consisted of 897 line items of which 348 (38.7%) required adjustments and inventory for Fiscal Year 2012/13 consisted of 775 line items of which 191 (24.6%) required adjustments. Management identified several reasons for adjustments, such as, unit of issue changes, processing errors, miss-shipments, surplus adjustments, etc. Maintaining inaccurate inventory balances may result in unnecessary purchases, overages, shortages, obsolescence of stock, or mask inventory shrinkage.

Management's Response

“Do Not Concur. We do not concur that Supply Services required a high-level of adjustments to correct inaccurate inventory levels. In fact, there are few adjustments to correct inaccurate

counts or to adjust for obsolescence stock. Supply Services does make adjustments for a variety of reasons but these adjustments are not to correct errors. Examples are:

- Conversion of unit of measure (e.g. buy as a box and sell as each)
- Surplus product adjusted into inventory for sale
- Movements of product from one location to another
- Freight cost adjustments
- Storage container adjustments
- Equipment service adjustments
- In-house use of product
- Zero quantity adjustments for transactions not completed and which should not be completed

Recent fiscal year end inventory adjustments are as follows: in FY 2012 adjustments to 12 of 421 items increased inventory value by \$764; in FY 2013 adjustments to 11 of 478 items increased the inventory value by \$323."

Recommendation 5

Ensure personnel pay close attention to detail when issuing items out of stock and processing warehouse transactions.

Management's Response

"Concur. To the best of our knowledge, Supply Services staff is paying close attention to detail. Staff accuracy is supported by a low error rate in fulfilling orders for millions of dollars of office products and system furniture each year.

As noted above, inventory management is dynamic and may require frequent adjustments for a variety of reasons. If there are errors, management is eager to address such issues.

Supply Services will continue with its current business practices of making necessary adjustments"

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Auditor's Comments

Purchasing's response does not address the issue regarding the high rate of inventoried items requiring adjustments occurring during the year. The high percentages of adjustments indicate that the inventory control environment is not adjusted to ensure the errors are not allowed to continue.

Finding 6: Managing Materials and Supplies Inventory

The Department did not properly manage the shelf-life inventory. Our review of 17 shelf-life line items disclosed 12 (71%) of the line items contained issues with the record. This resulted from staff relying on their knowledge of shelf-life of items instead of using actual expiration dates from the manufacturer. Inaccuracies in the shelf-life items may result in obsolescence of inventory. The areas noted included:

- 9 of 17 (52.9%) shelf-life items had a manufacturer's date but no expiration date;
- 2 of 17 (11.7%) shelf-life items did not have a manufacturer or expiration date; and
- 1 of 17 (5.8%) marked as shelf-life item but, manufacturer stated item does not expire.

Management's Response

"Concur. As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items."

Recommendation 6.1

Determine whether stock items qualify as shelf-life items. For items without expiration dates contact vendor for expiration date and use permanent marker to record expiration date on each item.

Management's Response

"Concur. As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items."

Recommendation 6.2

Physically inspect all shelf-life items and verify that the items are labeled with the correct expiration date and ensure items with the shortest expiration date are located in the front of the shelves. Also, identify all items mistakenly marked as shelf-life items and update the stock record to remove the item from the stock replenishment list.

Management's Response

"Concur. Expiration dated items will be identified by placing a label at the product location. The suggestion to keep or store all expiration dated items in one location is not feasible and is not good business practice. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily."

Recommendation 6.3

Mark warehouse location to identify items as shelf-life items to ensure all staff members are aware that the item is a shelf-life item that requires issuing the oldest items first.

Management's Response

"Concur. Expiration dated items will be identified by placing a label at the product location. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily."

Actual/estimated Date of Corrective Action: **September 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Non-Capital Assets

Background

Board of Supervisor's Policy Number H-26, *Non-Capitalized Asset Management*, (Policy H-26), defines non-capitalized "walk-away" assets as assets which are small, mobile, easily converted for personal use and have a fair market value of \$200 or more and an acquisition cost of less than \$5,000 (over \$5,000 are classified as capital assets). Examples include, but are not limited to laptops, personal digital assistants (PDAs), global positioning system (GPS) receivers, and cell phones. Departments are required to track walk-away assets through the PeopleSoft Asset Management Module (Asset Module), or another established system, if reviewed and approved by the Auditor-Controller.

The Department' non-capital assets included twelve laptops worth \$7,405, Seventeen GPS tracking devices worth \$6,543, four cell phones worth \$1,001, and three iPads worth \$2,433, for a total of 36 non-capital assets worth \$17,382 recorded in the Asset Module.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over non-capital walk-away assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Department personnel.
- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement.

Finding 7: Management of Non-Capital Walk-Away Asset Records

Non-capital walk-away assets did not agree with detail recorded in the Asset Module. Our review of 18 non-capital asset records disclosed that five (27.7%) contained inaccurate information. The errors resulted from the office focusing on the existence of non-capital walk-away assets when performing their annual inventory rather than validating the accuracy of records regarding model and serial numbers. Failure to properly record non-capital walk-away assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets. In addition, inaccurate, missing, and conflicting information creates an operating environment that may mask waste or theft.

Management's Response

"Concur. We concur that walk-away asset records are not 100% accurate. The department does validate walk-away assets annually, and records maintained are accurate enough to identify if any assets are missing."

Recommendation 7.1

Perform a physical inventory of non-capital walk-away assets comparing the physical assets to accounting records and ensure all non-capital assets are properly identified in the Asset Module.

Management's Response

"Concur. Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so."

Recommendation 7.2

Routinely monitor accuracy of new walk-away asset detail recorded in the Asset Module.

Management's Response

"Concur. Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so."

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Records Management

Background

Board of Supervisors Policy A-43, *County Records Management and Archives Policy*, (Policy A-43), Section D.5 *Records Retention Schedules – Standard – Retention Period*, indicates “retention periods on Board approved records retention schedules are mandatory, and records shall be disposed of in accordance with those approved retention periods.” All County Departments must adhere to the Countywide General Records Retention Schedule (GRRS_2012_Rev07, GRRS_2011_Rev06, and GRS2010_Rev05) if they do not have a departmental records retention schedule approved by the Board of Supervisors.

The Departments’ sensitive information consists of personnel data; therefore, they adhere to the approved GRRS for this and other common County-wide records. In addition, the Department does not have their own Departmental Records Retention Schedules (DRRS) approved by the Board of Supervisors for documents requiring unique disposition.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over records retention management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, Board of Supervisors’ ordinances, applicable policies, and procedures.
- Obtained and understood policy and procedures regarding records retention management.
- Performed testing to ensure internal controls were adequate over records retention.

Finding 8: Record Destruction Approval

The Department did not submit a Records Management and Archives Policy (RMAP) Form 691 designating an individual or individual’s responsibility for implementing County retention procedures. In addition, the department did not obtain proper approval for records destruction by submitting RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) to RMAP. The Department could not provide documentation to support the destruction of FY05/06 account payables, account receivables, and FY 04/05 contracts/agreements files. This was the result of Department’s unfamiliarity with the requirement to complete a RMAP form 691, authorizing an

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

individual for approving destruction requests with RMAP or the requirement to submit RMAP Form 652 or 784 for destruction of documents requests. Improperly destroying documentation without the proper approvals may hinder the availability and accessibility of documents in accordance with applicable law.

Subsequent to completion of fieldwork, the department has submitted and has had approved RMAP form 691 authorizing staff to manage the records for the department.

Management's Response

"Concur. A Form 691 was not obtained. However, all fiscal records were maintained according to County General Records Retention Schedule."

Recommendation 8

Prepare and submit a RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) with the proper approvals for all future record destruction requests.

Management's Response

"Concur. Purchasing and Fleet Services will prepare these forms."

Actual/estimated Date of Corrective Action: **July 18, 2014**

Estimated cost to implement recommendation: **\$ 0**

Revenues

Background

The Department generates revenue from several sources that requires billing for services. Auditor-Controller Standard Practice Manual 704 *Billing*, (SPM 704), states, at minimum, departments should bill on a monthly basis. The Department's centralized accounts receivable unit bills on a monthly basis for its five divisions; Purchasing, Fleet Services, Printing Services, Supply Services, and Central Mail.

Each division prepares its billing, which is forwarded to Accounts Receivable (AR). Purchasing Division utilizes a manual billing process, while the other four divisions rely on billing databases to automate the process. AR uses the PSJE (PeopleSoft Journal Entry) database to download billing data from the division's databases to generate the journal entry.

AR unit mails billing statements to departments. However, some divisions also mail invoices to their customer. In these cases, AR unit attaches a copy of the invoices to the billing statement to eliminate any confusion of customers and double payment. Invoices are also prepared for other government entities on a monthly basis from PeopleSoft. The invoice and supporting documentation are mailed to the other government entities and 30 days is given for payment.

AR unit reviews the aging report to ensure receivables over 30 days past due are identified. For invoices over 30 days past due, a second invoice stamped "Past Due" is sent. If payment is not received in 2 weeks, the AR unit calls the customer for payment. This system has minimized non-payment.

Credit memos are used to correct billing errors. Example of billing errors include, the Sheriff charging a Jurupa vehicle for fueling instead of a Sheriff vehicle. A credit memo is used to correct billing errors. All credit memos are approved by the AR unit supervisor.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over revenue management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of accounting personnel.
- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures.
- Obtained and understood policy and procedures regarding revenue management.

- Performed testing to ensure internal controls were adequate over revenues.

Finding 9: Reconciliation of Receivables Aging Report

A complete reconciliation between the accounts receivable aging subsidiary ledger and general ledger was not accomplished. The aging report identified a total receivable balance of \$237,637 while the general ledger reported a total balance of \$347,094 for the Department resulting in an un-reconciled variance of \$109,457. The variance arose from the 2001 PeopleSoft implementation issues, Central Mail changing from governmental to proprietary fund accounting and irregular reconciliation of accounts receivable subsidiary ledger records to the general ledger amount. While the department reconciled \$25,578 of the \$109,457 variance, the remaining un-reconciled variance of \$83,879 still needs to be investigated. Receivables left unmonitored may result in bad debt and the attending loss of cash resources.

Management's Response

"Concur. Errors created during the 2002 system change from RIFMIS to Peoplesoft continue to be carried-forward in an aging report but not for lack of effort to correct the problem. Fleet Services uses Peoplesoft accounts receivable to track fuel sales to non-county agencies. To the best of our knowledge, Fleet Services has collected for all fuel sales made prior to 2002. The issue is actually one for the RCIT team to resolve as Fleet Services does not have the authorization or means to correct the problem.

As Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action."

Recommendation 9

Perform a full Reconciliation of the aging report to the general ledger for all department receivables on a monthly basis and seek a discharge of accountability for uncollectable accounts.


Management's Response

"Concur. Fleet Services will continue to reconcile accounts receivable monthly. As for the Peoplesoft aging report, we don't use it. If a receivable for a non-County entity is not collected for the current billing period, we work with that agency to resolve the issue or cut off access to fuel. We are not aware of an instance where a non-county agency has failed to pay for fuel.

Again, as Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action."

Actual/estimated Date of Corrective Action: **None Provided**

Estimated cost to implement recommendation: **\$ 0**

DATE: June 30, 2014
TO: Auditor-Controller's Office
Audits and Specialized Accounting Division
FROM: Robert Howdysshell, Director 
SUBJECT: Reply to Draft Audit Report [2014-005]

Finding 1: Improving Capital Asset Management

Capital assets were not properly tagged and/or identified in the Asset Module. We excluded vehicles and structures from our sample and selected 30 capital assets from the Asset Module and 5 capital assets from the actual location. Based on our review, Six (17%) of the 35 capital assets selected for review either contained partial inaccurate record information or had the wrong or no asset tag attached. These inaccuracies resulted from the Department focusing on the existence of capital assets while performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Failure to properly record capital assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets.

Management position concerning the recommendation: Concur

Comments:

The finding noted above is for equipment owned by Printing Services. The six items deemed not in compliance were examined and we found a Press Tek Plate Maker, a major piece of equipment which is identifiable by its description and serial number had no asset tag affixed.

We do not concur with other findings of non-compliance. We found no wrong or inaccurate information that would rise to the level of non-compliance. Serial numbers and asset tags were found. Asset descriptions are accurate. On request, detailed information can be provided.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 1

Conduct physical inventories and update the Asset Module to ensure accuracy and completeness of asset identification information and ensure all assets are properly tagged or marked as County Property.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will continue to track capital assets in the County Peoplesoft system and, for assets such as vehicles, in a department system as well. The department process has for years undertaken an annual review of fixed assets. The recommendation suggests nothing that is not already in place. If an error in a model number or serial number is found, it will be corrected.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the Auditor-Controller's Office (ACO) in a timely manner. Our review of thirty acquisitions and thirty retirements from July 1, 2011 through June 30, 2013 disclosed documents for twenty (67%) of the thirty acquired assets were submitted for asset capitalization on average 74 days after the assets were placed in service and fifteen (97%) of the thirty retired asset from inventory were submitted 57 days after the assets was sold at auction. This occurred because the requirement to report capital asset transaction within 30 days to the ACO was not included in the Department's capital assets policies and procedures manual. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Management position concerning the recommendation: Concur

Comments:

We concur the 30 day deadline is not met. For additions, asset records are not updated until a purchase is completed. For example, a vehicle is not recorded as an asset in the County Peoplesoft system until payment is made, which is generally 30 days after a vehicle is received. For disposals, an asset record is

not updated until proceeds from a sale are received or a transfer to County Surplus is completed. For example, a vehicle is not removed from the County fixed asset system until auction or scrap proceeds are received, which can be weeks or months after a vehicle is sold.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. Given the processes to acquire and dispose of fixed assets, a strict 30 day deadline is difficult to meet and, sometimes, not possible. We will take note of the finding and make improvements where possible.

Estimated cost to implement recommendation (If material): \$ 73,000

Recommendation 2.1

Update the capital assets policies and procedures manual to include a 30 day reporting requirement for acquisitions and retirements to the ACO.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will update its internal policy manual to include a 30 day reporting requirement for fixed assets.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 2.2

Regularly monitor capital asset acquisition and retirements are reported to the ACO promptly after the transaction occurs.

Management position concerning the recommendation: Concur

Comments:

As noted in finding 2, Purchasing and Fleet Services will work to more promptly record fixed asset records.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 3: Adherence to Daily Deposit Requirement

The department did not post and/or deposit checks in a timely manner nor obtain a daily deposit exemption with the Auditor-Controller's Office. Our review of 47 deposits disclosed 35 (74.4%) were not deposited and/or posted in a timely manner. These late submissions resulted from the Department holding checks until they reached \$5,000 in the aggregate rather than depositing checks when received. Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks. The areas noted included:

7 of 47 (14.8%) checks deposited late;
1 of 47 (2.1%) check posted late; and
10 of 47 (21.2%) checks posted and deposited late.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013

Actual/estimated Date of Corrective Action: December 17, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 3

Subsequent to our fieldwork, the department has obtained an approval for a daily deposit exemption that allows the department to make deposits to the Office of the Treasurer-Tax Collector when there is more than \$5,000 or every two weeks, whichever comes first. Since the department has obtained approval for daily deposit exemption, no recommendation is required.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013.

Actual/estimated Date of Corrective Action: December 17, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 4: Restrictively Endorsing Checks

Our review of internal controls revealed that cash handling staff did not restrictively endorse checks or record checks in a check log upon receipt. This occurred because Management was concerned that the receptionist receiving mail could not determine whether checks belong to the Department or perform research to determine where check should go. The Department's accounting personnel restrictively endorse checks and enter checks into a check log when forwarded from the receptionist. However, failure to restrictively endorse checks and record checks in a check log upon receipt may result in fraudulent activity with unauthorized cashing of a check.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services modified its cash handling process on October 31, 2013 to have a receptionist endorse checks when mail is opened.

Actual/estimated Date of Corrective Action: October 31, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 4

Subsequent to our completion of fieldwork, the receptionist obtained an endorsement stamp and check log and is currently restrictively endorsing checks upon receipt and recording checks in a check log. Since the department made immediate changes, no recommendation is required.

Management position concerning the recommendation: Concur

Comments:

Process change is in place as of October 31, 2013.

Actual/estimated Date of Corrective Action: October 31, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 5: Materials and Supplies Accountability

A high percentage of Materials and supplies line items required adjustments. Inventory for Fiscal Year 2011/12 consisted of 897 line items of which 348 (38.7%) required adjustments and inventory for Fiscal Year 2012/13 consisted of 775 line items of which 191 (24.6%) required adjustments. Management identified several reasons for adjustments, such as, unit of issue changes, processing errors, miss-shipments, surplus adjustments, etc. Maintaining inaccurate inventory balances may result in unnecessary purchases, overages, shortages, obsolescence of stock, or mask inventory shrinkage.

Management position concerning the recommendation: Do Not Concur

Comments:

We do not concur that Supply Services required a high-level of adjustments to correct inaccurate inventory levels. In fact, there are few adjustments to correct inaccurate counts or to adjust for obsolescence stock. Supply Services does make adjustments for a variety of reasons but these adjustments are not to correct errors. Examples are:

- Conversion of unit of measure (e.g. buy as a box and sell as each)
- Surplus product adjusted into inventory for sale
- Movements of product from one location to another
- Freight cost adjustments
- Storage container adjustments
- Equipment service adjustments
- In-house use of product

- Zero quantity adjustments for transactions not completed and which should not be completed

Recent fiscal year end inventory adjustments are as follows: in FY 2012 adjustments to 12 of 421 items increased inventory value by \$764; in FY 2013 adjustments to 11 of 478 items increased inventory value by \$232; and in FY 2014 adjustments to 6 of 488 items increased the inventory value by \$323.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 5

Ensure personnel pay close attention to detail when issuing items out of stock and processing warehouse transactions.

Management position concerning the recommendation: Concur

Comments:

To the best of our knowledge, Supply Services staff is paying close attention to detail. Staff accuracy is supported by a low error rate in fulfilling orders for millions of dollars of office products and system furniture each year.

As noted above, inventory management is dynamic and may require frequent adjustments for a variety of reasons. If there are errors, management is eager to address such issues

Actual/estimated Date of Corrective Action: June 30, 2014

Supply Services will continue with its current business practices of making necessary adjustments to inventory.

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 6: Managing Materials and Supplies Inventory

The Department did not properly manage the shelf-life inventory. Our review of 17 shelf-life line items disclosed 12 (71%) of the line items contained issues with the record. This resulted from staff relying on their knowledge of shelf-life of items instead of using actual expiration dates from

the manufacturer. Inaccuracies in the shelf-life items may result in obsolescence of inventory. The areas noted included:

- 4 of 24 (16.6%) quantities were not correct;
- 9 of 17 (52.9%) shelf-life items had a manufacturer's date but no expiration date;
- 2 of 17 (11.7%) shelf-life items did not have a manufacturer or expiration date; and
- 1 of 17 (5.8%) marked as shelf-life item but, manufacturer stated item does not expire.

Management position concerning the recommendation: Concur

Comments:

As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 6.1

Determine whether stock items qualify as shelf-life items. For items without expiration dates contact vendor for expiration date and use permanent marker to record expiration date on each item.

Management position concerning the recommendation: Concur

Comments:

As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 6.2

Physically inspect all shelf-life items and verify that the items are labeled with the correct expiration date and ensure items with the shortest expiration date are located in the front of the

shelves. Also, identify all items mistakenly marked as shelf-life items and update the stock record to remove the item from the stock replenishment list.

Management position concerning the recommendation: Concur

Comments:

Expiration dated items will be identified by placing a label at the product location. The suggestion to keep or store all expiration dated items in one location is not feasible and is not good business practice. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle counted daily

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (if material): \$ 0.00

Recommendation 6.3

Mark warehouse location to identify items as shelf-life items to ensure all staff members are aware that the item is a shelf-life item that requires issuing the oldest items first.

Management position concerning the recommendation: Concur

Comments:

Expiration dated items will be identified by placing a label at the product location. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 7: Management of Non-Capital Walk-Away Asset Records

Non-capital walk-away assets did not agree with detail recorded in the Asset Module. Our review of 18 non-capital asset records disclosed that five (27.7%) contained inaccurate information. The errors resulted from the office focusing on the existence of non-capital walk-away assets when performing their annual inventory rather than validating the accuracy of

records regarding model and serial numbers. Failure to properly record non-capital walk-away assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets. In addition, inaccurate, missing, and conflicting information creates an operating environment that may mask waste or theft.

Management position concerning the recommendation: Concur

Comments:

We concur that walk-away asset records are not 100% accurate. The department does validate walk-away assets annually, and records maintained are accurate enough to identify if any assets are missing.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 7.1

Perform a physical inventory of non-capital walk-away assets comparing the physical assets to accounting records and ensure all non-capital assets are properly identified in the Asset Module.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 7.2

Routinely monitor accuracy of new walk-away asset detail recorded in the Asset Module.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 8: Record Destruction Approval

The Department did not submit a Records Management and Archives Policy (RMAP) Form 691 designating an individual or individual's responsibility for implementing County retention procedures. In addition, the department did not obtain proper approval for records destruction by submitting RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) to RMAP. The Department could not provide documentation to support the destruction of FY05/06 account payables, account receivables, and FY 04/05 contracts/agreements files. This was the result of Department's unfamiliarity with the requirement to complete a RMAP form 691, authorizing an individual for approving destruction requests with RMAP or the requirement to submit RMAP Form 652 or 784 for destruction of documents requests. Improperly destroying documentation without the proper approvals may hinder the availability and accessibility of documents in accordance with applicable law.

Subsequent to completion of fieldwork, the department has submitted and has had approved RMAP form 691 authorizing staff to manage the records for the department.

Management position concerning the recommendation: Concur

Comments:

A Form 691 was not obtained. However, all fiscal records were maintained according to County General Records Retention Schedule.

Actual/estimated Date of Corrective Action: July 18, 2014

[Click here to comment if necessary to clarify what action the timing refers to.](#)

Estimated cost to implement recommendation (if material): \$ 0.00

Recommendation 8

Prepare and submit a RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) with the proper approvals for all future record destruction requests.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will prepare these forms.

Actual/estimated Date of Corrective Action: July 18, 2014

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 9: Reconciliation of Receivables Aging Report

A complete reconciliation between the accounts receivable aging subsidiary ledger and general ledger was not accomplished. The aging report identified a total receivable balance of \$237,637 while the general ledger reported a total balance of \$347,094 for the Department resulting in an un-reconciled variance of \$109,457. The variance arose from the 2001 PeopleSoft implementation issues, Central Mail changing from governmental to proprietary fund accounting and irregular reconciliation of accounts receivable subsidiary ledger records to the general ledger amount. While the department reconciled \$25,578 of the \$109,457 variance, the remaining un-reconciled variance of \$83,879 still needs to be investigated. Receivables left unmonitored may result in bad debt and the attending loss of cash resources.

Management position concerning the recommendation: Concur

Comments:

Errors created during the 2002 system change from RIFMIS to Peoplesoft continue to be carried-forward in an aging report but not for lack of effort to correct the problem. Fleet Services uses Peoplesoft accounts receivable to track fuel sales to non-county agencies. To the best of our knowledge, Fleet Services has collected for all fuel sales made prior to 2002. The issue is with the AR aging balances in Peoplesoft, which are wrong. This issue is actually one for the RCIT team to resolve as Fleet Services does not have the authorization or means to correct the problem.

Actual/estimated Date of Corrective Action: [Click here to enter a date.](#)

As Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 9

Perform a full Reconciliation of the aging report to the general ledger for all department receivables on a monthly basis and seek a discharge of accountability for uncollectable accounts.

Management position concerning the recommendation: Concur

Comments:

Fleet Services will continue to reconcile accounts receivable monthly. As for the Peoplesoft aging report, we don't use it. If a receivable for a non-County entity is not collected for the current billing period, we work with that agency to resolve the issue or cut off access to fuel. We are not aware of an instance where a non-county agency has failed to pay for fuel.

Actual/estimated Date of Corrective Action: Click here to enter a date.

Again, as Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.

Estimated cost to implement recommendation (If material): \$ 0.00

Internal Audit Report 2014-005

Purchasing & Fleet Services Department

Report Date: June 25, 2014



**Office of Paul Angulo, CPA, M.A.
County of Riverside Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, M.A.
AUDITOR-CONTROLLER

June 25, 2014

Mr. Robert Howdysshell, Director
Purchasing & Fleet Services Department
2980 Washington Street
Riverside, CA 92504

Subject: Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Dear Mr. Howdysshell:

The Internal Audit Division of the Auditor-Controller's Office has completed an audit of the Riverside County Purchasing & Fleet Services Department to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, liabilities, materials and supplies records management, and revenues. The audit covered the period July 1, 2011 through June 30, 2013.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving operational efficiency, compliance with laws and regulations, reliability of financial and non-financial information, and to safeguard county assets. Management is responsible for establishing and maintaining adequate internal controls; our responsibility is to assess the adequacy of internal controls based upon our audit.

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to capital and non-capital assets, cash handling, materials and supplies, records management, and revenues. We determined Purchasing & Fleet Services Department has adequate internal controls over accounts/vouchers payable.

As requested, in accordance with paragraph IIC of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

report. Management's responses are included in the report. We will follow-up in one year to verify that management implemented the corrective actions.

We thank the Riverside County Purchasing & Fleet Services Department management and staff for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, M.A.
County Auditor-Controller

Mark W. Cousineau

By: Mark Cousineau, CPA, CIA, CFE
Chief Internal Auditor

cc: Board of Supervisors
Executive Office

Table of Contents

	Page
Executive Summary	4
 Audit Results:	
Capital Assets	7
Cash Handling	11
Materials and Supplies	14
Non-Capital Assets	19
Records Management	21
Revenues	23

Executive Summary

Overview

Purchasing & Fleet Services Department's (Department) primary function is to provide materials and services to County Departments and agencies within the County of Riverside. The Department consists of five divisions, Purchasing, Printing, Central Mail, Fleet Services and Supply Services. The Purchasing division function operates as a general fund while the Printing, Central Mail, Fleet and Supply services are Internal Service Funds.

Purchasing involves the acquisition of equipment, furnishings, supplies, maintenance, construction, and contractual services within pre-established budgetary constraints. Other services include providing training to County departments' purchasing staff; preparing bid specifications; initiating formal quotations; proposals and bids; conducting public bid openings; evaluating bids; and awarding and administrating contracts until final completion or termination. Purchasing Services' powers and authority are defined in County Ordinance No. 459.4.

Printing Services consists of providing quality printing, copying, finishing, payroll and warrant printing, business card printing offset printing such as graphics, press, bindery and color printing to County departments.

Central Mail Services is responsible for handling the County's incoming and outgoing mail and providing daily interoffice courier services.

Fleet Services manages County's light vehicle fleet to provide reliable and safe transportation for a wide range of local government functions. Fleet Services performs various functions for County departments including purchasing vehicles, maintaining vehicles, and monitoring the use of vehicles in accordance with Board Policy.

Supply Services orders and distributes office and janitorial supplies, orders systems furniture and disposes surplus items such as retired office equipment. Specifically, Supply Services prepares office supply orders, including delivery, coordinates systems furniture orders, bulk purchases and blanket orders to reduce paperwork and cost, processes returns to vendors, coordinates warranties and repairs, maintains storage facilities, redistributes and disposes surplus property, transports records management material, and handles Connex storage rentals.

The following charts summarize the results of operations and general fund support over the past five fiscal years. The last two fiscal years were the period under audit review:

FIVE FISCAL YEAR GOVERNMENTAL FUND ANALYSIS (Dollars)			
Fiscal Year	Revenues	Expenditures	General Fund Support
FY2008/09	552,540	2,211,731	(1,659,191)
FY2009/10	551,186	1,910,900	(1,359,714)
FY2010/11	539,760	1,651,461	(1,111,701)
FY2011/12	671,641	1,512,931	(841,290)
FY2012/13	611,432	1,450,345	(838,913)
Total	2,926,559	8,737,368	(5,810,809)

FIVE FISCAL YEAR PROPRIETARY FUND ANALYSIS (Dollars)			
Fiscal Year	Revenues	Expenditures	Surplus/(Deficit)
FY2008/09	64,077,471	59,161,117	4,916,354
FY2009/10	54,085,570	50,437,302	3,648,268
FY2010/11	49,910,986	48,139,264	1,771,722
FY2011/12	49,569,512	48,345,015	1,224,497
FY2012/13	46,369,641	44,934,570	1,435,071
Total	264,013,180	251,017,268	12,995,912

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital and non-capital assets, cash handling, liabilities, materials and supplies, records management, and revenues.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to capital and non-capital assets, cash handling, materials and supplies, records management, and revenues. We determined Purchasing & Fleet Services Department has adequate internal controls over accounts/vouchers payable.

Capital Assets

Background

The Auditor-Controller Standard Practice Manual 913 *Capitalization Thresholds*, (SPM 913), defines capital assets as fixed assets and intangible assets of significant value having a utility which extends beyond the current year that are broadly classified as land, infrastructure (or, long-lived assets), buildings and improvements, equipment, livestock, and intangible assets. Capital assets include real property such as building (structures), land, and land improvements, regardless of value, as well as vehicles, machineries, and all equipment with a value of \$5,000 or more. The cost of a capital asset includes all costs necessary to place the asset in service (e.g. shipping, set-up, testing, and other ancillary costs).

SPM 913 requires all *real property* with a value of \$1 (one dollar) and all capital assets with a value of \$5,000 or more to be recorded in the PeopleSoft Asset Management Module (Asset Module). Auditor-Controller Standard Practice Manual 903, *Capital Asset Tags*, (SPM 903), requires that capital assets be tagged or marked as County property. If the County property tag will not adhere to an item because of size, shape or use of the item, the department or agency should affix the assigned number in some other manner, i.e., engraving, inscribing, stenciling, etching, or painting the number on the item itself, or labeling the box in which it is kept. The number must be affixed in some way that will ensure identification for accountability.

The responsibility for processing and maintaining an accurate record of capital assets primarily resides with the Department. Department management also have roles related to these assets, including following proper purchasing procedures when acquiring assets, properly recording the asset and value into the Asset Module and performing an annual physical inventory to account for all assets under the department head's responsibility.

As of June 30, 2013, the Department maintained 36,617 capital assets in the Asset Module, consisting of servers, equipment, vehicles, buildings, and structures, with the combined value of \$117,986,452.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over capital assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Department personnel.

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement.
- Verified appropriate levels of management review and approval.
- Selected samples of capital asset transactions to perform detailed testing.

Finding 1: Improving Capital Asset Management

Capital assets were not properly tagged and/or identified in the Asset Module. We excluded vehicles and structures from our sample and selected 30 capital assets from the Asset Module and 5 capital assets from the actual location. Based on our review, Six (17%) of the 35 capital assets selected for review either contained partial inaccurate record information or had the wrong or no asset tag attached. These inaccuracies resulted from the Department focusing on the existence of capital assets while performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Failure to properly record capital assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets.

Management's Response to the Finding

"Concur. The finding noted above is for equipment owned by Printing Services. The six items deemed not in compliance were examined and we found a Press Tek Plate Maker, a major piece of equipment which is identifiable by its description and serial number had no asset tag affixed.

We do not concur with other findings of non-compliance. We found no wrong or inaccurate information that would rise to the level of non-compliance. Serial numbers and asset tags were found. Asset descriptions are accurate. On request, detailed information can be provided.

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place."

Recommendation 1

Conduct physical inventories and update the Asset Module to ensure accuracy and completeness of asset identification information and ensure all assets are properly tagged or marked as County Property.

Management's Response

"Concur. Purchasing and Fleet Services will continue to track capital assets in the County Peoplesoft system and, for assets such as vehicles, in a department system as well. The department process has for years undertaken an annual review of fixed assets. The recommendation suggests nothing that is not already in place. If an error in a model number or serial number is found, it will be corrected.

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.”

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Auditor's Comments

Purchasing's response does not address the underlying issue of incorrect information being entered and maintained in the Asset Module. Accurate and complete information is key to timely and optimal decisions. Failure to ensure the Asset Module contains accurate information leads to inefficiency and impairs the Asset Module's effectiveness as a decision support tool.

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the Auditor-Controller's Office (ACO) in a timely manner. Our review of thirty acquisitions and thirty retirements from July 1, 2011 through June 30, 2013 disclosed documents for twenty (67%) of the thirty acquired assets were submitted for asset capitalization on average 74 days after the assets were placed in service and fifteen (97%) of the thirty retired asset from inventory were submitted 57 days after the assets was sold at auction. This occurred because the requirement to report capital asset transaction within 30 days to the ACO was not included in the Department's capital assets policies and procedures manual. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Management's Response

“**Concur.** We concur the 30 day deadline is not met. For additions, asset records are not updated until a purchase is completed. For example, a vehicle is not recorded as an asset in the County PeopleSoft system until payment is made, which is generally 30 days after a vehicle is received. For disposals, an asset record is not updated until proceeds from a sale are received or a transfer to County Surplus is completed. For example, a vehicle is not removed from the County Surplus is completed. For example, a vehicle is not removed from the County fixed asset system until the auction or scrap proceeds are received, which can be weeks or months after a vehicle is sold.

Asset accounting is on-going. Given the processes to acquire and dispose of fixed assets, a strict 30 day deadline is difficult to meet and, sometimes, not possible. We will take note of the finding and make improvements where possible.”

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 73,000**

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Recommendation 2.1

Update the capital assets policies and procedures manual to include a 30 day reporting requirement for acquisitions and retirements to the ACO.

Management's Response

"**Concur.** Purchasing and Fleet Services will update its internal policy manual to include a 30 day reporting requirement for fixed assets."

Actual/estimated Date of Corrective Action: **September 30, 2014**

Estimated cost to implement recommendation: \$ 0

Recommendation 2.2

Regularly monitor capital asset acquisition and retirements are reported to the ACO promptly after the transaction occurs.

Management's Response

"**Concur.** As noted in finding 2, Purchasing and Fleet Services will work to more promptly record fixed asset records."

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: \$ 0

Cash Handling

Background

The Department receives checks from non-County agencies for office products, auction sales, fuel, vehicle maintenance, mail delivery and postage as well as Cash received from vending machine sales. Cash receipts are recorded in PeopleSoft.

All checks received should be restrictively endorsed when received and recorded on a check log with all negotiable instruments. The check log should be maintained and reconciled to the amount deposited and recorded in PeopleSoft.

Cash deposits should be secured in office safes with limited access until picked up by armor courier services and/or delivered to the bank or delivered to the Treasurer by office personnel. In outlying areas, funds are deposited directly into a County Consolidated Zero Balance Account (ZBA). The bank debits the ZBA for the amount of the deposit and transmits a credit for the amount to the Office of the Treasurer-Tax Collector.

The Auditor-Controller's Standard Practice Manual 705 *Receiving Payments Deposits of Monies and Applying Payments*, (SPM 705), indicates "at the close of each business day, monies collected must be reconciled to the receipts issued and then deposited in the Treasury, or an authorized ZBA, or secured per an authorized daily deposit exemption. If the business day ends after the deadline for making Treasury deposits, the cash collected must be secured in a locked facility and deposited the next business day."

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over cash handling.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walkthroughs with office personnel.
- Utilized PeopleSoft queries to identify the volume, location, and frequency of cash receipt.
- Verified appropriate levels of management review and approval.
- Selected samples of deposits to perform detailed testing.
- Verified safeguarding of cash.

Finding 3: Adherence to Daily Deposit Requirement

The department did not post and/or deposit checks in a timely manner nor obtain a daily deposit exemption with the Auditor-Controller's Office. Our review of 47 deposits disclosed 35 (74.4%) were not deposited and/or posted in a timely manner. These late submissions resulted from the Department holding checks until they reached \$5,000 in the aggregate rather than depositing checks when received. Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks. The areas noted included:

- 7 of 47 (14.8%) checks deposited late;
- 1 of 47 (2.1%) check posted late; and
- 10 of 47 (21.2%) checks posted and deposited late.

Subsequent to our fieldwork, the department has obtained an approval for a daily deposit exemption that allows the department to make deposits to the Office of the Treasurer-Tax Collector when there is more than \$5,000 or every two weeks, whichever comes first. Since the department has obtained approval for daily deposit exemption, no recommendation is required.

Management's Response

"Concur. Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013."

Actual/estimated Date of Corrective Action: **December 17, 2013**

Estimated cost to implement recommendation: \$ 0

Finding 4: Restrictively Endorsing Checks

Our review of internal controls revealed that cash handling staff did not restrictively endorse checks or record checks in a check log upon receipt. This occurred because Management was concerned that the receptionist receiving mail could not determine whether checks belong to the Department or perform research to determine where check should go. The Department's accounting personnel restrictively endorse checks and enter checks into a check log when forwarded from the receptionist. However, failure to restrictively endorse checks and record checks in a check log upon receipt may result in fraudulent activity with unauthorized cashing of a check.

Subsequent to our completion of fieldwork, the receptionist obtained an endorsement stamp and check log and is currently restrictively endorsing checks upon receipt and recording checks in a check log. Since the department made immediate changes, no recommendation is required.

Management's Response

"Concur. Purchasing and Fleet Services modified its cash handling process on October 31, 2013 to have a receptionist endorse checks when mail is opened."

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

Actual/estimated Date of Corrective Action: **October 31, 2013**

Estimated cost to implement recommendation: **\$ 0**

Materials and Supplies

Background

Supply Services manage materials and supplies for the County. Supply Services completes office supply orders (including delivery), coordinates systems furniture orders, processes bulk purchases and blanket orders to reduce paperwork and cost, processes returns to vendors, coordinates warranties and repairs, maintains storage facilities, redistributes and disposes surplus property, transports records management materials, and manages Connex storage rentals.

Purchases of materials and supplies are requested through the web store on the County's intranet. A search can be accomplished by description, category, or product ID. Departments submit an Access Request Form Number 116-425 for an Identification number and password. Orders placed through the web store create a pick ticket in the warehouse. A Supply Services employee receives the pick ticket and pulls the item(s) from stock. A mini laptop is used to scan bar codes of the item pick to update records in the Compiere Warehouse Management System database.

Some stock items have a shelf life assigned by the manufacturer. When a shelf life item is purchased, Supply Services staff selects the oldest items first for issue. The Compiere Warehouse Management System database can prepare a shelf-life item list that can be used for shelf-life management.

Demand levels are established for items with high turnover rates. Supply Services staff utilized past experience and knowledge of item usage to create demand levels. Although this is an acceptable method for establishing demand levels, Supply Services Management should work with Information Technology staff on developing a report from the Compiere Warehouse Management System database that would identify the highly used items and their annual usage rates.

Demand levels are reviewed annually to determine if changes or additions are required. A Replenishment Report from the Compiere Warehouse Management System is used to determine what items require reordering. Free shipment of items is utilized during the reordering process. Some vendors provide free shipment if orders reach a certain dollar amount. In these cases, items may need to be reordered but the total dollar amount has not reached the amount for free shipment, Supply Services staff review the list to see if the vendor has any other items close to the reordering level so it can be included in the request to get free shipping.

A complete physical inventory of all materials and supplies is accomplished at year-end to update the materials and supplies inventory value. The adjusting ending inventory value is provided to the Auditor-Controller's Office for financial reporting purposes. Cycle inventory counts are performed on a monthly and quarterly basis. A portion of inventory is physically counted to

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

reconcile any differences that occur between the physical on-hand balance and the recorded system balance.

Supply Services staff utilizes a Usage Report from the Compiere Warehouse Management System to determine what items to surplus and what items to discount for customers. Supply Services staff process surplus property as a method of transferring materials from one department to another or for final disposition through sale at public auction or to scrap. Transferring surplus property to other departments is always the first option with sales through public auction the second option. Sales through public auction are accomplished by selling items in place or through open bidding to the public through use of an auctioneer.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over materials and supplies inventory.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures performed by Supply Services personnel.
- Identified and reviewed laws, codes, and regulations, BOS' ordinances, applicable policies and procedures.
- Obtained and understood policies and procedures regarding materials and supplies.
- Performed tests to ensure internal controls were adequate over materials and supplies.

Finding 5: Materials and Supplies Accountability

A high percentage of Materials and supplies line items required adjustments. Inventory for Fiscal Year 2011/12 consisted of 897 line items of which 348 (38.7%) required adjustments and inventory for Fiscal Year 2012/13 consisted of 775 line items of which 191 (24.6%) required adjustments. Management identified several reasons for adjustments, such as, unit of issue changes, processing errors, miss-shipments, surplus adjustments, etc. Maintaining inaccurate inventory balances may result in unnecessary purchases, overages, shortages, obsolescence of stock, or mask inventory shrinkage.

Management's Response

"Do Not Concur. We do not concur that Supply Services required a high-level of adjustments to correct inaccurate inventory levels. In fact, there are few adjustments to correct inaccurate

counts or to adjust for obsolescence stock. Supply Services does make adjustments for a variety of reasons but these adjustments are not to correct errors. Examples are:

- Conversion of unit of measure (e.g. buy as a box and sell as each)
- Surplus product adjusted into inventory for sale
- Movements of product from one location to another
- Freight cost adjustments
- Storage container adjustments
- Equipment service adjustments
- In-house use of product
- Zero quantity adjustments for transactions not completed and which should not be completed

Recent fiscal year end inventory adjustments are as follows: in FY 2012 adjustments to 12 of 421 items increased inventory value by \$764; in FY 2013 adjustments to 11 of 478 items increased the inventory value by \$323."

Recommendation 5

Ensure personnel pay close attention to detail when issuing items out of stock and processing warehouse transactions.

Management's Response

"**Concur.** To the best of our knowledge, Supply Services staff is paying close attention to detail. Staff accuracy is supported by a low error rate in fulfilling orders for millions of dollars of office products and system furniture each year.

As noted above, inventory management is dynamic and may require frequent adjustments for a variety of reasons. If there are errors, management is eager to address such issues.

Supply Services will continue with its current business practices of making necessary adjustments"

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: \$ 0

Auditor's Comments

Purchasing's response does not address the issue regarding the high rate of inventoried items requiring adjustments occurring during the year. The high percentages of adjustments indicate that the inventory control environment is not adjusted to ensure the errors are not allowed to continue.

Finding 6: Managing Materials and Supplies Inventory

The Department did not properly manage the shelf-life inventory. Our review of 17 shelf-life line items disclosed 12 (71%) of the line items contained issues with the record. This resulted from staff relying on their knowledge of shelf-life of items instead of using actual expiration dates from the manufacturer. Inaccuracies in the shelf-life items may result in obsolescence of inventory. The areas noted included:

- 9 of 17 (52.9%) shelf-life items had a manufacturer's date but no expiration date;
- 2 of 17 (11.7%) shelf-life items did not have a manufacturer or expiration date; and
- 1 of 17 (5.8%) marked as shelf-life item but, manufacturer stated item does not expire.

Management's Response

"Concur. As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items."

Recommendation 6.1

Determine whether stock items qualify as shelf-life items. For items without expiration dates contact vendor for expiration date and use permanent marker to record expiration date on each item.

Management's Response

"Concur. As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items."

Recommendation 6.2

Physically inspect all shelf-life items and verify that the items are labeled with the correct expiration date and ensure items with the shortest expiration date are located in the front of the shelves. Also, identify all items mistakenly marked as shelf-life items and update the stock record to remove the item from the stock replenishment list.

Management's Response

"Concur. Expiration dated items will be identified by placing a label at the product location. The suggestion to keep or store all expiration dated items in one location is not feasible and is not good business practice. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily."

Recommendation 6.3

Mark warehouse location to identify items as shelf-life items to ensure all staff members are aware that the item is a shelf-life item that requires issuing the oldest items first.

Management's Response

"Concur. Expiration dated items will be identified by placing a label at the product location. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily."

Actual/estimated Date of Corrective Action: **September 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Non-Capital Assets

Background

Board of Supervisor's Policy Number H-26, *Non-Capitalized Asset Management*, (Policy H-26), defines non-capitalized "walk-away" assets as assets which are small, mobile, easily converted for personal use and have a fair market value of \$200 or more and an acquisition cost of less than \$5,000 (over \$5,000 are classified as capital assets). Examples include, but are not limited to laptops, personal digital assistants (PDAs), global positioning system (GPS) receivers, and cell phones. Departments are required to track walk-away assets through the PeopleSoft Asset Management Module (Asset Module), or another established system, if reviewed and approved by the Auditor-Controller.

The Department' non-capital assets included twelve laptops worth \$7,405, Seventeen GPS tracking devices worth \$6,543, four cell phones worth \$1,001, and three iPads worth \$2,433, for a total of 36 non-capital assets worth \$17,382 recorded in the Asset Module.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over non-capital walk-away assets.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed policies, applicable laws, codes, regulations, and board ordinances.
- Conducted interviews and performed walk-throughs with Department personnel.
- Utilized PeopleSoft queries to identify the quantity, locations, and capital asset movement.

Finding 7: Management of Non-Capital Walk-Away Asset Records

Non-capital walk-away assets did not agree with detail recorded in the Asset Module. Our review of 18 non-capital asset records disclosed that five (27.7%) contained inaccurate information. The errors resulted from the office focusing on the existence of non-capital walk-away assets when performing their annual inventory rather than validating the accuracy of records regarding model and serial numbers. Failure to properly record non-capital walk-away assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets. In addition, inaccurate, missing, and conflicting information creates an operating environment that may mask waste or theft.

Management's Response

"Concur. We concur that walk-away asset records are not 100% accurate. The department does validate walk-away assets annually, and records maintained are accurate enough to identify if any assets are missing."

Recommendation 7.1

Perform a physical inventory of non-capital walk-away assets comparing the physical assets to accounting records and ensure all non-capital assets are properly identified in the Asset Module.

Management's Response

"Concur. Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so."

Recommendation 7.2

Routinely monitor accuracy of new walk-away asset detail recorded in the Asset Module.

Management's Response

"Concur. Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so."

Actual/estimated Date of Corrective Action: **June 30, 2014**

Estimated cost to implement recommendation: **\$ 0**

Records Management

Background

Board of Supervisors Policy A-43, *County Records Management and Archives Policy*, (Policy A-43), Section D.5 *Records Retention Schedules – Standard – Retention Period*, indicates “retention periods on Board approved records retention schedules are mandatory, and records shall be disposed of in accordance with those approved retention periods.” All County Departments must adhere to the Countywide General Records Retention Schedule (GRRS_2012_Rev07, GRRS_2011_Rev06, and GRS2010_Rev05) if they do not have a departmental records retention schedule approved by the Board of Supervisors.

The Departments’ sensitive information consists of personnel data; therefore, they adhere to the approved GRRS for this and other common County-wide records. In addition, the Department does not have their own Departmental Records Retention Schedules (DRRS) approved by the Board of Supervisors for documents requiring unique disposition.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over records retention management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of office personnel.
- Identified and reviewed laws, codes, and regulations, Board of Supervisors’ ordinances, applicable policies, and procedures.
- Obtained and understood policy and procedures regarding records retention management.
- Performed testing to ensure internal controls were adequate over records retention.

Finding 8: Record Destruction Approval

The Department did not submit a Records Management and Archives Policy (RMAP) Form 691 designating an individual or individual’s responsibility for implementing County retention procedures. In addition, the department did not obtain proper approval for records destruction by submitting RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) to RMAP. The Department could not provide documentation to support the destruction of FY05/06 account payables, account receivables, and FY 04/05 contracts/agreements files. This was the result of Department’s unfamiliarity with the requirement to complete a RMAP form 691, authorizing an

Internal Audit Report 2014-005: Purchasing & Fleet Services Department

individual for approving destruction requests with RMAP or the requirement to submit RMAP Form 652 or 784 for destruction of documents requests. Improperly destroying documentation without the proper approvals may hinder the availability and accessibility of documents in accordance with applicable law.

Subsequent to completion of fieldwork, the department has submitted and has had approved RMAP form 691 authorizing staff to manage the records for the department.

Management's Response

"**Concur.** A Form 691 was not obtained. However, all fiscal records were maintained according to County General Records Retention Schedule."

Recommendation 8

Prepare and submit a RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) with the proper approvals for all future record destruction requests.

Management's Response

"**Concur.** Purchasing and Fleet Services will prepare these forms."

Actual/estimated Date of Corrective Action: **July 18, 2014**

Estimated cost to implement recommendation: **\$ 0**

Revenues

Background

The Department generates revenue from several sources that requires billing for services. Auditor-Controller Standard Practice Manual 704 *Billing*, (SPM 704), states, at minimum, departments should bill on a monthly basis. The Department's centralized accounts receivable unit bills on a monthly basis for its five divisions; Purchasing, Fleet Services, Printing Services, Supply Services, and Central Mail.

Each division prepares its billing, which is forwarded to Accounts Receivable (AR). Purchasing Division utilizes a manual billing process, while the other four divisions rely on billing databases to automate the process. AR uses the PSJE (PeopleSoft Journal Entry) database to download billing data from the division's databases to generate the journal entry.

AR unit mails billing statements to departments. However, some divisions also mail invoices to their customer. In these cases, AR unit attaches a copy of the invoices to the billing statement to eliminate any confusion of customers and double payment. Invoices are also prepared for other government entities on a monthly basis from PeopleSoft. The invoice and supporting documentation are mailed to the other government entities and 30 days is given for payment.

AR unit reviews the aging report to ensure receivables over 30 days past due are identified. For invoices over 30 days past due, a second invoice stamped "Past Due" is sent. If payment is not received in 2 weeks, the AR unit calls the customer for payment. This system has minimized non-payment.

Credit memos are used to correct billing errors. Example of billing errors include, the Sheriff charging a Jurupa vehicle for fueling instead of a Sheriff vehicle. A credit memo is used to correct billing errors. All credit memos are approved by the AR unit supervisor.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over revenue management.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and observed operating procedures of accounting personnel.
- Identified and reviewed laws, codes, and regulations, Board of Supervisors' ordinances, applicable policies and procedures.
- Obtained and understood policy and procedures regarding revenue management.

- Performed testing to ensure internal controls were adequate over revenues.

Finding 9: Reconciliation of Receivables Aging Report

A complete reconciliation between the accounts receivable aging subsidiary ledger and general ledger was not accomplished. The aging report identified a total receivable balance of \$237,637 while the general ledger reported a total balance of \$347,094 for the Department resulting in an un-reconciled variance of \$109,457. The variance arose from the 2001 PeopleSoft implementation issues, Central Mail changing from governmental to proprietary fund accounting and irregular reconciliation of accounts receivable subsidiary ledger records to the general ledger amount. While the department reconciled \$25,578 of the \$109,457 variance, the remaining un-reconciled variance of \$83,879 still needs to be investigated. Receivables left unmonitored may result in bad debt and the attending loss of cash resources.

Management's Response

“Concur. Errors created during the 2002 system change from RIFMIS to Peoplesoft continue to be carried-forward in an aging report but not for lack of effort to correct the problem. Fleet Services uses Peoplesoft accounts receivable to track fuel sales to non-county agencies. To the best of our knowledge, Fleet Services has collected for all fuel sales made prior to 2002. The issue is actually one for the RCIT team to resolve as Fleet Services does not have the authorization or means to correct the problem.

As Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.”

Recommendation 9

Perform a full Reconciliation of the aging report to the general ledger for all department receivables on a monthly basis and seek a discharge of accountability for uncollectable accounts.


Management's Response

“Concur. Fleet Services will continue to reconcile accounts receivable monthly. As for the Peoplesoft aging report, we don't use it. If a receivable for a non-County entity is not collected for the current billing period, we work with that agency to resolve the issue or cut off access to fuel. We are not aware of an instance where a non-county agency has failed to pay for fuel.

Again, as Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.”

Actual/estimated Date of Corrective Action: **None Provided**

Estimated cost to implement recommendation: \$ 0

DATE: June 30, 2014
TO: Auditor-Controller's Office
Audits and Specialized Accounting Division
FROM: Robert Howdysshell, Director 
SUBJECT: Reply to Draft Audit Report [2014-005]

Finding 1: Improving Capital Asset Management

Capital assets were not properly tagged and/or identified in the Asset Module. We excluded vehicles and structures from our sample and selected 30 capital assets from the Asset Module and 5 capital assets from the actual location. Based on our review, Six (17%) of the 35 capital assets selected for review either contained partial inaccurate record information or had the wrong or no asset tag attached. These inaccuracies resulted from the Department focusing on the existence of capital assets while performing their annual inventory rather than validating the fixed asset tag or accuracy of records. Failure to properly record capital assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets.

Management position concerning the recommendation: Concur

Comments:

The finding noted above is for equipment owned by Printing Services. The six items deemed not in compliance were examined and we found a Press Tek Plate Maker, a major piece of equipment which is identifiable by its description and serial number had no asset tag affixed.

We do not concur with other findings of non-compliance. We found no wrong or inaccurate information that would rise to the level of non-compliance. Serial numbers and asset tags were found. Asset descriptions are accurate. On request, detailed information can be provided.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.

Estimated cost to implement recommendation (if material): \$ 0.00

Recommendation 1

Conduct physical inventories and update the Asset Module to ensure accuracy and completeness of asset identification information and ensure all assets are properly tagged or marked as County Property.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will continue to track capital assets in the County Peoplesoft system and, for assets such as vehicles, in a department system as well. The department process has for years undertaken an annual review of fixed assets. The recommendation suggests nothing that is not already in place. If an error in a model number or serial number is found, it will be corrected.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. There is no specific corrective action to take that is in addition to processes currently in place.

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 2: Timely Reporting of Capital Assets

Capital asset acquisitions and retirements were not reported to the Auditor-Controller's Office (ACO) in a timely manner. Our review of thirty acquisitions and thirty retirements from July 1, 2011 through June 30, 2013 disclosed documents for twenty (67%) of the thirty acquired assets were submitted for asset capitalization on average 74 days after the assets were placed in service and fifteen (97%) of the thirty retired asset from inventory were submitted 57 days after the assets was sold at auction. This occurred because the requirement to report capital asset transaction within 30 days to the ACO was not included in the Department's capital assets policies and procedures manual. Reporting the acquisition or retirement of capital assets in an untimely manner may result in loss of control over assets and/or misstating the value of capital assets.

Management position concerning the recommendation: Concur

Comments:

We concur the 30 day deadline is not met. For additions, asset records are not updated until a purchase is completed. For example, a vehicle is not recorded as an asset in the County Peoplesoft system until payment is made, which is generally 30 days after a vehicle is received. For disposals, an asset record is

not updated until proceeds from a sale are received or a transfer to County Surplus is completed. For example, a vehicle is not removed from the County fixed asset system until auction or scrap proceeds are received, which can be weeks or months after a vehicle is sold.

Actual/estimated Date of Corrective Action: June 30, 2014

Asset accounting is on-going. Given the processes to acquire and dispose of fixed assets, a strict 30 day deadline is difficult to meet and, sometimes, not possible. We will take note of the finding and make improvements where possible.

Estimated cost to implement recommendation (If material): \$ 73,000

Recommendation 2.1

Update the capital assets policies and procedures manual to include a 30 day reporting requirement for acquisitions and retirements to the ACO.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will update its internal policy manual to include a 30 day reporting requirement for fixed assets.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 2.2

Regularly monitor capital asset acquisition and retirements are reported to the ACO promptly after the transaction occurs.

Management position concerning the recommendation: Concur

Comments:

As noted in finding 2, Purchasing and Fleet Services will work to more promptly record fixed asset records.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 3: Adherence to Daily Deposit Requirement

The department did not post and/or deposit checks in a timely manner nor obtain a daily deposit exemption with the Auditor-Controller's Office. Our review of 47 deposits disclosed 35 (74.4%) were not deposited and/or posted in a timely manner. These late submissions resulted from the Department holding checks until they reached \$5,000 in the aggregate rather than depositing checks when received. Depositing checks in an untimely manner may result in lost interest and/or lost or stolen checks. The areas noted included:

7 of 47 (14.8%) checks deposited late;
1 of 47 (2.1%) check posted late; and
10 of 47 (21.2%) checks posted and deposited late.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013

Actual/estimated Date of Corrective Action: December 17, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 3

Subsequent to our fieldwork, the department has obtained an approval for a daily deposit exemption that allows the department to make deposits to the Office of the Treasurer-Tax Collector when there is more than \$5,000 or every two weeks, whichever comes first. Since the department has obtained approval for daily deposit exemption, no recommendation is required.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services received Auditor-Controller approval of a Daily Cash Deposit Exemption Request on December 17, 2013.

Actual/estimated Date of Corrective Action: December 17, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 4: Restrictively Endorsing Checks

Our review of internal controls revealed that cash handling staff did not restrictively endorse checks or record checks in a check log upon receipt. This occurred because Management was concerned that the receptionist receiving mail could not determine whether checks belong to the Department or perform research to determine where check should go. The Department's accounting personnel restrictively endorse checks and enter checks into a check log when forwarded from the receptionist. However, failure to restrictively endorse checks and record checks in a check log upon receipt may result in fraudulent activity with unauthorized cashing of a check.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services modified its cash handling process on October 31, 2013 to have a receptionist endorse checks when mail is opened.

Actual/estimated Date of Corrective Action: October 31, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 4

Subsequent to our completion of fieldwork, the receptionist obtained an endorsement stamp and check log and is currently restrictively endorsing checks upon receipt and recording checks in a check log. Since the department made immediate changes, no recommendation is required.

Management position concerning the recommendation: Concur

Comments:

Process change is in place as of October 31, 2013.

Actual/estimated Date of Corrective Action: October 31, 2013

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 5: Materials and Supplies Accountability

A high percentage of Materials and supplies line items required adjustments. Inventory for Fiscal Year 2011/12 consisted of 897 line items of which 348 (38.7%) required adjustments and inventory for Fiscal Year 2012/13 consisted of 775 line items of which 191 (24.6%) required adjustments. Management identified several reasons for adjustments, such as, unit of issue changes, processing errors, miss-shipments, surplus adjustments, etc. Maintaining inaccurate inventory balances may result in unnecessary purchases, overages, shortages, obsolescence of stock, or mask inventory shrinkage.

Management position concerning the recommendation: Do Not Concur

Comments:

We do not concur that Supply Services required a high-level of adjustments to correct inaccurate inventory levels. In fact, there are few adjustments to correct inaccurate counts or to adjust for obsolescence stock. Supply Services does make adjustments for a variety of reasons but these adjustments are not to correct errors. Examples are:

- Conversion of unit of measure (e.g. buy as a box and sell as each)
- Surplus product adjusted into inventory for sale
- Movements of product from one location to another
- Freight cost adjustments
- Storage container adjustments
- Equipment service adjustments
- In-house use of product

- Zero quantity adjustments for transactions not completed and which should not be completed

Recent fiscal year end inventory adjustments are as follows: in FY 2012 adjustments to 12 of 421 items increased inventory value by \$764; in FY 2013 adjustments to 11 of 478 items increased inventory value by \$232; and in FY 2014 adjustments to 6 of 488 items increased the inventory value by \$323.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 5

Ensure personnel pay close attention to detail when issuing items out of stock and processing warehouse transactions.

Management position concerning the recommendation: Concur

Comments:

To the best of our knowledge, Supply Services staff is paying close attention to detail. Staff accuracy is supported by a low error rate in fulfilling orders for millions of dollars of office products and system furniture each year.

As noted above, inventory management is dynamic and may require frequent adjustments for a variety of reasons. If there are errors, management is eager to address such issues

Actual/estimated Date of Corrective Action: June 30, 2014

Supply Services will continue with its current business practices of making necessary adjustments to inventory.

Estimated cost to implement recommendation-(If material): \$ 0.00

Finding 6: Managing Materials and Supplies Inventory

The Department did not properly manage the shelf-life inventory. Our review of 17 shelf-life line items disclosed 12 (71%) of the line items contained issues with the record. This resulted from staff relying on their knowledge of shelf-life of items instead of using actual expiration dates from

the manufacturer. Inaccuracies in the shelf-life items may result in obsolescence of inventory. The areas noted included:

- 4 of 24 (16.6%) quantities were not correct;
- 9 of 17 (52.9%) shelf-life items had a manufacturer's date but no expiration date;
- 2 of 17 (11.7%) shelf-life items did not have a manufacturer or expiration date; and
- 1 of 17 (5.8%) marked as shelf-life item but, manufacturer stated item does not expire.

Management position concerning the recommendation: Concur

Comments:

As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 6.1

Determine whether stock items qualify as shelf-life items. For items without expiration dates contact vendor for expiration date and use permanent marker to record expiration date on each item.

Management position concerning the recommendation: Concur

Comments:

As an on-going process, Supply Services will work with vendors to obtain expiration dates for products that are shelf-life items.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 6.2

Physically inspect all shelf-life items and verify that the items are labeled with the correct expiration date and ensure items with the shortest expiration date are located in the front of the

shelves. Also, identify all items mistakenly marked as shelf-life items and update the stock record to remove the item from the stock replenishment list.

Management position concerning the recommendation: Concur

Comments:

Expiration dated items will be identified by placing a label at the product location. The suggestion to keep or store all expiration dated items in one location is not feasible and is not good business practice. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle counted daily

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 6.3

Mark warehouse location to identify items as shelf-life items to ensure all staff members are aware that the item is a shelf-life item that requires issuing the oldest items first.

Management position concerning the recommendation: Concur

Comments:

Expiration dated items will be identified by placing a label at the product location. Expiration dated items will be reviewed during cycle counts. Most inventory items are cycle-counted daily.

Actual/estimated Date of Corrective Action: September 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 7: Management of Non-Capital Walk-Away Asset Records

Non-capital walk-away assets did not agree with detail recorded in the Asset Module. Our review of 18 non-capital asset records disclosed that five (27.7%) contained inaccurate information. The errors resulted from the office focusing on the existence of non-capital walk-away assets when performing their annual inventory rather than validating the accuracy of

records regarding model and serial numbers. Failure to properly record non-capital walk-away assets in the Asset Module may negatively affect the process of identifying, controlling, and valuing County assets. In addition, inaccurate, missing, and conflicting information creates an operating environment that may mask waste or theft.

Management position concerning the recommendation: Concur

Comments:

We concur that walk-away asset records are not 100% accurate. The department does validate walk-away assets annually, and records maintained are accurate enough to identify if any assets are missing.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 7.1

Perform a physical inventory of non-capital walk-away assets comparing the physical assets to accounting records and ensure all non-capital assets are properly identified in the Asset Module.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 7.2

Routinely monitor accuracy of new walk-away asset detail recorded in the Asset Module.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Service does an annual inventory of walk-away assets and will continue to do so.

Actual/estimated Date of Corrective Action: June 30, 2014

Estimated cost to implement recommendation (If material): \$ 0.00

Finding 8: Record Destruction Approval

The Department did not submit a Records Management and Archives Policy (RMAP) Form 691 designating an individual or individual's responsibility for implementing County retention procedures. In addition, the department did not obtain proper approval for records destruction by submitting RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) to RMAP. The Department could not provide documentation to support the destruction of FY05/06 account payables, account receivables, and FY 04/05 contracts/agreements files. This was the result of Department's unfamiliarity with the requirement to complete a RMAP form 691, authorizing an individual for approving destruction requests with RMAP or the requirement to submit RMAP Form 652 or 784 for destruction of documents requests. Improperly destroying documentation without the proper approvals may hinder the availability and accessibility of documents in accordance with applicable law.

Subsequent to completion of fieldwork, the department has submitted and has had approved RMAP form 691 authorizing staff to manage the records for the department.

Management position concerning the recommendation: Concur

Comments:

A Form 691 was not obtained. However, all fiscal records were maintained according to County General Records Retention Schedule.

Actual/estimated Date of Corrective Action: July 18, 2014

[Click here to comment if necessary to clarify what action the timing refers to.](#)

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 8

Prepare and submit a RMAP Form 652 (Records Disposition Certificate) or RMAP Form 784 (Records Disposition Certificate - County Depts. Shred Only) with the proper approvals for all future record destruction requests.

Management position concerning the recommendation: Concur

Comments:

Purchasing and Fleet Services will prepare these forms.

Actual/estimated Date of Corrective Action: July 18, 2014

Estimated cost to implement recommendation (if material): \$ 0.00

Finding 9: Reconciliation of Receivables Aging Report

A complete reconciliation between the accounts receivable aging subsidiary ledger and general ledger was not accomplished. The aging report identified a total receivable balance of \$237,637 while the general ledger reported a total balance of \$347,094 for the Department resulting in an un-reconciled variance of \$109,457. The variance arose from the 2001 PeopleSoft implementation issues, Central Mail changing from governmental to proprietary fund accounting and irregular reconciliation of accounts receivable subsidiary ledger records to the general ledger amount. While the department reconciled \$25,578 of the \$109,457 variance, the remaining un-reconciled variance of \$83,879 still needs to be investigated. Receivables left unmonitored may result in bad debt and the attending loss of cash resources.

Management position concerning the recommendation: Concur

Comments:

Errors created during the 2002 system change from RIFMIS to Peoplesoft continue to be carried-forward in an aging report but not for lack of effort to correct the problem. Fleet Services uses Peoplesoft accounts receivable to track fuel sales to non-county agencies. To the best of our knowledge, Fleet Services has collected for all fuel sales made prior to 2002. The issue is with the AR aging balances in Peoplesoft, which are wrong. This issue is actually one for the RCIT team to resolve as Fleet Services does not have the authorization or means to correct the problem.

Actual/estimated Date of Corrective Action: [Click here to enter a date.](#)

As Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.

Estimated cost to implement recommendation (If material): \$ 0.00

Recommendation 9

Perform a full Reconciliation of the aging report to the general ledger for all department receivables on a monthly basis and seek a discharge of accountability for uncollectable accounts.

Management position concerning the recommendation: Concur

Comments:

Fleet Services will continue to reconcile accounts receivable monthly. As for the Peoplesoft aging report, we don't use it. If a receivable for a non-County entity is not collected for the current billing period, we work with that agency to resolve the issue or cut off access to fuel. We are not aware of an instance where a non-county agency has failed to pay for fuel.

Actual/estimated Date of Corrective Action: Click here to enter a date.

Again, as Fleet Services has no control over aging balances carried forward in the Peoplesoft AR module, we cannot provide a date of corrective action.

Estimated cost to implement recommendation (If material): \$ 0.00