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INTERNAL AUDIT DIVISION

***FINAL REPORT - Countywide Departmental
Accountable Equipment Audit***

Report Number : 2011-008

March 31, 2011

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COBB COUNTY INTERNAL AUDIT

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Division Manager

March 31, 2011

MEMORANDUM TO COUNTY MANAGER

FROM: Latona Thomas, CPA, Manager *LT*

SUBJECT: FINAL REPORT - Countywide Departmental Accountable Equipment Audit

This report presents the results of our countywide departmental accountable equipment audit for the period October 2004 through April 2009. The objective of our audit was to determine if controls are adequate to ensure a complete and accurate list of accountable equipment is maintained.

Executive Summary

The results of our audit procedures revealed that improvements are needed to ensure accurate accountable equipment lists are maintained at the department level. Such improvements include:

- Countywide guidelines are needed to ensure departments understand the true definition of an accountable equipment item and what items should be captured and maintained on its department list.
- Written department procedures need to be developed or updated.
- Perpetual inventory records should be maintained, and a physical inventory should be taken at least annually and reconciled to the perpetual accountable equipment list. Any discrepancies noted should be researched and resolved.
- Accountable equipment items need to be tagged at the department level on a consistent basis.
- All transfers and disposition(s) need to be properly documented and maintained.

We were unable to determine the overall completeness of each department's accountable equipment list due to technical difficulties encountered with the internal report writing tool. An initial report was written to obtain each department's accountable equipment additions for the audit period; however, it was discovered that the report was unable to pull the information from the County's financial system in the specific format needed.

After several attempts to resolve the issue, we deviated from the intended scope and proceeded accordingly. As of the date of this report, Information Services was unable to fix the looping problem associated with the report. The issue will be forwarded to the external vendor for additional guidance in the future. In the meantime, other reports are available for use by departments.

Recommendations

We made several recommendations to address the overall improvements needed. Following is a summary of our recommendations:

- Clarify the responsibilities of Finance and other departments regarding accountable equipment.
- Develop a countywide policy to address the attributes of an effective control activity.
- Improve and clarify tracking and accountability expectations.
- Develop a standard accountable equipment format to include critical data elements needed.

Response

The County Manager has agreed with all the fifteen recommendations presented in the report. The complete responses and plan of action is included in Appendix VI.

Copies of this report are being sent to the persons and departments affected by the report recommendations. Please contact me at (770) 528-2559, if you have questions, or Miranda Wang at (770) 528-2557.

Background

Prior to 1994, the Finance Department captured all fixed asset and accountable equipment¹ purchases for inclusion in its fixed asset system; however, in 1994, the County Manager separated the responsibilities. Beginning with Fiscal Year 2005, each department is now responsible for maintaining an accurate list of accountable equipment items. Finance's responsibility rests with maintaining fixed assets only. Elected officials were also encouraged to follow the new procedure of maintaining its own list of accountable equipment.

In March 2001, the Board of Commissioners accepted a recommendation from the County's external auditors to increase the capitalization of fixed assets from \$500.00 to \$4,999.99, effective beginning Fiscal Year 2002. As such, departments were instructed to include all items with a unit price of less than \$5,000.00 on their respective accountable equipment lists. To assist departments with the new process, the Finance Department provided a revised list of all accountable equipment items to use as a starting point. Since the new process began, Finance's fixed asset staff sends each department a list of new purchases coded to object code series 84xx and 86xx, with a unit cost less than \$4,999.99, as a courtesy. This courtesy list only represents a portion of accountable equipment purchased each year and should be handled accordingly.

For budgeting purposes, accountable equipment may be considered an operating or capital item. Operating accountable equipment is a non-consumable item with a unit cost of less than \$500.00, with a useful life of one or more years. These items are charged to the 62xx series object codes². Capital accountable equipment are items with a unit cost between \$500.00 and \$4,999.99 and are charged to the 84xx and 86xx series object codes.

In addition, paragraph 11.0 of the September 23, 2008, Policy on Contract Management, as amended, states 'Items costing less than \$5,000.00 which are designated either as capital outlay items (expense account #8000) or accountable equipment items (expense account #6258) shall be accounted for in an inventory of such items by the department making the purchase.'

Most departments maintain and use their own accountable equipment as purchased within their approved budget. There are a few departments, primarily Property Management, Information Services, 800 MHz, etc., whose budgets are charged for items located in, maintained, and/or used by other departments. For example, Property Management purchases property and equipment for departments through their construction project fund; Information Services purchases computer equipment for departments; and 800 MHz purchases radios and telephones for various departments.

¹ Accountable equipment is a non-consumable, movable item with a useful life of one or more years.

² An object code is a four-digit code used to describe an expenditure account (see the Account Dictionary published by the Finance Department for appropriate transaction coding).

A countywide procedure for the disposition of surplus³ property (excluding real property), requires departments to send all surplus items accompanied by a 'Surplus Property Disposition Form-CCP7' to the Purchasing Department.

³ A personal property that has reached the end of useful life cycle.

Results of Review

The results of our audit procedures revealed that improvements are needed to ensure accurate accountable equipment lists are maintained at the department level. We noted that 23 of the 32 departments audited had some form of written departmental procedures, and 30 departments maintained some form of an accountable equipment list. The majority of the departmental procedures were lacking one or more attributes of an effective control activity for accountable equipment. Those attributes include the receipt, recording, tagging, addition, transfer, disposal, and surplus of the accountable equipment items. The remaining departments, without written procedures, had a verbal understanding or believed separate procedures were not required since they worked in conjunction with other departments. The two departments who did not provide a list indicated they had just begun to maintain a list.

Although we were unable to determine the overall completeness of each department's accountable equipment list due to technical difficulties encountered with the internal report writing tool, our limited procedures revealed improvements are needed to ensure complete lists are maintained at the department level.

Overall Improvements are Needed

We noted that overall improvements are needed in the following areas:

- Countywide guidelines/clarification of responsibilities and requirements;
- Tracking and accountability of accountable equipment items;
- Physical inventory and reconciliation of accountable equipment items;
- Tagging of accountable equipment items;
- Purchases and transfers within departments;
- Disposition and surplus of accountable equipment items; and
- Segregation of duties.

Clarification of responsibilities needed

Our audit revealed a misunderstanding regarding the responsibilities of accountable equipment. While most departments understand their responsibility of maintaining an accountable equipment list, we noted that some misunderstood the Finance Department's role in the process. As stated in the Background section, since the fixed asset threshold increased to \$5,000.00, the Finance Department has been compiling a list of accountable equipment items with a unit cost between \$500.00 and \$4,999.99 as charged to the 84xx and 86xx series object codes.

Each year, the fixed asset staff of Finance sends this courtesy list to each department to be used as a reference. This list from Finance does not include any accountable equipment items with a unit cost less than \$500.00 or that may have been posted to other object codes. In addition, every three years, the fixed asset staff visits each department and performs a physical inventory of select items, mostly large furniture and computer equipment. During this visit, the fixed asset staff judgmentally tags various items and obtains or verifies the tag numbers of those already tagged. This practice caused some departments to believe the Finance Department was still maintaining their accountable equipment list and annual physical inventory. Countywide guidance is needed to clarify the responsibilities of both Finance and the other departments.

Recommendation

The Finance Department should:

Recommendation 1: Evaluate whether it is necessary for them to maintain and send the courtesy list of accountable equipment items with a cost between \$500.00 and \$4,999.99. If this process is continued, specific communication should be made to ensure each department is aware that it is only a courtesy and cannot be relied upon as it can be discontinued at any time. Finance should also communicate the lists must be checked for completeness and accuracy because the ultimate responsibility rests with the respective departments. In addition, Finance should develop written procedures to include which items they are responsible for tracking, tagging and whether any additional assistance regarding tagging will be provided to departments. These responsibilities should then be communicated to all departments.

Auditee's Response

We concur. Finance will continue to send the courtesy list and add additional language in the correspondence to inform the departments that the list is for reference only. Finance will also reiterate that they will only track and tag fixed assets. See Appendix VI on page 18 for the complete response and corrective action plan.

Countywide policy needed for clarification and consistency

Written policies and procedures

We requested and obtained the written accountable equipment procedures of each County department. Of the 32 departments, we noted nine departments did not have any written procedures, but each had a verbal understanding or worked in conjunction with another department and felt separate procedures were not necessary. As we reviewed the 23 written procedures submitted by departments, we noticed each department handled their accountable equipment differently to fit its business environment. Most departments did not thoroughly address one or more of the attributes required for an effective control activity, which includes the receiving and tagging or the recording of additions, transfers, disposals, and surplus of items on the accountable equipment list.

Although each department may require a variation depending on its specific business environment, a formal countywide policy should be developed with the basic requirements to ensure a complete and accurate list of accountable equipment is maintained at the department level and made available upon request.

Recommendations

The County Manager's Office should:

Recommendation 2: Develop a formal, written countywide policy on accountable equipment that contains the basic requirements of a control activity to ensure a complete and accurate list of accountable equipment is maintained by each department. The policy should include, at a minimum, guidance on documenting the receipt, tagging, and recording of additions, transfers, disposals, and surpluses of the accountable equipment list. Variation from the countywide policy should be allowed as long as the minimum attributes are included and prior County Manager approval is granted. This policy should be communicated to all departments and elected officials and incorporated into the various Advantage Financial training classes available through the Human Resources training academy.

Auditee's Response

We concur. A countywide policy will be developed and distributed to all county departments by no later than July 1, 2011. Departments will develop a department procedure for documenting the receipt, tagging and recording of additions, transfers, disposals and surpluses of accountable equipment by the end of FY2011. See Appendix VI on page 18 for the complete response and corrective action plan.

Segregation of Duties

Segregation of duties is critical to an effective internal control as it reduces the risk of both erroneous and inappropriate actions. The responsibilities for initiating, authorizing and recording transactions, asset custody, and reconciliation should be separated among employees. When these functions cannot be separated, a compensating control activity is required. During our audit, we found in several departments, the record-keeping staff also performed the physical inventory reconciliations.

Departments should:

Recommendation 3: Designate a custodian with the sole responsibility of maintaining an accurate accountable equipment list. This person should not perform the annual physical inventory. If this process is impractical, another staff member should accompany the custodian to maintain the integrity of the process. A reconciliation between the perpetual list and the physical inventory should be completed and then reviewed and approved by the department head. See Recommendations 9 and 10 for further emphasis on the physical inventory and reconciliation process.

Auditee's Response

We concur. This requirement will be included in the countywide policy which is expected to be completed by July 1, 2011. Departments will also be expected to be in full compliance by the end of FY2011. See Appendix VI on page 19 for the complete response and corrective action plan.

Tagging

We noted there were a variety of tagging methods being used on accountable equipment throughout the County departments. We found Finance Department tags, Information Services (IS) Department tags, individual department tags, and old department tags. There could be multiple tags on one item, or there could be none. During our interviews, we noted there was no clear guidance on which items should be tagged, who was responsible for tagging, and which tags were the most current and should be relied upon.

Tagging is a method of affixing an identifying label to items for tracking. It has always been the County's practice to tag accountable equipment items, but there has been some confusion as to the responsibility in addition to which items should be tagged. We believe guidance from a countywide policy will eliminate the confusion.

The County Manager should:

Recommendation 4: Designate departments with the responsibility of tagging its own accountable equipment, in connection with its record-keeping process. The Finance Department should discontinue its practice of tagging accountable equipment, but should maintain the responsibility for tracking and tagging all fixed assets. The types of accountable equipment, which require tagging, should also be clarified. An upgrade/addition to an existing accountable equipment should be recorded with the same tag ID. For the most part, it is impractical to tag small tools and parts with affixed labels. In these instances, departments should consider writing the department's name or initials on the item using a permanent marker. Of course, this would be for identification purposes only as it would only serve as an indirect preventative control. In addition, a general location of the labels should be established for consistency throughout the County (i.e. lower right-hand of the item, as an example).

An alternative to discontinuing the Finance Department tagging accountable equipment would be to limit their tagging to only large items with specific examples provided for guidance.

Auditee's Response

We concur. This requirement will be included in the countywide policy. Finance has already discontinued its practice of tagging accountable equipment and will only tag fixed assets in the future. See Appendix VI on page 19 for the complete response and corrective action plan.

Recommendation 5: Coordinate with the fixed asset staff of the Finance Department and purchase their own labels. The labels should be affixed to all new accountable equipment and those without a current tag. For example, if the IS department is responsible for a printer, then only an IS tag should be affixed to the printer. It is not necessary to put a County fixed asset tag or department tag on the same printer; however, if it is an item with a unit cost of \$5,000.00 or over, both IS and County tags should be on the item. For accountable equipment items already tagged, the existing labels should be maintained and used for tracking purposes.

Auditee's Response

We concur. This requirement will be included in the countywide policy which is expected to be completed by July 1, 2011. Departments will also be expected to be in full compliance by the end of FY2012. See Appendix VI on page 20 for the complete response and corrective action plan.

Transfers and Inter-department purchases

During our audit, we noted that accountable equipment was transferred between departments, but there was no documentation to support the transfer. In some instances, we were able to cross-reference the item to the department it was transferred to, but in other instances, we were unable to locate the item. Since departments are responsible for maintaining their own accountable equipment lists, all transfers should have supporting documentation.

As stated in the Background section, we noted departments whose budgets are charged for items located in, maintained, and/or used by other departments. For example, Property Management purchases property and equipment for departments through their construction project fund; Information Services purchases computer equipment for departments; and 800 MHz purchases radios and telephones for various departments. As with transfers in/out, both the purchasing and receiving departments should be responsible with properly tracking accountable equipment items.

The Purchasing Department should:

Recommendation 6: Develop a transfer in/out form to be used by departments. The transfer in/out form should require a signature from the department head of both the purchasing or outgoing and receiving departments. This approved form should be maintained and used during the department's reconciliation to the physical inventory. Likewise, if a department purchases an accountable equipment item for another department, the departments should prepare a transfer in/out form signed by both department heads as evidence of the transfer of responsibility.

Auditee's Response

We concur. Purchasing will modify the existing form used for fixed assets to include accountable equipment no later than July 1, 2011. This requirement will be included in the countywide policy expected to be completed by July 1, 2011. See Appendix VI on page 20 for the complete response and corrective action plan.

Departments should:

Recommendation 7: Include in its accountable equipment list a column reference to easily identify the location and responsible person or department for items not located within its physical department. For instance, if IS and 800 MHz are responsible for maintaining a list of items located in another department, then the location and contact person should be designated on its accountable equipment list. In addition, during their physical inventory, the accountable equipment custodian for the department responsible for maintaining the items should confirm the continued existence of the items and periodically physically inspect the items. Representatives from both departments should sign as evidence of agreement. Likewise, the user departments should include these items on its list and cross-reference to the other department's list on an annual basis.

Auditee's Response

We concur. This requirement will be included in the countywide policy expected to be complete by July 1, 2011. Departments will be expected to be in full compliance by the end of FY2011. See Appendix VI on page 20 for the complete response and corrective action plan.

Property Management Department should:

Recommendation 8: Develop and forward a list of all accountable equipment purchased during a completed construction project using a transfer in/out form to the receiving departments. The receiving department should verify and any differences should be documented and resolved. Once the list has been agreed upon by the receiving department, the department head should sign as evidence of accepting responsibility for maintaining the items. A copy of the approved list should then be returned to Property Management and maintained in their files. At this point, Property Management will no longer be responsible for tracking and maintaining these items.

Auditee's Response

We concur. Property Management will implement this procedure immediately. It will also be included in the countywide policy with an estimated completion date of July 1, 2011. See Appendix VI on page 20 for the complete response and corrective action plan.

Physical Inventory and Reconciliation

We noted several departments did not perform a periodic inventory of accountable equipment items. In addition, we noted some departments did not maintain a perpetual inventory control to track all changes (i.e. additions, transfers, surplus, etc.) to its accountable equipment list. Periodically, departments should physically inspect its accountable equipment items to ensure its continued existence. Someone other than the custodian should perform the physical inventory and if this is impractical, an independent staff member should accompany the custodian. The physical inventory should then be reconciled to the perpetual accountable equipment list. Missing items should be investigated, resolved, and analyzed for possible control deficiencies. The reconciliation and physical inventory should be reviewed and approved by the department head and made available for review upon request.

Departments should:

Recommendation 9: Develop a perpetual inventory control to track accountable equipment items on an ongoing basis. Departments should also perform a physical inventory, at least annually, and reconcile it to the perpetual list to ensure they maintain a complete and accurate accountable equipment list and detect any missing items in a timely manner. Management approval should be required to remove any missing items from the list. Documentation for all changes to the accountable equipment list should be maintained and made available for review upon request.

Auditee's Response

We concur. Requirement will be included in the countywide policy with an estimated completion of July 1, 2011. Departments will be expected to be in full compliance by the end of FY2011. See Appendix VI on page 21 for the complete response and corrective action plan.

Finance Department should:

Recommendation 10: Develop a WEBI⁴ report that compiles all new purchases for a specified time period using the accountable equipment criteria (i.e. items with an initial cost of less than \$5,000.00 with an estimated useful life of one year and posted to the 62xx, 84xx, and 86xx object code series). Since new purchases are the major source of additions to the accountable equipment list, they should be verified against the purchases recorded in the Advantage Financial System on an annual basis. This would provide an added level control activity to ensure the accuracy and completeness of the transactions. Departments should run the WEBI download during its reconciliation process and include in the report submitted to the department head for review and approval.

Auditee's Response

We concur. Departments should run an Automated Reference Report for the respective object codes related to accountable equipment. In addition, the requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. See Appendix VI on page 21 for the complete response and corrective action plan.

Surplus/Missing items

The County surplus policy requires departments to send all surplus items along with a properly authorized surplus form to the Purchasing Department; however, the policy and surplus form are for fixed asset disposal. A copy of the surplus form is sent to Finance to adjust fixed asset records. Our audit revealed several instances where departments were unable to provide a surplus form or any other documentation to support items indicated as surplused.

⁴ WEBI is a report writer to download data from the Advantage Financial System.

We also noted some items which departments were unable to locate or provide information as to the disposition of the item. Investigating and resolving missing items is a critical element of the reconciliation process.

In addition, we found that several items had been returned to the vendor for a credit. Although we were able to locate the credit in the Advantage Financial System, the department had not maintained a specific reference as to when the credit was actually issued as evidence to remove the item from the accountable equipment list.

The County Manager should:

Recommendation 11: Include in the countywide policy, a requirement of departments to use the surplus form when forwarding accountable equipment items to the Purchasing Department, not just fixed assets. A copy of this form, signed by the respective department head, should be maintained with the accountable equipment list as evidence of removing the item. With items returned for credit, the accounting transaction reference number and date should be reflected on the accountable equipment list as evidence that the credit was received. The Purchasing Department should also update the surplus policy with the current practice of public auctioning.

Auditee's Response

We concur. The requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. Purchasing will update the surplus policy by no later than October 1, 2011. See Appendix VI on page 21 for the complete response and corrective action plan.

Recommendation 12: Include in the countywide policy, a requirement to complete a property loss form for accountable equipment items deemed missing, damaged, stolen, or lost. A specific dollar amount should be established in connection with the form. In addition, procedures should be developed to address the responsibility of the employee whom an item is specifically assigned. If the employee is found to be negligent, the net cost to replace the lost or damaged item should be borne by the employee.

Auditee's Response

We concur. The requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. The County Manager will determine the level of negligence of the responsible employee and net cost to be borne by said employee. See Appendix VI on page 22 for the complete response and corrective action plan.

Tracking/Accountability needs improvement

We noted several inconsistencies throughout departments regarding which items should be maintained as accountable equipment and which object codes should be used. Some departments have misunderstood which object codes should be used to track accountable equipment items. Most departments only tracked items charged to object code 6258. In addition, some departments established their own minimum dollar amount for tracking accountable equipment as no countywide guidance was available.

Recommendations

The County Manager should:

Recommendation 13: Establish a minimum threshold for the tracking of accountable equipment items as it is not cost-effective to track all items. Any item below the established threshold should not be coded to the accountable equipment object codes. Additional language should be added to the Account Dictionary to clearly define which are required to be tracked under accountable equipment. County Manager's approval should be required if the department desires to raise its the minimum threshold.

Auditee's Response

We concur. Each department will be responsible for establishing a minimum threshold for tracking accountable equipment based on their specific business environment. That threshold shall not be more than \$100. Finance will update the Account Dictionary no later than July 1, 2011 and make available to all departments. If a department desires to raise the minimum threshold, County Manager's approval is required in advance. See Appendix VI on page 22 for the complete response and corrective action plan.

Recommendation 14: Establish additional guidance for the tracking and accountability of items assigned to a pool⁵, software, small tools and parts.

Auditee's Response

We concur. Each department with operations involving the sharing of tools and/or supplies between employees will designate specific staff to oversee this operation and develop policies and procedures accordingly. The County Manager will review and approve each department's policy for managing accountable equipment shared by multiple employees. See Appendix VI on page 22 for the complete response and corrective action plan.

⁵ Some departments maintain an inventory of tools for employees to share, the tools are commonly known as a "pool" of shared tools.

Standard Accountable Equipment Format is Needed

As stated previously, departments maintain their accountable equipment lists in various formats and, often times, the lists lack the necessary information needed to maintain an effective control activity over accountable equipment. The lack of critical information makes it difficult to identify accountable equipment items in an efficient manner.

Recommendation

The County Manager should:

Recommendation 15: Develop a standard, minimum accountable equipment format for departments to use. Modification can be made to meet each department's individual needs, but minimum requirements should include date of purchase, purchasing document number, object code, description of the item, unit cost, quantity, manufacturer's serial number, County tag number and location of item.

Auditee's Response

We concur. The requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. See Appendix VI on page 22 for the complete response and corrective action plan.

Detailed Objective(s), Scope, and Methodology

Objective(s)

The objective of our audit was to determine if controls are adequate to ensure a complete and accurate list of accountable equipment is maintained.

Scope

The audit covered the period beginning on October 1, 2004 and ending on April 30, 2009.

Methodology

To accomplish our objectives, we interviewed Budget and Fixed Asset staff of the Finance Department to obtain an understanding of the accountable equipment purchase process. We sent a questionnaire to departments and elected official offices to obtain an understanding of their practice of maintaining an accountable equipment list. Subsequently, we excluded elected official offices from further tests as they were only encouraged and not required to maintain lists.

In order to accomplish our objective, we performed the following sub-objectives for each department:

1. Determined if written procedures are in place regarding the receipt, addition, tagging, transfer, disposal, and recording of the accountable equipment.
2. Determined if the accountable equipment list submitted by the department is complete and accurate.

NOTE: We were unable to determine the overall completeness of each department's accountable equipment list due to technical difficulties encountered with the internal report writing tool. An initial report was written to obtain each department's accountable equipment additions for the audit period; however, it was discovered that the report was unable to pull the information from the County's financial system in the specific format needed. After several attempts to resolve the issue, we deviated from the intended scope and proceeded accordingly.

3. Determined if a physical inventory is taken periodically.
4. Determined whether the equipment is kept in a safe location.
5. Determined whether there is segregation of duties.
6. Examined the tagging system of each department.

Abbreviations and Glossary

Fund	A “bucket” of money which is required to be kept separate.
Department	A major division that is responsible for dealing with a specific area of policy.
Object	An expense account. A grouping of monies paid out (i.e. the object code for office supplies is 6116).

Appendix III

Major Contributors to the Report

Latona Thomas, CPA, Manager

Miranda Wang, CPA, Staff Auditor I, Auditor-in-Charge

Final Report Distribution List

Virgil Moon, CPA, Support Services Agency Director
Jim Pehrson, CPA, Finance Director/Comptroller
Mark Kohntopp, Interim Purchasing Director
Cobb County Department Managers
Internal Audit Division File

Outcome Measure(s)

This appendix presents detailed information on the measurable impact our recommended corrective action(s) will have on County operations.

Type and Value of Outcome Measure:

- Reliability of Information – Actual: Recommendations, when implemented, will provide assurance of the completeness and accuracy of accountable equipment throughout the County. (See pages 3-12).
- Protection of Resources – Potential: Recommendations, when implemented, will increase the safeguards over accountable equipment items. (See pages 5-6, and 9).

Methodology Used to Measure the Reported Benefit:

We examined the procedures regarding receiving, addition, tagging, transfer, disposal, and recording of the accountable equipment in each department. We downloaded new purchases from the Advantage Financial System for the period October 1, 2004 through April 30, 2009.

Appendix VI

Auditee's Response to the Draft Report



COBB COUNTY MANAGER'S OFFICE

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David Hankerson
County Manager

DATE: March 11, 2011

TO:  Latona Thomas, CPA, Manager

FROM:  David Hankerson, County Manager

SUBJECT: Response to the Internal Audit Division's Report – Countywide Departmental Accountable Equipment Audit

This memo is in response to the Draft Internal Audit report, dated December 29, 2010. In that report, several recommendations were made. Below are the countywide responses to each of the findings and recommendations.

Recommendation 1: **The Finance Department should:** Evaluate whether it is necessary for them to maintain and send the courtesy list of accountable equipment items with a cost between \$500.00 and \$4,999.99. If this process is continued, specific communication should be made to ensure each department is aware that it is only a courtesy and cannot be relied upon as it can be discontinued at any time. Finance should also communicate the lists must be checked for completeness and accuracy because the ultimate responsibility rests with the respective departments. In addition, Finance should develop written procedures to include which items they are responsible for tracking, tagging and whether any additional assistance regarding tagging will be provided to departments. These responsibilities should then be communicated to all departments.

Auditee Response: We concur. Finance will continue to send the courtesy list and add additional language to inform the departments that the list in no way represents a complete list, and can only be used by the department for the accountable equipment control process. In addition, Finance will develop and send out via email correspondence to reiterate that only fixed assets will be tracked and tagged by Finance moving forward.

The County Manager will review and approve the countywide and department policies and procedures relative to managing accountable equipment.

Recommendation 2: **The County Manager's Office should:** Develop a formal, written countywide policy on accountable equipment that contains the basic requirements of a control activity to ensure a complete and accurate list of accountable equipment is maintained by each department. The policy should include, at a minimum, guidance on documenting the receipt, tagging, and recording of additions, transfers, disposals, and surpluses of the accountable equipment list. Variation from the countywide policy should be allowed as long as the minimum attributes are included and prior County Manager approval is granted.

This policy should be communicated to all departments and elected officials and incorporated into the various Advantage Financial training classes available through the Human Resources training academy.

Auditee Response: We concur. A countywide policy will be developed and distributed to all county departments by no later than July 1, 2011. Departments will develop a department procedure for documenting the receipt, tagging and recording of additions, transfers, disposals and surpluses of accountable equipment by the end of FY2011.

Recommendation 3: Departments should: Designate a custodian with the sole responsibility of maintaining an accurate accountable equipment list. This person should not perform the annual physical inventory. If this process is impractical, another staff member should accompany the custodian to maintain the integrity of the process. A reconciliation between the perpetual list and the physical inventory should be completed and then reviewed and approved by the department head. See Recommendations 9 and 10 for further emphasis on the physical inventory and reconciliation process.

Auditee Response: We concur. This requirement will be included in the countywide policy. The countywide policy is expected to be complete by July 1, 2011. Departments will be expected to be in full compliance by the end of FY 2011.

Recommendation 4: The County Manager should: Designate departments with the responsibility of tagging their own accountable equipment, in connection with their record-keeping process. The Finance Department should discontinue its practice of tagging accountable equipment, but should maintain the responsibility for tracking and tagging all fixed assets. The types of accountable equipment, which require tagging, should also be clarified. An upgrade/addition to an existing accountable equipment should be recorded with the same tag ID. For the most part, it is impractical to tag small tools and parts with affixed labels. In these instances, departments should consider writing the department's name or initials on the item using a permanent marker. Of course, this would be for identification purposes only as it would only serve as an indirect preventative control. In addition, a general location of the labels should be established for consistency throughout the County (i.e. lower right-hand of the item, as an example).

An alternative to discontinuing the Finance Department tagging accountable equipment would be to limit their tagging to only large items with specific examples provided for guidance.

Auditee Response: We concur. This requirement will be included in the countywide policy. Finance has already discontinued its practice of tagging accountable equipment and will only tag fixed assets in the future. The countywide policy is expected to be complete by July 1, 2011. Departments will develop a policy and procedure for determining which items should be considered accountable equipment and tagged and for tagging or marking and tracking those items.

Recommendation 5: Departments should: Coordinate with the fixed asset staff of the Finance department and purchase their own labels. The labels should be affixed to all new accountable equipment and those without a current tag. For example, if the IS department is responsible for a printer, then only an IS tag should be affixed to the printer. It is not necessary to put a County fixed asset tag or department tag on the same printer; however, if it is an item with a unit cost of \$5,000.00 or over, both IS and County tag should be on the item. For accountable equipment items already tagged, the existing labels should be maintained and used for tracking purposes.

Auditee Response: We concur. This requirement will be included in the countywide policy expected to be completed by July 1, 2011. Departments will be expected to be in full compliance by FY2012.

Recommendation 6: The Purchasing Department should: Develop a transfer in/out form to be used by departments. The transfer in/out form should require a signature from the department head of both the purchasing or outgoing and receiving departments. This approved form should be maintained and used during the department's reconciliation to the physical inventory. Likewise, if a department purchases an accountable equipment item for another department, the departments should prepare a transfer in/out form signed by both department heads as evidence of the transfer of responsibility.

Auditee Response: We concur. Purchasing will modify the existing form used for fixed assets to include accountable equipment no later than July 1, 2011. This requirement will be included in the countywide policy expected to be completed by July 1, 2011. Departments will include the use of a transfer in/out form in department policy and procedures for tracking accountable equipment.

Recommendation 7: Departments should: Include in their accountable equipment list a column reference to easily identify the location and responsible person or department for items not located within its physical department. For instance, if IS and 800 MHz are responsible for maintaining a list of items located in another department, then the location and contact person should be designated on its accountable equipment list. In addition, during their physical inventory, the accountable equipment custodian for the department responsible for maintaining the items should confirm the continued existence of the items and periodically physically inspect the items. Representatives from both departments should sign as evidence of agreement. Likewise, the user departments should include these items on its list and cross-reference to the other department's list on an annual basis.

Auditee Response: We concur. This requirement will be included in the countywide policy expected to be completed by July 1, 2011. Departments will be expected to be in full compliance by no later than the end of FY2011.

Recommendation 8: Property Management Department should: Develop and forward a list of all accountable equipment purchased during a completed construction project using a transfer in/out form to the receiving departments. The receiving department should verify and any differences should be documented and resolved. Once the list has been agreed upon by the

receiving department, the department head should sign as evidence of accepting responsibility for maintaining the items. A copy of the approved list should then be returned to Property Management and maintained in their files. At this point, Property Management will no longer be responsible for tracking and maintaining these items.

Auditee Response: We concur. Property Management will implement this procedure immediately. It will also be included in the countywide policy with an estimated completion date of July 1, 2011. Departments will maintain a list of accountable equipment purchased by Property Management but maintained in the department as mutually agreed upon.

Recommendation 9: Departments should: Develop a perpetual inventory control to track accountable equipment items on an ongoing basis. Departments should also perform a physical inventory, at least annually, and reconcile it to the perpetual list to ensure they maintain a complete and accurate accountable equipment list and detect any missing items in a timely manner. Management approval should be required to remove any missing items from the list. Documentation for all changes to the accountable equipment list should be maintained and made available for review upon request.

Auditee Response: We concur. Requirement will be included in the countywide policy with an expected completion date of July 1, 2011. Departments will be expected to be in full compliance by the end of fiscal year 2011.

Recommendation 10: Departments should: Develop a WEBI¹ report that compiles all new purchases for a specified time period using the accountable equipment criteria (i.e. items with an initial cost of less than \$5,000.00 with an estimated useful life of one year and posted to the 62xx, 84xx, and 86xx object code series). Since new purchases are the major source of additions to the accountable equipment list, they should be verified against the purchases recorded in the Advantage Financial System on an annual basis. This would provide an added level of control activity to ensure the accuracy and completeness of the transactions. Departments should run the WEBI download during their reconciliation process and include in the report submitted to the department head for review and approval.

Auditee Response: We concur. Departments should run an Automated Reference Report for the respective object codes related to accountable equipment. In addition, the requirement will be included in the countywide policy with an estimated completion date of July 1, 2011.

Recommendation 11: The County Manager should: Include in the countywide policy, a requirement of departments to use the surplus form when forwarding accountable equipment items to the Purchasing department, not just fixed assets. A copy of this form, signed by the respective department head, should be maintained with the accountable equipment list as evidence of removing the item. With items returned for credit, the accounting transaction reference number and date should be reflected on the accountable equipment list as evidence that the credit was received. The Purchasing Department should also update the surplus policy with the current practice of public auctioning.

¹ WEBI is a report writer to download data from Advantage Financial System.

Auditee Response: We concur. The requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. Purchasing will update the surplus policy by no later than October 1, 2011.

Recommendation 12: The County Manager should: Include in the countywide policy, a requirement to complete a property loss form for accountable equipment items deemed missing, damaged, stolen, or lost. A specific dollar amount should be established in connection with the form. In addition, procedures should be developed to address the responsibility of the employee whom an item is specifically assigned. If the employee is found to be negligent, the net cost to replace the lost or damaged item should be borne by the employee.

Auditee Response: We concur. The requirement will be included in the countywide policy with an estimated completion date of July 1, 2011. The County Manager will determine level of negligence of the responsible employee and net cost to be borne by said employee.

Recommendation 13: The County Manager should: Establish a minimum threshold for the tracking of accountable equipment items as it is not cost-effective to track all items. Any item below the established threshold should not be coded to the accountable equipment object codes. Additional language should be added to the Account Dictionary to clearly define which are required to be tracked under accountable equipment. County Manager's approval should be required, if the department desires to raise the minimum threshold.

Auditee Response: We concur. Each department will be responsible for establishing a minimum threshold for tracking accountable equipment based on their specific business environment. That threshold shall not be more than \$100. Finance will update the Account Dictionary no later than July 1, 2011 and make available to all departments. If a department desires to raise the minimum threshold, County Manager's approval is required in advance.

Recommendation 14: The County Manager should: Establish additional guidance for the tracking and accountability of items assigned to a pool², software, small tools and parts.

Auditee Response: We concur. Each department with operations that involve the sharing of tools and/or supplies between multiple employees shall have one person charged with the responsibility of ensuring that all items are checked in and out and returned at the end of the day. This shall be spelled out in the policies and procedures for each department as well as the county wide policy to be completed by July 1, 2011. The County Manager will review and approve each department's policy for managing accountable equipment shared by multiple employees.

Recommendation 15: The County Manager should: Develop a standard, minimum accountable equipment format for departments to use. Modification can be made to meet each department's individual needs, but minimum requirements should include date of purchase, purchasing document number, object code, description of the item, unit cost, quantity, manufacturer's serial number, County tag number and location of item.

² Some departments maintain an inventory of tools for employees to share, the tools are commonly known as a "pool" of shared tools.

Auditee Response: We concur. This requirement will be included in the countywide policy with an estimated completion date of July 1, 2011.