



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number: 2016-010

***FINAL REPORT – Review of Department
Controls over Accountable Equipment***

November 14, 2016

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COBB COUNTY INTERNAL AUDIT

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Director

November 14, 2016

MEMORANDUM

TO: David Hankerson, County Manager

FROM: Latona Thomas, CPA, Director 

SUBJECT: **FINAL REPORT** – Review of Department Controls over Accountable Equipment

Attached for your review and comments is the subject final audit report. The overall objective of this review was to determine if each department's controls over accountable equipment were adequate to ensure Cobb County (the County) accountable equipment is complete and accurate, properly safeguarded, and properly reported. We also performed a follow-up on a prior audit recommendation.

Impact on the Governance of Cobb County

The recommendations in this report, if implemented, will strengthen countywide and departmental controls over accountable equipment and ensure proper safeguards exist. County leadership and citizens can be assured that the County's accountable equipment items are protected against waste, fraud and abuse.

Executive Summary

We found that departmental controls over accountable equipment are not adequate to ensure complete and accurate lists are maintained and properly reported. We also found that additional controls are needed to strengthen the current safeguards over accountable equipment (A/E) items. In addition, the remaining prior year recommendation to revise the County's account dictionary was completed in December 2015.

We selected 50% of County departments¹ and performed various audit procedures on controls at the department level. We gathered information about each sampled department's controls, conducted interviews with custodians and other affected staff, tested the existing controls, and physically inspected or observed both A/E items and the corresponding safeguards. We also independently obtained and analyzed various A/E reports from the County's financial system.

¹ Represents 17 of the 34 County agencies, departments, and larger divisions. Elected official offices were excluded. See Appendix III.

Recommendation(s)

We made recommendations to strengthen both countywide and department controls.

Countywide recommendations require the:

- Implementation of additional guidance on the A/E requirements to include countywide training and improvements to the monitoring of the A/E function.
- Streamlining of countywide A/E forms and development of new forms, as needed.

Department recommendations require that A/E lists be updated in compliance with the existing countywide A/E policy. Specific emphasis should include the following, at a minimum:

- Minimum data field requirements;
- Department-wide A/E lists;
- A/E purchases posted to non-6258 expenditure object codes and ‘small and attractive’ A/E items; and
- Annual reconciliations between perpetual and physical inventories.

Additional department recommendations include: addressing acquisition and accountability controls to require system approvals by authorized personnel; adequate segregation of duties; physical inventories; County financial system use as an independent source; appropriate signatures; surplus warehouse A/E list maintained in an auditable format; and tagging of A/E items consistent with the countywide A/E policy requirements.

Finally, unannounced validation checks of office locations, facilities, and field vehicles to ensure safeguard measures are operating as intended was also recommended. Also, the overall physical security measures should be periodically reviewed with improvements made as needed.

Responses

The County Manager provided a response to our draft report and concurred with each of the 21 recommendations directed to his office. The Purchasing Director also provided a response and concurred with the one recommendation directed to his office. The complete responses to the draft report are included in Appendices VI and VII. We will perform a follow-up on corrective actions in six months. A copy of this report will be distributed to those affected by the report recommendations. Please contact me at (770) 528-2559 if you have questions or Andrea Clayton, Auditor-in-Charge, at (770) 528-2558.

Background

Accountable Equipment (A/E) are non-consumable, movable items with an original cost below an established capitalization amount and a useful life of one or more years. As of 1994, the Cobb County (the County) capitalization amount was \$500. In March 2001, the Board of Commissioners (BOC) approved an increase in the capitalization threshold for the County's fixed assets from \$500 to \$5,000, which became effective FY2002.

The Finance Department (Finance¹) was originally tasked with capturing all fixed asset and A/E purchases for inclusion in its fixed asset system until the County Manager separated the responsibilities. Effective July 1994, Finance retained the responsibility of accounting and reporting on fixed assets, and the administration of A/E was decentralized with each department required to maintain an accurate list of their A/E items. In connection with this change, Finance provided each department with an initial list of their respective A/E items, along with instructions to implement procedures to maintain the accuracy moving forward. Elected officials were encouraged to comply with the decentralization practice.

As of April 2002, departments were required to maintain a list of A/E items with an estimated useful life of one or more years and an original unit cost of \$4,999.99 or less. In January 2012, a countywide A/E policy² was developed to provide departments with general instructions on maintaining an accurate inventory list, including specific minimum requirements. The countywide policy also established a minimum threshold of \$100 for all A/E items. In addition, departments were given the option to raise the minimum threshold for their respective department with prior, written approval from the County Manager. The erroneous belief that departments were only required to account for items posted to expenditure object code 6258³ was also clarified.

The four-year⁴ countywide average of A/E purchases **posted to expenditure object code 6258** was \$1.8 million for period FY2012 through FY2015. On the next page is a detailed breakdown of A/E purchases posted to expenditure object code 6258 **only**. This information is **presented for contextual purposes** and does not reflect the audit population discussed in the accompanying pages of this report.

¹ Subsequently changed to the Office of Finance and Economic Development (OFED). Used interchangeably through the report.

² Corrective action resulting from Report #2011-008, issued March 31, 2011.

³ Accountable Equipment. Source: County Account Dictionary of Revenue Sources & Objects of Expenditure, December 2015.

⁴ Since the implementation of the countywide A/E policy, effective FY2012.

FY2012 – FY2015 Accountable Equipment Purchases⁵

Department/Elected Official Office	Four-Year Average	Year 1 Testing
Board of Commissioners	\$ 3	
County Clerk	\$ 314	
Gen Fund-Admin	\$ 209	
County Manager/Econ Dev	\$ 1,367	
Emergency Management Agency	\$ 61,442	√
Communications	\$ 721	√
County Attorney	\$ 627	√
Community Development	\$ 20,028	√
Records Management	\$ 44,217	√
Juvenile Court (Drug Treatment)	\$ 261	
Extension Services	\$ 513	
Department of Transportation	\$ 80,256	
Fleet Department	\$ 2,508	
Purchasing	\$ 1,075	√
Tax Assessor	\$ 2,389	
Internal Audit	\$ 997	√
Library	\$ 77,326	√
Human Resources	\$ 17,500	√
PARKS	\$ 93,445	√
Property Management	\$ 27,264	√
Public Services Agency	\$ 761	
Support Services Agency	\$ 31,167	
E911	\$ 33,264	√
Fire	\$ 171,624	
800 MHz	\$ 8,264	
Police	\$ 462,886	√
Safety Village	\$ 5,735	√
Animal Control	\$ 7,417	
Public Safety Training Center	\$ 14,996	
Public Safety Administration	\$ 4,526	√
Public Safety (Grants/Other)	\$ 63,149	
Medical Examiner	\$ 3,588	
Clerk of State Court	\$ 10,833	
Clerk of Superior Court	\$ 13,823	
District Attorney	\$ (817)	
Magistrate Court	\$ 2,992	
Juvenile Court	\$ 19,790	
Probate Court	\$ 522	
Sheriff	\$ 215,881	
Solicitor	\$ 854	
State Court	\$ 18,777	
Superior Court	\$ 5,706	
Tax Commissioner	\$ 17,491	
Elections	\$ 56,863	√
Circuit Defender	\$ (52)	
Senior Services	\$ 78,140	
CDBG	\$ 305	
Water System	\$ 158,996	
Solid Waste	\$ 727	√
Four-Year Average Total:	<u>\$ 1,840,671</u>	

Table 1 – Source: County Financial System.

⁵ Based on purchases **posted to object code 6258 ONLY**. Purchases do not reflect A/E items posted to other operating and capital expenditure object codes. See Page 9 for further discussion.

The scope of our audit covered randomly and judgmentally selected County departments⁶ for the first year of a two-year plan. Detailed information on our audit objective(s), scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix III.

⁶ Constitutional and non-BOC Elected Official offices were excluded from testing as no specific requirement to comply exists.

Results of Review

Our overall objective was to determine if each department's controls over accountable equipment (A/E) were adequate to ensure Cobb County (the County) accountable equipment is complete and accurate, properly safeguarded, and properly reported. We also performed a follow-up on a prior audit recommendation. As stated in the background section, we selected 50% of County departments⁷ and performed various audit procedures on controls at the department level. We gathered information about each sampled department's controls, conducted interviews with custodians and other affected staff, tested the existing controls, and physically inspected or observed both A/E items and the corresponding safeguards. We also independently obtained and analyzed various A/E reports from the County's financial system.

We found that departmental controls over accountable equipment are not adequate to ensure complete and accurate lists are maintained and properly reported. We also found that additional controls are needed to strengthen the current safeguards over accountable equipment items. In addition, the remaining prior year recommendation to revise the County's account dictionary was completed in December 2015.

Countywide Controls over Accountable Equipment Need to be Improved

During our summarization of the departmental test results, we identified control weaknesses with a countywide impact. We found that departmental noncompliance with the County's A/E policy resulted from lack of communication of A/E policy requirements; inadequate training; unclear expectations of A/E custodians and backups; inaccessibility of the County policy; and inadequate oversight/monitoring of the A/E function. We also found that the revision of existing forms or the development of new forms could further strengthen the accountability requirements.

Additional Guidance on Accountable Equipment Requirements is Needed

During our individual interviews with department custodians and other personnel tasked with the responsibility of overseeing accountable equipment, we noted consistent assertions that the specific requirements were unclear and/or the countywide A/E policy was not easily accessible. Other custodians asserted that they were not aware that a countywide A/E policy existed.

A countywide A/E policy was developed and distributed in January 2012. The policy was presented to Department Managers and made available on the Office of Finance and Economic Development's (OFED) internal webpage. Department Managers were then expected to disseminate the policy and implement the necessary procedures to ensure proper monitoring; however, we noted inconsistencies between departments in the deployment of A/E requirements.

⁷ Represents 17 of the 34 County agencies, departments, and larger divisions. Elected official offices were excluded. See Appendix III.

Prior to initiating this audit, we were unable to locate the countywide A/E policy. Based on discussions with OFED staff, it is our understanding that the policy was erroneously removed during webpage changes. As a result, the A/E policy was re-posted to the OFED webpage for accessibility by custodians and other County staff.

Audit test results also confirmed the lack of adequate training and monitoring with the respective departments. Inadequate training and oversight negatively impacts the completeness and accuracy of A/E lists, increases staff resources needed to track and maintain, and increases the risk of theft, loss, and/or misappropriation.

Countywide training is needed

Countywide training is needed to supplement the existing countywide A/E policy. The countywide A/E policy provides general instructions on maintaining an accurate list of A/E items located within each department, but there are differences in department compositions that necessitate countywide training. We found that additional clarification is needed to address departments with multiple divisions and/or facilities, custodian understanding of A/E items, perpetual and physical inventories, and other best practices. Countywide training, in addition to department training, will ensure that adequate controls and safeguards over A/E items within the respective departments exist and are consistently applied throughout the County.

Recommendations

County Manager should:

Recommendation 1: Implement countywide training with all department custodians and back-ups required to attend. Topics should include at a minimum, the following:

- Specific differences between departments
 - Small vs. Large
 - Multi-facilities
 - Multi-divisions
- Clarification of A/E items based on expenditure object codes (6258 vs. non-6258)
- Grant-funded A/E items
- Perpetual vs. Physical inventories with reconciliations at least annually (no later than fiscal year end)
- Best Practices
- Location/Accessibility of A/E policy and related forms

Auditee Response: **Concur.** The Internal Audit Department will be charged with providing the initial training by December 31, 2016.

Additional Internal Auditor Comment: We will provide the initial countywide training as part of our consulting services.

Recommendation 2: Require that A/E designation be included in the annual goals/job responsibilities of the respective department custodian and back-up.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting. A memo will be prepared by the County Managers Office following the Department Managers meeting to reiterate the need to make the A/E designation part of the department custodian's annual goals. The memo will go out by November 30, 2016.

Recommendation 3: Require that all department A/E policies be reviewed to ensure there is no conflict with the countywide policy. Department policies should also include reference to the County policy as the primary source with specific procedures and requirements for the respective department.

Auditee Response: **Concur.** The requirement that all department A/E policies be reviewed to avoid conflict with the countywide policy will be addressed at the November 16, 2016 Department Managers meeting. It will also be included in the memo prepared by the County Managers Office by November 30, 2016.

Recommendation 4: Ensure that countywide topics resulting from the training are compared to the current accountable equipment policy. If significant discrepancies are noted, the countywide accountable equipment policy should be revised or an addendum developed to provide guidance for specific scenarios and differences within the departments.

Auditee Response: **Concur.** Any discrepancies identified during the training will be reviewed and addressed and the policy revised as necessary. This should be complete by the end of FY17.

Monitoring over the A/E Function needs to be Improved

Additional monitoring over the A/E requirements is needed by each Department Manager or his/her designee. Specific weaknesses were identified in each area of the control activities over A/E items. If sufficient oversight and monitoring had been in place, the weaknesses could have been identified, corrected, and adequate controls implemented.

Timely monitoring of requirements ensures that the objectives are being achieved as intended. It also ensures that weaknesses are detected and resolved in a timely manner.

Recommendations

County Manager should:

Recommendation 5: Require that Agency and Department Directors review, sign and date the A/E results as evidence that the process has been verified, validated, and conforms to the County A/E policy requirements or delegate to a designee.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 6: Request that a periodic review of department compliance with the countywide policy be incorporated into Internal Audit's risk assessment and annual audit plan on a rotating basis.

Auditee Response: **Concur.** Department compliance is already considered in Internal Audit's risk assessment. Compliance tests will be performed on a rotating basis to begin in CY18.

Countywide Accountable Equipment Forms need to be Streamlined

We found numerous instances where the use of countywide A/E forms could aid the overall tracking and maintenance of A/E items. We found only two countywide forms related to the surplus disposition and transfer of A/E items. The countywide forms were not used on a consistent basis, lacked the required critical data elements, and/or the forms were not maintained to support changes to the department's A/E list. Countywide forms are needed to ensure complete and accurate A/E lists are maintained throughout the County and documentation should be maintained to support all changes on a consistent basis.

Recommendations

County Manager should:

Recommendation 7: Require that existing forms be streamlined and modified to meet the general needs of County agencies and departments.

Auditee Response: **Concur.** The Purchasing Department will be charged with updating the Surplus and Transfer forms no later than January 1, 2017.

Recommendation 8: Require that new forms with critical data fields be developed.

Auditee Response: **Concur.** The Purchasing Director will be charged with looking at best practices once the training is completed. This should be complete by the end of FY17.

Recommendation 9: Require that electronic versions of the A/E policy and all required forms are readily accessible on iCOBB⁸. These forms should also include the functionality of various signatories and approvals as required.

Auditee Response: **Concur.** The Purchasing Director will be charged with looking at best practices once the training is completed. This should be complete by the end of FY17.

⁸ The County's intranet.

Departmental Controls over Accountable Equipment Need to be Improved

We tested each of the sampled department's compliance with the County A/E policy; reviewed written department procedures, where applicable; reconciled department A/E lists to our independent A/E lists downloaded from the County's financial system; interviewed department custodians; evaluated segregation of duties; observed physical safeguards; and examined department A/E reports and reconciliations. While we noted evidence to support efforts to implement controls, we found that current departmental controls are inadequate to ensure complete and accurate accountable equipment lists are maintained. We identified several control weaknesses that resulted in non-compliance with the County policy. Individual department lists were incomplete; physical inventories were not performed; evidence of the reconciliation between the perpetual and physical inventories were not maintained; and no evidence of supervisory review was noted. Weaknesses in the acquisition, accountability, and reporting controls were also noted. Adequate controls need to be in place to ensure the County's assets are protected against waste, fraud and abuse.

Incomplete and/or Inaccurate A/E lists are maintained

Minimum data field requirements are not included

We examined each department's A/E list and found that 82%⁹ lacked the minimum data field attributes established by the County policy and 100% with incomplete information within the existing data fields. We also found where individual lists had been created within divisions, but no department-wide list was compiled and maintained. Based on our discussion with various departments, we found that some of the required information is no longer available, inefficient to obtain or re-create, and/or no longer valid.

The missing and/or incomplete data fields also resulted in our inability to complete an independent reconciliation of accountable equipment purchases for 82%¹⁰ of sampled departments during our established scope period. We searched for unique identifiers within the department A/E lists, but the inconsistencies were voluminous and deemed inefficient to perform a complete and effective reconciliation. A complete reconciliation was performed on the remaining 18% of sampled departments. We identified discrepancies in the reconciling items of two departments, and no issues were noted in one department.

We also found instances where a department-wide A/E list was not readily available for larger departments. A/E lists for individual divisions were prepared, but the data field attributes were inconsistent and/or incomplete. The division lists were not compiled at the department level nor were they subsequently verified or validated.

Departments should review their A/E lists and implement the controls needed to ensure the required minimum data fields are included. Significant barriers to completing this task should be documented and discussed with the applicable County leadership for concurrence or further guidance.

⁹ Represents 14 of the 17 departments sampled during this audit project (See Table 1 on Page 2).

¹⁰ Represents 14 of the 17 departments sampled during this audit project (See Table 1 on Page 2).

Recommendations

County Manager should:

Recommendation 10: Require that Agency and Department Directors revise existing department A/E lists to include the minimum requirements in accordance with the County policy. Every effort should be made to locate any missing information. If the information is no longer available, inefficient to obtain or re-create, and/or is no longer valid, departments should document its inability to complete old or missing data fields along with the reason (i.e. insufficient supporting documentation) and present for the Department Head's review, approval, and signature. Subsequent concurrence should be obtained by the Agency Director, if available, and the County Manager.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 11: Require that Agency and Department Directors compile a department-wide master A/E list and maintain, where applicable. The designated department custodian should ensure each division list is consistent and complete in accordance with the County policy and for ease of compilation.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 12: Consider a countywide amnesty date where missing data fields could be acknowledged with valid justification (i.e. obsolete, no longer valid, and/or insufficient documentation available). After this date, all minimum data field attributes would be required without exception.

Auditee Response: **Concur.** We may consider allowing departments to request amnesty on a case by case basis. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

A/E items posted to non-6258 expenditure object codes are not consistently included

Department A/E lists did not consistently include all A/E items purchased. Expenditure object code 6258¹¹ has generally been used to account for A/E purchases, but A/E items may also be posted to other expenditure object codes. For the sampled departments, we randomly selected and performed various tests on A/E items posted to the 6258 expenditure object code and judgmentally selected potential A/E items posted to non-6258 expenditure object codes. After the exclusion of consumable items, we tested an average of 8.79%¹² of the items being identified. Our judgmental sample also included 'small and attractive'¹³ A/E items.

¹¹Accountable Equipment, per the County's Account Dictionary of Revenue Sources & Objects of Expenditures, December 2015.

¹²8.79% = 298 items with a sum dollar value of \$527K from the population of 3392 items with a sum dollar value of \$6.2 million.

¹³Per the County's Accountable Equipment Policy, revised January 2012.

We specifically identified A/E items posted to non-6258 expenditure object codes and other ‘small and attractive’ A/E items but were unable to validate against the department lists due to incomplete data fields. See Page 8 for further discussion. Several departments indicated that computer-related and other ‘small and attractive’ equipment was excluded from their A/E lists because they believed another department was responsible for tracking; the definition of an A/E item was unclear; and/or the custodian was unaware of the County A/E policy. We also noted that A/E items located in field vehicles and offsite facilities were not included on a consistent basis. Departments were able to resolve some discrepancies after subsequent research, but these items should have been included on perpetual A/E lists as purchased. Inadequate inventory controls prevent the identification of lost, stolen, or obsolete items and affects the overall accountability of accountable equipment items.

Recommendation

County Manager should:

Recommendation 13: Require that Agency and Department Directors expand their current A/E list to include all A/E items regardless of expenditure object code posting. Items referenced as ‘small and attractive’ should also be included in compliance with the County’s A/E policy requirements.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Reconciliations between perpetual and physical inventories were not performed or maintained

Reconciliations between perpetual and physical inventories were not used to identify and investigate differences. In some instances, perpetual inventory lists were not maintained and periodically updated; physical inventories were not conducted at least annually; independent financial system reports were not used in the reconciliation process; and/or supervisory signatures were missing as evidence of review/approval. In addition, we found segregation of duties issues that impact the overall integrity of the department A/E inventory process.

Per the countywide A/E policy, department designated custodians are required to maintain perpetual A/E inventory lists and reconcile the results of the physical A/E inventory at least annually to ensure the accuracy and completeness of lists. Reports from the County’s financial system should be used to independently validate the purchases, and documentation to support all changes and differences noted during the reconciliation process should be maintained and made available upon request. In addition, the final results of the reconciliation between perpetual and physical inventories are required to be approved by the Department Head.

Our testing revealed that one or more of the above weaknesses were noted in each of the sampled departments. Some department custodians did not understand the difference between a perpetual and physical inventory; while others asserted that the evidence to support the reconciliation, including the resolution of differences, was not maintained. Department Head approval was also excluded. Departments are responsible for ensuring a complete and accurate A/E list is maintained and updated on a periodic basis but no less than annually.

Recommendation

County Manager should:

Recommendation 14: Require that Agency and Department Directors implement procedures consistent with the County A/E policy to ensure the above weaknesses are addressed and a complete and accurate A/E list is maintained.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Additional controls over Acquisition and Accountability are Needed

Acquisition

Our testing revealed that A/E items were purchased in compliance with the County's established purchasing methods and procedures; however, significant weaknesses were noted in system approvals and related segregation of duties controls. Lack of system approvals and segregation of duties weaknesses were noted in 35%¹⁴ of the sampled departments. Per our discussion with the System Support Specialist, some departments are set-up so that a system approval is not required by the Department Head for delivery orders (DO) and/or departmental purchase orders (PD). In these instances, the purchasing document is entered by an administrative team member and goes immediately to the final/submitted level with no approvals required. We obtained a complete list from OFED and noted a total of nine departments and seven elected official offices¹⁵ with this system approval weakness. Another three departments included the system weakness, but no current activity was noted. We were unable to locate the source or authorization from which these system approvals were excluded.

For the sampled departments referenced, we found that the employee who initiates or orders A/E items may perform another control function without any other approval or supervisory review. Additional control functions include authorizing the written purchasing document, taking physical possession of the delivered A/E items, inputting the required receiver¹⁶ into the County's financial system, and performing the custodian duties of maintaining and reconciling A/E records. One person should not be able to perform multiple steps in a control process without compensating controls. Proper segregation of duties with the appropriate approval levels provides evidence that a transaction has been verified, authorized, and conforms to the established purchasing policies; the lack of which significantly increases the County's risk of theft, loss, or misappropriation of assets. Due to the significance of this weakness, the Internal Audit Director initiated a discussion with the Purchasing and Interim OFED Directors to immediately eliminate these identified risks. It is our understanding that additional discussions have occurred, but resolution remains outstanding.

¹⁴ Represents 6 of the 17 departments sampled during this audit project (See Table 1 on Page 2).

¹⁵ Elected official offices were excluded from this audit project. See Appendix I on Page 16.

¹⁶ A receiver is entered into the County's financial system to verify that purchased goods and services have been received or completed.

Recommendations

County Manager should:

Recommendation 15: Require system approvals of all Department Heads or their designee immediately. Designee approval levels should be documented, included in the County's financial system, and segregated to reduce or eliminate the risk of theft, loss, or misappropriation.

Auditee Response: **Concur.** The Purchasing Director will be tasked with taking the lead. Follow up will occur by November 30, 2016.

Recommendation 16: Require that Agency and Department Directors review their current acquisition procedures and implement adequate segregation of duties controls. If not, additional controls should be implemented to eliminate or minimize the risk.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Accountability

Our test results showed a lack of consistency in the methodology for maintaining documentation to support changes in departmental accountable equipment. A/E items are not tracked and monitored in a manner where disposals/surpluses, transfers, missing items can be easily identified. Reconciliations between perpetual and physical inventories are not performed on a consistent basis; physical inventories are not compared to the previous year's A/E list and discrepancies identified; and/or inadequate records are maintained. Some items are tracked using existing County forms, spreadsheets, emails, or no supporting documentation is maintained. In addition, we found instances where A/E items are transferred within facilities or between departments with no subsequent update to the respective departmental A/E list(s). The County's A/E policy provides the general instructions needed to maintain an accurate A/E inventory list. Department custodians indicated that they follow the County's A/E policy, but we were unable to test A/E changes because department records were inconsistent and deemed inadequate.

We also found instances where County forms used to account for changes in A/E items were incomplete and did not include all the required signatures. For example, when the Property Management Department is used to transport A/E items between departments or the surplus warehouse, the signature of the receiving department or surplus warehouse custodians were often excluded from departmental records. Without the appropriate signatures as evidence of transfer of responsibility, the County would be unable to identify the source of loss, theft, or misappropriation of assets, if it occurred.

The County's surplus warehouse did not have a list of A/E items compiled into a database or spreadsheet for ease of tracking. Individual forms were made available, but we were unable to validate or cross-reference to the respective department records. The overall records were not maintained in an auditable format without the use of substantial staff resources to re-create and determine completeness.

The County's A/E policy provides specific guidance regarding the minimum requirements for the accountability of A/E items. Department custodians acknowledged the discrepancies and requested additional training and clarification of County policy requirements.

Departments should ensure all A/E items are properly accounted for in compliance with the County A/E policy. Inadequate inventory controls impede the identification of changes in the overall accountability of A/E items.

We also traced the random and judgmentally sampled items to the respective A/E lists and physically inspected each item. In some instances, we were unable to clearly identify the specific item due to the lack of tagging or incomplete descriptions and other missing information. In addition, we judgmentally selected another 61 A/E items from our physical inspection and traced the items back to department lists without exception in 56 instances. The remaining five items were not agreed to the department lists due to incomplete information available.

Recommendations

County Manager should:

Recommendation 17: Require that Agency and Department Directors conduct physical inventories at least annually, reconcile to the perpetual and previous year's list, and compare to the County's financial system to identify all changes to the A/E list. Changes should then be researched, validated, resolved with the documentation maintained to support the results.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 18: Require that Agency and Department Directors ensure the appropriate signatures are reflected on all forms used to account for A/E items and to transfer the responsibility of accountability and custodianship.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

The Purchasing Director should:

Recommendation 19: Require that a complete and accurate list of A/E items housed at the surplus warehouse is maintained in a format that is readily available upon request. A physical inventory of surplus warehouse items should be conducted at least annually and reconciled to the perpetual and previous year's lists. Documentation to support all changes should be maintained.

Auditee Response: **Concur.** I concur with the recommendation that a complete and accountable list of surplus property items be developed and maintained by Purchasing. However, tracking equipment receipts and issues, and maintaining an accurate perpetual inventory system will require at least a dedicated, part-time employee. In addition, a facility with adequate space will be needed to organize equipment items by category. The County currently does not have a surplus property facility. If a facility can be provided by February 1, 2017, the projected date for implementation of the system will be April 15, 2017.

Additional Internal Auditor Comment: We do not take exception with the auditee's response; however, current surplus property items, if any, should be maintained in an auditable format regardless of location.

Tagging

We found that 53%¹⁷ of the sampled departments used a consistent methodology for tagging A/E equipment. Tagging A/E items for the remaining departments were incomplete, inconsistent, or included only Information Services computer equipment tags. Information Services staff tag computers and printers purchased through their office, but computer equipment purchased directly by the departments are required to be tagged by the department designee. Based on our interviews with department custodians, some were not aware of the department responsibility to tag A/E items. In addition, departments with multiple facilities did not have consistent tagging practices when items are delivered and maintained at the various facilities.

The County's A/E policy requires that all A/E items be tagged with an affixed label, and when impractical, departments should consider using another method. Additional policy instructions include the delineation of responsibility of tagging between Fixed Asset Accountants and the departments.

Recommendation

County Manager should:

Recommendation 20: Require that Agency and Department Directors implement guidelines and a methodology for tagging A/E items in compliance with the County's A/E policy. At a minimum, the tagging methodology should be included in the department A/E list and the physical inventory process should include an annual verification of A/E tagging.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Construction Projects

We judgmentally selected seventeen construction projects from the sampled departments during our stated scope period. We obtained the project logs, examined the supporting documentation, and noted that each project was fully outsourced to contractors with no A/E items purchased directly by County departments or the items purchased were consumable. An additional project was judgmentally selected for contextual understanding, but the project was excluded from our testing as the A/E purchases occurred outside of our scope period.

¹⁷ Represents nine of the 17 departments sampled during this audit project (See Table 1 on Page 2).

Current Safeguards over Accountable Equipment could be Strengthened

Safeguards over A/E items were generally adequate throughout the seventeen sampled departments, but we did note areas where the safeguards could be strengthened. We interviewed the department custodians and physically inspected and observed safeguards during onsite fieldwork testing. Most A/E items are safeguarded with department offices and facilities with limited access to authorized personnel only. Additional safeguards noted during testing included security systems, cameras, alarms, locked fences and gates, etc. We did note that outside facilities are required to remain open for business operations purposes, but overall security measures need to be evaluated periodically to ensure County assets are continually safeguarded.

We also tested field vehicles and noted that each was locked when not in use, and some included locked tool chests.

Recommendations

County Manager should:

Recommendation 21: Require that Agency and Department Directors periodically perform unannounced safeguard validation checks of office locations, facilities, and field vehicles to ensure safeguard measures are operating as intended or delegate the responsibility. Discrepancies should be identified with corrective action implemented.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 22: Require that Agency and Department Directors assess the current security measures for each office location, facility, and field vehicles, document the results, implement any additional safeguards warranted, and communicate the results to County leadership. This process should be periodically performed.

Auditee Response: **Concur.** This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016. Department Managers will be directed to have periodic conversations with appropriate staff concerning safeguards.

Detailed Objective(s), Scope, and Methodology

We conducted this review as part of our annual audit plan. Our audit period will cover expenditures from FY2012 – FY2014 (October 1, 2011 through June 30, 2015). January 2012 is when the accountable equipment policy was revised and changes would be expected to have been implemented at the department level.

Our overall objective was to determine if each County department's¹⁸ controls over accountable equipment were adequate to ensure Cobb County accountable equipment is complete and accurate, properly safeguarded, and properly reported. We also performed a follow-up on a prior audit recommendation.

We conducted this audit in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

Department Level

- I. Determined if each department's controls are adequate to ensure A/E completeness and accuracy
 - A. Followed-up on all A/E lists and requested information that remains outstanding as of the fieldwork start date.
 - B. Reviewed a copy of written department procedures, compared to the countywide A/E policy, resolved any discrepancies, and documented the results accordingly.
 - C. Examined each department's list of A/E items to ensure it contained the minimum required information, and documented the results accordingly.

Deviation from original scope (I.D-G):

During our review of the final WEBi reports in audit plan step I.D., reconciliation to the respective department's list in step I.C., and the selection of our random sample in step I.F., we found that the WEBi reports included a significant number of office supplies and non-accountable equipment items. As a result, our initial sample had to be revised to obtain a representative A/E sample. We discussed the various options available and judgmentally agreed to modify our original scope and replaced audit plan steps I.D. through I.G. with the following:

FY2012 through FY2015 (as of June 30, 2015) Scope

- D. Downloaded (via WEBi report writing tool) a list of purchases from FY2012 through FY2015 (as of June 30, 2015).
- E. Reconciled the purchases via WEBi (I.D) to the department's list of A/E items (I.C).
- F. Sorted '6258 only' and pulled 10% random sample. Documented the specific dollar value coverage of sample.

¹⁸ Elected, Constitutional, and Judicial offices were excluded.

- G. Judgmentally selected a 10% sample of FY2012-FY2014 potential accountable equipment items posted to other expenditure object codes.
- H. Interviewed each department's custodian of A/E regarding controls over acquisition, accountability, disposition, reporting.

Acquisition

- I. Using the sample selected in I.F. and I.G., reviewed the purchasing guidelines specifically for A/E items.
- J. Examined evidence to support when A/E items are added to the department's perpetual list.

Accountability

- K. For each reconciling item identified in I.E, performed the following:

Disposals/Surpluses

- 1. Obtained/examined the documentation to support each reconciling item.

Transfers

- 2. Obtained/examined the documentation to support each reconciling item.
- 3. Obtained a list of construction projects completed by Property Management during the scope period.
 - a) Completed steps I.2.a through I.2.g
- 4. Obtained a list of items physically located in another department, if applicable.

Missing

- 5. Obtained/examined the documentation to support each reconciling item.

Tagging

- 6. Examined sampled items for evidence of tagging.

- L. Ensured adequate segregation of duties exists.

- II. Determined if each department's controls are adequate to ensure A/E is properly safeguarded
 - A. Interviewed the respective department custodians regarding the physical safeguards over accountable equipment items.
 - B. Using the sample selected, observed/inspected the physical safeguards of accountable equipment items within the department.
 - C. Judgmentally selected a few items which seem more prone to be stolen or damaged and observed how they are stored in the Department.
 - D. Summarized and documented accordingly.

- III. Determined if each department's controls are adequate to ensure A/E is properly reported.
 - A. Examined for evidence that the physical inventory was reconciled to the perpetual inventory.
 - B. Physically inspected sampled A/E items to the physical location and agreed to custodian records.
 - C. Judgmentally selected a number of items from the physical inspection and traced back to the department's perpetual/physical inventory lists and reconciliation.
 - D. Summarized and documented accordingly.

- IV. Followed-up on the status of a prior audit recommendation from Report Number 2011-008, dated March 31, 2011, and Report Number 2012-004, dated February 16, 2012.

Countywide

- V. Determined the countywide impact of department level test results.

CY2015-16 AUDIT PLAN NOTE: The conclusions included in this report are the result of procedures performed on 50% of County departments as selected from a random sample for the first year of a two-year plan. Subsequent to completing the first year cycle, we judgmentally elected to postpone the remaining cycle of testing until the recommendations reflected in this report could be implemented. The issues addressed in the accompanying pages have countywide implications, and continuing with the original proposed plan would not add any audit value and not be an efficient use of IA staff resources. Instead, IA will initiate consulting services as needed.

Abbreviations

IA	Internal Audit Department
A/E	Accountable Equipment
BOC	Board of Commissioners
iCOBB	The County's intranet
OFED	Office of Finance and Economic Development Department
DO	Delivery orders
PD	Department Purchase Orders
PARKS	Parks, Recreation, and Cultural Affairs Department, including Keep Cobb Beautiful, and Solid Waste
WEBi	Report writing tool used to extract information from the County's financial system

Major Contributors to This Report

Latona Thomas, CPA, Internal Audit Director
Andrea Clayton, Auditor-in-Charge
Megan Pickens, Auditor

FINAL Report Distribution List

Joe Tommie, Purchasing Director
Jim Pehrson, CPA, Finance Director/Comptroller
Bill Volckmann, Assistant Finance Director/Comptroller
Agency/Department Directors
Cobb County Audit Committee
Internal Audit Department File

Outcome Measure(s)

This appendix presents detailed information on the measurable impact that our recommended corrective action(s) will have on County governance. These benefits will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Increased Safeguards of Assets – Actual; Recommendations, when implemented, will provide additional security over the County’s accountable equipment items. (See Pages 4-15).

Methodology Used to Measure the Reported Benefit:

We computed the four-year average¹ amount spent on accountable equipment items to be approximately \$2.34 million.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; Recommendations, when implemented, will provide assurance of the completeness and accuracy of accountable equipment lists/tracking documents. (See Pages 4-15).

Methodology Used to Measure the Reported Benefit:

We were unable to substantiate the completeness and accuracy of accountable equipment items and maintained by the respective County departments.

¹ This reflects items posted to the 6258 expenditure object code only and does not include accountable equipment items posted to other operating and capital expenditure object codes.

County Manager's Response



COBB COUNTY MANAGER'S OFFICE

100 Cherokee Street, Suite 300
Marietta, Georgia 30090-7000
Phone: (770) 528-2600 Fax: (770) 528-2606
dhankerson@cobbcounty.org

David Hankerson
County Manager

DATE: November 1, 2016
TO: Latona Thomas, CPA, Director, Internal Audit
FROM:  David Hankerson, County Manager
SUBJECT: Response to the Internal Audit Draft Report – Review of Department Controls over Accountable Equipment

This memo is in response to the subject report dated October 17, 2016. You identified opportunities to improve each department's controls over accountable equipment and ensure proper safeguards exist. You made several recommendations, our response to those recommendations are below.

Recommendations

The County Manager should:

Recommendation 1: Implement countywide training with all department custodians and back-ups required to attend. Topics should include at a minimum, the following:

- o Specific differences between departments
 - Small vs. Large
 - Multi-facilities
 - Multi-divisions
- o Clarification of A/E items based on expenditure object codes (6258 vs. non-6258)
- o Grant-funded A/E items
- o Perpetual vs. Physical inventories with reconciliations at least annually (no later than fiscal year end)
- o Best Practices
- o Location/Accessibility of A/E policy and related forms

Response: We concur. The Internal Audit Department will be charged with providing the initial training by December 31, 2016.

Recommendation 2: Require that A/E designation be included in the annual goals/job responsibilities of the respective department custodian and back-up.

Response: We concur. This will be discussed at the November 16, 2016 Department Managers meeting. A memo will be prepared by the County Managers Office following the Department Managers meeting to reiterate the need to make the A/E designation part of the department custodian's annual goals. The memo will go out by November 30, 2016.

Recommendation 3: Require that all department A/E policies be reviewed to ensure there is no conflict with the countywide policy. Department policies should also include reference to the County policy as the primary source with specific procedures and requirements for the respective department.

Response: We Concur. The requirement that all department A/E policies be reviewed to avoid conflict with the countywide policy will be addressed at the November 16, 2016 Department Managers meeting. It will also be included in the memo prepared by the County Managers Office by November 30, 2016.

Recommendation 4: Ensure that countywide topics resulting from the training are compared to the current accountable equipment policy. If significant discrepancies are noted, the countywide accountable equipment policy should be revised or an addendum developed to provide guidance for specific scenarios and differences within the departments.

Response: We Concur. Any discrepancies identified during the training will be reviewed and addressed and the policy revised as necessary. This should be complete by the end of FY17.

Recommendation 5: Require that Agency and Department Directors review, sign and date the A/E results as evidence that the process has been verified, validated, and conforms to the County A/E policy requirements or delegate to a designee.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 6: Request that a periodic review of department compliance with the countywide policy be incorporated into Internal Audit's risk assessment and annual audit plan on a rotating basis.

Response: We Concur. Department compliance is already considered in Internal Audit's risk assessment. Compliance tests will be performed on a rotating basis to begin in CY18.

Recommendation 7: Require that existing forms be streamlined and modified to meet the general needs of County agencies and departments.

Response: We Concur. The Purchasing Department will be charged with updating the Surplus and Transfer forms no later than January 1, 2017.

Recommendation 8: Require that new forms with critical data fields be developed.

Response: We Concur. The Purchasing Director will be charged with looking at best practices once the training is completed. This should be complete by the end of FY17.

Recommendation 9: Require that electronic versions of the A/E policy and all required forms are readily accessible on iCOBB. These forms should also include the functionality of various signatories and approvals as required.

Response: We Concur. The Purchasing Director will be charged with looking at best practices once the training is completed. This should be complete by the end of FY17.

Recommendation 10: Require that Agency and Department Directors revise existing department A/E lists to include the minimum requirements in accordance with the County policy. Every effort should be made to locate any missing information. If the information is no longer available, inefficient to obtain or re-create, and/or is no longer valid, departments should document its inability to complete old or missing data fields along with the reason (i.e. insufficient supporting documentation) and present for the Department Head's review, approval, and signature. Subsequent concurrence should be obtained by the Agency Director, if available, and the County Manager.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 11: Require that Agency and Department Directors compile a department-wide master A/E list and maintain, where applicable. The designated department custodian should ensure each division list is consistent and complete in accordance with the County policy and for ease of compilation.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 12: Consider a countywide amnesty date where missing data fields could be acknowledged with valid justification (i.e. obsolete, no longer valid, and/or insufficient documentation available). After this date, all minimum data field attributes would be required without exception.

Response: We Concur. We may consider allowing departments to request amnesty on a case by case basis. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 13: Require that Agency and Department Directors expand their current A/E list to include all A/E items regardless of expenditure object code posting. Items referenced

as 'small and attractive' should also be included in compliance with the County's A/E policy requirements.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 14: Require that Agency and Department Directors implement procedures consistent with the County A/E policy to ensure the above weaknesses are addressed and a complete and accurate A/E list is maintained.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 15: Require system approvals of all Department Heads or their designee immediately. Designee approval levels should be documented, included in the County's financial system, and segregated to reduce or eliminate the risk of theft, loss, or misappropriation.

Response: We concur. The Purchasing Director will be tasked with taking the lead. Follow up will occur by November 30, 2016.

Recommendation 16: Require that Agency and Department Directors review their current acquisition procedures and implement adequate segregation of duties controls. If not, additional controls should be implemented to eliminate or minimize the risk.

Response: We Concur. This will be discussed at the November 16, 2016 Department Managers meeting and included in the memo to be prepared by the County Managers Office by November 30, 2016.

Recommendation 17: Require that Agency and Department Directors conduct physical inventories at least annually, reconcile to the perpetual and previous year's list, and compare to the County's financial system to identify all changes to the A/E list. Changes should then be researched, validated, resolved with the documentation maintained to support the results.

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Cc: Joe Tommie, Purchasing

Purchasing Director's Response



**COBB COUNTY
PURCHASING DEPARTMENT**

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phone: (770) 528-8400 • fax: (770) 528-8428

William J. Tommie Jr., CPPO
Purchasing Director

DATE: November 3, 2016
TO: Latona Thomas, CPA, Director, Internal Audit
FROM: Joe Tommie, Purchasing Director
SUBJECT: Response to the Internal Audit Draft Report – Review of Department Controls over Accountable Equipment

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Response:

I concur with the recommendation that a complete and accountable list of surplus property items be developed and maintained by Purchasing. However, tracking equipment receipts and issues, and maintaining an accurate perpetual inventory system will require at least a dedicated, part-time employee. In addition, a facility with adequate space will be needed to organize equipment items by category. The County currently does not have a surplus property facility. If a facility can be provided by February 1, 2017, the projected date for implementation of the system will be April 15, 2017.