



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: February 25, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Geoffrey Reed, Commissioner of General Services
Jamshid Baradaran, Director of Facilities & Fleet Management
Phyllis Cooper, Director of Accounting
Todd Slatin, Director of Purchasing
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teressa Gipson, CFE, Internal Auditor

RE: Inventory Control Process Management Action Plan Progress Report

EXECUTIVE SUMMARY

On January 9, 2013 the Office of Internal Audit issued the Inventory Control Process Audit. The 2013 audit report contained several findings related to the need for a fixed asset and inventory policy, the reporting of year-end inventory, fixed assets and computer equipment inventory variances, inventory variances in Parks & Recreation, segregation of duties in internet sales, control over surplus property, procedures for obsolete inventory, better documentation of internet sales asset ID, journal voucher descriptions, and usage of surplus property.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. The period of review included fixed assets added to Asset Management in PeopleSoft from July 1, 2013 through June 30, 2014 and all inventory on hand at field visit date.

A summary of the findings from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the **ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS** section of this report.

Finding	Summary of Original Finding	Follow-Up Results
Finding 1 High Priority	CAO Fixed Asset and Inventory Policy Needed	Requirements as outlined in the finding recommendation have been included in CAO Policy #47, effective June 2, 2014. This finding has been resolved.
Finding 2 High Priority	Inventory Not Reported to Accounting	Accounting received and reported year-end inventory balances for Divisions of Parks and Recreation and Environmental Policy. The Divisions of Water Quality, Waste Management, and Streets Roads & Forestry were not aware of the audit finding until contacted at the beginning of fieldwork; therefore, their inventories were not reported for FY 2014. All Divisions should maintain accurate inventory records and report ending balances to Accounting each fiscal year in accordance with CAO Policy #47. This finding has been partially resolved.
Finding 3 High Priority	Fixed Asset and Computer Equipment Inventory Variances Noted	We selected a sample of 59 fixed asset items and verified the correct location and appropriate tag number per Asset Management in PeopleSoft with no exceptions. We also selected a sample of computer items and noted that 36% of items exceeding \$5000 and capitalized according to Division of Accounting's threshold did not contain an inventory

		<p>tag number. Additionally, 13% of computer items costing less than \$5000 did not contain a tag. CAO Policy #47 may need to be revised to provide specificity regarding the lowest dollar threshold and “walk away” items that need to be tagged and tracked. Once this has been clarified, Information Technology should maintain this list of computer equipment to provide for adequate recording, reporting, and confirmation of applicable LFUCG computer equipment. Clarification of what is considered “walk away” should also be communicated to all Commissioners and Directors to increase the likelihood that all Divisions will consistently comply with their responsibilities under CAO Policy #47. This finding has been partially resolved.</p>
<p>Finding 4 High Priority</p>	<p>Parks & Recreation Inventory Variances Noted</p>	<p>Training was not provided by Vermont Systems as indicated by management and some of the labeling and listing of product numbers have still not been standardized. This may be the reason for some significant inventory variances we noted between physical counts and the quantities recorded in RecTrac. There were also issues with product items not scanning properly and items being entered as miscellaneous items.</p>
<p>Finding 5 High Priority</p>	<p>Segregation of Duties Issue Noted</p>	<p>Corrective action taken by Fleet Services to properly segregate the incompatible duties noted in the previous audit. The Division of Purchasing took corrective action to correct their segregation of duties issue prior to the completion of MAPPR fieldwork. Purchasing needs to comply with CAO Policy #40 regarding retention of duplicate receipts. This finding has been partially resolved.</p>

Finding 6 High Priority	Improved Surplus Controls Needed	Divisions are complying with CAO Policy #47 regarding the disposal of assets. We noted fewer items being maintained at the Furrows Surplus Building since the prior audit. Management has been working to dispose of old equipment and furniture on timely basis. This finding has been resolved.
Finding 7 High Priority	Obsolete Inventory in Golf Services Garages	We noted a significant reduction of inventory at the Parks & Recreation golf course garages in their efforts to purge obsolete parts. Some items have been delivered to Fleet Services and are waiting for auction through Public Surplus. Parks has received a vendor credit memo for \$2,886 for returned parts. This finding has been resolved.
Finding 8 Moderate Priority	Internet Sales Information Does Not Include Asset ID	Fleet Services now maintains a spreadsheet that includes the asset unit identification, name of the buyer, date of sale, sale price, net proceeds, fund and division. This information is submitted to Accounting periodically throughout the year for reconciliation with online deposits and inventory removal from Asset Management. This finding has been resolved.
Finding 9 Moderate Priority	Journal Voucher Description Needed	The journal line descriptions do not consistently provide clarifying information to prevent miscoding of assets or aid in their location during the physical inventory.
Finding 10 Moderate Priority	Property Usage Improvements Needed	Facilities Maintenance has attached receipt dates to pieces of furniture at the Furrows Building to indicate their arrival date. The procedure of disposing of items after six months appears to be working because there was a significant reduction of items in storage. This finding has been resolved.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: CAO Fixed Asset and Inventory Policy Needed

Priority Rating: High

Condition:

The LFUCG does not have a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. Although there are some Purchasing guidelines, they are not sufficient to cover all controls over fixed assets and other inventories, nor do they carry the authority of a CAO Policy.

Effect:

The absence of a comprehensive inventory policy results in a piecemeal approach to the recording, reporting, safeguarding, and confirmation of fixed assets and other inventory items within the LFUCG. This piecemeal approach and its effect are further identified in some of the additional findings in this report.

Recommendation:

A comprehensive CAO Policy should be developed that establishes government-wide requirements regarding fixed assets and other inventory. This policy should include the types of items that should be considered inventory reportable to Accounting for inclusion in the Comprehensive Annual Financial Report (CAFR) and establish annual reporting requirements for all Divisions. It should also include instructions regarding inventory security, inventory segregation of duties, the performance of annual physical counts by Divisions and requirements for reporting discrepancies between book and physical inventories to Accounting and responsible management for proper resolution. The Policy should establish inventory tagging requirements to augment the effective identification of inventory within the various Departments and Divisions, and specify those items that are capital assets that should be included in the Fixed Asset module and the depreciation method(s). The Policy should specify standards for the identification, documentation, reporting, and removal of surplus inventory and disposals, including the transfer of surplus inventory between Divisions and the sales thereof to outside vendors.

Consideration should also be given by senior management to lowering the requirement for tagging items from the current \$5,000 limit (the fixed asset limit) to a lower dollar amount in order to increase LFUCG's ability to account for small inventory. Tagging is currently used for computer equipment that is individually valued at less than \$5,000 and this significantly increased our ability to positively identify such items during our inventory spot counts.

Senior management should give due consideration to a lower tag dollar limit for furnishings, artwork, and other non-computer equipment. This should include consideration of reputational risk if a number of items individually valued at less than \$5,000 are lost or stolen. Any decision to lower the tag dollar limit should be incorporated into the CAO Policy recommended above.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Follow-Up Detail Results:

Management indicated that they had taken the following corrective action to resolve the finding.

1. **Fixed Assets and Inventory policies and procedures needed**
 - a. The policies and procedures have been updated. The Final copy of CAO Policy 47: Financial Asset Policy is available for guidance and use from the R: drive.
 - b. The procedures include comprehensive guidelines that ensure the Government's ability to properly account for and protect its assets.
 - c. A new form was developed to request Capital Project IDs. The relevant project information is now provided directly to the Accountant tracking and capitalizing costs from beginning to end.
 - d. Procedures were developed to report annual project status.
 - e. A new form is in final review to close capital projects that are completed.
 - f. New procedures have been developed for capitalized inventories. The procedures include instructions for annual physical inventory counts and year-end inventory adjustments.
 - g. Guidelines for reporting non-capital items are outlined.
 - h. Procedures are outlined for asset disposals, sales, trade-ins, surplus, and transfers.

We reviewed CAO Policy #47 and noted that it covered all of the areas mentioned in the recommendation.

This finding has been resolved. No management response required.

Original Finding #2: Inventory Not Reported to Accounting
Priority Rating: High

Condition:

Some Divisions maintain significant inventory in order to promptly meet the needs of the public. We identified several stockpiles of inventory in the various Divisions that had not been reported to Accounting for inclusion as inventory. The specific inventories that had not been reported to Accounting are noted below.

- Parks and Recreation Golf Courses maintain inventory of chemical supplies for maintenance purposes. At the peak of golf season, inventory of chemicals used to maintain the greens may be valued at \$10,000 at each golf course.
- The Division of Environmental Policy maintains an inventory of Lily rain barrels as part of the LFUCG Lily program. At FY 2011 year-end there was a total inventory valued at \$18,792. (Prior to the completion of field testwork, Accounting set up an account to track the lily rain barrel inventory and has requested the Division to report inventory quarterly).
- The West Hickman Water Treatment Plant maintains a stockroom of motors and chemicals valued at approximately \$70,000 on the date of our visit.
- The Division of Waste Management maintains a significant amount of refuse containers at the Furrows Building with an approximate value of \$265,000 on the date of our visit.
- The Division of Streets Roads & Forestry maintains a stockroom in addition to the salt barn. The stockroom contained equipment parts, cement, tools, lubricants, special clothing, and various other items used in road repair work. The current total inventory has an estimated value of approximately \$352,621 on the date of our visit.
- While conducting control reviews of inventory, we also noted that several Divisions had segregation of duty issues regarding ordering, custody, tracking, distribution and the security of inventory.

Effect:

Reportable inventory amounts may not be included in the CAFR if they are not communicated on an annual basis to Accounting for evaluation and reporting purposes. The absence of government-wide inventory policy creates the possibility that incompatible inventory duties may not be identified and addressed.

Recommendation:

As noted in Finding #1, a comprehensive CAO Policy should be developed that establishes government-wide requirements regarding fixed assets and other inventory. This policy should include the types of items that should be considered inventory items reportable to Accounting for inclusion in the Comprehensive Annual Financial Report (CAFR) and establish annual reporting requirements for all Divisions. It should also include instructions regarding segregation of duties over inventory to give Divisions guidance on the ordering, custody, distribution, security, and tracking of inventories.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Follow-Up Detail Results:

The Division of Accounting received and reported inventory balances for year-end. However, the Divisions of Water Quality, Waste Management, and Streets and Roads did not submit an ending inventory amount to Accounting. The Directors of Waste Management and Water Quality indicated that they were not aware of the audit findings until we contacted them at the beginning of our fieldwork.

We recommend that each Division maintain accurate inventory records and report ending balances to Accounting each fiscal year in accordance with CAO Policy #47.

Commissioner of Finance & Administration Response:

New procedures have been developed for capitalized inventories and these procedures include instructions for annual physical inventory counts and year-end inventory adjustments.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response and will communicate the new procedures to all impacted Divisions.

Original Finding #3: Fixed Asset and Computer Equipment Inventory Variances Noted

Priority Rating: High

Condition:

We performed spot counts of fixed asset and computer equipment to verify their existence and location in the assigned Department/Division. Eleven of eighty (14%) equipment items indicated on the most recent Fixed Assets listing obtained from Accounting could not be located in the Department/Division they were assigned to, and Department/Division personnel were unaware of the current location of these items. Also, 25 of 76 (33%) equipment items on the Fixed Assets listing that required an inventory tag did not have a tag and/or could not be identified by a serial number because the serial number was not entered in the Fixed Assets listing (some of these items were identified based on item description and the presence in the assigned Department/Division). Additionally, 20 of 80 (25%) equipment items were located and verified against the Fixed Asset list, but were not in their assigned location as indicated by the Fixed Asset list. The Division of Accounting sent a list of Fixed Assets to the Divisions in 2010 to have them verify their book inventories against physical on hand, and to self-report any variances. Accounting did not require this count in 2011 because it is their understanding that Government Financial Officers Association (GFOA) only requires such a self-reporting to occur every five years.

In addition, there were 7 of 30 (23%) computer items included on the Computer Services inventory records provided to us that could not be located, and 2 of 30 (7%) computer items were not in the location indicated by Computer Services records.

Effect:

The variances noted in our spot counts indicate improved tracking and control over portable assets and computer equipment is needed. While it is possible that poor recordkeeping is the cause behind the unaccounted for items, such items can be misappropriated if not routinely inventoried with variance between book and physical inventory promptly investigated and resolved.

Recommendation:

As noted in Finding #1, a comprehensive CAO Policy should be developed that establishes government-wide requirements regarding fixed assets and other inventory. The policy should include instructions regarding the performance of annual physical counts by Divisions and requirements for reporting discrepancies between book and physical inventories to Accounting and responsible management for proper resolution.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Follow-Up Detail Results:

CAO Policy #47 was issued on June 2, 2014 and states that "computer equipment items are assigned a tag by Information Technology and tracked within their Division, even if items cost under \$5,000". We selected a sample of computer items and noted that 4 of 11 (36%) exceeded a cost of \$5,000 and were capitalized according to the Division of Accounting's Equipment threshold, but did not contain an inventory tag number. We also noted that 2 of 16 (13%) costing less than \$5,000 did not contain a tag (a laptop and two servers-each server priced at \$3,346 on the invoice).

We were unable to obtain a listing of computer equipment from Information Technology initially requested on September 26, 2014. Computer Services management indicated they were waiting on Enterprise Solution personnel to design a query to extract and sort through the purchasing information in PeopleSoft. Computer Services and Enterprise Solutions management also stated they were not aware of their computer tracking responsibilities under CAO Policy #47.

CAO Policy #47 may need to be revised to provide specificity regarding the lowest dollar threshold and/or type of computer equipment considered "walk away" that therefore needs to be tagged and tracked by Information Technology. Once this has been clarified, Information Technology should maintain this list of computer equipment to provide for adequate recording, reporting, and confirmation of applicable LFUCG computer equipment and tag them accordingly. Since CAO Policy #47 also states under non capital equipment that, "Divisions are responsible for maintaining annual inventory records for items deemed walk away", clarification of what is considered "walk away" should also be communicated to all Commissioners and Directors. This will increase the likelihood that all Divisions will consistently comply with CAO Policy #47.

We also selected a sample of 59 fixed asset items and verified the correct location and appropriate tag number per Asset Management in PeopleSoft with no exceptions.

Chief Information Officer Response:

The following actions have been taken and are in progress.

- In Q1 of 2014 an inventory system was purchased based on RFID tags that are attached to devices. The Division of Computer Services (part of the Office of the CIO) is using this inventory system as follows:
 - All items greater than \$500.00 that are ordered and delivered to Computer Services are inventoried and an RFID tag is placed on the device. The following are excluded: software, cell phones (smart phones and non-smart phones), and monitors.
 - All tablets (+/- \$500.00) will be inventoried and tagged.
 - All mobile devices (cell phones, tablets and laptops) will have anti-theft/tracking management software installed where feasible to do so.
- Computer Services will work with our inventory solution to determine what changes may be required to allow the UCG to scale the current solution beyond Computer Services for other divisions with inventory control requirements to utilize this system.
- Computer Services will explore the feasibility of extracting inventory data from the existing system for the Division of Accounting to import the data into the PeopleSoft Asset Management module.
- Computer Services requests that the Division of Accounting clearly define a process/procedure to use when securing equipment valued at greater than \$5,000.00 to an existing asset, e.g., additional processor or other equipment purchased/installed into an existing system.

*These steps are implemented for inventory that is received by Computer Services.

Chief Administrative Officer Response:

I concur with the Chief Information Officer's response.

Original Finding #4: Parks & Recreation Inventory Variances Noted

Priority Rating: High

Condition:

The Division of Parks and Recreation maintains inventory in garages that is used for repair purposes at each golf course, and the Pro Shops also maintain general merchandise that is sold to the public. There were inventory variances noted during spot counts we conducted at four garages and Pro Shops. Variances noted in spot counts at the garages ranged from 1 variance out of 15 (7%) item spot counts to 5 variances out of 17 (29%) item spot counts. Variances noted at the Pro Shops ranged from 6 variances out of 25 (24%) item spot counts

to 12 variances out of 25 (48%) item spot counts. It was also noted that Pro Shop product categories and/or product naming conventions are not consistent across inventory areas, and barcode scanning is not used.

Effect:

Inventory could be misappropriated if it is not routinely counted and resulting variances between book and physical inventory investigated and resolved in a timely manner. The absence of bar coding and bar scanning weakens overall inventory control and category management.

Recommendation:

As noted in Finding #1, a comprehensive CAO Policy should be developed that establishes government-wide requirements regarding fixed assets and other inventory. The policy should include instructions regarding the performance of annual physical counts by Divisions and requirements for reporting discrepancies between book and physical inventories to Accounting and responsible management for proper resolution. In addition, Parks & Recreation management should fully utilize the RecTrac Module with the barcode scanning that was designed for inventory control to provide a comparative book to physical inventory report and trend analysis. Training for all RecTrac users should be a high priority to maximize RecTrac's perpetual inventory system capabilities.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Director of Parks & Recreation Response:

Rec Trac (Parks primary activity, registration, customer record and cash transaction software) training for all users needs to occur and an efficient inventory control system needs to be developed. The current system was created by LFUCG's IT staff but it is not perfect. We have issues that Rec Trac needs to help us solve. We have used it for several years to good effect but it can be improved. We will contract with Vermont Systems (Rec Trac system supplier) to provide this training this winter.

Product labeling and listings are not universal and need to be standardized, which will be performed once the inventory module is purchased/improved. We do use bar coding, and our cash registers are live, and the resulting inventory is live as well. One issue,

involving new product bar codes that are not recognized by Rec Trac creates problems. When an item is not recognized, it defaults to ‘Miscellaneous’ which then needs to be reconciled manually. This has not been done as effectively as it should. Efforts to resolve these issues with Rec Trac are underway.

Inventory is kept ‘Live’ in our server and cash register transactions are tied to inventory automatically. Counts during the audit may not have reflected the most current electronic inventory records, and may have been affected by the ‘Misc’ coding issue above. One action we need to take is to eliminate parts inventory for obsolete or no longer active equipment. Parts inventory is not as important as previously due to contemporary shipping efficiencies.

Commissioner of General Services Response:

I concur with the finding and response.

Follow-Up Detail Results:

We conducted spot counts of inventory and compared them to quantities recorded in RecTrac at the Pro Shops located at Picadome, Kearney, Tates Creek, and Lakeside golf courses. There were significant variances noted at Kearney and Lakeside. According to Parks management, training was not provided by Vermont Systems as indicated in the prior audit and some of the labeling and listing of product numbers have still not been standardized. There were also issues with product items not scanning properly and items being entered as miscellaneous items. This may have contributed to the inventory variances.

We recommend that Parks management work to resolve the training and scanning issues with the Vermont Systems in order to reduce discrepancies between inventory on hand and the inventory numbers in RecTrac.

Commissioner of General Services Response:

Pro Shop inventory variances are the result of several factors, the primary being a training issue with the staff responsible for inventory management. Items that are not bar coded or have a scan tag when delivered require an employee to create this item within the inventory system so that it can be tracked. Currently, “Miscellaneous item” is being used as a default work around in order to perform the transaction. Customers should not be asked to wait while inventory issues are resolved and these pressures may have some bearing on the issue.

To this end, the Division will schedule training for all course managers and personnel related to the inventory process prior to May of 2015. At this training, inventory maintenance will be covered in depth to include training on the entry of

new items into the system. A systemic approach will also be made to adjust the process so that the use of "miscellaneous item" is not quite as readily available. The software can be adjusted to require a brief question group appear when "miscellaneous item" is used to verify that the item is in fact miscellaneous. This adjustment would allow reports to be run identifying trends or inconsistencies with certain items that could be addressed as needed.

Chief Administrative Officer Response:

I concur with the Commissioner of General Services' response.

Original Finding #5: Segregation of Duties Issue Noted
Priority Rating: High

Condition:

The Division of Facilities and Fleet Management and the Division of Purchasing are responsible for maintaining the LFUCG Internet Sales program that is used to dispose of obsolete and/or unwanted assets (Fleet has this responsibility for Fleet surplus sales, and Purchasing has this responsibility for other surplus sales). We noted that one employee in each of these Divisions accepts payments for all sales, enters the deposit information into PeopleSoft (e.g., check number, check account info), makes the deposit, and reconciles the sales to the deposit. This does not provide sufficient segregation of duties. We also noted that checks were not always endorsed by the Division of Purchasing.

We further noted that when we attempted to verify posted revenue in PeopleSoft, there was no name provided for source of deposit and the deposit amounts often included several sale transactions. To further complicate this process, there was no accompanying documentation with the deposit information maintained in Revenue. Fleet Services personnel indicated that an on-line payment system had already been tried in the past, resulting in a significant delay in LFUCG receiving the payment.

Effect:

The absence of properly segregated duties reduces management's ability to prevent, detect, and/or correct collection errors and irregularities, thereby significantly increasing financial risk. Failure to endorse checks upon receipt is a violation of CAO Policy #40.

Recommendation:

We recommend that collection duties be appropriately assigned to prevent one employee performing all collection functions. Checks should be consistently endorsed as required by CAO Policy #40. The Division of Facilities & Fleet Management should consult with the Division of Parks & Recreation regarding the effectiveness of an online payment system

used by that Division for program registration and payment to determine if it may be compatible with online payments needs in the Division of Facilities & Fleet Management.

Director of Facilities & Fleet Management Response:

We would like to offer the following operational changes/modifications:

The Administrative Specialist Principal or the Staff Assistant Sr. at Fleet Management will process the transfer of title to the buyer and reconcile the payment to the sale.

The Parts Manager or a Parts Specialist will accept payment from the buyer; process the deposit in PeopleSoft and deliver the deposit within 2 business days to the Division of Revenue.

Commissioner of General Services Response:

I agree with the response.

Acting Director of Purchasing Response:

An existing employee will be assigned to the process in Purchasing to provide the deposit and reconciliation function.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the Purchasing response.

Follow-Up Detail Results:

We were able to determine that the Fleet Services has changed their process to allow one employee to receive and process payments for surplus property, while another employee prepares paperwork and finalizes items on Public Surplus. This portion of the finding has been resolved.

We determined at the beginning of fieldwork through a walkthrough that Purchasing still had one employee posting all surplus sales to Public Surplus, accepting payments for all sales, reconciling payment to the sales deposit information, and submitting deposit paperwork to the Division of Revenue for entry into PeopleSoft. Prior to the end of fieldwork, Purchasing revised their process to include another employee who now accepts all payments for surplus sales and submits the deposits to the Division of Revenue. This portion of the finding has now been resolved.

We noted during our review that Purchasing generates sequentially numbered "Auction Receipts" when customers pay for surplus purchases. However, a duplicate copy containing a "Released By" signature, a "Received By" signature, or Date, is not included on the file copy. We recommend that Purchasing print these

receipts for all surplus purchases and maintain a completed duplicate form with signatures and date in the file to comply with CAO Policy 40.

Director of Purchasing Response:

Purchasing will begin using a duplicate form receipt book to record released by signature, received by signature and date. One copy of the receipt will be given to the purchaser of the item and one will be attached to the surplus paperwork kept in our office.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the response from Purchasing.

Original Finding #6: Improved Surplus Controls Needed

Priority Rating: High

Condition:

A Fixed Asset Inventory Transfer and Equipment Retirement Form (FA9 Form) could not be located for eight of the twenty (40%) surplus items selected for testing. When a Division has an item that is no longer functional or is otherwise not needed, the item can be transferred to LFUCG's surplus or recycle facilities at the Furrows Building. An FA9 form should be filled out by the transferring Division and submitted to Purchasing, who in turn contacts General Services personnel to transport the items to the Furrows Building facilities. The FA9 should also be used to transfer such items from one Division to another (i.e., transfer of furniture).

Effect:

Without a properly completed FA9, transfers cannot be effectively tracked.

Recommendation:

As noted in Finding #1, a comprehensive CAO Policy should be developed that establishes government-wide requirements regarding fixed assets and other inventory. The Policy should also specify standards for the identification, documentation, reporting, and removal of surplus inventory for transfer to the Furrows Building or between Divisions, as well as the purchase or removal of such items by outside vendors. A properly completed FA9 form should be returned to Purchasing for a record of all transfers. LFUCG equipment tag numbers should be noted on the FA9 for tracking purposes.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories

(capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Follow-Up Detail Results:

CAO Policy #47 includes procedures for identification, documentation, reporting, and removal of surplus inventory for transfer to the Furrows Building or between Divisions disposing of fixed assets. We reviewed some Fixed Asset Inventory Transfer and Equipment Retirement Forms (FA9) to determine if Divisions were complying with the current policy regarding the disposal of assets. The FA9 forms reviewed were completed with tag numbers where appropriate; however, most of the items were furniture items and were not tagged because they did not exceed the \$5,000 threshold.

We also noted fewer items being maintained at the Furrows Surplus Building since the prior audit. Management indicated that they had been disposing of old equipment and furniture on a timely basis, i.e. six months, from receipt.

This finding has been resolved. No management response required.

Original Finding #7: Obsolete Inventory in Golf Services Garages

Priority Rating: High

Condition:

We were informed during inventory counts at the Parks & Recreation golf course garages that there were various equipment items that were either obsolete or not functional and need to be purged from inventory. The Parks employees were unaware of any procedures for the write-off and disposal of these items.

Effect:

Maintaining obsolete equipment on the books overstates the true value of inventories.

Recommendation:

As noted in Finding #1, a comprehensive CAO Policy should be developed that establishes government-wide requirements regarding inventory and fixed assets. The Policy should specify the identification, documentation, reporting, and removal of obsolete items contained in inventory through either the use of the surplus inventory process or via obsolete inventory write-off and scrapping processes.

Commissioner of Finance & Administration Response:

The Finance Department will develop and establish a comprehensive policy regarding the recording, reporting, safeguarding, and confirmation of fixed assets and other inventories (capitalized and non-capitalized) within the LFUCG. The project will be completed by December, 2013.

Chief Administrative Officer Response:

I concur with the Commissioner of Finance & Administration's response.

Follow-Up Detail Results:

We conducted walkthroughs of the Parks & Recreation Golf Course Garages and noted a significant reduction of parts inventory through their efforts to purge obsolete parts. We were able to verify that some purged equipment parts have been delivered to Fleet Services and are waiting for auction through Public Surplus. Additionally, Parks has received a credit memo for \$2,886 for equipment parts returned to the vendor.

This finding has been resolved. No management response required.

Original Finding #8: Internet Sales Information Does Not Include Asset ID
Priority Rating: Moderate

Condition:

Information obtained regarding capital equipment sold through internet sales did not contain a reference to an asset ID number, Tag number, Serial Number or any other unique identifier.

Effect:

The absence of unique identifiers makes it difficult to trace such items to the Asset Management Module and remove them when necessary.

Recommendation:

The Department or Division in possession of the asset should be required to provide detailed identifying information to Fleet Services prior to the item being placed for sale on the internet. When the item is sold, Fleet Services personnel should enter this identifying information into PeopleSoft for asset tracking purposes and provide the documentation to Accounting for removal from the Fixed Asset Management Module.

Director of Facilities & Fleet Management Response:

We would like to offer the following operational changes/modifications:

Fleet Management already puts the unit number in the description field as an identifier of the source of the online deposit but will also add the VIN. Another line will need to be added in PeopleSoft for the buyer information unless Internal Audit feels the buyer information is more relevant than the item information.

Fleet Management can provide the Division of Revenue a copy of the sales receipt or Bill of Sales and/or the transferred title with the deposit. Internal Audit can decide which of these documents is preferable.

We would also like to offer the following Payment Options Clarification:

Our current internet contractor PublicSupplus.com does provide the option of collecting payment for the government. However the company produces checks for these payments once a month causing a delay of approximately 30 days before the Urban County Government receives payment. All the involved Divisions (Accounting, Revenue, Purchasing and Fleet Management) did not feel it is prudent to sign over vehicles before the government actually received payment. We further felt it unfair to penalize the customer by holding on to their purchase until payment had been received.

Additionally, the Terms and Conditions of our online auction provide our buyers an option to back out of a sale as long as they do not take the vehicle off our lot. For this reason, a PayPal online payment system would not be utilized enough to make it worth our while as most of our customers want to inspect the used vehicles they are purchasing before they drive off the lot.

A wire transfer has been suggested as a method of payment. However the Division of Accounting has explained a company can differentiate between an ACH transfer and a wire transfer and we won't know which is which until the transfer hits our bank. The Urban County Government places a five day hold on an ACH transfer as it can be recalled by the issuing bank within five days. We would be unable to release the vehicle until the hold is lifted. It is for this reason we don't recommend wire transfer as an option.

Commissioner of General Services Response:

I agree with the response.

Follow-Up Detail Results

We noted that Fleet Services maintains a spreadsheet with the unit identification number, the name of the buyer, date of sale, sale price, net proceeds, and Fund and

Division. This information is submitted to Accounting periodically throughout the year for reconciliation with online deposits and inventory removal. Additionally, we determined that equipment items sold through internet sales were appropriately removed from Asset Management in PeopleSoft.

This finding has been resolved. No management response required.

Original Finding #9: Journal Voucher Description Needed
Priority Rating: Moderate

Condition:

We examined ten Journal Vouchers affecting PeopleSoft equipment accounts and noted that three of the ten Journal Vouchers (30%) examined did not provide a description of the item purchased.

Effect:

The absence of adequate descriptions makes it difficult to trace equipment purchases to the related invoice.

Recommendation:

Purchasing Coordinators should be instructed to clearly indicate equipment purchases in PeopleSoft purchase description fields.

Acting Director of Purchasing Response:

The three Journal Vouchers in question were examined and traced back to the originating purchase orders if possible, Journal Vouchers are not always generated by a purchase order.

The first Journal Voucher in question could have been generated as a result of purchase order LF00088021 or LF00088024 based on the accounting chartfield information, vendor name and description. In examining these two PO's it was determined that the item descriptions on the PO's do in fact describe the items purchased, Zumro Air Shelters which is brand name emergency shelter used for decontamination during chemical emergencies. Furthermore both PO's contained attachments that described the equipment in more detail.

The second Journal Voucher in question could not be traced back to a purchase order as there were no purchase orders in PeopleSoft with the same accounting chartfield. It is Purchasing's opinion that this Voucher was not generated as a result of a PO or Requisition.

The third Journal Voucher could be directly traced to Purchase Order LF00077737 and it was discovered that the comments on the PO describe the work performed adequately. The

comment states the purchase order was issued for labor and material to fabricate and install fan brackets for the oscillating fans at the sorter stations.

Buyers will be reminded to review all purchase orders for accurate item descriptions and/or descriptive comments or attachments and adjust the item description if necessary.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the purchasing response.

Follow-Up Detail Results:

We selected a sample of Journal Vouchers and located computer equipment based on the Journal Line Description. In some cases, several discussions with departmental personnel were required before we could determine the exact location of the item because the description did not provide enough details. The description for one journal line item was B5 48PT 10/100/1000 POE 4 SFP, which was for two servers; however, the invoice only listed the indicated description with no additional clarifying information. Another item was listed as VM ware, which is software; however, the item was coded as hardware.

We recommend that Purchasing Coordinators be reminded to provide descriptive product identification to prevent miscoding of assets and to aid in locating assets during the physical inventory.

Director of Purchasing Response:

The Division will implement an annual training program for new and existing Purchasing Coordinators to remind them of purchasing policies, revisions to our programs, changes in procurement law and to include as clear a description as possible in their requisition lines.

Commissioner of Finance & Administration Response:

The Commissioner of Finance concurs with the response from Purchasing.

Original Finding #10: Property Usage Improvements Needed

Priority Rating: Low

Condition:

It was noted during a walkthrough of the general surplus facility at the Furrows Building that LFUCG is maintaining property that appears to be of no value. An employee responsible for maintaining the property stated that some of the better pieces of furniture (e.g., leather sofa) had been at the facility for approximately two years. This employee represented that

when the furniture first arrived at the surplus facility, it was in “mint condition” and ready for redistribution to other government departments. It now appears to be effectively useless.

Effect:

Reusable items such as furnishings are not effectively identified and communicated to other Divisions that may have use for them.

Recommendation:

Surplus property management should develop a process to examine the condition of items being received at the surplus facility and develop a method for communicating reusable items to other Divisions. This may be as simple as attaching photos of available items to an email that is sent to the other Divisions. Other items in good condition but not requested by other Divisions in a timely manner should be disposed of through periodic auctions in a process defined by the CAO Policy recommended in other sections of this report.

Acting Director of Purchasing Response:

Purchasing is establishing a process to post photos of surplus items on the LFUCG Purchasing Intranet Site and dispose of items within 6 months of receipt if they are not transferred to other Divisions or sold via the online auction site.

Commissioner of Finance & Administration:

The Commissioner of Finance concurs with the purchasing response.

Follow-Up Detail Results:

We noted that Facilities Maintenance personnel had attached receipt dates to pieces of furniture at the Furrows Building to indicate their arrival date. The procedure of disposing of items after six months appears to be working because there was a significant reduction of items in storage. The employee responsible for surplus storage indicated that he often communicates with Purchasing Coordinators when they review storage items and requests for transfer to their Divisions. The Division of Purchasing decided against posting pictures to the intranet because it would be too difficult to keep track of surplus items since they are constantly being added to and removed from surplus.

This finding has been resolved. No management response required.