

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Jeff Pratt, Director, Public Works Agency

Date: August 2, 2010

From: Christine L. Cohen

Subject: **AUDIT OF CHANGE IN DIRECTOR FOR THE PUBLIC WORKS AGENCY**

We have completed our audit of the change in director for the Public Works Agency (PWA). Our overall objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, PWA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding PWA director. For example, we confirmed that a *Statement of Economic Interests* was filed timely by the incoming PWA director upon official appointment. Further, expense reimbursements paid to the prior PWA director in the months before leaving County service appeared to be appropriate. In addition, we verified that change funds were properly safeguarded and confirmed that trust fund balances were reasonably stated.

However, opportunities were available to better account for departmental assets and manage the transition upon a change in director. Specifically, we noted that:

- *Statements of Economic Interests* were not always completed in a timely manner or as required.
- Accountability was not always properly established over fixed assets.
- Facility access devices issued to the prior director were not collected or deactivated in a timely manner.
- The outgoing director's County email account was not deactivated in a timely manner.
- Sensitive non-fixed assets have not been subject to a physical inventory and were not always properly tagged as required by County policy.
- Trust fund balances were not always released to depositors in a timely manner.
- Trust fund reconciliations were not always prepared timely and properly approved as required.
- Cash drawer procedures were in need of improvement to strengthen internal controls.

Jeff Pratt, Director, Public Works Agency

August 2, 2010

Page 2

PWA management initiated corrective action to address our findings. Corrective action is planned to be completed by August 1, 2010, except for action relating to Finding 3 regarding sensitive non-fixed assets, which is planned for completion by August 31, 2010.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Kathy Long, Chair, Board of Supervisors
Honorable Linda Parks, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Marty Robinson, County Executive Officer

County of Ventura
Office of the Auditor-Controller



AUDIT OF CHANGE IN DIRECTOR
FOR THE PUBLIC WORKS AGENCY

August 2, 2010

Christine L. Cohen
Auditor-Controller

**AUDIT OF CHANGE IN DIRECTOR
FOR THE PUBLIC WORKS AGENCY**

TABLE OF CONTENTS

	Page
Background.....	1
Scope.....	1
Findings.....	1
1. Required Documents.....	2
A. Statements of Economic Interests	2
B. Fixed Asset Accountability	2
2. Security Measures.....	3
A. Identification Badge and Facility Access Devices.....	3
B. County Email Account.....	3
3. Sensitive Non-Fixed Assets.....	4
4. Trust Funds.....	4
A. Release of Deposits	4
B. Reconciliations	4
5. Cash Drawer Procedures.....	5
Auditor’s Evaluation of Management Action	5

AUDIT OF CHANGE IN DIRECTOR FOR THE PUBLIC WORKS AGENCY

BACKGROUND

The Public Works Agency (PWA) delivers services to the citizens of Ventura County by planning, designing, constructing, operating, and maintaining roads, water and sanitation, flood protection, and other County facilities. Additional services include land development review, integrated waste management, recycling, water resource protection, and ecosystem restoration.

The outgoing director of PWA, Ronald Coons, went on administrative leave effective December 3, 2007, and officially retired on March 31, 2008. Jeff Pratt was appointed by the Board of Supervisors to replace Ronald Coons as the Director of Public Works effective October 19, 2008. In the interim period between December 3, 2007 and October 19, 2008, various PWA deputy directors rotated responsibilities on a monthly basis to serve as acting PWA director. PWA was authorized 402 positions for fiscal year 2008-09 and a combined budget of over \$289 million.

SCOPE

Our overall audit objective was to determine whether appropriate actions had been taken to transfer accountability and administrative functions from the preceding to the succeeding director. Specifically, we:

- verified that change funds and trust funds were accounted for properly and balances were reasonably stated;
- confirmed that fixed assets were accounted for properly and evaluated controls over sensitive non-fixed assets (e.g., computers, cell phones, cameras, etc.);
- verified that required documents, such as *Statements of Economic Interests* and signature authorizations, were completed;
- reviewed actions taken to update security measures, including the deactivation of facility access cards and termination of computer access;
- confirmed that County equipment was collected from the outgoing director and accounted for properly; and
- verified that expenses incurred by the outgoing PWA director in the months before the director's retirement were appropriate.

We performed audit tests and evaluations using documents provided by PWA and the Auditor-Controller's Office. Our procedures included a surprise count of the change funds at two PWA offices. The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period December 2007 through June 2010.

FINDINGS

Overall, we found that accountability and administrative functions were satisfactorily transferred from the preceding to the succeeding PWA director. We verified that change fund and trust fund balances were

reasonably stated. In addition, we confirmed that fixed asset inventories were completed in a timely manner and that expenses incurred by the outgoing PWA director in the months before the director's retirement were appropriate.

However, we identified several areas where actions were needed to improve accountability of departmental assets and manage the transition upon a change in director. Specifically, the previous PWA director did not timely file a *Statement of Economic Interests* and the acting PWA directors in the interim did not file the forms as required. In addition, we noted that the current PWA director did not formally receipt for fixed assets. Furthermore, the County identification badge was not properly collected from the prior PWA director and certain electronic security controls were not updated in a timely manner. Sensitive non-fixed assets were not periodically inventoried in accordance with County policy, and a number of these assets lacked County identification tags. Additionally, trust fund deposits were not always released to depositors in a timely manner and trust fund reconciliations were not always prepared and approved timely. We also noted opportunities to strengthen internal controls in regard to cash drawer operations.

Following are details of the areas where improvements were needed. PWA management initiated corrective action during the audit as noted.

1. **Required Documents.** Required documents upon a change in director were not always completed, thereby increasing the risk of fines and lack of accountability.
 - A. **Statements of Economic Interests.** California Form 700, *Statement of Economic Interests*, was not filed properly with the Clerk of the Board by the outgoing PWA director or by the acting interim PWA directors. Form 700 informs the public about potential conflicts of interest and is required by the Fair Political Practices Commission (FPPC) to be filed within 30 days after assuming or leaving office. Further, according to the FPPC, "[A] person shall be deemed to have left office permanently if the person merely receives compensation for accrued leave credits." Because the outgoing director's last day in office was December 3, 2007, while on administrative leave through March 31, 2008, Form 700 was required to be filed by January 2, 2008. However, Form 700 was not filed until March 14, 2008, or 72 days after the required filing date. In addition, the interim directors did not file incoming and outgoing Form 700s although the instructions state that "Persons serving as 'acting' or 'interim' or 'alternate' must file as if they hold the position." Untimely and lack of filing when required can result in FPPC fines and challenge the County's compliance efforts.

Management Action. PWA management concurred with the finding and stated: "PWA has an 'Employee Termination Checklist' that includes providing a Form 700 to the employee along with a transmittal memo that explains the timeframe for filing the form. The issue here is that we were not aware that the form needed to be filed within 30 days of physically leaving office as the Director was on paid leave through March 2008. We have modified the transmittal memo to state that the form must be filed no later than 30 days after the employee's last day physically worked and we indicate on the form the date last physically worked. Additionally, we have modified our desk manual to include the requirement that any 'acting' or 'interim' or 'alternate' director must file a Form 700 as incoming and outgoing."

- B. **Fixed Asset Accountability.** Accountability was not always properly established for nearly \$800 million in fixed assets during the transition in PWA director. Government Code 24051 requires that the fixed asset inventory be formally transferred with a receipt from the preceding to the

succeeding director, thereby transferring accountability for the department's fixed assets. However, the prior PWA director retired as of March 31, 2008, without transferring accountability to the acting director as required. Therefore, for more than 3 months, from March 31 to July 10, 2008, when the PWA acting director properly certified the fixed asset inventory, accountability was not established over fixed assets. Additionally, when the current director was officially appointed on October 19, 2008, the acting director did not transfer accountability over PWA's fixed assets. Therefore, for more than 8 months, from October 19, 2008, until the current director properly certified the fixed asset inventory on July 8, 2009, accountability was not re-established for fixed assets by the current PWA director.

Management Action. PWA management concurred with the finding and stated: "We have modified our Change-in-Director checklist to include the fixed asset inventory transfer as a required action."

2. **Security Measures.** Actions were not always taken to update security measures in a timely manner, which are vital to the maintenance of a secure workplace.

A. **Identification Badge and Facility Access Devices.** PWA had not deactivated the outgoing director's identification badge/access card and key fob, which allowed access to the Hall of Administration offices, in a timely manner. The County Administrative Policy regarding *Employee Identification Badge* requires that each department be responsible for notifying the General Services Agency to revoke an individual's electronic access. However, the outgoing PWA director's identification badge/access card and key fob were not deactivated until May 14, 2008, more than 6 weeks after the outgoing PWA director formally retired on March 31, 2008. Also, the outgoing PWA director's identification badge/access card was not returned to PWA. Retrieving and deactivating employees' identification badges/access cards and key fobs upon separation are vital to safeguard assets from inappropriate access.

Management Action. PWA management concurred with the finding and stated: "Procedures have been strengthened whereby payroll staff notifies the PWA IT Manager of terminated employees so timely deactivation of access devices occurs. If any items are not returned, the appropriate County Agency will be notified to deactivate access immediately."

B. **County Email Account.** PWA had not deactivated the outgoing director's County email account in a timely manner. The Ventura County Computer User Termination Policy directs that departments are to have procedures in place to notify the departmental information technology manager of terminated users. This notification is to occur, in writing or by email, upon or prior to the user's termination so that all computer account access can be revoked appropriately. However, PWA did not request the disablement of the outgoing director's email account until August 6, 2008, or more than 4 months after separation on March 31, 2008. Timely deactivation of access to County email accounts upon separation from the County plays an important role in maintaining a secure workplace.

Management Action. PWA management concurred with the finding and stated: "Procedures have been strengthened whereby payroll staff notifies the PWA IT Manager of terminated employees to ensure timely deactivation of all IT related accounts and access."

3. **Sensitive Non-Fixed Assets.** PWA's sensitive non-fixed assets were not periodically inventoried and were not always properly tagged as required by the County Administrative Policy on *County Non-Fixed Asset Inventory Control*. Sensitive non-fixed assets are non-capitalized items with a value of less than \$5,000 and are subject to pilferage and misappropriation if not properly controlled. During our audit, PWA provided us with lists of over 1,750 items considered to be the agency's sensitive non-fixed assets, including desktop and laptop computers, monitors, cameras, and cell phones. However, none of the items have been subject to a periodic physical inventory. Additionally, a significant number of the agency's sensitive non-fixed assets were not assigned tag numbers to identify the items as County property. These exceptions included: 7 (2%) of 438 computers; 22 (6%) of 381 monitors; 32 (14%) of 235 printers; 21 (9%) of 232 cameras; 3 (12%) of 26 scanners; 11 (48%) of 23 fax machines; and 40 (57%) of 70 miscellaneous equipment items. Without periodic physical inspections of these items, and proper tracking through identification tags, theft or loss could easily occur without detection.

Management Action. PWA management concurred with the finding and stated: "A physical inventory of all computers, monitors, printers, faxes and scanners was completed on June 9, 2010. A physical inventory of cameras is tentatively scheduled for August 23, 2010 with an anticipated completion date of August 31, 2010. Any sensitive non-fixed assets missing a tag number will have one affixed. Additionally, all inventoried items will be entered into our equipment inventory database with their identifying non-fixed asset tag number."

4. **Trust Funds.** Trust fund procedures were in need of improvement to strengthen PWA's fiduciary responsibility over these funds. Specifically, we found that trust fund deposits that were eligible to be returned to depositors were not always released in a timely manner, and trust fund reconciliations were not always timely prepared or properly approved.

- A. **Release of Deposits.** Trust fund balances were not always released to depositors in a timely manner as required by the County of Ventura Auditor-Controller's Accounting Bulletin procedures. In one (17%) of the six trust fund accounts sampled, five performance deposits more than 15 years old amounting to \$10,000 were eligible to be, but had not been, released. PWA Fiscal procedures require annual contact with PWA departments to review trust fund details and respond if any funds are eligible to be released. However, responses were not always provided and proper follow-up did not always occur, resulting in a lapse in PWA's fiduciary responsibilities owed to depositors.

Management Action. PWA management concurred with the finding and stated: "PWA has strengthened its trust fund procedures to ensure deposits held in trust are released in a timely manner by instituting the following steps:

- 1) Send trust deposit inventory listing to the responsible Department Director on a semi-annual basis.
- 2) Department Director or his/her designee will review inventory list, document the status of each deposit and return to Fiscal within 14 calendar days.
- 3) Fiscal will follow-up via email to department director or his/her designee for any non-response within 7 calendar days after the due date."

- B. **Reconciliations.** Trust fund reconciliations were not always prepared in a timely manner and were not always properly approved as required by the County of Ventura Auditor-Controller's Accounting Bulletin procedures. Our sample of reconciliations for August and September 2008 disclosed that 4 (33%) of the 12 sampled were prepared more than 30 days after the end of the

period to be reconciled. This delay also impacted the timely submittal of these reconciliations to the Auditor-Controller. One (8%) of the 12 sampled did not bear the approval signature of PWA designated staff. Lack of timely preparation and approval of monthly trust fund reconciliations increases the risk that unauthorized transactions may not be identified in a timely manner.

Management Action. PWA management concurred with the finding and stated: "PWA has strengthened its trust fund procedures to ensure that reconciliations are performed within two weeks of the VCFMS reports being available and that they are properly approved by developing a tickler file for all trust funds that include date completed and proper approval."

5. **Cash Drawer Procedures.** PWA's formal cash drawer procedures were not always followed, which increased the risk of fraud and theft of County funds. PWA has two change funds, and areas for improvement in internal controls were identified at both locations. Specifically, the Water and Sanitation Department cash drawer held almost three times the amount permitted at any given time, in violation of written PWA procedures. The procedures place a maximum limit of \$500 in the cash drawer at any time; however, at the time of our surprise cash count, over \$1,400 was in the drawer. Additionally, procedures require that two employees at the Engineering Services Survey Counter count the \$100 change fund every morning. However, on the morning of our surprise cash count, we observed that only one person counted the money.

Management Action. PWA management concurred with the finding and stated: "We discussed proper cash drawer procedures with the appropriate staff to ensure they are aware of the procedures and internal controls issues if procedures are not followed. Additionally, we will work with the Water and Sanitation Department staff to review increasing the maximum limit which was established at \$500 when the Department was located in its old facilities (which did not have a security barrier at the counter) to determine if sufficient safety controls are in place to protect against unauthorized access to the cash drawer. The Department's new facility has safety glass installed that provides security and restricted access to doors into the office area to prevent unauthorized entry. We will conduct surprise cash counts periodically throughout the year to ensure that procedures are being followed."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. PWA management planned to complete corrective action by August 1, 2010, except for action relating to Finding 3, which is planned for completion by August 31, 2010.