

## **Ventura County Fire Protection District: Inventory Control Deficiencies**

### **Summary**

The 2007-2008 Ventura County Grand Jury (Grand Jury) reviewed a prior Grand Jury report issued in 2004-2005 titled, "Ventura County Fire Protection District Material and Inventory Controls" that disclosed program deficiencies that left the district vulnerable to misuse and theft of equipment. According to government auditing standards each county agency should be responsible for its own internal controls. Internal controls are necessary to ensure public accountability and serve to satisfy a variety of external regulatory mandates, e.g., accounting standards, audit requirements, and inventory of assets. The Ventura County Auditor-Controller (Auditor-Controller) subsequently initiated an Internal Control Self-Assessment Program for the Ventura County (County) agencies/departments to evaluate themselves.

The Grand Jury investigation determined that Ventura County Fire Protection District (District) management did not comply with the mandatory 2004 Controls Self-Assessment Program (CSA). District management took no corrective action in 2005 when notified by the Ventura City Police Department that a District owned laptop had been recovered in a law enforcement raid. In late 2007 the District discovered nine laptop computers were missing, including one held by the Ventura Police Department. Although the District issues Standing Orders each year requiring an annual physical inventory of its sensitive non-fixed assets (e.g., laptop computers), which would have detected this loss, these orders were essentially ignored by District personnel. The Grand Jury found the annual physical inventory process used by the District for sensitive non-fixed assets to be seriously flawed. The County Administrative Policy Manual (Manual) states that non-fixed assets are subject to internal audits by the Auditor-Controller; however, the last such audit was performed 17 years ago.

The Grand Jury concludes District management has a reactionary approach to correcting internal control issues. As a consequence of not completing the mandatory 2004 CSA questionnaire, and ignoring the 2004-2005 Grand Jury report, "Ventura County Fire Protection District Material and Inventory Controls," the District failed to detect inventory weaknesses that ultimately resulted in the loss of assets. The loss of the laptop computers was discovered only incidentally in October 2007 because of an encryption requirement rather than as a consequence of a regular annual inventory process. Prior to this loss, District personnel received minimal training in how to conduct and reconcile the District's annual physical inventory of fixed assets. The Grand Jury concluded that the District cannot determine the full extent of its losses until a comprehensive, physical inventory of all sensitive non-fixed assets is completed.

The Grand Jury recommends the District review and correct its fixed asset inventory procedures, and disclose the results to the Board of Supervisors

(BOS). The Grand Jury further recommends the Auditor-Controller take a more active role in oversight of the annual physical inventory, including more frequent audits.

## **Background**

The Ventura County Fire Department is a special district formed by special election in 1928. The BOS is the Fire District's Board of Directors. These five elected supervisors appoint the Fire Chief and task him with providing fire protection services for the District.

The Ventura County Auditor-Controller is an elected official whose responsibilities include processing the County's payroll and accounts payable, and auditing other County agencies.

The County Executive Officer (CEO) is the chief employee of the County, reports directly to the BOS, and has management authority over all County agencies not headed by elected officials.

## **Methodology**

The Grand Jury interviewed elected and appointed Ventura County officials and employees of various county agencies. In addition, the Grand Jury reviewed California codes, County ordinances, the FY2007-2008 County budget, and previous Grand Jury reports and responses.

## **Findings**

- F-01.** The 2004-2005 Grand Jury issued a report, "Ventura County Fire Protection District Material and Inventory Controls", based upon a public complaint about lack of policy enforcement in the District that left the district vulnerable to misuse and theft of equipment. The inquiry did not substantiate that an alleged theft or misuse of equipment had taken place. [Ref-01]
- F-02.** In an effort to promote strong internal controls, the Auditor-Controller and the CEO jointly established Internal Control Guidelines and developed a CSA Program in 2004.
- F-03.** The CSA is a mandatory tri-annual requirement for all elected and appointed officials, to report on the status of internal controls in their departments.
- F-04.** The Auditor-Controller replied to the 2006-2007 Grand Jury report, "Ventura County: A Failure to Audit" and responded that as a result of staff reductions in the audit division, no follow-up or review of the 2004 CSA was completed.
- F-05.** The Auditor-Controller completed an audit of the District's cash collection process in September 2007. The report stated, ". . . management disclosed a reactionary approach to internal control

management, whereby active engagement in fiscal oversight activities is pursued as issues arise . . .” [Ref-02]

- F-06.** The Auditor-Controller further stated, “Although our audit did not disclose specific instances of fraud, the District’s manual cash collection process was susceptible to theft, loss, or misappropriation of funds because of several significant internal control weaknesses.” [Ref-02]
- F-07.** The District submitted the 2007 CSA Internal Control Questionnaire and Risk Matrix/Assessment to the Auditor-Controller on November 27, 2007. The due date was October 31, 2007. An extension was requested and granted by the Auditor-Controller.
- F-08.** Within the Risk Assessment section of the 2007 CSA, the District disclosed that:
- a sensitive item inventory is conducted annually
  - segregation of duties may be an issue
  - reconciliation to purchases are not performed
  - not all procedures are in place
- F-09.** County Administrative Policy Manual, Chapter VII (B)-3, states that County non-fixed assets are subject to internal audits by the Auditor-Controller’s Office. [Ref-04]
- F-10.** The District is included in an all-funds audit prepared by external auditors every year (Comprehensive Annual Financial Report-CAFR). There were no findings regarding fixed and sensitive non-fixed assets in the last three years reports.
- F-11.** The last audit of the District’s Schedule of Inventory and Inventory Observation of District Departmental Supply and Repair Shop, was performed by the Auditor-Controller on June 30, 1991 (17 years ago).
- F-12.** The last follow-up audit of District Management and Operations was performed by the Auditor-Controller in June 1996 (12 years ago).
- F-13.** The 2006-2007 Grand Jury Report, “A Failure to Audit,” recommended that all departments be audited at least every three years. The Auditor-Controller responded, “Although an excellent goal, the County finances are not always available. Implementation of this recommendation would require a staffing increase of at least three more auditors and one more fiscal manager.” [Ref-03]
- F-14.** Neither the District nor the Ventura County Treasurer-Tax Collector completed the mandatory 2004 CSA Program.
- F-15.** The District is a dependent special district, formed by a special election in 1928. The BOS is the Fire District’s Board of Directors.
- F-16.** The District is responsible for maintaining, control, and operation of over \$90 million of fixed assets.

- F-17.** A Chief Officer of the District in late 2005 contacted its Information Technology Department (IT) to advise them that the Ventura Police Department had recovered a laptop owned by the District during a law enforcement raid.
- F-18.** No action, including a physical inventory, was taken by the District as a result of the reported loss of a laptop computer in 2005.
- F-19.** The District completed a physical inventory of its laptop computers in October 2007. The results indicated that a total of nine computers, costing in excess of \$28,000, were missing from the IT Department:
- six had been purchased in 2005
  - two had been purchased in 2006
  - one had been purchased in 2007
- F-20.** The Manual, Chapter VII (B)-3, establishes accountability for control over County-owned sensitive non-fixed assets. Sensitive non-fixed assets are items with a cost of less than \$5,000 e.g., laptop computers, that are subject to pilferage and misappropriation and which, therefore, warrant special handling. [Ref-04]
- F-21.** The District advised the Ventura County District Attorney, Auditor-Controller, CEO and others on October 17, 2007 of several missing laptop computers, including the one recovered in 2005 by the Ventura City Police Department.
- F-22.** In October 2007, the District requested the Auditor-Controller to perform a survey of its management of sensitive non-fixed assets.
- F-23.** The Auditor-Controller completed the survey and notified the District on February 19, 2008 that an audit would be performed with emphasis on IT assets.
- F-24.** As of the end of April 2008, the District (seven months after the preliminary determination of losses) had yet to initiate a comprehensive physical inventory of all sensitive items.
- F-25.** The Manual requires that a “specific person” be designated in each agency or department to maintain the non-fixed asset information. Additionally, the designated person is directed to “Conduct periodic inventory of sensitive non-fixed assets and reconcile with the master list. Discrepancies should be researched and resolved.” [Ref-04]
- F-26.** The Manual states, “Agency and department heads are responsible for determining which non-fixed assets should be classified as sensitive and establishing and implementing controls to maintain proper accountability over sensitive non-fixed assets.” [Ref-04]
- F-27.** The District includes all communication equipment, computers, defibrillators, cardiac monitoring devices, and rescue equipment as sensitive items subject to inventory verification.

- F-28.** The Manual, Chapter VII (B)-2, establishes the requirement, "Agency and department heads who have custody of fixed assets shall be responsible for filing an inventory of all fixed assets in his/her possession with the Auditor-Controller's Office no later than July 10 of each year." [Ref-04]
- F-29.** The District's Bureau of Fiscal Services (Bureau) is responsible for assuring compliance with County policies on fixed and sensitive non-fixed asset inventories.
- F-30.** Standing Orders are memos that are distributed to the entire District and are posted on its internal Website. Each year, hard copies along with attachments of the fixed asset lists, are distributed to Fire Stations, Departments, and Program Managers, including the District's IT Department.
- F-31.** The Bureau issued Standing Orders regarding the annual fixed asset inventory in May 2005, June 2006, and June 2007. All District Program Managers were assigned responsibility for inventorying all communication and computer equipment.
- F-32.** The Bureau sends a master list of sensitive items to be inventoried to all departments within the District each year.
- F-33.** The IT Department Program Manager is responsible for sensitive items, and also performs the physical inventory.
- F-34.** The computerized IT data base of sensitive items has not been reliable, and is supplemented by a manual tracking system.
- F-35.** District practice has been to match data base items to a master list of sensitive items, instead of performing the required physical inventory.
- F-36.** The required physical inventory of sensitive non-fixed assets, including computers owned by the District, has not been completed in at least three years.
- F-37.** The Bureau does a limited spot check, and does not reconcile the physical inventory count submitted by individual fire stations, warehouse or other departments in the District, to the master inventory records. The physical inventory count is assumed to be accurate.
- F-38.** The Bureau does not verify or reconcile the physical inventory of sensitive non-fixed assets.
- F-39.** The County has a Fixed Asset Subsystem Training Manual. No written procedures to direct the District in taking and reconciling the District's annual physical inventory of fixed and sensitive assets could be identified.
- F-40.** The District had not requested, and the Auditor-Controller had not provided, training or assistance in procedures for taking and reconciling the annual physical inventory, until the reported loss of nine laptops.

## **Conclusions**

- C-01.** No action was taken to report the loss of District laptop computers because County/District policy does not address reporting loss of sensitive non-fixed asset items valued at less than \$5,000 each. (F-17, F-18, F-20)
- C-02.** The District's internal controls for sensitive non-fixed asset inventory procedures are inadequate based on the District's reactionary approach to internal control issues. (F-05, F-06, F-24, F-36, F-37, F-40)
- C-03.** As a consequence of not participating in the County's mandatory 2004 CSA, the District facilitated the loss of District property (computers) by failing to identify internal control weaknesses. (F-02 through F-04, F-14, F-19, F-21)
- C-04.** The loss of District property between 2005 and 2007 was further facilitated as a consequence of District management disregarding potential internal control issues reported in a 2004-2005 Grand Jury report. (F-01, F-05, F-06)
- C-05.** The loss of nine District laptop computers was discovered incidentally in October 2007 because of an ancillary encryption requirement rather than as a consequence of a regular annual inventory process. (F-05, F-19, F-25, F-33, F-36, F-37)
- C-06.** District property losses have been further facilitated as a consequence of District Standing Orders requiring annual inventory of sensitive non-fixed assets, being largely ignored by District personnel. (F-25, F-26, F-28, F-29, F-33, F-36, F-37)
- C-07.** The validity of the District's sensitive item inventory and risk assessment analysis, reported in the District's 2007 Internal Control Self-Assessment process, is questionable in that the inventory was not a physical inventory as required by Standing Orders. (F-02, F-03, F-08, F-10, F-20, F-25, F-32, F-35, F-36)
- C-08.** The District's annual physical inventory process is seriously flawed and questionably valid because:
- the inventory is supervised by an individual who is a member of the entity being inventoried
  - the Bureau only spot checks physical inventory counts
  - the Bureau does not reconcile book vs. physical variances
  - sensitive non-fixed asset inventory results are not reviewed
  - written inventory training procedures are not provided
- (F-01, F-08, F-16, F-25, F-34, F-35, F-37 through F-39)
- C-09.** An Inventory and Inventory Observation Audit has not been performed by the Auditor-Controller in 17 years, increasing the risk of further District property losses. (F-09 through F-13)

- C-10.** The County has no way of knowing the full extent of its losses because a complete physical inventory of all sensitive non-fixed assets has yet to be completed. (F-19, F-21 through F-24, F-27)

## **RECOMMENDATIONS**

- R-01.** The Grand Jury recommends the County revise its Administrative Policy Manual to provide guidance in reporting loss or theft of sensitive non-fixed assets. (C-01)
- R-02.** The County should require annual physical inventories of all sensitive non-fixed assets, rather than the current practice of periodic inventories. (C-01, C-05)
- R-03.** The Grand Jury recommends District management correct internal control weaknesses that facilitated the loss of District property, and report corrective actions to the BOS and Auditor-Controller. (C-02 through C-04, C-06, C-07)
- R-04.** The District should correct its recently completed 2007 Internal Control Self-Assessment response as it relates to sensitive item inventory. (C-07)
- R-05.** The District and the Auditor-Controller should inventory all sensitive non-fixed assets including laptop computers. The results of the inventory should be reported to the CEO and BOS. (C-05, C-07, C-08, C-10)
- R-06.** The Auditor-Controller should review and recommend improvements to the procedures used by the District to conduct and reconcile its annual physical inventory of fixed assets. (C-06, C-08)
- R-07.** The Auditor-Controller should take an active role in the oversight of the annual physical inventory of fixed assets and sensitive non-fixed assets for the County of Ventura. (C-02, C-06, C-08, C-09)
- R-08.** The Grand Jury recommends that the Auditor-Controller provide audit hours each year, to observe the required annual physical inventory of all County fixed and sensitive non-fixed assets. (C-08, C-09)

## **Responses**

### Responses Required:

Board of Supervisors, County of Ventura (R-01 through R-03, R-05)

Auditor-Controller, County of Ventura (R-05 through R-08)

### Responses Requested:

County Executive Officer, County of Ventura (R-01 through R-03, R-05)

Fire Protection District, County of Ventura (R-03 through R-06)

## **References**

- Ref-01 2004-2005 Ventura County Grand Jury report, "Ventura County Fire Protection District Material and Inventory Controls."
- Ref-02 Audit of the VCFPD Cash Collection Process dated September 28, 2007.
- Ref-03 Response from Auditor-Controller to 2006-2007 Grand Jury report, "Ventura County, A Failure to Audit," dated June 11, 2007.
- Ref-04 County of Ventura Administrative Policy Manual – Property Control.