



**COUNTY OF LOS ANGELES
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July 10, 2023

TO: Each Supervisor

FROM: Oscar Valdez, Interim Auditor-Controller

SUBJECT: **LA COUNTY LIBRARY – SUPPLY ORDERING AND WAREHOUSING
REVIEW (REPORT #K20GM) - FIRST FOLLOW-UP REVIEW**

We completed a follow-up review of the LA County Library (Library or Department) Supply Ordering and Warehousing Review dated March 23, 2022 (Report #K20GM). As summarized in Table 1, Library fully implemented four recommendations and partially implemented one recommendation to enhance their supply ordering and warehousing processes. The Department should fully implement the one outstanding recommendation to strengthen controls over the Internal Control Certification Program.

Table 1 - Results of First Follow-up Review

RECOMMENDATION IMPLEMENTATION STATUS				
PRIORITY RANKINGS	TOTAL RECOS	FULLY IMPLEMENTED	OUTSTANDING RECOMMENDATIONS	
			PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
PRIORITY 1	0	0	0	0
PRIORITY 2	3	2	1	0
PRIORITY 3	2	2	0	0
TOTAL	5	4	1	0
			1	

For details of our review and the Department's corrective actions, see Attachment. We will follow up and report back on the one outstanding Priority 2 recommendation.

We thank Library management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at mpirolo@auditor.lacounty.gov.

OV:RGC:MP:YK:jl

Attachment

c: Fesia A. Davenport, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Skye Patrick, County Librarian, LA County Library

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“To Enrich Lives Through Effective and Caring Service”*

REPORT #K23CR

LOS ANGELES COUNTY AUDITOR-CONTROLLER

Attachment
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ASSISTANT AUDITOR-CONTROLLER

Mike Pirolo
DIVISION CHIEF

AUDIT DIVISION

Report #K23CR

LA COUNTY LIBRARY – SUPPLY ORDERING AND WARHOUSING REVIEW (REPORT #K23CR) - FIRST FOLLOW-UP REVIEW

RECOMMENDATION	A-C COMMENTS
<p>1 Annual Inventory Adjustments (Priority 2) - Library management should enhance their annual inventory process by:</p> <ul style="list-style-type: none"> a) Requiring reconciliations between inventory adjustment forms and perpetual inventory records. b) Reconciling inventory adjustment forms from prior annual inventories to perpetual inventory records to confirm the adjustments were entered accurately, and correct perpetual inventory records as needed. <p>Original Issue/Impact: Library's annual inventory process included utilizing two-person teams (with no conflicting duties), reconciling counts to perpetual inventory records, and investigating discrepancies, as required. However, their annual inventory process did not include reconciling the adjustment data entry forms and the perpetual inventory records (after adjustments were entered) to ensure they were entered correctly. This weakness increases the risk of undetected misappropriation of Library's inventory, valued at \$324,000 during our review.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed Library management enhanced their annual inventory process and updated their procedures to require a reconciliation between inventory adjustment data entry forms and perpetual inventory records (after adjustments were entered) to verify adjustments were entered correctly. We confirmed this by reviewing their revised procedures and a completed reconciliation from their most recent (July 2022) annual inventory.</p> <p>In addition, we confirmed Library management corrected their perpetual inventory records from prior annual inventories by conducting a physical inventory and making adjustments to their perpetual inventory records as needed. We reviewed documentation of their most recent annual inventory that demonstrates staff recounted all inventory items, identified and investigated discrepancies, adjusted perpetual inventory records, and reconciled inventory adjustment data entry forms to the final perpetual inventory records.</p>
<p>2 Management Monitoring of Controls (Priority 2) - Library management develop ongoing self-monitoring processes that include:</p> <ul style="list-style-type: none"> a) Examination of process/control activities, such as review of an adequate number of transactions on a regular basis to ensure adherence to County policies. b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated. c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented. <p>Original Issue/Impact: Library did not have ongoing self-monitoring processes in place to regularly evaluate and document that annual inventory adjustments, the Internal Control</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed Library management developed ongoing self-monitoring processes for annual inventory adjustments, the ICCP completion, periodic inventory reviews, and user access roles processes by reviewing the Department's revised procedures and examples of their self-monitoring activities.</p>

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION		A-C COMMENTS
	Certification Program (ICCP) completion, periodic inventory reviews, and inventory system access reviews are working as intended. This weakness prevents management from promptly identifying and correcting any process/control weaknesses or instances of non-compliance with County supply ordering and warehousing requirements.	
3	<p>Internal Control Certification Program (Priority 2)</p> <p>- Library management ensure staff accurately complete the ICCP evaluation questionnaires to identify all internal control weaknesses, and develop related improvement plans to implement timely corrective action.</p> <p>Original Issue/Impact: We noted internal control weaknesses, such as Issue No. 4 and 5, were not appropriately detected when Library completed their Fiscal Year (FY) 2019-20 ICCP. Improperly completing the ICCP increases the risk of process and control weaknesses not being identified for corrective action.</p>	<p>Recommendation Status: Partially Implemented</p> <p>We confirmed Library management developed an additional review process to ensure staff accurately complete the ICCP evaluation questionnaires, by reviewing the Department's revised procedures. However, Library management formally submitted a request to the Auditor-Controller to defer completing their ICCP until FY 2023-24 due to building damage at their headquarters and a shortage of staff. This request was granted.</p> <p>The Department plans to fully implement this recommendation when they complete their next scheduled ICCP by March 31, 2024.</p>
4	<p>Periodic Inventory Review (Priority 3) - Library management update their periodic inventory review process and written procedures to include reviewing for obsolescence, disposing of obsolete items, and removing them from inventory records after disposal.</p> <p>Original Issue/Impact: Library had a periodic review process to identify slow-moving and overstocked items and took appropriate corrective action (escalated to management, etc.). However, Library's periodic inventory review process/procedure did not include checking for obsolete items, disposing of obsolete items, and removing the disposed items from the inventory records. These weaknesses increase the risk of additional storage and recordkeeping costs to store obsolete items and/or reduced salvage value at the time of disposal. In addition, inventory records will be inaccurate until the disposed items are removed from the records.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed Library management updated their periodic inventory review process and written procedures to include reviewing for obsolescence, disposing of obsolete items, and removing them from inventory records after disposal, by examining the Department's revised procedures and documentation of a periodic inventory review. The procedures require staff to review the list of obsolete items identified during their annual inventory and obtain Library management's approval to remove the items from inventory records. In addition, we confirmed Library implemented these procedures by reviewing their annual inventory documentation, annotated review of obsolete items, and adjusted perpetual inventory records showing the obsolete items were removed.</p>
5	<p>User Access Role Review (Priority 3) - Library management implement a process to review user access roles, at least quarterly, and whenever a user's job assignment and/or responsibilities change, to ensure access capabilities are consistent with users' job duties and document the review.</p>	<p>Recommendation Status: Implemented</p> <p>We confirmed Library management developed a documented process to review all user access roles monthly, in addition to their prior practice of reviewing access roles when an employee's job changed</p>

RECOMMENDATION	A-C COMMENTS
<p>Original Issue/Impact: Library had a process to review inventory system access roles when an employee's job assignment changed (e.g., a promotion or transfer). However, Library did not have a process to regularly review user access capabilities to determine whether their assigned roles are appropriate and/or needed to perform their job duties, and add/remove roles as needed, and document the review. This weakness increases the risk of unauthorized or inappropriate access to the inventory system, which can result in employee improprieties not being detected or being detected timely due to unauthorized changes to inventory records (to conceal the employee improprieties).</p>	<p>(including terminations), by interviewing staff, and reviewing the Department's revised procedures and a documented access role review. Each month staff review all inventory system user access roles to ensure each user's access is consistent with their job duties, and add or remove roles as necessary. Staff annotate the results for each employee (e.g., access roles removed for a user that no longer needed inventory system access) and report them to management.</p>

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management's responsibility for internal controls, visit auditor.lacounty.gov/audit-process-information.