

Public Works and Transportation Inventory Audit May 2019

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA, City Auditor
Susan Edwards, CIA, CFE, CICA, Assistant City Auditor
Lee Hagelstein, CGAP, Internal Auditor



City Auditor's Office

May 30, 2019

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the Public Works and Transportation Inventory audit. The purpose of the audit was to review and evaluate the Public Works and Transportation Department's processes and procedures related to small tool purchase and inventory control.

Management's response to our audit finding and recommendation, as well as the target implementation date and responsibility, is included following the report.

We would like to thank staff from the Public Works and Transportation Department for their full cooperation and assistance during the audit.

Lori Brooks Jaquess

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA
City Auditor

Attachment

c: Trey Yelverton, City Manager
Jim Parajon, Deputy City Manager
Gilbert Perales, Deputy City Manager
Jennifer Wichmann, Assistant City Manager
Mindy Carnichael, Director of Public Works and Transportation

Public Works & Transportation Inventory Audit

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Executive Summary | 1 |
| Audit Scope and Methodology | 2 |
| Background | 2 |
| Audit Results..... | 3 |
| Detailed Audit Findings | 5 |
| Audit Recommendation and Response Table | 7 |

Executive Summary

The City Auditor's Office has completed the Public Works and Transportation Inventory audit. The performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to review and evaluate the Public Works and Transportation Department's processes and procedures related to inventory control.

The City Auditor's Office noted the following strengths related to Public Works and Transportation Department inventory practices:

- Written policies and procedures have been developed to provide guidance regarding the purchase and inventory control of tools and equipment valued over \$100
- A physical inventory process has been implemented to ensure that the tool and equipment inventory is verified on a regular basis
- As required by policy, most of the tools and equipment valued over \$100 were purchased through the warehouse and not independently by staff/supervisors in the field

We noted potential opportunities for improvement in the following area:

- Consistent compliance with the established written policies and procedures

Details of audit findings, conclusions and recommendations are included in the following report.

Audit Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. The following methodology was used in completing the audit.

- Obtained a copy of the current policies and procedures relating to tools valued over \$100
- Obtained a copy of the Public Works and Transportation (PW&T) small tools inventory as of February 4, 2019
- Downloaded a schedule of all Purchasing Card (PCard) transactions from January 1, 2017 through December 31, 2018 from J. P. Morgan Chase Bank
- Obtained the documentation for all PCard transactions from January 1, 2017 through December 31, 2018 from the PW&T Department
- Identified a statistically valid sample size and judgmentally selected a sample of transactions to review for general compliance with policy
- Performed a physical inspection of a sample of tools valued over \$100 to verify both the existence of the item and the accuracy of information recorded in the inventory system

Background

In February 2016, the Director of Public Works and Transportation developed and implemented written policies and procedures related to tools and equipment valued over \$100.00. The Director indicated an interest in an independent review of compliance with the new policies and procedures.

The specific policies and procedures relevant to this audit include:

- All purchases of tools or equipment must be ordered by the immediate Supervisor or Manager. All orders must include documentation of approval by the respective Manager. Field Operations staff level employees are not allowed to purchase tools or equipment valued more than \$100 with a PCard.
- All purchases of tools or equipment with a value of \$100 or more must be ordered, received and inventoried in Cartegraph Operations Management System (OMS) through the warehouse.
- All small tool purchase requests must include documentation of Manager approval.
- An inventory of all small tools valued more than \$100 must be performed quarterly. This includes small tools within the main Field Operations facilities and vehicles utilized by technicians. Inventory of small tools within the main Field Operations facilities and vehicles utilized by technicians will be conducted quarterly by staff supervision or designated personnel.

Audit Results

Written policies and procedures were implemented to help safeguard the City's assets (i.e. tools valued over \$100) from theft. They were first implemented by the Director of PW&T and provided to PW&T Managers and Supervisors in February 2016. The Director again emphasized the importance of adherence to the policies in October 2017.

One such policy requires a quarterly 100% physical inventory of all tools and equipment valued at more than \$100. During the first week after the end of each quarter, Supervisors are sent a list of all tools/equipment over \$100 assigned to their division. The inventory is performed by either the Supervisor or other designated staff. They are required to visually observe each item on their list, verify the information related to that item and document any necessary corrections. They are given two weeks to complete the inventory verification and send it back to the Operations Support Manager, who then reviews the lists and makes any necessary changes within the inventory system. This process was reviewed, with no exceptions noted. The inventory checks are being performed by the appropriate personnel within the time frame required and corrections are being made to the inventory records by the Operations Support Manager.

Other areas within the policies and procedures that are relevant to this audit include:

- Purchases should be approved by a Manager prior to the purchase being made (E-mails between the Supervisor, warehouse staff and the Operations Manager is the normal mode of communication and documentation when requesting and obtaining approval to purchase a tool) and;
- All purchases of tools or equipment valued over \$100 should be ordered, received and inventoried through the warehouse, engraved with a unique ID number, and then issued to the Supervisor. Items shall not be ordered or received by an individual other than the Operations Support staff. These policy statements were tested during this audit.

To perform tests of tool purchases, two separate sets of samples were reviewed during this audit:

- The first sample was obtained from the PCard transaction history downloaded from the J. P. Morgan Chase Bank website.
- The second sample was obtained from a review of individual PCard packages (receipts/invoices) for tool purchases.

For the first sample, the PCard transaction history for employees within PW&T Operations was obtained from J. P. Morgan Chase Bank for the period of January 1, 2017 through December 31, 2018. At the time of the audit, there were nine employees who were assigned a PCard and were subject to review. These employees included Operations Managers, Operations Supervisors and Warehouse staff. The transaction history was reviewed and all transactions over \$100 were identified. From that list, based on the description of the transaction, a judgmental sample of 53 transactions that appeared to include the purchase of tools/equipment valued over \$100 was selected.

For the 53 transactions mentioned above, the documentation related to each transaction was reviewed. It was determined that 35 of those transactions either did not include any tools within the

purchase or did not include tools valued more than \$100; as such, they were not subject to the policy. The remaining 18 transactions did include tools/equipment valued at over \$100 and were subject to the policy. Instances of non-compliance with policy were identified during the review of these transactions.

For the second sample of transactions, the actual copies of invoices/receipts from PCard purchases retained for those nine employees were reviewed during the same time period mentioned above. During this step, there were 30 transactions identified (other than the 18 previously mentioned) that were subject to the policy. Each of these purchases was requested by Operations Supervisors and ordered, received and distributed through the warehouse, according to policy. However, policy was not always followed when making these purchases. The area of non-compliance involved the purchase of tools without prior approval by an Operations Manager.

These areas of non-compliance will be discussed further in the Detailed Audit Findings section of this report.

During this review, a physical inventory was performed by the auditor to verify the existence of purchased tools and ensure the accuracy of the OMS inventory system. There were two separate tests performed:

- A sample of tools (59 items) was selected from the inventory system and traced to the item located in the field, verifying existence and accuracy of pertinent information about the item.
- Information about tools observed in the field (34 items) was recorded and then traced back to the inventory system to ensure completeness and accuracy of the inventory system.

During these tests, minor differences were noted related to the location description or the assigned user of the tool, etc. These differences were provided to the Operations Support Manager to review and make corrections within the inventory system, if necessary. A deficiency was also noted related to the use of the unique ID#s on the tools. This deficiency will be discussed further in the Detailed Audit Findings section of this report.

Detailed Audit Findings

Non-compliance with written policies and procedures

The PW&T policy states that all PCard purchases of tools valued over \$100 must be approved by an Operations Manager prior to the purchase, and be ordered, received and distributed through the warehouse. In addition, all tools with a value over \$100 must be engraved with a unique ID#.

Compliance testing resulted in identification of some non-compliance with written policies and procedures. The details are discussed below.

Purchases

As noted in the Audit Results Section, a total of 48 purchases of small tools valued more than \$100, occurring between January 2017 and December 2018, were reviewed to determine compliance with policy. The following is a summary of the findings:

- No exceptions to policy were identified in twenty of the transactions.
- In fifteen cases, the Operations Manager was copied on an e-mail to request the item; however, he did not give his written approval to make the purchase.
- In five instances, the Operations Manager was not copied on the e-mail, resulting in no approval of the purchase.
- In two cases, a Purchase Request Form was completed by the Supervisor, but there was no Manager approval shown.
- In one case, the Operations Manager responded with his approval for a purchase; however, the item being purchased was not included in the items listed in the e-mail.
- For four transactions, Supervisors made the purchases (as opposed to Warehouse staff) and the Operations Manager gave only verbal approval to the Supervisor (emergency situations, per Manager).
- For one invoice, the Manager gave his written approval after the purchase was made.

As noted above (bullet #6), four of the transactions were made by a Supervisor, with no written documentation of Manager approval. Management stated these purchases were made on an emergency basis and verbal approval was given to purchase the tool. It is understood that "emergency" situations could arise where a crew in the field needs a specific tool to complete a job, but an Operations Manager is not available immediately to approve the request. However, in those instances, it is good practice to later document the approval, even after the fact.

Compliance with policy improved from FY2017 to FY2018. Significantly fewer policy violations were noted in FY2018 (9 of 28). As such, it appears it may have taken some time for Managers/Supervisors to adjust to the new policy.

It is still important to note that non-compliance with policy relating to prior approval and purchasing items through the warehouse could allow staff to purchase tools without a Manager's knowledge resulting in possible theft.

Inventory

The policy states: "Any purchase of a tool or equipment valued over \$100 should be ordered, received, and inventoried through the warehouse (or other support staff), engraved with a unique ID number, and then issued to the Supervisor."

During this review, 59 items were selected from the OMS inventory system and traced to the field. An additional 34 items were identified in the field and traced back to the OMS inventory records. The purpose of this test was to determine the existence of the purchased item and to determine the completeness and accuracy of the inventory records.

As a result of the physical inspection, it was noted that some tools did not have the unique ID# engraved or attached to the item. There were eleven tools within the Construction Services division and one tool within the Business Services division that did not have the assigned ID# engraved on the item.

It is important to note that the lack of an ID# on the tools could result in lost or stolen items, since they cannot be tracked as effectively.

Recommendation:

- 1. The City Auditor's Office recommends that the Director of Public Works and Transportation share the results of the audit with department Managers and Supervisors and reiterate the importance of consistently complying with existing policy.***

**CITY OF ARLINGTON
PUBLIC WORKS & TRANSPORTATION INVENTORY AUDIT
AUDIT RECOMMENDATION AND RESPONSE**

| DIT RECOMMENDATION | CONCUR/DO NOT CONCUR | MANAGEMENT RESPONSE | RESPONSIBLE PARTY | DUE DATE |
|---|-----------------------------|--|--------------------------|-----------------|
| <p><i>1. The City Auditor's Office recommends that the Director of Public Works and Transportation share the results of the audit with department Managers and Supervisors and reiterate the importance of consistently complying with existing policy.</i></p> | Concur | Director will ensure that all divisions are applying the policy consistently across PWT. | PWT | Immediately |