



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

PUBLIC WORKS MAINTENANCE OPERATING PARTS SUPPLIES INVENTORY
CONTROL ENVIRONMENT

REPORT # 286

May 6, 2015



May 6, 2015

The Honorable Sandra L. Murman, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the Public Works maintenance operating parts supplies inventory control environment (Audit Report # 286, dated May 6, 2015). Responses to the Audit Team's recommendations were received from the Director of Public Works and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Public Works during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Lucia Garsys, Chief Development & Infrastructure Services Administrator
John Lyons, Director of Public Works
Kevin Brickey, Economist, Business and Support Services
Rick VanArsdall, Chief Deputy, Finance and Budget

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Public Works Department (Public Works) designs, builds, and maintains roads, sidewalks, bridges, bike paths, stormwater pipes, ponds, and catch basins. Public Works also manufactures and maintains traffic signs and traffic signals; manages the County's National Pollutant Discharge Elimination System permit; creates and maintains watershed master plans; and controls the mosquito population.

Some of the services provided by Public Works include:

- Oversight of all major County planning, engineering design, and construction projects that include roads, bridges, intersections, sidewalks, stormwater, and trails;
- Maintenance of County rights-of-way and stormwater drainage systems; and
- Minor construction projects, pothole repair, roadway shoulder maintenance, roadside ditch and canal cleaning, and tree trimming.

Public Works has seven warehouses located in Hillsborough County.

Locations	Inventory Value
Countywide Construction - N US Hwy 301, Thonotosassa.	\$566,376
East Service Unit – Sydney Road, Plant City	\$95,859
Mosquito Control – Eureka Springs Road, Tampa	\$122,210
South Service Unit – Old Big Bend Road, Gibsonton	\$148,751
Specialized Services – N Falkenburg Road, Tampa	\$64,389
Traffic Operations – Sabal Park Industrial Blvd, Tampa	\$2,971,686
West Service Unit – Sheldon Road, Tampa	\$300,567
Total inventory value for Public Works as of July 11, 2014.	\$4,269,838

OBJECTIVE

The objective of the audit was to determine whether or not controls over maintenance operating parts supplies inventory provide a reasonable level of assurance that the perpetual inventory records are accurate and reliable, inventory is properly safeguarded, and inventory storerooms are kept orderly.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team assessed Public Work's (Traffic Operations) maintenance operating parts supplies control environment. The scope period was the second week of August 2014.

The Audit Team performed a site visit of the storeroom located at Sabal Park Industrial Blvd, identified and flow charted the supplies life cycle, and evaluated the control environment. The Audit Team selected the Traffic Operations storeroom because this location usually carries the highest total inventory dollar value.

OVERALL EVALUATION

Public Works' personnel were responsive to the Audit Team's inquiries and provided data and other information in a prompt and courteous manner. The Audit Team encountered knowledgeable and dedicated employees who were receptive to the Audit Team's suggestions for improvement.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Opportunities exist to improve the accuracy and reliability of the inventory records.	4
2	An opportunity exists to improve the safeguarding of the inventory storeroom.	7
3	Public Works' Traffic Operations Warehouse inventory storeroom is neat and orderly.	9

OPINION

The Public Works maintenance operating parts supplies inventory control environment is at the formal (defined) maturity level. The controls are well defined and documented. There appears to be consistency even in times of change. Performance monitoring is informal, placing great reliance on the diligence of people and independent audits.

Management is aware of control gaps and is in the process of remediating them by migrating toward an automated inventory software system (MaintStar).

Taking corrective action to alleviate the concerns identified in this Report will help the Public Works maintenance operating parts supplies inventory operations to reach the next maturity level.

The exit conference was held on March 5, 2015.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Peggy Caskey, CIA, CISA, CFE, Director of County Audit
Mark Kolman, CIA, CISA, CPA, CFE, Audit Manager
Ben Everett, CPA, CIA, Auditor II
Brenda Tyler, CGAP, Auditor II
Marc Hogan, Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Opportunities exist to improve the accuracy and reliability of the inventory records.

The objective was to determine whether or not inventory controls provide an acceptable level of assurance that the perpetual inventory records are accurate and reliable.

The Audit Team conducted interviews with management and personnel from the Traffic Operations Warehouse storeroom. The inventory process was documented (by flowchart, narrative, and questionnaire). The control environment was identified.

The storekeeper is responsible for ordering, receiving, recording, stocking, and issuing inventory, and maintaining the perpetual inventory records. The storekeeper reconciles physical inventory counts.

Separating incompatible duties is necessary for a strong internal control structure. Examples of incompatible duties include:

- Employees who receive and sign off on goods received from suppliers should not be involved in the ordering process.
- Employees who have access to the physical inventory should not be responsible for modifying the perpetual inventory records.

Consideration should be given to either separating these incompatible duties or implementing mitigating controls (such as continuous monitoring and unannounced cycle counts by someone other than the storekeeper).

The Traffic Operations Warehouse storeroom's maintenance operating parts supplies inventory control process does not provide a reasonable level of assurance that purchases are properly ordered, received, checked-in to inventory, paid for, and distributed, due to a material separation of duties control weakness described above.

The Audit Team tested a sample of 30 items. The following table shows the results of testing:

Storeroom	Number of line items counted out of the total line items in inventory.	Dollar value tested to total value of the items in inventory.	The accuracy rate of the Audit Team's physical count.
Traffic Operations Warehouse storeroom	30 out of 1,322(2%)	\$1,124,340 out of \$3,055,132 (36.8%)	24 out of 30 (80%) inventory records were accurate

As shown in the table above, there were six non-reconciling line item differences:

Three line items were sheeting material. Sheeting inventory quantities were recorded as estimated square footage and different types and sizes of sheeting materials were consolidated into single line items. The physical count identified a shortage of \$11,000 or 10%.

One line item was GPS controllers. The physical count identified a shortage of \$1,500 or 3%.

One line item was phase selectors. The physical count identified a shortage of \$2,800 or 16%.

The total shortage of all six non-reconciling differences equaled \$15,500 or 1% of the \$1,124,340 in the test sample.

The Hansen software utilized to track inventory is not meeting Public Works' needs. Management is implementing new software, MaintStar, to alleviate this concern. MaintStar will provide an automated inventory process which will include electronic work orders and bar codes for inventory items. It will have real-time reporting and monitoring capabilities.

RECOMMENDATION

Consideration should be given to:

1. Segregating incompatible duties or adding additional monitoring controls to provide a reasonable level of assurance that work is performed properly;
2. Performing unannounced periodic cycle counts; and
3. Improving the measurement method used to estimate sheeting material inventory.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

The Public Works Department will reassign staff to help segregate the ordering and receiving duties at the Traffic Operations site. Crew Leaders and/or Shop Supervisors will be present when materials are received. In addition, periodic unannounced counts will be completed at ALL Public Works inventory sites that will include the Traffic Operations site. Finally, Public Works anticipates that MaintStar will go on-line at the Traffic Operations site this summer that will address the inadequacies of the previous HANSEN system and accompanying methodology of inventory measurement for sheeting material.

TARGET COMPLETION DATE

September 30, 2015

AUDIT COMMENT 2**An opportunity exists to improve the safeguarding of the inventory storeroom.**

The objective was to determine whether or not the Traffic Operations Warehouse storeroom inventory controls provide an acceptable level of assurance that the inventory and supplies are safeguarded.

The Audit Team conducted a site visit at the Public Works Traffic Operations Warehouse storeroom and reviewed the physical safeguarding of the inventory and supplies. Public Works' Consumable Inventory Policy No: PWD-0010.0 2012, section 6.0 Storage Requirements states that:

“6.1 Secure areas shall include locked, physical barriers, such as lockable fences, lockable drawers or other appropriate security measures.

6.2 Secure area access shall be limited to storeroom staff. All other access will only be permitted with storeroom staff escort.”

During the site visit, the Audit Team noted that authorized staff members did not escort Public Works employees picking up inventory items. They also did not properly complete the Daily Worksheet (which includes the inventory parts used to perform job duties). Allowing unauthorized staff members access to the inventory storeroom provides an opportunity for misappropriation of assets and incomplete inventory records.

The building has surveillance cameras. The surveillance cameras do not record activity inside the whole storeroom. The purpose of the cameras is to record activities occurring on the property and entry into the warehouse. The warehouse has a security monitoring system. Per management, the Section Manager, the General Manager, supervisors, technicians, and an administrative specialist hold keys to the building. It appears that the property and warehouse are adequately safeguarded with the exception that the doors to the warehouse and the storeroom entry gate were left open on the day of the site visit giving access to the storeroom.

RECOMMENDATION

Consideration should be given to limiting storeroom access to authorized persons responsible for maintaining the inventory storeroom. Employees who need access to the storeroom should be escorted. The storeroom gate should be kept locked at all times.

CLIENT RESPONSE

Management Accepts Risk

CORRECTIVE ACTION PLAN

N/A – The 24 hours response requirement for this site precludes the ability for staff to be accompanied at all times. Public Works will however move inventory items that are accessed more often than others to an intermediate secured inventory common area that will limit full inventory access.

TARGET COMPLETION DATE

September 30, 2015

AUDIT COMMENT 3

Public Works' Traffic Operations Warehouse inventory storeroom is neat and orderly.

The objective was to determine whether or not the Traffic Operations Warehouse storeroom inventory controls provide an acceptable level of assurance that the inventory storeroom is neat and orderly.

During site visits and on the day of the inventory count, the audit team observed that the storeroom was clean and orderly. The items were neatly placed in their designated areas. No material concerns were identified.

RECOMMENDATION

Audit test results did not identify any material concerns that required management's corrective action.