

Final Audit Follow Up

As of December 31, 2002



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“Audit of Physical Controls - Utility Inventories and Facilities” (Report #0210, Issued January 24, 2002)

Report #0312

March 7, 2003

Summary

All action plan steps have been completed to address issues identified in our previously issued report #0210, Physical Controls – Utility Inventories and Facilities.

In audit report #0210, issued January 24, 2002, we identified issues at Water Utility and Gas Utility inventory locations throughout the City. (The one issue identified in the Electric Utility was addressed and resolved prior to the completion of the audit.) Both departments were responsive to the issues identified in the audit and have completed all action plan steps.

These action steps improved security over facilities and inventory locations; enhanced accountability and control of materials, supplies, and equipment; and resulted in the identification and disposal of surplus materials. The condition of certain water well sites were also improved.

- Utility services departments' (electric, gas, and water) inventories were physically secured and adequately safeguarded;
- Access to warehouses/storage facilities was limited to authorized personnel;
- Warehouses/storage facilities were sufficient to properly house the inventory and were adequately maintained to safely store and protect the inventory items;
- Inventory items were safely and efficiently stored;
- Records were maintained to account for and control inventory items; and
- Access to utility facilities such as wells, water tanks, and transmission and distribution substations was adequately restricted and the grounds surrounding those facilities were adequately maintained and secured.

The audit disclosed that, in general, physical controls over inventory and reviewed facilities were adequate. However, some issues/concerns were identified for which improvements to existing controls were recommended.

Report #0312

The purpose of this audit follow up is to report on the progress and/or status of the efforts to implement the recommended action plan steps due as of September 30, 2002. To obtain information, we conducted interviews with key department staff and reviewed relevant documentation. This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

Scope, Objectives, and Methodology

Report #0210

The scope of report #0210 included a review of the physical controls over inventories maintained by three City utility services departments – electric, gas, and water. Also reviewed as part of this audit were the physical conditions of and access controls over certain facilities maintained by those utility departments. The audit was conducted during the period July and August 2001.

The primary objectives of the audit were to determine whether:

Previous Conditions and Current Status

In report #0210, we identified risks that needed to be addressed by both Water and Gas utilities in regard to physical controls over inventories and the condition/security of certain facilities. These risks

included, for example, lack of documented policies and procedures, inadequate controls over keys to warehouses and certain facilities, lack of records relating to physical counts of inventory, and inadequate physical maintenance (e.g., vegetation overgrowth). Twenty-four action plan steps were developed to address those risks, and, as of December 31, 2002, all

issues (100%) have been addressed and resolved. (There were no action plan steps developed relating to the Electric Utility as the one risk identified [cut fence] was resolved prior to the end of the audit.) Table 1 provides a summary of the planned tasks and actions taken.

**Table 1
Action Plan Steps from Report #0210 and Current Status**

Action Plan Steps	Current Status
Gas Utility	
<ul style="list-style-type: none"> • The material handling processes will be analyzed to ensure that the impact of the change to the PeopleSoft inventory module and other issues unique to Gas Utility operations are addressed in the policies and procedures to be developed. 	✓ Completed during prior period.
<ul style="list-style-type: none"> • Written policies and procedures for the custody, control, and management of inventory will be developed and implemented. 	✓ Completed during prior period.
<ul style="list-style-type: none"> • Employees with custodial responsibility will be provided instruction to secure areas that contain materials, supplies, or equipment whenever temporarily left unattended. 	✓ Completed during prior period.
<ul style="list-style-type: none"> • Management will conduct periodic inspections to ensure that areas are being secured in accordance with the instructions provided employees. 	✓ Completed during prior period.
<ul style="list-style-type: none"> • Control records documenting the issuance of keys will be developed. Those records will include: <ul style="list-style-type: none"> - names of employees to whom the keys were issued; - date the keys were issued; - locations/areas to which the keys grant access; and, - the date that the keys are returned. 	✓ Completed during prior period.
<ul style="list-style-type: none"> • Locks to areas that contain materials, supplies, and equipment, and to gas regulating stations will be re-keyed. The new locks will be operated by keys that are either stamped "Do Not Duplicate" or are of the nature that cannot be legally duplicated without specific authorization. 	✓ Completed during prior period.
Water Utility	
<ul style="list-style-type: none"> • Develop written policies and procedures for the custody, control, and management of inventory in Water Utility. These policies will address changes due to the implementation of the PeopleSoft Inventory Module, the control requirements of non-inventoried items (i.e., tools), and other issues unique to Water Utility. 	✓ Completed during prior period.

<ul style="list-style-type: none"> • Include a non-inventory employee to supervise the periodic physical counts and reconciliations of those counts to related records. 	<ul style="list-style-type: none"> ✓ Non-inventory personnel were included in the physical counts and reconciliation of inventory at the Thomas P. Smith (TPS) treatment facility. ✓ At the Southeast Farm, a non-inventory employee supervised the counts. The reconciliation of those counts to the inventory records was performed by the Southeast Farm manager, who has access to both the inventory and inventory records during the course of normal business operations. While preferable from a control perspective to have such a reconciliation performed by an individual without normal access to the inventory items, Water Utility has elected to accept the associated risk due to the position (manager) of the involved employee.
<ul style="list-style-type: none"> • Retain records documenting the counts and related reconciliations of inventory in accordance with City record retention requirements. 	<ul style="list-style-type: none"> ✓ Records of the physical counts and related reconciliations of inventory are being retained in accordance with City record retention requirements.
<ul style="list-style-type: none"> • Identified items at the TPS treatment facility will be sorted and stored in a manner that facilitates the efficiency and safety of the warehouse operations. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Determine which items in the “electrical warehouse” have future application in Water Utility, add those items to the inventory or control records as applicable. 	<ul style="list-style-type: none"> ✓ Items in the “electrical warehouse” have been evaluated and retained or disposed as applicable. Items retained were added to the TPS treatment facility inventory records.
<ul style="list-style-type: none"> • Determine which items in the “electrical warehouse” have no future application in Water Utility and dispose of those items either as surplus (through the Municipal Supply Center auction process) or as scrap. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Determine which items at the TPS treatment facility are surplus, and transfer those items to the Municipal Supply Center for disposal. 	<ul style="list-style-type: none"> ✓ Processes are now in place to identify and dispose of surplus items through the on-line auction administered by the Municipal Supply Center.
<ul style="list-style-type: none"> • Determine which items at the TPS treatment facility are scrap, and dispose of those items in the most efficient and cost effective manner. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Determine whether the maintenance of perpetual records at the Southeast Farm will be cost beneficial. Appropriate actions will be taken. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Conduct periodic counts of inventory at the Southeast Farm in a timely manner to ensure that accurate amounts are reported to Accounting Services for financial statement purposes. 	<ul style="list-style-type: none"> ✓ A physical count of the Southeast Farm inventory was completed on August 22, 2002, and the inventory records were adjusted based on the results. (The resulting \$29,000 adjustment down represented 32% of the balance reported at fiscal year end.)
<ul style="list-style-type: none"> • Control records will be developed and maintained at the Southeast Farm to account for all tools used at the facility. Supervisory staff will periodically use the control records to account for all tools. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> • Develop control records documenting the issuance of keys within Water Utility. 	<ul style="list-style-type: none"> ✓ Completed during prior period.

<ul style="list-style-type: none"> Locks to areas that contain materials, supplies, and equipment will be re-keyed. The new locks will be accessible by keys that are either stamped "Do Not Duplicate" or are of the nature that cannot be legally duplicated without specific authorization. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> The fence at water well #30 on Bannerman Road will be repaired. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> The vegetation at water well #14 will be trimmed and the yard cleaned. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Determine which trees immediately adjacent to the fencing at water well #14 need to be removed. Remove trees as appropriate. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> Repair or replace the covers for the two open cement pits at water well #14 to reduce the risk of personal injury. 	<ul style="list-style-type: none"> ✓ Completed during prior period.
<ul style="list-style-type: none"> A plan will be developed addressing the future use of water well #14 as a storage site. 	<ul style="list-style-type: none"> ✓ Completed during prior period.

Table Legend:

- Issue addressed in the original audit

- ✓ Issue addressed and resolved

Additional Issues Identified

We noted the inventory records at the TPS treatment facility were adjusted down by \$268,000 as the result of the physical counts completed August 16, 2002. That adjustment represented approximately 41% of the inventory balance reported for the facility at fiscal year end. Water Utility attributed the large adjustment to the lack of periodic physical counts and accurate record keeping. We recommend that management monitor the inventory process at the TPS treatment facility for the purpose of ensuring accurate and timely recording of activity.

Conclusion

Water and Gas utilities have been successful in completing all the tasks that were identified in audit report #0210.

We appreciate the response and assistance provided by the applicable offices during this audit follow up. We commend them for their timely actions.

Response from Appointed Official

City Manager Response:

I'm extremely pleased that all management plans have been implemented successfully. It reflects management's dedication to strong internal controls and enhanced efficiency and effectiveness. I thank the auditors for their assistance.

Copies of this Final Audit Follow Up (#0312) or audit report #0210 may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail, or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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