

10. REPORTS TO BE RECEIVED FOR FILING:

- a. Division of Inspector General, Audit Services, Clerk of the Circuit Court and Comptroller, Report No. 2013-19 dated June 13, 2013 – Follow-Up Audit of Utilities GMD Internal Controls of Inventories and Supplies.
- b. Division of Inspector General, Audit Services, Clerk of the Circuit Court and Comptroller, Report No. 2013-20 dated June 13, 2013 – Investigative Follow-Up Report of Community Development's \$3.4 Million State Housing Initiatives Partnership Loan to Crest Capital LLP.
- c. Palm Harbor Special Fire Control and Rescue District Annual Financial Report for the Fiscal Year ended September 30, 2012.
- d. Dock Fee Report for the month of May 2013.



Ken Burke, CPA


CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor

Division of Inspector General

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TO: The Honorable Chairman and Members
of the Board of County Commissioners

FROM:  Ken Burke, CPA
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

SUBJECT: Follow-Up Audit of Utilities GMD Internal Controls on
Inventories and Supplies

DATE: June 13, 2013

For your review and filing in the Official Records, I am enclosing a copy of the follow-up audit dated June 13, 2013 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Jim Bennett, County Attorney
David Scott, Executive Director, Department of Environment & Infrastructure (DEI)
Robert M. Powell, Director, Water and Sewer Division, DEI
Alan Bollenbacher, Maintenance Manager, DEI
LeeAnn Smedley, Manager, Department of Environment and Infrastructure (DEI)
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young



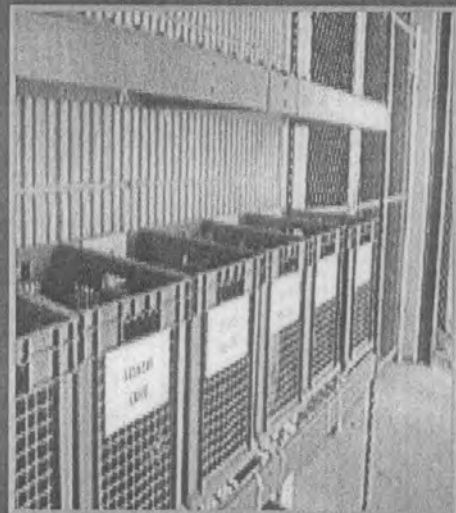
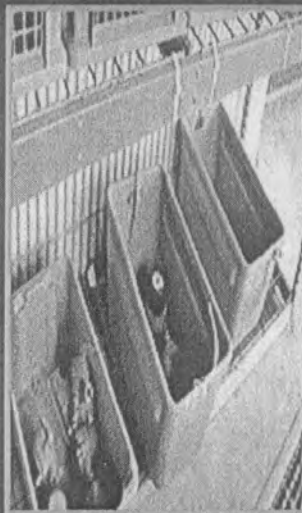
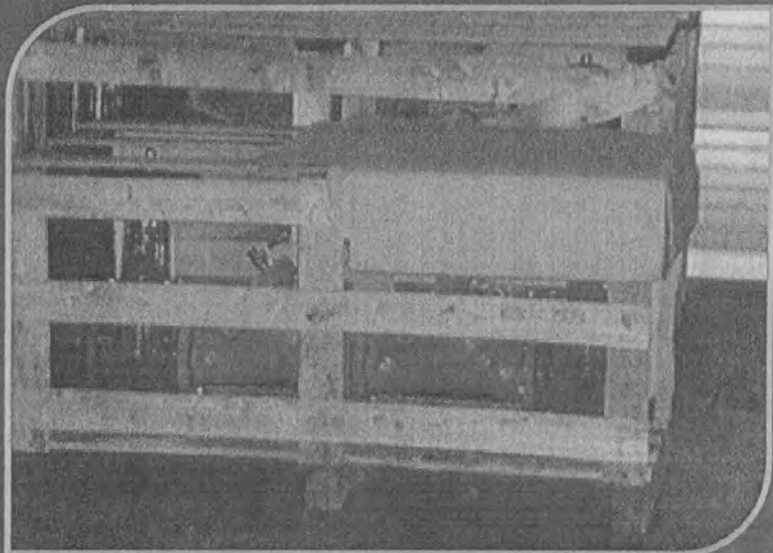


DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA**

FOLLOW-UP AUDIT OF UTILITIES GMD INTERNAL CONTROLS OF INVENTORIES AND SUPPLIES

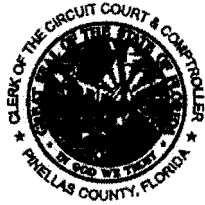


**Hector Collazo, Jr., Director
Inspector General/Chief Audit Executive**

Audit Team

**Ronald Peters, CIA, CISA, CIGA, CBA, CCL, CRMA – Inspector General Manager
Scott Stees, CIA, CISA, CFE, CGFO, CIGA, CIGI – Senior Inspector General Auditor**

**JUNE 13, 2013
REPORT NO. 2013-19**



Ken Burke, CPA

CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA

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June 13, 2013

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted a Follow-Up Audit of the Department of Environment & Infrastructure, formally Utilities, (DEI) General Maintenance Division (GMD) Internal Controls of Inventories and Supplies. The objectives of our review were to determine the implementation status of our previous recommendations.

Of the seven recommendations contained in the audit report, we determined that six have been implemented, and one is no longer applicable. The status of each recommendation is presented in this follow-up review.

We appreciate the cooperation shown by the staff of the DEI General Maintenance Division during the course of this review.

Respectfully Submitted,

Hector Collazo, Jr., Director
Division of Inspector General

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor

*Regulated by the State of Florida



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INTRODUCTION

Scope and Methodology

We conducted a follow-up audit of the Department of Environment & Infrastructure, formally Utilities, (DEI) General Maintenance Division (GMD) Internal Controls of Inventories and Supplies. The purpose of our follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

- 1) Determine the adequacy of internal controls for ordering, receiving, and issuing materials.
- 2) Determine the adequacy of the security of materials.
- 3) Determine the adequacy of reporting and monitoring inventory levels and transactions.

To determine the current status of our previous recommendations, we surveyed and/or interviewed management to determine the actual actions taken to implement recommendations for improvement. We performed limited testing to verify the process of the recommendations for improvement.

Our follow-up audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Standards for Offices of Inspector General*, and, accordingly, included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our follow-up testing was performed during the month of October 2012. The original audit period was October 1, 2010 through June 30, 2011. However, transactions and processes reviewed were not limited by the audit period.

Overall Conclusion

Of the seven recommendations in the report, we determined that six were implemented, and one was no longer applicable. We commend management for implementation of our recommendations.

Status

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
1	<i>The Controls Related To The GMD Warehouse Inventory Are Inadequate Overall.</i>					
	A. Develop and implement controls related to the scrapping and recording of adjustments to GMD inventory, as well as the reporting of these activities.	✓				
	B. Develop and implement internal controls for inventory system adjustments of inventory disposals, or adjustments for shortages or overages.	✓				
	C. Documented policies and procedures need to be developed and implemented by GMD management for warehouse operations, including the reporting and monitoring of inventory levels and transactions.	✓				
	D. Develop and implement internal controls that would minimize the risks that could result from a lack of segregation of duties in the warehouse operations.	✓				
	E. Develop and install adequate internal controls over all of its inventory processes. After the implementation of the controls, we recommend that a complete physical inventory be conducted of all the warehouse and vehicle inventories.	✓				
	F. GMD management or an outsourced inventory consultant should perform ongoing monitoring and analyses of current and potential operating scenarios of the GMD inventory processes.	✓				

Follow – Up Audit of Utilities GMD Internal Controls of Inventories and Supplies

OFI NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS				
		Implemented	Acceptable Alternative	Partially Implemented	Not Implemented	No Longer Applicable
2	Utility Department GMD Warehouse P-Card Purchases Are Excessive.					
	GMD management should determine what, and how much, they want to be purchased via P-Cards for the warehouse inventory. This should be documented in departmental policies and procedures. In addition, the level of P-Card purchases should be monitored for these operations, and management should perform tests comparing P-Card purchase prices to what might be available via the purchase order route.					✓

Background

The Pinellas County Utilities General Maintenance Division's (GMD) responsibilities include:

- Water, wastewater, and recycled water lines:
 - Repair
 - Extension
 - Maintenance
 - Replacement
- Fire hydrant installation and maintenance
- Backflow prevention operations

The GMD Fiscal Year 2011 budget was \$5,721,560 and it has 154 employees. Six of those employees operate two warehouses that house repair and maintenance parts used in performing the GMD functions. The value of the inventory on hand reported in the February 23, 2011 Maximo inventory system was \$3,052,999. Inventories issued for repairs and maintenance in calendar year 2010 amounted to \$983,944.

STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of the Utilities GMD Internal Controls of Inventories and Supplies. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.

1. *The Controls Related To The GMD Warehouse Inventory Are Inadequate Overall.*

The internal controls related to the following areas in the Utilities General Maintenance Division's warehouse inventories of maintenance parts are lacking or are inadequate:

A. Scrapping And Other Adjustments Of The GMD Warehouse Inventories And The Reporting Thereof.

The internal controls related to scrapping and other adjustments of GMD warehouse inventory, as well as the reporting of those activities, are inadequate. During our observations of the warehouse facilities and our interviews with assigned warehouse staff, we determined that no approvals of the department manager or director were needed to:

- Scrap and dispose of warehouse inventory, or
- Make adjustments to inventory records for shortages or overages.

We also learned that special reports are not distributed to Utilities or GMD management for these unusual inventory activities. These transactions are entered into the inventory system, but special reports or notices are not sent to management alerting them of these unusual transactions.

GMD management has not put any controls in place related to the scrapping, disposal, and adjusting of inventory stock. The lack of controls related to scrapping and disposal of GMD warehouse inventory results in risks that a person could misuse county assets without detection. Management approval should be required in order for warehouse staff to scrap and dispose of GMD inventory items, and all adjustments to inventory, for whatever reason, should be reported to management via special reports. GMD management has not required that special management reports of these special inventory transactions be utilized. The lack of reporting to management of the scrapping and disposal of GMD inventory, as well as the adjusting of inventory records, results in a lack of internal controls over the GMD inventories.

Special management reports of the scrapping and disposal of GMD inventory and of the adjusting of inventory records should be generated and distributed.

B. Adjustments Made To The GMD Warehouse Inventory Records.

The internal controls over adjustments to the Utility GMD warehouse inventory records are inadequate. We reviewed inventory reports in order to quantify the number and amount of "adjustments" to the inventory records in calendar year 2010. Total 2010 system adjustments amounted to \$1,274,245, and these represented inventory items scrapped and/or adjusted for shortages or overages. The reports do not classify the cause of the adjustments recorded by warehouse staff. We estimate that the \$1,274,245 of inventory adjustments in 2010 represented approximately 72% of the inventory value prior to those adjustments.

The adjustment report for the North GMD warehouse indicated total net adjustments of \$1,239,112, *increasing* the quantity and value of inventory. The report showed 366 adjustments. Two of the 366 adjusting entries accounted for \$1,230,850, or 99.3% of the total dollar adjustments at that warehouse for the year 2010. One of the two adjustments was a \$921,484 adjustment to an individual inventory item and was dated November 17, 2010, two weeks after we questioned the supervisor about a **negative** \$158,393 total balance shown on his inventory report.

The adjustment report for the South GMD warehouse indicated total net adjustments of \$35,133 in 2010, reducing inventory. The report showed 404 adjustments. About \$20,457 of this \$35,133 reduction was the result of four adjustments greater than \$5,000.

GMD management has not implemented internal controls related to recording inventory system adjustments of inventory disposals, or adjustments for shortages or overages. An example of the effect of not having adequate controls related to adjusting inventory records is demonstrated by the two solo adjustments made to the North GMD warehouse that amounted to \$1,230,850.

Internal controls should be in place regarding making inventory system adjustments of inventory disposals, or adjustments for shortages or overages.

C. Documented Policies And Procedures Related To The Warehouse Operations.

There are not any GMD warehouse documented policies and procedures for:

- Ordering, receiving, and issuing inventory of the GMD warehouses.
- Reporting and monitoring GMD inventory levels and transactions.

We attempted to determine the existence of any Utilities GMD warehouse documented policies and procedures for daily operations, and for reporting and monitoring inventory levels and transactions. In every meeting and interview we had with GMD warehouse supervision and staff, we asked if there were any documented policies and procedures and the answers were always, "No."

GMD management had not developed or implemented documented policies and procedures for these areas. We had scheduled a meeting with them on February 23, 2011, after we

learned that their warehouse supervisor had suddenly retired in early January 2011, to provide them with our preliminary audit findings in the event that these would be beneficial in their selection of a new supervisor. One of our issues was that there were no documented policies and procedures, and management did not dispute this fact. During our preliminary summary meeting with management on August 2, 2011, we again noted that there were not any documented policies and procedures, and management did not state otherwise. At the conclusion of the meeting, we mentioned that we thought we had seen some of the warehouse staff preparing or revising warehouse policies and procedures during our last visit. On August 15, 2011, we received an email from management with warehouse Standard Operating Procedures (SOP) attached. If these SOPs had always been in existence, it appears that no one except the supervisor knew that they existed.

The lack of documented policies and procedures leaves a substantial void in any internal controls over this important function. Written policies and procedures provide guidance that is necessary to properly and consistently carry out departmental activities at a required level of quality. The establishment of the procedures provides the opportunity for management to ensure that adequate processes/internal controls have been established. It is management's responsibility to establish written internal procedures covering key departmental processes.

D. Segregation Of Duties Of The Warehouse Staff Members.

There is a lack of segregation of duties for the ordering, receiving, and issuing of GMD warehouse inventory functions. During our visits to the North and South GMD warehouses, we observed a single staff performing the functions of receiving, stocking, and issuing inventory items. Warehouse management confirmed that warehouse staff does perform a variety of these tasks, including ordering inventory via their P-Cards.

GMD management has not implemented any internal controls that would minimize the risks that could result from a lack of segregation of duties in the warehouse operations. In order for a person to misuse assets without detection, they have to have custody of assets, the ability to remove assets, and the ability to adjust the records of the inventory. These conditions exist in the GMD warehouses.

One of the basic elements of internal controls is the adequate segregation of duties. This is especially critical in warehouse operations where ordering, receiving, and issuing of inventory is performed by the same person. The operation should have adequate segregation of job responsibilities between the functions of ordering, receiving, distribution, and recording of transactions/maintaining inventory records.

E. Risk That The GMD Reported Warehouse Inventories Are Inaccurate.

It is our opinion that there is a risk that the GMD reported warehouse inventories are inaccurate. Our evaluation of the accuracy of the reporting of inventory levels is based in part on our observations of the following incidents during the course of our review:

- We had requested hard copies of the inventory on hand reports from the warehouse supervisor for the two warehouses on November 4, 2010. The report for the North warehouse showed a grand total of **negative** \$158,393.81. When we questioned the warehouse supervisor about this fact, he attempted to convince us that the minus mark on the report was an ink smudge.
- On November 17, 2010, the North warehouse recorded a \$921,484 inventory adjustment, two weeks after we questioned the negative total on the inventory report, adding 118,139 pieces of inventory item number 21847.
- BTS generated a February 23, 2011 inventory report for IG that showed one Utility GMD truck that had a \$1,246,509 average cost of inventory on board the truck.

Based on the lack of controls and inaccurate reporting, we could not verify the correctness of the GMD inventory without conducting a complete inventory of both GMD warehouses.

There is a risk that the GMD reported warehouse inventories are inaccurate because GMD management has not developed and installed adequate internal controls over its inventory processes.

The GMD warehouse and utility trucks' total average cost of inventories was reported to be \$3,052,999 on February 23, 2011, and there is a high probability that these amounts are inaccurate. This could have an adverse effect on the ability to efficiently reorder and have on hand the appropriate materials for effective utilization. It also lowers the confidence level that these materials are not being misused by any warehouse staff.

The reported inventories of county resources, in this case of GMD repair and replacement parts, should reflect an accurate portrayal of what is on hand and available for use.

F. Analyses Of The GMD Warehouse Inventory Operations.

The analyses of the GMD warehouse inventory operations are inadequate. During our meetings and discussions with the GMD warehouse supervisor and staff, as well as with GMD management, it became apparent that there were no current analyses related to:

- The risk of excessive duplication of inventories between the two warehouses and repair trucks.
- Inadequate determination of proper target inventory levels.
- Appropriate reorder points for inventory items.

Utilities GMD management was not able to provide any recent documented studies/analyses of GMD warehouse inventory management. There was no evidence of ongoing management monitoring and analyses of current and potential operating scenarios of the GMD inventory processes.

It is difficult to operate the GMD inventory processes in an efficient and cost effective manner without ongoing management monitoring and analyses of current and potential operating scenarios.

We Recommended Utilities GMD management:

- A. Develop and implement controls related to the scrapping and disposal of GMD inventory stock, as well as the reporting of these activities.
- B. Develop and implement internal controls for making adjustments to the inventory system for inventory disposals or adjustments for shortages or overages.
- C. Documented policies and procedures need to be developed and implemented by GMD management for warehouse operations, including the reporting and monitoring of inventory levels and transactions.
- D. Develop and implement internal controls that would minimize the risks that could result from a lack of segregation of duties in the warehouse operations.
- E. Develop and install adequate internal controls over all of its inventory processes. After the implementation of the controls, we recommend that a complete physical inventory be conducted of all the warehouse and vehicle inventories.
- F. GMD management or an outsourced inventory consultant should perform ongoing monitoring and analyses of current and potential operating scenarios of the GMD inventory processes.

Status:

- A. **Implemented.** Management implemented a new scrapping procedure.
- B. **Implemented.** The new scrapping contract will correct the issue.
- C. **Implemented.** Management is developing new procedures for warehouse operations.
- D. **Implemented.** Warehouse staff schedules have been changed to improve internal controls.
- E. **Implemented.** Management adopted new requirements and has completed an inventory.
- F. **Implemented.** Implemented February 2010, with the Ferguson Waterworks contract. However, the current Utilities GMD Contract With Ferguson Waterworks noted that the contract's schedule for evaluating inventory improvements was delayed by DEI management. A new timetable is being developed.

2. Utility Department GMD Warehouse P-Card Purchases Are Excessive.

Utility GMD warehouse P-Card purchases are excessive. The 2010 calendar year P-Card purchases by the Utilities GMD warehouse staff amounted to \$329,860 via five P-Cards, representing 33.5% of the calendar year 2010 warehouse issues of \$983,944.

Data related to calendar year 2010 GMD warehouse P-Card transactions are:

- 755 purchase transactions were made with county P-Cards
- Five P-Cards were utilized for purchases:
 - \$109,311 South warehouse
 - \$100,182 North warehouse
 - \$92,579 South warehouse
 - \$25,434 South warehouse
 - \$2,354 South warehouse
- 18 vendors represented \$262,667, or 79.6%, of the \$329,860 total purchased

Warehouse P-Card purchases have reached their current high levels because:

- There are not any documented GMD policies and procedures regarding this subject.
- Management was not aware of the magnitude of the P-Card purchases.

The adverse effects could include the facts that:

- Five employees are on the telephone ordering replacement stock for the inventory instead of performing other more important inventory control functions.
- It is possible that the prices via this methodology are higher than utilizing competitive bidding.

Routine, ongoing purchases of warehouse maintenance parts and supplies should be performed utilizing the Purchasing Department bid/purchase order systems for the most possible cost effective purchases.

We Recommended Utilities GMD management determine what, and how much, they want to be purchased via P-Cards for the warehouse inventory. This should be documented in departmental policies and procedures. In addition, the level of P-Card purchases should be monitored for these operations, and management should perform tests comparing P-Card purchase prices to what might be available via the purchase order route.

Status:

No Longer Applicable. Ferguson Waterworks is now the main supplier of water and sewer materials and accessories. Prices are defined by the Ferguson Contract with invoices paid by P-Cards under the Ferguson Purchase Order. However, the current audit, "DEI GMD Contract

With Ferguson Waterworks," found issues with contract compliance including pricing procedures by the contractor.



DIVISION OF INSPECTOR GENERAL

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PINELLAS COUNTY, FLORIDA

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