

Audit

Follow Up

As of March 31, 2002



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

Report #0226

July 16, 2002

Summary

Applicable utility departments have implemented the action plan steps due as of March 31, 2002, 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 the Water 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 the action plan steps due to date.

Remaining steps scheduled to be completed in subsequent periods pertain to the Water Utility and relate to year-end physical counts, surplus items at one facility, and enhancing accountability and control of certain items at another facility.

The primary objectives of the audit were to determine whether:

- 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.

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.

Report #0226

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 March 31, 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.

Previous Conditions and Current Status

In report #0210, we identified risks that needed to be addressed by both the 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; 19 were due for completion as of March 31, 2002. (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.) The Water and Gas Utilities have successfully completed all 19 (100%) steps. Table 1 provides a summary of the conditions and tasks completed.

**Table 1
Conditions Identified in Report #0210 and Current Status**

Previous Conditions	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 the Gas Utility operations are addressed in the policies and procedures to be developed. 	<ul style="list-style-type: none"> ✓ The implementation of the PeopleSoft inventory module and other areas were evaluated and considered in the development of written policies and procedures.
<ul style="list-style-type: none"> • Written policies and procedures for the custody, control, and management of inventory will be developed and implemented. 	<ul style="list-style-type: none"> ✓ Written policies and procedures have been developed for the custody, control and management of inventory.
<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. 	<ul style="list-style-type: none"> ✓ The employees responsible for the custody and control of inventory have been provided written and verbal instructions that the warehouse/storeroom must be secured when unattended.
<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. 	<ul style="list-style-type: none"> ✓ Periodic inspections of the security of the warehouse/storeroom are now conducted by management.
<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. 	<ul style="list-style-type: none"> ✓ In conjunction with the changing of the locks (as noted below), control records for keys were developed.
<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. 	<ul style="list-style-type: none"> ✓ The locks that secure the inventory and other facilities have been changed, and the keys to those locks are stamped "Do Not Duplicate."

Water Utility	
<ul style="list-style-type: none"> Develop written policies and procedures for the custody, control, and management of inventory in the 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 the Water Utility. 	<ul style="list-style-type: none"> ✓ Written policies and procedures for the custody, control, and management of inventory in the Water Utility have been developed.
<ul style="list-style-type: none"> Identified items at the Thomas P. Smith (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"> ✓ Items at the TPS facility have been sorted and stored in a manner that facilitates the efficiency and safety of the warehouses.
<ul style="list-style-type: none"> Determine which items in the “electrical warehouse” have no future application in the 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"> ✓ The “electrical warehouse” has been reorganized, and items that have no future use to the department have been disposed of.
<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"> ✓ Approximately 117 tons of scrap materials were removed from the TPS treatment facility. Also, a process has been developed to identify scrap for disposal in a timely manner to prevent future unwarranted accumulation.
<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"> ✓ Perpetual records are now maintained at the Southeast Farm.
<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"> ✓ Control records for the tools used at the Southeast Farm have been developed, and a physical accounting is scheduled to be completed in conjunction with the annual physical count of inventory.
<ul style="list-style-type: none"> Develop control records documenting the issuance of keys within the Water Utility. 	<ul style="list-style-type: none"> ✓ In conjunction with the changing of the locks (as noted below), control records for keys were developed.
<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"> ✓ The locks that secure the warehouses controlled by the Water Utility have been changed, and the keys to those locks are stamped “Do Not Duplicate.”
<ul style="list-style-type: none"> The fence at Water Well #30 on Bannerman Road will be repaired. 	<ul style="list-style-type: none"> ✓ The fence at Water Well #30 was repaired.
<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"> ✓ The vegetation in and around Water Well #14 was trimmed, and the yard/grounds were cleaned.
<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"> ✓ Trees adjacent to the fences were trimmed as appropriate.

<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"> ✓ The covers to the cement pits have been repaired and replaced.
<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"> ✓ Plans have been made for the continued use of Water Well #14 as a storage site.

Table Legend:

- Issue addressed in the original audit
- ✓ Issue addressed and resolved

Conclusion

The Water and Gas Utilities have been successful in completing the tasks that were identified in audit report #0210 and due as of March 31, 2002. Additional actions will be needed to ensure that tasks due in future periods are completed as scheduled.

The significant remaining tasks, all of which pertain to the Water Utility, relate to:

- annual physical counts and retention of records for such counts;
- surplusing applicable items at the TPS treatment facility; and
- enhancing accountability and control over applicable items in the “electrical warehouse.”

We appreciate the response and assistance provided by the applicable offices during this audit follow up.

Response from Appointed Official

City Manager:

I'm pleased that all action steps have been completed successfully by the Water and Gas utilities. It reflects the organization's commitment to strong internal control. I thank you and your staff for your contribution to our internal control system.

Copies of this Audit Follow Up 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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