



PHYSICAL CONTROLS – UTILITY INVENTORIES AND FACILITIES

AUDIT REPORT #0210

January 2002



Copies of this audit report #0210 (project #0113) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), 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).

Audit conducted by:

Dennis Sutton, CPA, Senior Auditor

Sam M. McCall, CPA, CIA, CGFM, City Auditor



300 S. ADAMS ST.
TALLAHASSEE, FL
32301-1731
850/891-0010
TDD 1-800/955-8771
talgov.com

SCOTT MADDOX
Mayor
DEBBIE LIGHTSEY
Mayor Pro Tem

JOHN PAUL BAILEY
Commissioner
CHARLES E. BILLINGS
Commissioner
STEVE MEISBURG
Commissioner

ANITA R. FAVORS
City Manager
GARY HERNDON
City Treasurer-Clerk

JAMES R. ENGLISH
City Attorney
SAM M. McCALL
City Auditor

MEMORANDUM

To: Mayor and Members of the City Commission
From: Sam M. McCall, City Auditor
Date: January 24, 2002
Subject: Audit Report on Physical Controls – Utility Inventories and Facilities (#0210)

We have completed an audit on Physical Controls – Utility Inventories and Facilities (#0210). We submit this report that contains our audit issues and recommended actions and the response from the City Manager. We will periodically review the implementation of these recommended actions.

Fieldwork for this audit was performed prior to the terrorist attacks against our country on September 11, 2001. Therefore, the scope of this audit was not designed to address issues that would be included in a security review to counter terrorist actions. The issue of physical security over all City facilities (including utility facilities) is currently receiving heightened awareness from City management. We have been given assurances by City management that issues identified in this report will be considered as part of that assessment. We commend City management for their initiated and planned actions.

We thank the staff of Utility Services for their cooperation and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,

Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
Appointed Officials
Executive Team
Sam Davis, Jr., General Manager – Gas Utility
James J. Oskowis, General Manager – Water Utilities
Kevin G. Wailes, General Manager – Electric
Paula G. Cook, Records Administrator

An All-America City

Table of Contents

Executive Summary..... 1
With some exceptions, physical controls over inventories and facilities are generally adequate. 1

Objectives, Scope, and Methodology..... 3
This audit focused on physical controls relative to City utility inventories and facilities 3

Background..... 4
Utility inventories are maintained by the electric, gas, and water departments; those inventories include various equipment, supplies, and other items of value. 4
Physical controls are essential to the successful management of inventories and facilities. 5

Audit Approach..... 6
Various warehouses and facilities were reviewed as part of this audit. 6

Electric Operations 6

Electric Generation6
Physical controls over the electric generation facilities were adequate – no issues or concerns were identified. 6

Transmission and Distribution8
Overall, physical controls over inventories and facilities of the electric T&D division were adequate. 8
A fence at one substation had been cut thereby allowing unauthorized access. 9

Gas Operations 10
Overall, physical controls over inventories and facilities of the gas department were adequate. 10
Issues identified included (1) unsecured storage room when temporarily unattended, (2) lack of controls over keys, and (3) lack of written policies and procedures. 11

Water Utilities 11
In general, physical controls over inventories and facilities of the water department were adequate. 12
Issues identified included (1) inadequate controls over keys and periodic physical inventory counts, (2) lack of written policies and procedures, (3) inappropriate storage of some items, (4) lack of control records for certain items, (5) and physical security issues at two of the City’s former well sites.13

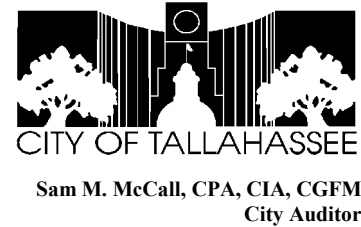
Recommendations..... 17

Conclusion 19
The City utility departments have implemented physical controls over their inventories and facilities. However, some issues/concerns have been identified for which corrective actions are necessary. 19

Response From Appointed Official..... 19

Appendix A- Action Plan..... 20

Physical Controls - Utility Inventories and Facilities



Report #0210

January 24, 2002

Executive Summary

This audit included a review of physical controls over inventories maintained by the City electric, gas, and water utility departments. Also reviewed as part of this audit were the physical conditions of and access controls over transmission and distribution substations, water tanks, wells, and similar facilities maintained by those City utility departments. In general, physical controls over inventory and reviewed facilities were adequate. However, some issues/concerns were identified for which improvements to existing controls are recommended.

With some exceptions, physical controls over inventories and facilities are generally adequate.

Each of the three identified utility departments maintains its own inventory as authorized by City administrative policy and procedure (APP) #506. APP #506 establishes criteria that must be met for a City department to maintain an inventory separate from the City's central stores (Municipal Supply Center). Included in those criteria is the acceptance of the custodial responsibility for the inventory. A part of the custodial control responsibilities is the maintenance of a system of physical controls over the inventory. Physical controls over inventory and related items include protection from the elements, protection from theft or pilferage, sufficient and adequate facilities, maintenance of those facilities, and accountability. As such, those components were the basis of our review.

During our examination we visited all the warehouse locations at the Municipal Complex (located on Jackson Bluff Road), the Purdom and Hopkins electric generation plants, all 16 active electric substations, both of the water treatment facilities, the Southeast Farm Waste Water Reuse Facility, 13 of the 30 water wells, and 7 of the 8 water towers.

While conducting those site visits we noted examples of excellent physical controls. We also noted areas where improvements could

be made. Examples of issues/concerns identified for which improvements are needed included:

- certain facilities were not always adequately secured to prevent unauthorized access;
- keys to certain facilities were not adequately controlled;
- written procedures for the management of inventory were not always established;
- items were not always stored in a manner that facilitated safe and efficient operations;
- large quantities of surplus and scrap items accumulated at one facility thereby reducing available storage space; and
- control records were not maintained for certain items.

Fieldwork for this audit was performed prior to the terrorist attacks against our country on September 11, 2001. Therefore, the scope of this audit was not designed to address issues that would be included in a security review to counter terrorist actions. However, because of the September 11 terrorist attacks, the issue of physical security over all City facilities (including utility facilities) is currently receiving heightened awareness from City management. For example, public parking under City hall has been eliminated and traffic accessing the municipal airport is subject to closer scrutiny and more restrictions. Furthermore, the City Commission has established a target issue of Community Safety and Security to address security issues citywide. Part of this assessment will be the evaluation of all City facilities, including utilities, to enhance security. We have been given assurances by City management that issues identified in this report will be considered as part of that assessment. We commend City management for their initiated and planned actions.

We would like to acknowledge the full and complete cooperation and support of all applicable City utility department staff during this audit.

Physical Controls - Utility Inventories and Facilities



Sam M. McCall, CPA, CIA, CGFM
City Auditor

Report #0210

January 24, 2002

Objectives, Scope, and Methodology

The scope of this audit 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 (e.g., wells, water tanks, transmission and distribution substations) maintained by those City utility departments. The reviews and site visits made during the course of this audit were conducted during July and August 2001.

This audit focused on physical controls relative to City utility inventories and facilities.

The objectives of this 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 distributions substations was adequately restricted and the grounds surrounding those facilities were adequately maintained and secured.

To address the stated objectives we made site visits to observe selected utility locations and facilities. We also interviewed key personnel, reviewed applicable documentation, and performed walk-throughs of processes pertinent to inventory administration. This audit was conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as applicable.

Background

City administrative policy and procedure (APP) #506 establishes policy, procedures, and criteria for the establishment of inventories of parts and supplies. APP #506 provides that under specific circumstances City departments may establish and maintain departmental inventories separate from the City's central stores inventory (Municipal Supply Center). Those circumstances include instances where a department has items that are unique and critical to its operation, and the time required to retrieve the items from central stores could negatively impact the department's operations.

In accordance with these provisions, the City electric, gas, and water utility departments established separate inventories for the unique aspects of their operations. The inventory values for these three departments are shown in the following table:

Department	Inventory Value
Electric Operations	\$ 20,529,000
Gas Operations	\$ 227,000
Water Utilities	\$ 1,921,000

Source COT FY 2000 Consolidated Annual Financial Report

Utility inventories are maintained by the electric, gas, and water departments; those inventories include various equipment, supplies, and other items of value.

In addition to the inventory items accounted for in the City's financial records (as shown in Table 1), the City utility departments maintained certain equipment, supplies, and items of value that were not classified and reported as inventory pursuant to the definitions and provisions of APP #506. These included items such as tools, spare parts for capitalized systems ("capital spares"), and parts cannibalized from replaced systems. These also included items that had been purchased and charged (expensed) to a capital project but which are temporarily maintained in a "staged" location pending their use on the project. Because of the nature and value of these non-inventory items, a system of controls similar to that required for inventory items should be maintained. Accordingly, these items were classified as "inventory" for purposes of this audit.

Physical controls are essential to the successful management of inventories and facilities.

APP #506 provides that City departments establishing and maintaining inventories separate from the Municipal Supply Center must employ sound inventory management principles and practices and must implement appropriate departmental policies and procedures demonstrating compliance with that policy. One principle/practice essential to the successful management of inventories is a system of physical controls. Key elements of a system of physical controls include the following:

- Protection of the inventory from theft or pilferage;
- Protection of the inventory from the elements;
- Facilities sufficient to safely and efficiently store inventory items;
- Maintenance of inventory facilities; and
- Accountability.

The following table provides a description and examples of each of those elements:

Table 2	
Control Element	Description/Examples
Protection from theft or pilferage	Items should be protected from unauthorized access and diversion. Specific controls include locked doors and gates, fences, surveillance cameras, and alarm systems. This also includes controlling access through the issuance of keys or access cards only to designated employees.
Protection from the elements	Items that can be damaged or have functionality diminished by exposure to water, direct sunlight, or extremes in temperature should be stored in areas that limit such exposure. For example, some electric components should be protected from water, and certain types of underground pipe should not be exposed to direct sunlight.
Sufficient facilities	Facilities used to warehouse inventory should be sufficient to safely and efficiently store the applicable items. For example, there should be sufficient space to store items by type/category thereby facilitating receipt and issuance of items. In addition, space should be sufficient to preclude excessive “stacking” of items that may result in accidents causing personal injury to warehouse/inventory staff.
Maintenance of facilities	The facilities should be maintained in a good and safe condition. For example, items or material should be neatly stored on shelves/bins by category/type. Items and materials should not be piled on the floor or left in aisles.
Accountability	Records should be maintained to account for items maintained in inventory. This includes those items already “expensed” and not recorded in the City’s accounting system such as tools, capital spares, and cannibalized parts. Periodic counts of the items should be conducted and reconciled to the applicable records by staff independent of the custodial function.

Cost-benefit considerations should be made by department management in determining the specific physical controls that are appropriate for inventories. For example, items that are more susceptible to loss or theft, such as generic tools or copper wire, may necessitate a higher level of control compared to other inventory items such as specialized electrical, gas, or water components that are not feasible for use outside of City operations.

Audit Approach

Various warehouses and facilities were reviewed as part of this audit.

For each of the three utility departments, we visited selected facilities and locations and completed audit procedures designed to achieve our stated objectives. Some of the selected facilities were not identified as inventory or warehouse locations. Those “other” facilities were visited and reviewed to identify any inventory items maintained separate from the primary warehouse locations that were not being adequately accounted for or controlled. Those facilities included, for example, gas regulating stations, electrical substations, water wells, and water tanks. During our visits of those other facilities, we reviewed physical controls over access and the overall maintenance of the facilities. The following sections of this report present the results of our audit by utility department.

Electric Operations

Physical controls over the electric generation facilities were adequate – no issues or concerns were identified.

Electric operations is divided into two distinct divisions: (1) Generation and (2) Transmission and Distribution. Each division maintains a separate inventory.

Electric Generation

The electric generation division is comprised of the Sam O. Purdom Generating Facility at St. Marks, the Arvah B. Hopkins Power Plant on Geddie Road, and C. H. Corn Power Plant at Lake Talquin. Inventory for that division is maintained at the Purdom and Hopkins plants. Our review of those two facilities disclosed no issues or concerns in relation to the physical controls over the inventories maintained at those plants. Examples of physical controls noted at those plants included the following:

- The inventory warehouses were staffed by fulltime warehousemen assigned responsibility for controlling, monitoring, receiving, and issuing inventory items.
- A Sonitrol card system was used to control access to the facility and to the inventory warehouses. The level of access granted to a particular employee was controlled through the programming of individual cards. For example, cards of plant managers allowed access to all doors and entrances within the plant. On the other hand, cards of administrative staff granted access to the plant but not to the inventory warehouse. This system maintained a record of each time a card was used to gain (or to attempt to gain) access.
- Fences surrounding the properties also controlled access to the two facilities. We should note, however, that the Purdom plant could be accessed by the St. Marks River.
- Within the facilities, fences with locked gates controlled entry to the warehouses and locations where inventory was stored. Keys to the locked gates were assigned and restricted to authorized warehousemen and supervisory staff.
- The main warehouse entrances were secured with sequentially numbered plastic seals during periods that the warehouse was closed (i.e., when not manned by warehousemen such as during the night). To gain access to the warehouse during those periods, authorized staff with access (sonitrol cards) had to break the seal and record on a log the reason for and time of the access.
- The facilities were adequate to safely store and protect the inventory items.
- Items were safely and efficiently stored in various warehouse locations.
- Records were maintained to account for and control the inventory items. For example, the CHAMPS system accounted for inventory items and capital spares. Separate control records were maintained to account for generic tools/supplies and specialty tools assigned to operations staff.

- Written procedures had been developed addressing administration of the inventories.

At the Purdom plant there were large quantities of scrap materials noted during the site visit resulting from the decommissioning of two generation units (No. 5 and No. 6). That material is planned for disposal when decommissioning of the noted units is completed.

Transmission and Distribution

Overall, physical controls over inventories and facilities of the electric T&D division were adequate.

The Transmission and Distribution (T&D) Division manages and maintains a network comprised of approximately 2,200 miles of transmission and distribution lines and 19 electrical substations. To facilitate maintenance of that network the division maintains inventory at two primary locations and two satellite locations. The two primary locations are in the municipal complex area near Jackson Bluff Road and Mabry Street. The two satellite locations at which smaller inventory supplies are maintained are the T&D storage area near the Hopkins generating plant and substation No. 8 on Grady Road.

Overall, we found that the physical controls and security of the T&D inventory and facilities were adequate. For example, we noted that:

- The two primary warehouses were staffed by full time warehousemen assigned responsibility for controlling, monitoring, receiving, and issuing inventory items.
- Access to facility locations is controlled through a combination of keyed padlocks and a card system.
 - Keyed Padlocks – The issuance of keys was controlled through issuance logs. The issuances of keys and maintenance of the related issuance records was conducted by management level employees.
 - Card System – The level of access granted to a particular employee was controlled through the programming of the individual's card. For example, cards of certain

supervisors allow access to all facilities. On the other hand, cards of other personnel may only access a particular facility. This system maintained a record of each time a card was used to gain (or to attempt to gain) access.

- Access to the T&D substations was restricted through locked gates and fences, and the grounds surrounding those facilities were adequately maintained and secured.
- With one exception, as noted below, the fences that control access to the warehouses and facilities of the T&D division were intact and in serviceable condition.
- The facilities were adequate to safely store and protect the inventory items.
- Items were safely and efficiently stored within various facilities and warehouses.
- Records were maintained to account for and control inventory items, including tools.
- Items such as capital spares (i.e., extra replacement parts purchased in connection with a capital project) and surplus parts/materials cannibalized from replaced systems or components and retained because of their potential use to other components of the T&D network are accounted for on control records. As those items have been previously expensed either as part of a capital project or the initial issuance of the items from inventory, those “control records” are separate from the inventory records maintained on the City’s accounting system.
- Written procedures had been developed addressing the administration of the inventory.

Notwithstanding the above, we did note the following issue during our review of T&D facilities:

A fence at one substation had been cut thereby allowing unauthorized access.

A fence at substation No. 3 had been cut, providing unauthorized access to the substation. While visiting selected T&D substations, we noted that approximately five feet of the security fence on the north side of substation No. 3 at Lipona Road had been cut. The cut appeared to be the result of vandalism or a

burglary attempt and provided unauthorized access to the substation. Upon our notification of the cut, the electric operations department promptly reported the incident to the Tallahassee Police Department and had the fence repaired.

Gas Operations

Overall, physical controls over inventories and facilities of the gas department were adequate.

The Gas Operations Department (gas department) distributes natural gas to approximately 18,000 customers. Because of the limited number of items (e.g., gas meters, fittings, and regulators) needed to maintain the gas distribution system, there is a relatively small inventory maintained by the gas department. In most instances, items and materials for a job or project are not procured until needed and therefore are not maintained in inventory. The inventory warehouse (storeroom) maintained by the gas department is located at the municipal complex area on Jackson Bluff Road.

Overall, we found that physical controls over the gas department's inventory and facilities (e.g., gas regulating stations) were adequate. Specifically, we noted the following:

- The inventory warehouse was staffed by a warehouseman assigned responsibility for controlling, monitoring, receiving, and issuing inventory items.
- Access to the warehouse and storage area was controlled through locked doors. Keys to the locks on those doors were to be assigned only to the warehouseman and designated supervisory staff.
- The facility was adequate to safely store and protect the inventory items.
- Items were safely and efficiently stored in the warehouse.
- The City's accounting system was used to account for and control the inventory items.
- Access to the observed gas regulating stations was controlled through fences and locked gates, and the surrounding grounds were adequately maintained and secured.

Notwithstanding the above, we did note the following concerns and issues during our review:

Issues identified included (1) unsecured storage room when temporarily unattended, (2) lack of controls over keys, and (3) lack of written policies and procedures.

The storeroom where gas meters were maintained was not always secured when unattended. During two separate visits to the storeroom, we noted that the storeroom and surrounding area were unattended and that the door to the storeroom area was not locked. An unsecured and unattended storeroom increases the risk of unauthorized entry to the stored inventory items.

Control records documenting the issuance of keys accessing the storeroom and gas regulating stations were not maintained. Records documenting the number of available keys, the employees to whom those keys have been issued, the dates the keys were issued, and the dates keys are returned should be maintained to assist in controlling access to inventory storage locations and City facilities. The gas department did not maintain such records.

Keys issued to employees that provided access to the storeroom and to gas regulating stations were not stamped “Do Not Duplicate” and were the type that can be legally duplicated. The lack of a control to prevent the unauthorized duplication of keys limits management’s ability to control access to the inventory and City facilities.

There were no written departmental policies and procedures for the management of the gas department inventory. APP #506.06 C.(3) provides that departments that maintain an inventory separate from the Municipal Supply Center shall implement inventory policies and procedures in conformance with that policy (APP #506). Formal written procedures should help ensure uniform and consistent controls and practices that in turn should increase efficiencies in inventory management.

Water Utilities

The Water Utilities Department has two primary components, Water Production and Sewer Operations. Water Production facilities include City wells, water towers, and some storage

locations. Sewer Operations facilities include the Thomas P. Smith Water Reclamation (TPS treatment) Facility at Springhill Road, the Lake Bradford Road Wastewater Treatment (Lake Bradford treatment) Facility, and the Southeast Farm Waste Water Reuse Facility (sprayfield) on Tram Road. The majority of the inventory items for both components are maintained at the TPS and Lake Bradford treatment facilities. However, there are separate smaller inventories maintained at a warehouse on Jackson Bluff Road and the Southeast Farm sprayfield.

In general, physical controls over inventories and facilities of the water department were adequate.

In general, the physical controls over the inventories maintained at the two treatment facilities and over other water utilities facilities were adequate. Specifically, we noted that:

- The warehouses at the TPS treatment facility and Lake Bradford treatment facility are staffed by fulltime warehousemen who are assigned responsibility for controlling, monitoring, receiving, and issuing inventory items.
- Fences with lockable gates controlled entry to all water facilities.
- A Sonitrol card system is used to control access to the TPS and Lake Bradford treatment facilities. Only authorized employees are issued those cards. The system maintains a record of each time a card is used to gain (or to attempt to gain) access.
- Access to the inventory warehouses is controlled through locked doors. Only authorized employees are to be issued keys accessing those locked doors.
- Except as noted below, the warehouses and yards were adequate to safely store and protect the inventory items.
- Except as noted below, items were safely and efficiently stored.
- Except as noted below, records were maintained to account for and control the inventory.

- Except as noted below, water wells and water tanks were adequately secured and maintained.

In addition to the controls described above, we noted several issues and concerns during our review of the water utility facilities. Specifically:

Issues identified included (1) inadequate controls over keys and periodic physical inventory counts, (2) lack of written policies and procedures, (3) inappropriate storage of some items, (4) lack of control records for certain items, (5) and physical security issues at two of the City's former well sites.

Control records documenting the issuance of keys to department facilities were not maintained. Records documenting the number of available keys, the employees to whom those keys have been issued, the dates the keys were issued, and the dates keys are returned should be maintained to assist in controlling access to inventory storage locations and other City utility facilities. The water utilities department did not maintain such records for keys accessing the water utility warehouses.

Keys providing access to the various water utility warehouses and inventory locations and issued to employees were not stamped "Do Not Duplicate" and were the type that can be legally duplicated. The lack of a control to prevent the unauthorized duplication of keys limits management's ability to control access to the inventory.

There were no written departmental policies and procedures for the management of the water utility department inventory. APP #506.06 C.(3) provides that departments that maintain an inventory separate from the Municipal Supply Center shall implement inventory policies and procedures in conformance with that policy (APP #506). Formal written procedures should help ensure uniform and consistent controls and practices that in turn should increase efficiencies in inventory management.

Periodic (annual) physical counts of inventory items and the reconciliation of those counts to the related inventory records were conducted by the employees assigned custodial responsibilities. Persons making or supervising physical counts of inventory items and reconciling those counts to the related records should not also have custodial responsibilities for the inventory. An

employee performing such incompatible duties is in the position to make unauthorized diversions or conceal errors without timely detection. In addition, we noted that records documenting the physical counts and related reconciliations were not retained thereby precluding verification on post-audit that such counts and reconciliations had been conducted.

At the TPS treatment facility, large quantities of surplus and scrap materials have accumulated over recent years. As a result, space that could be used to more efficiently store useful inventory items is not available for that purpose. Surplus and scrap items should be transferred to the Municipal Supply Center for disposal.

At the TPS treatment facility, some items in two warehouses were not neatly stored in a manner that facilitated the safety and efficiency of warehouse operations. In these instances, some items were stored in piles on the warehouse floor or stacked in the aisles between storage shelves and bins. Those circumstances increase the risk of employee injury (e.g., tripping) and may make retrieval of items for issuance more time consuming and difficult.

At the TPS treatment facility, control records were not maintained for electrical items stored in one of the warehouses. Without such records those items cannot be adequately accounted for and protected from unauthorized diversions or use. In response to our inquiry on this matter, department staff indicated that many of the items were obsolete and should be disposed through the Municipal Supply Center.

At the Southeast Farm sprayfield, the available inventory system (CHAMPS) has not been used for control purposes. Inventory maintained at the Southeast Farm consists of parts for irrigation center pivots such as wheels, gaskets, bushings, and pipes, as well as electrical components for control panels, pumps, and various other equipment used at the farm. The City inventory system available at the Southeast Farm is the CHAMPS, which provides for the accounting of inventory on a perpetual basis.

Perpetual inventory records enhance management control as they serve to document each addition and each removal of inventory items. (Such accountings, when coupled with periodic physical counts of the inventory, enable management to identify errors or misuse.) Furthermore, the CHAMPS requires that each item removed from inventory be charged to a “work order,” thereby allowing management to identify what job or project a particular inventory item was used on.

At the Southeast Farm, we determined that neither the CHAMPS nor any other records were used to document and account for addition of items to inventory and removal of those items for maintenance and repairs. Based on our observations and discussions with Southeast Farm staff, some degree of control still exists, as the manager is actively involved on a daily basis with all activity including the acquisition and use of inventory items. Given that there are only three employees other than the manager, we acknowledge that constant management involvement provides some assurances over the acquisition and use of inventory items. However, the additional control available through the use of a perpetual inventory system increases the assurance that items purchased with City funds are accounted for and issued only for authorized City business.

At the Southeast Farm sprayfield, timely physical counts were not done. In addition to the above, we determined that the traditional count of inventory items for purposes of determining amounts to be reported on the City’s financial statements was not timely done for the fiscal year ended September 30, 2001. Specifically, as of the date of our inquiry (November 8, 2001), no such count had been done. Notwithstanding those circumstances, the Southeast Farm reported to Accounting Services a value of \$187,463 to be included within the City’s financial statements. In response to our inquiry, Southeast Farm staff stated that reported figure was an estimate. Although not material to the City’s

financial statements, efforts should have been made to ensure accurate amounts were reported.

At the Southeast Farm sprayfield, control records were not maintained for the tools used by facility employees. While it is acknowledged that the operations of the facility do not require a large number of employees (i.e., normally only four employees) and that checking or signing out of tools each time they are used may not be cost beneficial under those circumstances, the development of a master listing of all tools that are at the facility would provide a cost effective method for controlling the tools. Those records would also provide a source for the reconciliation of periodic physical inventories of those tools.

Several concerns were identified at one abandoned City well currently used as an off-site storage area. In addition, a portion of the fencing at another City well site no longer in operation was down. During our review we visited 13 of the City's 30 wells and 7 of the 8 City water tanks (towers). All but two of those locations were adequately secured and maintained. The following presents the issues identified at the two locations:

- City water well #14 located on Indian River Street was constructed in the early 1970's but never placed into operation due to concerns over the water quality. That facility (building and yard) is currently used to store miscellaneous items and equipment. During our observations of that facility we noted that it was fenced and gated and that the gate was locked. However, the fence was bent in various locations and had vegetation and nearby trees growing/leaning on it thereby increasing the risk of undetected/unauthorized access. In addition, within the yard, there were two uncovered access pits (cement holes) from three to eight feet deep that were partially filled with water. Those circumstances presented the opportunity for someone accessing the facility (authorized or unauthorized) to fall in the pits and sustain injuries. Furthermore, we

noted that the door to one of the storage areas within the building was unlocked. Within that storage were approximately five fire extinguishers and approximately six breathing apparatuses (used by employees when accessing the sewer system).

- City water well #30 located off Bannerman Road is no longer in service. While the facility was fenced and gated and the gate locked, we noted that a portion of the fence was down thereby allowing relatively easy unauthorized access to the facility. Notwithstanding that the well was no longer in service, restricting access reduces the likelihood of vandalism to City property and increases the City's potential liability for anyone injured while accessing the facility. In response to our inquiry, management indicated that the City's risk exposure at this facility was not that significant. However, as plans were to turn the facility into a monitoring station, management stated that the fence would be repaired.

Recommendations

Based on the concerns and issues identified during our review of inventories and selected facilities, we recommend certain actions be taken to ensure the security of utility inventories and facilities. Our recommendations are presented below.

The Gas Operations Department should take the following actions:

- Secure all inventory storerooms when unattended.
- Establish records documenting the issuance and custodial responsibility for keys accessing facilities of the department.
- Replace keys that can be easily duplicated with the keys that cannot be duplicated without specific authorization.

- Establish written policies and procedures to address all applicable aspects of current practices, including the impact of the PeopleSoft inventory module.

The Water Utilities Department should take the following actions:

- Establish records documenting the issuance and custodial responsibility for keys accessing facilities of the department.
- Replace keys that can be easily duplicated with the keys that cannot be duplicated without specific authorization.
- Establish written policies and procedures for the administration of inventories and facilities. Among other things, these policies and procedures should provide for the following:
 - Involvement of at least one person not having routine access to the inventory items in the periodic physical counts of the inventory and related reconciliation of those counts to the records.
 - Retention of evidence of periodic physical counts and related reconciliations to the inventory records in accordance with City record retention requirements.
 - Storage of all inventory items within warehouses (e.g., the TPS treatment facility) in a safe and efficient manner.
 - Control records for electrical items (e.g., those stored at the TPS facility).
 - Timely physical counts of inventory items (e.g., at the Southeast Farm sprayfield).
 - Control records for tools (e.g., those maintained and used at the Southeast Farm sprayfield).

- Dispose of large quantities of surplus and scrap materials accumulated at the TPS treatment facility by transfer to the Municipal Supply Center (surplus) or through existing contractual agreements (scrap).
- Determine whether maintenance of perpetual inventory records at the Southeast Farm sprayfield will be cost beneficial.
- Repair fences, improve grounds maintenance, and secure access at/to the two applicable well sites.

Conclusion

The City utility departments have implemented physical controls over their inventories and facilities.

However, some issues/concerns have been identified for which corrective actions are necessary.

Overall the City electric, gas, and water departments have implemented systems of physical controls that adequately protect, safeguard, account for, and efficiently store/maintain inventories. In addition, the various facilities of those utility departments are generally adequately secured and maintained. However, some issues and concerns were identified for which corrective actions are needed. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

Response From Appointed Official

City Manager: The audit conclusion that utility departments adequately safeguard and maintain inventories under their custody reflects the level of commitment of our Leadership Team to efficient and effective internal controls. As always, there is room for improvement and I trust the audit follow-up will reflect the same level of commitment to address the areas needing improvement. I understand that a number of corrective actions have already been completed and functioning properly. I thank the auditors and staff for their collaboration on this project.

Copies of this audit report #0210 (project #0113) may be obtained from the City Auditor's web site (<http://talgov.com/citylh/auditing/index/html>), 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).

Audit conducted by:
Dennis Sutton, CPA, Senior Auditor
Sam M. McCall, CPA, CIA, CGFM, City Auditor

<i>Appendix A - Action Plan</i>		
Action Steps	Responsible Employee	Target Date
<i>Gas Operations</i>		
A. Objective: Ensure that warehouse operations are conducted in accordance with APP #506 and in a consistent and efficient manner.		
1. The material handling processes of the Gas Operations Department will be analyzed to ensure that the impact of the change to the PeopleSoft inventory module, the control requirements of non-inventoried items (i.e., tools), and other issues unique to Gas Operations Department operations are addressed in the policies and procedures to be developed.	Roosevelt Williams	1/31/02
2. Written policies and procedures for the custody, control, and management of inventory in the Gas Operations Department will be developed and implemented.	Roosevelt Williams	3/31/02
B. Objective: Ensure that the inventory of the Gas Operations Department is secured.		
1. Employees with custodial responsibility will be provided instruction to secure areas that contain materials, supplies or equipment whenever temporarily left unattended.	Roosevelt Williams	1/31/02
2. Management will conduct periodic inspections to ensure that areas are being secured in accordance with the instructions provided employees.	Calvin Favors	3/31/02
3. Control records documenting the issuance of keys within the Gas Operations Department will be developed. Those records will include: <ul style="list-style-type: none"> a. names of employees to whom the keys were issued; b. date the keys were issued; c. locations/areas to which the keys grant access; and, d. date that the keys are returned. 	Calvin Favors	2/28/02
4. 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.	Calvin Favors	2/8/02

<i>Water Utilities</i>		
A. Objective: Ensure that warehouse operations are conducted in accordance with APP #506 and in a consistent and efficient manner.		
1. Develop written policies and procedures for the custody, control, and management of inventory in the Water Utility Department (by location, division or department-wide). Those 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 Department.	Joanne Becknell	3/31/02
2. Include a non-inventory employee to participate/supervise in periodic physical counts and reconciliations of those counts to related records.	Joanne Becknell	9/30/02
3. Retain records documenting the counts and related reconciliations of inventory in accordance with City record retention requirements.	Joanne Becknell	3/31/02
4. Identified items at TPS treatment facility will be sorted and stored in a manner that facilitates the efficiency and safety of the warehouse operations.	Screven Griffiss	12/14/01
5. Determine which items in the “electrical warehouse” have future application in the Water Utility Department, add those items to the inventory or control records as applicable.	Screven Griffiss	9/30/02
6. Determine which items in the “electrical warehouse” have no future application in the Water Utility Department and dispose of those items either as surplus (through the MSC auction process) or as scrap.	Screven Griffiss	3/31/02
7. Determine which items at TPS treatment facility are surplus and transfer those items to the Municipal Supply Complex for disposal.	Screven Griffiss	12/30/02
8. Determine which items at TPS treatment facility are scrap and dispose of those items in the most efficient and cost effective manner.	Screven Griffiss	12/30/02
9. Determine whether the maintenance of perpetual records at the Southeast Farm will be cost beneficial. Appropriate actions will be taken.	Randy Bond	3/31/02

10. 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.	Randy Bond	3/31/02
11. 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.	Randy Bond	3/31/02
B. Objective: Ensure that inventory of the Water Utility Department is secured.		
1. Develop controls records documenting the issuance of keys within the Water Utility Department.	Joanne Becknell	12/19/01
2. 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.	Joanne Becknell	12/19/01
C. Objective: Improve the condition of certain water well sites.		
1. The fence at water well #30 on Bannerman Road will be repaired.	Joanne Becknell	12/19/01
2. The vegetation at water well #14 will be trimmed and the yard cleaned.	Joanne Becknell	12/19/01
3. Determine which trees immediately adjacent to the fencing at water well #14 need to be removed. Remove trees as appropriate.	Joanne Becknell	3/31/02
4. Repair or replace the covers for the two open cement pits at water well #14 to reduce the risk of personal injury.	Screven Griffiss	1/31/02
5. A plan will be developed addressing the future use of water well #14 as a storage site.	Jamie Shakar	12/7/01

