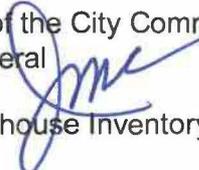


City of Miami Beach, 1130 Washington Avenue, 6th Floor, Miami Beach, Florida 33139, www.miamibeachfl.gov
 Office of the Inspector General
 Tel: 305-673-7020

January 13, 2020

TO: Honorable Mayor and Members of the City Commission
 FROM: Joseph Centorino, Inspector General 
 RE: Public Works Department's Warehouse Inventory Audit
 OIG Audit No. 20-03

Executive Summary

Attached is the Office of the Inspector General's audit of the Public Works Department's warehouse inventory procedures, practices, and valuation as of September 30, 2018. Based upon the results of the test counts and the furnished inventory reports, OIG staff recommended that the Finance Department use the valuation of \$1,795,500.67 as of September 30, 2018. The annual physical inventory was conducted effectively, with the corresponding valuation deemed reasonable. The following table provides an annual summary of the calculated percentage and net dollar differences for the physical test counts made by warehouse staff as compared to OIG staff's verified counts for the sampled inventory items during the past five (5) fiscal years:

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Percentage Difference	21.29%	17.71%	31.50%	5.69%	0.00%
Net Dollar Difference	(\$7,915.68)	\$10,818.52	(\$28,691.17)	(\$1,359.40)	\$0.00

Public Works Department management should commend warehouse staff for lowering the stratified sample's calculated percentage difference to 0.00% from last year's 5.69%. However, in conducting physical test counts and reviewing implemented internal controls, the following deficiencies were noted:

- Inventory quantity adjustments completed in Cityworks were not properly supported.
- The Public Works Department warehouse operations' standard operating procedures do not address quantity adjustments of on-hand inventory items.

We would like to personally thank Public Works Department warehouse and pertinent Finance Department staff for their cooperation and assistance during this audit process.

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TO: Honorable Mayor and Members of the City Commission
FROM: Joseph Centorino, Inspector General

DATE: January 13, 2020
AUDIT: Public Works Department's Warehouse Inventory Audit
OIG Audit No. 20-03
PERIOD: November 1, 2017 – September 30, 2018

This report is the result of a regularly scheduled audit of the Public Works Department's warehouse inventory procedures, practices, and valuation as of September 30, 2018.

INTRODUCTION

The City's Public Works Department is responsible for providing services such as planning, design, construction, maintenance, repair, and operation of City infrastructure, including utility systems, City buildings, and facilities. The Public Works Department, through its warehouse operations, handles the purchases and distribution of materials and supplies for daily use, and supplies infrastructure and construction materials to the Water, Sewer, Pump Stations, Stormwater, and Streets and Streetlight Divisions.

As part of the department's daily warehouse operations, materials are received and issued for all phases of Public Works operations. At the same time, work order numbers are created in Cityworks (the City's infrastructure management software) to track the cost of labor, materials, and equipment used in projects performed by the Public Works Department. They enable the department to determine the value of the projects and to recover the cost of repair or replacement of City property damaged by an outside party. Small materials and equipment, such as tools and raincoats that are not job-specific, are charged to the individual truck numbers to record disbursement at no charge.

The Public Works Department stores inventory items in the following four (4) locations at 451 Dade Boulevard, which are all protected by cameras which record all activities. A summary of these areas and their contents along with any additional security measures maintained is provided below:

- Warehouse – The largest and only indoor storage facility for inventory items, which is further protected by an alarm and identification reader, so access is restricted to authorized employees.
- Yard 1 – This secure fenced area with a covered roof is located directly south of the warehouse at the bottom of the loading dock ramp, and is used to safeguard such larger, frequently issued parts as clamps, valves, and glands.
- Yard 2 – This secure fenced area is located south of Yard 1 and behind the water tanks bordering Miami Beach Senior High School. The parts stored in this area consist primarily of light poles, hydrants, pipes, offsets, and caps.
- Central Yard Area – A fenced less secure area that houses City vehicles, miscellaneous equipment, and inventory, such as sand, rock, and asphalt. Authorized access after regular working hours can be requested by contacting the Control Room from the call box located at the entrance to the facility.

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Public Works Department personnel perform an annual physical warehouse inventory count at the end of the fiscal year. Office of Inspector General (OIG) staff auditors concurrently conduct test counts of randomly selected items to verify their accuracy. Any noted differences are subsequently re-counted with an assigned staff member until a consensus is reached. Once obtained, warehouse staff records the final on-hand quantities in Cityworks and calculates a new fiscal year-end value. The calculated total amounts are then forwarded to the City's Finance Department, which is responsible for preparing a journal entry to adjust the applicable general ledger inventory balances.

The table below shows the five (5) most recent year-end rounded physical count valuations of the Public Works Department's warehouse inventory:

09/30/2014	09/30/2015	09/30/2016	10/31/2017*	09/30/2018
\$2,023,836	\$2,315,686	\$2,084,662	\$1,689,014	\$1,795,501

*Fiscal year-end 2017 warehouse inventory physical count was valued as of 10/31/2017 due to Hurricane Irma.

For the 2017/18 fiscal year, OIG staff performed test counts of 216 sampled parts totaling 8,835 units on hand with a cumulative value of \$758,798.94 or 42.26% of the physical inventory count's year-end valuation.

OVERALL OPINION

Based upon the results of the test counts and the furnished inventory reports, OIG staff recommended that the Finance Department use the valuation of \$1,795,500.67 as of September 30, 2018. The annual physical inventory was conducted effectively, with the corresponding valuation deemed reasonable. The following table provides an annual summary of the calculated percentage and net dollar differences for the physical test counts made by warehouse staff as compared to OIG staff's verified counts for the sampled inventory items during the past five (5) fiscal years:

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Percentage Difference	21.29%	17.71%	31.50%	5.69%	0.00%
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Public Works Department management should commend warehouse staff for lowering the stratified sample's calculated percentage difference to 0.00% from last year's 5.69%. However, in conducting physical test counts and reviewing implemented internal controls, the following deficiencies were noted:

- Inventory quantity adjustments completed in Cityworks were not properly supported.
- The Public Works Department warehouse operations' standard operating procedures do not address quantity adjustments of on-hand inventory items.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this audit focused primarily on whether the Public Works Department's warehouse inventory was sufficiently counted, valued, and recorded; adequately safeguarded from theft and

breakage; and that tested entries were correctly recorded in the City's Financial System. The audit covered the period November 1, 2017, through September 30, 2018, and selected transactions prior and subsequent to this period. In general, the audit focused on the following objectives:

- Determine whether documented standard operating procedures exist and are followed to help ensure efficient and effective administration of the warehouse.
- Confirm that tested inventory parts are stored in an orderly manner, are clearly labeled, are adequately safeguarded, and are reasonably valued.
- Confirm by test counts that the final inventory report accurately reflects the final inventory valuation and that this information is correctly reported in the City's Financial System.

We conducted this audit in accordance with the Standard Operating Procedures of the City of Miami Beach Office of the Inspector General. Those require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit methodology included the following:

- Reviewed applicable provisions within the City Charter and Code of Ordinances, and City policies and procedures;
- Interviewed and made inquiries of staff in order to gain an understanding of the internal controls (relative to the Public Works Department's Warehouse Inventory), assess control risk, and plan audit procedures;
- Performed substantive testing consistent with the audit objectives, including, but not limited to, examination on a sample basis of applicable transactions and records;
- Drew conclusions based on the results of testing, made corresponding recommendations, and obtained auditee responses and corrective action plans; and,
- Performed other audit procedures as deemed necessary.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding – *Inventory Quantity Adjustments Completed in Cityworks were not Supported*
The United States General Accounting Office's Executive Guide for Best Practices in Inventory Counts states that internal controls over the inventory system and processes should be effective in providing reliable information for conducting the physical inventory counts. Controls must exist to provide reasonable assurance that all transactions affecting the inventory balances are properly executed and recorded in the inventory system. Physical controls and accountability reduce the risk of (1) undetected theft and loss; (2) unexpected shortages of critical items; and (3) unnecessary purchases of items already on hand. These controls improve visibility and accountability over the inventory, which help ensure continuation of operations, increased productivity, and improved storage and control of excess or obsolete stock. (GAO-02-447G Best Practices in Inventory Counts)

During the audit, Public Works Department warehouse personnel stated that Cityworks (the City's infrastructure management software) provides four (4) different types of transactions to manage on-hand inventory items: receive, issue, transfer, and audit. More specifically, the "audit" transaction allows warehouse personnel to adjust inventory

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quantities to reflect actual on-hand amounts, update part numbers, item descriptions, and unit costs.

As part of our testing, a system generated report of all "audit" transactions completed in Cityworks during the audit period was requested and received to determine whether warehouse personnel had adequately accounted for quantities adjusted. Our corresponding analysis identified inventory quantity adjustments that reduced and increased on-hand quantities in Cityworks as follows:

- a. 480 "audit" transactions were completed by warehouse personnel during the period of 11/01/17 – 09/30/18 for inventory items deemed to have been damaged, missing, obsolete, or in excess quantities.
- b. The overall net change resulted in an increase of \$13,657.88 in inventory value from \$277,086.25 to \$290,744.13.

Although Cityworks "audit" transactions completed by warehouse personnel contained brief descriptions to justify the quantity adjustments made during this eleven (11) month audit period and the amount was not considered material, warehouse personnel did not maintain any supporting documents to substantiate why an item became obsolete, damaged, etc. and the need for the adjustments.

OIG staff found that warehouse personnel were not aware that inventory control risks (misappropriation, lost items, etc.) could be further mitigated. It was also noted that the Public Works Department's warehouse standard operating procedures (SOP) does not establish guidelines regarding inventory quantity adjustments.

Recommendation(s):

The existing control environment over the inventory system and related processes, such as the Cityworks "audit" transactions, should be further strengthened. Internal controls, such as the monitoring of inventory quantity adjustments, documenting the reasons for the adjustments, setting approval levels for adjustments, and reviewing trends on items susceptible to misappropriation, could show why inventory shrinkage or excesses may have occurred.

Management Response (Public Works Department):

In the 2016/17 fiscal year, warehouse personnel started performing cycle counts and making necessary "audits" as recommended by previous Inventory Audit reports. Making necessary changes to part numbers to minimize errors or confusion between part numbers and adding actual pictures of the parts to ensure that the correct parts are properly signed out. All cycle counts conducted by the warehouse staff are reviewed for correctness by the Warehouse Supervisor. The Supervisor will then make the necessary "audits" in the system as needed and determine where a mistake may have been made. Cycle counts and "audits" with respective comments are provided to the Infrastructure Division Director for review.

As recommended above, Public Works Warehouse will implement processes to further strengthen internal controls, such as the monitoring of inventory quantity adjustments, documenting the reasons for the adjustments, setting approval levels for adjustments, and reviewing trends on items susceptible to misappropriation based on Recommended

Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property and other best management practices. In addition, the warehouse staff will implement a warehouse audit approval form that requires approval of the "audit" by the Warehouse Supervisor and Public Works Department Management.

Implementation Date:

Public Works Department Management and Warehouse Personnel are requesting a joint meeting with the Finance Department and OIG staff to discuss further guidelines and processes for performing and reporting of cycle counts and quantity adjustments of on-hand inventory items. Estimated implementation date: February 1, 2020.

2. Finding – The Public Works Department Warehouse Operations' Standard Operating Procedures do not Address Quantity Adjustments of On-Hand Inventory Items
SOPs establish or prescribe methods that define a sequence of steps to be followed. Established procedures help ensure that employees are consistent in their daily tasks, providing a roadmap for day-to-day operations.

OIG staff reviewed the warehouse operations' SOP, whereby it was determined that Public Works Department management had not established inventory quantity adjustment procedures. As a result, the lack of established guidelines in the SOP could compromise the consistency, effectiveness, and efficiency of daily processes carried out by warehouse personnel.

Recommendation:

All procedures performed routinely by Public Works Department warehouse employees should be stated in the corresponding departmental SOP.

Management Response (Public Works Department):

The Public Works Department Warehouse SOP will be updated once guidelines and processes for performing and reporting of cycle counts and quantity adjustments of on-hand inventory items are established.

Implementation Date:

February 1, 2020, depending on the outcome of the requested joint meeting with the Finance Department and the Office of the Inspector General.

EXIT CONFERENCE

An exit conference was held on October 29, 2019, in the Office of Inspector General's conference room. Participants included Rodolfo De La Torre (Public Works Department - Infrastructure Division Director), George Corchado (Public Works Department - Warehouse Supervisor), John Alani (Public Works Department - Storekeeper III), Allison Williams (Finance Department - Deputy Finance Director), Femi Ogunmola (Finance Department - Accounting Manager), Mark Coolidge (Interim Internal Auditor), and Luis Medina (Auditor). Audit findings and recommendations were discussed, as were management responses, which are included herein. All were in agreement with the contents of this audit report.

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Public Works Department's Warehouse Inventory Audit
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cc: Jimmy L. Morales, City Manager
Eric Carpenter, Assistant City Manager
Roy Coley, Public Works Department Director
Rodolfo De La Torre, Public Works Department Infrastructure Division Director

Audit conducted by: Luis Medina, Auditor

Audit reviewed by: Mark D. Coolidge, Interim Internal Auditor