



GARLAND

INTERNAL AUDIT

Wastewater Investigation Follow-up

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Report 201623

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Overall Conclusion

Internal Audit (IA) review of previous audit findings and recommendations indicated that 7 of 9 recommendations were fully implemented (78%) and 2 of 9 were partially implemented (22%).

Authorization

We have conducted a follow-up audit of Wastewater Investigation. This follow-up audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective

This is a follow-up of the “Wastewater Investigation” which was presented to the Fraud, Waste, and Abuse (FWA) Coordination Committee on May 22, 2015, and sent to City Council on June 11, 2015. Our objective was to determine if previous recommendations were implemented.

Scope and Methodology

The scope of the follow-up audit is from May 1, 2015 to December 6, 2016.

In order to determine if previous recommendations were implemented, IA:

- Reviewed the previous investigation documentation;
- Obtained information regarding departmental inventory from the Finance system and the Warehouse;
- Worked with IT to determine if read-only access was available for the Wastewater system and determine if an inventory module had been approved or implemented;
- Reviewed P-card purchases and selected a sample to physically inventory;
- Selected a sample of tools at each of the Wastewater locations and determined if these appeared on inventory lists;
- Reviewed updated policies and procedures;
- Reviewed a list of P-card holders for the department and compared to available departmental organization charts;
- Confirmed with management that P-card holders were appropriate and usage was reviewed and approved;
- Interviewed staff at both locations regarding inventory and disposal of tools and other items and materials;
- Traced disposal of items where possible to determine if obsolete items were being disposed of properly;
- Determined access to storeroom and tools and reviewed for control weaknesses;

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- Compared items and invoices from third party vendors and compared these to invoices and items from the City's warehouse to determine if use of City resources had increased.

To assess the reliability of the inventory tracking lists, IA compared inventory listed with inventory present. As a result of this testing, IA determined the inventory lists were not complete. To address the reliability of the P-card system, transactions were compared to floor inventory and user lists were verified with management. Additionally, the City's finance system was used. The reliability of this system has been demonstrated over several audits previously. All systems were determined sufficiently reliable for the purposes of this report, with the exception of inventory lists as noted in the Opportunities for Improvement.

Background

The City of Garland owns and operates two state-of-the-art advanced biological wastewater treatment facilities. Wastewater is collected for each facility in two separate drainage basins, the Duck Creek Basin and the Rowlett Creek Basin. Wastewater is then received and treated at two separate facilities, the Rowlett Creek and the Duck Creek Wastewater Treatment Centers.

The Rowlett Creek Treatment Plant serves the east side of Garland including the cities of Rowlett and Sachse. The Duck Creek Treatment Plant receives wastewater from the west side of Garland, and from portions of the cities of Dallas and Richardson and the City of Sunnyvale.

State-certified operators continuously operate both facilities 24 hours per day, 7 days per week, 365 days a year. Mechanics are assigned to each plant who work four 10 hour days; either Monday – Thursday or Tuesday – Friday.

Previously, operators filled out work orders for mechanics to address. These were completed based on the priority level assigned by the operators. The work orders were not being assigned by management, but selected by mechanics on a daily basis. Since the original audit was completed, this process has been amended so that the work order system automatically assigns the work orders to the Plant Superintendent and the Plant Maintenance Supervisor. These are assigned based on priority. Hours must be entered into the system for the work order before it can be completed. Additionally, the Plant Superintendent reviews a report showing the work order hours for each individual.

At the time of the original audit, inventory was kept in a stock room in each plant, but not tracked within the Finance system. The City also had a cooperative agreement to provide industrial supplies at a contracted rate through a vending machine on site at both plants. The vending machine produced weekly reports that show inventory used by item and employee, but these were not being reconciled. Currently, use of the vending machine has been eliminated, and stock room access and controls have been updated. The wastewater

department has also made additional use of the City's warehouse to take advantage of economies of scale.

Source: COG Website, P-Card/AP payment analysis and discussions with department

Audit Follow-up

This follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

OPPORTUNITIES FOR IMPROVEMENT: INVENTORY	
CONDITION (THE WAY IT IS)	<ul style="list-style-type: none"> • Inventory purchases, issuance, disposal and obsolete items are not currently tracked or reviewed. • Value of current inventory is unknown. • Access to the inventory store room is not restricted.
RECOMMENDATION	<ol style="list-style-type: none"> 1. Track value, quantity, and usage of all current and future orders of inventory in a system; 2. Disposal of tools, inventory, and equipment should be documented; 3. Remove all obsolete items from the inventory store room; 4. Restrict access to the inventory store room to necessary individuals; 5. Develop written policies and procedures regarding the process to request and obtain and dispose of tools, equipment, materials, etc.; 6. Periodic physical inventory of tools, materials, and equipment should be conducted. Documentation should be retained for audit purposes;
MANAGEMENT RESPONSE	Management concurs
ACTION PLAN	<ol style="list-style-type: none"> 1. A meeting has been set with the Director of Purchasing to discuss warehouse procedures including an inventory tracking system. We will also meet with the Public Works Operations Technology Manager to consider [an inventory tracking module] that is licensed through Information Technology. 2. A documentation form to track disposal of tools, inventory, and remove all obsolete items from the inventory store room equipment has been created. 3. & 4. Two employees have been assigned to reorganize the stockroom and remove obsolete items. 5. A policy will be written to address the process of obtaining and disposing of tools, equipment, and

materials. A meeting with HR has been set on June 12, 2015 to discuss reorganizing the maintenance department at both Rowlett and Duck Creek plants to have better oversight over daily work assignments, stockroom inventory and P-card purchases.

6. A form is under development to record the physical inventory of tools, materials and equipment.

**IMPLEMENTATION
DATE**

1. As soon as possible, but this item may take some time due to the nature of software and hardware implementation, sufficient funding, and employee training.
2. Immediately.
3. & 4. This is still in progress and we expect a completion date of July 31, 2015.
5. The policy can be written and approved within the next month. However, the reorganization will take time due to new positions being created, sufficient funding, and obtaining the proper new hires for those positions.
6. Immediately.

FOLLOW-UP

1. The inventory tracking module was requested by the department, but this was not approved by the IT Board. The department therefore developed spreadsheets for tracking tool inventory, but not all items have been added to the tool inventory list. Stockroom inventory is also under development but has not yet been completed due to delays in creating and filling the Stock Clerk position.
 2. & 3. The department has developed procedures and a tracking mechanism for disposal of obsolete items, and these are being utilized.
 4. Visually confirmed and verified with management that access to the storeroom at Rowlett Creek has been restricted.
 5. A policy has been developed and approved.
 6. A form has been developed and a tool inventory was completed. The tool inventory list does not yet contain all tools. Stockroom inventory is under development with the new hire of the Stock Clerk.
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Unable to confirm documentation of inventory is retained for audit purposes because only one inventory has been completed, and this was used to create the tool inventory.

IMPLEMENTATION

1. Partially Implemented
 2. Fully Implemented
 3. Fully Implemented
 4. Fully Implemented
 5. Fully Implemented
 6. Partially Implemented
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OPPORTUNITIES FOR IMPROVEMENT: PURCHASING

**CONDITION
(THE WAY IT IS)**

- Third-party vendor's weekly inventory reports are not being reviewed for appropriateness and/or reconciled to billing statements.
- P-card purchases have been steadily increasing while purchases from the City's warehouse have been sharply decreasing within the Wastewater department.
- There are no written policies and procedures regarding the process to request and obtain or dispose of tools, equipment, materials, etc.

RECOMMENDATION

1. Re-evaluate whether to take advantage of the economies of scale from the City's warehouse or purchase goods from a third party.
 - a. If third party vendors are maintained, review weekly reports and track inventory usage.
2. Re-evaluate which personnel need P-cards within the Wastewater department.
3. Wastewater management should develop policies and procedures related to the approval process for significant P-card purchases.

**MANAGEMENT
RESPONSE**

Management concurs

ACTION PLAN

1. The third party contract will be reviewed and discussed with the Director of Purchasing and a determination will be made on items that can be purchased from the warehouse.
2. An evaluation is in progress to determine a needs assessment for P-cards throughout the Wastewater Treatment Department.
3. A policy will be developed to ensure significant P-card purchases from the maintenance department are approved by the appropriate managers. This will also be addressed as part of the reorganization of the maintenance department.

**IMPLEMENTATION
DATE**

1. A meeting has been set with the Director of Purchasing on Wednesday June 17, 2015 to discuss warehouse processes including inventory.
 2. Expected completion date July 31, 2015.
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3. The policy can be written and approved within the next month. However the reorganization will take time due to new positions being created, sufficient funding, and obtaining the proper new hires for those positions.

FOLLOW-UP

1. Usage of a third party vendor is decreasing and use of the City's warehouse is increasing. Third party vending machines have been eliminated at both sites.
2. A needs assessment of Maintenance and Operations P-card users has been performed and usage has been limited to necessary individuals.
3. A procedure has been developed for approval of P-card purchases. A sample of purchases confirmed appropriate management approval is being obtained.

IMPLEMENTATION

1. Fully Implemented
 2. Fully Implemented
 3. Fully Implemented
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