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Agenda Item #: 3BB-3

PALM BEACH COUNTY

BOARD of COUNTY COMMISSIONERS

AGENDA ITEM SUMMARY

Meeting Date: **08/14/2012**

[X] Consent [ ] Regular
[ ] Public Hearing

Department:
Submitted By: Internal Auditor's Office

I. EXECUTIVE BRIEF

Motion and Title: Staff recommends motion to receive and file: Audit reports reviewed and approved by the Audit Committee at its December 20, 2011 and July 18, 2012 meetings as follows:

A. 12-01 County Administration – *Cellular Phone Stipends Countywide*
B. 12-02 Parks and Recreation – *Cash Collections Selected Facilities*
C. 12-03 Water Utilities – *Cash Collections*
D. 12-04 Fire Rescue – *Support Services Fleet Management*
E. 12-05 Information Systems Services – *Computing Platforms*
F. 12-06 Engineering & Public Works – Traffic Engineering Division Traffic Operations

Summary: Ordinance 2012-011 requires the Internal Audit Committee to review audit reports prior to issuance. Ordinance 2012-012 requires the County Internal Auditor to send those reports to the Board of County Commissioners. At its meetings on December 20, 2011 and July 18, 2012, the Audit Committee reviewed and approved the attached audit reports. We are submitting the approved reports to the Board of County Commissioners as required by the Ordinance. Countywide (PFK)

Background and Policy Issues: Ordinance 2012-011 amending Ordinance 2010-006 was approved by the Board at the June 19, 2012 BCC meeting. Ordinance 2010-006 required the Audit Committee to review and approve audit reports prior to issuance. The Audit Committee reviewed and approved audit reports 12-01 through 12-04 at its December 20, 2011 meeting as required under Ordinance 2010-006. The Audit Committee reviewed audit reports 12-05 and 12-06 at its July 18, 2012 meeting as required by Ordinance 2012-011.

Attachments:

Audit reports as identified above

Recommended by: Joseph F Bergeron 19 July 2012
Internal Auditor Date

Recommended by: [signature] 7/27/12
County Administrator Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	2012	2013	2014	2015	2016
Capital Expenditures					
Operating Costs					
External Revenues					
Program Income (County)					
In-Kind Match (County)					
NET FISCAL IMPACT	None * See below				
# ADDITIONAL FTE					
POSITIONS (Cumulative)					

Is Item Included In Current Budget? Yes ____ No
Budget Account No.: Fund ____ Agency ____ Org. ______ Object ____
Program Number __________ Revenue Source __________

B. Recommended Sources of Funds/Summary of Fiscal Impact:

* No fiscal impact

A. Department Fiscal Review:

____

III. REVIEW COMMENTS:

A. OFMB Fiscal and/or Contract Administration Comments:

7/24/2012
Budget/OFMB
7/20/12
7/23/12

7/25/12
Contract Administration
7-25/12 B Whal

B. Legal Sufficiency:

Paul F. 7/26/12
Assistant County Attorney

C. Other Department Review:

____
Department Director

This summary is not to be used as a basis for payment.

Office of the County Internal Auditor
Audit Report #2012-01

COUNTY ADMINISTRATION

CELL PHONE STIPEND AUDIT

Approved by Audit Committee
December 20, 2011

DATED OCTOBER 5, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did selected County department directors authorize cell phone stipends and conduct annual reviews of the business need to determine if stipends should be added, changed, or discontinued for Fiscal Year 2011?

- 2. Did County department directors submit lists of authorized positions of employees receiving stipends to OFMB for Fiscal Year 2011 as required by PPM CW-O-085?

WHAT WE FOUND

The directors of the selected County departments generally authorized cell phone stipends within their departments as required by PPM CW-O-085.

However, we found:

- Department directors, except for Public Safety's Animal Care and Control Division, did not conduct annual reviews of the business need for stipends authorized within their departments as required by the PPM;
- Department directors did not submit lists of authorized positions receiving the stipend to OFMB as required by the PPM;
- 15 of 28 employees tested had usage amounts that were either higher or lower than the usage amounts provided for in their stipends; and
- One employee who was receiving a stipend while continuing to use a County provided cell phone.

WHAT WE RECOMMEND

The audit report makes eight recommendations to:

- Ensure that annual reviews of the business use of cell phones are conducted as required by the PPM and adjustments are made to stipend amounts where necessary;
- Review the individual cases we identified and adjust stipend amounts as necessary for those 15 individuals;
- The Facilities Development and Operations Director (FDO) should ensure that the employee whose stipend included a data plan repays stipend monies received while not having a data plan on his cell phone;
- The OFMB Director should ensure that documentation required by the PPM to be submitted to OFMB as part of the budget process is submitted as required (two similar recommendations);
- The FDO Director should ensure the employee transferred from the Department is discontinued from FDO stipend and any excess stipend amounts are recovered;
- County department directors should ensure employees requesting cell phone stipends have not been issued County owned cell phones; and
- The Deputy County Administrator should review the stipend received by the TDC Director and recoup any stipend amounts received while still using a County owned cell phone.

DETAILED FINDINGS AND RECOMMENDATIONS

<u>Finding 1</u> <u>Required Annual Reviews Were Not Performed</u>

Except for the Animal Care and Control Division within the Public Safety Department which conducted a review of the business use of cell phones for employees receiving stipends, department directors did not ensure that these reviews were made as required by PPM CW-O-085.

Each of the selected departments appointed a Coordinator responsible for the annual cell phone stipend review. Coordinators told us that they distributed the list of employees authorized to receive a monthly stipend to the department's division directors for review. When completed, the list is returned to the Coordinator who then forwards it to OFMB. Except for the Animal Care and Control Division Director who provided us with her review of the business usage for all cell phone stipends within the Division, none of the other coordinators provided us with evidence of a review having been performed for Fiscal Year 2011 or 2012.

In order to determine the extent of any deficiency due to departments not having reviewed business usage by stipend recipients, we reviewed the use of cell phones for business use for three months during Fiscal Year 2011 for 29 of the employees receiving stipends in the four departments selected for review. We found that:

- 1 of the 29 employees could not provide data on usage which the employee attributed to the cell phone provider's policies. This employee was assigned to FDO;
- 13 of the remaining 28 employees had documentation supporting usage at the approved stipend level;
- 15 of the 28 employees had documentation demonstrating usage outside the approved stipend level. Seven of the 15 were receiving stipends higher than their actual use justified, and eight had usage higher than that provided by their stipends. However, our test results for the three-month period showed that the County did not incur excess stipend costs for these employees in Fiscal Year 2011.

The following table shows a breakdown of our results by department sampled. We have provided the appropriate department the names of the individuals in our sample so that corrective action may be taken if necessary:

	Stipend Level Higher than Usage Level	Usage Level Higher than Stipend Level	Usage Within Stipend Level
Engineering	3	2	4
ERM	2	3	4
FDO	1	2	2
Public Safety	1	1	3
Total	7	8	13

In our view, department director review of business use of cell phones as required by PPM CW-O-085 would have shown that some/all of the 15 employees should have had adjustments made to the stipend. We also noted that one of the 13 employees shown above as having documentation to support the stipend actually had no business usage during the three-month test period. He was, however, within the zero to 100 minute 'band' allowed to receive $20 per month. The employee told us that he did not have an active project requiring business use of the cell phone during the test period of the audit. We believe that department director review of this employee's use should have caused further inquiry with potential elimination of the stipend if non-business use continued.

We also reviewed the use of additional approved services, for example, text messaging and data plan usage. Our testing showed that all approved services were in accordance with the allowances, except for one FDO employee. In this case, we found that he had received $35 monthly for unlimited data since January 2009 although none of the phone bills reviewed showed he was enrolled in a data plan with the telecom company.

Recommendations:

(1) County department directors should ensure an annual review of the business need for stipends authorized within their department is performed to determine if stipends should be added, changed or discontinued as required by Countywide PPM CW-O-085. The review of the business need should include a comparison of the voice service level and any additional services approved on the Cell phone Stipend Authorization form to the employee's monthly cell phone bills.

(2) County department directors should review the individual cases of those employees cited in this report as being outside of the business cell phone usage (either over or under) that warranted by the stipend level, and take appropriate corrective action.

(3) The Facilities Development and Operations Department Director should ensure that

- **(a) the employee utilizing a cell phone service provider that does not provide the details needed to substantiate business usage either change cell phone providers or terminate the stipend, and**
- **(b) change is made to the one employee's stipend which includes a data plan to remove the allowance until a data plan is purchased, and review the stipend received by the employee since January 2009 and recoup any excess funds received.**

Management Comments and Our Evaluation

The Director, ISS replied to a draft of this report which was prepared on behalf of all agencies referenced in the audit report. The draft response was reviewed by representatives of all departments that participated in the audit exit conference held on October 5, 2011.

Management's response to each recommendation is contained below:

In response to Recommendation 1, the ISS Director disagreed with the recommendation, stating that the annual review of business need referenced in PPM CW-O-085 was not intended to require that department directors analyze all actual call activity in a particular billing period to determine whether the volume of incoming/outgoing business-related call is in line with the selected stipend level. The ISS Director pointed out that a key goal of the stipend program was to eliminate much of the bureaucratic recordkeeping associated with the numerous County-issued cell phones that existed prior to the introduction of stipends. This sentiment was also expressed in an email from the County Administrator to the County Auditor. The original intent of the PPM was to rely on the employees' self-declaration and self-audit of appropriate stipend levels based on a determination of average monthly levels of business-related usage.

The ISS Director further stated that County Administration, OFMB and ISS, along with representatives from some of the larger County departments, will undertake a review of the existing PPM with the intent of improving compliance, establishing adequate levels of internal control, and avoiding an undue level of administrative workload for employees, department management and the Payroll Office. A revised PPM will be implemented prior to April 1, 2012 after thorough review with the affected agencies. In addition, ISS will coordinate a one-time reauthorization process during January 2012 to obtain assurance from department directors that stipends currently authorized for their subordinate employees reasonably reflect the employee's actual usage requirements.

We agree with the general direction of the ISS Department Director's comments on management action on Recommendation 1 and look forward to following up on this recommendation subsequent to issuance of the revised PPM. We are also reserving comment on the ISS proposed one-time authorization to be performed in January 2012 as ISS has not offered sufficient information on the criteria and methodology to be used in reviewing stipends currently provided to employees.

In response to Recommendation 2, the ISS Department Director stated that department directors had reviewed the results of the audit sample and the cited cases of non-compliance and have taken action to adjust the monthly stipend amount to the appropriate level. We agree with the actions taken by department directors on this audit recommendation.

In response to Recommendation 3, the ISS Department Director stated that the FDO Department Director agreed with both parts (a) and (b). In regard to part (a), the FDO Director has notified the employee in question that he must utilize a service provider who will make detailed call records available as needed to substantiate business usage. The employee must resolve this circumstance by November 30, 2011. In regard to part (b), the FDO Director stated that a data plan had been purchased by the employee and that the department has requested reimbursement for previous stipends paid when the data plan was not active. We agree with actions taken on Recommendation 3, and consider this recommendation closed upon report issuance.

<u>Finding 2.</u> **<u>Need to Ensure that Lists of Employees Receiving Stipends is Submitted to OFMB</u>**

PPM CW-O-085 requires department directors to submit lists of approved recipients of cell phone stipends to OFMB as part of the budget development process. The audit found that for Fiscal Year 2011, departments did not submit these lists to OFMB. After we brought this matter to the attention of the OFMB Department Director, corrective action was taken and all departments submitted lists to OFMB for the Fiscal Year 2012 budget process.

Comparison of lists provided by the departments to OFMB with listings of employees receiving cell phone stipends obtained from the Payroll Department, showed several discrepancies. For example, ERM included one employee in its report to OFMB that did not appear on the stipend list from Payroll. FDO did not include eight employees in their report to OFMB that appeared on the stipend list from Payroll. We also found one employee listed on FDO's report to OFMB who had transferred to another department in February 2011. This stipend should have been discontinued by FDO upon transfer and, if justified, the new department should have submitted a new approval form.

Recommendations

(4) The OFMB Department Director should ensure that submissions of lists of employees who have been approved to receive cell phone stipends are made part of the formal budget process.

(5) The OFMB Department Director should require department directors to provide a listing of stipend recipients generated by the Payroll Department with the required documentation submitted to OFMB as part of the annual operating budget process to ensure the lists agree.

(6) The Facilities Development and Operation Department Director should submit a discontinuance of the employee's stipend and review the stipend received by the employee who transferred from the department in February 2011 and recoup any excess funds received.

Management Comments and Our Evaluation

In response to Recommendation 4 (auditors have renumbered recommendations 4-8 due to an error in the draft audit report), the ISS Department Director stated disagreement with the recommendation. The OFMB Department Director did not see any value in requiring department directors to provide, as part of the annual budget process, a list of authorized position and confirmation of the annual review. Accordingly, this requirement will be eliminated from the revised PPM. We will reserve comment on management action on this recommendation until the revised PPM is issued.

In response to Recommendation 5, the ISS Department Director stated disagreement with this recommendation, citing the same justification as with Recommendation 4. As for Recommendation 4, we will reserve comment on management action on this recommendation until the revised PPM is issued.

In response to Recommendation 6, the ISS Department Director agreed with the recommendation, stating the FDO Department Director had resolved the case. The resolution did not require any adjustment of monies paid to the employee. We agree with the action taken on this recommendation.

OTHER MATTER

Finding 3 Employee Assigned a County-Owned Phone Receiving Stipend

Cell phone stipends provide reimbursement to employees using their personal cell phones for business use. PPM CW-O-085 encourages the use of stipends in lieu of County owned cell phones and prohibits the issuance of a purchased (County owned) cell phone for positions that are eligible for the monthly stipend. Our audit identified a Tourist Development Council (TDC) employee had been issued a County owned cell phone and had also been receiving a monthly stipend of $120 per month since February 2010. We identified this by comparing the list of employees assigned County owned cell phones with the list of employees receiving stipends. We discussed this matter with the employee who admitted that he was receiving a stipend while using a County owned phone. We subsequently received notice from an ISS official that responsibility for payment of the cell phone service had been transferred to the employee.

Recommendations:

(7) County department directors should ensure that County employees requesting cell phone stipends have not been issued County owned cell phones.

(8) The Deputy County Administrator should review the stipend received by the TDC employee and recoup any funds received from February 2010 through the date that the cell phone was transferred to his personal account.

Management Comments and Our Evaluation

In response to Recommendation 7, the ISS Department Director stated agreement with the recommendation. He stated that all department directors will be requested to confirm that no employee who has a county-issued cell phone also receives a monthly cell phone stipend. He also stated that as part of the PPM revision, the Cell Phone Authorization form will be revised to include language that emphasizes that any existing County-issued cell phone account must be transferred into the name of the employee who is authorized to convert to a cell phone stipend plan. We agree with the action planned in response to this recommendation.

In response to Recommendation 8, the ISS Director stated that the Deputy County had followed up with TDC and determined that the employee was to have converted his existing County-issued cell phone and AT&T account into a personal account in his name. A full reimbursement has been received from the employee for the stipend amounts paid to him while the cell phone service continued to be paid by Palm Beach County. We agree with the action taken on this recommendation and consider it as closed upon report issuance.

BACKGROUND

Palm Beach County (County) provides several options for employees who require use of a cell phone to conduct County business. These include use of a County-owned phone, or a stipend to cover the cost of business-related use of a personal phone. In addition, employees needing temporary or incidental use of a cell phone can borrow a County-owned phone or obtain reimbursement for official calls made from a personal phone.

Countywide PPM CW-O-085 entitled ‘Cellular Telephone Stipends’ issued September 2008, establishes processes and responsibilities for authorizing and overseeing the monthly stipend. Under this PPM, the Information Systems Services Department (ISS) serves as the Resource Manager. County department directors are primarily responsible for ensuring compliance. The PPM requires justification of the stipend based on a strong operational need, for example, employee’s duties requiring regular contact with outside vendors and/or customers while away from the office. The amount of the stipend is intended to approximate the value of the employee's anticipated business-related expenses, taking into consideration average business use and the cost of the cellular voice service. The stipend may also include additional payment for enhanced features such as text messaging or data services.

Department directors authorize the stipends and are required to perform an annual review of the business need for stipends authorized within their department to determine if stipends should be added, changed or discontinued. A list of authorized positions and confirmation of the annual review is required to be submitted to the Office of Financial Management and Budget (OFMB) as part of the operating budget process.

As of May 2011, 509 County employees were each receiving stipends ranging from $20 to $135 per month. According to the Clerk and Comptroller's Payroll Department, over $250,000 was paid in stipends to County employees in Fiscal Year 2010. Departments with the largest number of recipients were Engineering and Public Works (Engineering), Environmental Resource Management (ERM), Facilities Development and Operations (FDO), and Public Safety. These four departments accounted for 281 of the 509 employees receiving stipends.

AUDIT SCOPE AND METHODOLOGY

Planning for this assignment included a review of PPM CW-O-085 and meetings with OFMB, Engineering, ERM, FDO and Public Safety officials to discuss methods used to ensure compliance. Based on these discussions and an analysis of internal controls and risks involved in meeting PPM requirements, we selected the audit objectives noted above and prepared an audit program. The audit program focused on procedures necessary to develop the evidence needed to answer the audit objectives and to provide reasonable support for our conclusions and recommendations. In developing the audit program, we obtained more information on the internal controls that we considered significant within the context of the audit objective.

The scope of the audit was Fiscal Year 2011 (from October 1, 2010 through May 31, 2011. Audit fieldwork was conducted from June to August 2011 at selected departments. In addition, we contacted the Clerk and Comptroller's Payroll Department (Payroll) to obtain listings of employees receiving monthly stipends.

To answer the audit objectives, we reviewed the compliance requirements of Countywide PPM CW-O-085. We met with OFMB and selected department officials responsible for the cell phone stipend program and discussed department submission of lists of persons receiving stipends to OFMB for the annual budget requirement; department approval and annual review of approved stipends. For the selected departments, we obtained authorizations for all employees awarded a stipend, and compared reports of employees receiving stipends to the records maintained by the Payroll Department. In addition, we selected 10 percent of the employees from each selected department (29 employees in total) and reviewed the business use of the cell phone over a three-month period in Fiscal Year 2011.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
October 5, 2011

ADMINISTRATIVE RESPONSE

Interdepartmental Memorandum

Information Systems Services

301 N. Olive Avenue, 8th Floor
West Palm Beach, FL 33401
(561) 355-2823
FAX: (561) 355-3482 (8th Floor)
FAX: (561) 355-4120 (4th Floor)

www.pbcgov.com

TO: Joe Bergeron
County Auditor

FROM: Steve Bordelon, Director Steve Bordelon
Information Systems Services

DATE: November 18, 2011

SUBJECT: Response to Draft Audit Report titled "County Wide Audit of Cellular Telephone Stipends"

This response to the audit findings and recommendations was prepared by ISS on behalf of all agencies referenced in the audit report. The draft response was reviewed by representatives of all of the departments that participated in the audit exit conference on October 5, 2011.

Results of the audit sample indicate an unacceptable level of non-compliance with the requirements of PPM# CW-O-085. With the relatively recent release date of this PPM, we believe there was a general lack of awareness among County department directors concerning their responsibilities under the PPM. Additionally, this first-time audit led to a reexamination of the two specific policy provisions which were the principal objectives of this audit, and to the realization that some of the policy provisions need to be revised. Specifically, a meaningless requirement for submitting annual budget information will be eliminated; and the requirement for a self-audit by every employee currently authorized to receive the cell phone stipend will be strengthened.

Following are responses to the audit recommendations.

<u>Recommendations:</u>

(1) County department directors should ensure an annual review of the business need for stipends authorized within their department is performed to determine if stipends should be added, changed or discontinued as required by Countywide PPM CW-O-085. The review of the business need should include a comparison of the voice service level and any additional services approved on the Cell phone Stipend Authorization form to the employee's monthly cell phone bills.

Departmental Response

Disagree with the audit recommendation. The annual review of business need referenced in PPM# CW-O-085 was not intended to require that Department Directors analyze all actual call activity in a particular billing period to determine whether the volume of incoming/outgoing business-related calls is in line with the selected stipend level.

To the contrary, the PPM states "*Department directors are responsible for an annual review of the business need for stipends authorized within their department to determine if stipends should be added, changed or discontinued... The annual review shall also include an audit of physical cell phone devices to verify the existence and use of the mobile phones.*"

A key goal of the stipend program was to eliminate much of the bureaucratic recordkeeping associated with the numerous County-issued cell phones that existed prior to the introduction of stipends. This sentiment was also expressed in an email from the County Administrator to the County Auditor. The original intent of the PPM was to rely on the *employees'* self-declaration and self-audit of appropriate stipend levels based on a determination of average monthly levels of business-related usage.

County Administration, OFMB and ISS, along with representatives from some of the larger County departments, will undertake a review of the existing PPM with the intent of improving compliance, establishing adequate levels of internal control, and avoiding an undue level of administrative workload for employees, department management and the Payroll Office.

A revised PPM will be implemented prior to April 1, 2012 after thorough review with the affected agencies. In addition, ISS will coordinate a one-time reauthorization process during January 2012 to obtain assurance from department directors that stipends currently authorized for their subordinate employees reasonably reflect the employee's actual usage requirements.

(2) County department directors should review the individual cases of those employees cited in this report as being outside of the business cell phone usage (either over or under) warranted by the stipend level, and take appropriate corrective action.

Departmental Response

Based on the specific information provided by the auditors, department directors have reviewed the results of the audit sample and the cited cases of non-compliance and have taken action to adjust the monthly stipend amount to the appropriate level.

(3) The Facilities Development and Operations Department Director should ensure that

- **(a) the employee utilizing a cell phone service provider that does not provide the details needed to substantiate business usage either change cell phone providers or terminate the stipend,...**

Departmental Response

Agree. Monthly statements, including call details, are accessible online by customers of all of the larger cellular telephone providers. FDO management has reviewed the circumstances of finding 3.a. and notified the employee in question that they must utilize a service provider who will make detailed call records available as needed to substantiate business usage. The employee must resolve this circumstance by November 30, 2011.

- **(b) change is made to the one employee's stipend which includes a data plan to remove the allowance until a data plan is purchased, and review the stipend received by the employee since January 2009 and recoup any excess funds received.**

Departmental Response

Agree. Subsequent to the auditor's fieldwork, a data plan was purchased and activated for the above referenced employee. Steps were taken by FDO management to obtain reimbursement from the employee for previous stipends paid when the data plan was not active.

A separate audit response from FDO (attached) addresses both audit recommendations – (3)(a) and (3)(b).

Recommendations:

(4) The OFMB Department Director should ensure that submissions of lists of employees who have been approved to receive cell phone stipends are made part of the formal budget process.

Departmental Response

Disagree. OFMB does not see any value in requiring that Department Directors provide, as part of the annual budget process, a list of authorized positions and confirmation of the annual review. Departments are responsible for compiling their operating budget requests and OFMB does not need to receive this level of detail, especially considering the immateriality of cell phone expenditures in context of the overall operating budget.

(5) The OFMB Department Director should require department directors to provide a listing of stipend recipients generated by the Payroll Department with the required documentation submitted to OFMB as part of the annual operating budget process to ensure the lists agree.

Departmental Response

Disagree, per response to preceding recommendation.

(6) The Facilities Development and Operations Department Director should submit a discontinuance of the employee's stipend and review the stipend receive by the employee who transferred from the department in February 2011 and recoup and excess funds received.

Departmental Response

Agree. FDO management has reviewed the circumstances of the employee transfer that occurred in February 2011 and fully resolved this matter. Stipend forms were submitted to cancel the stipend authorized by FDO and establish a replacement stipend authorized by the employee's new home department – Planning, Zoning & Building. No excess funds were paid to the employee in this case.

As part of the PPM re-write, the Cell Phone Stipend Authorization form will be revised to include a check-off box for "Transfer" which would trigger the employee's original department to cancel the stipend which would have to be re-requested and authorized by the new department, if justified. The "Transfer" check-off box will accompany the existing boxes for "New," "Change," and "Discontinuance."

Recommendations:

(7) County department directors should ensure that County employees requesting cell phone stipends have not been issued County owned cell phones.

Agree. Per the distribution of this audit response, all department directors will be requested to confirm that no employee who has a county-issued cell phone also receives a monthly cell phone stipend. Also, as part of the PPM re-write, the Cell Phone Stipend Authorization form will be revised to include language that emphasizes, when applicable, any existing County-issued cell phone account must be transferred into the name of the employee who is authorized to convert to a cell phone stipend plan.

(8) The Deputy County Administrator should review the stipend received by the TDC employee and recoup any funds received from February 2010 through the date that the cell phone was transferred to his personal account.

Agree. The Deputy County Administrator has followed up with the TDC employee and determined that this employee was supposed to have converted his existing County-issued cell phone and AT&T account into a personal account in his name. A full reimbursement has been received from the employee for the stipend amounts paid to him while the cell phone service continued to be paid by Palm Beach County.

The draft audit report and proposed management responses were discussed during the County Administrator's Management Team meetings as well as the most recent quarterly department/division directors' staff meeting. This discussion, along with the wide distribution of the audit report and management response to follow, will serve to heighten awareness of the policy requirements and will undoubtedly improve policy compliance.

On a final note, I believe the background section of the audit report should reference the fact that the County is saving approximately $12,000 each month as a result of replacing County-issued cell phones with the cell phone stipend program.

Please let me know if you have any questions or need additional information regarding these responses.

Attachment

GSB/sb

c: Bob Weisman, County Administrator
Liz Bloeser, OFMB Director
Audrey Wolf, FDO Director
George Webb, County Engineer
Rob Robbins, ERM Director (Acting)
Vince Bonvento, Public Safety Director

Office of the County Internal Auditor
Audit Report #2012-02

PARKS AND RECREATION DEPARTMENT

CASH COLLECTIONS AUDIT

DATED SEPTEMBER 19, 2011

Approved by Audit Committee
December 20, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did the Parks and Recreation Department division directors ensure that revenue collections, handling, and deposits at selected sites were in accordance with Department PPM DOF-005 entitled "Revenue Collection, Depositing and Reporting", and division and internal policies for the period October 1, 2010 through May 31, 2011? Specifically, were collections:

- Processed and recorded to ensure accountability?
- Prepared for deposit as required?
- Safeguarded to reduce the risk of loss?

WHAT WE FOUND

The Parks and Recreation Department division directors generally ensured that revenue collections, handling, and deposits at selected sites were in accordance with departmental policies as stated above.

However, we identified some areas for improvements in internal controls over cash handling as follows:

- Deposits from collections at the Okeeheelee Nature Center were not being made timely;
- The number and size of change funds at South Bay Campgrounds were larger than necessary;
- Customer deposits were being held for extended periods of time and refunds for cancelled reservations were being made when they had not been earned;
- Complimentary passes at swimming pools were not being issued according to existing policy; and
- Periodic verification of occupied spaces to records of paid spaces needed to be made at John Prince Park Campground.

WHAT WE RECOMMEND

The audit report makes five recommendations to:

- Ensure that deposits for the Okeeheelee Nature Center are made in a timely manner;
- Ensure that the need for change funds at the South Bay Campground is reviewed and the number of change funds is reduced to that necessary for cash transactions.
- Policies concerning holding customer deposits and refunding deposits upon cancellation of reservations be reviewed and applied uniformly;
- Policies concerning issuing complimentary passes at pools be reviewed and modified as necessary to ensure consistent handling; and
- Periodic checks of campground utilization and site occupancy are conducted and reconciled to accounting records.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 Need to Improve Controls at Okeeheelee Nature Center

The audit found that, from January through May 2011, Center staff had not deposited cash in a timely manner. For example, we identified four instances during the period under audit, where revenue had been held for several weeks before completing a Cash Receipt Form and taking the cash to the Department's Revenue Section for deposit. As an example, we found staff held monies collected from January 2011 and did not turn funds in for deposit until March 22, 2011.

Recommendations

(1) The Recreation Services Division Director should ensure that the Okeeheelee Nature Center Manager prepares the appropriate deposit form and submits the funds to the Department's Revenue Section in a timely manner.

Management Comments and Our Evaluation

In replying to a draft of this report, the Parks and Recreation Department Director agreed with the audit finding and recommendation. He stated that the Okeeheelee Nature Center

Manager was directed to deliver revenue collected at the Center to the Parks Financial and Support Services Revenue Section at least once a week. In addition, PPM DOF-005 will be revised effective October 1, 2011 to have facilities which do not receive armored carrier service to deliver receipted revenues to the Support Services Revenue Section at least once a week. We agree with the actions taken on this recommendation.

Finding 2 Need to Reduce Change Funds at South Bay Campgrounds

Countywide PPM CW-F-041 provides policy guidance for establishing, administering and dissolving petty cash and change funds. Change funds are used to provide change for cash transactions. Department directors are authorized to act as the County Administrator's designee to establish and dissolve petty cash or change funds. Department custodians are responsible for maintaining the change fund at its approved balance by depositing all funds in excess of the designated change fund balance. Exceptions are allowed if the amount of the excess is small resulting in daily deposit being impractical.

The audit found that there were six change funds of $100 each at the South Bay Campground which had been established in past years. The Campground Manager had keys and access to all six of the change funds. She stated that there are only two people at the Campground most of the year (herself and a maintenance person); however, in some cases additional on-call staff is hired for the busy season extending from January through April of each year. She agreed there was no need for the excess number of funds, adding that there is very little cash involved in Campground operations as most transactions are by credit card or check.

Recommendation

(2) The Parks Maintenance Division Director should ensure that the need for change funds at the South Bay Campground is reviewed and the number is reduced to that only necessary for providing change for cash transactions.

Management Comments and Our Evaluation

In replying to a draft of this report, the Parks and Recreation Department Director agreed with the finding and recommendation. He stated that the change fund at South Bay had been reviewed and will be reduced to $300. The Financial and Support Services Division will process the paperwork to reduce the change fund by October 14, 2011. We agree with the action proposed to be taken on this audit recommendation.

OTHER MATTERS

Observation #1. Need to Review Cancellation Policy for Certain Facilities

Our audit showed that at two facilities (Picnic Pavilions, and the South County Civic Center), staff were holding security deposits for extended periods of time, and at one facility (John Prince Campground) staff were refunding deposits made for cancelled reservations which were not in compliance with the Campground Manual. For example, at the Picnic Pavilion and the South Center Civic Center, we found that security deposits were being held from renters which were eligible to be refunded to them upon satisfactory inspection of the rented facilities. At both facilities, customer deposits were not being sent to the bank for deposit. Staff told us that the handling of security deposits in other ways could damage customer relations as they may have to wait for refunds, and also this would cause a burden in the amount of paperwork required.

At the John Prince Campground, staff was not in compliance with the Campground Manual as refunds were being made on cancellations which were not received in the designated timeframe. For example, we found instances of refunds being made when cancellations were not received in the designated seven day timeframe.

Recommendation

(3) The Recreation Services Division Director and the Parks Maintenance Division Director should review policies concerning the holding of customer deposits and cancellation refunds and adopt a uniform policy for such if conditions at facilities are judged similar.

Management Comments and Our Evaluation

In replying to a draft of this report, the Parks and Recreation Department Director concurred with the finding and recommendation. He stated that PPM DOF-016 (Fees and Charges) will be revised to include department-wide standardization of both cancellation refunds and security deposits. This action should be accomplished by January 1, 2012. We agree with the actions proposed on this audit recommendation.

Observation #2 Need to Review Policy Regarding Complimentary Passes at Pools

Internal PPM PRF-J03 entitled "Complimentary Pass" states that passes should be recorded in numerical order on a log sheet, and that these passes are valid for 30 days from issuance. The audit found that staff at the Lake Lytal Pool did not record complimentary passes in numerical order, and that the Pool Manager at North County Aquatic Center did not comply with the number of days for which passes are to be valid. We found that the Manager at the Aquatic Center was approving complimentary cards which were valid for up to one year. The Department's Aquatics Supervisor told us she was not aware of the complimentary card usage practices at North County.

Recommendation

(4) The Aquatics Division Director should ensure that policies regarding complimentary passes at County pools are reviewed and modified as necessary to ensure consistent handling at each facility.

Management Comments and Our Evaluation

In replying to a draft of this report, the Parks and Recreation Department Director agreed with the finding and recommendation. He stated that PPM PRF-J03 has been reviewed with pool managers to ensure compliance. The PPM is also being revised to ensure that it best represents the proper use of Complimentary Passes. The revision will be completed by December 31, 2011. We agree with the actions proposed on this audit recommendation.

Observation #3 Need to Reconcile Campground Utilization

The John Prince Campground and the South Bay Campground account for more than $1 million in revenues each year. Though largely seasonal, the campgrounds employ staff to maintain the campgrounds, and to account for all revenue and costs associated with the operation. The audit found that management oversight of campground utilization and associated revenues could be improved by having Parks Maintenance Managers make random spot checks of campground utilization, particularly in the busy tourist season. For example, at the John Prince Campground, assigned management staff should be used to periodically inspect the Campground and identify the spaces occupied and reconcile such to the accounting records showing revenue for the day. Division staff agreed with this added control.

Recommendation

5) The Parks Maintenance Division Director should ensure that periodic checks are made of campground utilization and that occupied sites are reconciled to the accounting records.

Management Comments and Our Evaluation

In replying to a draft of this report, the Parks and Recreation Department Director agreed with the finding and recommendation. He stated that effective July 1, 2011, Parks Maintenance staff began to make random checks to ensure that all occupied campground rental sites are reconciled to the accounting records. The new procedure will continue indefinitely. We agree with the action taken on the audit recommendation.

BACKGROUND

The Parks and Recreation Department (Department) serves residents countywide through 103 regional, district, community, beach, and neighborhood parks which encompass 8,569 acres. The Department provides services including public safety, grounds maintenance, recreation programs, and an array of specialized facilities such as aquatic centers, amphitheaters, athletic fields and courts, boating facilities, beaches, and historical and cultural museums.

Revenues are collected by four Divisions within the Department – Special Facilities, Aquatics, Maintenance, and Recreation Services. Revenues collected from October 1, 2010 through May 11, 2011 totaled $4,410,448. We selected thirteen locations (from a total of 44) from the four Divisions to review cash collections. Revenue from these selected sites totaled $3,405,944 (77 percent of the total for the period). Additional detail on the Divisions and sites selected follow.

Special Facilities

The Special Facilities Division provides customer focused leisure and cultural opportunities to residents and visitors of all ages and abilities. Primary services include managing, maintaining, programming and coordinating the use of four golf courses (Okeeheelee, Park Ridge, Southwinds, and

Osprey Point as well as the John Prince Golf Learning Center), managing the Jim Brandon Equestrian Center, the South County Civic Center, and the Morikami Museum and Japanese Gardens.

The Fiscal Year 2011 budgeted revenues were $8,560,300. Revenues collected as of May 11, 2011 totaled $6,244,463. There are 109 positions which support operations of this Division. We selected Morikami, John Prince Golf Learning Center, and South County Civic Center for review. Other golf courses were not selected as we had previously included them in other audits.

Aquatics Division

The Aquatics Division provides water related recreation opportunities. Primary services include managing, programming and coordinating the use of County aquatic events for people of all ages; providing prevention, rescue and emergency medical care at County beaches, pools, and waterparks; and providing water safety education instruction.

The Fiscal Year 2011 budgeted revenues were $2,820,667. Revenues collected as of May 11, 2011 totaled $850,233. There are 475 positions which support operations for this Division. We selected Coconut Cove Water Park, Calypso Bay Water Park, North County Aquatic Center, Lake Lytal Pool, and Aquacrest Pool for review.

Parks Maintenance

The Parks Maintenance Division is responsible for providing safe, clean, functional, and attractive parks, structures, and open spaces which meet passive and active recreational needs of the visiting public. Primary services include providing daily grounds maintenance for all park properties, including mowing, edging, fertilizing, restroom and picnic area cleaning, refuse collection and disposal, and beach cleaning. This Division protests the integrity of the natural resources through restoration and schedules maintenance, and operating and maintaining park campgrounds at two locations.

The Fiscal Year 2011 budgeted revenues were $2,272,514. Revenues collected as of May 11, 2011 totaled $1,418,634. There are 315 positions which support operations of this Division. We selected John Prince Campground, Parking at South Boca Inlet Park, and South Bay Campground for review.

Recreation Services

The Recreation Services Division responsibilities include providing a variety of recreation programs, activities, and events for people of all ages and abilities; managing and coordinating the use of recreational, historical, cultural, and environmental education facilities; coordinating, permitting, and/or facilitating rental of a variety of recreational facilities and cultural venues.

The Fiscal Year 2011 budgeted revenues were $1,499,512. Revenues collected as of May 11, 2011 totaled $865,419. There are 165 positions which support operations of this Division. We selected Okeeheelee Nature Center and Picnic Pavilions for review.

AUDIT SCOPE AND METHODOLOGY

The audit focused on internal controls used to ensure cash collections were processed and recorded, deposited daily and safeguarded to diminish the risk of loss at the thirteen collection points. Excluded from our scope were petty cash funds which had been included in prior audits.

In order to answer the audit objective, we interviewed Department and division officials and reviewed Palm Beach County's Fiscal Year 2011 Budget, and pertinent documentation concerning cash receipts and check acceptance procedures, noting the procedures followed in the daily processing/depositing of cash/cash items, including the safeguarding of funds. We reviewed documentation in support of monthly reconciliations at each of the thirteen sites. We met with the Department's Fiscal staff to review oversight performed to ensure accuracy and completeness of revenues collected, deposited, and recorded. We also reviewed reports from Wachovia Bank confirming the deposits for one selected date from each of the thirteen sites and observed the posting to the County financial system (Advantage). We also discussed oversight procedures with division staff responsible for this function.

The scope of our audit covered the four divisions' activities concerning cash receipts procedures performed during the period October 1, 2010 through May 31, 2011. Audit fieldwork was conducted in June and July 2011.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
September 19, 2011

ADMINISTRATIVE RESPONSE

Parks and Recreation Department
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Lake Worth, FL 33461
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Fax: (561) 963-6734
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INTEROFFICE COMMUNICATION

DATE: September 30, 2011

TO: Joseph F. Bergeron, Internal Auditor

FROM: Eric Call, Parks and Recreation Department Director

RE: Internal Audit Response
Cash Collections Audit

The Parks and Recreation Department has developed the following response to the findings and recommendations identified in the Internal Auditors Report dated September 19, 2011:

FINDINGS AND RECOMMENDATIONS

Finding 1 Need to Improve Controls at Okeeheelee Nature Center

(1) The Recreation Services Division Director should ensure that the Okeeheelee Nature Center Manager prepares the appropriate deposit form and submits the funds to the Department's Revenue Section in a timely manner.

Department Response

Concur: *Immediately after the facility audit, the Okeeheelee Nature Center Manager was directed to deliver revenue collected at the center to the Parks Financial and Support Services Revenue Section at least once a week. Additionally, PPM DOF-005 (Revenue Collection, Depositing, and Reporting) is being revised effective October 1, 2011 to state, "Those facilities/sections that do not receive armored carrier service pickup must deliver receipted revenues to the Parks Financial and Support Services Revenue Section at least once a week."*

Finding 2 Need to Reduce Change Funds at South Bay Campgrounds

Countywide PPM CW-F-041 provides policy guidance for establishing, administering and dissolving petty cash and change funds. Change funds are used to provide change for cash transactions. Department directors are authorized to act as the County Administrator's designee to establish and dissolve petty cash or change funds. Department custodians are responsible for maintaining the change fund at its approved balance by depositing all funds in excess of the designated change fund balance. Exceptions are allowed if the amount of the excess is small resulting in daily deposit being impractical.

The audit found that there were six change funds of $100 each at the South Bay Campground which had been established in past years. The Campground Manager had keys and access to all six of the change funds. She stated that there are only two people at the Campground most of the year (herself and a maintenance person); however, in some cases additional on-call staff is hired for the busy season extending from January through April of each year. She agreed there was no need for the excess number of funds, adding that there is very little cash involved in Campground operations as most transactions are by credit card or check.

Recommendation

(3) The Parks Maintenance Division Director should ensure that the need for change funds at the South Bay Campground is reviewed and the number is reduced to that only necessary for providing change for cash transactions.

Department Response

Concur: *The change fund at South Bay Campground has been reviewed and will be reduced to $300.00. Internal procedures require the Financial and Support Services Division to perform a change fund audit prior to submitting the reduction request to the Clerk and Comptroller's Finance Department. The Financial and Support Services Division will process the paperwork to reduce the change fund by October 14, 2011.*

OTHER MATTERS

1. Need to Review Cancellation Policy for Certain Facilities

Our audit showed that at two facilities (Picnic Pavilions, and the South County Civic Center), staff were holding security deposits for extended periods of time, and at one facility (John Prince Campground) staff were refunding deposits made for cancelled reservations which were not in compliance with the Campground Manual. For example, at the Picnic Pavilion and the South Center Civic Center, we found that security deposits were being held from renters which were eligible to be refunded to them upon satisfactory inspection of the rented facilities. At both facilities, customer deposits were not being sent to the bank for deposit. Staff told us that the handling of security deposits in other ways could damage customer relations as they may have to wait for refunds, and also this would cause a burden in the amount of paperwork required.

At the John Prince Campground, staff was not in compliance with the Campground Manual as refunds were being made on cancellations which were not received in the designated timeframe. For example, we found instances of refunds being made when cancellations were not received in the designated seven day timeframe.

Recommendation

(4) The Recreation Services Division Director and the Parks Maintenance Division Director should review policies concerning the holding of customer deposits and cancellation refunds and adopt a uniform policy for such if conditions at facilities are judged similar.

Department Response

Concur: *The Financial and Support Services Division Director is rewriting PPM DOF-016 (Fees and Charges) to include standardized department-wide policies and procedures related to both cancellation refunds and security deposits. It is the Department's intent to require depositing all security deposits upon receipt effective January 1, 2012. Internal discussions have begun with the Clerk and Comptroller's Finance Department regarding the process for depositing the security deposits (liability accounts) and methods for issuing refunds to customers. Additionally, cancellation policies are being reviewed and discussed internally and will be standardized department-wide also by January 1, 2012.*

2. Need to Review Policy Regarding Complimentary Passes at Pools

Internal PPM PRF-J03 entitled "Complimentary Pass" states that passes should be recorded in numerical order on a log sheet, and that these passes are valid for 30 days from issuance. The audit found that staff at the Lake Lytal Pool did not record complimentary passes in numerical order, and that the Pool Manager at North County Aquatic Center did not comply with the number of days for which passes are to be valid. We found that the Manager at the Aquatic Center was approving complimentary cards which were valid for up to one year. The Department's Aquatics Supervisor told us she was not aware of the complimentary card usage practices at North County.

Recommendation

(5) The Aquatics Division Director should ensure that policies regarding complimentary passes at County pools are reviewed and modified as necessary to ensure consistent handling at each facility.

Department Response

Concur: *Internal PPM PRF-J03 has been reviewed with all pool managers to ensure compliance. The Lake Lytal Pool Manager has implemented a log sheet to numerically record complimentary passes issued. The Aquatic Program Coordinator, who participated in the audit, immediately corrected the issue regarding the valid dates for passes with the North County Aquatic Center Manager. Additionally, PPM PRF-J03 is being revised to ensure that it best represents the proper use of Complimentary Passes. The revision will be completed by December 31, 2011. Once the revision is complete, the updated policy will be reviewed with all staff having responsibility under the PPM.*

3. Need to Reconcile Campground Utilization

The John Prince Campground and the South Bay Campground account for more than $1 million in revenues each year. Though largely seasonal, the campgrounds employ staff to maintain the campgrounds, and to account for all revenue and costs associated with the operation. The audit found that management oversight of campground utilization and associated revenues could be improved by having Parks Maintenance Managers make random spot checks of campground utilization, particularly in the busy tourist season. For example, at the John Prince Campground, assigned management staff should be used to periodically inspect the Campground and identify the spaces occupied and reconcile such to the accounting records showing revenue for the day. Division staff agreed with this added control.

Recommendation

(6) The Parks Maintenance Division Director should ensure that periodic checks are made of campground utilization and that occupied sites are reconciled to the accounting records.

Department Response

Concur: *Effective July 1, 2011, Parks Maintenance staff began to make random checks to ensure all occupied campground rental sites are reconciled to the accounting records. This new procedure will continue indefinitely.*

Office of the County Internal Auditor
Audit Report #2012-03

WATER UTILITIES DEPARTMENT

CASH COLLECTIONS AUDIT

DATED SEPTEMBER 28, 2011

Approved by Audit Committee
December 20, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

- Did the Water Utilities Department (WUD) ensure that cash and check collection operations at the Customer Service Center (CSC) and the Glades Utility Authority (GUA) from October 1, 2010 through March 31, 2011 complied with WUD policies and procedures?

WHAT WE FOUND

The WUD generally ensured that cash and check collection operations at the CSC and the GUA from October 1, 2010 through March 31, 2011 complied with WUD policies and procedures.

However, we identified some areas for improvements in internal controls over cash handling as follows:

- There were delays in depositing receipts such that deposits were not always made daily as required;
- The GUA deposit drop box in Pahokee needs to be relocated to enhance both customer and collection security, and that cashiers at Pahokee only check the drop box once daily;
- Access to GUA collections at South Bay and Belle Glade is controlled, in part, by city employees limiting access by GUA staff;
- Deposit errors at GUA went uncorrected during a vacancy in the position tasked with conducting bank reconciliations;
- Documentation for daily work packets at GUA needs enhancement; and
- Additional written policies addressing manual receipts and post-dated checks are needed at GUA.

WHAT WE RECOMMEND

The audit report makes seven recommendations to:

- Follow up with the Pahokee City Manager to allow relocation of the drop box to City Hall;
- Ensure that GUA cashiers at the Pahokee site only check the drop box once per day;
- Ensure that GUA cashiers at Belle Glade and South Bay gain direct access to GUA collections;
- Ensure that all documentation supporting daily receipts is forwarded to GUA Headquarters to facilitate verifications;
- Ensure that GUA staff correct the four deposit errors identified;
- Ensure that GUA bank reconciliations are performed as required; and
- Ensure that GUA policies and procedures are updated to address the use of manual receipts and the treatment of post dated checks.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. Internal Controls Need to Be Strengthened

The audit found that internal controls at both CSC and GUA needed strengthening. Below are the results of audit at CSC and GUA.

Finding 1A Delays in Deposits of Cash

WUD's departmental PPM #WUD-CSPM-002 entitled "Bank Deposit" requires that all payments received be "processed daily, deposited and credited in CIS" and the written procedures for CSC include a procedure for the "Lobby Daily Deposit."

The audit found that both CSC and GUA experience periodic delays in getting collections deposited. At the time of audit, CSC used Brinks services which required daily pick-up of collections from 10:00 am to 12:00 pm Monday through Friday. The procedure was for collections received on a given day to be picked up by Brinks the following day and posted by the bank on the third day. Collection pick-ups are recorded on a Brinks log maintained at CSC. Because CSC staff had noted that

Brinks drivers do not pick up collections at the same time each day and that postings by the bank are not always timely, they placed stickers on each page of the Brinks log reminding drivers to record not only the date but also the time of day of pick-ups. However, we found that this directive was not always carried out. During March 2011, 23 pick-ups were made, but only 15 times of day were recorded. Of those recorded, times ranged from 10:35 am to 5:00 pm. In one instance, Brinks did not pick up the cash collection until the next day. In two other instances, where they picked up late in the day (3:30 pm and 5:00 pm, respectively), our review of bank statements revealed that the bank posted the check deposit timely but posted the cash deposit one business day late.

The County Finance Department provided us added information relative to the Brinks contract. We were told that Brinks' contract would not be extended beyond September 2011 and that a contract has been awarded to Dunbar Security.

GUA does not have Brinks services, but relies upon the Palm Beach County Sheriff's Office (PBSO) to escort a cashier from each collection site to the bank to make the daily deposit. However, according to GUA staff, PBSO has not always been available due to other duties. We were told that cashiers often must wait for PBSO assistance after their scheduled work day ends. If timely assistance from PBSO is not available, cashiers are told to place collections in the vault, delaying deposit until the next day. GUA officials told us that they plan to use armored car services beginning October 1, 2011 and have submitted a budget to WUD for that purpose.

Finding 1B Need to Relocate Pahokee Drop Box

The GUA drop box for customer payments in Pahokee is in a location where safety is questionable and where safeguarding of the collections is compromised. Safeguarding of assets and resources is one of the principle internal control objectives outlined in generally accepted government auditing standards.

The audit found that the drop box for customer payments (generally in the form of checks) in Pahokee is not situated on the premises of the City Hall, as are those in Belle Glade and South Bay, but a couple of blocks away at the abandoned Pahokee City Hall building. At that location, we observed weeds growing high along the sides and front of the building and lighting was poor. Although visibility is poor, customers can visit the location 24 hours a day. Access to the drop box itself is a mechanized slot on one side of the building. Although a nearby outside glass door remains locked, one can look through it to see the obvious abandonment of the building and the vulnerability of the drop box. We also observed that an inside door enclosing the drop box was open. According to GUA, they have asked the Pahokee City Manager to have the drop box moved to the current Pahokee City Hall building. At the time of audit, the drop box remained at the abandoned City Hall.

GUA's written procedures state that cashiers are to check the drop boxes at least twice each business day and we were told by GUA officials that the cashier at the Pahokee collection site checks the drop box three times a day. However, only 29 customer payments were made during an entire recent month and we were told that this amount was typical. That number averages less than two payments per business day. We feel that one drop box pick-up per day would be adequate for the Pahokee location.

Finding 1C Access to GUA Collections at Belle Glade and South Bay

GUA's written procedures state that, if a cash drawer cannot be locked, the cashier is responsible for locking the drawer in the safe each time she is away from her station. This requirement is based on WUD's policy that the cashier is solely responsible for all monies collected. However, at both the Belle Glade and the South Bay collection sites for GUA, cashiers are dependent upon City staff to gain access to their collections. At Belle Glade, whenever cashiers must leave the premises, they must place their cash drawers into a safe inside the City's vault. However, the vault key is maintained by a Belle Glade employee. At South Bay, GUA has purchased its own safe, but the City has not allowed them to place the safe inside the locked room where the South Bay safe is located. Instead, the City requires that GUA share the City's safe for which the City maintains the key.

Finding 1D Need to Enhance Documentation for Daily Work Packets at GUA

One of GUA's written procedures instructs cashiers to prepare daily work packets and forward them to GUA Headquarters for a daily deposit verification process performed by the Senior Customer Service Specialist. Another written procedure instructs cashiers to keep copies of customer receipts in the order in which they were issued, the same order as the Cash Receipts Report, "making it easier to find errors." However, neither procedure requires cashiers to include these receipt copies in the daily work packets.

The audit found that review of the work packets is not done until the following day and, lacking copies of customer receipts, the documentation is not sufficient for the Senior Customer Service Specialist to verify the daily cash collections and/or locate and correct errors. Although not required to do so, cashiers usually include some but not all of their receipt copies in their work packets. For example, the work packets for March 1, 2011 Deposit included copies of customer receipts supporting only 84 percent of the total collections for the day. Only one of the five cashiers working that day provided all of their receipts.

We tested the daily deposit verification process by reviewing the work packets forwarded to GUA Headquarters during March 2011. We noted that the documents in the packets did not evidence the Senior Customer Service Specialist's review. We recalculated totals and traced collection amounts to deposit slips and bank statements and found (a) two deposit errors that were subsequently corrected by the bank, (b) four errors that were not corrected, and (c) two collection overages acknowledged by cashiers. The deposit errors had not been detected and the collection overages had not yet been reconciled by the Senior Customer Service Specialist. GUA staff told us that their bank reconciliations were performed by the Financial Analyst at WUD Headquarters. However, WUD officials told us that, during the audit period, the Financial Analyst position was vacant and bank reconciliations had not been performed as required.

Recommendations

(1) The WUD Director of Finance and Administration should ensure that GUA again requests the Pahokee City Manager to allow the drop box to be repositioned to the main Pahokee City Hall.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that Pahokee's Drop Box is a serious concern. As of October 11, 2011 the Pahokee payment location is no longer in use. The Executive Director, GUA has spoken with the Pahokee City Manager concerning GUA's providing its own drop box at the current location. We agree with the focus of the action and will follow up on this recommendation at a later date.

(2) The WUD Director of Finance and Administration should ensure that GUA cashiers at the Pahokee collection site are required to check the drop box only one time per business day.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation, stating that both the Pahokee and South Bay drop boxes are now only being checked by 2:00pm each business day. We agree with the action taken on this recommendation.

(3) The WUD Director of Finance and Administration should ensure that GUA meets with officials from the City of Belle Glade and the City of South Bay to gain direct access to GUA cash collections.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that since collections are no longer being made at South Bay, the issue of gaining access becomes moot. However, as concerns Belle Glade, he stated that the vault being used at Belle Glade belongs to the City of Belle Glade, not the GUA. GUA is allowed access to use one of the remaining safes located in Belle Glade's vault, but cannot mandate complete access to GUA staff. We concur with the action taken on this recommendation and recognize the limits that GUA can enforce with the City of Belle Glade. We consider the recommendation as 'closed' upon report issuance.

(4) The WUD Director of Finance and Administration should ensure that GUA requires cashiers to forward copies of all customer receipts to GUA Headquarters as part of the daily work packets. The receipts should be kept in the order in which they were issued in order to facilitate verification by the Senior Customer Service Specialist.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that action has already been taken as suggested by the audit recommendation. This started after August 22, 2011. Receipts are being kept for each transaction and the Senior Customer Service Specialist is verifying the receipts for discrepancies. She is also performing random checks for receipts. We agree with the action taken on this audit recommendation.

(5) The WUD Director of Finance and Administration should ensure that GUA corrects, in coordination with the bank, the four deposit errors in March 2011 identified by the audit.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that the errors would be corrected by December 1, 2011. We agree with the action taken on this recommendation.

(6) The WUD Director of Finance and Administration should ensure that GUA bank reconciliations are performed as required.

Management Comments and Our Evaluation

In responding to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that all bank reconciliations were current through October 2011. The GUA filled its vacant Financial Analyst II position in August 2011 and this duty is part of monthly responsibilities for the position. We agree with the action taken on this recommendation.

Finding 2. Need for Additional Written Policies

An important aspect of internal control is the establishment of policies and procedures to govern operations. Formalizing these policies by committing them to writing promotes consistency in their application, creates accountability for performance, and assists in training new personnel. At the time of audit, GUA was still in the process of establishing written policies and procedures for cash and check collections. Six PPMs modeled after the written procedures used by CSC had been issued. However, during our review of GUA operations, we identified the following areas where additional written policies were needed.

a. Manual Receipts - GUA staff uses manual receipts, that is, receipts not generated by the automated system, for certain specialized payments. These serve to temporarily record transactions for subsequent entry into the CIS. Although each of the manual receipts we noted during the audit was traced to the CIS, we believe that a written policy is needed to address this area.

b. Post-Dated Checks - GUA's PPM entitled "Posting a Payment" describes the acceptable attributes of customer checks and states that post-dated checks are not to be accepted. However, the PPM does not describe the procedure to follow if a post-dated check is accepted. GUA staff told us that their standard practice is for the Cashier to call GUA Headquarters to report it, at which time the Customer Service Supervisor instructs a Meter Reader to hang a door tag on the customer's door asking them to call GUA. When the customer calls, they are instructed to return to GUA with proper identification and rewrite the check. In our view, this process should be made part of written policies.

Recommendation

(7) The WUD Director of Finance and Administration should ensure that GUA adds requirements for the use of manual receipts and the treatment of post-dated checks to its written policies and procedures.

Management Comments and Our Evaluation

In replying to a draft of this report, the WUD Department Director concurred with the finding and recommendation. He stated that since the establishment of the GUA, we have faced many challenges that have delayed the implementation of consistent policies throughout Customer Service, such as, operating three different cities with three different billing software systems and three different sets of policies. The GUA has now transitioned into the CIS (Customer Information System). Also, the GUA is currently reviewing and establishing policies and procedures related to cash collection, which includes Manual Receipts and Post-Dated Checks. The approximate time for implementation of this recommendation is May 2012.

BACKGROUND

The Water Utilities Department (WUD) is an enterprise fund operation of the Palm Beach County (County) Board of County Commissioners. WUD is responsible for cash collection operations at both its own Customer Service Center (CSC) located in Boynton Beach and the Glades Utility Authority (GUA) located in Belle Glade--both organized within WUD's Finance and Administration Division. CSC has a staff of 82 employees and a fiscal year 2011 budget of $10.2 million. They had approximately 170,000 customers and collections of $148.9 million in fiscal year 2010, of which $92.6 million was in the form of checks and $4.2

million was in cash. The remainder was made up of electronic payments.

Effective October 1, 2009, the County assumed responsibility for water utility operations in Belle Glade, Pahokee, and South Bay, which were combined into the Regional GUA staffed by eight County employees. GUA is run by a seven-member Board of Directors and has a fiscal year 2011 budget of $1.7 million for Customer Service and Applications Management operations. They had approximately 10,000 customers and collections of $17.2 million in fiscal year 2010, of which about $9 million was in the form of checks and about $8 million was in cash.

GUA cash collections are made at four separate sites--Belle Glade City Hall, Pahokee City Hall, South Bay City Hall, and GUA Headquarters in Belle Glade. WUD plans to consolidate GUA collection operations and operate at fewer sites beginning October 1, 2011. CSC staff members participated in the training of GUA staff in 2010 and 2011; however, the Service Agreement between GUA and the County requires that customer service policies be separately established by GUA. In addition, GUA uses a Computer Information System (CIS) independent from that used at CSC.

According to WUD officials, emphasis on GUA operations for the first fiscal year was on establishing the CIS and converting payments made prior to November 1, 2010 to this new system. At the time of audit, GUA was still in the process of establishing written policies and procedures governing cash collections.

Our audit focused on over-the-counter collections of cash--currency, coins, checks, and money orders--as well as collections from customer drop boxes. The audit did not include electronic collections, such as credit and debit card transactions.

AUDIT SCOPE AND METHODOLOGY

The scope of our audit was a review of internal controls covering cash collection functions at CSC and GUA during fiscal year 2011 through March 31, 2011. In the case of GUA, the audit found that written policies and procedures had not been prepared prior to the beginning of the audit. During the period covered by the audit, GUA processed cash collections using procedures which were modifications of those used by CSC but which had not been formalized. Since these procedures had been formally established in the form of PPMs at the time of audit, we used the PPMs as criteria for measuring compliance.

Audit field work was conducted at CSC and GUA from May through August 2011.

To answer the audit objective, we reviewed both Countywide and departmental written policies and procedures and interviewed appropriate WUD staff at both CSC and GUA to identify the procedures used to collect, record, deposit, and safeguard customer payments. We reviewed various Cash Receipts reports and observed daily operations at both locations, including the daily pick-up of payments from drop boxes. We selected March 2011 as our test month and reviewed all documentation relating to the daily deposit verification process. Finally, we reviewed Void Payment reports and traced selected transactions to support documentation.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
September 28, 2011

ADMINISTRATIVE RESPONSE

MEMORANDUM

DATE: **November 7, 2011**

TO: **Joseph F. Bergeron, Internal Auditor**

FROM: **Bevin A. Beaudet, P.E., WUD Department Director**

RE: **DRAFT AUDIT REPORT – INVENTORY CONTROL AND MANAGEMENT**

Please find below my responses to your recent audit recommendations for the *Cash Collections Audit.* I concur with your findings and have directed staff to take the necessary steps to improve our procedures as recommended in this report.

1. The WUD Director of Finance and Administration should ensure that the GUA again requests the Pahokee City Manager to allow the drop box to be repositioned to the main Pahokee City Hall.

   Response:

   Pahokee's drop box located at the old abandoned building is a serious concern. As of October 10, 2011, the Pahokee payment location is no longer in use. The Executive Director, James Stiles, has spoken with the Pahokee City Manager concerning the Glades Utility Authority providing our own drop box at the current location.

2. The WUD Director of Finance and Administration should ensure that GUA cashiers at the Pahokee collection site are required to check the drop box only one time per business day.

   Response:

   The Glades Utility Authority will purchase and install a free standing drop box on the outside of the current City of Pahokee's building. This drop box will be assessable to GUA personnel *only. The Glades Utility Authority no longer accepts payment in the city of Pahokee; however, the drop boxes in Pahokee and South Bay are being checked by 2:00 pm each business day (once a day). The projected time of installing our personal drop boxes is by December 1, 2011. Payment Locations are currently being checked once each business day.*

3. The WUD Director of Finance and Administration should ensure that GUA meets with officials from the City of Belle Glade and the City of South Bay to gain direct access to GUA cash collections.

   Response:

   Glades Utility Authority is no longer accepting payments in South Bay; therefore, this is not an issue in South Bay. The City of Belle Glade provides the GUA with a combination safe. This safe is use by GUA staff only; however, the meshed gate leading to the combination safe is secured by Belle Glade's staff.

   GUA maintains a payment location at the City of Belle Glade. The vault used at Belle Glade is the property of the City of Belle Glade. GUA is allowed to use one of the combination safes located in Belle Glade's vault, but cannot mandate complete access to GUA staff.

4. The WUD Director of Finance and Administration should ensure that GUA requires cashiers to forward copies of all customer receipts to GUA Headquarters as part of the daily work packets. The receipts should be kept in the order in which they were issued in order to facilitate verification by the Senior Customer Service Specialist.

   Response:

   Cashiers will forward receipts for every transaction to GUA headquarters. The receipts will become a requirement for daily work packets. Receipts will be kept in transaction order. The Senior Customer Service Specialist will verify receipts where issues arise with cash collections.

   Ensuring receipts for each transaction is sent to GUA headquarters in order began after August 22, 2011. Receipts are being kept for each transaction and the Senior Customer Service Specialist is verifying the receipts for discrepancies. She is also performing random checks for receipts.

5. The WUD Director of Finance and Administration should ensure that GUA corrects, in coordination with the banks, the four deposit errors in March 2011 identified by the audit.

   Response:

   The GUA will correct the four deposit errors identified by the audit for March 2011. The GUA will ensure deposit errors for March 2011 are corrected by December 1, 2011.

6. The WUD Director of Finance and Administration should ensure that GUA bank reconciliations are performed as required.

Response:

All bank reconciliations are now current thru October 2011. The GUA filled its vacant Financial Analyst II position during the month of August 2011. This duty is part of monthly responsibilities for this position.

7. The WUD Director of Finance and Administration should ensure that GUA adds requirements for the use of manual receipts and the treatment of post-dated checks to its written policies and procedures.

Response:

Written policies are an important aspect of internal control. Since the establishment of the GUA, we have faced many challenges that have delayed the implementation of consistent policies throughout Customer Service, such as, operating three different cities with three different billing software systems and three different sets of policies. As of November 1, 2010, the GUA has transitioned into CIS (Customer Information System). This transition will allow the GUA to establish consistent policies and procedures. In addition, the GUA is currently reviewing and establishing policies and procedure related to cash collection, which includes Manual Receipts and Post-Dated Checks. Policies and Procedures are currently being reviewed at this time. The approximate time of completion is by May 2012.

Although there was not a specific recommendation for the WUD Customer Service Center regarding Finding 1 (Internal Controls Need to Be Strengthened), WUD is providing the following response.

We concur with this finding in that Brinks did not adhere to their contract with Palm Beach County Finance which stated that they would pick up the daily deposit between the hours of 10:00 am and 12:00 pm. Some days Brinks did not pick up until as late as 5:00 pm, and some days they did not show at all only to come the next day. This delayed the posting of the deposit until the following day, which does not comply with our Departmental PPM of posting the deposit the same day.

We called Brinks several times to make them aware of the ramifications of these delayed pick- ups. In addition, we advised Palm Beach County Finance Department of the situation. The Customer Service Center was notified by Finance that the contract with Brinks would not be extended beyond September 2011. As of October 1, 2011, we have a new contract with Dunbar Security.

Office of the County Internal Auditor
Audit Report #2012-04

FIRE RESCUE DEPARTMENT

SUPPORT SERVICES DIVISION – FLEET MANAGEMENT

Approved by Audit Committee
December 20, 2011

DATED OCTOBER 26, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did the Fire Rescue Fleet Director ensure that performance measure information reported by the Fleet Management Section to the County Budget Office for Fiscal Year 2010, were accurate and reliable for (1) Percentage of required fleet preventative maintenance inspections/service on emergency apparatus completed, and (2) Percentage of all after-hours call-out repairs completed without moving personnel to reserve apparatus?

WHAT WE FOUND

The Fire Rescue Fleet Director ensured that performance measure information reported by the Fleet Management Section to the County Budget Office for Fiscal Year 2010 were accurate and reliable for (1) Percentage of required fleet preventative maintenance inspections/service on emergency apparatus completed, and (2) Percentage of all after-hours call-out repairs completed without moving personnel to reserve apparatus.

WHAT WE RECOMMEND

The audit report make no recommendations

BACKGROUND

The Fire Rescue Department (Department) was created by Palm Beach County (County) Ordinance in 1984 to provide fire, emergency medical services, advanced life support and transport services to the unincorporated areas of the County and several municipalities. The Department is comprised of four major Divisions—Operations, Safety Services, Support Services, and Administrative Services. The Department's Fiscal Year 2011 budget was $356.6 million dollars, including staffing for 1511 position.

The Support Services Division (Division) is comprised of three Sections-- Fleet Management, Warehousing & Supplies, and Capital Projects and Facilities. The Division's Fiscal Year 2011 budget was $8.62 million and included staffing of 42 positions. The Fleet Management Section (Section) is responsible for the repair and maintenance of all Fire Rescue vehicles and apparatus. These include 172 light vehicles and 179 Heavy Duty Fire Apparatus. The Section also services 34 Heavy Duty Fire Apparatus from the City of West Palm Beach and Heavy Duty Diesel vehicles from the Palm Beach County Sherriff's Office. The Section accomplishes this with a staff of 18 technicians, a shop superintendant, and the Fleet Director. The Section completed 5488 work orders in Fiscal year 2010. The Section has two performance measures reported on to the Office of Financial Management and Budget for Fiscal Year 2010. These were:

- Percentage of required fleet preventative maintenance inspections/service on emergency apparatus completed. The reported number for FY2010 was 100 percent.
- Percentage of all after-hours call-out repairs completed without moving personnel to reserve apparatus. The reported number for FY2010 was 96 percent.

AUDIT SCOPE AND METHODOLOGY

Through interviews with Fire Rescue Fleet management and staff, review of Fire Rescue Fleet policies and procedures, the County budget report for fiscal year 2010, and other pertinent documentation, we prepared a risk assessment addressing Fire Rescue Fleet's operational objectives for the Fleet Management program. The risk assessment focused on the methods used to attain these objectives, the risks associated with the attainment of these objectives and internal controls implemented to mitigate these risks.

From the risk assessment, we selected the specific audit objective noted above for which we obtained a more detailed understanding of internal controls that we considered significant within the context of the audit objectives to assess whether internal controls had been properly designed and implemented, using such means as inquiries, observations and inspection of documents.

The scope of our audit covered the two performance measures reported and included in the fiscal year 2010 County Budget book, and the processes related to the recording, compiling and reporting this information. Audit field work was conducted at Fire Rescue Fleet Headquarters from June to September 2011.

To answer the audit objective, we reviewed the Fleet preventative maintenance PPM. and reviewed selected agency files. We reviewed the methodology of obtaining the performance measure data. We reviewed the Crystal reports from the vehicle maintenance system (IBEM) and obtained detailed schedules of the preventative maintenance conducted on the emergency apparatus vehicles for the reported period. We traced the vehicles on the schedules to the IBEM system listing for emergency apparatus vehicles. We judgmentally selected a sample of 30 of the 179 emergency apparatus vehicles and examined the backup documentation in the maintenance files to verify the reported information.

We also obtained and reviewed detailed monthly schedules of the reported information concerning after hours call-out repairs and judgmentally selected a sample of one month and traced the reported information to the backup documents in the vehicle maintenance files as well as the IBEM system.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
October 26, 2011

Office of the County Internal Auditor
Audit Report #2012-05

INFORMATION SYSTEMS SERVICES DEPARTMENT

COMPUTING PLATFORMS

DATED APRIL 4, 2012

Reviewed by Audit Committee
July18, 2012

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did the ISS Deputy Director ensure that internal controls over non-fixed asset computer items and the inventory of parts and supplies were designed and implemented, as outlined in the U.S. Government Accountability Office's (GAO) Internal Control Standards, during fiscal year 2011?

2. Did the ISS Deputy Director ensure that internal controls for the server inventory and usage were designed and implemented to comply with Countywide and Departmental Fixed asset policies and procedures during fiscal year 2011?

3. Did the ISS Deputy Director ensure that the logical and physical security access controls recommended in our Audit Reports 05-11 entitled 'Physical Security of ISS Facilities'; and 05-10 entitled 'Logical Security; dated May 2005 were implemented?

4. Did the ISS Deputy Director ensure that performance measure information maintained by the Division and included in the County Budget Book for Fiscal Year 2011, were accurate and reliable for (1) Percent of time enterprise servers are available for use during normal business hours, and (2) Percent of Help Desk calls resolved same day?

WHAT WE FOUND

The ISS Deputy Director generally ensured that:

- Internal controls over non-fixed asset computer items and the inventory of parts and supplies were designed and implemented, as outlined in GAO's Internal Control Standards.
- Performance measure information maintained by the Division and for use in the County Budget Office for the Fiscal Year 2011 was accurate and reliable for (1) Percent of time enterprise servers were available for use during normal business hours, and (2) Percent of Help Desk calls resolved same day.

However, the audit also found that two of 15 servers included in an audit sample could not be located. Further inquiry disclosed that ISS management had identified internal control deficiencies causing, at least in part, this situation prior to the audit and had begun corrective action. The audit also found that although corrective action had been taken in regard to Audit Report 05-10 regarding logical security, further action was needed to correct deficiencies included in Audit Report 05-11 regarding physical security of the Network Operations Center.

WHAT WE RECOMMEND

The audit report makes three recommendations to:

- Ensure that the departmental PPM on policies and procedures governing fixed assets is implemented;
- Ensure that access to the NOC is granted on a 'need only' basis, taking into consideration job responsibilities rather than rank or title;
- Review current access to the NOC using the current access logs and discontinue access to those not meeting entry criteria.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. Need for Enhanced Controls Over Fixed Asset Server Inventory

Countywide PPM CW-O-026 entitled 'Physical Identification and Management of County owned Fixed Assets' assigns responsibility to department property custodians and inventory officers to ensure that fixed assets used in their operations are properly employed, and are safeguarded against theft, loss and/or unauthorized usage. In addition the PPM assigns responsibility to all employees who are assigned the use of County property to ensure that such property is given reasonable care and safekeeping.

For our audit test, we used an inventory report from the ISS Fixed Asset Tracking System (FATS) to judgmentally sample 15 active servers from a total of 152 servers managed by the Division. Two of the 15 servers were unable to be physically located. We were informed by a Senior Manager that both the missing servers were part of the list of discrepancies identified and resolved from the annual 2011 Fixed Asset inventory. One was a surplus item that had been identified as surplus in the Fixed Asset Management Office's (FAMO) records in the Advantage Financial system, but was shown as active in the FATS system. The second was an item on the discrepancy list, which was fully depreciated and identified to be written off by ISS management.

The audit found that ISS management had identified a number of discrepancies during the annual 2011 Fixed Asset Inventory. The annual inventory resulted in 76 missing assets with an original cost of $270,048. As a result, ISS management conducted an extensive study to determine the causes for the unaccounted assets. The study, which had been shared with the Internal Auditor Office, identified a number of control deficiencies that led to the 2011 Fixed Asset inventory discrepancies. Deficiencies included:

- Weaknesses in the underlying record keeping processes which enabled at least one employee (now retired) to circumvent internal controls which are designed to assure that errors in the inventory are detected during the annual inventory verification process. The manipulation to achieve acceptable results served to mask the existence of underlying problems.
- Inaccurate and Incomplete data maintained in the ISS FATS system.
- Insecure storage locations, such as hallways, empty cubicles, for surplus fixed assets awaiting transportation.
- Failure of the ISS Fixed Asset Coordinator to adequately perform the job duties assigned to his position.

ISS management has instituted a number of procedural and process improvements to rectify the situation. These include:

- Implement a new ISS Departmental PPM to establish policies and procedures applicable to the fixed asset function. This procedure addresses all aspects of the fixed asset custody life cycle – from acquisition through final disposition.
- Training and mandatory refresher training for all employees related to the PPM.
- Continuous monitoring and enforcement of applicable policies and procedures by management.
- Documented acknowledgement of assigned fixed asset by employee.
- Increased and defined manager and division level accountability.
- Secure and documented storage and transfer and confirmation of surplus fixed assets.
- A complete reconciliation of the FATS system records to the FAMO records in the Advantage Financial system.

Our audit showed that the planned improvements had either been implemented or were planned to be implemented during the Fiscal Year 2012 annual fixed asset inventory process.

Recommendation:

(1) The ISS Department Director should ensure that the departmental PPM on policies and procedures governing fixed assets is implemented.

Management Comments and Our Evaluation

In replying to a draft of this report, the ISS Department Director stated that the audit recommendation was implemented on April 12, 2012. Two departmental PPMs were issued addressing the audit finding. Both PPMs have been posted on the ISS Intranet Home Page. We concur with the ISS Department Director's action on the audit recommendation.

Finding 2. Access To The Network Operations Center (NOC)

Audit Report Number 05-11entitled 'Physical Security of ISS facilities' issued May 19, 2005 identified non-compliance with access control guidelines as set forth in the Control Objectives for Information and Related Technology (COBIT) standards, and Countywide PPM CW-O-59 entitled 'ISS Security Policy Manual'. The report recommended the ISS Director ensure that access to the computer room be granted on a 'need only' basis, taking into consideration job responsibilities rather than rank or title. In addition, the report recommended a review of access privileges should be conducted using the appropriate access logs, and computer room and NOC access points should be given special attention.

Audit follow up showed that ISS implemented the recommendation and instituted an annual process of reviewing access rights of all individuals. During this audit we were told by ISS officials that the annual review was normally done in January, but was delayed due to staff retirements/reductions and reassignment of responsibilities. Access badges and privileges are processed by the Electronic Services and Security (ESS) Division of the Facilities Development and Operations (FDO) Department upon the request and authorization of the user department.

Our current review of employee listings of access points to the NOC showed 262 authorized persons listed for the NOC access points. These included 189 ISS staff and 73 non-ISS staff. Of the 189 ISS staff, 89 were from the Application Development, and Finance and Administration Divisions. The 73 non-ISS individuals included 11 staff members from partner County Agencies, such as the Tax Collector and the Clerk of the Court. This list of non-ISS individuals also included 48 staff members from FDO Department which services the building. In our view, the list contains individuals who may not need access to the NOC.

Recommendations

(2) The ISS Director should ensure that access to the NOC is granted on a 'need only' basis, taking into consideration job responsibilities rather than rank or title.

(3) The ISS Director should review current access to the NOC using the current access logs and discontinue access to those not meeting entry criteria.

Management Comments and Our Evaluation

In replying to a draft of this report, the ISS Department Director concurred with Recommendations (2) and (3). In regard to Recommendation (2), he stated that ISS requested reports from FDO to determine which employees had badge access to any door ultimately leading into the computer room. ISS review of those reports indicated that computer room access was being reasonably controlled except for a single door leading from the SAS area into the area formerly occupied by the NOC. It was not realized in previous reviews that the computer room could be accessed from that door. We agree with the action taken by the ISS Department Director on this recommendation.

In regard to Recommendation (3), the ISS Department Director stated that "our review determined that the names of a few former employees were still on the list for all doors and these names were removed. Actual risks associated with this circumstance were mitigated by the fact that the badges of these former employees were reclaimed upon the termination of their employment. ISS Enterprise Center Manager has reviewed badge access rights for all doors and has revoked access privileges for inactive badges. This review will occur semiannually going forward. We agree with the ISS Department Director's actions on this recommendation.

BACKGROUND

The Information Systems Services (ISS) Department serves as the primary information technology support agency for most departments reporting to the Board of County Commissioners (BCC), as well as some constitutional officers in Palm Beach County. ISS consist of three major units--IT Operations, Strategic Services and Finance, and Administration. IT Operations is comprised of three major divisions: Application Services, Network Services, and Computing Platforms. These divisions report to the Deputy Director. The Computing Platform Division (Division) is comprised of four sections: Windows Server Administration, Unix Server Administration, Enterprise Center, and Desktop and Training section. The Division's Fiscal Year 2012 budget is $8.28 million which includes staffing for 54 positions.

The Division is responsible for providing and maintaining the technology infrastructure for processing, storing and protecting the County's vital information for its agencies and departments. This includes operation of a 24x7 enterprise-wide Network Operations Center (NOC); enterprise printing and scanning; application database hosting; desktop and server support; data storage and recovery; and database services for the development and production environments. The Enterprise center group, which includes the NOC, is managed by a Systems Architecture Analyst. The two server groups, each under a manager, administer and support approximately 450 servers distributed among the Unix and Windows platforms. The desktop and training group, also under a manager, provides support for approximately 1900 desktop devices, as well as user training for users from the various county agencies and departments supported by ISS.

AUDIT SCOPE AND METHODOLOGY

This audit of ISS' Computing Platforms Division was selected as a result of the Internal Auditor's risk assessment of County department operations. The risk factors identified in the assessment were procurement, fixed asset and non-fixed asset inventories and security. Through interviews with ISS management and staff concerning these risk factors, review of ISS policies and procedures, the County Budget Book for fiscal year 2011, prior audit reports, and other pertinent documentation, we selected the specific audit objectives cited above for detailed review and reporting.

The scope of our audit for Audit Objectives 1, 2, and 4 was Fiscal Year 2011, and for Audit Objective 3 regarding logical and physical security access controls which was conducted during Fiscal Year 2012. We conducted this audit at the Division, located at ISS Headquarters in West Palm Beach, Florida from January through March 2012.

To answer Audit Objective 1 we reviewed backup documentation and reports including a current listing of the inventory of parts and supplies in order to identify and evaluate internal controls. To answer Audit Objective 2 we reviewed the policies, roles and processes in place for managing the physical fixed asset server inventory. Our methodology also included tests of server inventory involving a judgmental sample of 15 of 152 servers. To answer Audit Objective 3 we tested the logical security settings for two Unix and two Microsoft Windows Servers and reviewed and analyzed reports relating to physical access to the NOC. To answer Audit Objective 4 we reviewed the methodology for gathering performance data, including reporting, and traced report information for one month to the transaction data from the Remedy system, the Project Tracking System (PTS) and the Time Entry Application (TEA), to determine the accuracy of the reported information.

Management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used effectively, efficiently and economically, and are safeguarded; laws and regulations are followed; and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
April 4, 2012

ADMINISTRATIVE RESPONSE

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Interdepartmental Memorandum

TO: Joe Bergeron
County Auditor

FROM: Steve Bordelon, Director Steve Bordelon
Information Systems Services

DATE: May 4, 2012

SUBJECT: ISS Response to Draft Audit Report titled "Computing Platforms Division"

Following are responses to the audit recommendations presented in the subject report.

Recommendation:

(1) The ISS Department Director should ensure that the departmental PPM on policies and procedures governing fixed assets is implemented.

Departmental Response:

Agree. This recommendation was implemented on April 2, 2012 with the formal implementation of two departmental PPMS: ISS-FIN-201- Assets Managed by ISS; and ISS FIN-203 – Annual Physical Inventory Process for ISS. Both PPMs are posted on the ISS Intranet Home Page.

Recommendations:

(2) The ISS Director should ensure that access to the NOC is granted on a 'need only' basis, taking into consideration job responsibilities rather than rank or title.

(3) The ISS Director should review current access to the NOC using the current access logs and discontinue access to those not meeting entry criteria.

Department Response:

Agree with both recommendations. On February 29, 2012 ISS requested reports from FDO to determine which employees have badge access to any door ultimately leading into the computer room. Our review of those reports indicates that computer room access is being reasonably controlled except for a single door leading from the SAS area into the area formerly occupied by the Network Operations Center. It was not realized in previous reviews that the computer room could be accessed from that door. Additionally, our review determined that the names of a few former employees were still on the list for all doors and these names were removed. Actual risks associated with this circumstance were mitigated by the fact that the badges of these former employees were reclaimed upon the termination of their employment. ISS Enterprise Center Manager has reviewed badge access rights for all doors and revoked access privileges for inactive badges. This review will occur semiannually going forward.

We appreciate the professionalism demonstrated throughout the audit engagement by the assigned auditor, Alex Fern.

GSB/sb

c: Bob Weisman, County Administrator
Phil Davidson, ISS Deputy Director

Office of the County Internal Auditor
Audit Report #2012-06

ENGINEERING & PUBLIC WORKS

TRAFFIC DIVISION – TRAFFIC OPERATIONS SECTION

Reviewed by Audit Committee
July 18, 2012

DATED APRIL 17, 2012

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did the Traffic Division Director ensure that internal controls over (a) inventory and (b) equipment were designed and implemented to comply with Countywide and Departmental policies and procedures, and to guard against misappropriation during fiscal year 2011 and fiscal year 2012 through January 31, 2012?

WHAT WE FOUND

Although the Traffic Division Director generally ensured that internal controls over inventory and equipment accountability were designed to comply with Countywide and Departmental policies and procedures and to guard against misappropriation during fiscal year 2011 and fiscal year 2012 through January 31, 2012, we identified conflicts in Divisional policies and instances of non-compliance with established internal controls.

For example:

- warehouse purchase documents were not properly authorized;
- warehouse issuances were not properly authorized;
- unexplained quantity increases were identified on warehouse issuance documents; and
- tools and equipment that were not returned upon employee termination.

WHAT WE RECOMMEND

The audit report makes sixteen recommendations to:

- Clarify Divisional policies and procedures regarding issuing materials from the warehouse, and replacing tools and equipment issued to employees;
- Improve controls over ordering and receiving warehouse materials;

- Improve controls over issuing warehouse materials; and
- Improve controls over tools and equipment inventory and management..

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. **Conflicting Divisional Policies**

Our review of Divisional policies and procedures revealed the following conflicting provisions:

a. Issuing Materials - Two Divisional PPMs describe the process for requesting issuances from the warehouse and describe two different forms to be used. PPM #ETL-010 entitled "Stock Issues and Returns" instructs employees to "fill out a Material Issue Request form and include the following information: (a) Quantity requested, (b) Description of item, (c) Manufacturer's part number, if known, (d) Project location/Work Order #, and (e) SKU #." The form is designed to capture each of the elements required by the PPM. On the other hand, PPM #ETL-007 entitled "Material Ordering/Issuing/Receiving" refers to an Issue Request form that should be completed "in its entirety" but does not list the required elements.

   We found that the form used at the warehouse was the Issue Request form. It captures all of the elements required by PPM #ETL-010 except the project location/work order number. In our view, this is an important element of internal control, representing the stated purpose of the request for materials. We acknowledge that the warehouse inventory includes many items, such as insecticide, cleaners, gloves, etc. that are general purpose in nature, but most items are issued to satisfy a specific work order or in connection with a specific project. We believe the project location/work order number should be identified and documented when applicable as stated in PPM #ETL-010.

b. Replacing Tools and Equipment - Two Divisional PPMs describe the process for replacing tools and equipment. PPM #ETL-006 entitled "Equipment/Tools/Supplies Issued to Employees" and PPM #ETL-010 state that, if tools or equipment issued to employees are misplaced or stolen, they will be replaced once, after which the employee will be responsible for replacing the items him/herself. However, PPM # ETL-006 states that, for lost equipment or tools, the employee must write a memo to his/her supervisor explaining how the item was lost and the supervisor will authorize the reissuance of the lost item. On the other hand, PPM #ETL-010 states that an Incident Report must be completed before receiving any replacement items. The Materials Manager told us that Incident Reports are required only for lost or stolen items costing greater than approximately

$25.00. He provided examples of these reports from his files.

The audit identified a County-wide PPM (PPM CW-O-007 dated July 1, 2006) entitled: “Accident/Incident Reporting” that relates to this issue. The County-wide PPM includes discussion of matters contained in the Divisional PPMs noted above. For one, the County-wide PPM does not provide a dollar threshold for reporting of incidents involving loss or damage, including theft to County property. It also prescribes standardized forms that are required to be reported to the Risk Management Department for all incidents.

Recommendations

(1) The Traffic Division Director should reconcile the differences between PPM #ETL-007 and #ETL-010 and combine relevant provisions into a single policy.

(2) The Traffic Division Director should initiate a review of the warehouse inventory to identify general purpose items in order to distinguish them from items intended for work projects.

(3) The Traffic Division Director should reestablish the practice of recording the project location and/or work order number on the Issue Request form, in compliance with Division policies and procedures. This would apply to those items judged as non-general purpose in nature.

(4) The Traffic Division Director should ensure that Divisional PPMs ETL-006 and ETL-010 relating to losses of County owned property are consistent with County-wide PPM CW-O-007.

Management Comments and Our Evaluation

In responding to a draft of this report, Department officials stated the following concerning Recommendations 1 through 4.

Recommendation 1: Officials believed that combining the two PPMs will serve no purpose and may result in a less clear PPM. One relates to ordering and receiving material and the other relates to issuing material from stock. We agree with the Department’s interpretation and consider the audit recommendation closed upon report issuance.

Recommendation 2. The Department will work with the Materials Manager and Traffic Superintendent to establish a list of items that are potentially general purpose items, with a target date of August 2012 for completion. We agree with the Department’s response to this audit recommendation.

Recommendation 3. Department officials stated that the practice of recording the project location and/or work order number on the Issue Request form will be emphasized at the next Traffic Operations staff meeting. We agree with the proposed action on the audit recommendation.

Recommendation 4. The Department believes that PPM CW-O-007 does not relate to PPMs ETL-006 and ETL-010; however clarification will be requested of the Risk Management Department which has oversight of PPM CW-O-007. We agree with the planned action to be taken on this audit recommendation.

Finding 2. Ordering and Receiving Warehouse Materials

We reviewed 19 Purchase Orders completed by the warehouse during fiscal year 2012. We found that 13 (68.4%) lacked one or more elements required by internal policies.

a. Ordering Materials - PPM #ETL-007 describes the procedure for requesting materials to be ordered by the warehouse. It instructs employees to submit a Traffic Order Form, completed in its entirety, including an authorized supervisor's signature, to the warehouse staff. It also states that, if the total cost of the request is over $5,000 the Director of Traffic must sign the Traffic Order Form. We found no evidence that a Traffic Order Form had been submitted for four of the 19 purchase requests reviewed, and seven requests lacked supervisory signatures. One of the requests was an order totaling $6,253, but was not signed by the Director of Traffic. The seven requests lacking supervisory signatures totaled $3,444.

b. Receiving Materials - PPM #ETL-007 states that "Any person from Traffic Operations is authorized to sign for materials from a delivery" and instructs this person to sign the bill of lading. We found that eight of the 19 Purchase Orders reviewed had bills of lading attached, but only one was signed with a legible signature. Three of the bills of lading displayed illegible signatures of persons we were unable to identify, and the remaining four were unsigned. We also found that signature cards had not been provided to the warehouse staff, rendering them unable to identify the person signing the bills of lading.

c. Completing Purchase Orders - PPM #ETL-007 instructs the warehouse staff accepting the materials and completing the Purchase Order to identify him/herself by initialing the Purchase Order. The PPM includes a note in bold, capitalized letters, that "THE PERSON RECEIVING THE MATERIAL ON A PURCHASE ORDER CANNOT BE THE SAME PERSON THAT MADE THE PURCHASE ORDER. (PER THE INTERNAL AUDITOR, THE ORDERING PROCESS CANNOT BE COMPLETED SOLELY BY ONE PERSON.)" The Materials Manager in the warehouse explained that, for several months during the audit period, warehouse staff consisted of himself and one Storekeeper, which made separation of duties challenging. We found that three of the Purchase Orders reviewed were not initialed by the warehouse staff person receiving the materials, so we were unable to determine whether the process was completed solely by one person in those instances. A second Storekeeper was hired on November 15, 2011.

Recommendations

(5) The Traffic Division Director should emphasize to employees the importance of complying with the Division's written policies and procedures relative to ordering and receiving materials for the warehouse.

(6) The Traffic Division Director should direct warehouse staff to require completed Traffic Order Forms for purchase requests and accept only those with authorized supervisory signatures.

(7) The Traffic Division Director should ensure that all purchase requests over $5,000 are sent to him for his approval signature.

(8) The Traffic Division Director should ensure that all Traffic Operations staff complete signature cards and that these cards are provided to the warehouse staff for accurate identification of authorized signatures.

<u>Management Comments and Our Evaluation</u>

In responding to a draft of this report, Department officials stated the following on Recommendations 5 through 8:

Recommendation 5. Department officials stated that the importance of complying with the Division's written policies and procedures relative to ordering and receiving materials for the warehouse will be emphasized at the next Traffic Operations staff meeting. We agree with the intended action on this audit recommendation.

Recommendation 6. Department officials stated that PPM ETL-007 should be modified to allow Traffic Order Forms to be signed by the Signal Shop Supervisor, the Superintendent, or the acting supervisor in the supervisor's absence. This is the signature process allowed in PPM ETL-010. The importance of warehouse staff requiring completed Traffic Order Forms for purchase requests will be emphasized at the next Traffic Operations staff meeting. We agree with the intended actions on this audit recommendation.

Recommendation 7. Department officials agreed with this recommendation and will modify the PPM so that approvals are made by signature or email. This change will be made by the end of June 2012. We agree with the proposed action on this audit recommendation.

Recommendation 8. Department officials stated that the signature cards have been completed. We agree with the action taken on this audit recommendation.

<u>Finding 3</u>. <u>Issuing Warehouse Materials</u>

We reviewed 393 Issue Request forms submitted to the warehouse during fiscal year 2012 and noted the following non-compliance with Divisional policies.

a. <u>Approvals</u> - Both PPM #ETL-007 and #ETL-010 require supervisory approval signatures on issue request forms. PPM #ETL-010 specifically states that the Material Issue Request form must be signed by the employee's immediate Supervisor, the Signal Shop Supervisor, or the Superintendent. We found that 63 of the 393 Issue Request forms reviewed (16%) lacked appropriate approval signatures. For example, on 38 forms, the requestor and the approving party were the same person. On 12 forms, the approval signatures were those of persons who were not included as authorized to approve the forms, and the remaining 13 forms had no approvals. The 63 requests lacking appropriate approval signatures totaled $37,395.

b. <u>Storekeeper Acknowledgement</u> – The Issue Request form includes fields in which the Storekeeper is supposed to insert his/her initials to acknowledge issuing each of the requested materials. Twenty-one of the forms reviewed (5.3%) lacked the initials of the Storekeeper. The 21 requests totaled $57,816.

c. Quantity Changes – PPM #ETL-007 instructs employees requesting materials to list the needed items on the Issue Request form, then line through the first blank line on the form. This procedure is designed to prevent additions to the form after approval. Almost all of the forms reviewed were properly lined through. However, 34 of the forms (8.7%) had unexplained increases in the quantities issued. We identified a total of 43 items with quantity increases, many of which were made by writing over the original quantities, obscuring the original amounts. Neither the circumstances leading to the increases, nor the persons making the changes were documented. The 43 items with unexplained increases totaled $13,166.

We also found that PPM #ETL-010 states that "Storekeepers will pull requested material from warehouse with no questions asked." In our view, this statement limits warehouse staff's ability to monitor enforcement with Division policy.

Recommendations

(9) The Traffic Division Director should emphasize to employees the importance of complying with the Division's written policies and procedures relative to requesting materials from the warehouse.

(10) The Traffic Division Director should direct warehouse staff not to accept Issue Request forms that lack appropriate supervisory approval signatures. He should emphasize that requestors cannot approve their own requests.

(11) The Traffic Division Director should direct warehouse staff not to accept Issue Request forms on which increases have been made to the quantities requested. Alternatively, we suggest he implement a policy requiring that any increases in the quantities be initialed by the person making the change, such as is the practice on a negotiable check, and be made in such a way as to not obscure the original amount.

(12) The Traffic Division Director should delete the sentence "Storekeepers will pull requested material from warehouse with no questions asked" from PPM #ETL-010.

Management Comments and Our Evaluation

In responding to a draft of this report, Department officials stated the following in regard to Recommendations 9 through 12.

Recommendation 9. Department officials stated that the importance of complying with the Division's written policies and procedures relative to requesting material from the warehouse will be emphasized at the next Traffic Operations staff meeting. We agree with the planned action on this audit recommendation

Recommendation 10. Department officials agreed with the intent of this recommendation, stating in detail three sets of circumstances illustrating action to be taken. If material is requested by a worker, the worker must seek the approval of their supervisor or, in their absence the approval of the Signal Supervisor or the Superintendent, as per PPM ETL-010. However, if material is requested by a supervisor, they should seek the approval of the Superintendent, if he is available. If material is requested by the Superintendent, no higher-level approval is required. The Director will emphasize the importance of complying with policy at the next Traffic Operations staff meeting. We agree with the planned action on this audit recommendation.

Recommendation 11. The Director will direct the warehouse staff at the next Traffic Operations staff meeting to require initials for quantity changes. We agree with the proposed actions on the audit recommendation.

Recommendation 12. Department officials stated that the sentence in PPM ETL-010 will be deleted by the end of June 2012. We agree with the proposed action on this audit recommendation.

Finding 4. Managing Tools and Equipment

PPM #ETL-006 states that, when an employee leaves County employment, they must return all equipment and tools issued to them and that employees will be required to pay for any missing items, "at the discretion of management." This provision is in conflict with Countywide PPM #CW-F-075, which requires claims for losses greater than $500 to be referred to Risk Management for collection, but adds that the affected Department is responsible for collection of losses less than $500. The Countywide PPM states that the responsible Department is, as an alternative to referral to Risk Management, authorized to pursue its own claim if it is commenced quickly and, if not resolved within 90 days, referred to Risk Management for further action.

We found that employees in Traffic Operations were not consistently required to turn in or pay for tools and equipment issued to them upon termination. We found that the definition of "tools and equipment" was considered by Division staff as a personal judgment, and no appropriate methodology was in place to determine the value of tools and equipment to be returned. Working with staff, we identified three employees terminated during fiscal years 2011 and 2012. None of them had been asked to turn in or pay for tools and equipment. The Traffic Operations Superintendent explained that one of these employees was arrested and escorted out of the building, so no attempt was made to retrieve his tools.

We obtained and reviewed the lists of items issued by the warehouse to the other two employees during their employment. The Superintendent independently reviewed the list for one of these employees, identifying 19 items totaling $67 that he considered to be tools. The auditor reviewed the same list and identified 57 items, totaling $756. Upon sharing this information with the Superintendent, he concurred with the auditor's results and added 10 more items, for a final total of $810.

The auditor reviewed the list of items issued to the third employee and identified 91 items considered to be tools, totaling $4,482. The Superintendent reviewed the list, concurred with the auditor's choices, and added 50 items, for a final total of $6,448. In discussion with the Superintendent, we found that, during the course of an employee's service with the Division, some tools had been issued multiple times to the same individual as replacement tools due to wear and tear and other reasons. However, the listings of items issued by the warehouse did not distinguish between tools which may need to be returned by the employee and other materials and supplies issued to the employee for various projects and assignments. Since, as stated above, there is no established standard identifying what tools are supposed to be returned at termination, the warehouse inventory system can only report issuances to the employees, leaving the determination of a returnable tool to the Superintendent.

Recommendations

(13) The Traffic Division Director should ensure that PPM ETL-006 is consistent with County-wide PPM CW-F-075.

(14) The Traffic Division Director should work with Traffic Operations staff to determine an appropriate definition of "tools and equipment" and initiate a review of the warehouse inventory to identify such items.

(15) The Traffic Division Director should identify an appropriate methodology for determining the value of tools and equipment subject to return or payment upon employee termination and require that such items are returned or paid for, in compliance with Countywide and Divisional policies and procedures.

(16) The Traffic Division Director should review the cases of tools not returned by the three terminated employees identified in the audit report, and seek the return of such tools or reimbursement for the value thereof.

Management Comments and Our Evaluation

In responding to a draft of this report, Department officials offered a single response to recommendations 13 through 16. The Department believed that a more direct way of addressing the issues contained in the audit was by use of the Employee Tool Sheet. These tool sheets are mentioned in PPM ETL-010 and the Department stated that they would review the Employee Tool Sheets and any necessary updates will be completed by August 2012. We agree with the actions to deal with the audit recommendations as a single effort; however, we stress that a full accountability of tools issued to the three terminated employees must be included in any follow-up action. We will follow up on this recommendation after actions have been completed.

BACKGROUND

The Department of Engineering and Public Works' (Department) Traffic Division (Division) is responsible for providing safe and efficient movement of traffic on Palm Beach County (County) maintained roads. The Division had a fiscal year 2011 budget of $21.2 million and is comprised of Traffic Engineering and Traffic Operations sections.

This audit focused on the Traffic Operations Section (Section), which is responsible for constructing, installing, and maintaining traffic control devices, including signs, pavement markings, and signalizations.

The Section has a staff of 62 employees and maintains a warehouse with an inventory of parts and supplies valued at $1.98 million as of January 19, 2012. Three full-time staff positions are assigned to this function. In addition to parts and supplies, the warehouse issues the tools and equipment needed by Traffic Operations staff to fulfill their job responsibilities. Warehouse staff uses a computerized inventory control system (PICS) to maintain perpetual inventory records showing details of receipts, issuances, and the current on-hand balance of items. They conduct daily counts of items issued and an annual physical count of the entire inventory, the results of which are summarized in a Year-End Inventory Analysis reported to the Department Director and the County's Office of Financial Management and Budget (OFMB).

Our Office completed an audit of Traffic Operations in 2001 (Report #99-21 dated April 12, 2001), resulting in three recommendations pertaining to warehouse operations. We completed another audit of the Division's warehouse inventory in 2007 (Report #07-18 dated May 23, 2007), resulting in five recommendations for improved inventory management and security.

AUDIT SCOPE AND METHODOLOGY

This audit of the Section was selected as a result of the Internal Auditor's risk assessment of County department operations, including departmental input. The risk factors identified were ordering and receiving supplies, loss of materials/inventory, and possible use of equipment for personal use. Other risk factors included information technology use, grants and operating revenues, and operational complexity. Through interviews with Section management and staff concerning these risk factors, review of Countywide, departmental, and divisional policies and procedures, prior audit reports, and other pertinent documentation, we selected the specific audit objective cited above for detailed review and reporting.

The scope of our audit was fiscal years 2011 and 2012 through January 31, 2012. Audit field work was conducted at the Section from January through March 2012.

To answer Audit Objective 1(a), we identified procedures used to purchase, issue, safeguard, and determine the obsolescence of inventory. We toured the Traffic Operations building, including the warehouse, and became familiar with the PICS inventory control system used by staff. We reviewed the prior audit reports (Report #99-21 dated April 12, 2001 and Report #07-18 dated May 23, 2007) and the follow-up of the latter. We reviewed the Division's 2011 Year-End Inventory Analysis and adjustments made as a result of inventory counts, as well as numerous lists, forms, and reports used to manage the parts and supplies. In addition, we made a judgmental sample of parts and supplies ordered and received by the warehouse during fiscal year

2012 and a separate sample of items issued to employees during the same period. We traced each transaction to filed documentation and reviewed them for compliance with policies and procedures, appropriate internal controls, and accuracy. Finally, we computed the percentage of inventory of items with quantities on-hand greater than their 12-month usage and those with no activity for three years and identified actions taken by staff to reduce obsolescence.

To answer Audit Objective 1(b), we identified procedures used to issue, assign, replace, and retrieve tools and equipment issued by the warehouse and reviewed lists, forms, and reports used to account for them. We identified employees terminated from employment at Traffic Operations during fiscal years 2011 and 2012, reviewed listings of the tools and equipment issued to each, and consulted with Traffic Operations management about the retrieval of tools and equipment upon termination.

Management is responsible for establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used effectively, efficiently and economically, and are safeguarded; laws and regulations are followed; and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards 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 objective. We believe that the evidence obtained will provide a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
April 17, 2012

ADMINISTRATIVE RESPONSE

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INTEROFFICE COMMUNICATION

DATE: May 17, 2012

TO: Joseph F. Bergeron, Internal Auditor

THRU: Tanya McConnell, Deputy County Engineer T McConnell
Engineering and Public Works Department

FROM: Dan Weisberg, Director DL
Traffic Division

RE: Draft Audit Report

Attached is the written response to final draft audit report, *Traffic Division – Traffic* Operations, prepared by the Traffic Director.

The recommendations are shown in **bold** type. The responses are shown in non-bold type.

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(1) The Traffic Division Director should reconcile the differences between PPM #ETL-007 and #ETL-010 and combine relevant provisions into a single policy.

PPM #ETL-007 pertains to ordering and receiving material. PPM #ELT-010 pertains to issuing material from stock. The Director believes that combining the two PPMs will serve no purpose and may result in a less clear PPM.

In reviewing PPM # ETL-010 it was noticed that there is reference to PPM # ETL-007 related to returning equipment, tools and supplies to stock. The procedure in PPM #ETL-010 is more specific, so the reference to PPM #ETL-007 will be deleted.

(2) The Traffic Division Director should initiate a review of the warehouse inventory to identify general purpose items in order to distinguish them from items intended for work projects.

The Director will work with the Materials Manager and the Traffic Superintendent to establish a list of items that are potentially general purpose items. The Director believes that some items may be both a general purpose item and an item intended for work projects. It is the specific use of the item, not the item itself, that dictates. Nevertheless, a list of general purpose items will be prepared by the end of August 2012.

(3) For those inventory items deemed not to be general purpose in nature, the Traffic Division Director should re-establish the practice of recording the project location and/or work order number on the Issue Request form, in compliance with the Division's written policies and procedures.

The practice of recording the project location and/or work order number on the Issue Request form will be emphasized at the next Traffic Operations staff meeting.

(4) The Traffic Division Director should ensure that Divisional PPMs ETL-006 and ETL-010 relating to losses of County owned property are consistent with County-wide PPM CW-O-007.

The Director believes that PPM CW-O-007 does not relate to PPMs ETL-006 and ETL-010. The purpose stated in PPM CW-O-007 is "to secure equitable and timely resolution of claims against the County as well as claims on behalf of the County". Nevertheless, during the exit interview, the Internal Auditor requested that the Director ask Risk Management if PPM CW-O-007 pertains to the loss of small tools. Clarification will be requested by the end of June 2012.

(5) The Traffic Division Director should emphasize to employees the importance of complying with the Division's written policies and procedures relative to ordering and receiving materials for the warehouse.

The importance of complying with the Division's written policies and procedures relative to ordering and receiving materials for the warehouse will be emphasized at the next Traffic Operations staff meeting.

(6) The Traffic Division Director should direct warehouse staff to require completed Traffic Order Forms for purchase requests and accept only those with authorized supervisory signatures.

PPM # ETL-007 should be modified to allow Traffic Order Forms to be signed by the Signal Shop Supervisor, the Superintendent, or the acting supervisor, in the supervisor's absence. This is the signature process allowed in PPM #ETL-010.

The importance of warehouse staff requiring completed Traffic Order Forms for purchase requests will be emphasized at the next Traffic Operations staff meeting.

(7) The Traffic Division Director should ensure that all purchase requests over $5,000 are sent to him for his approval signature.

The intent of this provision in PPM #ETL-007 was for the Director to be aware of and approve purchases over $5,000. The PPM requires a signature. In practice, most of these approvals have been verbal. The warehouse is in a different location than the Directors office. The Director will modify the PPM so that approvals are made by signature or e-mail. This change will be made by the end of June 2012.

(8) The Traffic Division Director should ensure that all Traffic Operations staff complete signature cards and that these cards are provided to the warehouse staff for accurate identification of authorized signatures.

Signature cards have been completed.

(9) The Traffic Division Director should emphasize to employees the importance of complying with the Division's written policies and procedures relative to requesting materials from the warehouse.

The importance of complying with the Division's written policies and procedures relative to requesting materials from the warehouse will be emphasized at the next Traffic Operations staff meeting.

(10) The Traffic Division Director should direct warehouse staff not to accept Issue Request forms that lack appropriate supervisory approval signatures. He should emphasize that requestors cannot approve their own requests.

There appears to be three sets of circumstances.

1. Material requested by a worker. The Director will emphasize at the next Traffic Operations staff meeting, that workers must seek the approval of their supervisor, or in their absence the approval of the Signal Supervisor or the Superintendant, as per PPM #ETL 010.
2. Material requested by a supervisor. The Supervisors report to the Superintendent. They should seek the Superintendent's approval, when he is available.
3. Material requested by the Superintendent. These will not require higher-level approval.

(11) The Traffic Division Director should direct warehouse staff not to accept Issue Request forms on which increases have been made to the quantities requested. Alternatively, we suggest he implement a policy requiring that any increases in the quantities be initialed by the person making the change, such as is the practice on a negotiable check, and be made in such a way as to not obscure the original amount.

The Director will direct the warehouse staff at the next Traffic Operations staff meeting to require initials for quantity changes.

(12) The Traffic Division Director should delete the sentence "Storekeepers will pull requested material from warehouse with no questions asked" from PPM #ETL-010.

This sentence in PPM #ETL-010 will be modified by the end of June 2012.

(13) The Traffic Division Director should ensure that PPM ETL-006 is consistent with County-wide PPM CW-F-075.

(14) The Traffic Division Director should work with Traffic Operations staff to determine an appropriate definition of "tools and equipment" and initiate a review of the warehouse inventory to identify such items.

(15) The Traffic Division Director should identify an appropriate methodology for determining the value of tools and equipment subject to return or payment upon employee termination and require that such items are returned or paid for, in compliance with Countywide and Divisional policies and procedures.

(16) The Traffic Division Director should review the cases of tools not returned by the three terminated employees identified in the audit report, and seek the return of such tools or reimbursement for the value thereof.

This response is to Recommendation 13, 14, 15 and 16 because they are all interrelated. The methodology employed for this part of the Audit Report consisted of the warehouse printing a report of all materials issued to the three employees during the entire term of their employment. The Auditor and the Superintendent each reviewed the list and determined which items could be considered tools. The report of issued material was not provided to the Director for review and analysis. There was some antidotal information provided to the Director by the Superintendent and the Auditor which seems to indicate some of the tools were issued to lead workers for use by the entire crew. Also, the list did not reflect tools that were broken or worn out. Examples of tools on the list were brooms and shovels.

A more direct way of addressing these issues raised in the Audit Report is through the Employee Tool Sheet. Employee Tool Sheets are mentioned in PPM #ETL-010. A review of the Employee Tool Sheets and any necessary updates will be completed by August 2012.