Agenda Item #: 3CC-2

PALM BEACH COUNTY

BOARD of COUNTY COMMISSIONERS

AGENDA ITEM SUMMARY

Meeting Date: **10/21/2014**

[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:

A. Audit reports reviewed by the Audit Committee at its September 17, 2014 meeting as follows:
   1. 2014-10 Airports - Fixed Base Operators - Galaxy Aviation
   2. 2014-11 Environmental Resources Management - Resources Protection Division
   3. 2014-12 Facilities Development and Operations - Facilities Management Division

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 meeting on September 17, 2014, the Committee reviewed and authorized distribution of the attached audit reports. We are submitting these reports to the Board of County Commissioners as required by the Ordinance. Countywide (PFK)

Background and Policy Issues: The Internal Audit Committee reviewed and authorized distribution of audit reports 14-10 through 14-12 at its September 17, 2014 meeting.

Attachments:

Audit reports as identified above

Recommended by: Joseph F. Bergeron 24 Sept 2014
Internal Auditor Date

Recommended by: 10/2/14
County Administrator Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	2015	2016	2017	2018	2019
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:

Susan Neary 9/29/14
Budget/OFMB
SD 9/26 AM 9/26

10/1/14
Contract Administration
9-30-14 B Wheeler

B. Legal Sufficiency:

Paul F. 10/3/14
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 #2014-10

DEPARTMENT OF AIRPORTS

FIXED BASE OPERATOR

GALAXY AVIATION

Reviewed by Audit Committee
September 17, 2014

DATED AUGUST 13, 2014

Stewardship – Accountability – Transparency

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did Galaxy Aviation's management comply with the material provisions of the fixed base operator lease agreement with Palm Beach County for fiscal years 2012 and 2013?

This audit of a fixed based operator's (FBO) compliance with the lease agreement was requested by the Department of Airports (DOA) and included in the annual audit plan.

WHAT WE FOUND

Galaxy Aviation management complied with the material provisions of the fixed base operator lease agreement with Palm Beach County for fiscal years 2012 and 2013 with the exception that landing fees were charged at a rate higher than the approved rate schedule and that based tenant lease agreements were not maintained for all based tenants.

WHAT WE RECOMMEND

The audit report makes two recommendations to the Department Director to provide formal notification of rate changes to the FBOs when the rate schedules are updated each year and to consider refunding overpayments of certain landing fees and taking collection action against Galaxy on certain underpayments related to based tenants.

DETAILED FINDING AND RECOMMENDATION

1. Landing Fees

Resolution 2008-1690 approved March 11, 2008, established landing fees for General Aviation (GA) operations at the Airport. GA landings at the Airport are charged a landing fee based on aircraft weight using the rates charged to commercial carriers (also known as "signatory airlines"). Differential landing fees are charged to itinerant aircraft and aircraft that are based at the Fixed Base Operator's facility. Landing fees are reported and remitted to the County monthly by Galaxy, less a 15% commission retained by Galaxy. Military aircraft are exempt from all landing fees.

Itinerant aircraft pay a landing fee for every landing at the airport. Based aircraft pay a based aircraft landing fee monthly instead of the per landing fee charged to itinerant users. The based aircraft fee is the same fee applied to itinerant aircraft based on landed weight of the aircraft except that the based aircraft only pay for one landing per month no matter how many landings are actually made.

For the months of February 2013 and April 2013, 2186 landing fees and based landing fees transactions were recorded totaling $ 78,829.66. A sample of 51 landing and based landing fees (valued at $4,429.62 or 6% of total dollars) was tested to determine if the rates charged were in agreement with the rates listed per PBIA landing fee schedule. The testing of landing fee and base landing fees showed that 47 of 51 sample fees tested did not agree with the amount listed on the PBIA landing fee schedule.

Based on our recalculations of Galaxy's reported landing fees, Galaxy used a landing fee rate of $1.459 per 1,000 pounds of landed weight for FY 2013. We noted that the rate of $1.46 was listed on some of Galaxy' s invoices and General Ledger reports. The FY 2013 PBIA Landing Fee Schedule as documented on the Airport's web site (Exhibit "E" to the Airline-Airport Use and Lease Agreement for PBIA *Rates and Fee Schedule for the period October 1, 2012 through September 30, 2013*) was $1.344 per 1,000 pounds of landed weight for signatory airlines.

We attempted to identify the source of the variation in the rates used by Galaxy. Airport staff confirmed that, while no formal communication is sent to the FBOs, the rate schedules are posted on the PBIA website usually in late July for the coming fiscal year. Galaxy staff could provide no information explaining the rate variance. Accordingly, we conclude that some communication breakdown was the cause of the deviation.

Effectively, Galaxy overcharged their users of the Airport by about 8.5% for landing fees for FY 2013. Based on the number of reported itinerant landings in our two test months, we would estimate 12,000 landings occurred during FY 2013. The average overpayment per landing would be less than

$2.50. This estimate would, in all likelihood, be lower because of the number of landings for aircraft paying the minimum landing fee.

Galaxy Aviation did pay the Airport the correct fees based on the landing fees collected by Galaxy.

Recommendation #1

The DOA Director should formally notify the FBOs of the approved rates annually. The Department Director should also consider providing refunds for the overcharged operators of itinerant aircraft.

Management Comments and Our Evaluation

At the exit conference on August 13, 2014 Airport officials agreed with the finding and the recommendation. The officials stated that the FBOs have all been specifically notified of the approved rate schedules and that the rate schedules are available on the Airport's website. We agree with the actions already taken by Airport management.

In replying to a draft of this audit report the Airport Director stated that the FBOs are responsible to properly invoice their customers and that any refunds of any overcharges would be the responsibility of the FBOs. We agree with the position of Department management.

2. Based Landing Fee Contracts

Resolution 2008-1690 states that based aircraft will pay a based aircraft landing fee instead of the landing fee as based aircraft currently support PBIA through rentals of hangars or building space and consistently pay fuel flowage fees as compared to itinerant users. For purposes of this Resolution, "Based Aircraft" means an aircraft owned or leased by an individual or entity leasing hangar or building facilities at PBIA for a term equal to one (1) year or more.

Based tenant contracts were reviewed to verify that the base tenants had a contract with Galaxy which would entitle them to pay monthly based aircraft fee instead of individual landing fees. Six of thirty-six based aircraft tenants did not have a contract with Galaxy. Based on information provided by the Department's Deputy Director for Airports Business Affairs, Oxbow Express landed 101 times according to Galaxy records during FY 2013. Galaxy is unable to locate their lease. Without a valid lease, Oxbow Express is unable to qualify as a base tenant and should have paid the Airport Department $1100 for an additional 89 landings based on the standard landing fee schedule for their aircraft. We were unable to estimate potential underpayments for the other based tenants as no records of visual flight rules (VFR) landings were maintained. There were minimal records of instrument flight rules (IFR) landings which did not support analysis.

Recommendation #2

The Director of Airports should consider taking collections action against Galaxy for the underpayment of based aircraft landing fees. The Director should also ensure that all FBOs are familiar with the resolution's requirements and definitions of based aircraft. In addition, the FBOs should be required to submit a list of the based aircraft tenants annually which could be compared with contracts on file at the Airport Department.

Management Comments and Our Evaluation

At the exit conference on August 13, 2014 Airport officials agreed with the finding and the recommendation. The officials stated they had considered the possibility of taking collection action against Galaxy Aviation and had decided that the amount of effort necessary to even determine reasonable estimates of over or under charges would not be cost beneficial. The officials also expressed doubt that necessary supporting documentation would be available to support an analysis. The event described in the Subsequent Event below may contribute to the difficulty Department management considered in being able to obtain supporting documentation.

The officials stated that each of the FBOs had been provided copies of the relevant resolution and had the definition of a "based operator" highlighted so as to avoid any future recurrence of this condition.

We agree with the decision the Airport officials made not to pursue any collection actions and with the actions taken to reinforce with the FBOs the requirements of the resolution. We consider this finding and recommendation closed with issuance of this report.

SUBSEQUENT EVENT

After the completion of our field work on this audit, Galaxy Aviation was replaced by a new fixed base operator, Atlantic Aviation. In consideration of the facts that Galaxy remitted the proper percentage of what was collected to the Department and that the aircraft operators (potentially numbering in the thousands) were the ones who were actually overcharged, the Department may determine that it is impractical to pursue collection or provide refunds.

Management Comments and Our Evaluation

At the exit conference on August 13, 2014 Airport officials stated they had specifically communicated with the new FBO the conditions noted in this report on landing fees and on based aircraft. We agree with the actions already taken by the officials in this regard.

BACKGROUND

Galaxy Aviation of Palm Beach, Inc. (Galaxy) provides fixed-based operator services for general aviation aircraft at the Palm Beach International Airport (Airport) pursuant to a lease agreement approved by Resolution No.2000-1067, dated October 18, 2000 with seven subsequent amendments. Lease provisions require Galaxy to pay the Airport for ground and building rents, landing, base landing and environmental fees, and apron and fuel flowage fees.

Ground and building rents are based on square footage per an independent appraisal. Landing fees and environmental charges are based on type of aircraft, collected and remitted to the Airport minus an administrative fee of 15% and 10%, respectively. Apron and fuel flowage fees are based on fuel usages at 3 and 5 cents a gallon, respectively. Revenue received from Galaxy for calendar years 2012 and 2013 was $1,673,496 and $1,682,192, respectively.

The table below provides details of the components of the above revenues for each year.

Revenue from Galaxy

	2012	**2013**
Landing Fees	$291,003	$283,791
Environmental Fees	$1,966	$ 655
Ground Rents	$796,795	$796,795
Building Rents	$145,887	$145,887
Apron Fees	$ 164,188	$ 167,481
Fuel Flowage Fees	$273,658	$287,583
Total Revenue	**$1,673,496**	**$1,682,192**

AUDIT SCOPE AND METHODOLOGY

The scope of planning for this audit was directed to the specific risks contained in contract administration during the period of fiscal year 2012 and 2013. Audit field work was conducted at airport sites from August through December 2013. For this planning effort, we conducted an entrance conference with Airport, toured Galaxy's offices and grounds, interviewed appropriate Airport and Galaxy staff about the various activities and processes used in operations, and reviewed the lease agreement provisions, prior audit reports, and other pertinent documentation. Based on the planning effort, the specific audit objective cited above was selected for detailed review and reporting. Airport management requested this audit.

To answer the above objective, for fiscal year 2013, we selected a sample from February 2013 and April 2013 monthly reports submitted by Galaxy and traced revenues reported for landing fees, based landing fees, environmental fees, apron and fuel flowage fees to supporting documentation. Rates charged for landing, based landing and environmental fees were recalculated and traced to Annual PBIA landing fee schedule. Building rents were traced to the rental rate adjustment schedule and fuel fees were traced to invoices. Certificates of insurance submitted by Galaxy were compared to lease provisions.

To answer the above objective for fiscal year 2012, the annual audit report dated March 14, 2013, prepared by an independent certified public accounting office, was reviewed. In order to facilitate the audit effort, we requested that the external audit firm make available its working papers, and we were able to review the working papers at the external auditors office in West Palm Beach, Florida during the week of August 16, 2013. Based on the work paper review, we are relying on the external auditor work for fiscal year 2012 without additional testing.

Management is responsible for establishing and maintaining effective internal controls 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 management and financial information is reliable and properly reported and retained. 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
August 13, 2014
Audit W/P No. 2012-17 Galaxy Aviation

ADMINISTRATIVE RESPONSE

PalmBeach

INTERNATIONAL AIRPORT

Palm Beach County
Department of Airports
Interoffice Communication

To: Joseph Bergeron, Internal Auditor

From: Bruce Pelly, Director of Airports

Date: August 19, 2014

Re: Audit of Fixed Base Operator (FBO) Revenue, Galaxy Aviation

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Thank you for conducting the Audit of Fixed Base Operator Revenue, Galaxy Aviation. We believe that revenue audits are of the utmost importance for the Department of Airports and we will continue to request audits of this type going forward.

Below we have responded to the recommendations of the audit. As noted by your report, some recommendations have previously been acted on and considered closed by Internal Audit, therefore no response is necessary here.

Finding 1b. ...The Department Director should also consider providing refunds for the overcharged operators of itinerant aircraft.

Department Response: The Department declines to provide refunds to the individual aircraft operators. The primary reason is the aircraft operators are direct customers of the FBO, not the Department of Airports. Ultimately it is the FBO's responsibility to invoice their customers correctly, not the Department's. The FBO may process refunds to customers if they so choose. Additionally, as your report notes, the overcharge is likely less than $2.50 per individual transaction and in some cases there was no overcharge.

Att\
cc: Mike Simmons, Deputy Director of Airports, Finance and Administration
Laura Beebe, Deputy Director of Airports, Properties and Business Affairs

Office of the County Internal Auditor
Audit Report #2014-11

ENVIRONMENTAL RESOURCES MANAGEMENT DEPARTMENT

RESOURCES PROTECTION DIVISION

Reviewed by Audit Committee
September 17, 2014

DATED AUGUST 12, 2014

Stewardship – Accountability – Transparency

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did the Environmental Resources Management (ERM) Department's Environmental Division Director ensure that the contract with the Northern Palm Beach County Improvement District (NPBCID) was administered in accordance with the National Pollution Discharge Elimination System (NPDES) Third Term Permit Inter-local Agreement and Countywide and Departmental policies and procedures in FY 2013?

2. Describe and evaluate the Environmental Division's performance management processes including methods used to measure and report on effectiveness and efficiency of operations.

WHAT WE FOUND

As to objectives one above, we found the Division Director ensured compliance with the relevant guidance. However, we noted several minor administrative matters we believed could be improved and communicated those items to management in a separate letter.

As to objective two above, we found that the Division Director had established appropriate organizational objectives and performance measures. We noted no need for improvements in this area.

WHAT WE RECOMMEND

The audit report makes no recommendations to management for improvements.

DETAILED FINDINGS AND RECOMMENDATIONS

None.

PERFORMANCE MANAGEMENT PROCESS DESCRIPTION AND EVALUATION

The Division has established a mission statement, organizational objectives relevant to the mission and performance measure to achieve those objectives. The Division's mission statement is, *'To provide environmental assessment, permitting, compliance, and land development review activities necessary for implementation of natural resources protection programs and enforcement of related laws, regulations, and codes'*. The Division describes their primary services as inspections, compliance and enforcement, complaint investigations, monitoring of land development planning and review, state permit compliance, and remediation of contaminated soil and groundwater. The table below summarizes the objectives and performance measures:

Objective	Performance Measure(s)	Category
1. Manage Petroleum Cleanup Program to ensure the FDEP contract performance standards are met with 10% of sites cleaned up.	1) Number of cleanup sites to be managed. 2) Number of sites worked on per FTE. 3) Percent of sites cleaned up.	Workload Efficiency Effectiveness
2. Manage the Petroleum Storage Tank Compliance Program to ensure FDEP contract performance standards are met and achieve 100% compliance with the storage tank regulations at 1,897 registered facilities throughout Palm Beach, Martin, and St Lucie Counties.	4) Number of tasked inspections completed. 5) Number of tasked inspections per inspector FTE. 6) Percent of tasked inspections that passed. 7) Percent of failed tasked inspections brought into compliance by the end of fiscal year.	Workload Efficiency Effectiveness Effectiveness
3. Maintain drinking water supply by performing wellfield inspections to achieve a 100% compliance with regulations.	8) Number of wellfield compliance inspections completed. 9) Number of inspections completed per inspector FTE. 10) Percent of permitted businesses in compliance with regulations at first annual inspection. 11) Percent of permitted businesses inspected brought into inspection compliance by the end of fiscal year.	Workload Efficiency Effectiveness Effectiveness
4. Sample water quality sites and enter 100% applicable results into STORET within 90 days.	12) Number of sample sites completed. 13) Number of sites completed per FTE. 14) Percent of sampling results entered within 90 days.	Workload Efficiency Effectiveness

Our review of the Division's performance management process included:

- Evaluating the mission statement;
- Ascertaining if the objectives support and address all elements of the mission statement;
- Evaluating each objective using the SMART criteria;
- Determining the relationship of each objective to performance measures;
- Determining how the Division defines and measures effectiveness and efficiency; and
- Evaluating the data gathering and reporting methodology used

The mission statement states the overall goal of the Division. Three of the objectives support the compliance element of the mission and two of the objectives support the environmental element of the mission however, there are no objectives that address permitting or land development review activities. As for the enforcement of laws, regulations, and codes, there are no specific objectives, however the performance measures associated with Petroleum Cleanup and Wellfield Protection include the enforcement of storage tank and wellfield regulations through inspections.

To evaluate the completeness of each objective, we used an evaluation criteria known by the acronym 'SMART' (Specific, Measurable, Attainable, Realistic, and Time Oriented). In our judgment, each objective satisfies the SMART criteria.

Each objective is supported by applicable performance measures and has a workload performance measure, an efficiency performance measure, and an effectiveness performance measure. Although we noted no issues with the methodology used to gather and report performance measure amounts, we did note differences between the amounts reported and amounts calculated using support documentation. These differences were primarily in the calculation of hours logged per full time equivalent (FTE).

BACKGROUND

The Environmental Resources Management (ERM) Department is responsible for establishing, maintaining, and implementing programs to protect, preserve, and enhance Palm Beach County's (County) land and water resources. The services provided by ERM fall within five major program areas: Environmental Enhancement and Restoration, Mosquito Control, Natural Areas, Resources Protection and Shoreline Protection. For Fiscal Year 2014, ERM has a staff of 126 and a budget of approximately $45 million.

The Resources Protection Division (Division) provides environmental assessment, permitting, compliance, and land development review activities necessary for the implementation of natural resources protection and enforcement of related laws, regulations, and codes. The primary services are inspections; compliance and enforcement; complaint investigations; monitoring of land development planning and review; state permit compliance and remediation of contaminated soil and groundwater. The five primary program areas of the Division are Pollutant Storage Tanks Compliance, Petroleum Cleanup, Water Quality with National Pollution Discharge Elimination System (NPDES) State Permit Compliance, Land Development Review with Environmental Sustainability, and Wellfield Protection.

The Petroleum Storage Tank Compliance program and the Petroleum Cleanup program received scores of 95.36% and 93%

respectively on annual audits conducted by the Florida Department of Environmental Protection (FDEP) in 2012. Additionally, we completed an audit entitled '*Wellfield Protection Program*' (Report #11-08). Because of the satisfactory results of these prior audits we excluded those programs from consideration for this audit. The Land Development Review with Environmental Sustainability program primarily serves as a liaison between the Development Review Officer (DRO) process and the other environmental programs that certify projects for public hearings before the Zoning Commission and the Board of County Commissioners (BOCC). This program area was considered a low risk.

Title IV, Permits and Licenses, of the Federal Water Pollution Control Act (FWPCA) created the NPDES for permitting wastewater discharges. Under NPDES, all facilities which discharge pollutants from any point source into waters of the United States are required to obtain a permit. On December 9, 1996, the United States Environmental Protection Agency (EPA) issued a 5-year permit to approximately 40 governmental entities designated as the Palm Beach County Municipal Separate Storm Sewer System (MS4) Permittees. The EPA has since delegated its regulatory and enforcement authority relating to MS4 NPDES Permit to FDEP.

Palm Beach County MS4 Permittees have taken a cooperative approach to permit compliance, jointly conducting permit activities. Each permit cycle, the lead permittee (Northern Palm Beach County Improvement District (NPBCID)) enters into inter-local agreements with each of the Co-Permittees to oversee the joint activities. ERM's role in maintaining the permit is to perform water quality monitoring, illicit discharge inspections, and coordinate the annual report preparation.

AUDIT SCOPE AND METHODOLOGY

The audit of Resources Protection was selected as a result of our annual risk assessment of County department operations. The risk factors identified in the assessment were size of operation and revenues collected. In addition, the BCC requested emphasis on the effectiveness and efficiency of the operation and controls intended to minimize fraud risks. Through meetings with Department staff and a review of Countywide and departmental policies and procedures, organizational charts, and other documentation we selected the specific audit objectives cited above for detailed review and reporting.

The scope of our audit was fiscal year 2013. Audit field work was conducted in the Department from March to April 2014.

To answer Objective 1, we reviewed Countywide and Departmental policies and procedures (PPMs), the Division's organizational charts and FY 2013 revenue and expense budgets. We met with Resources Protection Division staff to get background information about the NPDES program and the inter-local agreement between the County and the NPBCID. We also reviewed the controls over the Time, Accounting, and Billing System (TABS) used to track work performed for the NPDES program.

To answer Objective 2, we obtained the Resources Protection Division's mission statement, objectives, and performance measures for FY 2013. We compared the mission statement to the objectives, tested the objectives to determine whether they were specific, measurable, attainable, realistic, and time oriented. We also determined whether each objective had a specific performance measure. Management is responsible for establishing and maintaining effective internal controls 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 management and financial information is reliable and properly reported and retained. 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, CPA, CIA, CGAP
Internal Auditor
August 12, 2014
Audit W/P No. 2013-01

Office of the County Internal Auditor
Audit Report #2014-12

FACILITIES DEVELOPMENT & OPERATIONS DEPARTMENT

FACILITIES MANAGEMENT DIVISION

Reviewed by Audit Committee
September 17, 2014

DATED JULY 18, 2014

Stewardship – Accountability – Transparency

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did the Facilities Operations and Development (FDO) Department - Facilities Management Division Director ensure that the preventive and corrective maintenance programs were conducted in accordance with County and FDO procedures and internal practices for current Fiscal Year 2013?

2. Did the Facilities Management Division Director ensure that internal controls related to the inventory of parts and supplies and specialized equipment were designed and implemented to comply with Countywide and Departmental policies and procedures and adequately guard against loss and abuse during FY 2013 October 1, 2012 through August 31, 2013?

3. Describe and evaluate the Facilities Management Division's performance management process including methods used to measure and report on effectiveness and efficiency of operations.

WHAT WE FOUND

As to objectives one above, we found the Division Director ensured that the preventive and corrective maintenance programs were conducted in accordance with County and FDO procedures and internal practices for current Fiscal Year 2013? However, we noted that improvements in management of the work order system are necessary.

As to objective two above, we found that the Division Director had generally established appropriate internal controls over inventories of parts and specialized equipment. However, we noted that improvements in management of both types of inventories were needed.

As to objective three above, we found the Division Director had established appropriate organizational objectives and performance measures. However, we noted the objectives could be improved and the key performance measures related to the objectives could also be improved.

WHAT WE RECOMMEND

The audit report makes three recommendations to management for improvements relating to improvements in the work order management system, and in the management of repair part and specialized too inventories.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. Management of Maintenance Work Orders Needs Improvement

Countywide PPM CW-O-001 entitled "*Policies and Procedures Memorandum (PPM)*" requires department and division directors to issue and maintain PPMs that promulgate standard policies and procedures for all operational areas under their control. Directors are expected to ensure that their staff is aware of and comply with established policies and procedures.

The Standards for Internal Controls in the Federal Government issued by the U.S. Government Accountability Office (GAO) require that appropriate policies, procedures and techniques exist with respect to each agency's activities, the control activities identified as necessary are in place and being applied, and control activities are regularly evaluated to ensure they are still appropriate and working as intended. Management is responsible for proper planning, scheduling and monitoring of the labor and material resources.

The Division's established process flow guidelines which require labor and material resources used be verified prior to a work order being closed in the Maximo system. However, our review identified inaccurate recording of labor and materials resources used to conduct work orders. Issues related to labor and material resources are described below.

Labor:
In our review of labor hours recorded on work orders, we reviewed system records and backup documents of a judgmental sample of 125 work orders approved between 10/1/2012 and 8/31/2013 from a total population of 42,636 work orders. We found discrepancies in recording labor hours used for maintenance work orders.

- We found 29 (23.2%) of the work orders where the labor hours listed on the form did not match the recorded labor hours in the Maximo system.
- We also found that for 12 (10%) of these work orders, the last day worked

recorded on the work order forms did not match the last day worked recorded in Maximo work order system.

Materials:

In our review of materials used for work done on work orders, we reviewed system records and backup documents of a judgmental sample of 120 work orders (20 per region) approved between 10/1/2012 and 8/31/2013 from a total population of 42,636 work orders. Our review found differences between materials used indicated on materials issuance forms and materials used recorded in the Maximo system for 37 of the 120 work orders (31%). All of these work orders were approved and closed by a supervisor in the Maximo system. These materials-used errors were broken down into the following:

- Nine work orders for 15 items being recorded as issued in Maximo but not listed as issued on issuance form.
- Ten work orders where the quantity issued on the issuance form did not match the quantity issued recorded on Maximo.
- Seven work orders where 10 items listed as issued on issuance forms were not recorded as issued to work orders in Maximo.
- Four work orders where no issuance forms or backup documentation was available for sample work orders to which items were issued.
- Three work orders where the description of the item issued on the issuance form did not match the description of the item recorded as issued in Maximo.
- Four work orders where items were recorded as issued twice in Maximo, but were listed as issued only once on the issuance forms.

While the Maximo system has the capability to record and track the scheduled start and finish dates for a work order, the Division does not utilize this tool to plan, schedule and monitor the work orders. Maintenance staff completes a work order form outlining the work done and the labor hours expended to complete the job. They also indicate if the job was completed and if parts and materials were used on the form.

Inaccurate data can adversely affect management responsibilities as they relate to planning and budgeting. Incorrect information on labor hours hampers management's ability to properly plan, schedule and report performance. Recording errors of materials resources used to conduct work orders results in inaccurate cost reporting information and budgeting decisions based on bad data.

All of these work orders were approved and closed by a supervisor in the Maximo system resulting in an ineffective control activity. A more effective monitoring system needs to be established to allow for proper review and approval of the recordkeeping. The Division also does not maintain formal PPMs for their work order processes which contributes to an ineffective process.

Recommendation:

(1) The Division Director should take actions to ensure the accurate recording of labor and material resources used for the work order functions.

Management Comments and Our Evaluation

In responding to a draft of this audit report, Department and Division management agreed with the finding and the recommendation. The Department Director stated that some of their corrective actions would be focused on improvements to the Maximo system and some to internal operating processes. The Director also stated a Maximo requirements review was in process and that our findings and recommendation would be incorporated into the requirements review. The Director also indicated that those elements of our finding related to internal operating processes would also be incorporated into a Department reorganization currently being implemented. The Director stated that audits of internal work orders would be implemented within six months and be conducted bi-annually thereafter. Additionally, written policies and procedures will be reviewed and updated as necessary within six months. We agree with the actions Department management officials indicated would be taken.

Finding 2. Management of Inventory Warehouse Functions Needs Improvement

County Wide PPM CW-F-059 entitled *"Inventory of Parts and Supplies,"* requires that the department maintain perpetual inventory records and conduct their inventory management using guidelines established in accordance with generally accepted accounting practices. The PPM requires departments to ensure that their inventory records are accurate and properly valued.

County Wide PPM CW-F-059, Section II requires departments to establish departmental specific procedures (i.e., departmental PPM) for controlling and administering its inventory. County Wide PPM CW-F-059, Section IV–e, requires that obsolete items be identified and disposed of appropriately.

The Division has established process flow guidelines for the issuance of parts and supplies from their storerooms. Our review of Divisional PPMs showed no PPM on inventory management. The Division Director confirmed they had no formal/written PPM for inventory management. The storekeepers are responsible for the management of their inventories of parts and supplies. While the guidelines do not require supervisor approval prior to issuance, crew chiefs are required to review, verify, and approve all issuances prior to closing a work order. Our review of the areas and functions of the Divisions regional storerooms are outlined below.

Backorders and Excess Stock Quantity Management :

With regards to backorders, our discussions with the storekeepers and regional managers revealed that the Division has no process in place to identify and manage backorders. The Division's warehouse issuance process requires only fulfilled items to be recorded on the requisition slips and recorded on the system.

The Maximo system has maximum and minimum quantity flags. The six regional storerooms consisted of 9,927 items with 286,254 units (including "expendable items" such as shop rags and sun block) valued at $1,339,322. In our analysis of the six regional storerooms, we found that:

- 4,475 items (45%) had ‘0’ as the minimum quantity.
- 5,068 of the 9927 items (51%) carried on-hand quantities in excess of their designated maximum on-hand quantity.
- This excess inventory totaled 183,618 units with a value of $693,209.27. This represents 51% of the total inventory

units and 52% of the total inventory dollar value.

We believe these statistics show that the capabilities of the Maximo system are not being utilized to support inventory management processes. This, in turn, can lead to excessive investment in inventories and to less than optimal inventory management decisions.

Obsolescence Management:

The Fiscal Manager confirmed the Maximo system is capable of generating reports that identify items that have not been used for a designated period of time, but also said it has not been used for 12 months. The Fiscal Manager has recently requested the storekeepers to start generating reports for them to utilize in the process. The Division Director and the Fiscal Manager also informed us that all the storerooms were originally under a manager of stores and procurement, who was responsible for the proper management of inventory items and stock levels. This manager position was eliminated due to budget cuts in 2011.

Our analysis of the activity of the 8,618 stock inventory items (excluding "expendable items") valued at $1,179,217 found indicators of obsolete inventory:

- 2,563 items (30%) comprised of 99,270 units (36%) valued at $308,357 (30%) with no activity in the last 24 months.
- 1,626 (64%) of these excess items had on-hand quantities over the maximum quantity and 1,416 (51%) of these excess items had the minimum quantity of ‘0’.

We believe these statistics demonstrate that the capabilities of the Maximo system are not being fully utilized to support the inventory management process. This, in turn, can lead to excessive investment in inventories and stock in inventory becoming unusable do to obsolescence.

Life Cycle Management

The American Production and Inventory Control Society's (APICS) *Book of Knowledge* lists keeping inventory in an up-to-date and usable condition as being a critical condition in inventory management. Inventory that becomes unusable or obsolete typically becomes a write-off (waste/loss). APICS advocates stock rotation as a best practice to mitigate stock loss. The regional managers and storekeepers told us the Division does not have a process in place of rotating their inventory and reviewing the expiration date of stock items with limited life cycles. We reviewed a sample of 25 items (5 per region) such as cleaners, weed killers and, solutions with limited life cycles (expiration dates). We found 17 (68%) of the items had expired life cycle dates, four of which were over a year beyond expiration date.

We believe inventory that is allowed to become "out-of-date" may become unusable, unsafe and subject to unnecessary write-off.

Warehouse Receivings:

We selected 40 records from the Maximo system and reviewed the receiving backup documents. We also selected a sample of 27 receiving documents for the six regions for the same period and traced these transactions back to the Maximo system. While our review found receiving documents for tools received and entered into the Advantage purchasing system, the Division does not record or track their tools in the Maximo system. Our review found the following discrepancies:

- FDO staff was unable to find the receiving documents for five of the 40 (13%) records selected from the Maximo system.
- Six out of 27 (22%) receiving documents did not match the Maximo records.
- For three documents we were able to trace the receiving in Maximo but could not identify the items since Maximo did not have item numbers recorded in the receiving. Two were battery items which were not recorded in the Maximo system. One receiving document could not be found in Maximo.

We believe inadequate supporting documentation can contribute to inaccurate and inconsistent inventory records that can lead to less than optimal inventory management decisions.

Accuracy and Completeness of the Maximo System Inventory Records

In order to validate the accuracy and completeness of the Maximo system perpetual inventory records we:

1. Compared the on-hand physical counts of a sample of 81 inventory items selected from the Maximo system perpetual inventory for the six regional storerooms.
2. Compared the on-hand physical count of a sample of 23 inventory items selected from the Maximo system for eight inventory holding trucks of the division.
3. Compared Maximo inventory quantities to 29 judgmentally selected items with on-hand shelf quantities from the six regional storerooms.

We found the following discrepancies in the inventory records:

- 17 out of 81 (21%) inventory count did not match the recorded count on Maximo.
- Five out of 23 (22%) on-hand count of the trucks did not match the recorded count on Maximo.
- 8 out of 29 (28%) on-hand count did not match the recorded count on Maximo.

Without correct and complete records, the integrity and accuracy of the inventory records could be compromised. Unauthorized items may be filled, as well as inventory movements may not be recorded. Back-order situations could also affect the service requirements of the field crews.

Recommendation:

(2) The Division Director should design and implement inventory management controls and policies addressing the issues addressed in the finding above that comply with Countywide PPM CW-F-059.

Management Comments and Our Evaluation

In responding to a draft of this audit report, Department and Division management agreed with the finding and the recommendation. The Department Director stated that existing policies and procedures will be updated and formalized relating to fiscal year-end inventories and physical inventory management and controls will be developed and implemented within six months. The Director also stated that centralization of the regional storekeeper functions under a single supervisor has been implemented. We agree with the actions Department management officials indicated would be taken.

<u>Finding 3. Recordkeeping for Specialized Equipment and Tool Inventory Needs Improvement</u>

County Wide PPM CW-O-26 entitled *"Physical Identification and Management of County-owned Fixed Assets"* recommends that departments develop a process to inventory their miscellaneous assets. It recommends the use of a 'Z' tag for physical identification as well as the recording and tracking of these assets through an inventory management system and processes similar to those used for the Fixed Assets.

Maintenance of the Tool Program

Facilities Management Division has a PPM FM-O-06 entitled "*Tool/Equipment Policy,"* which establishes guidelines for the management and maintenance of the tool program of the Division. This PPM requires a Tool Inventory form be maintained for each tradesperson listing the tools assigned to him. Our review of the tool inventory forms for the tradespersons in four of the regions (North, South, West and Government Center) found the forms listed tools that did not include tools in the possession of the tradespersons. The crew chiefs informed us that the tool lists were not updated and were inaccurate. At the CJC region the tool inventory forms were only available for 11 of the 22 tradespersons (50%).

Additionally, at the CJC, each tradesperson is required to have a list for inspection of all tools being brought into the secure portion of the facility. We found no exceptions as to those tools lists. The list of tools being taken into the secure portion of the facility is a subset of the full list of tools assigned to the tradesperson. This full list of tools assigned is the focus of our comment above regarding tool inventory forms for 11 of 22 tradespersons.

Specialized and Limited-Number Tools

The PPM also requires an inventory of specialty and limited-number tools to be maintained in a tool crib in each regional storeroom with each storekeeper being responsible for the tracking and temporary issue and retrieval of these tools. Our review of the storeroom tool cribs found:

- Three of the six regions maintained a listing of the specialized tools in the storeroom tool crib. The Government Center, Central, and West Regions did not maintain lists.
- The lists maintained by the North and South regions contained tools that were not in the tool crib and did not include tools present in the tool crib. The storekeepers informed us that the tool lists were not updated and were inaccurate.
- Our review of the Criminal Justice Center (CJC) region list showed it to be current and accurate.

Audit/Review

The PPM requires that the inventory of the tool crib be audited monthly by the supervisor in each region and that the Trades Crew Chiefs conduct an unannounced annual audit of each trades person's tools. In addition to the discrepancies identified above, Division management was unable to confirm or provide documentation that monthly or annual audits were conducted.

Existence

In our testing for existence in two regions, we selected a sample of ten tools assigned to eight separate tradesmen. We were able to verify all tools with the only exception being in the Government Center Region where a Milwaukee hammer drill kept in a Bosch tool box was listed as a Bosch hammer drill on the tool list. We also selected a sample of 25 tools in 17 trucks for the four regions and found:

- Four out of 25 (16%) tools were not on the trucks. Two of these tools were reported as returned to the storeroom but the list was not updated.
- We were unable to verify one tool.
- Additionally, the descriptions on the lists for three tools were inaccurate.

We were unable to determine the dollar value or number of specialized tools owned and maintained by the division since the division did not have a record of this. With the exception of the Central division, whose records are not current and updated, none of the regions have their tool inventory recorded on the Maximo system.

Our review also found that while the regional storerooms stored and issued many tool and tool type accessories such as saw blades, tool batteries, drill bits etc., they do not record and track the inventory of these items and do not require a requisition slip to issue these items. Many of these items have a considerable value and also have a higher inherent risk of pilferage. Non-existent or inaccurate specialized tool asset records result in a false representation and lack of accountability for these assets. The lack of proper recording, tracking, and periodic monthly and annual audits inhibits management's ability to adequately guard specialized tools and equipment from loss and abuse.

Recommendation:

(3) The Facilities Management Division Director should ensure that all tools/specialized equipment assigned to the Division are controlled and accounted for.

Management Comments and Our Evaluation

In responding to a draft of this audit report, Department and Division management agreed with the finding and the recommendation. The Director stated that staff is working to implement the recommendation immediately. The Director also stated that a "Z tag" system will be developed and implemented within six months and will include internal policy and procedures. We agree with the corrective actions planned by the Department.

The Department Director expressed concern during the exit conference regarding the finding on tool lists at the CJC and the requirement for tool lists to be presented for inspection whenever a tradesperson enters the secure area of the jail. We modified our draft to address those concerns and reflect the distinction between the tool lists maintained by supervisors of all tools assigned to a tradesperson and those tools actually being taken into the secure area of the jail.

PERFORMANCE MANAGEMENT PROCESS DESCRIPTION AND EVALUATION

We examined the Division's mission statement and Objectives. We compared the mission statement to their objectives to determine if the objectives were directly related to and linked to the elements of the mission statement.

The Division's mission statement is: "*To provide services focused on asset management and preservation of County owned property and provides customer services for the tenants and users through: team-oriented, decentralized, fast, competitive, quality service to all customers; focusing on its primary core responsibilities of operations and maintenance of County assets; and providing or coordinating additional services beyond operations and maintenance to County building tenants and departments at cost in a quality, competitive, responsive manner*".

The table below summarizes the objectives and performance measures published in the County Fiscal Year 2014 budget book:

Objective	Performance Measures	Type
1. Sustain the planned preventive maintenance program to reduce corrective maintenance type work thereby reducing downtime and failures.	1. Percentage of buildings assessed with an overall condition of good or excellent. 2. Percentage of preventative maintenance hours in relation to total maintenance hours.	1. Efficiency 2. Efficiency

Our review of the Division's performance management process included:

- Evaluating the mission statement;
- Ascertaining if the objectives support and address all elements of the mission statement;
- Evaluating each objective using the SMART criteria;
- Determining the relationship of each objective to performance measures;
- Determining how the Division defines and measures effectiveness and efficiency; and
- Evaluating the data gathering and reporting methodology used.

Mission Statement

The *Budget Instruction Manual* describes the mission statement as a "concise expression of the Department's purpose expressed in terms of benefit to the intended customer." The Division's mission statement as written seems to describe its services in two different manners and includes a description of how those services will be provided. The mission statement also describes the intended customers of the services, but does not describe a benefit to the customers. We believe the Division's mission statement satisfies the requirements of the *Budget Instruction Manual*. We also believe the mission statement could be more concise.

The *Budget Instruction Manual* also states that there should be a linkage between the mission statement, objectives and performance measures. Objective 1, while obviously related to the mission statement, does not appear to be directly linked to an element of the mission statement. Objective 1 is supported by two performance measures.

Objectives

We used the SMART framework to evaluate the Division's objectives (Specific, Measurable, Attainable, Realistic, and Time oriented). In our evaluation against the SMART criteria we found the objectives were not specific and not clearly defined. While the objectives had some SMART criteria elements, overall they do not fully meet the elements of the SMART criteria.

- Objective #1 appears to be more of a goal than an objective. As written, the objective is neither specific nor measurable. The objective may be attainable, but if it cannot be measured it would be difficult to know when or if it was attained.

Division management informed us that they did not use or track any measures for their core maintenance or inventory performance functions including some of the following commonly utilized in the maintenance industry:

- ***Costs*** **-** such as maintenance cost per square feet, ratio of maintenance personnel and/or to asset value or square feet, ratio of in-house maintenance costs/labor hours to contractor maintenance costs/hours.
- ***Work Effort (Efficiency/Effectiveness) - s***uch as percentage of rework or callbacks, percentage of open work orders, ratio of trades staff to supervisory or administrative staff, ratio of productive hours to payroll hours, percentage of overtime hours, and ratio of work order hours to standard hours.
- ***Parts/Materials*** **-** such as work orders waiting parts and percentage of backorder items.

Performance Measures

In our evaluation, the two performance measures established are both linked to objective #1. Performance measure #1 is a percentage based on a quality component of work and appears to be an outcome rather than an efficiency measure. Performance measure #2 appears to be a measure of workload rather than the reported efficiency measure. The Fiscal Manager is primarily responsible for providing the performance measure data and uses the Maximo system to gather and report actual performance.

In our discussions with Division management, they informed us that they considered the closing of a work order as an effectiveness measure, and tracked all work orders open in excess of 60 days as a time oriented efficiency measure. While not having any rationale for the 60 day timeframe, the Division Director informed us that it was part of the controls implemented for a recommendation from a previous audit. Division management considers the percentage of preventive maintenance work to be an effectiveness measure.

The Division Director informed us that he has embarked on a project to upgrade the reporting and tracking functionality of the Maximo system and he intends to reevaluate and redesign the Division's objectives and performance measures.

Considerations for Improvement:

The Facilities Management Division Director should consider the following actions to enhance their performance management system:

- Consider revising the mission statement to be more concise and focused on the services provided and the benefits to the customers.

- Review their current objective and performance measures to ensure the objective meets the SMART criteria.

- Implement a performance management program that should include:
  - Key Performance Indicators (KPIs) for the maintenance and warehouse functions.
  - a process to record all maintenance and warehouse function activities including a reporting capability.
  - a process to monitor and evaluate program effectiveness by identifying gaps between actual performance and required performance.

Management Comments and Our Evaluation

At the exit conference held July 18, 2014, Department and Division management agreed with the observations and comments presented in the discussion above and indicated they would take action to incorporate the concepts into their budget development process. The Department Director pointed out that Objective #2 as listed in our earlier draft was associated with another division of the Department and has been deleted from this draft. We agree with Management's stated intentions for performance management system improvements.

BACKGROUND

The Facilities Development and Operations Department (FDO) is responsible for siting, building and operating the county's physical plants, major equipment, fleet and electronics systems which includes the buildings occupied by the Sheriff's Office and the 15th Judicial Circuit Court as well as several other constitutional officers including the Property Appraiser, Supervisor of Elections and the Tax Collector. More specifically, this includes the implementation of capital building and land improvement projects, the maintenance and operation of more than 800 occupied structures, the countywide public safety radio system operations and maintenance and the procurement and maintenance of a fleet of more than 4,400 vehicles and pieces of equipment. Five major departmental programs fulfill the responsibilities; Property and Real Estate Management, Capital Improvements, Electronic Services and Security, Facilities Management and Fleet Management. The Department's FY 2013 budget was $37.3 million and a staff of 300.

The Facilities Management Division (Division) provides services focused on asset management and preservation of County-owned property. Services include preventive and corrective maintenance; replacement of equipment in County buildings; custodial and landscaping services at designated sites; facility related emergency response services after business hours; facility preparedness services; restoration of services in the event of emergencies/disasters; facilities support during emergency activations; review of new capital development and renewal/replacement projects; warranty administration on building systems, completing the construction design of mechanical/electrical specifications; identifying/implementing initiatives for the reduction of energy consumption; continuing improvements, enhancements, and planned renewal of buildings/properties; and parking operations for the Governmental, Judicial, Vista Centers and South County Courthouse Complex. The Division's FY 2013 budget is $21.7 million and operates with a staff of 171.

The Division's operation is comprised of six regional locations each under the responsibility of a Facility Manager reporting to the Division Director. Each Facility Manager is supported by Maintenance Supervisors and Trades Crew Chiefs and by staff comprised of the various trade groups. Each regional office also has a storeroom for parts and supplies used by the crews that is managed by a storekeeper. Inventories of parts and supplies are also maintained on each of the Division's 67 work trucks. Total inventories include the six storerooms and the work trucks. Each regional office also maintains an inventory of specialized tools and equipment ('Z' tag) which are either assigned to the various work trucks or to the regional warehouse. To manage all maintenance work conducted, the Division uses the Maximo system. Work orders are entered into the system, assigned staff and labor hours and materials are charged to the work order. The system automatically captures all parts and materials issued from the storerooms to a work order. All work orders are assigned a priority and all are reviewed and approved by the Regional Maintenance Supervisor or Trades Crew Chiefs prior to being assigned to a Trade group. Maintenance staff also complete a daily report describing the work done and listing the hours used for each work order. The daily report is used to enter the labor hours into the Maximo work order system by the administrative staff or trade crew chiefs. The work order form, the labor summary sheets and the material issuance form are reviewed and approved by the trade crew chiefs before completing the work order in the Maximo system. The work order is then closed in the Maximo system by the administrative staff, and the work order documents are filed numerically.

AUDIT SCOPE AND METHODOLOGY

This audit was selected as a result of our annual risk assessment of County department operations. The risk factors identified in the assessment were inventory management of the equipment and materials used by the Division, their operational size and complexity, and the effectiveness and efficiency of the operation. Through interviews with Division and regional management and staff concerning these risk factors, review of Department's and Division's policies and procedures, the County Budget Book for fiscal year 2013, prior audit reports, and other pertinent documentation, we selected the specific audit objectives cited above for detailed review and reporting.

The audit scope included review of internal controls currently in place to ensure that Division's maintenance and inventory activities were carried out in accordance with Countywide and Departmental policies and procedures for Fiscal Year 2013. The audit scope also included a review and evaluation of the Division's measures currently being used to determine effectiveness and efficiency of operations and the reporting of the same. Audit fieldwork was conducted at the Division's offices and locations from September 2013 through January 2014.

In order to answer objective #1, we tested the preventive and corrective maintenance transactions using analytical procedures applied to judgmental samples of the audit period. We reviewed the Maximo maintenance and inventory management system data related to the preventive and corrective maintenance transactions and traced them to the backup documentation.

For audit objective #2, our methodology included tests of inventory management using analytical procedures applied to both judgmental samples and all inventory items. We tested the accuracy of inventory records and verified the accuracy of the inventory values. We tested and validated inventory transactions such as receivings, issuances and adjustments for accuracy and appropriateness. We reviewed the obsolescence process and analyzed the inventory for obsolescence. We reviewed, observed and validated the security and access controls. For specialized equipment, we determined the respective populations and locations of specialized equipment, and identified and tested the controls in place to track and safeguard these items using judgmental samples.

For audit objective #3, we reviewed the Division's objectives and performance measures as reported in the County Budget Book for Fiscal Year 2013 and discussed the measures used to determine effectiveness and efficiency of operations with Division and regional management. We also conducted our standard evaluation of their measures against the 'SMART' criteria.

Our audit work included discussions with Division and regional management and staff and with audit management, in which we addressed the possibility of fraud in relation to their operations. They informed us that they were very much aware of the risks when it comes to their supplies, equipment and inventory items and have instituted controls over these areas. As part of our audit review we tested and validated some of the controls in place over inventory items and specialized equipment.

Management is responsible for establishing and maintaining effective internal controls 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 management and financial information is reliable and properly reported and retained. 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
July 18, 2014
Audit W/P No. 2013-05

ADMINISTRATIVE RESPONSE

INTEROFFICE MEMORANDUM

TO : Joseph F. Bergeron, Internal Auditor

THRU : Audrey Wolf, Director, FD&O

FROM : Jimmy Beno, Director of Operations, FD&O

DATE : September 2, 2014

REF : FD&O RESPONSE AUDIT REPORT

The Facilities Department is in receipt of your letter dated August 11th, 2014 seeking a response to the final draft audit report entitled *Facilities Development and Operations - Facilities Management Division* as completed by the Internal Auditor's Office.

As directed by your letter, the text of the individual audit recommendations followed by FD&O's response is listed below:

RECOMMENDATION:

(1) *The Division Director should take actions to ensure the accurate recording of labor and material resources used for the work order functions.*

FD&O RESPONSE:

(1) FD&O/FMD concurs with the Internal Auditor's recommendation. The Department is implementing short, mid and long term re-organization strategies which will incorporate changes to internal operating procedures ensuring better accountability and oversight. Specific corrective actions include the Regional Managers being re-trained on updated internal processes. In addition, internal work order audits performed by the FDO Fiscal Division, will be first implemented for all regions within the next six (6) months and will occur bi-annually within the regions to ensure that the existing internal work order process flow chart and procedures for closing of work order procedures are being followed. The results of these audits will be reported to both the FMD Division Director and the FDO, Director of Operations for review and accountability purposes. Regional Managers will be responsible to ensure that their staff is accurately recording labor and material to work orders before closing. Further, current written policies and procedures will be reviewed and updated as necessary and provided to the Internal Auditor within the next six (6) months.

RECOMMENDATION:

(2) *The Division Director should design and implement inventory management controls and Policies addressing the issues addressed in the finding above that comply with Countywide PPM CW-F-059.*

FD&O RESPONSE:

(2) FD&O/FMD concur with the Internal Auditor's recommendation. Existing policies and procedures will be updated and formalized relating to fiscal year-end inventory and physical inventory management and controls will be developed and implemented within the next six (6) months reflecting the re-organization strategy planned for the department. Specifically, the updated and formalized procedures and controls will reflect the centralization of the storekeeper functions (currently) within the regions under a single supervisor which will be tasked with overseeing the workload and ensuring the adherence to all new policies and procedures. Since the re-organization has been approved months ago, this position has been filled since the completion of the audit.

RECOMMENDATION:

(3) *The Facilities Management Division Director should ensure that all tools/specialized equipment assigned to the Division are controlled and accounted for.*

FD&O RESPONSE:

(3) FD&O/FMD concurs with the Internal Auditor's recommendations. Staff is working to implement this change immediately. The countywide PPM CW-O-26 entitled *"Physical Identification and Management of County-owned Fixed Assets"* recommends that departments develop a process to inventory their miscellaneous assets. It recommends the use of a 'Z' tag for physical identification as well as the recording and tracking of these assets. We will be working towards developing a Z tag system, and an internal policy and procedure. Completion of this process will be within the next six (6) months.

As a general response to the Audit as a whole, it is important to note that FDO has been and continues to work closely with ISS to develop, from the ground-up, a comprehensive inventory and asset management system that will replace the current Maximo system that is mentioned several times within the body of the audit. This new inventory and asset management system should simplify and improve on-going compliance with work order and inventory management and control at the field level. This process has already begun with ISS staff mapping out the flow of information throughout the Department. This software will ultimately be designed to handle all inventory management, work orders, and other processes identified in this audit. The goal will be to develop a user-friendly and more intuitive program to ensure an easier and more consistent method in which to implement current and new policies and procedures. While ISS estimates that the final product could take two years to fully develop and implement the Department-wide system, the Division specific applications will be placed in service as developed. Our plan will be to update the Internal Auditor's office in regards to the software improvements as those changes materially affect the policies and procedures set forth in this audit response.

Please thank your staff for the professionalism in which they handled the audit. The recommendations were fair and accurate assessments of the current state of work order and Inventory management within Facilities Management. The implementation of the recommendations will go a long way to insuring that we continue to run an efficient and effective operation.

If you have any questions or comments regarding our responses please do not hesitate to contact me at 561-233-0285.