



# MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT  
Internal Audit Division

## INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager  
 VIA: Kathie G. Brooks, Budget and Performance Improvement Director  
 FROM: James J. Sutter, Internal Auditor

DATE: December 29, 2007  
 AUDIT: Public Works Warehouse Inventory Audit  
 PERIOD: Fiscal Year Ended September 30, 2007

This report is the result of a regularly scheduled audit of the Public Works Warehouse Inventory as of September 30, 2007, performed in conjunction with the external auditor's annual financial audit of the City.

### INTRODUCTION

The Public Works warehouse located at 451 Dade Boulevard, supplies materials for all phases of the Public Works operations. These materials are issued to the various divisions and are charged to either budget operating accounts or job orders. In addition to material receipt, storage and distribution, the warehouse orders, maintains and supplies parts to outside contractors in support of other City capital projects.

Warehouse personnel currently consists of a Warehouse Supervisor, a Storekeeper III, a Storekeeper II, a Storekeeper I, a Municipal Service Worker I and an Administrative Aide I. These personnel interact with the Procurement Division, Finance Department, and vendors in the purchase of goods, deliveries, issuance and payments.

\$2,280,024 in funding obtained from the General Obligation Bond Neighborhoods and \$580,976 from the General Obligation Bond Parks was previously allocated in 1997 to the replacement of the current Public Works yard facility. Tentative plans included the renovation of the 20,000 square foot facility, a 5,000 square foot expansion, American Disabilities Act compliance, an access road, environmental remediation, paving, drainage, lighting, parking and a fueling facility for City vehicles.

This project has been delayed for a variety of reasons over the last several years. However, the reconstruction of the water tanks and pump station was added to Fire Station No. 2's scope of services and was completed during the 2005/06 fiscal year. Meanwhile, the remaining work is currently on hold according to the City of Miami Beach General Obligation Oversight Committee Monthly Project Status Report for October 2007.

Public Works Inventory was valued at the following amounts for the last five fiscal years:

9/30/2003	9/30/2004	9/30/2005	9/30/2006	9/30/2007
\$2,070,045	\$1,953,161	\$1,797,500	\$1,981,523	\$2,194,784

This fiscal year's ending inventory of \$2,194,784 was 10.76% higher than the previous year. The primary reasons for the increase according to warehouse staff was the stockpiling of hurricane

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materials and the advance purchase of critical inventory to help prevent stockouts that may occur while waiting for the creation of 2007/08 fiscal year standing orders. Internal Audit conducted test counts of one hundred twenty-three (123) part numbers totaling 4,963 items with a value of \$557,731.22 or 25.41% of the current inventory value.

We commend the Public Works warehouse staff and supporting personnel who overcame the problems associated with the temporary relocation of parts to the golf course. They were also hindered by interruptions due to the need to disburse emergency items during the approximately three weeks that the warehouse was closed for inventory.

### **OVERALL OPINION**

Based upon the results of the test counts and the inventory reports, we recommend that the valuation of \$2,194,784 be used as the September 30, 2007 inventory value. The annual physical inventory of the items was conducted in an efficient, effective and timely manner, and the corresponding valuation was deemed reasonable. Finally, invoices selected for review were supported by proper approvals by authorized personnel.

The areas listed below are in need of improvement:

- Cityworks, the inventory system effective 04/01/06, has not been fully implemented to better satisfy the warehouse's operational needs.
- Possible improvements to the camera system are listed which should increase their effectiveness.
- The City's water tanks are not properly safeguarded from damage by driven vehicles or unauthorized intruders.
- Storage conditions noted on the temporary golf course site hinder inventory location, accessibility, and valuation.
- Leaks in warehouse roof should be repaired to avert possible injuries.

### **PURPOSE**

The purpose of this audit is to determine whether events, transactions, adjustments, and processing procedures are established, authorized, and maintained in accordance with laws, regulations, contracts and management's policy; whether events and transactions are accounted for, economically and efficiently processed, accurately and promptly recorded, reported, followed up; whether recorded balances are periodically substantiated and evaluated; and whether City assets and key forms, records, and files are properly safeguarded and controlled, and access thereto is restricted in accordance with management's criteria.

### **SCOPE**

1. Confirm that documented operating policies, standards and procedures exist to ensure efficient and effective administration of the warehouse and that there is compliance with these policies, standards and procedures, as well as all laws and regulations.

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2. Confirm that warehouse inventory items are stored in an orderly manner, are clearly labeled, are not obsolete, are properly safeguarded and are reasonably valued.
3. Confirm that the physical inventory was performed in an efficient, effective and timely manner with sufficient personnel and adequate procedures to ensure an accurate count.
4. Confirm that the final inventory report accurately reflects the final inventory valuation as determined by the physical count and that this information is communicated to the external auditors.
5. Confirm that unit costs on sampled purchase invoices are accurately reflected on inventory reports and that all sampled invoices are properly approved and authorized.

## **FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

1. Finding – Cityworks Inventory System  
The current Public Works warehouse inventory computer system called Cityworks was implemented April 1, 2006. Although this system contains many improvements over the previous PWK system, the following shortcomings were noted to exist at fiscal year end:
  - a. Inventory items continue to be valued using a weighted average costing approach that includes all purchases made of the item since 1984. Technology advancements and component materials' price changes have caused some parts' most recent purchase prices to vary both negatively and positively from the recorded weighted average prices. As a result, fiscal year end inventory valuations continue to be impacted.
  - b. Maximum and minimum quantities have not yet been recorded in Cityworks to facilitate ordering. In their absence, ordering continues to be done manually which could lead to inadvertent stockouts or overstocks thereby negatively affecting carrying costs and inventory turns.
  - c. Internal Audit's verified counts differed from the Cityworks recorded count for 47.97% (59/123) of the items tested. The reasons for the difference (shrinkage, sloppy recordkeeping, Cityworks shortcomings, etc.) could not be determined.

### Recommendation(s)

The inventory valuation method should be converted during the 2007/08 fiscal year from weighted average to first-in-first-out to more accurately reflect the actual value of the inventory currently in stock. Among other improvements, the full adoption of Cityworks should help reduce labor costs and the warehouse's downtime in future fiscal year inventories. Full scale physical counts should only be needed if Internal Audit's test counts reveal material differences when compared to the recorded inventory levels.

### Management Response

A, B, and C above - Mr. Bert Dorrestyn, GIS Manager, and Ms. Martha Torres, Warehouse Supervisor, will be assigned to address the City Internal Audit recommendation, improvements and adoption of Cityworks that relates to the overall recorded inventory levels.

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2. Finding – Security Cameras

Eleven of the twenty-five digital cameras used to protect the Public Works Warehouse facility were either not visible or operational during a 09/29/07 site visit. The manufacturer was promptly notified by warehouse staff and the needed repairs were timely made. Internal Audit found all cameras were working properly during an 11/20/07 site visit.

The reviewed cameras were positioned throughout and recorded each day's activities on a compact disc recorded in the control room. Although these cameras are currently protecting areas that may not need to be safeguarded in the future, the following deficiencies were noted:

- None of the cameras positioned on the golf course oscillated to cover a larger area.
- A black screen is typically recorded during the nighttime hours due to the absence of lighting towers and/or infrared lighting.
- Camera positions should be adjusted so as to better protect Public Works inventory. For example, cameras were not positioned inside the electrical room, warehouse or yard 1, areas in which most of the inventory is stored.
- The outside of the security cameras were not clearly labeled to identify which were not functioning properly, where they were positioned, etc.

Recommendation(s)

The positioning and effectiveness of the cameras should be more frequently reviewed to maximize their benefit to the City. Furthermore, the manufacturer should immediately be notified of any malfunctioning cameras so that they can be promptly repaired. Finally, labeling the outside of the cameras in accordance with the viewing monitors should help make them easier to locate.

Management Response

Ms. Martha Torres, Warehouse Supervisor, and Mr. Julian Perez, Pump Station/Control Room Operations Supervisor, have been assigned to oversee and maintain ALL security cameras in working condition and provide a monthly e-mail report to the Operations Superintendents and Assistant Public Works Director, Mr. Mike Alvarez.

3. Finding – Water Tanks Safety

The Public Works yard houses two large water tanks located directly south of the warehouse and yard 1. In previous inventory audits, we observed both City and personal vehicles parking dangerously close to the tanks and were even told of a minor accident. Public Works management took proper steps in the past year to reduce the risk by adding parking stops, creating a new employee parking area on the golf course and by issuing a 10/05/07 Parking Policy memo to all employees. However, these steps were not always followed and both City and personal vehicles continue to be observed parking in unauthorized spaces near these water tanks bypassing the installed safeguards and rules.

Furthermore, the water tanks located at 75<sup>th</sup> Street and Dickens Avenue were only protected from intruders by a chain link fence. Gaps in the chained gates, missing sections of barb wire, overhanging trees, etc. made access easier. Future plans call for this facility to house slow moving inventory currently stored on the aforementioned golf course. These examples of lax security could also explain the large amounts of graffiti currently present on both water tanks.

The grass and weeds inside the 75<sup>th</sup> Street and Dickens Avenue facility are approximately four feet high in some areas creating a hazardous area and may contain rodents, snakes, etc. A risk exists that someone could be injured by tripping over the parts stored on the premises or be bitten by a creature living in the outgrowth.

Recommendation(s)

Public Works management should better enforce the new yard parking rules and discipline anyone that does not conform. Meanwhile, the water tanks at the 75<sup>th</sup> Street location may be better safeguarded through the placement of cameras, barbwire, security guards, etc. Otherwise, the City's risk exposure is higher that an unauthorized intruder could enter and escape undetected. Finally, Public Works should coordinate with Parks and Recreation Department to have them more frequently mow the grass and better maintain the 75<sup>th</sup> Street and Dickens Avenue facility.

Management Response

Mr. Elie Fakie, Acting Utilities Superintendent, and Mr. John Kranick, Streets, Streetlighting, and Stormwater Superintendent, will be responsible for enforcing proper parking and to take corrective discipline towards employees including Operations Supervisors that don't follow the Yard's parking rules.

Mr. Elie Fakie and Mr. Julian Perez will investigate the possibility of installing cameras at other water and sewer pump station facilities, including overall costs for budget preparation FY 08/09.

Public Works Operations does request Parks Department to mow the grass during the year but in the case of 75<sup>th</sup> Street, CIP contractor was not doing a very good job in keeping up with mowing the grass. The grass has been mowed/cut by the Parks Department at the request of Mr. Mike Alvarez, Assistant Public Works Director.

4. Finding – Golf Course Storage

The golf course continues to be temporarily used to store Public Works inventory previously kept in yards 2 through 8. Many but not all of these items have been moved to more secure fenced areas located near the two newly constructed water tanks in yards 1 and 2. Despite the transitory nature of the usage of the golf course, several deficiencies noted should be addressed:

- a. The bottom layers of pipes were observed sinking into the ground due to their excessive weight and the wet, soft earth. As a result, counting is impeded and expensive inventory items may be inadvertently forgotten below the earth's surface.
- b. The parts stored in the golf course require continual efforts by Public Works personnel to remain organized in an effort to expedite locating and counting. For example, we found that similar size pipes were stacked together despite the existence of different types (slip joint, TR flex, etc.) at different costs during the test counts. These pipes were also observed to consist of different lengths, surrounded by weeds and positioned closely to other parts making it difficult to count.
- c. The front gate is not operational to help prevent access by unauthorized individuals. Inquiries revealed that this is a continual problem as outsiders are frequently cutting through the Public Works facility and scaling the perimeter chain link fence to exit thereby shortening their walking distance. Potential drawbacks include a heightened risk

of injury and vandalism; as well as more frequent fence repairs as these intruders tend to damage the fence making it easier to climb in the future.

- d. More fragile equipment like lighting towers was observed being stored in close proximity to driven vehicles where they can be damaged. The completion of the parking area on the southeast corner of the golf course area should help alleviate this concern.

Recommendation(s)

The Public Works Department's Administration should consider the feasibility of implementing the following recommendations:

- a. Any parts subject to corrosion or sinking should be elevated from the ground through the use of pallets, racks, etc.
- b. Better organization by part number should reduce time spent trying to locate, count and charge out needed parts. However, it would also require a full scale effort by those Public Works personnel that access these parts with or without the warehouse's knowledge.
- c. A functional front gate that is kept closed should markedly reduce the number of unauthorized intruders inside the Public Works facility.
- d. Fragile equipment should be stored together whenever possible in a secure area to reduce the threat of inadvertent damage.

Management Response

- a. Many outside inventory parts are in pallets. Heavy parts such as pipes are not and will be addressed first quarter of 2008.
- b. Presently, looking into a Warehouse bar code system for FY 08/09 along with costs.
- c. A new gate will be installed after Fire Station #2 is fully completed. Scheduled for November 2008.
- d. Will continue to enforce as much as possible, but Fire Station #2 is under construction which creates parking space a challenge.

5. Finding – Other observations

Rain water abundantly seeped in through the warehouse roof during storms. The water accumulated on the floor thereby increasing the possibility that employees could inadvertently slip and fall.

Recommendation(s)

The warehouse roof should be repaired before someone is injured.

Management Response

Property Management has it in their schedule for minor to major repairs in early 2008.

**EXIT CONFERENCE**

An exit conference was held on December 18, 2007 in the Public Works Department. Participants included Michael Alvarez (Assistant Public Works Director), Martha Torres (Warehouse Supervisor), James Sutter (Internal Auditor) and Mark Coolidge (Senior Auditor). All parties were in agreement as to the contents of this report. Management responses were solicited and included in our report.

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JJS:MC:mc

Audit performed by Mark Coolidge

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cc: Robert C. Middaugh Jr., Assistant City Manager  
Fred H. Beckmann, Public Works Director  
Michael Alvarez, Assistant Public Works Director  
Patricia Walker, Chief Financial Officer  
John Kranick, Streets, Streetlighting, and Stormwater Superintendent  
Elie Fakie, Acting Utilities Superintendent  
Martha Torres, Warehouse Supervisor