



CITY OF ORLANDO

MEMORANDUM

To: Alan Oyler, Interim Public Works Director

From: Beryl H. Davis, CPA, CGFM, Audit and Evaluation Director

Date: January 4, 2005

Subject: Wastewater Division: Two Recent Hotline Calls (Report No. 05-13)

At your request, we conducted inquiries into two recent malfeasance allegations reported to our Audit Hotline. The first allegation concerned a Wastewater employee purportedly using an assigned City vehicle to conduct personal business. The second case concerned possible Procard misuse involved in a camera purchase. Because these allegations were both related to the same section at the Wastewater Division's McLeod Road facility, we conducted a simultaneous review of both instances.

Our inquiry into these reports was made in accordance with generally accepted government auditing standards.

Scope of Audit Work Performed

We limited our review to performing inquiries of management and reviewing documents specifically related to both hotline reports. With the exception of the camera purchase mentioned above, we did not audit the accuracy or legitimacy of other documents we reviewed, nor did we audit the Wastewater Division's systems of management control that help ensure the accuracy or legitimacy of its Procard spending (approximately \$730,000 during FY 03-04); accordingly, we make no conclusions as to the accuracy or legitimacy of the documents or the adequacy of the management controls, other than those related to the camera purchase.

Hotline Call – Allegation of employee conducting personal business during work hours and using City equipment for unauthorized activities

We could not independently confirm the circumstances of this allegation because these events occurred sometime in the past. Instead, we interviewed Wastewater management and learned that they have control systems in place to monitor the activities of the employee assigned the City vehicle. These systems include regular contact between this individual and a supervisor, use of mileage logs and the assignment of a cellular phone to this individual. Also, it should be noted that the individual in question has been previously formally counseled regarding unscheduled absences from work. We believe these procedures provide adequate control to determine whether employees are

conducting personal business during work hours. We inquired about the use of GPS devices to monitor the activities of employees who are assigned City vehicles, but learned that, at present, the City does not utilize such devices.

Hotline Call – Allegation of unauthorized use of Procard

We discussed this hotline call with Division management who investigated the matter further. According to Division management, one employee used another employee's Procard to purchase the camera without notifying the cardholder, which Division management indicated is allowed by Division practices. The purchase requester's manager reported locating the camera on site when the requester returned from leave a couple of days after our initial meeting.

While Division management's investigation addressed the hotline call, our discussions with management and review of documentation indicate the Division's purchasing and related internal controls need improvement as follows:

Adherence to City Policies and Procedures

Although division managers allow an employee to use another employee's Procard to purchase items, this practice does not comply with City Policy and Procedure 651.1:4G.2, which prohibits such use. Division managers stated this practice is utilized primarily because vendors prefer to use existing card numbers in their systems and because of constraints on Procard transaction activity. While vendor preferences and Procard constraints may cause difficulties, allowing individuals to use another individual's Procard account is not only non-compliant with City Policy but also diminishes the Procard holder's accountability. Managers should not allow practices that are prohibited by City Policy. Insisting vendors use the purchaser's account number as well as increasing Procard limits, utilizing supervisory/managerial staff to purchase items when other cardholders are constrained and/or better planning of purchase activities are all alternatives that could help ensure compliance with City Policies and Procedures as well as enhance accountability.

We also noted several Procard purchases that appear to be circumventions of the City Policy 651.1:4G.3 prohibition regarding splitting purchases to remain below spending limits. For example, we noted two staff each made separate purchases of the same items from the same vendor on the same day for four consecutive workdays, with each purchase slightly below the \$1,000 individual purchase limit. These purchases totaled approximately \$7,500 over the four-day period, and would have required bid solicitations if normal purchasing procedures were followed. While Management, Budget and Accounting (MBA) staff stated that they sample approximately 20% of individual Procard accounts for split purchase and other activities, it is unlikely that the preceding type of activity would have been noted in this review. MBA does, however, have access to several reports (spending by employee, spending by program, spending by vendor, etc.), some of which might be beneficial to Division management to monitor Procard activity at an oversight level.

Recommendations

1. Division managers should be counseled regarding adherence to City Policies and Procedures with disciplinary actions taken if appropriate.
2. Division management should distribute the City's Procard Policy and Procedure to all cardholders and establish internal policies and/or procedures to ensure compliance.
3. Division management should contact Management, Budget and Accounting to discuss obtaining reports for monitoring Procard activities to help ensure compliance with both internal and City policies and procedures.

Management Response

We concur. We will make certain that all Procard holders have a copy of the City's Policy and Procedure regarding their usage. We will counsel those users regarding the importance of adhering to those policies and procedures. We will review the Division's internal policies regarding Procard usage and will revise them as necessary to ensure compliance. We would like to point out that the instance of apparent Procard misuse involved the emergency purchase of materials required to seal a force main leak. Some means of preventing this from happening in the future may include raising the limit on certain Procards, having Purchasing implement a procedure to streamline the procurement of materials under emergency conditions or establishing accounts with vendors of certain emergency items.

Purchase Requisitions

The camera purchase requisitions we reviewed did not indicate the reason for the purchase, e.g., camera damaged, new employee, camera malfunction, although a supervisor did approve each requisition. Division management also indicated that while the purchase reasons may not be shown on the requisition, managers are required to approve Procard statements, at which time unusual purchases could be investigated. Requiring that reasons for purchasing items be documented on the Purchase Requisition provides better assurance that only needed items are purchased and allows for a more efficient supervisory review.

Recommendation

4. We recommend Purchase Requisition criteria be modified to require the reason for the purchase be included on the Requisition for supervisory/manager review prior to approval.

Management Response

We concur. We will revise our requisition forms to include a space to indicate the reason for the purchase. In regard to future purchases of equipment such as cameras, we will be changing our practices by requiring a supervisor or assistant

manager to sign off on the purchase. The person to receive the equipment, a description of the equipment (model number, type, etc.) and the reason for purchasing the equipment (such as replacement) will all be required.

Receiving Practices

Wastewater Division practices do not require individuals receiving items to sign and date receiving documents. As a result, documentation is not available to indicate that items were, in fact, received or to assign accountability to those individuals performing the receiving function, particularly since non-purchasers can receive the items. Good internal control practices require individuals receiving purchased items to acknowledge receipt by signing and dating the receiving documents.

Recommendation

5. Receiving practices should require receiving individuals to sign and date receiving documents as evidence of receipt and to provide accountability.

Management Response

We concur. We will revise our requisition forms to include spaces for the receiving individual to sign and date upon receipt of the item.

Minor Property Recordkeeping

The Division does not currently maintain minor property records to track items such as cameras, tools and like items that do not meet the capitalization threshold (\$1,000). Because such items are highly portable and readily subject to abuse, misuse, misappropriation, etc., sound practices generally include the maintenance of records indicating to whom certain items have been issued and are to be held accountable for their care and return/replacement.

We also understand that a physical inventory of tools, equipment, supplies, etc. has not been taken in quite some time. Given that the hurricanes resulted in substantial movement and/or use of these items, it is likely that record-keeping accuracy was not at the appropriate level. A physical inventory at this time would establish a new baseline that should then be maintained to ensure appropriate accountability.

Recommendations

6. Minor property records should be established to provide an inventory of such items, their location and/or to whom they were issued.
7. A physical inventory of all minor property, tools, equipment, supplies, etc. should be taken to reestablish an accurate inventory of such items and then procedures established to maintain the accuracy of those records.

Management Response

We concur. We are in the process of creating a new position, Asset Manager, which will be responsible for creating and updating an inventory of all property, tools, equipment, supplies, etc. at all of our facilities (i.e., treatment plants, lift stations, warehouses, etc.). We believe that it is very important that we have an accurate record of all of our inventory items.

If you have any questions or desire further information, please contact me. George McGowan, Audit and Evaluation Manager, and Jack Sirak, Audit Program Manager, performed this review.

BHD/jts

- c: Honorable Buddy Dyer, Mayor
- Jose I. Fernandez, Jr., Chief of Staff
- Joseph Robinson, Deputy Chief of Staff
- Richard L. Levey, AICP, Chief Administrative Officer
- Amy Iennaco, Chief Assistant City Attorney
- Deborah D. Girard, Management, Budget and Accounting Director
- Robert Cadle, Wastewater Division Manager