



# CITY OF ORLANDO

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## MEMORANDUM

To: Alan Oyler, Public Works Director

From: Beryl H. Davis, CPA, CGFM  
Director, Audit Services and Management Support

Date: Exit Conference Date: August 28, 2008  
Report Issue Date: September 22, 2008

Subject: Wastewater Division: Hotline Call Regarding Alleged Inappropriate Purchases (Report No. 08-14)

At your request, following a report to our Audit Hotline, we conducted a review into purchasing practices of the Wastewater Division. The hotline caller alleged that inappropriate purchases were occurring in the Environmental Control program. Our inquiry into these reports was made in accordance with generally accepted government auditing standards.

### **Scope and Methodology**

We limited our review to performing inquiries of management, reviewing specific documents, and analyzing purchasing information for the Division. We conducted a review of several specific purchases, the purchasing patterns of selected Wastewater programs, and the purchasing practices of the Wastewater Division as a whole.

We analyzed the overall trends in the use of Procards for comparable Public Works employees for the period between April 2005 and April 2008; examined selected details of Procard purchases made by the Wastewater Division between April 2006 and April 2008; and compared material requisitions made by two Wastewater programs between April 2007 and April 2008.

We also listed and reviewed the number of cards used by each Wastewater employee, the daily purchase limits for these cards, and the total dollar amount of purchases for the period reviewed.

### **Background**

The Division has issued Procards to its managers, and Division management has instructed the managers that the Procards should be primarily used for emergency purchases. This policy does not extend to the individuals who work in the two warehouses operated by the Division (one located at the McLeod Road facility and one operated at Iron Bridge). These employees use Procards to make the centralized, regular

operational purchases for the Division. Most items are acquired by the Division's internal warehouse function through a process of having Division employees complete material requisition forms which are then filled by warehouse staff. The warehouse function also purchases the materials and supplies it has determined are regularly needed by the Wastewater programs as "stock" items. These purchases are primarily made by Procard but are also made from City annual contractors. The warehouse function is supervised by the Asset Manager, who reports to the Technical Support Manager.

## **Findings, Conclusions and Recommendations**

### Internal Policies and Warehouse Activities

When comparing the Procard purchases of the Environmental Control Manager to two other comparable Public Works Department program managers, we learned that one of the managers selected for comparison does not have a Procard and the other manager's Procard purchases were one-third of those of the Environmental Control Manager. We then reviewed selected Procard statements for the Environmental Control Manager and identified purchases that did not appear to be in line with the Division's internal policy of limiting the use of individual Procards to emergency purchases only.

We also reviewed the Division's material requisitions. This review revealed that the Lift Station Operations Program uses a standardized requisition form for items it regularly requests from the warehouse. We were informed by warehouse employees that the use of this form helps them identify regularly used supplies and the warehouse uses this information to keep these items in stock so that they are available soon after they are requested. We found that 58% of the materials requested from the warehouse by Lift Station Operations employees were for in-stock items. On the contrary, only 18% of the materials requested by the Environmental Control program were for in-stock items.

It appears that written internal policies for the Division could be a useful tool to codify the current guidelines regarding Procard purchases. In addition, written internal policies can be created that clarify the role and responsibilities of the Division's warehouse function and the role and responsibilities of the warehouse employees and Asset Manager, in particular. In this way, all employees and managers are informed and understand the purchase approval process, including: how regular monitoring of purchases and supervision over the warehouse function is performed and what types of Procard purchases are allowed to be made outside of the material requisition or warehouse function.

### RECOMMENDATIONS

1. We recommend that the Wastewater Division formally document internal policies and procedures over purchasing activities, including the role and responsibilities of the warehouse function and its management.
2. We recommend that the Wastewater Division's Environmental Control Program and the warehouse function work together to create standard bench stock lists, identifying commonly used supplies that could be routinely stocked.

## AUDITEE RESPONSES

1. **Concur.** The Wastewater Division is in the process of reviewing the roles and responsibilities of our warehouses, the warehouse personnel and the management of those facilities. Upon conclusion of this review, the roles and responsibilities will be incorporated into the Wastewater Division's policies and procedures.
2. **Concur.** The Environmental Control Manager is working with our Asset Manager to create a bench-stock sheet to identify items that can be stocked in the warehouse.

### Procard Purchases

We examined selected Procard purchase data for the entire Wastewater Division for the period April 2006-April 2008. We learned that the Division is one of the higher users of Procards in the City. The Division uses 99 Procards and the total Procard purchases for the period reviewed was \$1,911,146. The combined maximum daily limit of all cards in the Division is \$599,500.

Several Wastewater employees (including those in the warehouse function) make purchases for the several programs in the Division using multiple Procards. The maximum number of cards held by any one individual is eleven. We presented this information to the Division Manager and discussed the importance of reviewing the number of Procards in use, as well as their transaction and dollar limits to control the potential for fraud or abuse. We believe that such a review should be performed periodically by the Assistant Division Manager and the results reported to the Wastewater Division Manager.

In addition, the high number of Procard purchases and the nature of many Procard purchases indicate a need for additional management controls. These controls should include: periodic reviews of trends in Procard purchases to determine whether savings can be achieved by using contract vendors for frequently stocked or purchased items; periodic summaries of Procard spending by individual for review by Wastewater Division management; and periodic summaries of Procard purchases by Program for review by the responsible Program Manager.

## RECOMMENDATIONS

3. We recommend that Wastewater Division management review summarized purchasing data to determine if savings could be achieved by using contract vendors rather than through making Procard purchases from non-contract vendors.
4. We recommend that the Assistant Division Manager periodically review and report to management the number of Procards issued and the limits (individual purchase dollar limit, number of transactions per day, and total dollar amount and number of transactions per cycle) set for each to ensure the cards are necessary and the limits are appropriate.

5. We recommend that the Asset Manager and Assistant Division Manager develop regular summary reports of Procard spending for review by Wastewater and Public Works management.

#### AUDITEE RESPONSES

3. **Concur.** Wastewater Division management utilizes contract vendors for most of our purchases. Procards are used to purchase specialized items not covered by contracts. Procard users have been reminded to purchase from contract vendors whenever possible.
4. **Concur.** The Assistant Division Manager has reviewed the list of Procards held by Wastewater Division employees. Based on that review, the Wastewater Division has reduced the number of Procards from 98 to 45. In addition, the purchasing limits of five Procards were reduced to more appropriate levels.
5. **Concur.** The Asset Manager and the Assistant Division Manager are in the process of developing a quarterly report of Procard usage for review by Wastewater Division management.

#### Small Tools and Equipment Inventory

During this review, we reviewed documentation (material requisitions, Procard statements, and invoices) for the specific purchases mentioned by the Hotline caller as questionable. The items identified as possible inappropriate purchases included several GPS devices, an MP3 player and transmitter, and several cameras. After reviewing the purchase documentation and discussing these purchases with management, we conducted an unannounced inspection of a number of the items. The items inspected were on-site at the Wastewater Division offices and properly secured. An explanation of the business purpose for each item was provided by the Environmental Control Manager. We conclude that these purchases were not fraudulent. However, we did note that these items are multifunctional and can be easily diverted for personal use by Wastewater Division employees. For this reason, additional management controls over these items are warranted.

City Policy 1000.4, states:

Items less than \$1,000 in value will be defined as small tools. The Office Head and/or Bureau Chief will be accountable for small tool assignments. Small tools are defined to include office equipment and will be controlled at the level deemed necessary for adequate cost/benefit.

The items identified by the Hotline caller and several other equipment items we noted after our review have a purchase price just below the City's \$1,000 capitalization threshold. These include a video camera with accessories (total cost \$842) purchased in 2007, and three multi-meters (devices used to test electric wires - \$975 each) recently purchased. To improve control, an inventory of the equipment items of the Wastewater Division under the \$1,000 threshold which are identified as subject to possible personal use or abuse should be created and a regular process of confirming the existence and

continued use of these items should be developed. During this review, we were informed by the Wastewater Division Manager that such a practice has been instituted.

#### RECOMMENDATION

6. We recommend that the Wastewater Division management develop an internal policy and procedure creating an inventory control system for equipment items costing less than \$1,000 but subject to personal use or abuse.

#### AUDITEE RESPONSE

6. **Concur.** Wastewater Division management has implemented an inventory control system to track these types of items. The requirements for this system will be formally incorporated into the Wastewater Division's policies and procedures.

#### Role of the Asset Manager

During this review, we learned about the duties of the Wastewater Division Asset Manager and reviewed the job description for the position. The Asset Manager currently reports to the Technical Support Manager and is responsible for the operation of the warehouse function and other budget-related tasks. It became apparent as we performed our review that there is some need for the Wastewater Division Manager to clarify the role of the Asset Manager (and the warehouse function) with regard to oversight of the purchases made in the Division. We believe an opportunity exists for the Wastewater Division Manager to involve the Assistant Division Manager in this oversight function to support the efforts of the Asset Manager to properly manage, review and control the purchases made by the Division.

#### RECOMMENDATION

7. We recommend that the Wastewater Division Manager review the role of the Asset Manager and warehouse function to determine how this function can be better utilized to achieve control and efficiency over the Wastewater Division's procurement process.

#### AUDITEE RESPONSE

7. **Concur.** Wastewater Division management has met with the Asset Manager to review the roles and responsibilities of the Asset Manager and support staff. Based on that review, it has been determined that the position warrants an upgrade to increase the roles and responsibilities in order to achieve better control and efficiency of the Wastewater Division's assets, budgets and procurement process. Wastewater Division management is preparing the documentation necessary to affect a reclassification of the Asset Manager position. In addition, the Asset Manager is now reporting directly to the Assistant Division Manager instead of the Technical Support Manager.

Laurel Stevenson, Senior Auditor and George McGowan, Manager, Audit Services and Management Support, performed this review.

BHD/am

- c: Honorable Buddy Dyer, Mayor
- Byron W. Brooks, Chief Administrative Officer
- Brie N. Turek, Chief of Staff
- Mayanne Downs, City Attorney
- Rebecca W. Sutton, Chief Financial Officer
- David Sloan, Environmental Services Division Manager
- Robert Cadle, Wastewater Division Manager