

CITY AUDITOR'S OFFICE



AUDIT OF PUBLIC WORKS Environmental Division Management Controls over Purchasing, Tools, and Inventory

Report No. CAO 1504-1516-02

November 24, 2015

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CITY AUDITOR

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AUDIT OF PUBLIC WORKS
Environmental Division
Management Controls over
Purchasing, Tools, and Inventory
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BACKGROUND

The Department of Public Work's Environmental Division (Environmental) manages all facets of wastewater treatment for the city and ensures that water returned to the Las Vegas wash and Lake Mead meets or exceeds all state and federal requirements. Environmental's facilities include the main Water Pollution Control Facility (WPCF) on East Vegas Valley Drive and two satellite water reuse facilities (Bonanza Mojave and Durango Hills Water Resource Centers). Environmental's organization includes the following work units:

- Administration
- Operations and Maintenance
- Laboratory (including Environmental Compliance)
- Engineering
- Supply (including purchasing and inventory management functions)

The Supply work unit (Supply) is comprised of the following positions: a materials management supervisor, two purchasing technicians, and two materials management technicians. This unit oversees Environmental's purchasing activities and management of the warehouse operations.

Environmental uses a software application known as Utilities Work and Asset Management (WAM) for processing work orders and purchase requisitions and managing inventory within the plant warehouse. WAM interfaces with the software application known as the Oracle E-Business Suite (Oracle) for the processing of purchase requisitions.

OBJECTIVES

Our objectives in completing this audit were to:

- Evaluate the adequacy of the purchase approval controls
- Evaluate the adequacy of management controls over tools and equipment
- Evaluate the adequacy of the annual physical inventory procedures

SCOPE AND METHODOLOGY

The scope of our work on internal controls was limited to the controls within the context of the audit objectives and the scope of the audit. The last fieldwork date of this audit was August 26, 2015. Our audit methodology included:

- Review of existing policies and procedures
- Interviews with city employees
- Visits to various plant facilities
- Observation of operations

- Review of purchasing and inventory data within the WAM system
- Review of purchasing data within the Oracle system

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no effect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

The following conclusions to our audit objectives were noted:

Evaluate the adequacy of the purchase approval controls

- Purchase approval controls were found to be in place and functioning as intended.
- Problems are regularly experienced with the system interface between WAM and Oracle. These system issues need to be addressed by the Department of Information Technologies (IT). See Finding #1.

Evaluate the adequacy of the management controls over tools and equipment

- Improvements are needed in the process being followed to identify, record, tag, and verify sensitive items in accordance with the city's fixed asset policy and procedures. See Finding #2.
- Improved management controls and procedures are needed over the tracking of the warehouse tools. See Finding #3.
- Improved management controls are needed over tools issued to employees to provide increased accountability for these tools. See Finding #4.

Evaluate the adequacy of the annual physical inventory procedures

- Improvements are needed in the procedures being followed to complete the annual warehouse physical inventory and evaluate quantity variances. See Finding #5.
- Additional management controls are needed to identify significant changes in the average unit cost of inventory items which could be indicative of data input errors. See Finding #6.

Further information on these issues is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Software Interface Deficiencies

Criteria

An operation is most efficient and effective when software applications function as intended and system errors are minimal.

Condition

Supply uses WAM and Oracle in making purchases for the Environmental Division. Purchase requisitions (PR) are created in WAM and sent via a system interface to Oracle from which a purchase order (PO) is created by staff in the city's Purchasing Division of the Department of Finance (Purchasing). Once a PO is created and sent to a vendor, the PO data is shared with WAM via the system interface. When purchased items arrive at the warehouse, the receipt of these items is recorded in WAM and then this information is shared with Oracle via the system interface.

Supply regularly experiences purchase requisitions, purchase orders, and related attachments getting "stuck" or lost in the system interface. IT staff and/or the Public Works Application Support Team must be contacted to remedy the problem and resolution of the problem can sometimes take days. If the problem is not identified and resolved in a timely manner, a stuck PR or PO can cause delays in the delivery of purchase orders to vendors and delays in the delivery of critical inventory items.

While IT is aware of this interface issue, the problems persist and are a continual frustration for both Supply and Purchasing staff. According to Supply personnel, this problem has been ongoing for approximately eight years and has gotten increasingly worse with each Oracle upgrade.

Cause

- System and/or data compatibility issues between WAM and Oracle.
- System does not automatically identify compatibility issues with data prior to a transaction entering the interface.
- Interface issues not fully addressed.

Effect

- Delays in processing purchase orders and delivery of items purchased.
- Work inefficiencies created by interface problem for Environmental and Purchasing staff.
- Time regularly required by IT to address interface issues.

Recommendations

- 1.1 Information Technologies management working with Environmental management and the Public Works Application Support Team should address the ongoing WAM/Oracle interface problems. Information Technologies management should evaluate and document a plan for correcting the problem or provide alternative solutions. Information Technologies management should evaluate whether this problem can be resolved internally or whether it will require outside contractors.
- 1.2 Information Technologies management working with the Public Works Application Support Team should document guidelines and standards to be followed by Environmental staff in their use of WAM to help ensure proper functioning of the WAM/Oracle interface.

2. Improvements Needed in Sensitive Items Identification Process

Criteria

The City's Fixed Asset Policy (FN210.3) states that *"it is the responsibility of each manager to exercise due diligence and control to prevent, detect, and report theft of any City property."*

City's Fixed Asset Policy Excerpt (FN210.3):

A record shall be compiled and maintained in each department of controlled non-capitalized machinery and equipment items. The department should assign responsibility of this function to one or more specific individuals. This assignment should be documented within the department and communicated to the Fixed Asset Analyst. Individuals responsible for these controlled non-capitalized items should request and affix property tags on the controlled non-capitalized items as well as prepare and maintain a complete list of those items each year within the department. At the close of each fiscal year, every individual assigned responsibility for controlled non-capitalized items should prepare a report (to be maintained within the department) that provides a complete list of those items, along with an explanation of changes from the previous year.

City's Fixed Asset Procedure Excerpt (FN 210a.3):

Due to their sensitive, portable, or theft prone natures, certain property items with a cost of \$500 but less than \$5,000 must be subject to control as if they were fixed assets. This allows for systematic control over high pilferage and other items that do not meet all the guidelines for capitalization. Non-capitalized (sensitive) items, with a cost less than \$500, may be affixed with a City of Las Vegas inventory tag to deter potential theft. Prepare and maintain a complete list within the department of all non-capital items at their original acquisition cost. Inventory non-capitalized items on an annual basis and compile a list to be maintained in the department and available for inspection. This should be a complete list and provide explanation for changes from the previous year. Certify each year to the Fixed Asset Analyst that the listing of non-capitalized items are on file and available for inspection.

Condition

The city's fixed asset policy requires that departments identify, record, tag, and annually verify non-capitalized items (i.e., items less than \$5,000) that management deems to be sensitive, portable, or susceptible to theft. These items are classified as sensitive items.

We obtained and reviewed Environmental's sensitive items listing and noted the following deficiencies:

- Environmental management has not documented its methodology for identifying sensitive items (i.e., type of items to be included, dollar thresholds, etc.).
- Environmental management has not documented procedures to be followed by their staff for identification of sensitive items including the roles and responsibilities of the various Environmental work units in identifying, recording, tagging, and annually verifying sensitive items.
- The sensitive items listing submitted to Finance on March 31, 2015 was incomplete. During our visits to Environmental's facilities, we observed many items that could be considered sensitive items that were not included on the sensitive items listing. The following items have not been fully considered and evaluated for inclusion on the sensitive items listing:
 - Tools and equipment within the inventory warehouse
 - Tools, equipment, and instruments at the satellite facilities (Bonanza Mojave and Durango Water Resource Centers)
 - Tools, equipment, and instruments at the laboratories
 - Tools, equipment, and instruments within various tool cages and plant tunnels
 - Tools and equipment issued to employees
- The materials management supervisor and a management analyst are currently the only staff involved with the sensitive items identification process. While these two staff members should be involved in the process, other work unit staff need to be involved as well in identifying, recording, tagging, and verifying sensitive items considering their familiarity with their tools, equipment, and instruments, the size of the plant, and the multiple locations.

Cause

- Lack of a formal methodology and process for identifying and verifying sensitive items within Environmental.
- Incomplete evaluation of tools, equipment, and instruments to be included on the sensitive items listing.

Effect

- Lack of a complete listing of sensitive items.
- Assets that are sensitive, portable, or prone to theft could go missing without detection.

Recommendations

- 2.1 Environmental management should document and implement a process for the identification and monitoring of sensitive items. These procedures should address the following areas:
- Methodology for the identification of sensitive items.
 - Process to be followed for identifying sensitive items (both existing and new purchases), maintaining the sensitive items listing, requesting and affixing tags, verifying items annually, and preparing the year-end report that includes explanations of changes from the previous year.
 - Information to be gathered and recorded on sensitive items.
 - Software to be used for recording sensitive items.
 - Responsibilities of employees from the various Environmental work units in this process.
 - Identification of employee responsible for certifying to Finance that the sensitive item listing is on file and available for inspection.
- 2.2 Environmental management should have staff take digital photos of sensitive items and store these photos digitally or in hard copy for reference.

3. Improved Controls Needed Over Warehouse Tools

Criteria

Assets are most accurately accounted for when they are aggregated with assets with similar characteristics.

Standard operating procedures address the key activities and processes of an organization, how they are performed, and by whom. They assist employees and management in performing the daily functions of an organization. These procedures formally establish employee accountability, provide orientation and reference material for employees, and document the institutional knowledge of existing staff in case of employee turnover or extended absences.

Condition

Environmental maintains a warehouse in which stock inventory and tools are stored to support the operations of the water treatment plant and reuse facilities. Supply oversees the operation of this warehouse and issues stock inventory and tools to Environmental employees. The power tools and some hand tools are recorded and tracked in the WAM inventory module along with the stock inventory items. The tools within WAM are checked out to employees similarly to how stock inventory is issued. When a tool is returned, the treatment is similar to the restocking of a previously issued stock inventory item. Many hand tools are not recorded in any system but their issuance and returns are tracked using a manual card file. Improvements needed in the management controls over the warehouse tools are discussed below:

Policies and Procedures

- While Supply has communicated general guidelines for Environmental staff to follow in checking out and returning tools to the warehouse, they have not been documented in formalized division policies and/or procedures, approved by upper management, and provided to staff.
- While Supply has documented the routine procedures for its warehouse staff, these procedures do not address the management of the warehouse tools.
- Supply lacks a uniform and consistent process for following-up with Environmental staff on unreturned tools. While the Materials Management Supervisor periodically sends out emails to the Environmental work units informing them of unreturned tools, this process has not been formalized and is not uniform and consistent.
- Supply lacks documented desk procedures on its purchasing process.

Warehouse Power and Select Hand Tools Tracked in WAM

- Stock inventory and tools are tracked and accounted for within the same database module despite being different types of assets (i.e., stock inventory is continually “consumed” in an operation while tools are not). As a result of the use of the inventory module for tracking tools, WAM inventory quantity and cost reports include both stock inventory and tools.
- Supply lacks readily accessible system reports from WAM that identify the status of tools such as:
 - Description of checked out tools
 - Date tools were checked out and returned
 - Employees who checked out the tools
 - Location where tools are being used
 - How long the tools have been checked out
- Unique identifiers of the tools (e.g., serial numbers) are not currently tracked in the WAM system.
- At the commencement of the audit, the total number of each type of tool overseen by the warehouse was not available in the WAM system, only the number of each tool on hand. This information was subsequently added to a data field used for identifying the maximum number of an inventory item to have in stock. There is currently no formalized procedure to keep this number updated as new tools are purchased. The use of a unique identifier for each tool would be a better method for tracking the number of tools overseen by Supply.

Warehouse Hand Tools

- Most warehouse hand tools are not currently tracked in the WAM inventory module but rather using a manual card file. Each employee that checks out hand tools has a card within the card file with their name where they write down the description of the tool, the date, and their initials. The line item is supposed to be crossed out by the employee when the hand tool is returned. This manual process is inherently subject to manual error (e.g., employee neglecting to identify tool checked out on card or failing to cross it out upon returning the tool) and does not allow for easily accessible information on the status of checked out hand tools.

Accounting for Purchases of Warehouse Tools

- Tools overseen by the warehouse are purchased using the inventory general ledger account rather than being expensed using the tools and equipment expense accounts as is done with purchases of tools and equipment not overseen by the warehouse.

Cause

- Inadequate formalized procedures.
- Lack of tool status reports from WAM.
- Consequences of aggregating stock inventory and tools within same database not fully considered.

Effect

- Inconsistent monitoring of status of warehouse tools.
- Information on the status of tools is not easily accessible.
- Certain tools have inappropriately been included in stock inventory quantities and cost.
- Inconsistent accounting treatment of tools overseen by Supply (purchased using inventory account) and tools outside of warehouse (purchased using expense account).

Recommendations

- 3.1 Environmental management should document and implement the following policies and procedures:
 - Tool checkout and return policies and procedures to be followed by Environmental staff utilizing tools from the warehouse.
 - Desk procedures outlining Supply's management of warehouse tools.
 - Desk procedures outlining Supply's purchasing process.
- 3.2 Environmental management in consultation with the Public Works Application Support Team should evaluate options for segregating the warehouse inventory and tool records. Consideration should be given to using a different module within WAM or another software application. If the inventory module continues to be used, management should adjust the inventory system data to allow for the segregation of tools and stock inventory for physical count, tracking, and reporting purposes.
- 3.3 Environmental management in consultation with the Public Works Application Support Team should create an easily accessible system report that allows Supply at a minimum the following information:
 - Tools overseen by Supply
 - Tools checked out, date, to whom, and location tool will be used
 - Date tool returned
 - Number of days tool has been checked out

- 3.4 Environmental management should record unique identifiers such as tool serial numbers within the WAM system (or within a new application) to provide for greater accountability of tools.
- 3.5 Environmental management should evaluate the feasibility and cost effectiveness of automating the tracking of an increased number of hand tools in place of the current card file process.
- 3.6 Environmental management should have Supply begin recording warehouse tool purchases using the tools and equipment expense account rather than the inventory account for tools being maintained in the warehouse.

4. Improved Controls Needed Over Tools Issued to Employees

Criteria

Accountability for tools issued to employees is enhanced when an employee formally acknowledges receipt of those tools and is held responsible for the safekeeping and return of those tools.

Department of Public Works – Work Rules and Regulations: *Supplies, equipment and/or services provided or paid by the City are to be used exclusively for City-related business and are not available for personal use. Employees are responsible for all City supplies, tools and/or equipment issued to them.*

Condition

Certain employees within the Operations and Maintenance work unit are issued a standard set of hand tools based on their job classification and a tool box. These tools typically have a cost exceeding \$3,000. These tools are stored in the tool box on the back of golf carts used by these employees. The following control deficiencies were identified in the security over these issued tools:

- A formal process for issuance of these tools and tool boxes has not been documented and implemented.
- No written acknowledgement of receipt of the tools and tool boxes is obtained from these employees and acknowledgement of their responsibility for the tools.
- Formalized guidelines on the safekeeping of these tools have not been established, documented, or communicated to employees.
- A formalized process for monitoring and evaluating the appropriateness of issued tool replacement requests has not been documented and implemented.
- A formalized process for the return and reassignment of issued tools and tool boxes upon an employee's separation from employment with the city or change in position has not been documented and implemented.

Cause

- Formal process for holding employees accountable for the safekeeping and return of issued tools has not been implemented.

Effect

- Lack of formal acknowledgment by employees of receipt of tools.
- Lack of assurance that employees are aware of their responsibility for the safeguarding of their tools.
- Lack of employee accountability for safekeeping and return of tools and toolboxes.
- Lack of assurance and evidence that issued tools are all accounted for.
- Lack of assurance that tools are properly returned by an employee upon separation from employment or change in position.

Recommendations

- 4.1 Environmental management should have Operations and Maintenance management document and implement procedures that enhance the security of and accountability for the tools and tool boxes issued to their employees. This procedure should include the following elements:
- Creation and use of a form to be signed by employees upon receipt of the tools and toolbox along with a listing of tools provided. This form should have the employees acknowledge that they are aware of the department policy that they are responsible for safeguarding of the tools assigned to them.
 - Guidelines for the safekeeping and security of tools, tool boxes, and keys.
 - Process by which requests for replacement of the issued tools are monitored for unusual trends which could be indicative of loss or theft.
 - Process by which tools and tool boxes are returned for inspection upon an employee's separation from employment with the city.
 - Guidelines for the evaluation and reassignment of returned tools and tool boxes.
- 4.2 Environmental management should have Operations and Maintenance management implement the new procedures with existing employees who have been issued tools and tool boxes.

5. Improvements Needed in Annual Physical Inventory Procedures

Criteria

Best Practices in Inventory Counts, U.S. Government Accountability Office (GAO-02-447G):

Establishing and documenting policies and procedures are essential to an effective and reliable physical count. Policies and procedures demonstrate management's commitment to the

*inventory physical count process and provide to all personnel clear communication and comprehensive instructions and guidelines for the count. Establishing written policies and procedures helps ensure consistent and accurate compliance and application needed to achieve high levels of integrity and accuracy in the physical count process. Policies and procedures also become the basis for training and informing employees. **Well-documented physical count policies and procedures typically pertain to all aspects of the physical count process, including the activities or tasks that take place before, during, and after the physical count. Documented policies and procedures generally include everything an employee needs to know to complete the requirements of a specific task for the physical count.***

Even with a strong control environment and sound physical count procedures, it is not unusual for there to be differences in quantities between the physical count and the record. Research of the cause, sometimes referred to as —root cause analysis, and reconciliation of the difference is an essential element of an effective physical count process. Research, when properly conducted, provides support for adjustment to the inventory records, identifies the causes of variances between the physical count and the inventory records, and provides management with information with which to implement corrective actions. The process of research includes performing the required analysis, promptly completing research, and referring variances to management for approval and/or security for investigation.

Condition

Supply completes an annual physical count of the warehouse inventory. Initial counts are completed by warehouse staff and quantities are input into the WAM system. A quantity variance report is subsequently generated from WAM and the warehouse management supervisor verifies the validity of the variance. Any count errors are corrected in WAM.

Our review of the annual physical inventory procedures being completed by Supply identified the following needed improvements:

- The documented desk procedures for completion of the annual warehouse physical inventory are outdated and incomplete. While a WAM system procedural document exists for completion of the physical inventory, this document was last updated in January 2009 and does not reflect all of the current procedures and phases of completing the physical inventory count.
- A final detailed quantity and cost variance report (including all adjustments made by the supervisor) is not currently generated directly from the WAM system for review and evaluation.
- The physical inventory quantity and dollar value variance summaries show net variances rather than breaking out the variances by overages and shortages.
- A formalized process for researching and evaluating differences in quantities between the physical count and the WAM system has not been implemented. A reliable detailed final quantity and cost variance report is needed to facilitate this process.
- A formalized process for comparing variances from year to year for any unusual or irregular activity has not been implemented.

- A formalized process for reviewing the accuracy of the average unit costs of inventory items in conjunction with the physical inventory has not been implemented. See finding #6.

Cause

- Incomplete documented inventory procedures.
- Lack of final detail variance report for research and analysis.
- Lack of formalized procedures for researching and evaluating inventory count variances.

Effect

- Potential for inventory loss without detection.
- Potential for inaccurate inventory costing.

Recommendations

- 5.1 Environmental management should have Supply update its documented physical inventory desk procedures to include information on all phases of the process from planning for the inventory to the final research and evaluation of the inventory results.
- 5.2 Environmental management in consultation with the Public Works Application Support Team should create the following reports for use by Supply:
- a final detailed physical inventory quantity and dollar variance report
 - a final summary physical inventory quantity and dollar variance report that identifies overages and shortages
 - an annual rollforward of inventory items showing quantities at beginning of year, purchases, adjustments, issuances, and end of year quantity
- 5.3 Environmental management should have Supply implement a formal process where the following evaluations are completed:
- comparison of final inventory count variances against prior year variances for any unusual trends or irregularities
 - evaluation of the adequacy of inventory levels based on historic trends

6. Inventory Costing Controls Needed

Criteria

Internal controls are generally preventive or detective by nature. *Preventive controls* are designed to keep errors or irregularities from occurring. *Detective controls* are designed to find errors or irregularities after they have occurred. Both of these types of controls are essential to an effective internal control program.

Accurate inventory costing is contingent on the accuracy of the quantities of inventory items and the unit cost of these items and the controls surrounding the input of this information into an inventory system.

Condition

Environmental's warehouse inventory is costed automatically by the WAM system using the average unit cost method. Under this method, the unit cost of an inventory item is the total aggregated cost of an item in stock divided by the number of items. The unit cost is updated with each new purchase of an inventory item. Incorrect quantities or costs input into the WAM system create errors in the average unit cost. The total inventory cost in WAM is provided to Finance at the end of each fiscal year for incorporation into the city's annual financial statements.

While certain *preventive controls* exist to prevent errors in the unit cost of WAM inventory items at the time of purchasing (i.e., review and approval of transactions by Supply and Purchasing staff), errors can occur. There are currently no *detective controls* in place to identify these errors and provide assurance that the average unit costs of inventory items within WAM are accurate. Examples of controls and procedures that could help in identifying average unit cost errors include the following:

- System alerts to WAM users of significant changes in the average unit cost of an item.
- Creation and routine review of reports showing percentage changes in the average unit costs of inventory items.
- Creation and review of reports showing percentage changes in the average unit costs of inventory items in conjunction with completion of the annual physical inventory.

Cause

- Lack of sufficient preventive and detective controls and procedures to identify significant changes in the average unit costs of WAM inventory items which could be indicative of data input errors.

Effect

- Lack of assurance that inventory is accurately costed.

Recommendations

- 6.1 Environmental management in consultation with the Public Works Application Support Team should evaluate what preventive and detective controls and procedures can be implemented to timely identify significant changes in the average unit cost of items which could be indicative of data input errors. Environmental management should document and implement the selected controls and procedures.
- 6.2 Environmental management should implement procedures to identify and correct *existing* average unit cost errors within the WAM system.

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- 6.3 Environmental management should request that the Public Works Application Support Team document and share with them how to appropriately adjust the average unit cost when errors are identified.

MANAGEMENT RESPONSES

1. Software Interface Deficiencies

- 1.1 Information Technologies management working with Environmental management and the Public Works Application Support Team should address the ongoing WAM/Oracle interface problems. Information Technologies management should evaluate and document a plan for correcting the problem or provide alternative solutions. Information Technologies management should evaluate whether this problem can be resolved internally or whether it will require outside contractors.

Management Action Plan: With the upgrade of the interface software, which is expected to be completed by March 2016, Information Technologies will be upgrading the interfaces as is. Following the upgrade, IT staff will be meeting with the Environmental personnel to gather issues and new requirements for the improvement of the interfaces in an effort to facilitate a more streamlined process.

Estimated Date of Completion: September 1, 2016

- 1.2 Information Technologies management working with the Public Works Application Support Team should document guidelines and standards to be followed by Environmental staff in their use of WAM to help ensure proper functioning of the WAM/Oracle interface.

Management Action Plan: Information Technologies will partner with the Public Works Application Support Team to document the standards and business processes for a smoother functioning interface.

Estimated Date of Completion: September 1, 2016

2. Improvements Needed in Sensitive Items Identification Process

- 2.1 Environmental management should document and implement a process for the identification and monitoring of sensitive items. These procedures should address the following areas:
- Methodology for the identification of sensitive items.
 - Process to be followed for identifying sensitive items (both existing and new purchases), maintaining the sensitive items listing, requesting and affixing tags, verifying items annually, and preparing the year-end report that includes explanations of changes from the previous year.
 - Information to be gathered and recorded on sensitive items.
 - Software to be used for recording sensitive items.
 - Responsibilities of employees from the various Environmental work units in this process.

- Identification of employee responsible for certifying to Finance that the sensitive item listing is on file and available for inspection.

Management Action Plan: Environmental Management will form a team to develop or enhance procedures and methods to identify and record sensitive items. The team will use input from all the affected sections. The team will create the internal procedures to determine identification of the asset, what tagging to use to uniquely ID the item, what information to gather on the item and where to store the information. The procedures will also outline responsibilities of employees who participate in the process and specific responsibilities for annual inventory and reporting.

Estimated Date of Completion: June 30, 2016

- 2.2 Environmental management should have staff take digital photos of sensitive items and store these photos digitally or in hard copy for reference.

Management Action Plan: As part of the procedures developed for item 2.1, staff will take photos of each sensitive item, attach it to the other sensitive item information, and store it digitally.

Estimated Date of Completion: June 30, 2016

3. Improved Controls Needed Over Warehouse Tools

- 3.1 Environmental management should document and implement the following policies and procedures:
- Tool checkout and return policies and procedures to be followed by Environmental staff utilizing tools from the warehouse.
 - Desk procedures outlining Supply's management of warehouse tools.
 - Desk procedures outlining Supply's purchasing process.

Management Action Plan: Environmental Management will form a team, including end users of the tools, to develop a procedure regarding tools purchase, checkout and accountability. The procedure will include what tools will be included, how to uniquely identify them and automate the checkout and return. The Supply Section will enhance or create desk procedures for warehouse tool purchasing and management.

Estimated Date of Completion: September 30, 2016

- 3.2 Environmental management in consultation with the Public Works Application Support Team should evaluate options for segregating the warehouse inventory and tool records. Consideration should be given to using a different module within WAM or another software application. If the inventory module continues to be used, management should adjust the inventory system data to allow for the segregation of tools and stock inventory for physical count, tracking, and reporting purposes.

Management Action Plan: Environmental Management will develop a procedure for accounting for warehouse tools separately from warehouse inventory. Environmental Management will explore usage of WAM for this purpose and other options if necessary.

Estimated Date of Completion: January 31, 2016

3.3 Environmental management in consultation with the Public Works Application Support Team should create an easily accessible system report that allows Supply at a minimum the following information:

- Tools overseen by Supply
- Tools checked out, date, to whom, and location tool will be used
- Date tool returned
- Number of days tool has been checked out

Management Action Plan: Once procedures are developed and Environmental Management determines what system will be used, a reporting function will be developed to provide access to tool information including check out, return, and length of time checked out.

Estimated Date of Completion: September 30, 2016

3.4 Environmental management should record unique identifiers such as tool serial numbers within the WAM system (or within a new application) to provide for greater accountability of tools.

Management Action Plan: Environmental Management will explore and implement a system to uniquely ID tools and record them.

Estimated Date of Completion: September 30, 2016

3.5 Environmental management should evaluate the feasibility and cost effectiveness of automating the tracking of an increased number of hand tools in place of the current card file process.

Management Action Plan: Environmental Management will complete an evaluation of the current tracking process and implement automated tracking of hand tools, if determined to be more effective.

Estimated Date of Completion: September 30, 2016

3.6 Environmental management should have Supply begin recording warehouse tool purchases using the tools and equipment expense account rather than the inventory account for tools being maintained in the warehouse.

Management Action Plan: Supply will use the expense account versus inventory account for tool purchases.

Estimated Date of Completion: October 31, 2015

4. Improved Controls Needed Over Tools Issued to Employees

4.1 Environmental management should have Operations and Maintenance management document and implement procedures that enhance the security of and accountability for the tools and tool boxes issued to their employees. This procedure should include the following elements:

- Creation and use of a form to be signed by employees upon receipt of the tools and toolbox along with a listing of tools provided. This form should have the employees acknowledge that they are aware of the department policy that they are responsible for safeguarding of the tools assigned to them.
- Guidelines for the safekeeping and security of tools, tool boxes, and keys.
- Process by which requests for replacement of the issued tools are monitored for unusual trends which could be indicative of loss or theft.
- Process by which tools and tool boxes are returned for inspection upon an employee's separation from employment with the city.
- Guidelines for the evaluation and reassignment of returned tools and tool boxes.

Management Action Plan: Environmental Management will form a team to develop new procedures and enhance existing procedures to issue, secure, and account for tools, and/or tool boxes issued directly to employees for their use. The procedures will cover all aspects from issuance to return and annual inventories.

Estimated Date of Completion: January 31, 2016

4.2 Environmental management should have Operations and Maintenance management implement the new procedures with existing employees who have been issued tools and tool boxes.

Management Action Plan: WPCF O&M Section Management will implement the procedures for tools and tool boxes issued to existing employees upon approval of the overall issuance of tools procedures.

Estimated Date of Completion: March 31, 2016

5. Improvements Needed in Annual Physical Inventory Procedures

- 5.1 Environmental management should have Supply update its documented physical inventory desk procedures to include information on all phases of the process from planning for the inventory to the final research and evaluation of the inventory results.

Management Action Plan: Supply Section will update physical inventory desk procedures for the whole process.

Estimated Date of Completion: May 1, 2016

- 5.2 Environmental management in consultation with the Public Works Application Support Team should create the following reports for use by Supply:
- a final detailed physical inventory quantity and dollar variance report
 - a final summary physical inventory quantity and dollar variance report that identifies overages and shortages
 - an annual rollforward of inventory items showing quantities at beginning of year, purchases, adjustments, issuances, and end of year quantity

Management Action Plan: Environmental Management will create the recommended inventory reports and include their use in the updated desk procedures.

Estimated Date of Completion: June 1, 2016

- 5.3 Environmental management should have Supply implement a formal process where the following evaluations are completed:
- comparison of final inventory count variances against prior year variances for any unusual trends or irregularities
 - evaluation of the adequacy of inventory levels based on historic trends

Management Action Plan: Environmental Management will include in the updated desk procedures an application that will allow comparisons of the final inventory with prior year inventories to determine if inventory is adequate based on trends, and implement the procedures.

Estimated Date of Completion: June 1, 2016

6. Inventory Costing Controls Needed

- 6.1 Environmental management in consultation with the Public Works Application Support Team should evaluate what preventive and detective controls and procedures can be implemented to timely identify significant changes in the average unit cost of items which could be indicative of data input errors. Environmental management should document and implement the selected controls and procedures.

Management Action Plan: Environmental Management and the Support Team will work with Supply to evaluate, create and implement preventive and detective controls. Environmental Management plans to involve the City Auditor's Office in this part to guide and clarify the issues and outcomes desired.

Estimated Date of Completion: March 31, 2016

6.2 Environmental management should implement procedures to identify and correct *existing* average unit cost errors within the WAM system.

Management Action Plan: Environmental Management will evaluate and determine a process to fix existing errors, correct them, and include the procedures in the other procedures being developed for Supply.

Estimated Date of Completion: January 1, 2016

6.3 Environmental management should request that the Public Works Application Support Team document and share with them how to appropriately adjust the average unit cost when errors are identified.

Management Action Plan: Environmental Management will request the assistance of the Support Team in creating a document that explains how to adjust average unit cost errors.

Estimated Date of Completion: March 31, 2016