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OFFICE OF INTERNAL AUDIT

REPORT TO THE BOARD OF SUPERVISORS

Pinal County Facilities Management

Follow-up Audit

Safeguarding of Inventory and Supplies
&

Procurement Cards

October, 2011

Lori Stripling, Internal Audit Officer
Kate Witek, Internal Auditor
Jason Konrad, Internal Audit Analyst

The Office of Internal Audit has completed a follow-up review of the Facilities Management Audit - Safeguarding of Inventory and Supplies - completed in May 2010; and the Facilities Management Audit - Procurement Cards - completed in August 2010.

As a result of our review, we found the Facilities Management Department has made progress implementing the recommendations included in the two original audit reports. We noted improvements in the following areas:

- Development of department policies and procedures
- Use of the Maintenance Connection Software for tracking inventory and labor resources
- Clean-up and organization of the far yard and other storage areas
- Use and storage of personal items on County property
- Security of facility keys and certain stock items, such as Freon
- Review and reconciliation of p-card receipts and statements

However, our overall conclusion after conducting follow-up procedures, is Facilities has not developed a *comprehensive* inventory process regarding durable goods (air conditioners, motors, etc.) A comprehensive inventory process would include tagging or bar coding, secure storage, controlled distribution and thorough accounting and reconciliation; as recommended in the original audit report. Based on our review, further improvements are needed in the following areas:

- Inventory records management
- Identification of central inventory storage and distribution location
- Monitoring and enforcement of compliance with department policies and procedures
- Supervisory inspection of worksites
- Documentation of reviews and inspections
- Development of written procedures and training for newly adopted department policies/requirements
- Development of database for tracking warranties, invoices and other important documents
- Development of a department policy and procedures for the disposal of Health Safety and Hazardous materials
- Development of internal procedures to ensure proper disposal of all items not intended for future use
- Development of a comprehensive inventory process and procedures that includes tagging or bar coding, secure storage, controlled distribution and thorough accounting and reconciliation.

Specifically, Internal Audit found inventory of materials and supplies is not managed on a consistent, comprehensive or recurring basis. Items purchased as stock are not monitored to determine approximate re-order points, and consistent units of measurement are not used to maintain standardized inventory records.

For example; we noted air-conditioner refrigerant was recorded using two different units of measurement. When a whole tank was received in stock, employees recorded one (1) unit

received. If a partial amount of refrigerant was used from a tank, units recorded were from one (1) to thirty (30), reflecting the number of pounds per square inch (PSI) used. These inconsistencies resulted in unreliable inventory records. If refrigerant usage is ever recorded in units measuring PSI, it should always be recorded in units of PSI. When a whole tank is used it should be recorded as 30 units used, allowing consistent units of measure for inventory and re-ordering purposes.

Additionally, in Facilities' original audit response to recommendation number seven (#7) Management stated they would, "... develop a policy and procedures in coordination with Risk Management regarding disposal of Health Safety and Hazardous materials by 5-31-10." Internal Audit confirmed a policy regarding the disposal of Health Safety and Hazardous materials has not been developed at this time.

We reviewed records for the disposal of an air conditioner provided by the department, and noted documentation for the disposal had not been received, or approved, by Finance as required. Additionally, department staff had difficulty identifying the property's destination or current location. Although the unit was eventually located, internal procedures need to be developed/enhanced to ensure accurate documentation, communication and approvals of asset dispositions.

Internal Audit also found monitoring of new department policies and procedures was insufficient to ensure compliance. For example, the Facilities Management "Inventory Policy for Emergency Inventory Items, Rotating Stock, Equipment Pending Installation and Non Stock Items Used in the Field" requires employees to sign a form acknowledging their receipt and understanding of the policy. Per the policy, acknowledgement forms should be placed in employee personnel files. We reviewed a sample of Facilities employees' personnel files and did not find any acknowledgement forms.

Also, the policy "Facilities Management Procurement and Purchase Approval Process" requires Supervisors to conduct random worksite inspections. According to staff interviewed, random inspections are performed but have not been documented. Documentation of worksite inspection is necessary to verify compliance.

Further, specific written procedures should be developed for random job inspections (i.e. what should the supervisor be looking for, how often should he/she perform a site visit, how should he/she rotate visits among employees, where and how should he/she document the inspection, etc.)

Additional Recommendations for Management

1) The Facilities Director should monitor compliance with all department policies and procedures. Forms signed by employees acknowledging receipt and understanding of policies and procedures should be included in the employees' personnel files.

2) The Facilities Director should create detailed, written procedures for conducting random supervisory review of job sites. The Facilities Director should assist and provide training for supervisors, as needed.

3) The Facilities Director should ensure proper training is provided for staff assigned inventory management duties, to ensure consistent and accurate inventory records.

4) The Facilities Director should continue to seek a location for central inventory storage and distribution.

5) The Facilities Director should ensure physical inventories of stock are conducted on a consistent, recurring basis.

6) The Facilities Director should work with the Information Technology Department, if needed, to establish an online database to store warranties and other pertinent department documents.

7) The Facilities Director should develop a department policy and procedures for the disposal of Health Safety and Hazardous materials.

8) The Facilities Director should develop written internal procedures for the appropriate documentation, communication and approval of the disposal or auction of all stored materials and surplus supplies not intended for future use.

9) The Facilities Director should develop a comprehensive inventory policy (or set of policies) and procedures for durable goods purchased for department operations, regardless of the purchasing method used (requisition or p-cards), that includes a requirement for tagging or bar coding, secure storage, controlled distribution and thorough accounting and reconciliation.

The following matrices provide details of management's reported progress and Internal Audit's findings based on follow-up audit procedures performed. We would like to thank the Facilities Management Department for their assistance during our follow-up review.

Lori Stripling
Pinal County Internal Audit Officer

**Facilities Management Follow-up Audit
Safeguarding of Inventory and Supplies
Management's Response and Action Plan
October 2011**

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible	Internal Audit Assessment
<i>1. The Facilities Management Director should establish written policies and procedures for proper management and disposal of inventory and supplies, in accordance with Pinal County Procurement Code Article 8.</i>	Yes	Facilities will work with Finance to establish inventory types, levels and disposal processes by 6-30-10. The time line to completely address these issues is undetermined at this time.	6-30-10	Director	PARTIALLY COMPLETE Internal Audit reviewed the Facilities Inventory and Procurement/ Purchasing Approval Process policies. We could not locate policy acknowledgement forms in any of the personnel files sampled.
<i>2. The Facilities Management Director should ensure a physical inventory of all storage areas is conducted, and inventory records maintained, to ensure proper safekeeping of property and reduce the risk of theft or misappropriation.</i>	Yes	Facilities will conduct an audit of all Department materials and locations to create an inventory list. All non-usable materials will be designated for storage, auction or disposal. Items for disposal will be photographed and filed for recording purposes.	12-31-10	Director	PARTIALLY COMPLETE Internal Audit confirmed Facilities has created an initial inventory list of items. Facilities management has not developed procedures to ensure a comprehensive, recurring physical inventory process.
<i>3. The Facilities Management Director should ensure prompt and proper disposal or auction of all stored materials and surplus supplies not intended for future use.</i>	Yes	See issue #2 above.	12-31-10	Director	PARTIALLY COMPLETE Internal Audit observed the salvage areas/far yard have been cleaned and organized. However, we reviewed disposal records and determined adequate internal procedures have not been developed to ensure prompt and proper disposal of all surplus materials not intended for future use.

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4. <i>The Facilities Management Director should prohibit the use, storage, repair and maintenance of personal items on County property.</i>	Yes	Facilities will establish a policy prohibiting the storage, repair or maintenance of personal items on County property by 5-31-10.	5-31-10	Director	COMPLETE Internal Audit verified establishment of the policy. We toured the Facilities property and did not find any evidence of personal items.
5. <i>The Facilities Management Director should ensure employees use only County-issued equipment and tools to complete required job tasks.</i>	Yes	Facilities will develop policy prohibiting the use of unauthorized tools and equipment on County facilities by 5-31-10.	5-31-10	Director	COMPLETE Internal Audit confirmed Facilities has developed a policy prohibiting the unauthorized use of equipment.
6. <i>The Facilities Management Director should ensure employees, with access to the key locker, keep their keys with them and not store the keys in an unsecured location, easily accessed by others.</i>	Yes	Facilities will develop written policy and procedures for key box access, security and key duplication by 5-31-10.	5-31-10	Director	COMPLETE Internal Audit observed the new secure storage area for keys and confirmed Facilities has developed a policy for key box access.
7. <i>The Facilities Management Director should consult with Risk Management regarding any health and safety risks related to potentially hazardous materials stored in the salvage yard and far yard. Hazardous and unnecessary items should be disposed of in accordance with all applicable laws, rules and regulations.</i>	Yes	Facilities will develop policy and procedures in coordination with Risk Management regarding disposal of Health Safety and Hazardous materials by 5-31-10.	5-31-10	Director	PARTIALLY COMPLETE Internal Audit confirmed hazardous items have been removed from the salvage yard. Internal Audit verified Facilities has not developed a written policy or procedures regarding the disposal of hazardous materials, as stated in Management's action plan.

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<p><i>8. The Facilities Management Director should consult with PCSO to determine if vehicles parked in the far yard have evidentiary value or are simply junk vehicles. If they are determined to be junk, the vehicles should be disposed of in accordance with all applicable laws, rules and regulations.</i></p>	<p>Yes</p>	<p>VIN numbers have been forwarded to Sheriff's Evidence to determine vehicle status.</p>	<p>5-31-10</p>	<p>Director</p>	<p style="text-align: center;">COMPLETE</p> <p>Internal Audit confirmed the vehicles have been removed</p>

Facilities Management Follow-up Audit
Procurement Cards
Management's Response and Action Plan
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Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible	Internal Audit Assessment
<p>1. The Facilities Management Director should develop, in compliance with existing Pinal County purchasing regulations, uniform practices for acceptable documentation of employee purchase card transactions, including:</p> <p><i>a.</i> Requiring employees to ensure receipts, and other supporting documents, for purchase card transactions include a description of each item purchased. If necessary, item descriptions should be handwritten by the employee on the documents.</p> <p><i>b.</i> Providing employees with a document file (e.g. folder, box, plastic bag) to protect purchase receipts and documents prior to presenting to administrative staff.</p>	Yes	<p>Facilities will work with ACM and Finance to create new policies, procedures and trainings to ensure receipts, and other supporting documents, for purchase card transactions include a description of each item purchased requiring handwritten item descriptions by the employee on the documents if necessary.</p> <p>Facilities will provide employees with a document file (e.g. folder, box, plastic bag) to protect purchase receipts and documents prior to presenting to administrative staff.</p>	12-31-10	Director or designee working with ACM and Finance.	<p style="text-align: center;">COMPLETE</p> <p>Internal Audit :</p> <ul style="list-style-type: none"> ▪ Reviewed the revised P-Card policy and a sample P-Card Statement ▪ Verified supervisory review; as well as, other policy requirements ▪ Verified bags are available for safekeeping of receipts

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<p>2. The Facilities Management Director should develop, in compliance with existing Pinal County purchasing regulations, policies and procedures for a formal purchase authorization process that includes:</p> <p>a. A requirement that all purchases over a pre-determined dollar limit receive documented approval by an employee's Supervisor or the Department Director prior to purchase, and/or consider establishing single purchase limits.</p> <p>b. A requirement to obtain prior verbal authorization for all emergency purchases.</p> <p>c. A requirement that Supervisors</p>	Yes/No	<p>Facilities will work with ACM and Finance in a team approach, referencing "Best Practice" examples from other Governmental agencies to help clearly define Procurement policies and procedures, and to develop purchasing tiers to address supervisory approval requirements in order to address the following:</p> <p>1. Require that all purchases over a pre-determined dollar limit receive documented approval by an employee's Supervisor or the Department Director prior to purchase, and/or establish a single purchase limits.</p> <p>2. Require prior verbal</p>	12-31-10	Director or designee working with ACM and Finance.	<p style="text-align: center;">PARTIALY COMPLETE</p> <p>Internal Audit:</p> <ul style="list-style-type: none"> ▪ Reviewed the revised P-Card policy and a sample P-Card Statement ▪ Verified proof of supervisory review and other policy requirements <p>Management should ensure verbal authorizations for emergency purchases are documented</p>

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<p>with knowledge of resources used at job sites review and approve/sign monthly purchase card statements.</p> <p>d. A requirement that a Supervisor or the Director review and approve Administrative staff's monthly p-card statements. Discontinue the practice of allowing Administrative staff to review and approve their own monthly p-card statements.</p> <p>e. A requirement that all employees review and sign their own monthly statements.</p> <p>f. Periodic review of monthly statements by Management to determine if employees' individual monthly spending limits need to be adjusted.</p>		<p>authorization for all emergency purchases.</p> <p>3. Director review and approval of Administrative staff's monthly p-card statements.</p> <p>4. Require all employees review and sign their monthly statements.</p> <p>5. Require Director/Supervisor review of monthly statements to determine if employees' individual monthly spending limits need to be adjusted</p> <p>Facilities will also work with ACM to restructure employee to supervisory ratio to provide better distribution for authorizations and reviews.</p>			
<p>3. The Facilities Director should consider establishing, in compliance with existing Pinal County purchasing regulations, open purchase orders with</p>	<p>Yes/No</p>	<p>Facilities will work with ACM, Budget and Finance to develop a flexible open P.O. method of procurement that does not red flag the department budget at</p>	<p>12-31-10</p>	<p>Director or designee working with ACM, Budget and Finance.</p>	<p>Recent changes in County policies regarding use of p-cards and individual purchase orders have provided additional internal controls over purchases of air</p>

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vendors used to purchase higher dollar items (i.e. air conditioners, etc.) or frequently purchased items.		status check points. This may include developing a set level of funding encumbered and maintained at specific vendors.			conditioners.
<p>4. The Facilities Management Director should require random supervisory inspection of job sites and resources utilized; and require inspection of all job sites when resources expended exceed a defined dollar amount.</p>	Yes/No	Facilities will work with ACM and Finance on refining existing practices and creating policy to incorporate random supervisory job inspections and site inspections when resources expended exceed a \$1,000 dollar amount.	12-31-10	Director or designee working with ACM and Finance.	<p>PARTIALLY COMPLETE</p> <p>Internal Audit:</p> <ul style="list-style-type: none"> ▪ Interviewed employees in the field concerning supervisory job inspection and found supervisors were randomly visiting job site. ▪ Supervisor visits to job sites were not documented. <p>Supervisors should document periodic review/inspection of job sites.</p>
<p>5. The Facilities Management Director should require a timely reconciliation of purchases to a corresponding job or work order.</p> <p>The reconciliation would not include indirect supplies</p>	Yes	Facilities Mgmt. has met with Budget and is developing a quarterly process for reimbursements for Modification Projects and some special projects. Facilities will incorporate fund	12-31-10	Director or designee working with ACM, Budget and Finance.	<p>COMPLETE</p> <p>Internal Audit reviewed a sample Work Order and corresponding P-Card statements and invoices and found documented, timely reconciliation of purchases to</p>

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purchased.		reconciliation for Modifications into the existing Timeline Template. All purchase receipts shall require work order numbers or job numbers so they may be attached to bank statements. This will be identified in the Facilities P-card policy.			corresponding job or work orders.
<p>6. The Facilities Management Director should restrict purchasing of non-emergency stock materials (refrigerant, compressors, motors, etc.) to a Maintenance Supervisor or designated Inventory Manager.</p> <p>Purchases of emergency stock items over a pre-determined dollar amount should be approved by the Inventory Manager or the department Director. This would also limit the frequency of employee trips to vendor locations.</p>	Yes	HVAC Staff is currently working on procedures for Purchasing, storing and distributing these items. Facilities will request the addition of an HVAC Supervisor to provide accountability for this field of service. This would create a 1 to 5 ratio of supervision. This supervisor will oversee all HVAC Staff, HVAC inventory management, specified purchase amounts and approvals, task delegations, contractor scheduling, Equipment Preventive	12-31-10	Director or designee working with ACM and Finance.	<p>PARTIALLY COMPLETE</p> <p>Internal Audit:</p> <ul style="list-style-type: none"> ▪ Discussed inventory of non-emergency materials with Supervisor. ▪ Verified inventory records and secure storage of some stock materials. <p><u>Note - Inventory control, and understanding and applying basic inventory management procedures, continues to be a challenge for Facilities Management.</u></p>

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		Maintenance related Data Collection and input and warranties etc. Currently Facilities has 1 Supervisor that oversees the activities of 25 employees.			
<p>7. The Facilities Management Director should develop, in compliance with existing Pinal County purchasing regulations, comprehensive inventory policies for durable goods purchased for department operations, regardless of the purchasing method used (requisition or p-cards), that include tagging or bar coding, secure storage, controlled distribution and thorough accounting and reconciliation. If necessary, the Director should assign a Maintenance Supervisor to assist with these duties.</p>	Yes	<p>Facilities will work with ACM and Finance to discuss clarification on purchasing policies and to set specific guidelines for tagging, and inventory.</p> <p>We will discuss the feasibility of an inventory warehouse with additional staff to manage the controlled distribution and thorough accounting and reconciliation.</p>	12-31-10	Director or designee working with ACM and Finance.	<p>PARTIALLY COMPLETE</p> <p>Internal Audit reviewed policies and did not find a comprehensive inventory policy for durable goods purchased for department operations, regardless of the purchasing method used (requisition or p-cards), that includes all of the following: tagging or bar coding, secure storage, controlled distribution and thorough accounting and reconciliation.</p> <p>We verified documentation of purchased goods was reconciled to work orders in Maintenance Connection.</p>

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					Freon is locked in a secured area and doors/sheds were locked upon audit observation; however accurately documenting Freon use is a work in progress.
<p>8. To maintain better control over tool purchases, the Facilities Management Director should issue a set of basic tools to employees and provide replacement tools when needed. More costly power tools already purchased by individual employees should be inventoried and monitored by the Maintenance Supervisor or Inventory Manager.</p>	Yes	Facilities will inventory existing assigned tools to create a list of common tools assigned. Tool purchases will follow the department tool inventory and purchase policy currently in draft form.	12-31-10	Director or designee working with ACM and Finance.	<p style="text-align: center;">COMPLETE</p> <p>Internal Audit verified a basic tools inventory sheet is now in use by Facilities staff.</p>
<p>9. The Facilities Director should work with County Management to designate an area that can be prepared as an inventory/ receiving/ storage and distribution location.</p>	Yes	Facilities will work with ACM to discuss the feasibility of an inventory warehouse with additional staff to manage the controlled distribution and thorough accounting and reconciliation of purchases. Facilities will develop and submit a proposal for	12-31-10	Director or designee working with ACM	<p style="text-align: center;">NOT COMPLETE</p> <p>Internal Audit spoke with the Director regarding a Facilities central receiving and distribution location. Internal Audit clarified this recommendation did not necessarily require a new building or additional staff.</p>

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		supplemental funding for 2011-2012 fiscal year.			No action has been taken yet.
<p>10. The Facilities Management Director should research the capabilities of the Maintenance Connection software application purchased by Facilities and determine if the application could be more effectively utilized to manage and track materials and labor resources. Maintenance Connection contains a bar code module.</p>	Yes	<p>Facilities has met with I.T. staff. The On Base Program was recommended for the documentation of purchases however, there were some functions of the Maintenance Connection that could be used for Inventory identification and locations and warranties.</p> <p>We will be following up with I.T. staff to coordinate the process of scanning invoices and other documentation.</p>	12-31-10	Director or designee working with I.T. and ACM	<p>PARTIALLY COMPLETE</p> <p>Internal Audit confirmed:</p> <ul style="list-style-type: none"> ▪ Facilities staff is using the Maintenance Connection application for tracking materials and labor resources. ▪ Facilities staff is working with the IT Department to obtain help using Onbase software for documentation of purchases. ▪ The bar code module within Maintenance Connection is not being used.

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<p><i>11.</i> The Facilities Management Director should regularly assess the training needs for all department employees, and work with appropriate County departments to ensure employees receive all identified training.</p>	<p>Yes</p>	<p>Facilities will implement policy to send new employees, and employees who become in violation of policy, to receive procurement training.</p>	<p>12-31-10</p>	<p>Director or designee working with ACM and Finance.</p>	<p>PARTIALLY COMPLETE</p> <p>Internal Audit verified p-card training records for Facilities employees.</p> <p>Management should continue to periodically assess employee training needs and work with appropriate County departments to ensure employees receive all identified training.</p>