

CITY OF MIAMI  
**OFFICE OF INDEPENDENT AUDITOR GENERAL**



**AUDIT OF THE GENERAL SERVICES  
ADMINISTRATION'S SPARE PARTS  
INVENTORIES AND RELATED  
TRANSACTIONS, PHASE II**

**AUDIT REPORT NO. 010-004**

Prepared By

**Office of Independent Auditor General**

Victor I. Igwe, CPA, CIA  
*Independent Auditor General*

**EDWIN FERMIN, AUDITOR ASSISTANT**

VICTOR I. IGWE, CPA, CIA  
INDEPENDENT AUDITOR GENERAL

# City of Miami



Telephone: (305) 416-2040  
Telecopier: (305) 416-2046  
E-Mail: iag@ci.miami.fl.us

February 18, 2010

Honorable Members of the  
City Commission  
City of Miami  
3500 Pan American Drive  
Coconut Grove, FL 33133-5504

Re: Audit of the General Services Administration's Spare Parts Inventories and Related Transactions, Phase II  
Audit No. 10-004

In accordance with the provisions of Section 48 of the City Charter and the Fiscal Year 2010 Audit Plan, the Office of the Independent Auditor General performed an audit of the General Services Administration Department's (GSA) spare parts inventories and related transactions. The field work for this audit engagement is being performed in phases and a separate audit report will be issued for each phase. The focus of this phase of the audit was to determine whether material inventory and other related tools and equipment purchased for the operation of Property Maintenance Division of GSA are properly safeguarded and accounted for.

The audit covered the period December 1, 2005 through June 1, 2009, and selected financial transactions that were processed prior and subsequent to this period.

Sincerely,

Victor I. Igwe, CPA, CIA  
Independent Auditor General  
Office of the Independent Auditor General

OFFICE OF THE INDEPENDENT AUDITOR GENERAL  
444 S.W. 2<sup>nd</sup> Avenue, Suite 711/Miami, FL 33130

C: The Honorable Mayor Tomas Regalado  
Pedro G. Hernandez, Chief Administrator/City Manager  
Members of the Audit Advisory Committee  
Bill Anido, Assistant City Manager, Office of the City Manager  
Larry M. Spring, Assistant City Manager/Chief Financial Officer  
Peter W. Korinis, Chief Information Officer, Information Technology Department  
Michael J. Boudreaux, Director, Budget Department  
Julie O. Bru, City Attorney, City Attorney's Office  
Kelly Barket, Jr., Director, General Services Administration  
Priscilla A. Thompson, City Clerk, City Clerk's Office  
Diana M. Gomez, CPA, Director, Finance Department  
Audit Documentation File

**AUDIT OF THE GENERAL SERVICES ADMINISTRATION’S SPARE PARTS  
INVENTORIES AND RELATED TRANSACTIONS, PHASE I  
DECEMBER 1, 2005 THROUGH NOVEMBER 30, 2009**

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## **INTRODUCTION**

The General Services Administration (GSA) provides internal service support in the areas of heavy and light fleet equipment, property maintenance/repairs, radio communications, and graphic reproductions. GSA's total budget for the fiscal year ended (FYE) 2009 was \$19,412,551 and it consists of six (6) divisions, namely: (1) Director's Office, (2) Fleet Management, (3) Property Maintenance, (4) Graphics Reproduction, (5) Communications, and (6) Miami Riverside Center.

The field work for this audit engagement is being performed in phases and a separate audit report will be issued for each phase. The focus of this phase of the audit was to determine whether material inventory and other related items purchased for the operation of Property Maintenance division of GSA were properly safeguarded and accounted for during the period December 1, 2005 through June 1, 2009. The FYE 2009 budget for Property Maintenance (PM) totaled \$3,318,850 (or 17%) of GSA's total budget.

The PM division is responsible for maintaining, repairing, remodeling and retrofitting of buildings and facilities owned by the City, including but not limited to parks, recreation buildings, pool facilities, sport courts and fields, daycare centers, GSA facilities, street light systems, solid waste facilities, fire stations, City Hall offices, and convention facilities. The division also performs work in the trades of electrician, lineman, plumbers, painters, carpenters, welders, heating ventilation, air conditioning and refrigeration, and maintenance mechanics. The PM division uses a system called MP2 to record and maintain its inventory records.

## **SCOPE AND OBJECTIVES**

This audit was performed pursuant to the authority set forth in Section 48 of the City's Charter titled, "Office of the Independent Auditor General", and was conducted in accordance with the Fiscal Year 2009/2010 Audit Plan. The field work for this audit engagement is being performed in phases and a separate audit report will be issued for each phase. The audit covered the period December 1, 2005 through June 1, 2009, and selected transactions prior and subsequent to this period. In general, the audit focused on the following objectives:

- To determine whether General Services Administration (GSA) has established and implemented a system of internal control, which provides: (1) proper authorization of transactions, (2) reasonable assurance of the reliability of the recording and reporting of material inventory, and (3) compliance with applicable City Code, laws, regulations, restrictions, and contract awards for the procurement of material inventory, tools and equipment.
- To determine whether selected expenditures were properly authorized, documented, economical, and in accordance with GSA's mission.
- To evaluate internal controls related to the processing of purchase orders, inventory disbursements, and other records.
- To determine whether fixed assets are properly safeguarded.
- Other audit procedures as deemed necessary.

## **METHODOLOGY**

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and 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 conclusion based on our objectives. The audit methodology included the following:

- Interviewed and inquired of appropriate personnel; reviewed and observed applicable written policies and procedures in order to gain an understanding of the internal controls; assessed control risk; and planned substantive testing.
- Performed substantive testing consistent with the audit objectives.
- Examined, on a test basis, applicable transactions and records.
- Performed other audit procedures as deemed necessary.
- Drew conclusions based on the results of the testing and made corresponding recommendations and obtained the auditee's responses and corrective action plans.

## **CONCLUSIONS AND SUMMARY OF AUDIT FINDINGS**

### **GENERAL SERVICES ADMINISTRATION (GSA)**

#### **OVERALL AUDIT CONCLUSION**

Based upon various tests performed and the audit findings noted, we conclude that internal controls relative to GSA Property Maintenance Division's material inventory management could be enhanced to ensure better accountability over City owned resources/assets as summarized below:

### **PROPERTY MAINTENANCE DIVISION (PM)**

#### **UNSUBSTANTIATED ADJUSTMENTS TO THE MATERIAL INVENTORY**

During the period December 1, 2005 through June 1, 2009, PM procured \$901,508 of materials such as construction plywood, bulbs, lamps, wires, and other hardware that were routinely added to the inventory book value. Our review of the material inventory listing and record of transactions disclosed questionable shortages and overages that were routinely adjusted to the inventory balances. Our audit determined that a total of \$1,078,576 of inventory items were written-off (shortages) and a total of \$832,137 of inventory items were added (overages) to the inventory balances. As a result, the change in inventory is a total shortage of \$246,439 (\$1,078,576 - 832,137).

Refer to detailed audit findings and recommendations on pages 7 and 9.

### **INACCURATE INVENTORY RECORDS**

Our physical test counts of inventory items disclosed differences between actual on-hand quantities and the perpetual inventory record balances maintained in the MP2 system for 27 (or 32%) of the 84 items test counted. Also, PM does not perform physical counts of the on-hand inventory at the end of each fiscal period.

Refer to detailed audit findings and recommendations on pages 10 and 11.

### **INAPPROPRIATE SEGREGATION OF DUTIES**

A good business practice would require, as a fundamental element of internal control, the segregation of certain key duties. The basic idea underlying segregation of duties is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. However, our audit determined that the employees charged with the responsibilities of receiving and issuing of inventory items also have access to the perpetual inventory record balances maintained in the MP2 system. We noted that said employees also possess the ability to adjust all inventory items maintained in the MP2 system.

Refer to detailed audit findings and recommendations on pages 12 and 13.

### **PURCHASES OF TOOLS AND EQUIPMENT**

Our sample test of 106 tools and equipment disclosed that 7 tools/equipment (or 6.6%) valued at \$1,436 could not be located. We were not provided with any documents to evidence that the missing tools/equipment were reported as being lost or stolen to management or to the appropriate law enforcement agencies. Also, our

test determined that the assignment forms utilized to keep track of tools/equipment assignments were not properly maintained.

Refer to detailed audit findings and recommendations on pages 14 and 15.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **GENERAL SERVICES ADMINISTRATION**

#### **PROPERTY MAINTENANCE**

The Property Maintenance (PM) division of the General Services Administration (GSA) Department purchases, stores, and issues hardware materials and supplies used for the repairs and maintenance of city owned capital assets. The hardware materials and supplies inventory are stored in a stockroom, outside storage rooms, and a fenced yard area. The receipt and issuance of materials are tracked using an automated perpetual inventory (average cost method) system known as MP2. The reorder points (purchase of materials) are determined by the MP2 computer program and also by input from trade supervisors. Upon receipt of materials ordered, they are input/recorded in the MP2 computer inventory system through a function known as "Quick Receive." Those items that are not routinely used and/or kept in stock (non-stock items) are only ordered upon request made by a trade supervisor and also approval by the superintendent.

#### **UNSUBSTANTIATED ADJUSTMENTS TO MATERIAL INVENTORY BALANCE**

Our review of the material inventory listing and record of transactions disclosed questionable shortages and overages that were routinely adjusted to the inventory balances. During the period December 1, 2005 through June 1, 2009, the GSA's PM division procured materials totaling \$901,508 of materials such as construction plywood, bulbs, lamps, wires, and other hardware that were routinely added to the inventory book value. However, our audit determined that unsubstantiated inventory shortages were routinely written-off to make the book balances of the various inventory items agree with the physical inventory counts. Likewise, unsubstantiated inventory overages were routinely added back to the book balances

to make them agree with the physical inventory counts. For example, the following is a sample of the inventory items that were adjusted:

ITEM NO.	DESCRIPTION	DATE	QUANTITY ADJUSTED	AVG UNIT COST	TOTAL COST	ADJUSTMENT WAS MADE BY
<b>Deductions:</b>						
GSA-P-706-7411	Galv. Chain Link Fabric (50' Roll)	12/26/2007	-43	\$ 185.00	(\$7,955.00)	Material Specialist Supervisor
GSA-P-707-5665	Clear Lexan Lens	6/18/2007	-20	109.91	(2198.20)	Material Specialist Supervisor
GSA-P-707-5751	Octron T8-32W Base Light Bulb	6/5/2008	-48	6.46	(310.08)	Utility Analyst
GSA-P-708-2269	Whole House Filter	3/5/2007	-8	86.25	(690.00)	Material Specialist Supervisor
GSA-P-707-5798	1500 Watts-480 Volts Ballast Metal Halide	5/22/2008	-2	206.56	(413.12)	Utility Analyst
GSA-P-707-5051	Incandescent Bulb (packs of 4)	6/14/2007	-1230	0.26	(319.80)	Material Specialist Supervisor
<b>Additions:</b>						
GSA-P-706-7411	Galv. Chain Link Fabric (50' Roll)	7/12/2008	9	185	\$1,665.00	Material Specialist Supervisor
GSA-P-707-5665	Clear Lexan Lens	7/27/2008	14	109.91	1538.74	Material Specialist Supervisor
GSA-P-707-5751	Octron T8-32W Base Light Bulb	7/7/2008	30	6.46	193.8	Superintendent

The inventory records show a total of \$1,078,576 of unsubstantiated deductions (write-offs) and a total of \$832,137 of unsubstantiated additions to various inventory book balances. The overall net effect of the total adjustments (shortages/overages) is a total of \$246,439 (\$1,078,576-\$832,137) of unsubstantiated inventory write-offs. The inventories written off is equivalent to 27% ( $\$246,439 \div \$901,508 \times 100$ ) of the total inventories purchased during the period December 1, 2005 through June 1, 2009.

Absent effective internal control procedures and adequate monitoring of the receipts and issuances of inventory items, there is an increased risk that thefts and/or losses (such as the unexplained write-off/shortage of \$246,439, as described above) could occur and not be detected in a timely manner.

Recommendation:

We recommend that Property Maintenance (PM) enhance its internal control procedures to ensure that all inventory adjustment posted to the MP2 system are properly authorized and have supporting written explanations and/or supporting documentation on file. In addition, we recommend that PM conduct a periodic evaluation of the inventory adjustments and report any unsubstantiated adjustment to GSA Administration in writing to ensure that appropriate corrective actions are taken.

Auditee's Response and Action Plan:

The GSA Director concurred with the audit findings and recommendations and in a written response stated:

*I agree with the need for implementation of additional internal control procedures... We are in the process of revising and implementing additional methods for monitoring inventory. These revised policies and procedures are expected to be effective by the end of the calendar year 2009.*

See auditee's complete response on page 21

**INACCURATE INVENTORY RECORDS**

Our audit test counts of inventory items disclosed differences between our physical test counts and the perpetual inventory record balances maintained in the MP2 system for 27 (or 32%) of the 84 inventory items test counted. Although the book balances for the 27 inventory items tested had already been previously adjusted as part of the adjustments discussed in audit finding on pages 7 through 9, our audit test counts still determined that twelve (12) inventory items (or 14%) were understated (overages) by a combined total of \$701 and fifteen (15) inventory items (18%) were overstated (shortages) by a combined total of \$1,600 on the perpetual inventory record balances. For example, the following is a sample of the discrepancies noted in our test counts of inventory items:

ITEM No.	DESCRIPTION	QUANTITY PER INVENTORY	ACTUAL ON-HAND QUANTITY	DISCREPANCY	UNIT COST	DISCREPANCY COST
GSA-P-706-7030	3/4" x 4' x 8' A/C EXT. Fir Plywood	41	43	2	\$34.30	\$68.60
GSA-P-707-5075	70 Watt High Press Sodium Medium Base Lamp	44	45	1	14.76	14.76
GSA-P-707-5322	Square D Breaker QO240	68	48	-20	18.53	-370.6
GSA-P-707-5673	750 watt MVR/VBU/PA Metal Halide Lamp	35	32	-3	68.71	-206.13
GSA-P-707-5252	Time Switch Clock - Intermatic T104	11	9	-2	93.65	-187.3

These discrepancies are further proof of lack of adequate internal control procedures necessary to safeguard City assets. Timely detection and documentation of the reasons for the discrepancies would enhance accountability over inventory items and allow for timely resolution and documentation of the reasons for the discrepancies between the perpetual inventory record balances and the actual physical counts.

Recommendation:

We recommend that the GSA Management perform periodic storeroom inventory counts. Upon completion of such count, all discrepancies should be investigated and documented in writing. Said inventory counts should be conducted by an employee who is independent of the day to day operations of the storeroom and is capable of identifying discrepancies without bias. Discrepancies that cannot be resolved after a thorough investigation should be brought to the attention of the City Manager in writing to ensure that appropriate corrective actions are taken.

Auditee's Response and Action Plan:

The GSA Director concurred with the audit findings and recommendations and stated the following in a written response:

*As stated before in item I of my response, we are in the process of revising and implementing more effective methods for monitoring inventory... As part of these revisions, stockroom personnel will no longer have the ability to "adjust" stock. Current stockroom personnel are working with administration to maintain and ensure accurate daily counts.*

See auditee's complete response on pages 21 and 22.

## **INAPPROPRIATE SEGREGATION OF DUTIES**

A good business practice would require, as a fundamental element of internal control, the segregation of certain key duties. The basic idea underlying segregation of duties (SOD) is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are:

- Custody of assets.
- Authorization or approval of related transactions affecting those assets.
- Recording or reporting of related transactions.

Traditional systems of internal control rely on assigning certain responsibilities to different individuals or segregating incompatible functions to the extent possible. The general premise of SOD is to prevent one person from having both access to assets and responsibility for maintaining the accountability of those assets.

Our audit tests determined that the employees charged with the responsibilities of receiving and issuing of inventory items also had access to the perpetual inventory record balances maintained in the MP2 system. We noted that said employees possessed the ability to adjust all inventory item balances maintained in the MP2 system. In fact, we noted that some of the questionable and unsubstantiated adjustments (inventories write offs) made to the perpetual inventory record balances maintained in the MP2 system discussed on pages 7 through 9 were initiated, processed and recorded by employees charged with the responsibilities of receiving and issuing of inventory items.

The current internal control procedures in place are ineffective, and therefore, errors and/or unauthorized transactions could be processed and not detected in a timely manner. Absent implementation of effective internal control procedures City's resources can easily be misappropriated.

Recommendation:

We recommend that GSA management enhance its internal control procedures to ensure that no employee should have complete control over receiving and issuing of inventory items also have the ability to adjust inventory item balances maintained in the MP2 system.

Auditee's Response and Action Plan:

The GSA Director concurred with the audit findings and recommendations and stated the following in a written response:

*We have segregated the duties of warehouse personnel to restrict the control over the processing of transactions to receiving, checking out, and returning items...*

See auditee's complete response on page 22.

**PURCHASES OF TOOLS AND EQUIPMENT**

As part of our audit procedures, we obtained a list of all the purchase orders executed by the GSA Department relative to the procurement of tools and equipment during the audit period. Upon receipt of said purchase order listing, it was sorted by divisions within GSA and a total of 106 tools and equipment were selected for testing from the list of purchases made by the Property Maintenance division. The test criteria was to determine whether said tools/equipment do exist and were being used in connection with City services, and also whether said items were properly tagged (if necessary) and included in City’s list of capital asset inventory records.

Our test of 106 tools and equipment disclosed that the following 7 tools/equipment (or 6.6%) valued at \$1,436 could not be located:

PO NO.	DESCRIPTION	QUANTITY ORDERED	QUANTITY ON-HAND VERIFIED	DISCREPANCY	UNIT COST	DISCREPANCY COST
80806	Cordless Hammer Drill Kit	2	0	2	\$262.80	\$525.60
79006	PowerVerter Ultra-Compact Inverter	39	37	2	\$194.88	\$389.76
77327	Reciprocating Saw Kit	3	1	2	\$144.68	\$289.36
77327	Reversible Right Angle Drill Kit	1	0	1	\$231.50	\$231.50
	Total			<u>7</u>		<u>\$ 1,436.22</u>

We were not provided with any documents to evidence that the missing tools/equipment were reported as being lost or stolen to management or to the appropriate law enforcement agencies. Also, our test determined that the assignment forms utilized to track tools/equipment assignments were not properly maintained. Properly maintained assignment forms would enhance accountability and mitigate the risk of theft and/or mismanagement of City owned capital assets.

Recommendation:

We recommend that property assignment forms be completed each time a tool/equipment is assigned to any employee. Said form should be kept on file.

Auditee's Response and Action Plan:

The GSA Director concurred with the audit findings and recommendations and stated the following in a written response:

*As a corrective action, we are establishing a "tool/Equipment Ordering/Tracking Procedures" manual to address the issues your audit has brought to our attention...*

See auditee's complete response on page 22 and 23.

# City of Miami

VICTOR I. IGWE, CPA, CIA  
INDEPENDENT AUDITOR GENERAL



Telephone 305 416-2040  
Telecopier: 305 416-2046  
EMail lag@ci.miami.fl.usa

September 30, 2009

Mr. Kelly Barket  
City of Miami - General Services Administration  
1390 NW 20<sup>th</sup> Street  
Miami, Florida 33142

RE: Audit of General Services Administration (GSA), Automobile Spare Parts,  
Inventory, and Related Transactions - Audit # 09-001

Dear Mr. Barket:

In connection with our audit of General Services Administration (GSA) for the period December 1, 2005 through June 1, 2009 and selected transactions prior and subsequent to this period, please confirm or clarify our understanding of the following and provide any additional records and/or documentation.

Property Maintenance Division:

Property Maintenance Division (PM) purchases, stores, and issues hardware materials and supplies from the inventory. Inventory materials are stored in a stockroom, outside storage rooms, and fenced yard areas under the supervision of the Material Specialist Supervisor. A perpetual inventory system with an average cost method is maintained via the MP2 computer program. The reorder points (purchase of materials) are determined by MP2 usage reports and input from trade supervisors. When newly ordered materials are received, they are recorded/input into the MP2 computer inventory system through MP2 computer function called "Quick Receive". Non-stock items are only ordered upon request made by a trade supervisor and approval of the Superintendent.

I. Unsubstantiated adjustments to the Material inventory:

Our Review of the material inventory listing and record of transactions disclosed questionable shortages and overages that were routinely adjusted to the inventory balances. Between December 1, 2005 and June 1, 2009, PM disbursed a total of \$901,508 for the procurement of materials such as construction plywood, bulbs, lamps, wires, and other hardware that were routinely added to the inventory book value. However, during the same period, large amounts of unsubstantiated shortages/overages adjustments were made to bring the inventory book balance to agree with the physical inventory count. The inventory records show a total of \$1,078,576 of deductions and a total of \$832,137 of additions to the inventory book balance. As a result, the net change in inventory is a total deduction of \$246,439, ( $\$1,078,576$  minus  $832,137$ ), which is equivalent to 27 percent of the inventory purchases for the period ( $\$246,439 \div \$901,508 = 0.2734$ ). Furthermore, we noted that adjustments were not always made for the actual discrepancies found but rather the inventory records reviewed indicated that in several instances the book value of the inventory were adjusted down to zero and then restated with the actual number of the material as determined by a physical count at the time of the adjustment

Absent effective internal control procedures and adequate monitoring of the receipts and issuances of inventory items, there is increased risk that thefts and/or losses (such as the unexplained shortage of \$246,439, as described above) could occur and not detected in a timely manner.

I agree  I disagree  Please initial:   
Explanation See Attached

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II. Inaccurate Inventory Records:

Our physical test counts of inventory items disclosed differences between our physical test counts and the perpetual inventory record balances maintained in the MP2 System for 27 (or 32%) of the 84 inventory items test counted. Although the book balances for the 27 inventory items had already been previously adjusted as discussed in audit finding # I, our test counts still determined that twelve (12) inventory items (or 14%) were understated by \$736 and fifteen (15) inventory items (18%) were overstated by \$1,669 on the perpetual inventory record balances. This discrepancy is a further proof of inadequate internal control procedures necessary to safeguard City assets and also necessary for timely identification and documentation of the reasons for the differences between the perpetual inventory record balances and physical counts. Timely identification and documentation of the reasons for the differences would enhance accountability over inventory items, ensure early detection of missing items, and allow for timely investigations to identify the source of errors.

I agree  I disagree  Please initial:   *KB*  

Explanation   See Attached    
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III. Inappropriate Segregation of Duties:

A good business practice would require that incompatible duties be segregated to the extent possible as recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Such segregation would ensure that no one employee

has complete control over the processing of transactions and therefore reduces the risk that one person would perpetrate and/or conceal errors in the normal course of his/her duties.

However, our audit tests determined that the employees charged with the responsibilities of receiving and issuing of inventory items also have access to the perpetual inventory record balances maintained in the MP2 System. We noted that said employees possess the ability to adjust all inventory items maintained in the MP2 System. The lack of segregation of incompatible duties increases the risk that errors and/or unauthorized transactions could be processed and not detected in a timely manner. Absent implementation of effective internal control procedures City's resources can easily be misappropriated and/or wasted.

I agree  I disagree  Please initial:   
Explanation See Attached

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IV. Purchases of Tools and Equipments:

Our test of 106 tools and equipments disclosed that 7 tools/equipment (or 6.6%) valued at \$1,436 could not be located. We were not provided with any documents to evidence that the missing tools/equipment were reported lost or stolen to management or to the appropriate law enforcement agencies. Also, our test determined that the assignment forms utilized to keep track of tools/equipment assignments were not properly maintained. Properly maintained assignment forms would enhance accountability and mitigate the risk of theft and/or mismanagement of City owned assets.

I agree  I disagree  Please initial: 

Explanation See Attached

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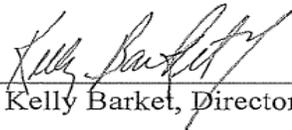
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Please confirm our understanding by indicating whether you agree or disagree with each of the observations described above by checking the appropriate box and including your initials on the space provided for each observation. Also, sign on the space provided below and return this memorandum to us. In the event that you disagree with any of the items listed above, please provide your written explanations and attach all supporting documents/records. Please respond by September 10<sup>th</sup>, 2009.

A Summary schedule is attached for your reference. If you have any questions, please feel free to contact me at (305) 416-2054 or Victor Igwe (the Independent Auditor General) at (305) 416-2044.

  
\_\_\_\_\_  
Mr. Kelly Barket, Director

11/12/09  
Date

Thank you for your attention in this matter.

Sincerely,

  
Edwin Fermin  
Auditor Assistant  
Office of Independent Auditor General

- C: Paul Eisenhart, Administrative Assistant III, General Services Administration  
Charles Postis, Superintendent, General Services Administration  
Victor Igwe, CPA, CIA, Auditor General

# City of Miami



PEDRO G. HERNANDEZ, P.E.  
City Manager

November 9, 2009

Edwin Fermin  
Auditor Assistant  
Office of Independent Auditor General  
444 Southwest 2<sup>nd</sup> Avenue  
Miami, Florida 33130

**Subject:** Response to Audit of General Services Administration (GSA), Automobile Spare Parts, Inventory, and Related Transactions – Audit # 09-001

Dear Mr. Fermin:

I am in receipt of your letter dated September 30, 2009 requesting confirmation or clarification on your understanding of observations noted in your report. I have reviewed your request and the following is the requested justification and information to the best of my knowledge.

The following are GSA's responses to your observations and recommendations:

I. Unsubstantiated Adjustments to the Material Inventory (Agree)

As stated in my response to your previous audit dated September 2, 2009, I agree with the need for implementation of additional internal control procedures. Since my time at GSA we have implemented several quality control procedures to reduce the risk of theft or loss. Some of these procedures include requiring supervisors to sign off on the materials needed by employees on their assigned work orders. Additionally, stockroom personnel are not allowed to issue any materials without the required work order. Also, only authorized stockroom personnel are allowed in the stock room area. Security cameras were also installed in the stockroom to monitor daily activity. We are in the process of revising and implementing additional methods for monitoring inventory. These revised policies and procedures are expected to be effective by the end of the calendar year 2009.

II. Inaccurate Inventory Records (Agree)

DEPARTMENT OF GENERAL SERVICES ADMINISTRATION  
1390 N.W. 20th Street, Miami, FL 33142 / (305) 329-4850 / Fax: (305) 329-4855  
Mailing Address: P.O. Box 330708 Miami, FL 33233-0708

Mr. Edwin Fermin

November 9, 2009

As stated in my response to your previous audit dated September 2, 2009, a spot check on some of the 84 items you refer to in your report was performed and it was found that the physical count for some of the items did not match the perpetual inventory as maintained by MP2. One reason for this difference is the reluctance of the previous Stockroom Supervisor to accept our original inventory count of May 2008 and the ability for him to "adjust" stock. We also agree as stated in Item III of your report that inappropriate segregation of duties may have contributed to the difference.

As stated before in Item I of my response, we are in the process of revising and implementing more effective methods for monitoring inventory. These revised policies and procedures are expected to be effective by the end of the calendar year 2009. As part of these revisions, stockroom personnel will no longer have the ability to "adjust" stock. Current stockroom personnel are working with administration to maintain and ensure accurate daily counts.

I have directed staff to conduct a complete inventory for the purpose of verifying and confirming all counts on hand. This inventory is to be conducted prior to the end of the calendar year in order to coincide with the implementation of revised policies and procedures for the stockroom. Once this initial inventory is completed, monthly spot inventories and mobile warehouse inventories will be conducted by a staff member not assigned to the Property Maintenance Division.

III. Inappropriate Segregation of Duties (Agree)

As stated in my response to your previous audit dated September 2, 2009, since our inventory count of 2008, we have segregated the duties of warehouse personnel to restrict the control over the processing of transactions to receiving, checking out, and returning of items. They no longer have the ability to make "Stock Adjustments". Any stock adjustments must be justified by the Stockroom Supervisor and approved by the Superintendent. The stock adjustment will be entered by the MP2 administrator, a staff member not assigned to the Property Maintenance Division

IV. Purchase of Tools and Equipment (Agree)

As stated in my response to your previous audit dated September 2, 2009, as a corrective action, we are establishing a "Tool/Equipment Ordering/Tracking Procedures" manual to address the issues your audit has brought to our attention. Such remedies as implementing a record log of tool/equipment assignments will assist us in keeping track of all tools/equipment assigned to GSA Property Maintenance employees. All rental equipment will be assigned under the stockroom supervisor and that individual will be responsible for assigning and tracking said

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equipment on a daily basis. Rental tools will be signed out by the employee and then returned to the stockroom supervisor who will confirm receipt. As an added measure we are also inscribing the words, "City of Miami" on all tools for proper identification.

In conclusion, it is my intention to correct the issues brought to light through establishing new procedures for record keeping and inventory tracking and revising the current policies in place. These revised policies and procedures are to be fully implemented no later than the end of the 2009 calendar year. Should you require further clarification on this matter, do not hesitate to contact me.

Sincerely,



Kelly Barket, Jr.

Director

General Services Administration

C: Paul Eisenhart, Administrative Assistant III, GSA  
Charles Postis, Superintendent, GSA  
Victor Igwe, CPA, CIA, Auditor General