

Internal Audit Division
City of Greensboro



June 21, 2010

TO: Rashad Young, City Manager

FROM: Internal Audit Division

SUBJECT: Equipment Inventory - Cemeteries Division

The Internal Audit Division has completed our review of Equipment Inventory located in the Cemeteries Division. Attached you will find our review report; the departmental response and our reply to their responses. We feel that sufficient corrective actions have been implemented to our recommendations as we move forward. If you have any questions or need additional information, please let us know. Thanks.

A handwritten signature in black ink, appearing to read "Len Lucas".

Len Lucas, Internal Audit Director

Cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Greg Jackson, Parks and Recreation Director



May 17, 2010

TO: Gregory Jackson, Parks and Recreation Director
FROM: Internal Audit Division
SUBJECT: Equipment Inventory – Cemeteries Division

Upon conducting an independent reconciliation of the Cemeteries Division's equipment inventory with the inventory records, the Parks and Recreation Division Manager expressed concern for some discrepancies noted. On June 15, 2009, Internal Audit was contacted and asked to conduct a review of the equipment inventory, as well as provide recommendations for controls over the equipment inventory.

The objectives of our review were to:

- Obtain an understanding of the Cemeteries Division's current process for requisitioning, authorizing, procuring, receiving, recording, securing, and disposing of its equipment inventory.
- Identify any weaknesses in the current process and offer recommendations for improving controls over equipment inventory, where applicable.
- Ensure that equipment inventory on hand agreed with inventory records, including physical descriptions and serial numbers.

During our review, we noted the following:

Finding #1:

The Cemeteries Division currently has no written procedures in regards to the requisitioning, authorizing, procuring, receiving, recording, securing, and disposing of its equipment inventory. Based on need, small equipment purchases (\$1,000 or less) can be initiated by Cemetery crew members, the Cemeteries Superintendent, or the Equipment Mechanic via procurement card (within their respective transaction limits). Equipment purchases in excess of \$1,000 are requisitioned using the City's purchase order process. When purchased using the procurement card, new equipment is to be taken to the Parks and Recreation Maintenance Shop where the Equipment Mechanic assigns the item a City equipment number, enters the item information (i.e. physical description, serial number, etc.) in the Faster inventory system prior to placing the equipment in service. Equipment is kept in secured storage facilities on Forest Lawn's and Greenhill's premises; however, all crew members and the Cemeteries Superintendent possess a

master key to the locks. When equipment is permanently taken out of service, the Equipment Mechanic may salvage working parts from the item to use for repairs prior to placing the remainder on City auction. Currently, he does not maintain a record of equipment sold at City auction; but he stated that going forward, in order to maintain better inventory records, he will list the sale date for surplus equipment in the database.

Recommendation:

Parks and Recreation management should devise formal, official written policies and procedures into a departmental operating procedures manual in regards to its equipment inventory. Strong internal controls and documented procedures should be in place to ensure equipment inventory is adequately safeguarded. Implementing a good system of internal control will reduce opportunities for asset misappropriations. Internal controls are designed to ensure the effectiveness and efficiencies of operations, compliance with laws and regulations, safeguarding of assets, and accurate reporting. The controls for safeguarding assets and reporting require policies and procedures addressing:

1. Separation of duties - Effective segregation of duties (SOD) represents a vital component of virtually any organization's internal control system. SOD controls are designed to ensure that no single individual inappropriately handles all or compatible aspects of a transaction or process; helping to prevent employees from committing errors or engaging in fraudulent activity. In general, the principal incompatible duties to be segregated are:
 - Custody of assets,
 - Authorization or approval or related transactions affecting those assets, and
 - Recording or reporting of the asset.
2. Access controls - Access to physical assets should be restricted to very few employees, if feasible. Also, locks on secured facilities should be changed when an employee with key access is terminated.
3. Authorization controls - Develop and implement policies to determine how equipment purchases are initiated, authorized, recorded, and disposed of. Internal controls will help reduce opportunities for fraud.

Finding #2:

On September 16, 2009, Internal Audit performed a physical verification of the equipment at Forest Lawn and Green Hill Cemeteries to the inventory records and noted the following discrepancies:

- Equipment #915-13 – Serial numbers did not match inventory records, or the numbers on the vendors invoice; also, the equipment number etched on the item appeared altered.
- Equipment #915-20 – Equipment could not be located during our visit. It is assumed by management that this item was taken during a burglary at Green Hill Cemetery, which was reported to the Greensboro Police Department on May 5, 2009. No physical inventory of the equipment was conducted immediately upon knowledge of the break-in.

- Equipment #923-26 – The engraving of the equipment number appeared different. The Equipment Mechanic uses an etching tool to engrave the assigned equipment number in items prior to its placement in service. The engraving in equipment #923-26 appeared to have been scratched into its surface using a sharp instrument. Also, the serial and model numbers did not match those on the inventory records or vendor's invoice.
- During our visit at Forest Lawn Cemetery, we observed two pieces of equipment, a Honda tiller and a Murray 5.0 push mower, that were not included on the inventory records; but were later added. Further inquiries revealed that these items were not purchased using City funds, but “donated” by Parks and Recreation employees. The Cemeteries Superintendent explained that it was not uncommon for employees to donate equipment no longer used at their personal residence or pick up items from yard sales that can be used in the operation.

Recommendation:

Parks and Recreation management should:

1. Set strict policies and limits for employees' use of equipment and enforce them. This includes drafting an anti-theft policy in regards to its equipment inventory. The policy should explicitly state that employees caught stealing will be prosecuted (i.e. “zero tolerance” theft policy). Then, require each employee to sign the agreement.
2. Establish an anonymous or confidential reporting system for employees to report any violations of policies and procedures without fear of repercussion. Investigate every reported incident. A thorough and prompt investigation of policy and procedure violations, allegations of asset misappropriation, or warning signs of misappropriation gives management the facts they need to make informed decisions and reduce losses.
3. Monitor employees' usage of equipment. Consider implementing and maintaining an equipment “sign-out/sign-in” log. Have crew members write down the date, their name, a detailed description of equipment, the serial number, and time checked out. When they are through using the equipment, have them sign it back in. This will allow for management to hold a particular person responsible for the equipment in the event that the original item is not returned (i.e. exchanged), or not returned at all (i.e. stolen).
4. Ensure that all equipment is returned to a secured area upon completion of a task or at the end of the work day.
5. Discourage employees from placing non-City owned equipment into service. This not only poses a liability for the City in the event injuries are sustained from its use, but can also provide a means for employees to “swap” newer City-owned equipment for older personal models.
6. Conduct frequent verifications of the equipment inventory, especially immediately upon knowledge of a break-in. Know the location of the equipment at all times, or when it was last used and by whom.
7. Remove any equipment deemed missing or stolen from the “in service” status in the inventory records following a thorough investigation.

Finding #3:

On April 16 and 19, 2010, we conducted another physical verification of the equipment to the inventory records and noted the following discrepancies (in addition to Equipment #915-20 and #923-26 described earlier):

- Equipment #915-3 – The make and serial number on this item did not match the inventory records or vendor's invoice. During our site visit, we noted a John Deere trimmer (serial #GU3540054); inventory records and vendor's invoice indicated a Stihl hedge clipper (serial #272623373).
- During our visit at Forest Lawn Cemetery, we noted a Hitachi compound table saw (serial #C0507331) and a Bush Hog power auger (no serial number found) located in one of the storage facilities that could not be traced to the inventory records. We contacted the Equipment Mechanic to inquire why these items were not listed in the records. He explained: (1) only equipment that is sent to the maintenance shop for repairs are inventoried. Electrical saws, drills, and other miscellaneous hand tools are replaced rather than repaired; and (2) the auger was purchased by the division and he was not notified to add it to the inventory. He stated that the auger will be added to inventory.

Recommendation:

To reduce the likelihood that equipment is placed in service or misappropriated prior to its recording in the equipment inventory, management should assign the task of purchasing small equipment via procurement card to one individual; preferably separate of individuals responsible of the authorization, custody and recording functions, if feasible.

Finding #4:

To ensure that the inventory records reflected inventory equipment purchased with City funds, we reviewed procurement card transactions for all division cardholders and purchase orders from January 2005 to August 2009; then traced serial numbers from the source documents (i.e. vendor invoices) to the inventory records. Our testing revealed that the serial number on equipment #923-21 did not match the vendor's invoice. Source document shows the item was initially purchased by Bryan Park, but transferred to the Cemeteries Division via City surplus. The equipment's serial number is #1068; not #1221 as indicated on the inventory records or the vendor's invoice.

Recommendation:

The previous recommendations can be implemented department-wide at all Parks and Recreation facilities maintaining an equipment inventory.

On November 11, 2009 and December 29, 2009, Green Hill Cemetery staff reported two separate burglaries, investigated by the Greensboro Police Department (GPD). Physical equipment inventory verifications were performed following knowledge of the burglaries to

ensure that no equipment was stolen. At our April 19, 2010 site visit to Green Hill Cemetery, we noted that the City's Building Maintenance installed tamper-proof guards over the padlocks to the storage/office facilities; a security improvement implemented during our review.

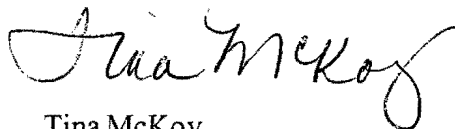
Parks and Recreation management continuously communicates with City Security regarding ways to increase the security of its facilities, including the possibility of using live streaming video footage that can be monitored by City contracted security consoles. However, this implementation would not take effect immediately, if at all. In the meantime, we suggest the following cost-effective means for deterring outside perpetrators:

1. The posting of signage and stickers stating that the property is under surveillance will create physical and psychological barriers for criminals. Signs can also let the thief know that patrols are in the area and that equipment serial numbers have been recorded and are available to police 24 hours a day.
2. Increase the lighting around storage facilities and offices.

We would like to thank the staff at the Parks and Recreation Department for their courtesy and cooperation shown during this review. We ask that you address our findings and recommendations with your responses of corrective action, and promptly forward it to our office no later than Tuesday, June 1, 2010. If you have any questions or concerns, please do not hesitate to call us at 373-4528.



Len Lucas
Internal Audit Director



Tina McKoy
Internal Auditor

Cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications

Parks and Recreation Department
City of Greensboro



June 14, 2010

TO: Internal Audit Division
FROM: Greg Jackson, Director of Parks & Recreation

SUBJECT: Department Response to Cemeteries Review

Thank you for your thorough review and report of the equipment inventory procedures of the Cemeteries. In addition to the responses below, the department has updated the Small Equipment Policy to more accurately reflect the intent of tracking and monitoring inventory assets.

Internal Audit Recommendations:

Parks and Recreation management should devise formal, official written policies and procedures into a departmental operating procedures manual in regards to its equipment inventory. Strong internal controls and documented procedures should be in place to ensure equipment inventory is adequately safeguarded. Implementing a good system of internal control will reduce opportunities for asset misappropriations. Internal controls are designed to ensure the effectiveness and efficiencies of operations, compliance with laws and regulations, safeguarding of assets, and accurate reporting. The controls for safeguarding assets and reporting require policies and procedures addressing:

1. Separation of duties - Effective segregation of duties (SOD) represents a vital component of virtually any organization's internal control system. SOD controls are designed to ensure that no single individual inappropriately handles all or compatible aspects of a transaction or process; helping to prevent employees from committing errors or engaging in fraudulent activity. In general, the principal incompatible duties to be segregated are:
 - Custody of assets,
 - Authorization or approval or related transactions affecting those assets, and
 - Recording or reporting of the asset.
2. Access controls - Access to physical assets should be restricted to very few employees, if feasible. Also, locks on secured facilities should be changed when an employee with key access is terminated.
3. Authorization controls - Develop and implement policies to determine how equipment purchases are initiated, authorized, recorded, and disposed of. Internal controls will help reduce opportunities for fraud.

Department Response:

The department has a Small Equipment Policy that outlines the process for acquiring, maintaining and inventorying equipment that was adopted in January 2006 and updated as a result of this audit. The department will ensure staff complies with this policy and is implementing procedures at staffed cemeteries for the supervisor to better manage and control inventory. Staff will utilize a check-out system for equipment when procuring it from a secured area with the proper authorization from the supervisor. All equipment purchases will be approved by the Superintendent of the Cemeteries prior to requisition. In addition, the Parks, Gardens and Program Support Division Director will work with staff to conduct periodic unannounced inventory inspections and audits.

Internal Audit Recommendations:

Parks and Recreation management should:

1. Set strict policies and limits for employees' use of equipment and enforce them. This includes drafting an anti-theft policy in regards to its equipment inventory. The policy should explicitly state that employees caught stealing will be prosecuted (i.e. "zero tolerance" theft policy). Then, require each employee to sign the agreement.
2. Establish an anonymous or confidential reporting system for employees to report any violations of policies and procedures without fear of repercussion. Investigate every reported incident. A thorough and prompt investigation of policy and procedure violations, allegations of asset misappropriation, or warning signs of misappropriation gives management the facts they need to make informed decisions and reduce losses.
3. Monitor employees' usage of equipment. Consider implementing and maintaining an equipment "sign-out/sign-in" log. Have crew members write down the date, their name, a detailed description of equipment, the serial number, and time checked out. When they are through using the equipment, have them sign it back in. This will allow for management to hold a particular person responsible for the equipment in the event that the original item is not returned (i.e. exchanged), or not returned at all (i.e. stolen).
4. Ensure that all equipment is returned to a secured area upon completion of a task or at the end of the work day.
5. Discourage employees from placing non-City owned equipment into service. This not only poses a liability for the City in the event injuries are sustained from its use, but can also provide a means for employees to "swap" newer City-owned equipment for older personal models.
6. Conduct frequent verifications of the equipment inventory, especially immediately upon knowledge of a break-in. Know the location of the equipment at all times, or when it was last used and by whom.
7. Remove any equipment deemed missing or stolen from the "in service" status in the inventory records following a thorough investigation.

Department Response:

The department adheres to the City of Greensboro Personnel Manual. Policy H-1 section 4.4 prohibits the undermining of public trust and behaviors that are criminal in nature. All employees will be provided with a copy of this policy and reminded of the implications with regard to theft.

Additionally Policy H-2 of the City of Greensboro Personnel Manual provides employees the opportunity to report concerns freely without the fear of repercussion.

Staff will implement a check in, check-out system with the proper authorization from the supervisor when using equipment from a secured area. Supervisors will be required to do an immediate inventory audit following a break-in or theft. Equipment identified as stolen or missing will be reported immediately to Equipment Services and the Division Director. Small tools will be inventoried also and should be monitored by the facility supervisor and subject to periodic checks from the Superintendent or Division Director.

Internal Audit Recommendations:

To reduce the likelihood that equipment is placed in service or misappropriated prior to its recording in the equipment inventory, management should assign the task of purchasing small equipment via procurement card to one individual; preferably separate of individuals responsible of the authorization, custody and recording functions, if feasible.

Department Response:

The department is implementing procedures at staffed cemeteries to hold the supervisor responsible for asset management and control. All small equipment will be maintained and procured in accordance with the Small Equipment Policy. The Cemetery Superintendent must approve all equipment purchases prior to acquisition.

Internal Audit Recommendations:

The previous recommendations can be implemented department-wide at all Parks and Recreation facilities maintaining an equipment inventory.

On November 11, 2009 and December 29, 2009, Green Hill Cemetery staff reported two separate burglaries, investigated by the Greensboro Police Department (GPD). Physical equipment inventory verifications were performed following knowledge of the burglaries to ensure that no equipment was stolen. At our April 19, 2010 site visit to Green Hill Cemetery, we noted that the City's Building Maintenance installed tamper-proof guards over the padlocks to the storage/office facilities; a security improvement implemented during our review.

Parks and Recreation management continuously communicates with City Security regarding ways to increase the security of its facilities, including the possibility of using live streaming video footage that can be monitored by City contracted security consoles. However, this implementation would not take effect immediately, if at all. In the meantime, we suggest the following cost-effective means for deterring outside perpetrators:

1. The posting of signage and stickers stating that the property is under surveillance will create physical and psychological barriers for criminals. Signs can also let the thief know that patrols are in the area and that equipment serial numbers have been recorded and are available to police 24 hours a day.
2. Increase the lighting around storage facilities and offices.

Department Response:

The Small Equipment Policy is a departmental policy that will be implemented system wide. The department will continuously evaluate facilities from a safety and security perspective and implement appropriate protective measures. A requisition has been submitted for the procurement of a new burglary alarm system at the cemeteries maintenance facility. Accompanying signage will be placed to indicate a level of protection for the facility. Lighting options will be assessed with Duke Power utilizing existing poles and increasing fixture wattage.




Greg Jackson

Attachment: Small Equipment Policy

GJ/cw

Cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications
Chris Wilson, Parks, Gardens, and Program Support Manager
Dan Maxson, Administrative Services Manager

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|---|--|-------------------------|----------|
|  | GREENSBORO PARKS & RECREATION DEPARTMENT Policy Manual | | |
| | Small Equipment Policy | | |
| Number: PR-P22 | Revision: 6/14/2010 | Effective Date: 1/20/06 | Pages: 2 |

POLICY

The Small Equipment Policy helps the Parks & Recreation Department acquire the most durable and effective equipment and ensure accurate inventory records. This will reduce the amount of down time and repair costs and provide a centralized inventory of small equipment assets. This policy details procedures for purchasing, entering and removing from inventory, and maintaining small equipment. Small equipment consists of gas or electric power equipment that may be hand held, pushed, or worn on the back. The life expectancy of small equipment is a minimum of three years. The life expectancy of the equipment is based on recommendations from the equipment service staff and is the baseline used for the FASTER system.

PROCEDURES

Acquiring Small New & Used Equipment:

1. Prior to any staff purchasing equipment, they must seek approval by the appropriate supervisor.
2. Staff cannot accept donated equipment without department director approval.
3. Equipment service staff should be consulted prior to purchasing equipment. If you cannot reach equipment service staff, commercial grade equipment is recommended.
4. It is recommended that staff demo equipment prior to purchasing to ensure the product meets the needs of the work site.
5. Equipment purchased should come with a warranty. Problems with equipment should be reported in a timely fashion to equipment services so that the warranty may be utilized for cost effective repairs.
6. Equipment service staff will return equipment to field crews when process is complete.
7. Equipment services staff will maintain a database of equipment including make, model, serial number, storage location of equipment and any other pertinent information.

Small Equipment Schedule Maintenance:

1. All small equipment should be cleaned before storing at the end of the day.

2. All small equipment air filters should be checked and cleaned per manufacturer's recommendation by equipments services.
3. Small equipment that requires oil changes such as tillers, lawnmowers, trenchers, etc... should have these procedures done twice a year or when needed by the equipment services staff.
4. Small equipment should be checked by the equipment service staff or a trained field crew member for problems. If the problem persists the equipment should be turned in to the equipment services staff for a thorough inspection.

Repairing or Surplus of Small Equipment

1. If small equipment is broken it should be taken to equipment services staff within 24 hours for repair.
2. Once the small equipment is received by equipment services staff they will make a decision to repair, hold for part, or send it to the City surplus sale. This will be based on information from the Faster System and the supervisor.
3. If equipment shows signs of abuse then it is reported to the supervisor and noted in the Faster System before returning it to field staff.
4. If equipment is too old and/or repair costs are too high then equipment services staff will contact the supervisor before a replacement is ordered.
5. If the equipment is not repairable then equipment services staff will make a decision to transfer the equipment from active to parts inventory or City surplus sale.
6. Any equipment that is sent to the surplus sale or relinquished to parts inventory will be appropriately noted in the equipment inventory database.

REFERENCE

1. Maintenance and Operations Plan
2. FASTER Fleet Management System

Internal Audit Division
City of Greensboro



June 17, 2010

TO: Greg Jackson, Director of Parks and Recreation

FROM: Internal Audit Division

SUBJECT: Departmental Response to Cemeteries Equipment Inventory
Review dated June 17, 2010

Thank you for your response to the above mentioned review. We appreciate your willingness to accept our recommendations; and we applaud you for your timeliness in updating your current Small Equipment Policy, as well as implementing other procedures as suggested.

If you have any questions or concerns, please do not hesitate to call us at 373-4528.

A handwritten signature in black ink, appearing to read "Len Lucas".

Len Lucas
Internal Audit Director

A handwritten signature in black ink, appearing to read "Tina McKoy".

Tina McKoy
Internal Auditor

Cc: Bob Morgan, Deputy City Manager
Denise Turner, Assistant City Manager for Community Affairs & Communications