



COUNTY OF DURHAM

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Internal Audit Department

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Audit Committee

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Manuel L. Rojas
Michael M. Ruffin
Harrison Shannon

May 24, 2012

Michael M. Ruffin, County Manager:

Internal Audit has completed its audit of General Services' acquisition and asset management operations. Audit results showed that the department's internal controls over purchasing and inventory are adequate to deter and detect errors and fraudulent activity. Over the past year, the General Services' Director and administrative staff implemented several processes instrumental in achieving their current level of control. The department is also near completion of its maintenance management software system implementation, a tool that will further enhance controls over inventory, including inventory requirements, usage, and values. Implementation is projected to be complete by July 1, 2012.

We did not make any recommendations in this report because we believe the department is achieving its control objectives. We are encouraging the continued purchase and work order monitoring. We also encourage continued effort to fully implement the new maintenance system.

I appreciate the courtesy and cooperation provided by the General Services Director and staff.

Richard Edwards
Internal Audit Director

XC: Motiryo Keambiroiro
Director, General Services

May 24, 2012

HIGHLIGHTS

Internal Audit Report to the
County Manager

Why we did this review

We conducted this review because General Service's maintenance and repair operational controls had not been reviewed in recent history and because the nature of maintenance and repair operations is inherently high risk for fraud, theft, and abuse. The Audit Oversight Committee approved the risk assessment and this engagement.

Our objectives were to determine if General Services' internal controls would:

- Prevent, detect or deter unauthorized purchases and use of supplies and materials,
- Assure accuracy and agreement of inventory records and inventory on hand, and
- Assure identification of significant waste, fraud or abuse.

What we recommend

We did not make recommendations in this report; however, we encourage GS to continue its efforts to implement and monitor inventory and purchasing controls.



For more information, please contact Richard Edwards, Internal Audit Director at 919-560-0042 or rcedwards@durhamcountync.gov

DEPARTMENT OF GENERAL SERVICES

Acquisition and inventory management controls are generally sound

What We Found

General Services (GS) implemented controls over its purchasing and asset management functions. The controls assure that materials and supplies are purchased to (1) conduct minor construction projects, (2) complete maintenance and repair work, or (3) restock common inventory items. GS is near completion of implementing an integrated maintenance management system to further enhance work order and purchasing management. The system will provide additional information such as the monetary value of inventory on hand as well as purchase order and work order information.

Summary of Audit Results	
Preventing unauthorized purchases and use of supplies and materials	The current system for material acquisition and use management relies heavily on manual purchase order and work-order processing. The work order provides details such as the service location, requestor, completion dates and authorization. Work order approval is required before most purchases are made and before services are provided. Work orders for emergency situations were not always approved beforehand but approval was made within three days after the item was purchased and work completed. All purchases we reviewed had signed work orders on file.
Agreement of inventory records and inventory on hand	Beginning in July 2011, GS began an effort to inventory its equipment, materials, and supplies on hand. Each of GS' seven units completed a detailed inventory. Our review of a random sample of the inventory showed agreement between the records and what was on hand except Animal Control Division had two rifles that were not on the inventory list. These rifles had been obtained after the inventory was completed.
Identification of significant waste, fraud, and abuse	Work orders are in place before purchases are made except in rare occasions as noted above. The work order system references the purchase order and includes (1) purchase order/invoice number, (2) date of the purchase, (3) quantities purchased, (4) date of service, and (5) approving official. Additionally, the purchase is approved by a supervisor and reviewed before being submitted to the Accounts Payable unit for payment processing. This process lessens the risk of significant fraud, waste, or abuse.
Implementation of enhanced work order/inventory system	GS is testing its Maintenance Management software. The software, purchased in June 2011 at a cost of \$1,050, is a comprehensive management system software package that includes work order, preventive maintenance, materials/inventory, project, and contract management. GS expects implementation to be complete by July 1, 2012. If implementation is successful, GS should be able to make better budget decisions which translate into improved financial performance.

We appreciate the excellent cooperation from General Service management and staff while conducting this audit.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Introduction

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, 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.

Scope and Methodology

We reviewed purchases and work orders for July, August and the first week of September, 2011. During that period, the department made 398 payments through the finance department's accounts payable system valued at approximately \$535K. These payments were for tools, material and supplies, water, electricity and maintenance contracts. This does not include costs for large construction contracts.

We randomly reviewed 100 accounts payable transactions valued at approximately \$217K to determine if evidence existed to show why the purchases were made and if they were authorized. During our review process, we:

- Reviewed GS procurement policy,
- Checked the tool inventory of maintenance staff including the Animal Control Division,
- Examined purchase order and procurement records,
- Reviewed work orders and the work order process, and
- Interviewed administrative and maintenance staff.

Background

General services' mission is to provide safe, quality and timely services to citizens, customer, animals, and infrastructure of Durham County. To achieve its mission, GS' budget was approved for 77 FTE's, including administration personnel, for fiscal year 2012.

GS' activities include maintenance of 1.4M square feet of public building. Activity includes plumbing, heating/air conditioning, electrical services, minor renovations, miscellaneous contracts for janitorial, elevators, landscaping services, parking lot maintenance, and stadium maintenance. Activity also includes pest control and mosquito prevention which includes cutting, clearing, and treating larva areas.

These activities require purchasing equipment, supplies, tools, and materials to meet department's mission. Many purchases need to be made quickly to meet emergency or quick turnaround requirements. The level of purchases required for immediate use and replenish stock is significant, thereby requiring good internal controls to prevent fraud, theft, and abuse.

In July 2010, the GS Director while analyzing inventory and purchasing processes, asked the internal auditor to address the staff regarding inventory and purchasing controls. At that time, there was little in the way of segregation of duties for purchasing and receiving and the inventory system was not constructed to track the value of inventory on hand.

Since then, the director has tightened the inventory process and included revisions in the policy statement. Additionally, the policy includes processes for work order administration. Also, as stated above, the department has installed its comprehensive maintenance management system. Testing of the system has been completed and the process has begun to enter all inventory items into the system.

This audit began in July 2011 to determine if controls had been implemented and if they were effective. We found additional controls in place and the improvement was evident from cases generated in fiscal year 2011 and those generated in fiscal year 2012. Additionally, the maintenance management software system is being implemented and will provide additional controls over reporting as well as tracking. We believe progress under this system should be reviewed at an appropriate time after full implementation to determine its effectiveness.

GS's estimates its new Maintenance Management Software system will be fully implemented in July 1, 2012.



Values

Service

Unity

Pride

Professionalis

COUNTY OF DURHAM
DEPARTMENT OF GENERAL SERVICES

Mission: To provide safe, quality and timely services to citizens, customer, animals, and infrastructure of Durham County

Vision: General Services: A highly respected department within Durham County that serves as a model for respect, teamwork, integrity

and work ethic

MOTIRYO KEAMBIROIRO

Director

DONALD HASSELBACH

Assistant Director

May 23, 2012

Mr. Richard Edwards
Internal Audit Director
210 E. Main Street
Durham, NC 27701

Re: Department of General Services Internal Audit Report to the County Manager

Dear Mr. Edwards;

Thank you for the opportunity to respond to your audit findings. We have reviewed your findings and agree with the content and context. We are pleased with the outcome of the Audit.

The issue in Animal Control regarding the 2 guns not being documented has been corrected and placed in inventory. We appreciate you bring this discrepancy to our attention.

As you stated we will continue to enhance our maintenance management software to ensure controls over reporting and tracking inventory and purchases.

Thank you for the opportunity to respond and consideration of our comments.

Sincerely,

Motiryo Keambiroiro
Director General Services

C: Deborah F. Booth, Asst. Director Admin.
Don W. Hasselbach, Asst. Director Oper.