

Maintenance Procurement Review:

Analysis of shop and truck stock purchases

Office of Internal Auditing
May 2013

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Preface

The Office of Internal Auditing serves to improve the fiscal accountability and enhance the public's perception of the management and operations of the Escambia County School District. This engagement strives to meet those objectives.

Audits, reviews, and other engagements are determined through a District-wide risk assessment process, and are incorporated into the annual work plan of the Office of Internal Auditing, as approved by the Audit Committee. Other assignments are also undertaken at the request of District management.

This engagement was conducted with the full cooperation of the District operational staff. We did not encounter any restrictions to records or personnel, which would prohibit us from expressing an opinion or offering recommendations.

Any recommendations included in this engagement are designed to improve operations, and serve as the basis for informed discussions related to policies and procedures.

This engagement was conducted in accordance with the International Standards for Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors.

We thank the Maintenance staff for their cooperation and commitment. We look forward to reviewing their progress, when we follow-up on our recommendations.



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Executive Summary

The District was concerned with the stock ordering process, which results in the misrepresentation of work orders.

It appears using current work orders to secure parts for future repairs was a common practice.

Maintenance personnel cited previous budgeting/funding restrictions as the reason for the practice in question. It appears the practice is no longer standard.

Practices remain which still result in the misrepresentation of actual work performed and supporting documentation.

Current internal controls are not sufficient to monitor and safeguard inventory.

The Escambia County School District (the District) expressed concerns with the process utilized by the Maintenance Department for the purchase of parts and/or materials classified as shop and truck stock. As a result of investigations conducted by the District and previous discussions with various Maintenance personnel, the District was made aware of what appeared to be a common practice of utilizing current work order repair requests to secure shop and truck stock to be used for future repairs. The process is not an approved standard operating procedure and the District discourages the misrepresenting of work orders to obtain parts and/or materials needed for future work requests.

Based upon interviews and discussions with various Maintenance personnel within the scope of our review, it appears the practice of utilizing current work order repair requests to secure shop and truck stock to be used for future repairs was utilized in the past by various staff within the Maintenance Department. Each shop supervisor contends that this is not a current practice in their respective shop.

Maintenance personnel cited previous District budgetary and/or funding restrictions in effect at that time as reasons for which the practice in question was used. Each supervisor stated they no longer feel they have any hindrances with regard to the ordering of shop and truck stock needed to perform their duties. As such, managers felt they are no longer under the constraints that motivated their employees to engage in this type of practice.

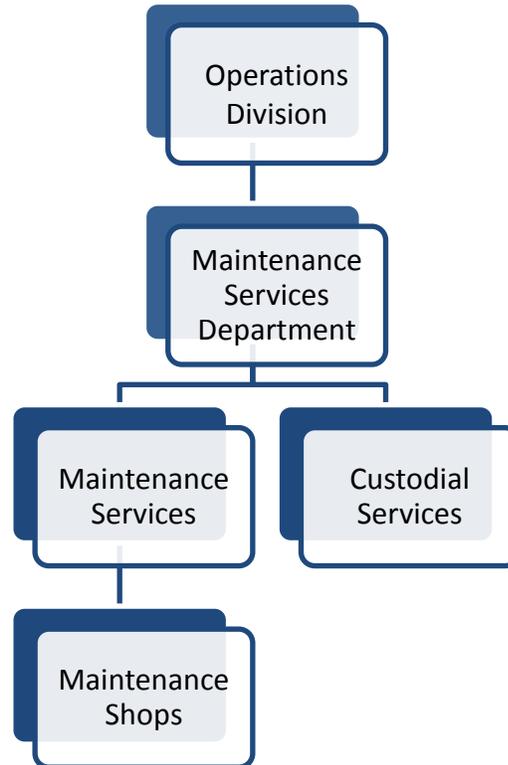
Overall, it appears the majority of the shops within the Maintenance Department follow the standard operating procedures pertaining to work order requests, as set forth in the Maintenance Department Policies and Procedures Manual. However, it appears there may be practices which are still utilized by some of the shops which result in documentation that does not accurately represent the work which was performed, or the proper associated costs.

We did identify certain mechanisms and internal controls that have been developed to enable the Maintenance shops to order and manage shop and truck stock; however, it appears the current internal controls in effect are not sufficient to aide in effectively monitoring and safeguarding the stock inventory held by each shop.

This report includes recommendations. The Executive Summary is intended to highlight the various aspects of the report. The full report should be read to understand the basis of our recommendations.

Background

The District operates and maintains its own Maintenance Services Department. The organizational structure of the Maintenance Service Department is as follows:



The Maintenance Department consists of 13 shops, with approximately 140 employees.

The Maintenance Services Department consists of 13 shops, with approximately 140 employees within the department. Custodial Services is also included in the Maintenance Department. The following shops were noted:

- Carpentry
- Exterminator
- Locksmith
- Plumbing
- Electrical
- Grounds Crew
- Office Machine Repair
- Fire Suppression Systems
- Custodial Services
- Electronics
- Heating & Air
- Paint
- North End
- Surplus Operations

The Maintenance Department processes approximately 23,000 work order requests per year.

The Director of the Maintenance Department manages and oversees each of the various shops within the Department. Each shop is staffed with a shop supervisor who manages each shop; however, a few shop supervisors oversee multiple shops. The Maintenance Department currently utilizes the District OASIS system to receive and process work requests for maintenance services. The Maintenance Department processes approximately 23,000 requests for maintenance services each year. All maintenance work requests are entered into the OASIS system. Phone-in work requests are accepted only in extreme emergencies (i.e. life, safety, or property damage). The Maintenance Department has established standard operating procedures for the submission and completion of maintenance service requests.

The District expressed concerns with the process utilized by the Maintenance Department for the purchase of parts and/or materials classified as shop and truck stock. As a result of investigations conducted by the District and previous discussions with various Maintenance personnel, the District was made aware of what appeared to be a common practice of utilizing current work order repair requests to secure shop and truck stock to be used for future repairs. The process is not an approved standard operating procedure and the District discourages the misrepresenting of work orders to obtain parts and/or materials needed for future work requests.

Objective

The objective of our review was to evaluate and assess the District's concerns by obtaining an understanding of each shop's purchasing processes within the Maintenance Department. Our review also included an assessment of each shop's current internal controls. Based on our evaluation and our review of internal controls, our goal was to identify areas in which internal controls could be strengthened and/or implemented.

Scope

We conducted interviews and reviewed previous investigations, SOPs, and division reports.

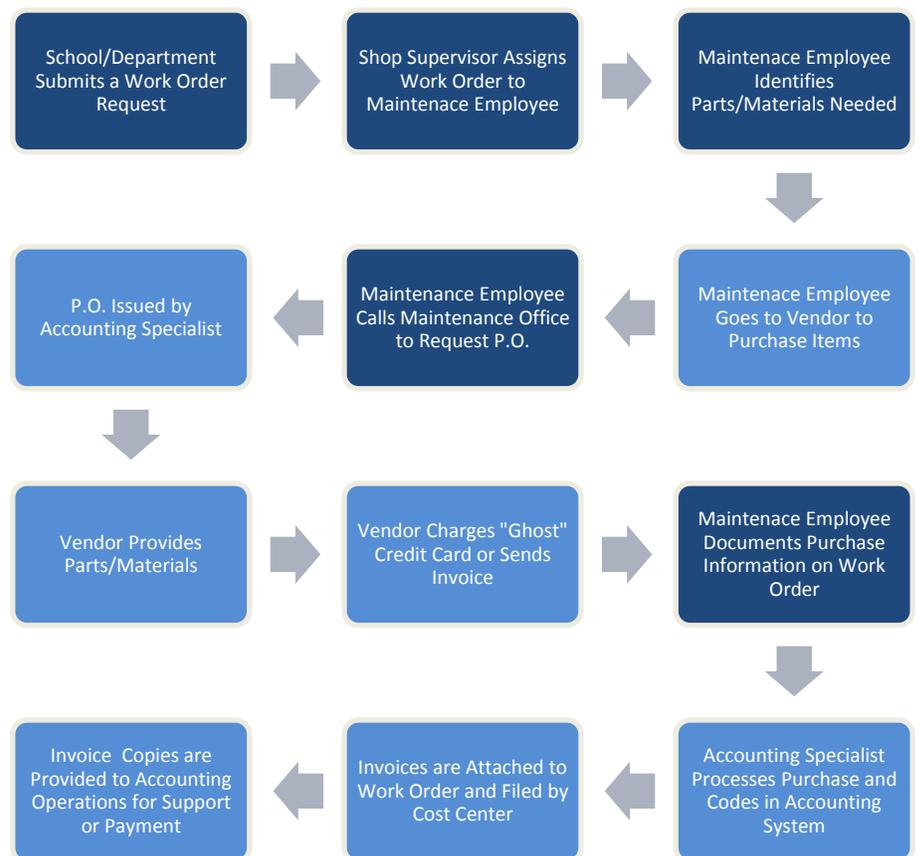
We interviewed the Director of the Maintenance Department and each Maintenance shop supervisor. We also interviewed the Maintenance Department's Accounting Specialist II. Previous District investigations were reviewed. In addition, our review included an examination of the Maintenance Department's Policies and Procedures Manual. The Operations State of Division Report dated October 2012 was also reviewed.

Methodology

We interviewed the Director of the Maintenance Department to obtain an overview of the Maintenance Department and to obtain an understanding of the Department's purchasing process for each shop to order parts and/or materials for work requests. The Maintenance Department's Accounting Specialist II was interviewed to gain an understanding of the Department's purchasing process for ordering parts and/or materials for work requests. Finally, each shop supervisor was interviewed to obtain an understanding of the purchasing process for parts and/or materials purchased for work order requests.

The following general purchasing process was noted for all shops with regard to purchasing parts and/or materials for work order requests:

The parts/supplies purchasing process involves repairmen, supervisors, vendors, and accounting personnel.



There are no adjusting entries to charge stock to cost centers when the stock is used.

Some stock items are charged directly to a cost center. This stock is usually stored at the school.

Some stock items are charged to an "all-schools" cost center. These purchases are not charged to cost centers when they are used.

We observed inventories at shops to determine the security of the items.

The Accounting Specialist II was asked a series of questions to understand how shop and truck stock is recorded. Per the Accounting Specialist II, truck stock and shop stock is charged to each shop's cost center. On the work order, the Maintenance employee identifies and notes all truck stock and shop stock items used for the work order, and assigns a dollar amount (if possible) and description of the materials used. There are no adjusting entries posted to charge truck stock and shop stock out to the school/location cost centers as the Maintenance employees use the stock.

Some purchases are made by the shop supervisors using a "materials only" work order. If the parts and/or materials purchased on the materials only work order are for a specific school, these items are charged to that school cost center. For example, the Heating & Air Shop orders various parts on a material only work order and the parts are charged to the school's cost center. These parts are delivered to the school and are kept as redundant systems backups. Redundant systems backups are entire pieces of equipment which are stored at certain school locations to be readily assessable and on hand for installation in the event of current equipment failure.

Other purchases are charged to the "all-schools" cost center. Air filters are an example of items ordered on a materials only work order. If the parts and/or materials purchased are for shop stock, these items are charged to the shop cost center. Some items purchased via a materials only work order are for all schools. These items are charged to the all schools cost center. The items are kept in each shop's stock. Paint is an example of an item that is ordered in bulk on a material only work order and charged to the all schools cost center.

The Surplus Operations Shop Supervisor and the Custodial Department Assistant Director indicated they have a purchasing card to make purchases. The Surplus Operations Shop Supervisor indicated his purchasing card is rarely used and is only for emergency purposes.

The Custodial Department Assistant Director stated he makes all purchases for the Custodial Department using his purchasing card, with the exception of warehouse purchases.

The Maintenance Director was asked to describe the Department's current internal controls in place regarding parts and materials held in shop and truck stock inventories. Various questions were asked to each shop supervisor to identify internal control measures currently in place for each shop. We observed the inventories in each shop to assess and evaluate the security of shop stock and truck stock.

We observed stock items stored at schools to determine the security of the items.

To ensure the parts were properly safeguarded, we observed inventory for the Heating and Air Shop, which is kept out at the school sites as redundant systems backups for three locations. The parts observed appeared to be secured in the restricted access mechanical rooms at each school location reviewed.

Conclusions/Results

Extra parts were ordered and recorded on work orders to provide parts for future use.

Previous Processes

Based upon review of previous investigations and interviews and discussions with various Maintenance personnel within the scope of our review, it appears the practice of utilizing current work order repair requests to secure shop and truck stock to be used for future repairs was utilized in the past by various staff within the Maintenance Department. This practice involved ordering and charging extra parts to a school purchase order for a work order request in order to obtain parts to be placed in truck stock. These extra parts would then be used for future work order requests at other school locations.

Maintenance personnel cited previous budgeting/funding restrictions as the reason for the practice in question.

Maintenance personnel cited previous District budgetary and/or funding restrictions in effect at that time as reasons for which this practice was used. However, each Maintenance shop supervisor contends that this is not a current practice in their respective shop. Furthermore, each supervisor stated they no longer feel they have any hindrances with regard to the ordering of shop and truck stock needed to perform their duties. As such, managers felt they are no longer under the constraints that motivated their employees to engage in this type of practice.

Current Processes

Overall, it appears the majority of the shops within the Maintenance Department follow the standard operating procedures pertaining to work order requests, as set forth in the Maintenance Department Policies and Procedures Manual. However, it appears there may be practices which are still utilized by some of the shops which result in documentation that does not accurately represent the work which was performed, or the proper associated costs.

Ideally, when a Maintenance employee makes a purchase for an item(s) to be used for a work order request, the actual item(s) purchased should be used for that work order and the associated invoice(s) for that item(s) should be attached to the work order. Discussions with the shop supervisors indicated this process may not always be followed.

Some Maintenance shops use stock to make repairs, and reorder the stock using a current work order. The new item is placed back into stock.

Parts listed on the invoices attached to work orders are not the actual parts used in the repair.

We noted a significant number of established internal controls.

Instead of using the actual item(s) purchased for the work order, the Maintenance employee will use the same item(s) which he already has located in his truck stock. Then, when the actual item(s) which was purchased is received, the new item(s) is placed on his truck to replenish his truck stock.

This process results in invoices attached to the work order with item(s) purchased that were not the actual items used for the work order request, thus resulting in documentation that does accurately represent the work which was performed.

We did identify certain mechanisms and internal controls that have been developed to enable the Maintenance shops to order and manage shop and truck stock. However, it appears the current internal controls in effect are not sufficient to aide in effectively monitoring and safeguarding the stock inventory held by each shop.

Internal Controls identified

The following internal controls were noted:

- Upon completion of the work order request by the Maintenance employee, the school principal or designee reviews and initials all work orders and associated invoices for the repair.
- Shop supervisors review all work orders for proper information, attached invoices, and signatures. The supervisors also review all work orders for reasonableness of labor and material.
- Field inspections on selected work orders are conducted by the shop supervisors and/or assigned leaderman.
- The Accounting Operations Department performs monthly “audits” of all purchasing cards utilized by District employees. This process includes the “ghost cards” used by the Maintenance shops. All purchases made with a purchasing card are “audited” each month. The “audit” consists of verifying that no items over \$1,000 were purchased, taxes were not paid, and no personal items were purchased.
- Sign-out log sheets for certain shop stock items are maintained by the HVAC & Paint Shops. These logs document how much stock was used and by which employee.

We noted a significant number of internal control deficiencies and/or ineffective internal controls.

- Access to certain shop stock items is restricted.
- Inventory listings for truck stock, which are updated periodically, are maintained for the Plumbing & Electrical Shops.
- Specific instructions for the parking of the Maintenance employee work vehicles were noted for certain shops. For example, the HVAC Shop employees are required to park their work trucks close to the HVAC building.

During our review, several additional shops began the process of implementing a periodic inventory listing for various parts and supplies within their shop and truck stock.

Internal Control Weaknesses identified

- Based upon discussions with the Maintenance Director and various Maintenance personnel, it appears the current work order system (OASIS) utilized by the District may be ineffective, with regard to monitoring and tracking purchases made by Maintenance employees. According to the Maintenance Director, the current system does not associate purchases to specific employees. Currently, in order to determine what items an employee has purchased or to determine the total amount of purchases, supervisors must pull actual physical copies of work orders. The process can take several weeks for one employee, as supervisors must sift through thousands of work orders.
- For the time period of July 2012 through April 2013, it appears a combined total of approximately \$347,373.02 was charged to the Maintenance Department cost centers for supplies. Adjusting journal entries are not recorded in the District accounting system to charge shop and truck stock out to schools and/or other cost centers when used.
- Instead of using the actual item(s) purchased for certain work orders; the Maintenance employee will use the same item(s), which he already has located in his truck stock. Then, when the actual item(s) which was purchased is received, the item(s) are placed on his truck to replenish his truck stock.

Note: From our review, it appears this process is not utilized by all shops.

- We noted the monthly “audits” performed by Accounting Operations personnel were not consistently performed on a monthly basis. Some “audits” are not completed until several months after the purchases were made. Accounting Operations personnel indicated the “audits” were delayed due to the implementation of the District’s new accounting system, Skyward.
- It appears no inventory listing is kept and maintained for truck stock and shop stock.

Note: The Plumbing & Electrical Shop Supervisor stated periodic inventory listings are kept for truck stock for his employees; however, the inventory listings are not kept up to date on a daily or weekly basis. These shops were the only shops noted as maintaining an inventory listing.

- It appears no documentation, such as a log or notation made on the work orders, exists to verify the field inspections of selected work orders done by supervisors.
- Although several shops restrict access to certain shop stock items, not all shops have implemented this process.
- During our review, the Maintenance Department’s current GPS system, which provides the Director and each shop supervisor the ability to monitor and track their employees, was unable to be utilized due to technical issues with the current cell phones utilized by the District.

Note: At the conclusion of our review, the Director of the Maintenance Department stated new cell phones had been received, which should resolve the technical issues with regard to the GPS tracking system.

- In order to keep personal vehicles separated from District vehicles, several shops have specific parking instructions for their employees; however, not all shops appear to have specific parking instructions for their employees.

Noteworthy Accomplishments

The Maintenance Services Department should be recognized for their efforts to standardize procedures throughout their operations and for their proactive efforts to address known internal control weaknesses, while maintaining effectiveness and quality of service provided.

Recommendations

We recommend the District purchase a more robust work order system.

We recommend the District process journal entries to allocate stock costs when it is used for a specific cost center.

In order to address the work order process deficiencies and the internal control weaknesses identified, **we offer the following recommendations:**

As a detective internal control, **we recommend** the District consider purchasing a new work order system, which has the capability to effectively monitor and track work order requests and purchases made by Maintenance employees. Having a new work order system would enable the Director and shop supervisors in the Maintenance Department to track all purchases made by each Maintenance employee, thus providing an effective control to help identify and detect suspicious purchases. In contrast to the current (OASIS) work order system, a new work order system should have the ability to identify and track employee purchases by the week, month or year. The current system does not have this capability. It appears the Operations Division fully recognizes the need for a new work order system. It is our understanding that they have researched and requested the purchase of a new work order system.

Although truck stock and shop stock that is used for work order requests is documented on the work order, it appears there are no journal entries recorded in the District's accounting system to charge the stock to the school/location cost centers when it is used. As stated in the previous section, for the time period of July 2012 through April 2013, it appears a combined total of approximately \$347,373.02 has been charged to the Maintenance Department shop cost centers for supplies. We consider this amount to be material. As such, **we recommend** the District begin to process journal entries to charge the stock out to the school/locations cost centers as stock is used from each shop so that the expenses are properly recorded under the correct cost center. Charging items to costs centers more accurately reflects the costs associated with operating the cost center, and allows the cost center director/principal to validate purchases attributed to their cost center.

We recommend notating on work orders if stock is used for repairs, and the item is re-ordered through the current work order.

We recommend reviews of purchasing card transactions be conducted monthly.

We recommend shops implement and maintain stock inventories.

We recommend random inventory counts be conducted by supervisors.

We recommend field inspections be documented by supervisors.

We recommend access to valuable inventory be restricted.

We recommend utilizing sign in/out logs for valuable inventory items.

We recommend the District resolve the issues related to its GPS system capabilities.

Although we understand the need for shop and truck stock, we noted certain practices in our review which result in documentation which does not accurately represent the work which was performed, or the proper associated costs. As a possible solution to help resolve this issue, **we recommend** Maintenance personnel provide documentation on each work order in cases in which there is item(s) used from their truck stock in lieu of the actual items ordered.

We further recommend that Maintenance personnel indicate on the work order that the actual item(s) appearing on the attached invoice(s) has been placed on their truck to replenish their truck stock for the item(s) used. Note: This recommendation is not intended to serve as a means to obtain and replenish truck stock. This recommendation is provided only to serve as a means to document instances in which this situation occurs.

We recommend the District ensure that the monthly “audits” of District purchasing cards are performed on a monthly basis. The “audits” should be performed no later than the end of the following month.

To ensure the proper safeguarding and accountability of shop and truck stock on hand for each shop, **we recommend** each shop implement and maintain a periodic inventory of shop stock and truck stock. Instituting an inventory process would establish inventory control over the shop and truck stock ordered by the Maintenance employees. We further recommend each shop supervisor randomly perform inventory counts for shop stock and truck stock upon implementation of an inventory process.

We recommend each shop supervisor and/or assigned leaderman document the field inspections performed on selected work orders. Having this documentation would serve as verification that random field inspections are being performed on selected work orders.

We recommend access to each shop’s more valuable inventory items be restricted to only certain key personnel. Each shop should establish a threshold relative to its respective shop to identify the items considered high-dollar inventory. To provide a record of the parts and materials used by the shop employees, **we further recommend** the implementation and usage of a sign in/out log for valuable inventory in each shop.

We recommend the Maintenance Department resolve the technical issues related to the GPS system, which provides the Director and shop supervisors the ability to track and monitor its employees.

We recommend parking restrictions be implemented for all Maintenance shop employees.

Not all shops were noted as having specific parking instructions for its employees. **We recommend** each shop implement clearly defined parking instructions for its employees. At a minimum, each Maintenance worker should not park his/her work vehicle in close proximity to his/her personal vehicle.

MEMORANDUM

TO: Mr. Shawn E. Dennis, Assistant Superintendent – Operations

FROM: Charles M. Peterson, Director – Maintenance Services 

DATE: August 2, 2013

RE: Response to the Maintenance Procedures Review Conduction by the Office of Internal Auditing

At your request, an exit interview was conducted with David Bryant and Justin Cook, Office of Internal Auditing, Greg Gibbs and me. Mr. Bryant suggested that we just review the Conclusions/Results and Recommendations starting on page eight of the review. Mr. Bryant mainly focused on the Recommendations found on pages twelve through fourteen.

As you know, I have stated many times in our conversations about my concerns with my ability to account for time and materials for the Maintenance Department. I have requested a work order system during the budgeting process for the past ten years. I shared with Justin Cook during the initial audit that I felt a computerized maintenance management system would be the key to alleviating many of our accountability concerns. Of course, the first recommendation made by the Auditing Department was that the current OASIS system be replaced with a computerized maintenance management system. I was optimistic that a new system would be operational by July 1, 2013. I informed Mr. Bryant that this system has been approved by senior administrative staff. I am hopeful that it can be purchased and operational as soon as possible.

The second recommendation was to process journal entries to allocate stock costs when it is used for a specific cost center. Once again, a computerized maintenance management system will allow us to account for truck and shop stock more accurately than our current OASIS system.

Recommendation number three recommends that Maintenance personnel notate on work orders if stock is used for repairs and the item is re-ordered through the current work order. This is done on the paper work order, but cannot be done in the OASIS system as the cost would be double charged, i.e., it would be charged to the work order number on which it was purchased (materials only) as well as to the work order on which it was used. A new computerized maintenance management system will allow us to make these charges without double charging the budget and showing inaccurate actual maintenance costs.

The next recommendation was to review purchasing card transactions on a monthly basis. Mr. Bryant indicated that this should be a Finance Department responsibility.

Recommendation number four recommends that shops implement and maintain inventories for shop and truck stock. Mr. Bryant suggested having a dollar amount on the items to be inventoried, but did not recommend the amount to be used. After consulting with the Assistant Director and Supervisors, we decided on a minimum amount of \$50.00 for a single item. For instance, if a plumbing truck keeps six faucets at \$100.00 per faucet, an inventory would be kept for that item on the vehicle and in the shop. When one item is used, the school name and work order would be notated on the inventory sheet by the user and periodically checked by the Supervisor.

Recommendation number five is for each shop supervisor and/or assigned shop leader conduct random field inspections on work orders. The Maintenance Department has already implemented this recommendation. The Supervisor will identify the work orders to be field inspected by man-hours. The acronym "FIP" will be written on the work order. The Director and Assistant Director will randomly pull work orders to verify field inspections are being performed.

Recommendation number six to restrict access to valuable inventory has been implemented as well. Only Supervisors and Shop Leaders will have access to valuable inventory, tools and equipment. Although the Maintenance Department already has a sign-in, sign-out log for valuable equipment, it will be more strictly applied. Random inspections of this log will be conducted by the Director and Assistance Director.

Recommendation number seven recommending that the District resolve the issues related to its GPS system capabilities has been addressed. All Maintenance employees are currently tracking.

The last recommendation was for parking restrictions to be implemented for all Maintenance shop employees. After much discussion, looking at the layout of the Hall Center, and discovering a lack of parking spaces, the Auditing Department recommends, at a minimum, each Maintenance worker should not park his/her work vehicle in close proximity to his/her personal vehicle. We have already implemented this recommendation. In addition, twenty exterior video cameras have been placed at the Hall Center and Mr. Bryant felt this was more than adequate to discourage employees taking District assets and putting them in their private vehicles.

Overall, I feel the Maintenance Department is more accountable than most people think. In addition to the recommendations, we have taken additional steps to protect district assets: replaced the roll-up doors to the Electronics Shop with metal exterior doors; extra set of security doors on the HVAC Shop; extra lighting on the area parking the majority of our maintenance vehicles; a security resident with visual sight of most of the maintenance vehicles and twenty additional surveillance cameras. Each Supervisor has computer access to GPS and can identify where all of his employees are anytime during normal working hours.