



PUBLIC WORKS
INTERNAL AUDIT

February 2016





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Finance and Administration Committee
City of Springfield
840 Boonville Ave.
Springfield, Missouri 65802

Re: Public Works Internal Audit

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield, we have completed our internal audit of the Public Works Department and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, Our Observations and Recommendations, Process Improvement Opportunities, and a supporting Appendix. Because the procedures performed in conjunction with the review are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and the City Council and is not intended to be, and should not be, used by anyone other than the specified parties. City of Springfield external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

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**CITY OF SPRINGFIELD
PUBLIC WORKS INTERNAL AUDIT**

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CITY OF SPRINGFIELD
Public Works Internal Audit
Executive Summary

Project Overview and Scope

We completed our review of the City of Springfield's Public Works Department and the associated internal controls. The objectives of our review were to:

- Identify whether existing policies and procedures are in place to reasonably ensure that Public Works services provided by the City of Springfield are functioning properly and that proper segregation of duties has been achieved.
- Evaluate compliance with existing policies and industry best practices.
- Develop recommendations to improve the completeness, accuracy and efficiency of the Public Works Department.

Our review included transactions occurring from January 1, 2015 through December 31, 2015. We completed the following procedures:

- Conducted in-person interviews with Public Works personnel in order to gain an understanding of and document the following processes:
 - Miscellaneous Sales (Metal scrap, Grave plots, Fuels, Other)
 - Pricing
 - Billing and invoicing
 - Collections and write-offs
 - Purchasing and Contracting
 - Bidding requirements for purchase orders and contracts
 - Purchasing and contract approvals and thresholds
 - Comparison to the City's purchasing internal controls
 - Inventory
 - Types and respective controls (spare parts, consumables, etc.)
 - Reorder points (min/max), receiving, and tracking usage
 - Physical inventory counts
- Reviewed roles and responsibilities for Segregation of Duties conflicts and for adequate Delegation of Authority;
- Performed limited testing of transactions to corroborate the documented processes;
- Evaluated trends using data analysis for the areas identified above; and
- Compared current practices to industry best practices, including an evaluation of current capabilities, to achieve an effective and efficient control environment.

Background

Our internal audit on the Public Works Department encompassed the order to cash process for miscellaneous sales, the purchasing process (preparation of requisitions and purchase orders, collection of bids, selection and award of bid, and drafting of a contract), and review of internal controls over inventory functions. As of the June 2015 inventory observation, Public Works held approximately \$1.7 million in inventory.

**CITY OF SPRINGFIELD
Public Works Internal Audit
Executive Summary**

Best Practices

Based on our review, the following internal controls are in place and, in our opinion, represent a best practice:

- Proper segregation of duties exists over ordering, receiving, and recording of inventory for Fleet Management at the Service Center.
- Physical security over inventory exists as items are stored inside a gated compound that is locked each evening.
- Proper internal records are maintained to support required procedures for purchases, including approval, review, and bid documentation.

Observations and Recommendations

We determined that there are adequate internal control procedures in place over the processes noted above; however, we noted the following procedures that we would consider internal control weaknesses:

- Segregation of Duties conflicts were identified in the sign/signal shop and also the cemetery;
- There is no formal city-wide policy or procedures for conducting inventory observations;
- Inventory listings are being maintained in Excel which is prone to human error;
- Inventory management and storage is not optimal:
 - With the exception of Fleet Management at the Service Center, inventory is located in multiple locations for each division;
 - Limited inventory bin location information is in place and/or utilized;
 - Inventory is stored in an open air environment with limited security during the day;
 - Obsolete items exist in inventory at the Signal Shop and Sign Shop;
- Salt sales surcharge of \$5/ton is assessed to cover overhead costs, but has not been evaluated in several years and there is no documentation to support the existing amount.

All observations and recommendations were discussed with management. Details are noted in the schedules attached immediately hereafter.

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OBSERVATIONS AND RECOMMENDATIONS



	Process/Procedure	Observation and Risk	Recommendation	Management Response
1	Individuals within the Signage and Signal Shop have the ability to purchase, receive, reconcile, and adjust inventory.	<p>Observation: Segregation of duty conflicts exists in the process.</p> <p>Risk: Inventory may not be properly received, recorded, stored, and issued. Additionally, the proper oversight may not be in place.</p>	<p>Designate one person in each division to reconcile inventory and restrict the ability to purchase or receive inventory for that person.</p> <p>Segregate the purchaser and receiver of inventory.</p> <p>Require that inventory adjustments be approved by a division leader.</p> <p>Consider using Oracle for inventory functions.</p>	<p>The Traffic Operations and Transportation Management Divisions, which oversee the Sign Shop and Signal Shop respectively, will make assignments to segregate the purchaser and receiver of inventory in each shop. Inventory reconciliation will be assigned to staff that do not have purchasing privileges for each shop.</p>
2	One employee collects, records, and reconciles burial sales transactions at the cemetery.	<p>Observation: Segregation of duty conflicts exists in the process.</p> <p>Risk: Transactions may not be properly recorded and cash receipts may not be deposited by the receiving clerk.</p>	<p>Require that the employee reconciling burial sales to cash receipts is independent of the collection and recording function.</p>	<p>The cemetery office is staffed with one employee that handles all administrative functions. As a compensating internal control to achieve segregation of duties, the Public Works Operations Supervisor that directs and oversees cemetery operations will review and reconcile burial sales to cash receipts weekly.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
3	<p>There is no formal guidance on the procedures to be used for inventory counts.</p>	<p>Observation: Each department or division implements their own procedures and policies for performing inventory counts.</p> <p>Risk: Inventory management is ineffective in identifying and correcting inventory levels on a periodic basis.</p>	<p>Develop and implement an inventory counting methodology that each division within Public Works will be required to follow.</p>	<p>The Service Center inventory is the only ongoing perpetual inventory system; the other PW inventories are physical inventories and only counted annually at June 30th for the audited financial statements per the City's Financial Control Procedures approved by City Council. Historically, PW has relied on inventory instructions provided annually by the Finance Department, while the actual inventory counting process has been decentralized within each PW Division due to the unique nature of each individual inventory. Implementing perpetual inventory systems for each inventory will be considered but may not be time or cost effective. PW management will issue guidance to be used for physical inventory counts and recommend semi-annual inventory counts in order to identify and correct inventory levels on a periodic basis more frequently than once a year.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
4	<p>Each division of Public Works has their own inventory system to locate, track, and organize inventory.</p>	<p>Observation: The same inventory item may be located in multiple places, however; the current inventory listings do not have locations. Additionally, it appears there is obsolescent inventory that may need to be removed.</p> <p>Risk: Inefficiency and ineffectiveness in locating inventory and knowing the overall count on hand resulting in ineffective purchasing and inventory obsolescence.</p>	<p>Organize the inventory and assign a location for each piece of inventory housed by the Public Works Department.</p> <p>Evaluate the existing inventory for obsolescent items and sell or scrap those items.</p>	<p>A lack of space can sometimes create a situation that the same inventory item is stored in more than one location. PW staff will attempt to organize the inventory better to minimize and improve upon this situation. Additionally, a location field will be added to the inventory listings where applicable. PW management has and will continue to emphasize that obsolete items should be surplus/sold or disposed of in a timely manner. Obsolete items that may be on hand during inventory counts are not to be valued as part of the inventory.</p>
5	<p>Inventory listings are retained in Excel spreadsheets by the divisions.</p>	<p>Observation: Inventory listings in the form of Excel spreadsheets are stored on the Public Works drive.</p> <p>Risk: Any Public Works employee could manipulate the inventory or inadvertently delete items.</p>	<p>Store spreadsheets on the respective division's network drive and password protect these files to ensure only appropriate individuals have access to update or change the inventory listings.</p> <p>Ensure that the division's network drive is backed up on a regular basis.</p>	<p>The physical inventories (non-perpetual) are maintained on excel spreadsheets. PW management will require division staff to save and store the physical inventory count spreadsheets on the division's network drive and password protect the files in the future. The City's Information Systems Department backs up all city network drives.</p>

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	Process/Procedure	Observation and Risk	Recommendation	Management Response
6	<p>Non Public Works employees have access to the Public Works compound.</p>	<p>Observation: There is no record of who enters and leaves the compound and there is limited security.</p> <p>Risk: Security of inventory in an open air environment and the safety of individuals entering the compound.</p>	<p>Increase security at the gate or install security cameras to monitor who enters and leaves compound.</p>	<p>The Public Works Operations Compound includes public facilities such as the Traffic Management Center (TMC) that is used by non-PW employees during normal business hours. Outside of normal business hours, the compound is gated and locked with access restricted to necessary City personnel and others that are approved. PW management agrees increased security is preferred without limiting access during normal business hours. Consideration will be given to installing security cameras to monitor who enters and leaves the compound and activities within the compound. Additionally, the installation of signage that the premises are being monitored and under surveillance will be considered.</p>
7	<p>There is a \$5/ton surcharge assessed on salt sales to cover overhead costs.</p>	<p>Observation: The surcharge has been in place since 2007 and has remained static at \$5 since instituted and has not been evaluated since then. Evidence supporting the calculation of the \$5 surcharge could not be located.</p> <p>Risk: Over/under billing to internal or external customers may be occurring.</p>	<p>Determine whether the current per ton surcharge covers the intended costs.</p> <p>Recalculate this charge yearly and adjust the rate accordingly.</p>	<p>PW management will recommend that the Finance Department include this \$5 surcharge as part of their formal annual evaluation of City-wide fees to calculate cost recovery and potential annual adjustments to the surcharge that may be needed.</p>

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PROCESS IMPROVEMENT OPPORTUNITIES



We noted the following process improvements during our review. These observations are not considered internal control weaknesses; however, we do recommend management consider each observation and take action where appropriate.

	Observation	Process Improvement	Management Response
1	There is no department guidance on the procedures to be used for inventory usage. Inventory can be used in a manner whereby the oldest inventory is not consumed first.	In conjunction with better inventory tracking and control recommendations above, Public Works should make it a policy to use/consume the oldest inventory first (FIFO method).	PW management has and will continue to emphasize a "first in, first out" (FIFO) method and will include this in our written guidance regarding inventory counts as noted in item #3 of this report. It is noted that annual instructions provided by the Finance Department instruct that FIFO, LIFO (last in, first out), or Average Cost can be used for inventory valuation which relates to inventory usage.
2	Deeds are issued for cemetery plots before checks have cleared. It is possible for a deed to be issued and subsequently a check bounce causing inefficiencies in the plot selling process.	Consider having the Recorder of Deeds office hold plot deeds until confirmation is received from Finance indicating that a check has cleared.	Public Works management agrees with this process improvement and will work with the Finance Department and the Greene County Recorder of Deeds to determine if this is feasible.
3	No minimum or maximums are set for inventories of signs and signals. Maximums and minimums prevent retaining excessive amounts of inventory or situations where insufficient inventory is on hand thereby forcing emergency purchases.	Analyze inventory items and establish minimums and maximums for inventory where relevant. This is directly related to the inventory tracking recommendation in observation number four.	PW management is not aware of excessive amounts of inventory being held or insufficient items on hand due to not having minimum and maximum levels identified. However, we agree this could be a useful tool and management will advise division staff to establish minimums and maximums levels for relevant inventory items.

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APPENDIX A – PURCHASES BY VENDOR ANALYSIS



Below is a summary of the ten largest Public Works vendors for the period January through December 2015. As shown in the charts below, Hartman and Company accounts for approximately one-third of the authorized contracts and purchase orders total, with the remaining nine vendors each accounting for less than 10% of total authorized spend.

Contractor	Amount	Percent
HARTMAN AND COMPANY, INC.	\$ 7,953,175	33%
HUNTER CHASE & ASSOCIATES, INC.	1,577,860	7%
TRI-LAKES PETROLEUM CO. LLC	1,473,750	6%
BLEVINS ASPHALT CONST CO INC	1,263,135	5%
TOWE CONSTRUCTION CO., INC.	1,102,289	5%
DONELSON CONSTRUCTION CO LLC	975,000	4%
FLAT CREEK EXCAVATING, L.L.C.	675,613	3%
HOVEY HOMES LLC	583,948	2%
HAMILTON AND DAD, INC.	539,687	2%
ASH GROVE READY MIX	485,920	2%
ALL OTHERS	7,496,346	31%

