

ULSTER COUNTY COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller



September 19, 2016

Department of Public Works Small Equipment Inventory Control Audit

ULSTER COUNTY OFFICE OF THE COMPTROLLER

PO BOX 1800
KINGSTON, NEW YORK 12402
Telephone (845) 331-8774 • Fax (845) 340-3697

Elliott Auerbach
Comptroller



Evan Gallo, Esq.
Deputy Comptroller

Alicia DeMarco, CPA
*Director of Internal Audit &
Control*

Dear County Officials:

Following is our report on the Department of Public Works' small equipment inventory policies and procedures. Our review sought to confirm that internal controls are in place and operating efficiently and effectively to ensure that certain assets (i.e. small equipment) are adequately safeguarded and monitored.

We conclude that while the Department of Public Works appears to have controls in place over inventory, those internal controls could stand to be strengthened to guarantee correct information is recorded, informal processes are documented, and adequate oversight exists.

The reports issued by the Office of the Ulster County Comptroller ("Office") are an important component in accomplishing the development and promotion of short and long-term strategies to achieve reduced costs, improved service delivery, accountability, and protection for the County's assets. These reports are expected to be a resource and are designed to identify currently emerging fiscally related problems and provide recommendations for their improvement.

The Office conducted this audit and produced this report in accordance with the Comptroller's authority as set forth in Article IX, Section 57, first paragraph, and Sections 57(A) and (G) of the Ulster County Charter, as well as applicable New York State laws, rules, and regulations.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact us.

Respectfully submitted,

Ulster County Comptroller

Summary

This audit of the Department of Public Works (DPW) sought to determine whether DPW maintains adequate controls over their inventory of small “handheld” equipment.

Audit Findings and Conclusion

In sum, DPW’s internal controls over the safeguarding and tracking of small “handheld” equipment need to be improved. A general dearth of written policies and procedures has a negative effect on the overall monitoring process, and the absence of documentation regarding a formal inventory count leaves opportunity for items to go missing, remain undetected, and become untraceable.

The current process of inventory control consists of manual tracking through use of an Excel spreadsheet. The information contained therein has many errors in the entries – largely because it appears the initial recording of the data does not occur when the item is purchased.

DPW is currently implementing a new inventory control management software system. This system should have the capability to address many of the concerns offered by this report. However, prudent oversight will need to be an integral component as management strives to realize the benefits of this program.

Physical control over inventory should be addressed. Two of the sites visited during fieldwork were found unsupervised and unlocked, and no sign out sheet was required for the movement of items. Additionally, there is a lack of segregation of duties over additions, deletions, and access to small equipment items.

Unusable inventory is an area of risk. DPW also does not have a consistent policy between units, which each leave room for improvement.

Last, inconsistency exists over expensing small equipment, which makes it difficult for management to track items that were purchased or repaired during the year.

Audit Recommendations

To address these issues, we make eight recommendations, namely that DPW should:

- Develop and distribute to all appropriate personnel a comprehensive manual for policies and procedures, addressing all internal processes and functions throughout DPW.
- Conduct an inventory audit on at least an annual basis.
- Record corresponding information as soon as new equipment is received, and consider engraving a unique identifying number on all small equipment items.
- Strictly monitor the data once the new PubWorks inventory management control system is implemented.
- Ensure that the reasonable closure and security of facilities is a priority among employees when no one is on site.
- Segregate the duties of receiving, entering, assigning, deleting, and reconciling of small equipment inventory.
- Maintain a full history of small equipment.
- Strive to have the accounts payable personnel use the same budgetary line when purchasing new equipment so that they can easily identify every purchase made at any given point in time.

Background

Ulster County's Department of Public Works (DPW) is a multi-dimensional department, which encompasses many divisions: Public Works Administration, Highway and Bridges, Buildings and Grounds, Engineering, Central Auto, and the Parks unit. The function of DPW is to plan, prioritize, construct, operate, maintain, and improve public infrastructure and facilities. Included is the responsibility of DPW to successfully manage all aspects of major roadway construction and associated infrastructure improvement projects, traffic control, and preventative maintenance and repair in order to maximize the useful life of the County's roadways and related community amenities.



For the purposes of our audit, our concentration focused on two units: Highway and Bridges, as well as Building and Grounds. These two divisions (and their related segments) account for 72% of the DPW budget. The following chart provides a breakdown of DPW and its components as contained within the 2016 budget. For 2016, the budget for these two units totaled \$24 million and accounted for 176 employees.

Public Works Dept.	Budgeted Expense
Buildings & Grounds	\$ 9,686,543
Central Garage	\$ 663,615
Engineering	\$ 445,276
Highway Administration	\$ 2,951,551
Highway Machinery	\$ 3,566,967
Maintenance of Roads and Bridges	\$ 8,518,787
Off-Street Parking	\$ 50,606
Parks	\$ 352,240
Permanent Improvements	\$ 3,010,493
Public Works Administration	\$ 876,069
Snow Removal	\$ 3,773,023
Stockpile	\$ 312,000
	\$ 34,207,170

In support of their operations, the two units currently maintain 460 small equipment inventory items that are stored in 21 locations for Highway and Bridges and 20 locations for Buildings and Grounds.¹

At this time, DPW still tracks their small inventory using Excel spreadsheets but is working toward implementing a software system, PubWorks, which will alleviate some of the concerns our Office has identified by having a better ability to keep the inventory list current by linking items to work orders and facilities where they can be located.

¹ Locations were determined according to the inventory listings provided by DPW. Some items are assigned to a vehicle and/or supervisor, which are also counted as a location.

Objectives

The purpose of this audit was to determine whether internal controls over small equipment inventory at DPW are implemented, efficient, and effective enough to ensure proper accounting and safeguarding of assets. The objectives of our review were:

- To document the policies, procedures, and related controls for ordering, receiving, issuing, and recording of small equipment inventory.
- To assess whether those controls are designed effectively to mitigate risk to a reasonable level and to determine whether personnel complies with these procedures.
- To review the physical inventory as accounted for in the inventory register provided by DPW.

Scope, Methodology, and Criteria

The scope of this audit covered small “handheld” or “walkable” equipment inventory (i.e. trimmers, edgers, leaf blowers, chainsaws, etc.) and the policies and procedures governing these items that were in place at DPW during 2016.

The methodology included physical inspection of a random sampling of small equipment maintained by both Highway and Bridges and Buildings and Grounds units within DPW to determine compliance with the policies and procedures stated by DPW administration. We obtained an understanding of the internal control structure through interviews with key personnel that oversee inventory maintenance. Our sample included:

- Highway & Bridges:
 - 28 items pulled from inventory listing provided
 - 21 items inspected on site traced back to inventory listing provided
 - 10 invoices of purchases traced back to inventory listing provided
- Buildings & Grounds:
 - 25 items pulled from inventory listing provided
 - 29 items inspected on site traced back to inventory listing provided
 - 11 invoices of purchases traced back to inventory listing provided

Observations and Recommendations

While Highway and Bridges, as well as Building and Grounds operate as components of DPW, they both maintain equipment in a separate manner. Each of the following findings pertains to DPW as a whole unless otherwise stated. The individual unit will be identified as necessary if the deficiency is specific.

Finding 1: No established written policies and procedures for inventory exist



DPW currently has no established written policies and procedures in place to properly account for and safeguard small equipment inventory. This issue is an arching concern that directly affects many of the following additional findings. Having well-developed policies and procedures in place can provide many benefits to the workplace. Written policies and procedures for inventory management would help to promote consistent application of internal controls for accountability and tracking of inventory. Additionally, they would help to ensure management and employees are adequately notified as to their responsibilities regarding the handling of inventory.

Recommendation:

With a budget of \$34 million, it is imperative that a department of this size develops, implements, and enforces comprehensive written policies and procedures for accounting, monitoring, and controlling of inventory. The manual should clearly outline the specific authorities and responsibilities expected of all employees, which should also clearly delineate a full separation of duties and address the requisitioning, receiving, issuing, recording, and annual reviewing of inventory procedures. This practice will provide the foundation needed to establish employee accountability, management oversight, and effective internal controls. Further, DPW should include a written statement to be signed by each employee, including an understanding and adherence to a “no borrowing” policy, which – as it stands now, is only implied.

Finding 2: No formal annual physical inventory documented

During our interview with DPW, we were told that the maintenance supervisors for Highway and Bridges, as well as Buildings and Grounds performed casual audits of small equipment inventory. However, no records have been retained. The performance of a physical inventory review not only ensures accuracy but the integrity of the records maintained. Correct and reliable data are essential to an efficient and effective operating environment. Inventory represents a significant portion of assets; therefore, managers and other decision makers need to know how much inventory there is with certainty and where it is located in order to make effective budgeting, operating, and financial decisions.

Recommendation:

The Government Accountability Office (GAO) has put forth best practices that many government agencies should strive to implement. Accordingly, we recommend DPW conduct at least a year-end reconciliation of physical inventory through the asset management system currently being implemented (PubWorks). Written communication of the count should be documented and provided to pertinent personnel. The results of each physical count are essential to achieving and maintaining accurate, reliable inventory and records, as well as improving the results of future physical counts. An employee within the department who does not regularly access any of the equipment and who has no part in recording inventory should perform the count. If the department does not have the



time or manpower to complete this review then perhaps another office under the Executive's authority such as the Department of Finance or Purchasing could assist them to further improve the segregation of duties.

This internal control should also be included in DPW's written policies and procedures.

Finding 3: Inaccuracies in equipment information recording



The fieldwork in this audit involved physical inspection of a sample of small equipment taken from an Excel spreadsheet provided by each unit. Additionally, we took equipment information in the field from each location so that we could trace those items back to the inventory listing provided to ensure all items were fully documented. The results of those inspections yielded the following:

Highway & Bridges:

1. One weed whacker could not be traced back to the inventory listing provided.

Building & Grounds:

1. Two items had duplicate serial numbers. This item was listed as a push mower for both serial numbers; one was located at the Ulster County Office Building (UCOB), and the other was listed at the Ulster County Law Enforcement Center (UCLEC).
2. Twelve serial numbers were incorrectly recorded.
3. Twenty items had "worn off" inserted on the serial number field in the listing provided.
 - a. One Z mower
 - b. Two pool vacuums
 - c. Four chain saws
 - d. One air compressor
 - e. Three gas pumps
 - f. Four weed wackers
 - g. One flail mower
 - h. One push mower
 - i. Two trimmers
 - j. One tow vac
4. Three snow blowers and one tractor could not be traced back to the inventory listing provided.

Recommendation:

The new asset management software that DPW is currently implementing should assist with maintaining accurate equipment information. However, we recommend that included within DPW's consideration of creating written policies and procedures they make clear that once new equipment is received, corresponding information should be immediately recorded. This practice will prevent future occurrences of missing information, as several items within Building and Grounds did not have accurate information or any other unique identifiers for the item, including many listed as having their serial numbers "worn off" – leaving us to assume the information had never initially been recorded. Further, DPW should consider engraving a unique identifying number on all small

equipment items, as Highway and Bridges currently practices, so that there will be some way to track the asset even in the event the original information is no longer legible. Moreover, the current practice of using permanent marker to label the inventory as County property does not provide adequate control, as the permanent marker could be removed.

Finding 4: Lack of an adequate inventory control system

Currently, DPW's tracking of inventory in its manual form is not effective. Highway and Bridges assigning of "county codes" to each item is a good attempt at identifying equipment but appears as though they do not use consecutive numbers – leaving it impossible to track if every item was accounted for. Moreover, sometimes the information can be flawed when relying on human entry and many of the items had incorrect serial numbers recorded during the review, which again made it impossible to track the item back to the listing.

The Excel spreadsheet that was provided to us did not contain a history of obsolete or older items that had been removed from inventory, as all the items listed were active with current location information presented. The recorded information lacked the date of purchase or model year of the item, further limiting the usefulness of the inventory record. The ability to track the age of equipment could be an effective management tool as far as maintenance and replacement, in addition to assisting in the identification of specific equipment in cases where other identifying information was missing (i.e. serial number).

A good inventory management system helps stave off the potential for errors and challenges. Proper inventory management improves the accuracy of inventory, leads to a more organized warehouse, helps save time and money during budget processing, and increases efficiency and productivity.

Recommendation:

The new software, PubWorks, currently being implemented at DPW, may assist with many of the risks identified during this audit. However, a software system is only as good as the information that is input to track. Based on our review of the current inventory listing, we recommend DPW conduct a complete review of the inventory of equipment (small and large) before implementation of this software program. This review will ensure an accurate beginning inventory. Once PubWorks is implemented, additional monitoring tools and reports should be established to ensure that inventory transactions are processed accurately and in compliance with policy, which should include:

1. Assigning a one-time sequential code to each item as to promote a full and complete history of inventory;
2. Reconciling inventory;
3. Creating performance standards for analyzing inventory data to assist management in identifying unusual or unexplained patterns associated with the overall state of inventory; and
4. Designating an employee tasked with monitoring the software system.

Finding 5: Controls over access to inventory need improvement

We understand that DPW has made genuine attempts to safeguard equipment through their current inventory tracking system. Nevertheless, Highway and Bridges needs to strengthen protection of

remote storage areas. During our physical inspection, two sites were left unlocked and unsupervised as opposed to the rest of the sites that were locked, supervised, or otherwise secured. These breakdowns in controls increase the risk of theft and diminish control over equipment. If thefts were to occur, it would be difficult to identify when and how they took place while considering that no sign-out logs are being utilized.

As it stands, one employee from each unit reviewed has complete control over the additions and deletions of small equipment items and can also pick up inventory items themselves without supervision. Authorization and access to inventory should be strictly limited to minimize the risk of missing assets. We should limit unilateral access in all circumstances to prevent the opportunity for misappropriation.

Recommendation:

We recommend that DPW include in their written policies and procedures a limitation as to physical access to the DPW garages and issuance of inventory to the garage supervisors. In addition, these locations should remain locked at all times when no one is on the premises.

We recommend that DPW make sure the new asset management software they are currently implementing has controls over adding and deleting inventory items. Segregation of duties is a basic internal control that attempts to ensure no single individual has the authority to execute two or more transactions with the potential to have a conflicting impact. It would be ideal if the program could alert a second management position any time an item has a change occur. In addition, each location with small equipment should implement a sign out sheet to track with whom and where the item can be located at any given point in time.



Finding 6: Controls over unusable inventory need to be tightened

Both the Highway and Bridges, as well as the Building and Grounds units handle obsolete inventory differently. Highway and Bridges transfers everything to the repair shop so that the items can be used for parts to fix other equipment. However, Building and Grounds move those items to be auctioned.² During our interview, we were informed that Highway and Bridges' equipment was never removed from the inventory listing provided, and that items were moved to shop parts when no longer usable in their original form. Many of the items moved to shop parts were no longer identifiable after being dismantled for use in other equipment, and it was difficult to track the whereabouts of these items. Because items were never officially "scrapped," items moved to the shop were included in the inventory listing even after being dismantled.

Recommendation:

A full and complete history of all items should be maintained, including their disposal. In the case of Highway and Bridges, it is not readily discernible as to what parts of each obsolete item, if any, are put back to use. Further, once a piece of equipment is dismantled to a form where it is no longer usable, it should follow proper disposal procedures and be noted as surplus in the inventory

² We did not audit the auction process, which is handled by the Purchasing Department.

listing. DPW should include in their written procedures when and how something is scrapped and/or modified.

Finding 7: Small equipment expenses should consistently be charged to the same appropriation

In the course of our interview, we were provided with items purchased for 2015 and 2016 for use by the Building and Grounds unit. The number of items provided could not be matched easily to the purchases recorded in the County's financial management system. While attempting to verify the information provided, several other small equipment items for 2015 were acknowledged. This discrepancy occurs when accounts payable personnel use different budgetary line item codes when initially charging the expense. This practice makes it difficult for management to identify the purchases made or drill down on small purchases that might fall into this small equipment inventory.

Recommendation:

The implementation of PubWorks might provide management with a clearer picture of items being purchased and removed, as they are maintained within this separate software. However, it is important that DPW also utilize the functions of the County's financial system to further assist in the management of these items. By using consistent account codes when purchasing these items, DPW management will be able to easily compare the two sets of data and identify anomalies, providing additional controls. Therefore, we recommend that DPW work with their accounts payable staff to ensure only a select few accounts are utilized during these purchases.

Conclusion

Based on our review, we determined that DPW could improve their internal controls over small equipment inventory by implementing and enforcing the aforementioned recommendations provided in this report. We acknowledge that the implementation of the new software system, PubWorks, might resolve some of the deficiencies that were noted within the review; however, written procedures should also be developed to provide uniformity amongst the different units. While we note that the current procedures in place for tracking these inventory items do seek to provide some safeguards in the protection of these County assets, we feel the implementation of these additional recommendations are necessary to ensure that appropriate internal controls exist in the management of these items highly susceptible to loss or misuse.

This report, in draft, was provided to DPW. Please see Appendix A for their response to the recommendations of our audit and Appendix B for our comments regarding their response.

DPW management, supervisors, and staff were very helpful throughout the course of our audit. We appreciate their courtesy and cooperation while completing this assignment.

Appendix A

ULSTER COUNTY DEPARTMENT OF PUBLIC WORKS

317 Shamrock Lane, Kingston, New York, 12401

MICHAEL P. HEIN
County Executive



SUSAN K. PLONSKI
Commissioner

Telephone (845) 340-3100
Fax: (845) 340-3113

BRIAN CUNNINGHAM
Deputy Commissioner

October 24, 2016

Alicia DeMarco
Director of Internal Audit and Control
Ulster County Comptroller's Office
PO Box 1800
Kingston, NY 12402

RE: Small Equipment Inventory Control Audit Response

Dear Ms. DeMarco:

I am writing in response to the draft audit report relating to small "handheld" equipment. As you are aware, the Department of Public Works (DPW) has recently procured software that will automate the tracking and monitoring of these items, and modernize our system, which in the past was based on Excel spreadsheets. The software will address the small number of issues raised as part of your audit, including updated written policies and procedures. Additionally, it is important to note that the concern about "unsupervised and unlocked" equipment that you discovered during your field work relates to the fact that the equipment at specific locations was purposely left unlocked at your request to facilitate your fieldwork.

In specific response to the audit statements, we offer the following:

"Audit Findings and Conclusion"

In paragraph four of this section, the report states that "[t]wo of the sites visited during fieldwork were found unsupervised and unlocked, and no sign out sheet was required for the movement of items." While the report does not identify the locations, some sites were purposely left unlocked so the auditors could access the property to perform their field work. With respect to sign out sheets, this is not a practical application for the way our substations and DPW operate. Lastly, the report indicates that there is a "lack of segregation of duties over additions, deletions, and access to small equipment items." In fact, there is currently some segregation of duties, for example, items are entered into the existing system by one person and the direction to delete items originates with a different individual. As you know, the new software that is already being implemented will allow improvement of this oversight and policy development will reflect same.

In paragraph six of this section, the report states that "inconsistency exists over expensing small equipment, which makes it difficult for management to track items that were purchased or repaired during the year." It is our understanding that the Comptroller's office reviews all invoices and if an improvement is in order relative to how

items are expensed, it is unclear why the Comptroller has not brought this to our attention earlier, but we would appreciate your assistance on an ongoing basis.

“Background”

Please note a concern in paragraph two, which states that budgets for H&B and B&G divisions total \$24 million. The table supposedly meant to demonstrate that this figure totals \$34 million. It is unclear which items in the table, if any, were deducted to arrive at the \$24 million figure.

“Finding 1”

In the “Recommendation” paragraph, the report states that DPW’s “no-borrowing” policy is “only implied.” This is certainly not the case. During meetings with employees this policy has been stated, reiterated, and openly discussed. Employees are well aware that the County’s personal property (machinery, equipment, supplies, etc.) is to remain on County property and that no one is allowed to take equipment, or anything else belonging to the County for that matter, even temporarily, for their personal use.

“Finding 2”

DPW performs annual physical inventory processes and compares those results with its spreadsheets. Inconsistencies were addressed accordingly. As you know, the new software we are currently implementing is meant to find additional efficiency.

“Finding 3”

Clearly, the inability to trace one weed wacker back to the inventory listing is human error, but the following are some likely scenarios that account for the other minor issues you highlighted:

“Two items had duplicate serial numbers.” Both of the numbers were associated with a push mower; one at UCOB and one at UCLEC. The likely reason for this is that the mower was moved from one location to another and the spreadsheet did not reflect the move. With the number of pieces of equipment in possession of DPW, realistically, this can happen. As you know, our new software will alert us to duplications of this type going forward.

“Twenty items had ‘worn off’” shown as the serial number in the spreadsheet. To our credit and as a result of proper use and maintenance of the County’s property, we use our equipment in many instances well beyond its projected useful life. It is entirely possible that these items were acquired decades ago, before any attempt at tracking these items was proposed. Further with regard to serial numbers, it should be noted that on any one piece of equipment, there may be and often are multiple serial numbers. For example, there may be one on the engine as well as one on the body of the item. Again, with the new software, occurrences such as inconsistent or erroneous serial numbers should be minimized, if not eliminated.

The fourth item in this section indicates a few items that were located physically, but that could not be found on the listing. It is possible that this was a result of combining the divisions and we expect our new software will improve performance in this regard.

“Finding 4”

In the first paragraph in this section, the report indicates that DPW does not use consecutive numbers to identify its equipment. In reality, we do. The numbers are consecutive as to the type of equipment being engraved. In other words, all chain saws are numbered consecutively; all demo saws are numbered consecutively, etc. This paragraph also references our reliance on “human entry” of information. While it is hoped that the levels of review provided by the new software will minimize human error, it is impossible to eliminate entirely.

The second paragraph of this section indicates that the age of a piece of equipment could aid us in decision making relative to maintenance and/or replacement of equipment. Although knowing the age of an item may be useful in some ways, DPW generally replaces items when they can no longer be used or repaired, rather than disposing of them simply because they are approaching or past their useful life.

With respect to the recommendation that “DPW conduct a complete review of the inventory of equipment (small and large) before implementation” of its new software, this common sense process is already underway.

“Finding 5”

This section references the two sites that were “unlocked and unsupervised.” This was addressed earlier in this response. Further in this section, the report states that “[w]e should limit unilateral access in all circumstances to prevent the opportunity for misappropriation.” This is an impractical and costly suggestion. We have neither the manpower nor the desire to send two employees to do the work of one, in order to avoid any possibility of a tool going missing. At some point, we must have some faith in the honesty and integrity of our workers and supervisors. While we realize that this kind of trust can be misplaced, a cost/benefit analysis must be part of this determination.

The first paragraph of the “Recommendation” section of this Finding suggests that DPW limit access to the sub-stations and that these locations should be locked when no one is there. This is something that is already in place. The report further recommends that each location have a sign-out sheet so that “at any given point in time” we can identify who has a particular piece of equipment and where it is located. Generally, we can find any piece of equipment by radio contact. A sign-out sheet is impractical and the information on it would not be useful for this purpose. One piece of equipment may be used at multiple sites in one work day. To return to the sub-station multiple times each day to revise the information on a sign-out sheet is not an option.

“Finding 6”

This section relates to unusable inventory. It is our practice to use equipment until it can no longer be repaired. At that point, DPW may retain the item to use for parts to repair other items that are the same or similar to the inoperable item. As you know, DPW’s new software will allow us to track each step in the status of each item, including identifying items that have been taken out of service. Those items will remain on the inventory listing for historical purposes, but will be omitted from any report that will be used to reconcile physical inventory.

“Finding 7”

With respect to consistency regarding the General Ledger account to which each item may be expensed, as noted earlier, our understanding is that all of this information in Logos is reviewed and subject to correction by the

Ms. Alicia DeMarco
October 24, 2016
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Comptroller's office. If there are areas needing clarification, the Comptroller may consider working with the Department of Finance to address this concern.

Overall, we at DPW thank you for the recognizing our improvements with respect to inventory monitoring and control with the implementation of the new software, and the development of policies and procedures in line with the functioning of said software.

Sincerely,

A handwritten signature in black ink, appearing to read "Susan K. Plonski". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Susan K. Plonski
DPW Commissioner

Appendix B

ULSTER COUNTY
OFFICE OF THE COMPTROLLER
P.O. Box 1800
Kingston, New York 12402
Telephone: (845) 331-8774 Fax: (845) 340-3697

Elliott Auerbach
Comptroller



Evan R. Gallo, Esq.
Deputy Comptroller

Alicia DeMarco, CPA
Director, Internal Audit &
Control

MEMORANDA

To: Susan Plonski, Commissioner of the Department of Public Works
From: Alicia DeMarco, Director of Internal Audit and Control
Date: October 26, 2016
Re: **Small Equipment Inventory Control Audit Response**

We are in receipt of your comments in regard to the recommendations made in our recent audit of small equipment items used and managed by your staff. We would like to clarify several points made in both our report and your response in an effort to foster a greater understanding between our departments for the ultimate goal of improving internal controls over these County owned, and therefore taxpayer funded, assets.

While we will attempt to address each of your concerns specifically, we also encourage you and your staff to discuss with our Office any of these topics further should you need greater clarification or have any questions regarding their application or purpose.

Audit Findings and Conclusions

In regard to your comments made under "Audits and Conclusions," we will address each as they are represented in the sub sections below.

Background

The chart provided represents the total 2016 budget for the Department of Public Works, while our review was specifically limited to review of inventory for "Buildings and Grounds" and "Highway and Bridges" which encompass the following units: Buildings and Grounds (\$9,686,543), Highway Administration (\$2,951,551), Highway Machinery (\$3,566,967), and Maintenance of Roads and Bridges (\$8,518,787); which account for the \$24 million figure mentioned in our report, representing 72% of the DPW budget.

Finding 1

We would like to note that during our interview with DPW management staff, it was communicated to our audit team that the equipment policy is not written, "but understood" by employees. This verbiage was also used in our written interview notes

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people, to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

sent to your office for review, and ultimately approved with corrections and additions made. While we understand the value of oral reinforcement of rules and procedures, written documents regarding the proper use of equipment and employee expectations can only further improve current practices and employee understanding of the same. Further, written communication and acknowledgement is a best practice in regard to all procedures, not just those regarding the proper use of equipment.

Finding 2

During our interview, we specifically asked if annual audits of inventory had been performed and noted your response that inventory was maintained on a “continual basis” with “spot checks” that we understood to be random and undocumented. Additionally, our review uncovered a number of inconsistencies (i.e. – incorrect serial numbers) that would indicate that a review had either not been conducted or was ineffective in correcting these records.

Finding 3

In response to your comment regarding the inability to trace one weed whacker back to the inventory listing, we would like to note that there were five pieces of equipment out of 50 that we were unable to trace, including one weed whacker, three recently purchased snow blowers and one lawn mower. More importantly overall, there were a total of 38 items from the Buildings and Grounds inventory record that could not be physically located by an independent party with the information retained, this translates to a 58% margin of error, which is alarming.

For those items with serial numbers that were “worn off” we note, that several of these items were being maintained at the NP Pool Complex and that we were notified during our visit that due to corrosion caused by the presence of chemicals also stored in this facility, that the serial numbers for many of the items were no longer visible. This was not due to the age of the item as you suggest, but rather to the corrosive environment, an issue that you and your staff were aware of. We maintain our recommendation that DPW attempt to address this issue of items without serial numbers by capturing the information at the time of purchase, before erosion take place. Those items in areas subject to higher rates of erosion should be monitored more frequently, and the tags for those items should be changed as needed.

The use of purchase documents to obtain serial number information would address your concern regarding the presence of multiple serial numbers on a single piece of equipment. Lastly, the use of a unique identifying number as opposed to using a manufacturer’s serial number could also address this issue, and should be considered by management.

Finding 4

During our review of inventory, it was noted that numbers used to identify inventory were either not consecutive, or items had been removed from the listing. The use of consecutive numbers when adding inventory provides additional safeguards as it allows management to easily determine if the inventory listing is complete, or if items have

been removed. If in fact you are currently in the practice of using consecutive numbers, you should address those circumstances in which consecutive numbers were missing from the listing as this would indicate that some items had been removed. Additionally, when you were provided the opportunity to comment on our understanding of the information provided, it was never mentioned or made clear that Highway and Bridges uses consecutive numbers when engravings the county codes on equipment.

Regarding “human entry” errors, the value of the inventory listing relies on the accuracy of the information contained therein. An inaccurate inventory listing leaves management unable to determine if a theft has occurred which presents a significant internal control risk. We are happy to hear a detailed review of these inaccuracies is underway, as the value of the new inventory software is reliant on the historical information being added to it.

Finding 5

In response to your comment regarding those locations that were unlocked and unsupervised, it is important to note that these locations (Shawagunk and Boiceville) were the only two locations that were unlocked at the time of our visit. Furthermore, as we were escorted by DPW management staff who had obtained keys for the specific purpose of unlocking these locations, it appears leaving them unlocked and unsupervised for the purpose of our inspection was unnecessary. As auditors we would never expect you to circumvent protocols that safeguard county assets to accommodate our field work. Performing a physical inspection is to see the items in their normal environment. We therefore recommend that in future instances you keep all locations containing County owned equipment locked and/or supervised until the time of inspection to ensure that the potential for theft or misuse is minimized.

In regard to your comment about “unilateral access”, our recommendation was in reference to the ability to both access physical inventory and change the inventory listing. Our suggestion is not meant to imply that two staff members be present for the use or access of equipment.

We also note that the procedure of using a “sign out” sheet is already essentially in place as we were notified by DPW staff that equipment managers keep a handwritten list detailing the movement of equipment items from their typical locations. Our recommendation merely sought to formalize this procedure that is already in place. The use of the sign out sheet procedure currently in use did not include a suggestion that DPW staff return to a specific location multiple times throughout the day to record this information. Our suggestion moreover sought to establish a chain of custody for all County assets. There were several items during the site visits that could not be located by radio and we had to schedule another visit to provide time for the asset to be located.

Finding 6

While we understand that the new software should provide for improved tracking of items no longer in operation, we maintain our recommendation that the process by

which DPW staff determine when an item is to be “surplused” be formally developed and documented.

Finding 7

Regarding the Comptroller’s Office and Department of Finance review of invoices for items purchased, we would like to note that our comment is not meant to imply that any incorrect G/L codes were applied to the invoices reviewed. Our comment instead refers to the ability of DPW management staff to consistently select specific G/L codes that would assist in the tracking and management of these and other equipment items, as it appeared the current process left management unable to determine how many items had been purchased in the current year.

As we have acknowledged several times throughout our report, we agree that the implementation of new software will likely improve internal controls. However, that the recommendations included in our audit should also be considered and implemented. Finally, if the historical information being added to the new software is inaccurate or inadequate it will prevent the new software system from ultimately being effective.

We hope that your attention to the internal control related matters identified here and in our audit report will not only assist in the management of these equipment items but also in the safeguarding of taxpayer funded assets.

Respectfully,

Alicia DeMarco