

## **AUDIT REPORT**

**CITY AUDITOR**

<b>Report Date:</b>	<b>November 28, 2016</b>
<b>Department:</b>	<b>Communications</b>
<b>Subject:</b>	<b>Procurement and Inventory Management</b>
<b>Lead Auditor:</b>	<b>Kate Witek</b>

### **OBJECTIVE**

This audit was conducted to evaluate the effectiveness of internal controls related to procurement and inventory management.

### **SCOPE & METHODOLOGY**

To accomplish our objectives, we:

- Interviewed staff and management
- Evaluated internal controls related to procurement and inventory
- Tested the procurement and inventory processes
- Tested the reliability of data in the asset maintenance management system (Mainsaver)

### **BACKGROUND**

The City of Mesa's Communications department ensures that handheld and vehicle-mounted communications equipment, as well as network infrastructure, are operational and available for use when needed by City departments. The Communications department serves as the authority on the City's microwave and licensed-spectrum radio system and is responsible for:

- Providing recommendations and estimated costs for City departments purchasing licensed-spectrum radio equipment, and coordinating these purchases to ensure compatibility with communication systems.
- Maintaining communications hardware and equipment on behalf of various end users.
- Planning, acquiring and maintaining all City-owned microwave systems.
- Engineering, licensing, installing and servicing City-owned/licensed radio frequencies.
- Day to day operations and administration of the regional wireless public safety communication system, on behalf of the TOPAZ Regional Wireless Cooperative (TRWC).

### **CONCLUSION**

In our opinion, internal controls related to Communication's procurement activities are operating effectively and provide reasonable assurance of compliance with City policies. However, we determined internal controls related to inventory and asset management could be improved, particularly with regard to asset disposal, policies and procedures, chain of custody documentation, and asset inventory data.

A summary of our observations and recommendations is included below. For more detailed explanations, along with responses from management, please see the attached Corrective Action Plans (CAPs).

### **OBSERVATIONS & RECOMMENDATIONS**

1. Obsolete parts and equipment have been accumulating in the Communications warehouse, and should be appropriately disposed of. The department has procedures in place for disposing of assets, but they are outdated. We are recommending that the department appropriately dispose of all obsolete items in the warehouse; and that they periodically review and update procedure documents to ensure they remain consistent with City policies, current practices, and management directives.
2. Communications warehouse staff does not consistently document the issuance of consumable items (batteries, antennas, etc.) as required by department policy; and does not always document the issuance of purchased equipment (radios, etc.) to end users. In addition, when equipment is returned to inventory, re-issued to end users, or disposed of, the Mainsaver system is not always updated. We are recommending that the department revise its procedures for issuing consumable items, document the movement of items of value in and out of the warehouse, and implement an effective process for continuously maintaining accurate status and location information for assets in the Mainsaver system.
3. Communications has stored asset disposal forms since 2007, which is not compliant with the City's records retention policy. We are recommending that the department dispose of these documents as required by City and state records retention policies; and implement a process to ensure compliance is maintained in the future.

## CAP#1 – Obsolete inventory and outdated procedures

**Observation:** Obsolete inventory has been accumulating in the Communications warehouse; and written policies and procedures for asset disposal (and other processes) are out of date.

**Criteria:**

- The City has a duty to use public resources as efficiently as possible.
- In order to serve as an effective internal control, policies and procedures must be updated periodically to reflect changes in processes, regulations, and systems.

**Comment:** Warehouse space is being used to store items the City may not be able to use, which is an inefficient use of resources. Communications departmental written policies and procedures were issued in 2005 and have not been updated to reflect changes in procurement and inventory processes. The process for disposing of obsolete inventory, as described in these documents, is not consistent with current City policies, systems, and practices; therefore, it is not followed.

**Recommendation:**

- 1-1. The Communications department should identify and appropriately dispose of obsolete items being stored in the warehouse.
- 1-2. Management should periodically review and update written policies and procedures to ensure they remain consistent with City policies, management directives, and operational processes; and to provide effective guidance to staff.

**Management Response:**

- 1-1. Agree.  
Implementation Plan: Will review and identify obsolete equipment and dispose of it according to applicable City Management policies.  
Individual or Position Responsible: Management Assistant I, Wireless Communications Administrator, and Lead Parts and Supply Specialist.

Estimated Completion Date: 12/31/2017

1-2. Agree.

Implementation Plan: Will review and update written policies and procedures and establish new procedures as necessary.

Individual or Position Responsible: Management Assistant I

Estimated Completion Date: 8/31/2017

## CAP#2 – Chain of custody documentation and inventory system data

**Observation:** Communications warehouse staff do not consistently follow established procedures when issuing consumable items (batteries, antennas, etc.); and the department does not have an effective process for documenting the movement of equipment (radios, etc.) in and out of the warehouse.

**Criteria:** Communications Daily Warehouse Duties and Procedures #1 - Receiving Inventory and Purchase Orders: "*A Materials Request is necessary when items are picked up by a customer in order to be issued out (get a signature)*".

**Comments:** Communications has a process for issuing consumable items to end users; however, it is not always followed and it may only be needed for certain higher value items.

In addition, the department programs, repairs and issues regional wireless network equipment for end-users; however, there are currently no formal written procedures requiring a documented transfer. Therefore, there is no record of who the equipment was released to, or when the transfer of custody occurred. Lastly, when equipment is returned to inventory, re-issued to end users, or disposed of, the Mainsaver system is not always updated. We randomly sampled 20 radios listed on a July 2014 disposal form and found them in the system with the following status:

STATUS	COUNT
ISF/In Service Full	8
RTI/Warehouse (Returned to Inventory)	8
DEA/Deactivated	2
MIA/Lost or Stolen	1
OSH/Out of Service Hold	1
<b>Total</b>	<b>20</b>

We also randomly sampled 24 items listed in the system as Returned to Inventory, and 14 of them could not be located. Of those 14 items, 5 radios were later found listed on the July 2014 disposal form.

The department does periodically update the records; i.e. in July 2016 (during audit testing), we noted that the status of almost

1,000 assets was changed to DEA/Deactivated in the Mainsaver system. However, real-time updating of records would eliminate the need for this type of "clean-up" effort.

- Recommendation:**
- 2-1. The Communications department should revise its procedures for issuing consumable items to be consistent with actual practices and operational needs.
  - 2-2. Communications staff should consistently document the transfer of custody of equipment moving in and out of the warehouse.
  - 2-3. Management should implement a more effective process for continuously maintaining accurate status and location information for assets in the Mainsaver system.

**Management  
Response:**

- 2-1. Agree.  
Implementation Plan: [Will review and update written policies and procedures and establish new procedures as necessary.](#)  
Individual or Position Responsible: [Management Assistant I](#)  
Estimated Completion Date: [8/31/2017](#)
- 2-2. Agree.  
Implementation Plan: [Reinforce with Department personnel to follow existing policies and procedure to ensure there is a documented chain of custody. We will also review and update existing procedures and establish new procedures as necessary.](#)  
Individual or Position Responsible: [Management Assistant I, Communications Systems Coordinator, Lead Parts and Supply Specialist.](#)  
Estimated Completion Date: [3/31/2017](#)
- 2-3. Agree.  
Implementation Plan: [Reinforce with Department personnel to follow existing policies and procedure. We will also review and update existing procedures and establish new procedures as necessary.](#)  
Individual or Position Responsible: [Management Assistant I, Communications Systems Coordinator, Lead Parts and Supply Specialist.](#)  
Estimated Completion Date: [6/30/2017](#)

### CAP#3: Records retention

<b>Observation:</b>	Communications has retained disposal forms since 2007.
<b>Criteria:</b>	<p>The Arizona Records Retention Schedule for All Public Bodies Warehouse/Supply Records requires that disposal records be retained for "3 years after fiscal year property disposed of".</p> <p>Management Policy 105 requires compliance with the State retention schedule.</p>
<b>Comment:</b>	Communications disposal records should be managed in accordance with City of Mesa Management Policy 105.
<b>Recommendation:</b>	3-1. Communications should dispose of documents as required by City and state records retention policies; and implement a process to ensure compliance is maintained in the future.
<b>Management Response:</b>	<p>3-1. Agree.</p> <p>Implementation Plan: <a href="#">Will review and identify records that need to be disposed of according to applicable City and state records retention policies. We will establish a procedure for regular review of records for disposal.</a></p> <p>Individual or Position Responsible: <a href="#">Management Assistant I, Lead Parts and Supply Specialist.</a></p> <p>Estimated Completion Date: <a href="#">2/28/2017</a></p>