

PUBLIC WORKS INVENTORY ASSURANCE ENGAGEMENT

Report No. AE-2024-4

JULY 3, 2024

Utah County Auditor Internal Audit Division
Internal Audit Manager: Calvin Bergmann, CIA, MPA
Senior Internal Auditor: Mont Wade, CIA



Utah County
HEART of UTAH

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AUDITOR'S LETTER



Office of the County Auditor Internal Audit Division

July 3, 2024

Richard Nielson, Director
Utah County Public Works Department
2855 South State Street
Provo, Utah 84606

Dear Mr. Nielson:

The Internal Audit Division (“Division”) performed an assurance engagement of Public Works inventory records and practices. During this limited review, we performed the following procedures:

1. Tested County Financial Information System (i.e., “COFIS”) Fixed Asset module asset disposed status edit and approval user permissions.
2. Tested a sample of 2023 fixed asset purchases \$5,000.00 or greater for proper approvals and recording in COFIS, per *2023 Utah County Procurement Rules and Regulations*.
3. Tested the population of disposed fixed assets \$5,000.00 or greater for proper approvals, per *2022 Asset Management Policy*.
4. Tested a sample of 2023 disposed fixed assets at least \$500.00, but no greater than \$4,999.99 for proper approvals, per *2022 Asset Management Policy*.
5. Traced a sample of AssetWorks inventory system Motor Pool inventory items to physical inventory.
6. Tested 2023 yearly inventory review completion before April 30, 2023, per *2022 Utah County Asset Management Policy*.
7. Tested inventory written policy and procedures existence.
8. Vouched a sample of 2024 Motor Pool inventory items to AssetWorks inventory system.
9. Tested AssetWorks inventory system separation of duties.
10. Tested warehouse physical controls.

The Division discovered six findings and two other matters during the engagement. For findings and other matters, we provide recommendations to improve Public Works' inventory control environment. Finding and other matter numbering is correlated with the procedures listed above.

Note that our report, by nature, disproportionately focuses on weaknesses. This does not mean there were not strengths within the areas reviewed and other areas not reviewed.

The Division appreciates the courtesy and assistance extended to us by Public Works personnel during the engagement process. We look forward to a continuing professional relationship.

Sincerely,

Utah County Internal Audit Division

CC: Rodney Mann, Utah County Auditor, Utah County Audit Committee Chair
Glen Tanner, Associate Director, Utah County Public Works Department
Braden Knudsen, Business Manager, Utah County Public Works Department
Daniel Gibson, Fleet Services Division Manager, Utah County Public Works Department
Robert Hancock, Communications Division Manager, Utah County Public Works Department

FINDING(S) & OTHER MATTER(S)

Finding 2.1: Unauthorized Disposed Fixed Asset (\$5,000 or Greater Value)

Condition

One disposed fixed asset (i.e., ICN #602393) valued at \$5,000 or greater was not included on a Request for Disposal of Equipment Form, was not included on a Commission Memorandum, and did not receive Commission approval.

Criteria

Per the *2022 Asset Management Policy*:

To dispose of an asset, the responsible department must complete the Request for Disposition of Equipment form found on Public Works website - Forms and Policies - Internal Forms. This form must be completed whenever the custody of the fixed asset changes. The form is to be sent to Public Works and Purchasing.

Cause

The Public Works Communications Division Manager's likely inattention caused him to overlook listing one asset identification number on a list of 161 asset identification numbers on a Request for Disposition of Equipment Form, resulting in a failure to comply with the *2022 Asset Management Policy*, which requires proposed disposed assets be included on the Request for Disposition of Equipment Form.

Effect

Failure to comply with the *2022 Asset Management Policy* may result in increased likelihood of fixed asset loss, unnecessarily disposed fixed assets, and decreased financial statement accuracy.

Recommendation

We recommend the Public Works Communications Division Manager review the *2022 Asset Management Policy* and management ensure he complies with the *2022 Asset Management Policy* by including all disposed fixed assets on the Request for Disposition of Equipment Form, submitting the form to the Purchasing Division, and disposing assets following a Commission Memorandum approval by the Board of County Commissioners.

Finding 5.1: AssetWorks Inventory Quantity Not Equal to Physical Inventory Quantity Count

Condition

Two sampled items observed during a physical walkthrough had quantity amounts not equal to the AssetWorks inventory system quantity amounts.

Criteria

Per the United States Government Accountability Office's ("GAO's") *Standards for Internal Controls in the Federal Government*:

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Cause

Both sampled items were associated with two different inventory numbers, due to a previous migration of inventory systems. One sampled item may not have been entered in AssetWorks after it was purchased and received, or its quantity may have been incorrectly entered into AssetWorks after it was purchased and received. One sampled item was likely installed for a work order but not issued and assigned to a work order in AssetWorks.

Effect

Management has decreased assurance that entity objectives (e.g., effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations) will be achieved.

Recommendation

We recommend management draft and enforce inventory management policy and procedures.

Finding 6.1: Yearly Inventory Review Not Completed

Condition

While acknowledging that the Warehouse Manager monthly completes a high value Motor Pool inventory review, the 2023 yearly inventory review was not performed.

Criteria

Per the 2022 *Asset Management Policy*: “Before April 30th each year, A yearly inventory review must be done by the departments. That information will be shared with the Auditor’s Office upon request.”

Cause

Due to lack of training and enforcement, the Utah County Public Works Business Manager failed to complete the yearly inventory review.

Effect:

Failure to complete a yearly inventory review may result in decreased likelihood of inventory loss detection, which may affect financial statement accuracy.

Recommendation

We recommend the Public Works Business Manager review the 2022 Asset Management Policy and management ensure he complies with the 2022 Asset Management Policy by completing the yearly inventory review by April 30 of each year.

Finding 7.1: Nonexistent Written Policy and Procedures

Condition

Public Works does not have written policy and procedures regulating inventory management.

Criteria

Per the United States Government Accountability Office's ("GAO's") *Standards for Internal Controls in the Federal Government*: "Management should implement control activities through policies."

Cause

Management communicated that due to limited time and resources, they did not draft and enforce inventory management policy and procedures.

Effect:

Management has decreased assurance that entity objectives (e.g., effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations) will be achieved.

Recommendation

We recommend management draft and enforce inventory management policy and procedures.

Finding 9.1: AssetWorks Inadequate Separation of Duties

Condition

The Fleet Manager and Warehouse Manager can each both record and authorize AssetWorks inventory adjustments.

Criteria

Per the United States Government Accountability Office's ("GAO's") *Standards for Internal Controls in the Federal Government*:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Cause

The AssetWorks inventory system allows the Fleet Manager and the Storekeeper user roles to enter adjustments without additional approval.

Effect:

Inadequate separation of duties may result in increased likelihood of inventory loss.

Recommendation

We recommend management work with AssetWorks support staff to configure AssetWorks to ensure a second employee authorizes all recorded inventory adjustments.

Finding 10.1: Insecure Motor Pool Inventory Warehouse

Condition

Management communicated that Motor Pool Inventory Warehouse doors are locked with a physical key after business hours and only Motor Pool employees and the Associate Director of Public Works able to unlock these doors. This information was not tested during the engagement. We observed that building doors are unlocked during business hours and all doors do not require a Utah County employee keycard for access. An auditor was able to enter the warehouse during business hours without employee detection.

Criteria

Per the United States Government Accountability Office's ("GAO's") *Standards for Internal Controls in the Federal Government*: "Management establishes physical control to secure and safeguard vulnerable assets."

Cause

Management communicated that due to limited time and resources, they did not establish and enforce comprehensive physical controls to secure Motor Pool inventory assets.

Effect:

Unrestricted physical access to inventory may result in increased likelihood of inventory loss.

Recommendation

We recommend management install County employee keycard access on warehouse interior doors and restrict access to Motor Pool employees. We further recommend management install cameras that include inventory shelves and exterior doors in their line of sight.

Other Matter 8.1: Non-inventoried External Department Purchased Assets

Condition

While vouching Motor Pool inventory items to the AssetWorks inventory system, we were informed by the Motor Pool Warehouse Manager that assets on a limited number of shelves are not included in AssetWorks because they have been purchased by other County departments to be used for vehicle work orders.

Recommendation

We recommend these assets be added into AssetWorks via adjustments, to ensure their location, quantity, value, existence, and work order usage are tracked.

Other Matter 9.1: AssetWorks Adjustment Report Lacks Username Executing Adjustment

Condition

The AssetWorks adjustment report does not include a column that identifies the username that entered an adjustment.

Recommendation

We recommend management work with AssetWorks support staff to configure AssetWorks to include a column on the adjustment report that identifies the username that entered an adjustment.

MANAGEMENT RESPONSE(S)

Finding 2.1: Unauthorized Disposed Fixed Asset (\$5,000 or Greater Value)

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend the Public Works Communications Division Manager review the 2022 <i>Asset Management Policy</i> and management ensure he complies with the 2022 <i>Asset Management Policy</i> by including all disposed fixed assets on the Request for Disposition of Equipment Form, submitting the form to the Purchasing Division, and disposing assets following a Commission Memorandum approval by the Board of County Commissioners.	Agree	Provided the Communications Division Manager the 2022 Asset Management Policy on 10/4/2024 and set up a follow up discussion for 10/23/2024.	Robert Hancock, Communications Division Manager	10/23/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Finding 5.1: AssetWorks Inventory Quantity Not Equal to Physical Inventory Quantity Count

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management draft and enforce inventory management policy and procedures.	Agree	PW Administration staff along with the Fleet Services Division management is currently in the process of drafting, adopting and implementing a new inventory management policy and procedures.	Dan Gibson, Fleet Services Division Manager	12/31/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Finding 6.1: Yearly Inventory Review Not Completed

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend the Public Works Business Manager review the <i>2022 Asset Management Policy</i> and management ensure he complies with the <i>2022 Asset Management Policy</i> by completing the yearly inventory review by April 30 of each year.	Agree	Provided the Business Manager the 2022 Asset Management Policy on 10/4/2024 and set up a follow up discussion for 10/23/2024 and adding the inventory review to the work order system so that it will generate a reminder and a work order for the process to be completed by the deadline of April 30 th .	Braden Knudsen, Business Manager	10/23/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Finding 7.1: Nonexistent Written Policy and Procedures

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management draft and enforce inventory management policy and procedures.	We recommend management draft and enforce inventory management policy and procedures.	Agree	PW Administration staff along with the Fleet Division management is currently in the process of drafting, adopting and implementing a new inventory management policy and procedures.	Dan Gibson, Fleet Services Division Manager

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Finding 9.1: AssetWorks Inadequate Separation of Duties

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management work with AssetWorks support staff to configure AssetWorks to ensure a second employee authorizes all recorded inventory adjustments.	Disagree	Since we do not have control over AssetWorks programming or configuration and it is not feasible nor possible to implement the recommendation, our office will be using the adopted inventory management policy and procedures to direct that the inventory adjustments have a second employee authorization.	Dan Gibson, Fleet Services Division Manager	12/31/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Finding 10.1: Insecure Motor Pool Inventory Warehouse

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management install County employee keycard access on warehouse interior doors and restrict access to Motor Pool employees. We further recommend management install cameras that include inventory shelves and exterior doors in their line of sight.	Agree/Disagree	Both entrances to the warehouse will have keycard access installed. As to the cameras, it is not practical or feasible to install cameras. However, by installing the keycard access and by implementing the inventory management policy and procedures, this item is addressed.	Dan Gibson, Fleet Services Division Manager	12/31/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.

Other Matter 8.1: Non-inventoried External Department Purchased Assets

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend these assets be added into AssetWorks via adjustments, to ensure their location, quantity, value, existence, and work order usage are tracked.	Disagree	It is not feasible or practical to track left over or remaining parts that were purchased and billed out as a package and then bill out remaining pieces that have already been accounted for.		

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Other Matter 9.1: AssetWorks Adjustment Report Lacks Username Executing Adjustment

Management Response

Recommendation	Agree/Disagree	Corrective Action Plan	Name and Title of Employee Responsible for Implementation	Target Date*
We recommend management work with AssetWorks support staff to configure AssetWorks to include a column on the adjustment report that identifies the username that entered an adjustment.	Agree	As per email from Dan Gibson on 7/15/2024, an adjustment report from the AssetWorks program was provided to the internal auditor that includes the username of the individual who made the adjustments on inventory.	Dan Gibson, Fleet Services Division Manager	7/15/2024

*Entered in MM/DD/YYYY format. Generally, the date should be within 90 days (but no longer than 180 days) of report issuance. If the recommendation has already been implemented, enter the date it was implemented.