



Sheryl G. Steckler
Inspector General

**OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY**

“Enhancing Public Trust in Government”

REDACTED

Audit Report

2014-A-0001

November 22, 2013

*“Provide leadership in the promotion of accountability and
integrity of Government in Palm Beach County”*



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OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY
AUDIT OF THE VILLAGE OF NORTH PALM BEACH
PUBLIC WORKS DEPARTMENT
AUDIT REPORT: 2014-A-0001

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"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

The Village of North Palm Beach ("Village") contacted the Office of Inspector General ("OIG") after an internal investigation by the Village Police Department identified potential theft of Village assets by employees in the Department of Public Works ("Public Works"). We subsequently performed this audit of Public Works at the request of Village management.

Our overall objective was to determine whether internal controls¹ are in place and operating efficiently and effectively to ensure that certain assets of Public Works are adequately safeguarded and accounted for. The scope of the audit included activities related to gas, oil and lubricants, repairs and maintenance, equipment, fleet management and physical security for the period October 1, 2010 to May 31, 2013.

Our report contains eleven findings where we identified the need to strengthen internal controls and improve operations within Public Works. The overarching issue we identified is the lack of written policy and procedures to prescribe how

operations are to be carried out and controlled. We found that a number of informal processes had evolved over time which resulted in assets not properly being accounted for. This created the opportunity for the potential theft identified by the Village's Police Department.

The following were identified as control weaknesses within Public Works that need to be addressed. Each of them are detailed in the body of the report as separate findings:

- Issuance of multiple purchase orders to the same vendor for recurring items that circumvented the Village's purchasing policy and created an inefficient purchasing process;
- Lack of a contract tracking and monitoring system to adequately account for all contracts issued;
- Lack of an adequate inventory control system to account for parts, supplies and equipment;
- Lack of a raw materials disposal (scrapping) policy and procedure; and

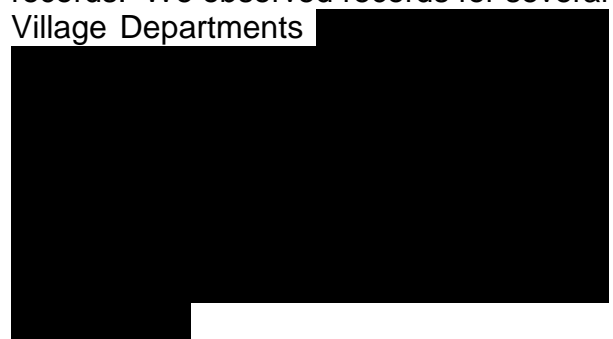
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¹ Internal control (controls) is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical and intangible.

Our audit also included a review of controls over the Village fuel facility operated and managed by Public Works. The Village utilizes the Phoenix Fuel System² ("fuel system") to control and record the dispensing of both gas and diesel fuel. We found that management is not fully utilizing the capabilities of the Phoenix system to adequately monitor fuel transactions. This increases the risk for theft of fuel to occur and go undetected.

We also identified several fueling practices, including entering incorrect vehicle mileage, which results in inaccurate data being recorded in the system. This could adversely impact the ability to use the data to monitor fuel activity or in some cases serve to mask unauthorized fueling.

We further identified a Village-wide issue involving the maintenance and storage of records. We observed records for several Village Departments

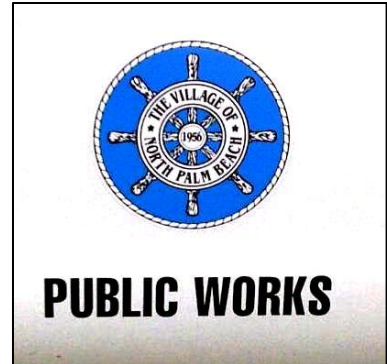


Management concurred with all 23 recommendations made to correct the conditions identified in our audit. We would like to acknowledge that management has been proactive in taking corrective actions as matters were brought to their attention. As a result, their response indicates that corrective actions have been completed on 11 recommendations and are in progress on the remaining 12. We have included management's response in its entirety as Attachment 1.

² Phoenix™ SQL fuel management system by OPW a Dover Company.

BACKGROUND

The Village of North Palm Beach (“Village”), primarily a residential community, was incorporated in 1956. The registered population of the Village is approximately 13,000, which increases to approximately 20,000 during the winter months. The governing body consists of a five member Village Council, each of whom is elected to two-year overlapping terms. The Mayor is selected by majority vote of the Council and serves for a term of one year.



The day-to-day operations are under the leadership of the Village Manager who is appointed by the Council. The Village provides a full range of municipal services including Public Safety, Sanitation, Recreation, Library, Streets & Road Maintenance, Public Improvements, Planning, Zoning & Building, and General Administrative Services. The Village also manages the operation of the Golf and Country Club.

Public Works has a budget³ of \$4.13 million, representing 23.6% of the total Village budget of \$17.5 million and is responsible for maintaining the Village’s infrastructure and all Village green space including roadways, parks, and medians. This includes maintaining irrigation systems, overlaying streets, installation and repair of sidewalks, and providing park maintenance. Public Works employs 37 full time employees and is comprised of the following divisions:

- Public Works Administration which provides general supervision, department level management, and administrative support to all divisions.
- Facility Services which provides maintenance and custodial services to Village buildings.
- Vehicle Maintenance which maintains the entire Village fleet comprised of approximately 120 vehicles, equipment, and rolling stock.
- Streets and Grounds Maintenance which is primarily responsible for maintaining and repairing the Village’s roads, sidewalks, parks, and storm drain infrastructure.
- Sanitation which provides side-door garbage collection three days per week and trash and vegetation collection two days per week. Included in the trash and vegetation collection is one day of recycling collection. The division also provides recycling containers for the residents.

This audit was performed at the request of Village Management following an internal investigation⁴. During the investigation, two Public Works Department employees were

³ FY2012-2013 Adopted Budget Document, Village of North Palm Beach, FL

⁴ Conducted by Village of North Palm Beach Police Department in February 2013.

terminated and the Director of Public Works retired. As a result, an acting Director was named until a new Director of Public Works was hired on May 13, 2013. The investigation by the Village Police Department identified potential theft of Village assets, including proceeds from the sale of Village scrap material and personal use of Village fuel.

OBJECTIVES, SCOPE AND METHODOLOGY

Our overall objective was to determine whether controls are in place and operating efficiently and effectively to ensure that certain assets of the Village of North Palm Beach are adequately safeguarded and accounted for. The scope included activities within the Public Works Department related to gas, oil and lubricants, repairs and maintenance, equipment, fleet management and physical security for the period October 1, 2010 to May 31, 2013.

The audit methodology included but was not limited to:

- Evaluating policies and procedures;
- Conducting a review of internal controls;
- Interviewing appropriate personnel; and
- Performing detail testing of certain transactions.

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS**Finding (1): PUBLIC WORKS LACKS A DEPARTMENT PROCEDURE MANUAL**

Four main units comprise Public Works: Administration, Streets & Grounds, Sanitation, and Fleet & Facilities. We found there are significant functions performed on a daily basis within each of these divisions. The Public Works Administration provides for general supervision, departmental level management and administrative support to all the divisions. Some of the key functions performed by Administration include billing and accepting payments from residents and commercial customers, preparation of purchase orders and check requests, and payroll preparation. Functions in the Fleet Division include vehicle maintenance, monitoring fuel usage, ordering parts, supplies and equipment, performing periodic inventories and scrapping.

Through inquiry with staff we noted there are no written procedures for any of the functions performed by Public Works. This is the overarching issue adversely affecting the operations of the Public Works Department. It has directly contributed to several of the control deficiencies identified throughout the remainder of this report including inadequate controls to prevent the alleged theft of proceeds from scrapping and Village fuel. Additionally, no one is cross-trained to handle the duties of the Public Works Accounting Clerk when that individual is absent.

Documenting procedures helps ensure that key controls are established and operational to safeguard Village assets. They also serve to assist in cross-training staff to ensure that another employee can perform key job duties essential to critical operations of the Village. Failure to provide employees with policies and procedures leaves too much to individual discretion, and can adversely affect job performance including reducing efficiency. Village management has recognized the need for written procedures and is considering the use of process mapping⁵ to assist in establishing written procedures for the Department.

⁵ Process mapping is a workflow diagram to bring forth a clearer understanding of a process or series of parallel processes.

Recommendations:

(1) The Village should develop, implement and enforce comprehensive written policies and procedures for accounting, monitoring and general oversight within Public Works. The manual should clearly outline the specific duties, authorities and responsibilities for all employees, thus providing the essential foundation needed to establish employee accountability, management oversight and effective internal controls. The approved manual should be distributed and clearly communicated to all employees within Public Works.

(2) Village Management should assess the need for more comprehensive cross-training in order to perform key job functions for the Village.

Management Response:

Management concurs with our recommendations and has proposed the following actions with a completion date of April 2014:

(1) Village administration recognizes the need for formal written procedures and policies. In June, the Public Works department procured Microsoft Visio software to aid in developing process mapping and standard operating procedures. Presently, Public Works is developing a list of standard operating procedures (SOP's) that are relevant to the department's operational functions. These SOP's will be integrated with a new performance evaluation system being developed.

(2) Village administration concurs with the recommendation for comprehensive cross-training. In July, Public Works reviewed the historical functions of each division within the Department. While some skill sets are specialized and cross-training would be impractical, training and process changes within divisions are being undertaken to diversify individual employee abilities.

Finding (2): PUBLIC WORKS USE OF MULTIPLE PURCHASE ORDERS DOES NOT COMPLY WITH VILLAGE PURCHASING POLICY AND IS INEFFICIENT

The Village's Accounting Policy and Procedures Manual outline the procurement process. The practice has been that Public Works Department purchase orders are initiated by either the Superintendent or supervisors and are approved by the Public Works Director based on the dollar thresholds set forth in the policy. Once approved, the purchase order is sent to Finance and is tracked on MUNIS⁶.

The following summarizes the Village Accounting Manual guidelines for purchases based on dollar thresholds.

⁶ MUNIS (Municipal Information System) is a software solution developed for the public sector and includes a full set of fund accounting applications.

- Purchases estimated to exceed \$10,000 must be competitively bid using sealed bids and awarded by vote of the Village Council;
- Purchases estimated to cost between \$1,000 and \$10,000 require three written quotes and must be authorized by the Department Head, Finance Director and Village Manager; and,
- Purchases estimated to cost up to \$1,000 do not require quotes and are authorized by Department Heads.

In our review of purchasing activity, we selected a sample of twenty-eight (28) vendors that Public Works used during the period October 2010 – April 2013 that related to the purchase of tires, batteries, small equipment, and parts and supplies. We found the following:

- A total of 524 purchase orders were issued for the twenty-eight vendors reviewed during this period.
- Four hundred ninety (490) purchase orders (94%) were issued for \$1,000 or less.
- Thirty-four (34) purchase orders (15%) were issued between \$1,001 and \$10,000.
- No purchase orders were issued for greater than \$10,000.

Our results showed that Public Works is issuing multiple purchase orders throughout the year for the same vendor, primarily in amounts of \$1,000 or less. For 26 of the 28 (93%) vendors in our sample, the individual purchase orders aggregated to over \$1,000 and in some cases exceeded \$10,000. The following table illustrates the purchase order activity we identified. It lists, by year, the ten vendors with the highest number of purchase orders issued during the sample period, along with the aggregate amount of those purchase orders.

| Summary of Vendor Purchase Order ⁷ Analysis | | | | | | |
|--|-----------------------|------------------|----------------------|------------------|------------------------|------------------|
| Vendor | # of PO's FYE 2011 | Total Dollars | # of PO's FYE2012 | Total Dollars | # of PO's MTD4/2013 | Total Dollars |
| Batteries By Fisher | 9 | 5,575 | 9 | 6,250 | 4 | 3,500 |
| Bryan | 17 | 11,375 | 19 | 10,125 | 5 | 2,475 |
| Direct Parts | 8 | 8,400 | 10 | 6,966 | 6 | 6,525 |
| Elplex | 0 | 0 | 29 | 39,925 | 21 | 34,600 |
| FL Brake & Truck | 12 | 10,425 | 14 | 12,833 | 8 | 7,298 |
| Home Depot | 11 | 6,450 | 13 | 6,920 | 8 | 5,050 |
| Hydraulic Supply | 16 | 14,100 | 6 | 4,975 | 3 | 2,650 |
| L&L Dist | 11 | 4,850 | 13 | 9,546 | 8 | 5,875 |
| Lowes | 10 | 8,200 | 11 | 9,626 | 6 | 4,500 |
| Martino Tire | 31 | 43,099 | 13 | 20,701 | 0 | 0 |

⁷ Information obtained from the Public Works Department Vendor Tracking Reports for FYE 2011, FYE 2012 and FY 2013 through April 2013.

The table shows that for all ten vendors, the aggregate amount of purchase orders substantially exceeded the \$1,000 threshold in one or more years. For five of the ten vendors, the aggregate amount exceeded \$10,000 in one or more years. A clear pattern exists indicating that the estimated amount of purchasing activity for each vendor would exceed \$1,000. By issuing multiple purchase orders under the \$1,000 threshold, Public Works circumvented the more stringent requirements at the higher dollar thresholds, such as obtaining written quotes and higher levels of approval. We saw no evidence that written quotes were being sought to ensure that the most cost effective prices were being obtained.

In addition, issuing so many purchase orders for \$1,000 or less is inefficient and creates unnecessary paperwork for the Village. As we stated earlier, there were 524 purchase orders issued for just the twenty-eight vendors in our sample during the period October 2010 - April 2013.

During our review we identified that Village purchasing guidelines provide two other more efficient methods for the types of purchases made by Public Works. The guidelines state that blanket purchase orders can be authorized by Department Heads for small routine purchases from vendors that are used frequently. Currently the guidelines state that blanket purchase orders are limited to \$2,500 for any one vendor with no single purchase to exceed \$1,000. The guidelines also provide for the use of purchase cards, although that is limited to one card for use by the Finance Department (Finance uses a single credit card instead of a purchase card). The use of blanket purchase orders or purchase cards would both result in a more efficient purchasing process, although the Village may need to consider whether the current limitations should be changed.

Recommendations:

(3) The Village should evaluate the process of issuing multiple small dollar purchase orders within Public Works. Where appropriate, purchase orders should be issued in amounts that are based on the budgeted or estimated amount of the expenditure.

(4) The Village should review the purchasing process in Public Works to ensure that it complies with Village Purchasing Policy guidelines designed to ensure that purchases are approved at the appropriate level and the most cost effective prices are obtained.

(5) The Village should review the current purchasing guidelines and make appropriate recommendations to Village Council for revisions. Revisions should include consideration for the use of Purchase Cards (P-Cards). P-Cards have been widely recognized as a more efficient way of purchasing, especially for small dollar items.

Management Response:

Management recognizes and concurs with the report findings relative to purchase order processing. The following corrective actions are proposed with an estimated completion date of November 2013:

(3) The Village will enhance their approach toward incremental purchases by seeking ways to group and better control purchases through blanket agreements for service labor rates, material purchases, and where appropriate, use of contracts for large dollar requirements.

(4) Public Works has reviewed the substantial number of purchase orders generated during each of the preceding three (3) fiscal years. The Village believes that Public Works staff has misinterpreted and incorrectly applied Village purchasing policies for a substantial period. Specifically, it appears that staff recognized large bulk purchases as one-time events that required compliance with Village purchasing policies. However, staff appears to have interpreted incremental purchases as separate events, even if the Village purchasing policies required written quotes or competitive procurement based on the aggregate total of such purchases.

(5) Public Works, as a component of our operational functions, makes a significant number of small dollar purchases. In consideration of the need for accountability and considerable staff time invested in processing small dollar purchases, Village administration will recommend to Council revisions to the Village's purchasing card policies.

Finding (3): THE VILLAGE LACKS A CONTRACT TRACKING AND MONITORING PROGRAM

Within the Village, contracts are initiated at the department level. Annual and multiyear contracts that exceed \$10,000 are brought to the Village Council for approval as required by the Village Procurement Policy. Contracts that require Council approval are processed through the Village Clerk and once approved; a copy is placed in the online records database.

We requested a list of all active contracts executed by Public Works. However, we were informed that they do not maintain a list of contracts and therefore, we were unable to identify all the contracts in place. Public Works maintains scanned copies of contracts they initiate; however, we were unable to compare them to a control record or list in order to ascertain if we had identified all the contracts.

The lack of a contract tracking resulted in at least two contracts that were allowed to expire before action could be taken to obtain a new contract. In one instance, we found that a contract with Total Maintenance for \$111,192.50 had expired December 2012. Once identified by the Acting Director and brought to the Village Manager's attention, a

resolution (2013-21) was approved by Village Council to extend the existing contract through September 30, 2014 to allow sufficient time for the bid process.

In another instance, as part of our review of Village fuel usage, we requested a copy of the contract with BV Oil; however, Village staff was unable to locate a copy. Instead, Public Works provided a letter dated January 19, 2011 which stated the delivery charges for unleaded and diesel fuel and referenced Contract #05-154/ER. Upon further research with the Palm Beach County Purchasing Manager, we discovered that the initial contract #05-154/ER, was a Palm Beach County contract that the Village had piggy-backed off of. That contract had expired January 31, 2010. The County contract was issued for 39 months with a 12 month renewal option; however, the County only extended it for one month. The Village is therefore currently operating without a fuel contract.

Contracting is decentralized throughout the Village departments and there is no designated employee to oversee all contracting activities. Further, the Village does not have a Contract Management Information System to track contract activities. Centralizing contract management would aid the Village in improving its management oversight of Village contracts. Further, without proper oversight, the Village may not be able to enforce contract terms or have recourse if a contractor fails to perform or meet contract requirements.

After we discussed this issue with management, the Village created a Project and Procurement Manager position that reports to the Finance Director. Per the Village, this position is “responsible for the overall direction, coordination, implementation, execution, control and completion of specific projects ensuring consistency with Village strategy, commitments and goals.” This individual is also responsible for developing contract documentation, conducting negotiations with suppliers and monitoring contract performance.

Recommendations:

(6) The Village should adhere to the appropriate procurement process and obtain a contract for fuel.

(7) The Village should develop a contract management information system, which documents at minimum:

- **A list of department contracts and the status of those contracts.**
- **Contract pricing.**
- **A list of contract liaisons and the specific contracts monitored by those liaisons.**
- **Proof of insurance documents provided by vendors engaged in contracts with the department.**
- **Dates of expiration.**
- **Terms of the contract for termination.**

Management Response:

Management concurs with the recommendations and has completed the following corrective actions as of October 2013:

(6) The Village has established a contractual relationship with Port Consolidated through the Southeast Governmental Cooperative Purchasing Group for the purchase of unleaded and diesel fuel.

(7) In July, the Village administration created a Project & Procurement Manager position within the Finance Department. The position is responsible for the overall direction, coordination, implementation, execution, control and completion of specific projects ensuring consistency with Village strategy, commitments and goals. This position is now tracking contracts from bidding through termination.

Finding (4): PUBLIC WORKS LACKS AN ADEQUATE INVENTORY CONTROL SYSTEM FOR PARTS, SUPPLIES AND EQUIPMENT

The Public Works facility has multiple secured stockrooms in which they maintain supplies, equipment and parts for vehicle repairs as well as tools and small equipment for Village maintenance and repairs. We found that there were no formal inventory records and no inventory control system to account for these items. Public Works does not maintain a system to record receipt of items into inventory or record removal of items from inventory tied to work orders or other records that document official use. No process is in place for conducting periodic physical inventory counts in order to reconcile inventory on hand to inventory records.

Shortly after we began our audit, Public Works conducted a physical inventory of tools and equipment and auto parts and supplies. They identified over 200 tools and small equipment items and over 1,100 auto parts and supplies. However, the inventory lists that Public Work's staff produced could not be reconciled to any existing inventory records and have not been maintained or updated since they were initially prepared.

Additionally, we were informed and we confirmed through observation that there are many obsolete parts and equipment that are being stored in Public Works. The obsolete items are spare parts for vehicles, machinery or equipment is no longer in use. Public Works does not have a process in place to identify and dispose of obsolete parts and equipment. We also identified that certain parts such as batteries and tires come with warranties. However, there were no records maintained to track the warranties and ensure that credits were obtained from the vendor when items are replaced prior to warranty expiration. The lack of inventory records and an inventory tracking system significantly increases the risk that items, which can be easily converted to personal use, such as tools, small equipment and auto parts, could be lost or stolen without detection.

Recommendations:

(8) Public Works should implement an inventory control system. This would allow them to conduct physical inventory counts periodically for parts, equipment and supplies and reconcile the inventory on hand with inventory recorded in the system. Public Works management should ensure that employees perform a complete physical inventory prior to implementing the inventory control system. This is necessary in order to have an accurate beginning inventory for initial entry to the new inventory system.

(9) Once a Public Works inventory system is implemented, additional monitoring tools and reports should be established to ensure that inventory transactions are processed accurately and in compliance with the policy. This should include:

- Key activities such as reconciling inventory disbursements for parts and supplies to authorized work orders;
- Performance standards for analyzing inventory data to assist management in identifying unusual or unexplained patterns in inventory consumption;
- Designation of an employee for monitoring the process; and
- Tracking of warranty items for credit.

(10) The Village should evaluate its current process for purchasing and maintaining inventory supplies to determine if operational efficiencies could be gained by establishing a “just in time” approach for purchasing parts, tools, and supplies, thereby reducing the amount of inventory on hand.

Management Response:

Management concurs with our recommendations and has proposed the following corrective actions with a completion date of January 2014:

(8) In June, Public Works recognized the need for an inventory control system, most critically in Fleet operations. Subsequently, vendors were solicited to provide product features and estimated costs to implement a computerized inventory controls and reporting system.

(9) Staff will consult with other municipal entities regarding similar challenges and success of proposed systems.

(10) In conjunction with an inventory control system, Public Works continues to ‘clean house’ of obsolete parts and equipment. Additionally, current parts inventories are being depleted to levels consistent with ‘just-in-time’ procurement. Parts and material that are readily available from local vendors will be procured at time of need. Materials that require long lead order times or are critical in nature to operational effectiveness will be maintained as inventory.

FUEL SYSTEM

As part of our audit, we reviewed controls over the Village's vehicle fueling system, managed and operated by Public Works. Fuel is delivered directly to the Public Works facility and dispensed into the underground gas and/or diesel tanks by the Village's fuel contractor, BV Oil. The Village utilizes the Phoenix Fuel System (fuel system) to control and record the dispensing of both gas and diesel fuel. The system utilizes electronic key fobs which are assigned to specific vehicles (units) to authorize and activate the fuel pumps. There are approximately 100 numbered key fobs assigned to vehicles in the fuel system.

Detailed fuel transaction data was provided by the Village Information Technology (IT) Director. The period of record was from October 1, 2010 to May 16, 2013⁸. There were 11,812 fuel transactions recorded for the period. Gas dispensed was 122,526 gallons and diesel dispensed was 57,116 gallons for a combined total of 179,642 gallons.

We found that the Village is adequately recording, monitoring and controlling the delivery of and payment for fuel. Public Works and Finance work closely together to monitor fuel delivery and make appropriate payments of fuel charges. A summary monthly delivery and utilization report (with beginning and ending fuel tank readings) is provided by Public Works to the Finance Department.

AK 8/2/12

End of Month Gas Report

| <u>Unleaded</u> | | |
|-------------------|------------|-----------|
| | Date | Amount |
| Beginning Reading | 7/1/2012 | 6361.00 ✓ |
| Fuel Delivery | 7/11/2012 | 3900.00 |
| Amount Used | | (4526.91) |
| | Total | 5734.09 |
| Ending Reading | 7/31/2012 | 5747.00 ✓ |
| | Difference | 12.91 |

The receipt from the delivery is sent to the Village Finance Department and matched with the vendor's invoice for payment processing. Fuel payment records including distribution of cost to the using departments are properly maintained by the Finance Department. The appropriate fuel tax repayment requests are being made to the Florida Department of Revenue.

However, we did identify several weaknesses related to the controls over and recording of individual fueling transactions by Village employees as discussed in the following findings. Collectively, these weaknesses can increase the risk that theft of fuel could occur and go undetected.

⁸ We reviewed 100% of the fuel transactions which covered 31 months.

Finding (5): MANAGEMENT IS NOT FULLY UTILIZING THE PHOENIX SYSTEM TO MONITOR AND CONTROL FUEL TRANSACTIONS

Approximately \$20,000 in fuel transactions are recorded per month in the Phoenix System for the Village fleet. This excludes the Fire Department diesel and Country Club which have their own small fuel tanks. Transaction data is recorded and stored in a database that contains the following detail:

- Employee ID
- Vehicle ID
- Date
- Time
- Transaction ID
- Fuel Type
- Gallons
- Price Per Gallon
- Mileage
- GL Account
- User
- Unit #

Currently, the Village does not utilize standard management “exception” fuel transaction reports that capture errors, or unusual/unauthorized fueling activities. The existing Phoenix System’s limited “rule based” features have not been implemented. These rule based features include such checks as quantity per transaction, mileage entry errors, daily allocation, and miles per gallon range tests. Not implementing rule based features, and producing and monitoring exception reports, increases the risk that theft of Village fuel can occur and go undetected.

Palm Beach County and other communities with their own fueling systems make use of software and hardware to:

- Test the reasonableness of odometer entries
- Restrict date (day) and/or time of activity
- Automatically identify (recognize) a vehicle without the need for a fob
- Limit the transaction quantity by vehicle
- Provide for limited “container” fueling
- Automatically terminate incorrect transactions
- Collect Mile Per Gallon Data
- Prompt for Scheduled Maintenance

In these other systems, if critical “rules” are violated, the transaction is recorded for exception reporting (management review and follow up) and the transaction can be terminated and the pump locked.

Recommendations:

(11) The Village should consider utilizing the features of the Phoenix Fuel System to its full capability. If the existing system cannot provide the appropriate functionality for monitoring and control, then management should evaluate the cost/benefit of upgrading or replacing the system.

(12) The Village should provide for the development and regular review and follow up of fuel transaction “exception” reports.

Management Response:

Management concurs with the recommendations and has proposed the following corrective actions with a completion date of February 2014:

(11) In July, staff contacted OPW regarding underutilized functionality of the Phoenix Fuel Management System and determined that the Village's existing version of Phoenix was not fully utilized. However, when assessing the scope of the Village's fuel management needs, staff concluded that the existing Phoenix system is obsolete. Public Works continues to evaluate fuel management systems presently utilized by other municipalities.

(12) Critical to the evaluation process is the ability to account for fuel use, verification checks on data entry, and reporting capabilities for both fuel security and fleet operational efficiency. Management anticipates the evaluation, selection, procurement, and implementation of a fuel management system to be completed by February 2014.

Finding (6): VEHICLE ODOMETER READINGS ARE NOT ALWAYS ENTERED CORRECTLY

The Phoenix System is used for processing all fuel transactions of gas and diesel from the Public Works facility fuel tanks. The following steps are required in order to dispense fuel:

1. The electronic "key fob," is read by the pump sensor,
2. The user enters his/her unique Phoenix identification number, and
3. The user enters the vehicle mileage or hours.



The key fob is assigned to a specific vehicle and kept on the key ring for that vehicle. Each employee is assigned an identification number when he/she is given access to the Phoenix System. The mileage is the number read from the vehicle odometer at the time of fueling and is to be entered in whole miles (no tenths of miles). Whole hours⁹ are entered from the meter on heavy equipment.

Any employee who has been assigned a Phoenix System identification number can fuel any Village vehicle as long as they have an active vehicle fob. When a vehicle is taken out of service and replaced, the practice has been to assign the old vehicle's fob to the new vehicle.

⁹ Heavy equipment may use an hour meter to report running time for tracking/planning maintenance.

In order to dispense fuel, the Phoenix System as currently configured accepts and allows any value to be entered for mileage. The system has the functionality to recall the previous mileage entered and compare it to the current entry for reasonability; however this feature is not being utilized by the Village.

Without the correct mileage (odometer) entry or running hours, it is difficult to determine if the transaction was reasonable for the vehicle being fueled. Incorrect mileage entries can mask fuel being put into an unauthorized vehicle or external container. Correct mileage provides a crosscheck to ensure that the fuel dispensed is being pumped into the appropriate vehicle; provides a record of a vehicle's historical fuel utilization; and can be used to analyze whether a vehicle's miles per gallon is reasonable.

Of the 11,812 fuel transactions recorded, we identified 2,276 (19%) where mileage may have been entered incorrectly. Examples of incorrect mileage entries include:

- Entering mileage that includes tenths of miles,
- General entry errors with transposed or incorrect digit entered,
- Using the same mileage or hours for several transactions on different days, and
- Entering employee ID number for mileage or hours.

The number and types of entry errors we found indicate that employees have been either careless and/or have not been properly trained on the need to ensure that accurate entries are made in the fuel system.

Recommendations:

(13) The Phoenix Fueling System should be configured to test, at the time of fueling, the reasonableness of mileage or hours entered.

(14) The Village should ensure that employees are properly trained on the importance of a correct mileage or running hours entry.

Management Response:

Management concurs with the recommendations and has taken the following actions as of October 2013:

(13) Village administration has directed that all capabilities of the existing Phoenix system be utilized until such replacement may be acquired.

(14) The importance of correct mileage entry has been conveyed to staff.

Finding (7): THE USE OF VEHICLE KEY FOBs ALONG WITH A MILEAGE READING OF "0" OR "1" FOR FUELING CONTAINERS DISTORTS FUELING DATA

During the period under review we identified 159 fuel transactions totaling 3,165 gallons where "0" or "1" was used for the mileage entry. Upon further inquiry, we were told by the Public Works Director that Village employees may enter a mileage reading of "0" or "1" when they use a vehicle key fob to put fuel in a gas or diesel container. The following table shows a break out of these 159 transactions between those where the fuel dispensed was greater than 10 gallons and those where it was 10 gallons or less (which would be typical of container fueling).

| Quantity of Fuel Dispensed | Number of Transactions | Total Gallons | Average Gallons per Transaction |
|-----------------------------------|-------------------------------|----------------------|--|
| Greater than 10 gal. | 52 | 2,811 | 54.06 |
| Less than or Equal to 10 gal. | 107 | 354 | 3.30 |
| Total | 159 | 3,165 | |

The table shows that 52 (33%) of these transactions were for amounts greater than 10 gallons and averaged over 54 gallons per transactions. These transactions are not consistent with the filling of a small gas or diesel container. They appear to involve fueling of large vehicles or equipment where accurate odometer readings (or hours) should have been entered. For the remaining 107 transactions, while they are more consistent with fueling of small containers, the transactions are being recorded as fuel dispensed to Village vehicles. Palm Beach County and other communities utilize a card/fob specifically designated as "small equipment" cards/fobs for non-vehicle use. These cards/fobs are usually limited to 5 or 10 gallons per transaction.

The use of vehicle key fobs and mileage entries of "0" or "1" to fuel containers or large Village vehicles, inflates the fuel utilization by the associated vehicles. Utilizing vehicle key fobs to fuel containers also provides an opportunity for any key fob holder to fuel containers and potentially mask the unauthorized removal of fuel in containers for personal use. There is no tracking of fuel used from containers for small equipment. In the internal investigation by the Village Police Department, a former employee did admit to using a "container" to fuel a personal vehicle.

Recommendation:

(15) The Village should discontinue the practice of using vehicle fobs and a mileage reading of "0" or "1" to indicate container fueling.

(16) The Village should add new fobs to the Phoenix system specifically designated for fueling small equipment and containers. These fobs should be programmed with a gallon limit commensurate with the fueling of small equipment or containers. Use of these fobs should be limited to individuals who have a need to fuel small equipment or containers.

Management Response:

Management concurs with the recommendations and has taken the following corrective actions as of October 2013:

(15) The practice of utilizing vehicle fuel fobs for small container and equipment has been discontinued.

(16) The Public Works department has created fueling fobs for small container and equipment use. The fueling fobs have been assigned to specific staff with directions for use and will be tracked in conjunction with vehicle fueling reports.

Finding (8): THE CURRENT PRACTICE OF RE-ASSIGNING/RE-USING EXISTING VEHICLE FOBS RESULTS IN ERRONEOUS FUEL TRANSACTION DATA

Each vehicle in the Village fleet is assigned a key fob that provides access to the Phoenix Fuel system pump. The number assigned to the vehicle corresponds to the number on the key fob. The key fob number is used to track fuel usage by vehicle in the Phoenix System.

As part of our review, we compared the vehicle inventory list by vehicle number against all fuel transactions in the Phoenix System as recorded by key fob at the time of fueling. The vehicle inventory list used included 100 vehicles. The 11,812 fuel transaction records used covered approximately 31 months from October 1, 2010 to May 16, 2013.

In reviewing the vehicle inventory list we found that thirteen vehicles had been retired by the Village during the past 31 months. The thirteen vehicles consisted of nine auctioned vehicles, three scrapped vehicles, and one traded vehicle. In reviewing the vehicle inventory list against the fuel transactions, we found five retired vehicles that were still showing current fuel usage transactions in May of 2013. We also found that five active vehicles showed no fuel usage during the 31 months.

These discrepancies are the result of the Village's practice of reusing retired vehicle key fobs on newly acquired vehicles. We found that the Village had placed existing numbered fobs from retired vehicles on the key rings of other active vehicles. When the key fob is used to activate the fuel pump, the fuel transaction is incorrectly recorded against the retired vehicle, and correspondingly no fueling transaction is recorded for the active vehicle.

In addition, another record keeping problem occurs when the Village reassigns a retired vehicle number and the corresponding retired vehicle fob to a newly acquired vehicle. Even though the key fob number and vehicle number match in the fuel system, the transaction history for the retired vehicle becomes part of the transaction history for the replacement vehicle. As a result, the fuel transaction history does not correctly reflect the fuel usage of a current vehicle. This issue can adversely impact the ability to utilize

the fuel system's diagnostic capabilities (such as miles per gallon) and other exception reporting features. Additionally, this can present a record keeping problem for other non-fuel vehicle maintenance items such as tires or batteries.

Recommendations:

(17) The Village should assign a new vehicle number and corresponding new fuel fob number when a vehicle is added to the fleet.

(18) The Village should discontinue the practice of reusing the same vehicle number previously assigned to retired vehicles.

Management Response:

Management concurs with the recommendations and has taken the following corrective actions as of September 2013:

(17) New vehicles are issued new key fobs. New vehicles are assigned vehicle numbers that have not been previously utilized. Police vehicles are identified by both a unit number for police operations and a vehicle number for fleet operations. All vehicle maintenance and fuel management transactions will be coded to the vehicle number, not the unit number.

(18) Public Works has discontinued the practice of reassigning fuel key fobs and reusing existing vehicle numbers.

Finding (9): RAW MATERIALS DISPOSAL (SCRAPPING) POLICY AND PROCEDURES DO NOT EXIST

Work performed by Public Works includes, at times, the collection of various raw materials or metal scraps from building demolitions, auto repairs, and other activities. These materials are eventually sold to scrap dealers, a practice commonly referred to as "scrapping". In February 2013, the Village Police Department conducted an investigation which was initiated as a result of a suspicious incident involving the scrapping of raw materials (copper, aluminum and other metals) missing from a Village site that was being demolished.

The investigation uncovered evidence that several Public Works employees at various times sold scrap material that belonged to the Village. Cash proceeds from the scrap sales were not remitted to the Village Finance Department but were instead, kept in an envelope in Public Works and used to buy lunch for employees. As part of the investigation, one envelope containing \$110 in cash was recovered from a safe in the office of the former Director Public Works and one envelope containing \$300 in cash was recovered from a Public Works employee's desk.

Consistent with our finding that Public Works had no written procedures, we determined that there were no procedures and no controls over the process for scrapping raw materials. In the absence of procedures and controls an informal process evolved that left this activity highly vulnerable to theft. Our review of the investigation conducted by the Village Police Department showed that a number of control weaknesses exist in Public Works. These weaknesses include:

1. Authorities and responsibilities not established as to who is authorized to perform scrapping on behalf of the Village;
2. No process to account for the accumulation of materials to be sold for scrap;
3. No process to record and account for the disposal and sale of scrap;
4. No list of acceptable Vendors to use for scrapping; and,
5. Inadequate segregation of duties in that a single employee could remove scrap material, transact the sale of scrap and receive the proceeds from the sale.

During our audit, management took action to address the control weaknesses identified. In June, the Director of Public Works informed us that Public Works will begin using Palm Beach Metal for the disposal of raw materials. Palm Beach Metal has delivered a container to Public Works to fill with scraps, which can be anything (mufflers, wiring, etc.). A regular schedule has been established for pick up. Palm Beach Metal weighs the container onsite and the driver provides a ticket receipt to Public Works. The scrap is brought to Palm Beach Metal where they separate the unclean metal. It is reweighed and a check for payment is generated and sent directly to Finance along with a final receipt.

Recommendations:

(19) The Village should document the new procedures put in place for scrapping. Written policies and procedures should include at a minimum:

- How scrap material is accumulated and accounted for;
- The process for disposal and sale of scrap;
- A list of acceptable scrapping companies;
- How proceeds from scrap sales are documented and accounted for; and,
- The establishment of adequate segregation of duties between removal, sale and receipt of proceeds.

Management Response:

Management concurs with the recommendation and has proposed the following corrective action with a completion date of April 2014:

(19) As referenced in the draft audit report, Public Works has commenced cleaning out obsolete parts/materials and accumulated clutter. Since June, Public Works has salvaged over 1,200 pounds of aluminum and 40 cubic yards of scrap metal. The Village utilized Palm Beach Metal for recycling. Payment from

Palm Beach Metal for \$467.10 was made by check to the Village's Finance Department. Staff no longer transports materials or receives payment for recycled material. A formal written material salvage policy will be prepared in conjunction with the implementation of standard operation procedures for the Public Works Department.

Finding (10): [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1. [REDACTED]

2. [REDACTED]

3. [REDACTED]

4. [REDACTED]

5. [REDACTED]

6. [REDACTED]

Recommendations:

(20) [REDACTED]

(21) [REDACTED]

(22) [REDACTED]

Management Response:

Management concurs with the recommendations and has taken the following corrective actions as of October 2013:

(20) [REDACTED]

(21) [REDACTED]

(22) [REDACTED]

VILLAGE-WIDE FINDING

In conjunction with our audit of the Public Works Department, we noted the following issue that is Village-wide and requires management's immediate attention.

Finding (11): [REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

[REDACTED]

- [REDACTED]

Recommendations:

(23) [REDACTED]

Management Response:

Management concurs with the recommendation and has proposed the following corrective action with a completion date of April 2014:

(23) Village administration recognizes the need to improve document management. In January, the Village will be reorganizing department physical locations. As part of the reorganization, [REDACTED] During the reorganization, documents beyond their required retention dates and obsolete records will be destroyed. Additionally, the Village is utilizing employees who have been temporarily assigned light-duty to digitally scan documents.

POTENTIAL FINANCIAL AND OTHER BENEFITS

Due to the absence of controls and record keeping in the areas we reviewed, we could not reliably determine the potential monetary benefits resulting from our findings and recommendations. However, based on management actions taken or in process, the Village should realize savings in a number of areas such as purchasing, inventory management, fuel consumption and scrapping.

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the Village of North Palm Beach management and staff for the cooperation and courtesies extended to us during this audit.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Please address inquiries regarding this report to Dennis Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1- Complete Management Response

THE VILLAGE OF
NORTH PALM BEACH*"THE BEST PLACE TO LIVE UNDER THE SUN"*

November 6, 2013

Mr. Dennis Schindel
Director of Audit
Office of Inspector General – Palm Beach County
P.O. Box 16568
West Palm Beach, Florida 33416-6568

**Re: Audit of the Village of North Palm Beach Public Works Department
 Draft Audit Report
 Village Response to Recommendations**

Dear Mr. Schindel:

The Village of North Palm Beach acknowledges receipt of the draft audit report from the Office of Inspector General related to our Public Works Department operations. Village administration has reviewed the summary of the audit findings and corresponding recommendations.

In consideration of the findings and recommendations, the Village offers the following response:

Finding (1):

Village Response: - Village Concurs

Completion Date: - April 2014

Village administration recognizes the need for formal written procedures and policies. In June, the Public Works Department procured Microsoft Visio software to aid in developing process mapping and standard operating procedures. Public Works and Human Resources recognize the development and maintenance of a procedural manual is a time consuming and perpetual process. Presently, Public Works is developing a list of standard operating procedures (SOP's) that are relevant to the department's operational functions. These SOP's will be integrated with a new performance evaluation system being developed. Each component must support the other in providing clear goals, responsibilities, and accountability.

Village administration concurs with the recommendation for comprehensive cross-training. In July, Public Works reviewed the historical functions of each division within the department. While some skill sets are specialized and cross-training across divisions would be impractical, training and process changes within divisions are being undertaken to diversify individual employee abilities.

ATTACHMENT 1- Complete Management Response (Continued)

Mr. Dennis Schindel
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Village Response to Recommendations
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Finding (2):

Village Response: - Village Concur

Completion Date: - November 2013

Village administration recognizes and concurs with the report findings relative to purchase order processing. Public Works has reviewed the substantial number of purchase orders generated during each of the preceding three (3) fiscal years. Based on that review, we believe that Public Works staff has misinterpreted and incorrectly applied Village purchasing policies for a substantial period. Specifically, it appears that staff recognized large bulk purchases as one-time events that required compliance with Village purchasing policies. However, staff appears to have interpreted incremental purchases as separate events, even if the Village purchasing policies required written quotes or competitive procurement based on the aggregate total of such purchases.

Public Works, as a component of our operational functions, makes a significant number of small dollar purchases. In consideration of the need for accountability and considerable staff time invested in processing small dollar purchases, Village administration will recommend to Council revisions to our purchasing card policies. We will enhance our approach toward incremental purchases by seeking ways to group and better control purchases through blanket agreements for service labor rates, material purchases, and where appropriate, use systems contracts for large dollar requirements.

Finding (3):

Village Response: - Village Concur

Completion Date: - October 2013

The Village has established a contractual relationship with Port Consolidated through the Southeast Florida Governmental Purchasing Cooperative Group for the purchase of unleaded and diesel fuel.

In July, the Village administration created a Project & Procurement Manager position within the Finance Department. The position is responsible for the overall direction, coordination, implementation, execution, control and completion of specific projects ensuring consistency with Village strategy, commitments, and goals. This position is now tracking contracts from bidding through termination.

ATTACHMENT 1- Complete Management Response (Continued)

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Finding (4):

Village Response: - Village Concur
Completion Date: - January 2014

In June, Public Works recognized the need for an inventory control system, most critically in Fleet operations. Subsequently, vendors were solicited to provide product features and estimated costs to implement a computerized inventory control and reporting system. Staff will consult with other municipal entities regarding similar challenges and success of proposed systems.

In conjunction with an inventory control system, Public Works continues to 'clean house' of obsolete parts and equipment. Material with retained value will be auctioned. Material unsuitable for auction has been discarded or salvaged as scrap metal. Additionally, current parts inventories are being depleted to levels consistent with 'just in time' procurement. Parts and material that are readily available from local vendors will be procured at time of need. Materials that require long lead order times or are critical in nature to operational effectiveness will be maintained as inventory.

Finding (5):

Village Response: - Village Concur
Completion Date: - February 2014

In July, staff contacted OPW regarding underutilized functionality of the Phoenix Fuel Management System. Based on those conversations, the Village's existing version of Phoenix was not fully utilized to its capabilities. However, when assessing the scope of the Village's fuel management needs, staff concluded that the existing Phoenix system is obsolete.

Public Works continues to evaluate fuel management systems presently utilized by other local municipalities. Critical to the evaluation process is the ability to account for fuel use, verifications checks on data entry, and reporting capabilities for both fuel security and fleet operational efficiency. We anticipate the evaluation, selection, procurement, and implementation of a fuel management system to be completed by February 2014.

Finding (6):

Village Response: - Village Concur
Completion Date: - October 2013

Village administration has directed that all capabilities of the existing Phoenix system be utilized until such time as a replacement may be acquired. The importance of correct mileage entry has been conveyed to staff.

ATTACHMENT 1- Complete Management Response (Continued)

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Finding (7):

Village Response: - Village Concur
Completion Date: - October 2013

The Public Works Department has created fueling fobs for small container and equipment use. The practice of utilizing vehicle fueling fobs for small container and equipment use has been discontinued. The fueling fobs have been assigned to specific staff with directions for use and will be tracked in conjunction with vehicle fueling reports.

Finding (8):

Village Response: - Village Concur
Completion Date: - September 2013

Public Works has discontinued the practice of reassigning fuel key fobs and reusing existing vehicle numbers.

New vehicles are issued new key fobs. New vehicles are assigned vehicle numbers that have not been previously utilized. Police vehicles are identified by both a unit number for police operations and a vehicle number for fleet operations. As example, police unit number 205, which is utilized as a call sign for police operations will remain unchanged when a new vehicle replaces the existing unit. However, the new vehicle will be assigned the next in line vehicle number for fleet operations. All vehicle maintenance and fuel management transactions will be coded to the vehicle number, not the unit number.

Finding (9):

Village Response: - Village Concur
Completion Date: - April 2014

As referenced in the draft audit report, Public Works has commenced cleaning out obsolete parts/materials and accumulated clutter. Since June, Public Works has salvaged over 1,200 pounds of aluminum and 40 cubic yards of scrap metal. The Village utilized Palm Beach Metal for recycling. Payments from Palm Beach Metal were made by check to the Village's Finance Department. Staff no longer transports material or receives payment for recycled material. A formal written material salvage policy will be prepared in conjunction with implementation of standard operation procedures for the Public Works Department by April 2014.

ATTACHMENT 1- Complete Management Response (Continued)

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Finding (10):

Village Response: - Village Concur
Completion Date: - October 2013

[REDACTED]

[REDACTED]

Finding (11):

Village Response: - Village Concur
Completion Date: - April 2014

Village administration recognizes the need to improve document management. [REDACTED]

[REDACTED]

Summary:

The Village wishes to extend our appreciation to the Office of Inspector General for their cooperation and thorough review of our operations and internal controls. We will continue to evaluate our internal controls throughout the organization and take the appropriate action to ensure the efficient and effective operation of government. We will provide updates on a quarterly basis regarding our progress in resolving outstanding action items.

Sincerely,


Ed Green
Village Manager

ATTACHMENT 1- Complete Management Response (Continued)

Cc: Village Council
Department Heads