

Internal Audit Report

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TO: Ehren Jarrett, Superintendent
Todd Schmidt, Chief Operating Officer
Lori Hoadley, General Counsel

FROM: Roman Gray, Internal Auditor

DATE: November 21, 2017

SUBJECT: FINAL REPORT: Internal Audit - Facilities Department Tools

This report will discuss an audit performed on September 21, 2017, in the Facilities department. Recent tool purchases were selected and a surprise audit was conducted, to determine whether tools were present and accounted for. Tool management processes were also reviewed, and this report contains recommendations for improvement. The final response from the Chief Operations Officer is included at the conclusion of this report.

INTRODUCTION & BACKGROUND

The Facilities department is overseen by the following individuals:

Todd Schmidt, Chief Operating Officer

Jim Kaplanes, Director of Buildings & Grounds

Ann Delang, Operations Manager

Wilson Bailey, Maintenance Manager: Electrical, HVAC, Communications, Steamfitters, Plumbers

Mark (James) Burrage, Maintenance Manager: Grounds, Carpenters, Painters, Environmental

Department employees regularly purchase supplies, materials, and equipment, by way of blanket PO's with various vendors, or with District purchasing cards. Some commonly-used vendors of these items are The Home Depot, Brook Electrical Supply, Grainger, Nicholson Hardware, Lowe's, Lincoln Rental, and Equipment Depot.

Both equipment and materials can be purchased at these and similar vendors. It is common for tool purchases to appear on the same invoices as materials, and for employees to go to the vendor and pick up items purchased (as opposed to having them delivered to District Central Receiving). A large number of tools used by the facilities are of the sort used outside of the workplace, such as drills, power saws, blowers, chainsaws, wrenches, etc. As such, these tools would be susceptible to fraud or abuse.

SUMMARY:

During this audit, 25 invoices were selected for the period between 7/1/2016 – 9/15/2017, containing a total of 53 tools purchased. We were able to locate 52 tools of the same make and model as those appearing on the invoices, but since there are no records containing serial numbers of the tools, and since the tools are not marked or tagged, we cannot be certain that they were those actual items. *(Exception: 22 of the tools appeared on a single invoice from a vendor that included the serial numbers on the invoice; we*

were able to quickly locate these items and match the serial numbers.) We were not able to locate one of the items, a \$130 drill bit; however, the individual who purchased it said that it may have been broken and thrown away. Internal Audit agrees that this is typical for that type of tool, and does not consider this an audit exception.

The following findings were noted during this audit:

Finding #1: No Tool and Equipment Identifiers

Recommendation: Tools and equipment should be given identifying marks or tags immediately after purchase.

Finding #2: No Inventory Tracking System

Recommendation: The department should formally adopt a method for tracking tool purchases

Finding #3: No Standard Tool Assignments by Trade or by Employee

Recommendation: It is recommended that management work with the trades employees to determine a standard set of tools that are necessary for the fulfillment of work duties both at the shop, and in work vans.

Finding #4: No Standard Guidelines Regarding Promo Tools

Recommendation: A formal directive should be formulated and communicated to all employees who make purchases, regarding how to handle promotional items.

Finding #5: No Manager Approval on Invoice

Recommendation: Managers should make sure that all invoices are reviewed prior to payment, and that each approved invoice is signed by the manager that approved it.

DETAILED FINDINGS:

Finding #1: No Tool and Equipment Identifiers

CONDITION

There is no standard process for marking or tagging tools and equipment purchased with District funds.

CRITERIA

Upon purchase and prior to being placed in operation, tools and equipment should be given an identifying mark or tag that is indelible or cannot be easily removed. This would provide the following benefits:

1. The item would be quickly identified as District property both within and outside of the workplace.
2. Theft would be discouraged because the item would always bear the mark of the Rockford School District.
3. Tools submitted to vendors as trade-ins would be identified to those vendors as RPS property.

CAUSE

No standard operating procedure exists.

CONSEQUENCE

The risk of theft or of tools going unaccounted for is elevated.

CORRECTIVE ACTION RECOMMENDATION

Tools and equipment should be given identifying marks or tags immediately after purchase. A process for this will be recommended at the conclusion of this report.

Finding #2: No Inventory Tracking System

CONDITION

There is no system in place for accounting for and tracking of tools purchased.

CRITERIA

A policy for accounting for tools is recommended for this department. The Facilities Department consists of approximately 40-50 skilled trades' workers, most of whom utilize a large number of hand tools; these tools are susceptible to theft. In the absence of a tracking mechanism, such as a spreadsheet that lists each tool and the individual responsible for each tool, the following should be noted:

1. The only way to manage the tool usage, other than relying solely on the word of the employees who use them, is to depend upon the managers (who approve the invoices for payment) to mentally keep track of what tools are being purchased, and question individuals accordingly. For example, if an employee purchases the same drill each month for 3 months in a row, the manager would need to remember each purchase in order to make any necessary inquiries, such as:
 - a. Why did one person purchase so many drills?
 - b. If the drills are replacements, how are the old drills being disposing of?
 - c. If the drills are failing, is this due to abuse? Or do we need to purchase higher-quality tools? Or is there a problem with this vendor?
2. When questioned, the Maintenance Manager who approved the invoices selected for audit said that he signs approximately 50 invoices per day. Most of these are for supplies and materials, and he estimates that he sees 1-2 tools purchased each week; however, he admitted that it is difficult to keep track of the tools purchased in the absence of a system for doing so.
3. There is currently no system for recording and utilizing the serial numbers of tools when purchased. This is necessary for identifying tools for audit, tracking a specific tool back to the person that is accountable for it, and in the event of theft, for reporting to law enforcement.

A tracking system for tracking tool purchases should have the following elements:

1. Parameters for which tools should be tracked, usually based on a cost threshold (for example, all tools over \$100).
2. A consistent method for entering each tool into the system, and for what information should be captured. (Make, model, Serial #, purchase date, location, individual it is assigned to, etc.)
3. A procedure for making changes to the record for each tool, such as:
 - a. Reassignment of the tool to a different employee
 - b. Change of location (if necessary)
 - c. Removal from the listing (disposal)
4. Limited access to the system, and designated individuals for making all additions, updates, and deletions from the system.

An excel spreadsheet could be utilized to do this.

CAUSE

No standard operating procedure exists.

CONSEQUENCE

There is increased risk of fraud or abuse, primarily because management may not be aware of tool usage, replacement, and disposal. Examples of such fraud going undetected are:

1. Management may be unaware that tools are being replaced unnecessarily. This could be due to:
 - a. Damage, abuse, loss, or the personal preference of the worker for having newer tools.
 - b. Theft
2. Tools may be disposed of by an employee and replaced with new ones, only to have the disposal tools misappropriated by the employee and traded in for vendor credit, or to be otherwise used for unauthorized personal benefit.

A spreadsheet (or other method of tracking) would allow managers to quickly review the tool situation for decision-making purposes.

CORRECTIVE ACTION RECOMMENDATION

The department should formally adopt a method for tracking tool purchases. Once adopted, it is imperative that the tracking information be regularly maintained, in order for the records to remain current and relevant. A suggested process for implementation will be detailed at the conclusion of this report.

Finding #3: No Standard Tool Assignments by Trade or by Employee

CONDITION

There is no established list of tools required in different trades' shop areas. Similarly, there is no list of tools allowed or required for each facilities van.

CRITERIA

In order to effectively plan and manage tool inventories, due to the varied tool requirements of different trades workers, there should be a listing and assignment of tools necessary to fulfill the responsibilities of that trade. Assignments of tools should be based on employee or area assignments, and so that a single employee can be designated as responsible for the tools in specified areas.

CAUSE

No standard operating procedure exists.

CONSEQUENCE

The tool requirements for each van, employee, or area, are currently managed on an as-needed basis, which may not be as efficient as possible, and which does not provide ideal internal control. Under the current system, it would be difficult to hold an individual responsible for tool inventory issues, such as: missing tools, unnecessary tools, or tools that disappear and end up in another trade van or area. Currently, tools are purchased as determined by the trades employees, instead of through an approved process with management review prior to purchase.

CORRECTIVE ACTION RECOMMENDATION

It is recommended that management work with the trades employees to determine a standard set of tools that are necessary for the fulfillment of work duties both at the shop, and in work vans. This tool listing should be reviewed and updated on a regular basis as necessary, and management should conduct periodic audits of tool inventories. The tools specific to an area or person should be signed for by the employee who will be held accountable for them.

A process for implementation will be detailed at the conclusion of this report.

Finding #4: No Standard Guidelines Regarding Promo Tools

CONDITION

There is no firm guidance regarding tools or discounts received on a promotional basis from vendors.

During this audit, we found a purchase was made that resulted in two free items (\$129 battery and \$79 drill) for the District. The original invoice (presented to District Finance for payment, dated 4/28/2017) did not show these two items, which were printed on a second page of documentation that was supplemental to the first. (This 2nd page was not turned in to District Finance, and was discovered when the vendor salesman provided it to Internal Audit upon request.) As a result, the existence of these free tools was not known to management.

At the request of Internal Audit, the vendor searched their accounting records for other free tools awarded to the District since January 2017, and found another invoice containing a free battery (\$169 value), dated 3/20/2017.

There is no way to determine whether those tools were turned over to the District, due to the current lack of a tool inventory system. Batteries and a drill of these models were found during our audit, but there is no way to identify them as the ones obtained through these promotions.

CRITERIA

It is common in this industry for tools vendors and manufacturers to conduct promotions where significant discounts or free tools are awarded to customers for certain purchases. These promotions are used by vendors to encourage customers to purchase specific items from them.

CAUSE

No documented standard operating procedure exists.

CONSEQUENCE

The following risks are present in the current environment:

1. Trades workers may be influenced to purchase certain qualifying items that are not ideal or necessary for the job at hand, in order to take advantage of promotions.
2. Promotional items, obtained for free, may be misappropriated for personal use by employees.
3. Trade-in promotions may tempt employees to misappropriate District tools and trade them in for personal advantage.

CORRECTIVE ACTION RECOMMENDATION

A formal directive should be formulated and communicated to all employees who make purchases, regarding how to handle promotional items. Internal Audit recommends that all promotional items be turned in to management for determination of how to utilize them. Promotional items should also be added to the tool inventory. For vendors that commonly offer local or manufacturer promotions involving free items, management should consider having those vendors implement a policy of always shipping free items to the Distribution Center rather than having employees take possession of them.

Finding #5: No Manager Approval on Invoice

CONDITION

One of the invoices selected was not signed by a manager for approval prior to payment. There was no separate receiving document ("pick ticket") for this transaction.

CRITERIA

Invoices should always be signed off by a manager, indicating that the manager has reviewed the purchase and that it is appropriate and approved for payment.

CAUSE

Unknown. There is a standard process for managerial review of invoices, it appears that one slipped through the system or was not signed. This appears to be an isolated occurrence.

CONSEQUENCE

The risk of inappropriate activity is elevated where there is no management approval.

CORRECTIVE ACTION RECOMMENDATION

Managers should make sure that all invoices are reviewed prior to payment, and that each approved invoice is signed by the manager that approved it.

PROCESS RECOMMENDATION:

Internal Audit recommends the following procedure for the management of tool purchases and inventory:

1. A listing of standard tools should be developed for each functional area. This list should be approved and saved by a manager or clerical assistant, and all updates to the listing should be approved by a manager. These tools should be provided to the trades workers (or work areas), and an individual should be accountable for them.

Tool purchases should be made in accordance with the tool listing, and as tools are replaced, the disposed-of tools should be presented to the manager for proper disposal. As new tools are needed (which are not replacing something currently on the list), they should be approved by a manager and added to the list.

2. A comprehensive inventory of tools exceeding a certain dollar threshold (ex: \$100) should be created, most likely using an Excel spreadsheet. We suggest that the spreadsheet contain the following for each tool:

ACQUISITION DATE / MAKE / MODEL / SERIAL # / TRADE / WHO HAS IT / DISPOSAL DATE

This inventory listing should be audited and updated when employees leave the District.

3. When tools are purchased, the following process (or similar) should be followed:
 - 1) Employee makes purchase, writes serial # for each tool on invoice, and turns in invoice to Maintenance Manager. Employee turns over any tools for disposal.
 - 2) Manager reviews purchase for appropriateness, after which the tool is engraved or marked as a RPS 205 tool. [Internal Audit recommends considering writing "RPS 205" with a Sharpie marker, and then going over the marker with an engraving tool, similar to the current process for marking grounds-keeping equipment.]
 - 3) Inventory list manager adds all information to inventory listing as required, verifies that the tool was properly engraved or tagged, initials invoice, and gives it to the Maintenance Manager for approval.
 - 4) The Maintenance Manager reviews the purchase for appropriateness, makes sure that the serial number is written on the invoice for each tool, takes responsibility for the disposal of old tools, verifies the initials of the inventory list manager, and approves the invoice for payment.

The cooperation of the Operations and Facilities departments was appreciated during this audit.





Todd Schmidt
Chief Operations Officer

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TO: Roman Gray, Internal Auditor
FROM: Todd Schmidt, Chief Operations Officer
DATE: November 20, 2017
SUBJECT: Internal Audit: Facilities Department Tools

In response to the internal audit regarding the Facilities Department Tools dated October 20, 2017 and the related corrective actions noted within the audit document itself, the Facilities department can commit to the following actions:

Finding #1: No Tool and Equipment Identifiers

Recommendations:

1. Tools and equipment should be given identifying marks or tags immediately after purchase.

Facilities Department Response: The Facilities Department has purchased an electric engraver to engrave a specific ID number to each tool purchased over \$100.00. The standard engraving is "RPS205 0001, RPS205 0002, etc." The Facilities Department will engrave all new tools purchased and within 90 days have all tools valued over \$100.00 engraved.

Finding #2: No Inventory Tracking System

Recommendation:

1. The department should formally adopt a method for tracking tool purchases.

Facilities Department Response: The Facilities Department created a Tool inventory database. The database will identify each tool purchased over \$100, manufacturer, engraved ID number, purchaser, vendor, value, acquired date and retired/lost date. Trades will notify Maintenance Managers when a tool needs to be retired or replaced. The Maintenance Manager will update the tool database appropriately.



Finding #3: No Standard Tool Assignments by Trade or by Employee

Recommendation:

1. It is recommended that management work with the trades employees to determine a standard set of tools that are necessary for the fulfillment of work duties both at the shop, and in work vans.

Facilities Department Response: The Facilities Department will further evaluate this recommendation after the completion of inventorying and engraving all tools valued over \$100.00 in 90 days.

Finding #4: No Standard Guidelines Regarding Promo Tools

Recommendation:

1. A formal directive should be formulated and communicated to all employees who make purchases, regarding how to handle promotional items.

Facilities Department Response: The Facilities Department will inform vendors that promotional tools need to be captured on a separate PO, deliver or sent to the Facilities Department Maintenance Manager and not to the individual Trades staff. The Manager will inventory and assign Promotional Tool as needed.

Finding #5: No Manager Approval on Invoice

Recommendation:

1. Managers should make sure that all invoices are reviewed prior to payment, and that each approved invoice is signed by the manager that approved it.

Facilities Department Response: The Facilities Department Maintenance Managers will review each tool purchase for appropriateness, ensure ID number is engraved, enter tool into database and approve invoice for payment.