



Office of the City Manager

INFORMATION CALENDAR

December 6, 2005

To: Honorable Mayor and
Members of the City Council

From: *PK* Phil Kamlarz, City Manager

Submitted by: Claudette Ford, Acting Director, Public Works

Subject: (Status Report CF12-05) Purchase Order Audit – Select Public Works Divisions At the Corporation Yard

INTRODUCTION

The audit report titled, “Purchase Order Audit – Select Public Works Divisions at the Corporation Yard”, was presented to Council on March 15, 2005. The complete report can be found on the City’s website at: <http://www.cityofberkeley.info/auditor/currentaudits.htm>.

The audit was conducted by the City Auditor’s Office to determine whether purchasing and payment activities in the Equipment Maintenance and Streets & Utilities Divisions of Public Works 1) were in compliance with written policies and procedures and 2) had an adequate internal control structure in place. The audit also evaluated the effectiveness of efforts by the Equipment Maintenance Division and Streets & Sanitation Division staff to reduce workers’ compensation claims. The audit report contained eleven audit findings, and twenty-three recommendations.

On March 15, 2005 the City Council requested the City Manager prepare a report regarding the implementation status of each of the City Auditor’s recommendations, and continue to report back every six months thereafter, until all recommendations are implemented. The next report will come to Council in May 2006.

CURRENT SITUATION AND ITS EFFECTS

In response to the Auditor’s recommendations, the Public Works Department, in conjunction with the Finance Department and Information Systems, began implementing procedures to implement the audit recommendations as follows:

Finding 1 – The City’s Purchasing Manual Is Very Outdated.

Recommendation for Finance

1.1 Fully update, finalize, and distribute the Purchasing Manual to all departments within six months of the date this audit report is presented to City Council. Establish and implement policies and procedures in Finance for the updating of the Purchasing Manual at least annually.

The City Manager Response:

Partially Implemented. The purchasing manual was updated by the Finance Department and is available on the City's intranet site. It is currently in draft form pending review by City staff and will be finalized by the end of January 2006.

Recommendation for Finance and the City Attorney's Office

- 1.2 Establish the definition for a service purchase and identify the purchasing procedures to be followed for service purchases. This definition and these procedures should be included in the updated Purchasing Manual.*

The City Manager Response:

Partially Implemented. The entire purchase is considered a service purchase when the preponderance of what is purchased is a service, although some goods may be purchased. This definition has been included in the new purchasing manual that will be finalized by the end of January 2006.

Recommendation for the City Manager

- 1.3 Update the City's on-line contract manual to incorporate the definition for a service purchase as established in recommendation 1.2. Also update the on-line contract manual to include procedural changes associated with the new service purchase definition.*

The City Manager Response:

Not Implemented. Update of the on-line contract manual has been postponed pending recruitment and hire of a Contract Administrator.

Finding 2 – The Equipment Superintendent, Sr. Equipment Supervisor and a Mechanic Supervisor Can Perform Incompatible Purchasing and Purchasing Related Duties.**Recommendation for Public Works and Information Technology**

- 2.1 As Fleet Management Module leader, the Equipment Superintendent should not have the ability to give himself the authorization to perform any functions in the module. Although this change was made during the audit, this restriction should be documented and enforced. Additionally, no EM Division employees should have authorization in the Fleet Management system to review and approve his or her own input.*

The City Manager Response:

Partially Implemented. As documented in the audit, changes were made in the Fleet Management module by removing the authority of the Equipment Maintenance Superintendent to grant himself permission to perform any function in the module. No EM Division employees have authorization in the Fleet Management system to review and approve his or her own input. Staff is working on an internal procedures manual to

document the policy. Staff anticipates completion and dissemination of the procedures manual within 120 days.

Recommendation for Finance

- 2.2 *Update the Purchasing Manual to include verbiage stating that it is against City policy for an employee to approve a financial transaction for a near relative. This update should refer to AR 2.12 for the definition of a near relative, which includes a domestic partner.***

The City Manager Response:

Not Implemented. The Purchasing Manual will include verbiage stating that it is against City policy for an employee to approve a financial transaction for a near relative, and refer to AR 2.12 for the definition of a near relative, which includes a domestic partner. This Administrative Regulation will be included in the final version of the Purchasing Manual, which is still in draft form, but will be ready by January 2006.

Recommendations for Public Works

- 2.3 *Take away the Equipment Superintendent's and Sr. Equipment Supervisor's authorization on the blanket Purchase Orders (PO) to make purchases, since they are authorized to approve invoices for payment. No employee should have dual authorization to make purchases by blanket Purchase Order and also authorize these purchases for payment.***

The City Manager Response:

Fully Implemented. The Services Division limits purchasing authority on blanket purchase orders to no more than three employees. The Equipment Supervisor and Warehouse Parts Technician are the authorized purchasers on all blanket purchase orders. The Warehouse Parts Technician orders & receives items. Invoice approval will remain with the Senior Equipment Supervisor and the Equipment Maintenance Superintendent.

- 2.4 *Create and issue written policies and procedures for the Equipment Maintenance (EM) division that cover the step-by-step purchasing process in EM (including Fleet Management activity) from beginning to end. These procedures should be detailed enough to allow a new but qualified employee to read them and know what authorization they have, what tasks they are to perform, and how to perform them.***

The City Manager Response:

Partially Implemented. A new internal purchasing process was drafted for the Equipment Maintenance Division and will be incorporated into the Corporation Yard policy manual. The new manual will be ready & distributed within 120 days.

- 2.5 *Requisitions for Public Works Divisions located at the Corporation Yard should be reviewed and approved by an analyst, supervisor, or manager familiar enough with division operations to effectively review requisitions before approving them.***

The City Manager Response:

Not Implemented. Requisitions for Public Works Divisions are reviewed and approved by the Management Analyst assigned to the Corporation Yard Administration, as well as by the Senior Budget Specialist in Public Works Administration. Audit recommendation cannot be implemented while maintaining segregation of duties as described in other areas of the audit.

- 2.6 *Under no circumstances should the Sr. Equipment Supervisor or any other employee give another employee his or her FUNDS password. This directive should be included in EM division written policies and procedures.***

The City Manager Response:

Partially Implemented. The practice of sharing FUNDS passwords in Equipment Maintenance has been discontinued. Assurance is provided through the FUNDS accounting system, which automatically requires passwords to be reset every 90 days. A departmental policy prohibiting sharing passwords will be included in the Corporation Yard procedures manual scheduled for completion in 120 days.

- 2.7 *When employees temporarily fill in for other employees, the employees who backfill should have their usual authorization removed if it is not compatible with their temporary duties. Authorization should be taken away for a long enough period that staff would be unable to return to their primary job classification and review and approve their own work using authorization obtained from the temporary assignment. This policy should be incorporated into the written policies and procedures in EM.***

The City Manager Response:

Partially Implemented. When employees temporarily fill in for other employees, the employees who backfill have their usual authorization removed if it is not compatible with their temporary duties. Their regular non-compatible authorization is not returned until the temporary assignment is complete, the temporary authorization has been removed, and they can no longer use their authorization under their primary job classification to review and approve work they had performed during their temporary assignment. Employees temporarily fill in for the Equipment Supervisor and are given temporary authorization to perform their duties for a minimum period of 30 days or longer. The Sr. Equipment Supervisor will notify Information Systems when employees complete a temporary assignment. A new supervisors procedures manual will be drafted to document this practice. The Public Works Department anticipates completion of the procedures manual in 120 days.

Finding 3 – Sufficient Competitive Pricing Is Often Not Being Obtained Before a Purchase Order Is Issued

Recommendations for Finance and Public Works

- 3.1 *Update the Purchasing Manual to incorporate internal controls that will provide a reasonable assurance that when blanket POs exceed a current amount (current***

amount established by Finance is \$5,000), vendor prices are competitive. Additionally, annually require a competitive price analysis for at least 10% of the planned blanket POs in each PW division each year that are under \$5,000, as long as the division has at least 20 blanket POs. This analysis should be used to negotiate fair pricing with these vendors, and this activity should be documented. The documentation supporting competitive pricing efforts should be retained for two years after the POs are no longer being used.

The City Manager Response:

Partially Implemented. Finance General Services is contacting vendors and documenting available discounts regarding blanket Purchase Orders exceeding \$5,000 as division resources are available. No analysis has been performed on the blanket Purchase Orders under \$5,000 because of other demands on division resources.

Public Works staff is required to submit three (3) cost estimates to Public Works Administration for all purchases. As indicated, the Purchasing Manual is drafted and will be ready at the end of January 2006.

Documentation for competitive bidding and other bidding methods are maintained in the electronic requisition system. The information is maintained by the Finance Department according to the Records Retention Schedule Resolution No. 62,128 –N.S.

- 3.2 *Update the Purchasing Manual to clearly define what kind of competitive pricing data from other jurisdictions is an acceptable alternative to obtaining competitive pricing directly from vendors. To avoid vendor misrepresentation of the facts, only competitive pricing data provided to the City by the purchasing staff of other jurisdictions should be considered acceptable. Additionally, for piggybacking to be acceptable, quotes obtained should be for comparable quantities and like quality. Lastly, require competitive pricing data be maintained for a minimum of two years after a PO is closed as evidence pricing competition was obtained.*

The City Manager Response:

Partially Implemented. Piggybacking on quotes obtained by other jurisdictions is addressed in the draft Purchasing Manual. The new Purchasing Manual clearly defines the types of competitive pricing data needed to satisfy competitive requirements. It also provides acceptable alternatives to obtaining competitive pricing.

Finding 4 No Reconciliation Is Performed to Identify Parts Purchases That Are Neither on Hand in Inventory Nor Recorded In the Fleet Management Module As Used for a Repair

Recommendation for Public Works

- 4.1 *At least quarterly, parts and outside service expenditures recorded in the FUNDS general ledger should be reconciled to the cost of these parts and services charged to jobs in the Fleet Management Module, and the change in the value of the in-house*

parts inventory. An employee who does not have significant involvement with the activity being reconciled should perform the reconciliation and this reconciliation should be documented in writing and retained. The cause of significant differences should be researched, identified, and corrected. This procedure should be part of the divisions' written policies and procedures.

The City Manager Response:

Partially Implemented. Equipment Maintenance worked with Finance and Information Systems to fully integrate the Fleet Management, Purchasing and the General Ledger modules in FUNDS. Full activation allows the automated system to track inventory and service costs in real time, to reconcile the information in the general ledger and allows staff to identify any parts purchased that are no longer on hand in inventory nor recorded as used for repair. Information Systems activated these connections in a Test environment but were not able to implement the change in the live environment due to internal system integration problems. Work with Information Systems and our FUNDS vendor HTE, Inc. is on going.

Staff recommends the addition of one FTE Parts Technician to provide better inventory controls and materials management while staff continues research of other methods to comply with this recommendation. The position would be responsible for maintaining inventory data on a daily basis required to complete quarterly reconciliations.

Reconciliations under our current operating systems are extremely labor intensive to accomplish. Staff research of four equipment maintenance shops (Hayward, Stockton, Fremont, Union City) revealed that 3 cities rely on fleet management software to perform these functions. In Stockton however, no reconciliation is performed. Stockton is the only city using the same fleet management software as City of Berkeley.

Staff also considered contracting out parts ordering, distribution and inventory management to comply with this and other related audit findings. Two contractors were consulted. They would require 3 FTEs to provide all the necessary support, greatly increasing costs to city departments.

Finding 5 Parts Inventory Is Not Adequately Secured and a Record of Parts Inventory Is Not Maintained

Recommendations for Public Works

5.1 *At least annually, compare the cost of unaccounted for parts and outside repair services (See audit recommendation 4) with the estimated cost to increase the security over the parts inventory. If cost effective to do so, increase the level of security over inventory. This analysis, and resulting decisions, should be documented and retained.*

The City Manager Response:

Partially Implemented. All services are documented and cross-referenced by work order number and by vendor invoice. All invoices have the work order number and vehicle

serviced written on them prior to payment processing. All work orders have the vehicle number and an itemized list of all parts used or services ordered with cost or cost estimates. Meanwhile, annual inventory as further required was conducted in September 2005. The end-of-year inventory will be performed in June 2006 and will provide enough information to perform the reconciliation as required in Finding 4. The beginning inventory value will be compared with the ending inventory value and reconciled with parts and services billed. If the dollar value of unaccounted for parts is excessive, staff will increase security over the parts inventory storage.

- 5.2 *Develop and implement written policies and procedures to improve the security over parts and tire inventory with current staffing. For example, develop procedures and guidelines to help maintain a minimum inventory of parts. This can be accomplished by not keeping in inventory parts that can be quickly ordered and received. Also, consider further restricting accessibility to expensive items such as tires. For example, perhaps only the Mechanic Supervisor and Sr. Equipment Supervisor should have a key to access the tire inventory area, and they should do so only with the mechanic requiring the tires for a job order.***

The City Manager Response:

Partially Implemented. Fewer tires are stocked in inventory and they have been relocated to the mezzanine level of the shop to make access more visible by supervisory staff. Local dealers deliver most other tires on demand during normal business hours.

Equipment Maintenance has two parts rooms located at 1326 Allston Way and 1199 Second Street. The most efficient way to secure the parts rooms at both locations requires 3 FTE Warehouse Parts Technicians. However, supervisory staff will develop and implement a process to plan in advance, as much as possible, for parts needed in order to keep the rooms secure and will fully implement those measures in 120 days. Staff has submitted request to hire one additional FTE Warehouse Parts Technician. The Human Resources Department is currently conducting a classification study. Meanwhile staff will implement a dual custody system at 1199 Second Street. Two padlocks will be placed on the parts room door. Two people are required to open the door, obtain the part needed, and log the part that was taken.

Finding 6 – Procedures Do Not Provide Reasonable Assurance That Repair History in the Fleet Management Module is Accurate and Complete

Recommendations for Public Works

- 6.0 *Supervisory review of job orders and Fleet Management input should be sufficient to provide reasonable assurance that this information is materially accurate. Completion of review and approval steps performed should be documented. For example, have the reviewer initial and date the information that was reviewed. We further recommend that the mechanics, parts person, and supervisors initial the dollar total for parts, and the hours total for labor on each job order. This will serve to document that this information is accurate and prevent it from being inappropriately altered. No***

employees should have the ability to review and approve their own work or change the work of others. Specifically how these tasks are to be completed, and who is to complete them, should be addressed in written policies and procedures in the EM division. Mechanics should not be given the authorization in the Fleet Management System that is given to the Mechanic Supervisors until they are actually assigned to temporarily fill the position of Mechanic Supervisor. The authorization should be revoked when the temporary assignment is concluded.

The City Manager Response:

Partially Implemented. Each mechanic signs his work orders daily and documents the completed work. The Office Specialist III's enters all expenses for parts and labor into the Fleet Management module. The Senior Supervisor reviews all work orders and electronically closes the work orders in the Fleet Management module providing assurance that the repair history in the Fleet Management module is accurate and complete.

The Senior Equipment Supervisor specifically reviews the work order to ensure the parts and labor are consistent with the kind of repair performed, there is no evidence of unreasonable changes to the work order and the work order has been signed by the mechanic performing the work. Transaction information is authenticated by password protected user identification in the FUNDS Fleet Management module. Completion of repair work is documented through occasionally spot-checking equipment serviced for accountability. The Senior Equipment Supervisor does not have the ability to approve his own work or change the work of others (comment: please add if correct, part of recommendation), his work is reviewed and approved by the Superintendent. The procedures manual will include mandatory periodic vehicle inspection to ensure that work was performed as stated on the work order and to prevent inaccuracies.

Finding 7 – The List of Employees Identified on the Blanket Purchase Orders As Authorized to Make Purchases is Outdated

Recommendations for Public Works and Finance

7.0 *The list of employees authorized to make purchases on the EM blanket POs should always be current. Written procedures in Public Works should identify this as a policy and establish a means to implement and enforce this policy. The Purchasing Manual should state that all departments should establish a procedure to implement and enforce this policy.*

The City Manager Response:

Partially Implemented. A list of employees authorized to make purchases using EM blanket POs was submitted to the Finance Department on July 1, 2005. Equipment Maintenance has agreed to send a notification to the Finance Department whenever the list changes. Public Works will complete a new internal purchasing and administrative procedures manual to document these changes. The Purchasing Manual will be updated to include this language and will be published February 1, 2006.

Finding 8 – Vendors are Sending Invoices to Multiple City Locations**Recommendations for Public Works**

8.0 *EM should request all vendors to send their invoices only to PO Box 700.*

The City Manager Response:

Fully Implemented. Equipment Maintenance staff no longer requires vendors to send invoices directly to the Corporation Yard at 1326 Allston Way. Vendors are instructed by the purchase order contract to send invoices to Finance Accounts Payable. Invoices delivered with purchased equipment or parts are processed through Public Works Administration, and sent directly to Finance Accounts Payable for timely payment and to ensure discounts are received.

Finding 9 and 11 – Documented Safety Inspections Are Performed Less Frequently Than Required.**Recommendations for Public Works**

9.0 *(Equipment Maintenance) Perform documented safety inspections of the office work area at least semi-annually, and non-office operations at least monthly, in accordance with the City of Berkeley's Injury and Illness Prevention Plan (IIPP). Retain the safety inspection documentation.*

11.0 *(Streets Division) Perform and document periodic safety inspections of the Streets Division's non-office and office work operations in accordance with the City's Injury and Illness Prevention Plan. Assign the responsibility for making sure safety inspections are performed, and that safety concerns identified during these inspections are corrected, to the managers and supervisors in the Streets Division and the PW director. Inspections should be documented using the checklist in the City's IIPP or an alternative approved by the City's Occupational Health and Safety Coordinator.*

The City Manager Response:

Fully Implemented. Documented safety inspections are performed monthly. The responsible Senior Supervisor maintains safety inspection records for non-office area inspections. The Division Manager has recently discussed this requirement with senior supervisory staff. Office area inspections are completed monthly and retained on file in each respective office at the Corporation Yard.

Finding 10 – The Manager and Two Supervisors Can Perform Incompatible Purchasing Duties.**Recommendations for Public Works**

10.1 *Develop and implement written policies and procedures in the Streets Division for purchasing and payment processing within the division. Identify who can perform each task. Procedures should be detailed enough to permit a new but qualified*

employee who followed them to perform assigned tasks as management wants them performed. The written procedures should require both the employees requesting the purchase of goods or services by blanket PO, and the supervisors authorizing these purchases, to sign the Release Form. PW Administration staff should not “receive on-line” in the PI Module to authorize payment for these purchases until they receive the Release Form, and until they make sure that:

- *The form was signed by the employee requesting the purchase and the supervisor approving the purchase, and*
- *The supervisors are not approving a purchase they made themselves.*

We further recommend that this recommendation be implemented in the Electrical Division.

The City Manager Response:

10.1 Partially Implemented. Staff began drafting written policies and procedures at the time of the audit applying to all divisions at the Corporation Yard to ensure staff understand purchasing requirements and identifying the positions responsible for each function. The manual will be completed and distributed in 120 days. Signature cards were updated with the names of employees who can approve invoice payments.

10.2 *If unauthorized use of a Release Form is discovered, these forms should be inventoried and secured, and all pre-numbered Release Forms accounted for. Matching a copy of the Release Form with an invoice would make this discovery.*

The City Manager Response:

Fully Implemented. All release forms have been inventoried and are locked under care of the Senior Supervisor in each division. Invoices are attached to the release form and submitted for payment. Additionally, the release forms will be redesigned to prevent changes to the purchase after issuance.

Recommendation for Public Works and Finance

10.3 *A PW employee should not be permitted to approve an invoice for payment until the department director and the City Manager have signed a signature card granting this authority, and the card is on file in Finance Accounts Payable.*

The City Manager Response:

Fully Implemented. All signature cards have been updated and are on file in Finance Accounts Payable.

BACKGROUND

The Equipment Maintenance and Streets and Utilities Divisions are co-located at the Corporation Yard. The Equipment Maintenance Division also has additional facility at the Solid Waste Management Division Transfer Station. The Equipment Maintenance Division is responsible for the repair, maintenance and acquisition of City of Berkeley fleet vehicles and heavy equipment.

The Streets and Utilities Division is responsible for maintenance and cleanliness of the City's roads and sewer systems.

POSSIBLE FUTURE ACTION

Public Works Corporation Yard staff will continue its work and its commitment to full compliance with all audit recommendations.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

No fiscal impacts have been identified unless the requested second FTE Warehouse Parts Technician position is approved. The cost for the FTE is not expected to exceed \$102,480 annually including fringes. However, actual costs will be determined at the conclusion of the classification study by Human Resources.

CONTACT PERSON

Henry DeGraca, Infrastructure Manager Public Works, 644-6622 Ext. 235