



# Florida Department of TRANSPORTATION

Office of Inspector General

Robert E. Clift, Inspector General 

Audit Report No. 16C-6003

July 28, 2017

State Aluminum Structures Shop Inventory Controls

## What We Did

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The Office of Inspector General conducted an audit of the State Aluminum Structures Shop (SASS) to:

- evaluate internal controls over procurement of commodities and supplies;
- evaluate internal controls over accountability of inventory, work in process, finished fabricated products, and disposal of scrap materials; and,
- determine whether the SASS is in compliance with applicable laws, rules, and department policies and procedures.

## What We Found

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**We determined:**

- receipts and issuances of commodities in the Material and Supply Inventory system (MSI) were not updated timely;
- classifications and descriptions of commodities were inconsistently documented in the State of Florida Purchasing Card (PCard) system;
- Office of Maintenance (OOM) lacks procedures governing the tracking and usage of commodities during the fabrication process; and
- OOM's Quality Assurance Review (QAR) from May 24, 2016, did not adequately monitor compliance related to the timeliness of commodity receipts and issues.

## What We Recommend

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**We recommend** the Director of the OOM:

- ensure timely entry of receipts and issues of commodities in MSI;
- ensure the commodity descriptions from the PCard receipt reflects the description recorded in the PCard System;
- develop a procedure for SASS fabrication;
- ensure the annual QAR conducts testing of key operational controls over commodity receipts and issues; and
- implement small sample quantity random inventory counts between annual QARs.

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## **BACKGROUND AND INTRODUCTION**

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The Department of Transportation (DOT) State Aluminum Structures Shop (SASS), located in Oviedo, Florida, is part of the Structures Operations division in the Office of Maintenance (OOM). The SASS's main purpose is to maintain and deploy temporary bridging and to fabricate aluminum products for department use.

The SASS also purchases and stores inventory used to:

- deploy and repair temporary bridge components for emergency and bridge construction detour operations;
- transfer of commodities to other department cost centers;
- fabricate department employee awards for service and special recognition; and
- fabricate products such as breakaway sign supports, bridge rails, truck bodies, etc. for department use.

As of May 24, 2016, the SASS warehoused 86 different commodities<sup>1</sup> with a total value of \$244,803.

### **Procedure Guidance**

The Warehousing and Operations Distribution Handbook, Volume I (handbook) describes a warehouse as a “place to store inventory, which contains...commodities to be used...to carry out a specific work assignment.”

The Warehousing and Distribution Operating Instructions, Topic No. 175-010-001-I, (procedure) establishes uniform guidelines and operating procedures for the department's warehouses. The procedure also references the handbook which contains the required operating controls and instructions for the use of the Materials and Supplies Inventory (MSI) computer system.

### **MSI System**

MSI is a real-time database that maintains current inventory quantities, unit prices, and inventory balances. MSI also stores historical data of warehouse transactions for purchases, issues, transfers, returns, and adjustments. The following data fields are used for each MSI transaction processed:

Warehouse Number	Cost Center Number
Commodity Number	Project Number
Commodity Description	Ticket Number
Ticket Date	Commodity Quantity
Unit Price and Unit of Measure	Purchase Order Number
Transaction Type	Vendor Number

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<sup>1</sup> See Attachment 1 for the types of commodities warehoused at SASS.

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As purchased commodities are received and approved, the items are entered into MSI. The system generates a Receipt of Goods from Vendor ticket (receipt ticket) along with a ticket number.

When inventory is removed from the warehouse storage area, the items are entered into MSI. The system generates a Material Request Issue Ticket (issue ticket) along with the ticket number. The requestor is required to sign and date the issue ticket when commodities are transferred from warehouse personnel to the requestor.

**Quality Assurance Reviews**

OOM has established a Quality Assurance Monitoring Plan and Quality Assurance Critical Requirements compliance indicator list, on which the warehousing function is included.

The OOM conducts an annual QAR of the SASS using the Warehouse Operations Quality Assurance Review form, No. 175-020-07. The QAR includes a physical count of the actual quantities of commodities and compares the count to the quantities reported in MSI.

**Staffing**

SASS, as a cost center, has four full-time employees: an Aluminum Welder Supervisor and three Aluminum Welders. Two of the welders' position descriptions include the responsibility for ordering commodities using existing contracts or the State of Florida Purchasing Card (PCard).

The supervisor signs the PCard Monthly Paid Transaction Report to confirm that the cost center's PCard transactions are in compliance with laws and are valid obligations of the State. One of the welders, with purchasing responsibilities, updates inventory quantities in MSI for receipts and issuance of commodities.

## RESULTS OF REVIEW

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We determined there are opportunities for the OOM to enhance internal controls<sup>2</sup> over the SASS warehouse and fabrication operations. This report has five findings and one observation, concerning:

- inventory purchases;
- material request from inventory;
- fabrication operations;
- scrap materials;
- Quality Assurance Reviews; and
- segregation of duties.

### Finding 1 – Inventory Purchases

**We determined** receipts of commodities in MSI are not timely updated. **We also determined** classifications and descriptions of commodities were inconsistently documented in the PCard system.

Section 215.86, Florida Statutes, states:

Each state agency...shall establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets....

The procedure, Section 6.6, states, “MSI records shall be updated by the close of business each day to reflect warehouse transactions that occurred that day.”

The handbook, Section 1.9, states:

In standard accounting practice, the inventory of commodities is an asset. For this reason, the DOT needs to maintain an inventory system that properly records, tracks, and maintains the value of commodities in the inventory.

### Receipt of Goods from Vendor

We reviewed the supporting documentation for all MSI receipt transactions exceeding \$500 for the period August 4, 2015 through May 24, 2016<sup>3</sup>, or 12 transactions totaling

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<sup>2</sup> Internal control is defined as system measure such as reviews, checks and balances, methods and procedures instituted by an organization to (1) conduct its business in an orderly and efficient manner, (2) safeguard its assets and resources, (3) deter and detect errors, fraud, and theft in a timely manner, (4) ensure accuracy and completeness of its accounting data, (5) produce reliable and timely financial and management information, and (6) ensure adherence to its policies and plans.

<sup>3</sup> Dates represent the period between the two most recent QARs.

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\$53,303.<sup>4</sup> Nothing came to our attention that the transactions tested were not adequately supported. However, in comparing the PCard holder’s annotated receipt date to the date of the MSI receipt ticket, we found the average time to create the receipt ticket in MSI was 163 days, ranging from 19 to 274 days.

The handbook requires MSI to be updated daily for the purpose of safeguarding state assets. The delay of recording commodity purchases in MSI is an operational deficiency that increases the risk of errors, fraud, or theft not being detected in a timely manner.

**PCard Purchases**

The SASS uses both state term contracts and PCards to procure commodities. PCards are also used to procure shop supplies and miscellaneous shop expenses, such as welding gases and uniform laundry services.

We reviewed all PCard transactions and supporting documentation for the period January 1, 2015 through July 20, 2016, or 458 items totaling \$285,428.<sup>5</sup> Although nothing came to our attention to indicate items purchased were not for SASS operations, we found inconsistent documentation of commodity classifications and descriptions in the PCard report.

For example, in Table 1 below, we found aluminum sheet purchases of:

- \$7,350 recorded as a “shop supplies” with no commodity description; and
- \$10,105.50 recorded as “aluminum plate” with corresponding MSI commodity numbers.

Table 1: Excerpt of Transactions from PCard Report<sup>6</sup>

VENDOR NAME	TRANSACTION AMOUNT	TRANSACTION DESCRIPTION	COMMODITY DESCRIPTION	Description per Receipt
EASTERN METAL SUPPLY, INC.	7,350.00	SHOP SUPPLIES		aluminum sheet
EASTERN METAL SUPPLY, INC.	7,500.30	SHOP SUPPLIES	SHOP SUPPLIES	h32 aluminum sheets
EASTERN METAL SUPPLY, INC.	8,121.60	ALUM FLAT BAR	ALUMINUM FLAT BAR FOR SOIL PLATES	mini plate
EASTERN METAL SUPPLY, INC.	10,105.50	ALUMINUM PLATE	1/8 PLATE X 48" AND 6" 704040 & 704060	aluminum sheet
CHARLESTON ALUMINUM LLC.	15,871.30	5" TUBING	5" X 3/8" ALUMINUM TUBING	aluminum round tubing structural
TAMPA BAY STEEL CORP.	21,903.70	STEEL IBEAMS	GALVANIZED STEEL IBEAMS	I-beam galvanized, wide flange beam galvanized

Source: Office of the Comptroller

We also recognize OOM has established standard commodity descriptions along with assigned commodity numbers. For example, as shown in Table 1, recording the commodity numbers in the PCard system, e.g.704040/704060, clearly identifies which items are inventory that should be updated in MSI. In summary, including the commodity number provides an audit trail to receipt transactions in MSI.

<sup>4</sup> Tested receipts represented 98% of the total population, or 12 transactions ranging from \$708 to \$15,871.

<sup>5</sup> Transaction amounts ranged from \$3 to \$21,904.

<sup>6</sup> OIG added “Description per Receipt”.

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We inquired of OOM whether the commodity number could be included in the PCard description field. We were informed there is limited space to record commodity numbers in the description field. As an alternative, we also discussed the possibility of recording the commodity numbers on the vendor's invoice or receipt.

**We recommend** the Director of the Office of Maintenance ensure SASS personnel timely enter receipts of commodities in MSI.

**We also recommend** additional actions to enhance the traceability of PCard purchases to MSI, as deemed operationally practical:

- ensure the commodity descriptions from the PCard receipt reflects the description recorded in the PCard System;
- record the MSI Receipt ticket number on the vendor invoice/receipt;
- record the MSI Receipt ticket number directly in the PCard system description field; and
- amend OOM procedure to reflect the implementation of new requirements.

## **Finding 2 – Material Request from Inventory**

**We determined** the issuance of commodities in MSI are not timely updated.

The procedure, Section 6.6, states, “MSI records shall be updated by the close of business each day to reflect warehouse transactions that occurred that day.”

The handbook, Section 1.9, states, “In standard accounting practice, the inventory of commodities is an asset. For this reason, the DOT needs to maintain an inventory system that properly records, tracks, and maintains the value of commodities in the inventory.”

The handbook, Section 4.1, states, “The requestor (or other responsible party) must sign a receipt for the materials when the warehouse personnel turn them over. The receipt states: “I acknowledge receiving above commodities to be used for official DOT business.”

### **Material Request Issue Tickets**

We reviewed the supporting documentation for all issue tickets for the period August 4, 2015, to May 24, 2016, or 79 issues tickets totaling \$263,568. Nothing came to our attention that the transactions tested were not adequately supported. However, as in the case of Finding 1, MSI was not updated daily to reflect commodities withdrawn from inventory.

SASS personnel used a form called “Statewide Aluminum Shop Materials List”

(materials list)<sup>7</sup> in 47 of the 79 transactions we reviewed. The form is used to record the materials withdrawn from the warehouse, start date, finish date, job number, and item description.<sup>8</sup> Our review found that 30 of the 47, or 64%, had a recorded start date; and, 26 of the 47, or 55%, had a recorded finish date.

To determine the average time to record the requisition in MSI we used both the start date and finish date. When using the start date the average time was 168 days, ranging from 26 to 377 days. When using the finish date the average time was 142 days, ranging from 26 to 242 days.

### **Evidence of Receipt by Requestor**

To account for materials and products leaving a department warehouse, Section 4.1 of the handbook requires the issue ticket to be signed by the requestor of commodities upon receipt when turned over by warehouse personnel to acknowledge receiving commodities to be used for official department business.

We found the SASS personnel did not comply with the handbook signature receipt requirements for external disbursements of commodities and fabricated products to outside cost centers in 69<sup>9</sup> of the 79 issue tickets examined. As a result in the delay of creating issue tickets, SASS personnel signed all the issue tickets on behalf of requestors who were required to acknowledge receipt. We also noted no oversight or testing of this operational control in the last two OOM QARs.

When SASS staff were asked whether they were aware of the Warehousing and Distribution Operations Handbook, responses ranged from:

- not familiar with it and has never seen it before; to
- has seen it but is not familiar with it; to
- yes, the handbook is what the shop uses; however, they are not considered to be a warehouse.

To enhance accountability of state assets transferred, picked up or shipped, **we recommend** the Director of the Office of Maintenance:

- ensure that commodities withdrawn from inventory are timely recorded in MSI; and
- ensure requestors or persons receiving commodities or fabricated products from SASS personnel sign the issue ticket(s).

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<sup>7</sup> The material list is not a department form. Other documents reviewed included department forms for sign fabrication, manufacturing operations, and maintenance.

<sup>8</sup> See Finding 3 regarding further audit discussion about the use of a job cost worksheet in the fabrication process.

<sup>9</sup> The other 10 issue tickets were internal requisition of commodities needed for SASS fabrication.



### **Finding 3 – Fabrication of Specialty Products**

**We determined** OOM lacks procedures governing the tracking and usage of commodities during the fabrication process.

Section 215.86, Florida Statutes, states:

Each state agency...shall establish and maintain management systems and controls that promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of assets...

Section 20.23(3)(a) Florida Statutes states:

The central office shall establish departmental policies, rules, procedures, and standards and shall monitor the implementation of such policies, rules, procedures, and standards in order to ensure uniform compliance and quality performance by the districts and central office units that implement transportation programs.

#### **OOM Guidance**

As reported in the Background section of this report, the SASS performs both warehousing duties and fabrication of specialty products. Although the SASS falls under the Warehousing and Distribution Operations Handbook by reference, the handbook only provides instructions for operational use of MSI and does not include guidance or procedures for the fabrication of specialty products.

OOM issued an email <sup>10</sup> to SASS on December 4, 2015, providing guidelines for the tracking of raw aluminum materials during the fabrication process. However, this guidance is not a department procedure. In our opinion, the guidance provided in the email could serve as the basis to develop a department procedure specific to SASS's fabrication operations.

#### **Job Cost Worksheet**

OOM's email guidance also references a "materials list" form to account for commodities used during the fabrication process. See Attachment 4, page 2 of 2, for an example of a material list. The materials list, in the current format, limits the required information collected about a particular transfer or product being fabricated. However, we found accountability of commodities would be enhanced if the materials list was modified to include the attributes of a job cost worksheet.

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<sup>10</sup> See Attachment 3.

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In the manufacturing sector, job cost worksheets are used for managerial accounting purposes to internally account for materials, labor, and other costs expended during a manufacturing operation. See Figure 1 below.

Figure 1: Job Cost Worksheet example

Job Cost Sheet							
Job Number <u>2B47</u>				Date initiated <u>March 2</u>			
Department <u>Milling</u>				Date completed <u>March 8</u>			
Item <u>Special order casing</u>				Units completed <u>6</u>			
For stock _____							
Direct Materials		Direct Labor			Manufacturing Overhead		
Req. No.	Amount	Ticket	Hours	Amount	Hours	Rate	Amount
14873	\$ 660	843	\$ 5	\$ 45	27	\$8/DLH	\$216
14875	506	846	8	60			
14912	238	850	4	21			
	\$ 1,404	851	10	54			
			27	\$ 180			
Cost Summary				Units Shipped			
Direct materials		\$ 1,404		Date	Number	Balance	
Direct labor		180		March 8	---	6	
Manufacturing overhead		216					
Total cost		1,800					
Unit product cost		300*					
* \$1,800 / 6 units = \$300 per unit							

Source: Adapted from [www.accountingformanagement.org](http://www.accountingformanagement.org)

Consistent use of a modified material list provides an audit trail and a comprehensive record to document relevant job information. For example, attributes that should be considered include documenting the purpose of the job, applicable issue and return ticket numbers, commodities used, supplies used, and requestor support, etc. Furthermore, the modified material list with cost totals could be used as a basis to support the value of finished fabricated products returned to MSI inventory.

To enhance accountability of commodities for use in fabrication, **we recommend** the Director of the OOM:

- develop a procedure for SASS fabrication operations and coordinate with the Policy and Process Management Office to ensure a proper review process;
- modify the material list to include the attributes of a job cost worksheet as deemed appropriate by OOM and approved by the Policy and Process Management Office;
- expand the scope of the QAR to include examination of modified material lists; and
- train SASS personnel on use of the modified material list.

**Finding 4 – Scrap Materials**

**We determined** the OOM lacks formal procedures regarding the handling and disposal of scrap material related to SASS operations.

Section 20.23(3)(a), Florida Statutes states:

The central office shall establish departmental policies, rules, procedures, and standards and shall monitor the implementation of such policies, rules, procedures, and standards in order to ensure uniform compliance and quality performance by the districts and central office units that implement transportation programs.

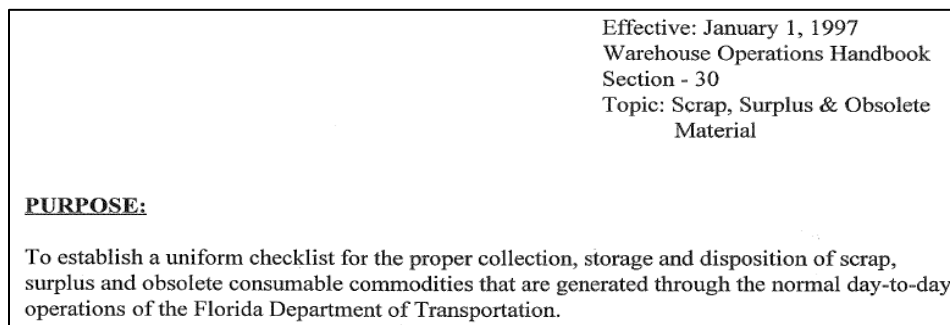
Operations Manual for Scrap, Surplus, and Obsolete Materials, Section III states:

Scrap aluminum is the most valuable recovery item for the department because of the quantity of material generated from operations as well as its monetary value when sold for recycling.

The handbook, Section 4.7.2, Surplus Inventory – Local Warehouse, references an *Operations Manual for Scrap, Surplus, and Obsolete Materials*. Upon audit inquiry we were provided the manual. The manual, shown in figure 2, has an effective date of 1997.

As reported in Finding 3, the OOM issued an email<sup>11</sup> with guidelines for the tracking of raw aluminum materials. The email also includes guidance for the handling and disposal of scrap materials. In our opinion, the guidance provided in the email could serve as the basis for a procedure specifically addressing disposal of scrap materials at the SASS.

Figure 2: Excerpt from Manual



Source: OOM

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<sup>11</sup> See Attachment 3.

### **Review of Scrap Materials**

Our audit examined the SASS's process for disposal of scrap materials. We reviewed documents reporting aluminum and steel scrap disposal and sales totaling \$16,585 occurring over a 14 month period. Nothing came to our attention to indicate the SASS is not complying with the OOM's December 4, 2015 email guidance.

**We recommend** the Director of OOM incorporate the disposal of scrap materials in the development of a procedure for SASS operations, or a separate procedure as appropriate.

### **Finding 5 – Quality Assurance Reviews**

**We determined** the OOM's most recent QAR, dated May 24, 2016, did not adequately monitor compliance related to the timeliness of commodity receipts and issues.

The department's Quality Assurance and Quality Control Policy, No. 001-260-001-b, states:

Quality Control Monitoring Plans will list the steps necessary to effectively complete the key processes and measures outlined in *Central Office Annual Quality Assurance Monitoring Plans*. Processes will be monitored, measured and recorded.

The handbook (Section 1.9, Forward) states:

In standard accounting practice, the inventory of commodities is an asset. For this reason, the DOT needs to maintain an inventory system that properly records, tracks, and maintains the value of commodities in the inventory.

### **QAR Scope of Review**

The OOM uses the QAR form for Warehouse Operations, No. 175-020-07, in the annual review of SASS. Though OOM conducts a physical count of commodities stored, the most recent QAR lacked a review of key operational controls, such as timely recording of commodity receipts and issues in MSI.

As shown in Figure 3, under the Paperwork portion of the QAR, OOM failed to note any evidence of review.

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Figure 3: Excerpt from 2015/2016 QAR Report

<u>III. PAPERWORK</u>		
1. <u>E-Procurement or Purchasing Card</u>	5.0	_____
A. Properly maintained, completed, referenced and filed with appropriate documents attached To E-Procurement or Purchasing Card.		
B. Files are correctly maintained and are up to date - See paperwork – page 8		
2. <u>Receipt &amp; Issue Tickets</u>	5.0	_____
A. Properly completed, signed, and filed.		
B. Files are correctly maintained and are up to date - See paperwork – page 8		
3. <u>MSI Adjustments</u>	5.0	_____
A. Proper forms completed and signed. A copy filed and forward the original to Warehouse Operations.		
B. Files are correctly maintained and are up to date - See paperwork – page 8		
<b>TOTAL POINTS</b>		<b><u>0.00</u></b>

Source: OOM

With regard to physical inventory counts, we learned OOM no longer requires SASS to perform monthly random counts of inventory. Although the SASS warehouses approximately 85 commodities, random inventory counts of a small sample of commodities throughout the year would provide additional assurance that state assets are safeguarded and MSI inventory records are reliable and accurate.

**Verification of Inventory Quantities and Values**

On June 14, 2016, we conducted a physical inventory count with the SASS staffs' assistance, of 85 commodity items with a total inventory value of \$246,948<sup>12</sup>. No exceptions were noted between the physical count and commodity quantities reported in MSI.

We also performed an analysis to determine whether the value of inventory reported on the most recent QAR totaling \$244,803 was accurate. Based upon MSI receipt and issue amounts reported in the MSI for the period August 2015 through May 2016, we calculated a variance of \$3. See Table 2.

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<sup>12</sup> Our physical count of SASS inventory occurred approximately three weeks after the most recent QAR conducted by the OOM.

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Table 2: Ending Inventory

Verification of Ending Inventory	
Beginning Inventory (August 2015)	\$ 358,937
Add: Receipts	80,213
Subtract: Issues	(194,350)
Calculated Ending Inventory	244,799
Reported Inventory (May 2016)	244,803
Variance	\$ (3)

Source: SASS QAR Reports, MSI Receipts and Issues Reports

**We recommend** the Director of the Office of Maintenance:

- ensure the QAR conducts testing of key operational controls over commodity receipts and issues; and
- implement small sample quantity random inventory counts between annual QARs.

### Observation – Segregation of Duties

The *United States Government Accountability Office: Standards for Internal Controls in the Federal Government*, Section 3.08 states:

Segregation of duties helps prevent fraud, waste, and abuse in the entity by considering the need to separate authority, custody, and accounting in the organizational structure...In particular, segregation of duties can address the risks of management overrides.

If segregation of duties is not practical within an organization process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Our review of SASS employees' position descriptions indicated one employee is primarily responsible for purchasing of inventory, acknowledging receipt of inventory, recording receipts of inventory in MSI, fabricating products, issuing inventory from MSI, and assisting OOM with annual QARs.

We recognize the challenge of effectively segregating duties with a limited number of full time employees required to perform administrative, warehousing, and fabrication duties. As a result, standard operational segregation of duties between a warehouse function and a fabrication function may not be practical. However, implementing additional oversight controls by the OOM, where cost beneficial, mitigates the risk of errors, fraud and theft not being detected in a timely manner.

## **APPENDIX A – Purpose, Scope, and Methodology**

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Section 20.055, Florida Statutes, requires the OIG to conduct audits, examinations, investigations, and management reviews related to programs and operations of the department. This audit was performed as part of the OIG’s mission to promote accountability, integrity, and efficiency for the citizens of Florida by providing objective and timely audit and investigative services.

The **purpose** of this engagement was to:

- evaluate internal controls over procurement of commodities and supplies;
- evaluate internal controls over accountability of inventory, work in process, finished fabricated products, and disposal of scrap materials;
- determine whether the SASS is in compliance with applicable, laws, rules, and department policies and procedures; and
- examine contracting practices with other state agencies.

The **scope** of the audit included an examination of the SASS’s daily processes and procedures, as well as procurement, inventory, and production records from January 2015 through May 2016.

The **methodology** included:

- reviewing relevant laws, rules, regulations, department policies, and procedures;
- interviewing Central Office and SASS staff;
- reviewing position descriptions and payroll records for SASS staff;
- reviewing and analyzing MSI receipts and issues reports against Purchasing Card records, invoices, fabrication requests, and other back-up documentation.



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**APPENDIX B – Management Response**

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Per Section 20.055(6)(d), Florida Statutes (2016), OOM was provided a Preliminary and Tentative report and given a 20 day period to respond to the findings. OOM responded to the findings via email on July 14, 2017.

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Audit Report No. 16C-6003  
Findings, Recommendations, and Responses**

**Finding 1 – Inventory Purchases**

**Finding:** We determined receipts of commodities in MSI are not timely updated. We also determined classifications and descriptions of commodities were inconsistently documented in the PCard system.

**Recommendations:**

We recommend the Director of the Office of Maintenance ensure SASS personnel timely enter receipts of commodities in MSI.

We also recommend additional actions to enhance the traceability of PCard purchases to MSI, as deemed operationally practical:

- ensure the commodity descriptions from the PCard receipt reflects the description recorded in the PCard System;
- record the MSI Receipt ticket number on the vendor invoice/receipt;
- record the MSI Receipt ticket number directly in the PCard system description field; and
- amend OOM procedure to reflect the implementation of new requirements.

**Response to Finding:** We concur with the finding; however, an alternative correction will be taken.

**Corrective Action:** The Director, Office of Maintenance will ensure receipts of commodities in MSI are timely updated by providing additional administrative staff to perform the work. The Director, Office of Maintenance will confirm the updates are timely by ensuring the vendor invoices/ PCard receipts are attached to the MSI receipt tickets and comparing the dates commodities are received with the dates the receipt tickets are processed in MSI. This confirmation and comparison will be performed during the Office of Maintenance Quality Assurance Reviews and eliminates the need to record MSI receipt ticket numbers on vendor invoices/ PCard receipts. See Finding 5 for more information. The Director, Office of Maintenance will ensure classifications and descriptions of commodities are consistently documented in the FLAIR PCard System by confirming the commodity descriptions in the PCard System reflect the commodity descriptions on the vendor invoices/ PCard receipts as much as the limited description field in the PCard System will allow. This confirmation will be performed during the Level 4 FLAIR PCard approval process and eliminates the need to record MSI receipt ticket numbers in the PCard System description field.

**Estimated Completion Date:** Options to provide additional administrative staff are ongoing at this time. Additional administrative staff should be provided by October 1, 2017. Ensuring



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**APPENDIX B – Management Response (cont.)**

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vendor invoices/ PCard receipts are attached to MSI receipt tickets and comparing the dates commodities are received with the dates the receipt tickets are processed in MSI will begin with the next Office of Maintenance Quality Assurance Review which is scheduled for October 2017. Ensuring classifications and descriptions of commodities are consistently documented in the PCard system will begin immediately.

**Finding 2 – Material Request from Inventory**

**Finding:** We determined the issuance of commodities in MSI are not timely updated.

**Recommendation:**

To enhance accountability of state assets transferred, picked up or shipped, we recommend the Director of the Office of Maintenance:

- ensure that commodities withdrawn from inventory are timely recorded in MSI;
- ensure requestors or persons receiving commodities or fabricated products from SASS personnel sign the issue ticket(s).

**Response to Finding:** We concur with the finding and recommendation.

**Corrective Action:** The Director, Office of Maintenance will ensure commodities withdrawn from inventory are timely recorded by providing additional administrative staff to perform the work. The Director, Office of Maintenance will confirm the commodities withdrawn from inventory are timely recorded by comparing the dates commodities are issued with the dates the issue tickets are processed in MSI. This confirmation and comparison will be performed during the Office of Maintenance Quality Assurance Reviews. See Finding 5 for more information. The Director, Office of Maintenance will ensure requestors or persons receiving commodities or fabricated products from SASS personnel sign the MSI issue tickets prepared by SASS. The additional administrative staff will perform this work. The Director, Office of Maintenance will confirm the MSI issue tickets are signed by the receivers during the Office of Maintenance Quality Assurance Reviews. See Finding 5 for more information.

To clarify, two MSI issue tickets are required when SASS provides commodities or fabricated products to a requestor in response to a work order or request. Each MSI issue ticket is to be signed by the receiver. The first MSI issue ticket is to cost center 892 which is SASS. This MSI issue ticket is signed by SASS. The second MSI issue ticket is to the cost center of the receiver of the commodities or fabricated products. This MSI issue ticket is signed by the receiver which is the cost center of the requestor. This process is currently outlined in the “State Aluminum Structures Shop Guidelines;” however, the second MSI issue ticket has frequently not been prepared. The “State Aluminum Structures Shop Guidelines” will be incorporated into a procedure. See Finding 3 for more information.

**Estimated Completion Date:** Options to provide additional administrative staff are ongoing at this time. Additional administrative staff should be provided by October 1, 2017. Comparing

**APPENDIX B – Management Response (cont.)**

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the dates commodities are issued with the dates the issue tickets are processed in MSI will begin with the next Office of Maintenance Quality Assurance Review which is scheduled for October 2017.

**Finding 3 – Fabrication of Specialty Products**

**Finding:** We determined OOM lacks procedures governing the tracking and usage of commodities during the fabrication process.

**Recommendation:**

To enhance accountability of commodities for use in fabrication, we recommend the Director of the OOM:

- develop a procedure for SASS fabrication operations and coordinate with the Policy and Process Management Office to ensure a proper review process;
- modify the material list to include the attributes of a job cost worksheet as deemed appropriate by OOM and approved by the Policy and Process Management Office;
- expand the scope of the QAR to include examination of modified material lists;
- train SASS personnel on use of the modified material list.

**Response to Finding:** We concur with the finding; however, an alternative correction will be taken.

**Corrective Action:** The Director, Office of Maintenance will develop a procedure for the SASS fabrication operations and coordinate with the Policy and Process Management Office to ensure a proper review process. The starting point for the procedure will be the current “State Aluminum Structures Shop Guidelines.” The SASS currently uses a materials list to document the requestor’s name, location, fabrication start date, finish date, job number, item description, material used, material quantity, commodity number, material unit price, total material price, labor hours, labor cost per hour, total labor cost, and total cost to manufacture the commodity. The Office of Maintenance has determined that the attributes on the current materials list are sufficient. The current materials list will be incorporated into the new procedure. The Director, Office of Maintenance will provide informal training on the new procedure by involving the SASS in the development of the new procedure and by reviewing and discussing the requirements with the SASS.

**Estimated Completion Date:** The new procedure is estimated to be complete by the end of June 2018.

**Finding 4 – Scrap Materials**

**Finding:** We determined the OOM lacks formal procedures regarding the handling and disposal of scrap material related to SASS operations.

**APPENDIX B – Management Response (cont.)**

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**Recommendation:** We recommend the Director of OOM incorporate the disposal of scrap materials in the development of a procedure for SASS operations; or, a separate procedure as appropriate.

**Response to Finding:** We concur with the finding and recommendation.

**Corrective Action:** The Director, Office of Maintenance will develop a procedure for the SASS fabrication operations and coordinate with the Policy and Process Management Office to ensure a proper review process. The starting point for the procedure will be the current “State Aluminum Structures Shop Guidelines.” See Finding 3 for more information.

**Estimated Completion Date:** The new procedure is estimated to be complete by the end of June 2018.

**Finding 5 – Quality Assurance Reviews**

**Finding:** We determined the OOM’s most recent QAR did not adequately monitor compliance related to the timeliness of commodity receipts and issues.

**Recommendation:**

We recommend the Director of the Office of Maintenance:

- ensure the QAR conducts testing of key operational controls over commodity receipts and issues
- Implement small sample quantity random inventory counts between annual QARs.

**Response to Finding:** We concur with the finding and recommendation.

**Corrective Action:** The Director, Office of Maintenance will expand the current QARs to include verification of compliance with operational controls and perform QARs bi-annually instead of annually. See Finding 1 and Finding 2 for more information.

**Estimated Completion Date:** Verification of compliance with operational controls will begin with the next Office of Maintenance Quality Assurance Review which is scheduled for October 2017, May 2018, and will continue bi-annually.

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**PROJECT TEAM**

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Engagement was conducted by:  
Kyle Erickson, Auditor

Under the supervision of:  
Amy Slack, Senior Audit Supervisor  
William Pace, Audit Manager  
Kristofer B. Sullivan, Director of Audit

Approved by:  
Robert E. Clift, Inspector General

**STATEMENT OF ACCORDANCE**

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The department's mission is to provide a safe transportation system that ensures the mobility of people and goods, enhances economic prosperity, and preserves the quality of our environment and communities.

The Office of Inspector General's mission is to promote integrity, accountability, and process improvement in the Department of Transportation by providing objective, fact-based assessments to the DOT team.

This work product was prepared pursuant to section 20.055, Florida Statutes, in accordance with the Association of Inspectors General *Principles and Standards for Offices of Inspector General*, and conforms with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Please address inquiries regarding this report to the department's Office of Inspector General at (850) 410-5800.

**Office of Inspector General  
Florida Department of Transportation**

**ATTACHMENT 1 – Excerpt of 100% Inventory Check Report**

COMID	COMMODITY DESCRIPTION	MEASURE CODE	LAST ACT DATE	UNIT PRICE	ONHAND QUANTITY	ONHAND QUANTITY VALUE	ACTUAL COUNT	CRITICAL IND
208001	TUBING, ALUM .125 21/2"X34'	EACH	2016/05/18	\$70.993	269.000	\$19097.11	<u>269</u>	
208002	TUBING, ALUM .125 2"X34'	EACH	2016/05/19	\$65.590	416.000	\$27285.44	<u>416</u>	
208003	TUBING, ALUM .125 3"X34'	EACH	2016/05/16	\$85.944	56.000	\$4812.86	<u>56</u>	
208004	TUBING, ALUM .156 31/2"X34'	EACH	2016/05/18	\$125.790	12.000	\$1509.48	<u>12</u>	
208011	TUBING, ALUM .156 4"X 34'	EACH	2016/05/16	\$145.067	335.000	\$48597.44	<u>335</u>	
208117	PLATE, ALUM DIAMOND BRIGHT 1/8X48X144	SQ.FT.	2016/05/12	\$3.352	200.000	\$670.40	<u>200</u>	
208770	BASE, SLIP ALUM COMPLETE 4"X3/16"	EACH	2016/05/12	\$293.607	12.000	\$3523.28	<u>12</u>	
419036	SIGN RACK, 1.22MX1.22M(48 X 48)IN	EACH	2016/05/19	\$17.921	23.000	\$412.18	<u>23</u>	
701001	STEEL, I-BEAM GALVANIZED 3"X5.7#X30'	EACH	2016/05/16	\$170.333	8.000	\$1362.66	<u>8</u>	
701004	STEEL, I-BEAM GALVANIZED 6"X12#X30'	EACH	2016/05/16	\$313.652	3.000	\$940.95	<u>3</u>	
701006	STEEL, I-BEAM GALVANIZED 10"X33#X30'	EACH	2015/08/03	\$685.357	9.000	\$6168.21	<u>9</u>	
701007	STEEL, I-BEAM GALVANIZED 12"X45#X30'	EACH	2008/12/03	\$792.208	8.000	\$6337.66	<u>8</u>	
701009	STEEL, I-BEAM GALVANIZED 8"X17#X30'	EACH	2016/05/12	\$379.321	9.000	\$3413.88	<u>9</u>	
702010	TUBING, ALUM 1 1/2 X 1/8 X 12'	EACH	2015/08/04	\$37.488	4.000	\$149.95	<u>4</u>	
702015	TUBING, ALUM 1X3/4X1/8X30'	EACH	2015/07/31	\$38.700	11.000	\$425.70	<u>11</u>	
702025	TUBING, ALUM 21/4X1/8X30'	EACH	2016/05/18	\$63.270	20.000	\$1265.40	<u>20</u>	
702030	TUBING, ALUM 2X1/2X1/4X30'	EACH	2007/12/05	\$134.030	3.000	\$402.09	<u>3</u>	
702096	TUBING, ALUM 4X1/8X24'	EACH	2010/12/07	\$107.340	3.000	\$322.02	<u>3</u>	
702126	TUBING, ALUM 41/4X1/4X30'	EACH	2009/11/20	\$189.210	9.000	\$1702.89	<u>9</u>	
702132	TUBING, ALUM 41/2X1/2X30'	EACH	2007/02/26	\$282.300	1.000	\$282.30	<u>1</u>	
702153	TUBING, ALUM 5"X3/16"X34'	EACH	2014/11/18	\$153.390	9.000	\$1380.51	<u>9</u>	
702161	TUBING, ALUM 5"X3/8"X30'	PIECE	2016/05/17	\$369.100	37.000	\$13656.70	<u>37</u>	
702180	TUBING, ALUM 5X1/2X3/8X24'	EACH	2015/08/03	\$394.243	5.000	\$1971.21	<u>5</u>	



**ATTACHMENT 2 – OOM State Aluminum Structure Shop Priorities**

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Upon audit inquiry, the OOM management team and SASS team compiled their prioritized list of shop activities, in order from most to least important:

**Purpose and Mission of the Structure Shop**

4. How would you rank the importance of each activity of the shop? Fabrication, awards, bridge mat repair, truck boxes, etc.

**Response:** The priorities in descending order for shop activities are as follows:

- 1) Inspection, repair and deployment of temporary bridging for construction projects and to respond to emergencies (not bridge mat repair), including contractor training so that temporary bridging will be installed correctly to support traffic loads, and to preserve the Department's inventory of temporary bridging
- 2) Emergency repair and fabrication work that needs to be done immediately
- 3) Fabrication of unique components regularly used by District Maintenance Operation Centers and Maintenance Yards, such as: pedestrian rail, bicycle rail, hand rail, slip bases for signage, flag stands for signage, etc.
- 4) The manufacture of custom truck bodies and other custom fabricated aluminum and steel products for FDOT use (because these type of custom products cannot be bought off the shelves, the lead time needed to get these products manufactured by private business would be significant and would cost FDOT significantly more to fabricate)
- 5) Deployment of manufactured components and tubing to the District Maintenance Operation Centers and Maintenance Yards
- 6) Field inspection of temporary bridge installations to ensure safety and preserve the integrity of the Department's temporary bridging
- 7) Manufacturing and distributing aluminum plaques to support Central and District Office Awards Programs (this directly supports the Department's initiative to improve employee recognition)
- 8) Providing training for inmate labor, which not only helps the inmates transition to a productive life outside the penal system, it helps lower fabrication costs by providing high quality low cost labor to the Shop
- 9) The manufacture of custom truck bodies and other custom fabricated aluminum and steel products to other state agencies.

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**ATTACHMENT 3 – OOM Guidance Email**

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From: Pouliotte, Jeffrey  
Sent: Friday, December 04, 2015 11:01 AM  
To: Powell, Jr., Rudy <[Rudy.Powell@dot.state.fl.us](mailto:Rudy.Powell@dot.state.fl.us)>  
Cc: Clark, John <[John.Clark@dot.state.fl.us](mailto:John.Clark@dot.state.fl.us)>; McCrary, Kristin <[Kristin.McCrary@dot.state.fl.us](mailto:Kristin.McCrary@dot.state.fl.us)>  
Subject: The State Aluminum Structures Shop Guidelines for the Tracking of Raw Aluminum Materials

Rudy,

Attached below for your concurrence, is the State Aluminum Structures Shop Guidelines for the Tracking of Raw Aluminum Materials.

The following Guidelines describe the process by which the State Aluminum Structures Shop personnel will track the introduction and disposition of raw aluminum material used in the manufacturing of aluminum products produced by the shop. This includes the acquisition of raw material, consumption of material used in the manufacturing process, and the disposal of unusable scrap material.

1. These Guidelines pertain to the inventory control system to be utilized by the State Aluminum Structures Shop (SASS) with regard to raw aluminum material utilized in the fabrication of various aluminum products.
2. Raw aluminum material is ordered either on or off an active open contract depending on the job requirements.
3. Raw aluminum material that is an inventory item, is entered into the MSI (Material and Supply Inventory) system using a "Receipt from Vendor" ticket. This material is now part of the tracked inventory and remains in this system until it is consumed in part or in total for a chargeable fabricated project.
4. For raw aluminum material that is a non-inventory item, it will be ordered for a specific job and is listed on the materials sheet for that job.
5. Raw aluminum material required for a work order is pulled from its assigned location and the appropriate amount is consumed as needed. The inventory item is documented on the "Materials List" sheet for the specific job. Any remaining usable drop (non-consumed raw material) is placed either against the shop wall near the metal shearing machine or on the scrap rack outside for future use. The usable drop is then used to the best of the shop's ability and maximum efficiency to benefit the department and is listed on a jobs' material list marked as scrap.
6. Once the fabrication process using the raw aluminum material is complete, the work orders are turned into the SASS supervisor.
7. Except for work orders involving the fabrication of sign tubing, flag stands or soil plates the following is the procedure for inputting the work order information into MSI: All materials used are charged via "Issue Ticket" to the SASS cost center (892) under project id number 1909701a101 and function code 054 (warehouse purchases). The original purchase price of the materials used is combined with a labor cost and the total is matched to a commodity number. This commodity number is for a specific dollar amount only and not an inventory item. This cost, representing the material and labor, is then charged to the requesting locations cost center using the accounting information they provided. A copy of each transaction is signed, attached to the work, and filed by the (requesting?) district.
8. Fabricated sign tubing, flag stands and soil plates are charged by commodity number, directly to the requestors cost center using the account information provided.
9. Standard design items such as soil plates and single column slip base structures use the following procedure: Material used to manufacture the items are charged via "Issue Ticket" to SASS cost center (892) under project id number 1909701a101 and function code 054. A



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**ATTACHMENT 3 – OOM Guidance Email (cont.)**

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"Return to Inventory" ticket is then generated using SASS cost center, work order number, commodity number and price. This process inputs the standard design fabricated item into the SASS active fabricated product inventory which is then available for issue to requesting locations.

10. All documentation required to satisfy the department's warehouse QAR are retained in the SASS.
11. All raw and waste material deemed unusable is put into its respective recycle bin (steel or aluminum) and is scrapped in accordance with terms set forth by District 5 Oviedo Operations. The scrap bins are picked up and weighed by the receiving private scrap company. A check is issued at a price per pound and given with the backup documents to the SASS staff. The SASS will make copies for their records and forward the original backup and check to the Oviedo Operations who in turn makes copies for themselves and forwards to the Office of Maintenance. The Office of Maintenance Logistics Administrator processes the check and sends it to the Comptroller's Office for deposit into the General Revenue Fund.

Jeffrey A. Pouliotte, P.E., C.P.M.  
FDOT Office of Maintenance  
State Structures Maintenance Engineer  
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FAX: (850) 410-5511

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Florida Department of Transportation**

**ATTACHMENT 4 – Requisition List and Corresponding Issue Ticket**

Statewide Aluminum Shop  
 Materials List

Name: Panhandle Start Date: \_\_\_\_\_

Requesting Location: Midway/Milton ? Finish Date: \_\_\_\_\_

Job Number: \_\_\_\_\_ Item Description: \_\_\_\_\_

Material Used	Quantity	X Commodity #	Unit Price	Total Price
<u>3" Z-BAR</u>	<u>56</u>	<u>708080</u>		
<u>ADDED ON TRUCK TO PANHANDLE, NOT ON A WORK ORDER. NOTIFIED BY PHONE CALL</u>				

Subtotal \_\_\_\_\_

Labor Hours \_\_\_\_\_ X \$50.00 Labor \_\_\_\_\_

Total \_\_\_\_\_

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**ATTACHMENT 4 – Requisition List and Corresponding Issue Ticket (cont.)**

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16:05:10 Wednesday, May 18, 2016

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MS03      FLORIDA DEPARTMENT OF TRANSPORTATION
MSIB008   WH892PK MATERIALS REQUEST ISSUE TICKET 05/18/16 16:05:08
TCKT : 146151 05/18/16 TYPE: REGULAR ISSUE STAT: PROCESSED 05/18/16
WHSE : 0774 ALUMINUM SHOP, OVIEDO INFO: WI WALK IN
SHIP TO: PANHANDLE SHPWO#: 00 CREW: <-(CREW USE ONLY)
CST CTR: 892 STRUCTURES SHOP MAINTENANCE VEH#: NEW?: N
ADDRESS: 2590 CAMP RD CNTY: 99 DIST/ST-WIDE
CITY/ST: OVIEDO FL 32055 TRAN: 13 NON-SYSTEM SPECIFIC
VEH DES: ORG FINPROJ FCT
FCT DES: WAREHOUSE PURCHASES 701020892 190970 1 A1 01 054
COMM DESCRIPTION HAZ QUANTITY UM UNIT PRICE
708080 ZEE BEAM, ALUM 3"X.250X2.33#X30' 56.000 EA 163.570
```

PF1-MENU PF6-ANOTHER  
I ACKNOWLEDGE RECEIVING ABOVE COMMODITIES TO BE USED FOR OFFICIAL DOT BUSINESS.  
REQUEST ADDED. PRINT SCREEN. RECEIVED BY/DATE:  5/18/16