

AUDIT OF WAREHOUSE AND INVENTORY



Report No. AUD2014-06
February 20, 2015

City of West Palm Beach Internal Auditor's Office

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"The Capital City of the Palm Beaches"

February 20, 2015

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RE: AUDIT OF WAREHOUSE AND INVENTORY
REPORT NO. AUD2014-06

Dear Audit Committee Members:

Attached is the City of West Palm Beach Internal Audit Department's report on the state of the City's warehouse and inventory. Although the Procurement Department has taken steps to improve the conditions at the warehouse since we first approached them, additional opportunities for improvement are presented in this report.

We thank the management and staff of the Procurement department for their time, information, and cooperation during this audit.

Respectfully Submitted,
/s/ Roger Strout
City Internal Auditor

cc: Jeri Muoio, Mayor
Jeff Green, City Administrator
Dorritt Miller, Deputy City Administrator
Scott Kelly, Assistant City Administrator
E. Barrett Atwood, Sr., Interim Director of the Finance Department
Frank Hayden, Director of the Procurement Department
Kathleen Fernandez, Director of Information Technology
Kimberly Rothenburg, Interim City Attorney

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Background

The City of West Palm Beach warehouse is located at 1045 Charlotte Avenue; it is part of the City Complex. It has 10,800 square feet of covered space and 10,000 square feet of open space. Its staff, currently consisting of two (2) stores clerks, report to the Procurement Director. In the past the warehouse was staffed by a supervisor and three stores clerks. The Procurement Director, also referred to as the Purchasing Official, is responsible and accountable for all supplies, materials and equipment purchased but not delivered directly to the various departments (in other words stored in the warehouse) and is required to maintain a continuous records of these. Also, he is required to perform any audit necessary of the inventories and records. The Purchasing Official is also in charge of the warehouse revolving fund. The budget of the warehouse, exclusive of the cost of inventory, was \$170,784.00 for FY 2014 and the actual cost, exclusive of the cost of inventory, was \$193,100.70. Please see below for historical data:

Fiscal Year	Budget	Actual
2010	\$224,141.00	\$232,230.30
2011	\$162,251.00	\$169,174.44
2012	\$160,947.00	\$165,135.65
2013	\$164,463.00	\$167,936.37

The warehouse is responsible for providing departments with a wide variety of commonly used items. The inventory stored there falls into two categories: general stock (for example, light bulbs) and Public Utilities Department stock (for example, pipes). These inventories are recorded in the City's inventory accounts, one being reported as part of the General Fund and the other as part of the Utilities Enterprise Fund. However, other departments, primarily Parks and Recreation, "temporarily" store inventory on the premises, including non-stock items and overflow. The warehouse staff does not maintain a record of these inventories. The value of the total inventory was \$782,268.21(\$285,671.69, general stock, or 36.52% of the total, and \$496,596.52, Public Utilities stock, 63.48% of the total) as of September 30th 2014. Please see below for historical data.

September 30th	Total Inventory	Value of General Stock	Value of General Stock as a Percentage of the Total	Value of Public Utilities Department Stock	Value of Public Utilities Department Stock as a Percentage of the Total
	a	b	$c=(b/a)*100$	d	$E=(d/a)*100$
2010	\$654,462.09	\$216,369.67	33.06%	\$438,092.42	66.94%
2011	\$653,017.05	\$192,574.35	29.49%	\$460,442.70	70.51%
2012	\$639,638.03	\$181,663.94	28.40%	\$457,974.09	71.60%
2013	\$643,217.03	\$202,757.71	31.52%	\$440,459.32	68.48%

This audit was initiated as a result of an annual risk assessment and included in the Audit Department's approved FY2014 Audit Plan.

It is important to note that the new Purchasing Director was aware of the significant needs at the City run warehouse and welcomed this audit as an important analysis tool to help chart a new direction for the warehouse.

Statement of Objectives

The objectives of this audit were to determine:

- 1) There were adequate Standard Operation Procedures (SOPs) in place
- 2) Findings from the prior audit were corrected
- 3) Goods received or issued at the warehouse were recorded in the inventory system
- 4) Inventory records were reconciled to the General Ledger accounts accurately and timely
- 5) Goods were valued correctly in the inventory system
- 6) Delivered goods were inspected to ensure that they were in acceptable condition and actions were taken to remedy damaged goods
- 7) Goods were acquired through the approved procurement process
- 8) The warehouse had proper procedures for recording the removal of goods
- 9) Inventory removed was charged to the correct receiving Department
- 10) There were adequate quantities of goods on hand to support City Operations
- 11) The warehouse had adequate security to safeguard its goods
- 12) The warehouse was in compliance with all state and federal rules and regulations

Statement of Scope

The audit period was October 1, 2012 through September 30, 2013. However, based on the work performed during the preliminary survey and the assessments of risk, the audit period varied depending on the audit objective. The audit included examinations of procedures, controls, transactions and records associated with the City's warehouse and inventories.

Statement of Methodology

We utilized several audit methodologies to achieve the objectives. These evidence-gathering techniques included, but were not limited to:

- Reviewing applicable local, state and federal regulatory requirements;
- Interviewing Procurement Department employees;
- Performing walk-throughs, and observing processes;
- Examining the internal control systems and identifying any material weaknesses;

Statement of Auditing Standards

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Conclusions and Summary of Findings

Based upon our interviews, analytics, and the audit opportunities for improvement noted below, we conclude that the Procurement Department should consider performing a restructuring of the warehouse operation.

1. The warehouse is in a state of disrepair.
2. The gate and doors leading into the warehouse are kept open throughout the day.
3. No alarm system was installed at the facility.
4. No visitor's log is maintained at the facility.
5. The policies and procedures are outdated.
6. Inventory reports traditionally used to monitor inventory levels are not utilized.
7. Many purchasing contracts have expired.
8. There is lack of segregation of duties.
9. Inappropriate documentation is used during receiving.
10. Incomplete warehouse requisition forms are accepted.

11. Inventory counts are not performed.
12. City departments temporarily storing items at the warehouse are not required to complete non-stock inventory records.
13. Inventory is not regularly examined for obsolescence.

The warehouse operation could be restructured to leverage other warehouses capabilities already within City government as well as “just in time” direct purchasing/fulfillment arrangements available through various vendors.

Opportunities for Improvement & Management Responses

1) Physical State of the Warehouse

The warehouse physical condition is in state of disrepair.

Criteria

According to the Occupational Safety and Health Administration (OSHA), the fatal injury rate for the warehousing industry is higher than the national average for all industries. There are numerous potential hazards in such an environment including unsafe use of forklifts, improper stacking of products, failure to use proper personal protective equipment, improper lifting, etc. However, some of the most detrimental ones relate to the facilities themselves including exposed or open loading dock doors, cluttered isles, improper lighting, improper ventilation, improper air conditioning, etc.

Condition

The warehouse is in state of total disrepair. It is dark and humid, it is not air conditioned, and there are no emergency lights. We noted that items are being temporarily stored between the aisles making it easy for the staff to trip over. Years ago the City began the implementation of a bar code system, but the project was inadequately funded and was abandoned mid-way through implementation. The roof has not been repaired recently and in rainy weather, especially during hard rain, leaks through the old sky lights. The loading dock’s metal plate has begun to separate from the concrete becoming a tripping hazard. In addition, we noted that the railing on the stairs was unstable; it had separated from the concrete. Also, there was vegetation growing where the concrete had cracked. During our tour of the warehouse yard, we noted significant inventory placed outside exposed to the weather, which appeared to not have been moved in years. Finally, the equipment assigned to the warehouse, including the two forklifts and the two delivery vans, appear to be quite old. One of the fork lifts was put into service twenty (20) years ago in the summer of 1994. Please see the photographs in the Appendix A.

Cause

Over the past several years, the warehouse staff has shrunk from four (4), including one supervisor responsible for ordering, processing documentation, billing, etc., and three (3) store clerks, to just two clerks with the same number of responsibilities. In the absence of automation, the daily tasks of the store clerks have become overwhelming not allowing them to maintain the facility. In addition, there has been no money allocated for repairs and/or improvements.

Effect

The current conditions could result in significant damage to the inventory and unsafe conditions for the two clerks.

Recommendation

We recommend that the Procurement Director addresses these conditions with Administration and obtain emergency funding to allow him to bring the facility up to appropriate warehouse standards.

Please note that implementing a bar coding system will be most helpful to the warehouse staff. Utilizing a network of hardware and software to automate data collection where hand recording is neither timely nor cost effective will clear time for them to address other pending issues within the facility. We recommend that a team be formed including the two warehouse clerks and IT employees to evaluate the situation, research available options and implement the one best suited for this warehouse environment.

We also noted during our tour of the City of Miami warehouse that its manager utilizes the services of other City employees familiar with inventory and the inventory process during peak times like mornings when department representatives pick up their orders. These are usually tradesmen who have availability for a limited time. Their help is essential since it relieves the warehouse staff and allows them to focus on other tasks. Management may wish to consider this approach to address the warehouse staffing issue further discussed in our finding No. 8.

Management Response

We concur with this recommendation. We will immediately begin to address safety issues at the warehouse. The Risk Manager has already conducted a site visit and has prepared a list of items that are currently being addressed. See Appendix B. A cross-functional team has been formed to implement process improvements and develop a long term plan to ensure the warehouse is operated in an efficient manner. The warehouse will be transitioned to the Utilities Department by September 30, 2015 and many of the best practices they have instituted will be duplicated. A budget for capital improvements will be developed and submitted for the 2016 capital improvement plan.

2) Safeguarding of Inventory – Gate and Doors

The gate and doors leading into the warehouse are kept open throughout the day.

Criteria

According to the Committee of Sponsoring Organizations (COSO) of the Treadway Commission:

Internal control over safeguarding of assets against unauthorized acquisition, use or disposition is a process affected by management and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

The first step toward ensuring that the City's inventory is protected is ensuring that access to the facility is limited.

Condition

During our tour of the warehouse, we noted that the gate was open. Upon inquiry of the warehouse staff, we noted that it is normally open (from 07:00 am to 04:00 pm Monday through Friday).

Furthermore, there are a total of five (5) bay doors (4 leading in the main warehouse and 1 leading into the adjacent concrete room), all are kept unlocked during business hours. There are four (4) push bar style doors leading into the warehouse, only one is keyed. A hand recognition device was installed at one of these doors and operated until ten (10) years ago when management declined to spend money to fix it. There is one (1) regular door leading into the concrete room, which is kept open during business hours.

Cause

The remote gate controller, installed following a recommendation made by the Internal Audit Department in 2000, is broken and therefore not utilized. The staff manually opens the gate in the morning and keeps it open, and manually closes the gate at night. A chain with a padlock is used to keep the gate closed during the night. The remote gate controller is also considered an inconvenience by the staff since someone needs to stay in the office all the time in case an employee calls and requests access.

Effect

This presents little to no opportunity to control who enters and leaves the premises. Since a considerable amount of inventory is stored in the open, items may be removed without the knowledge of the warehouse staff.

Recommendation

We recommend that the Procurement Department research and obtain an entry control system, which allows City employees to enter the warehouse via a swipe of their ID cards. The number of people entering can be further reduced by granting access to select employees. The use of a system such as this will also allow for the identification of the people who enter the warehouse. Also, the system should allow outside delivery personnel to call, for example the Fleet office, and be allowed entry.

Finally, we recommend that the doors are kept locked at all times and opened upon request.

Management Response

We agree with this recommendation. An entry control system to the warehouse will be researched and a budget request will be made as part of the 2016 Capital improvement plan.

3) Safeguarding of Inventory – Alarm System

No alarm system was installed at the facility.

Criteria

Once access to the facilities is limited, it is common for a business to use additional precautions including alarms, cameras, guards, etc.

Condition

Upon inquiry of the warehouse staff, we noted that there is no alarm system installed. There is a security guard patrolling the City complex area between 6pm and 6am and there are also cameras. The recordings from these cameras are saved for thirty (30) days and then recorded over. They are not equipped with night vision.

Cause

The cameras were installed over ten (10) years ago and have not received any additional

investment. Upon inquiry, we noted that the footage is not actively monitored. Instead, it is only examined if management is alerted to an issue.

Effect

The possibility exists that in the absence of an alarm an intruder may circumvent the security and make his/her way into the warehouse. Although the cameras may act as a deterrent, they do not appear to have the necessary range of coverage.

Recommendation

We recommend that the Procurement Department, which is in charge of the warehouse, arrange for the installation of an alarm system for the warehouse building. Security alarms on doors can both sound off in case of a break-in and alert police.

Management *Response*

The installation of an alarm system will be considered as we develop an improvement plan for the warehouse operations.

4) Safeguarding of Inventory – Visitor Log

No visitor's log is maintained at the facility.

Criteria

Best practices indicate that a log be kept of visitors entering the facility.

Condition

Upon inquiry of the warehouse staff, we noted that there is no log of who visits the warehouse throughout the course of a day.

Cause

Staff feels that the Warehouse Requisition Forms serve the same purpose.

Effect

A visitor log in itself cannot prevent misappropriation of assets; however, it acts as an additional

deterrent.

Recommendation

We recommend that the warehouse staff require that all non-city employee visitors sign in on a visitor's log. The log should include not only their name, but the organization they represent and the time of arrival and departure.

Management *Response*

We agree with this recommendation. A visitors' log was put into effect the beginning of February.

5) Policies and Procedures

The warehouse and inventory policies and procedures are outdated.

Criteria

Best practices indicate that policies and procedures are typically custom designed for the particular environment, documented in writing and communicated to personnel throughout the organization.

Condition

The warehouse policies and procedures are outdated and do not reflect the current staffing and process. Also, they are not communicated to personnel including personnel outside of the Purchasing Department.

Cause

The warehouse supervisor left the City in 2010. His position has not been filled and since he is the person best suited to update the policies and procedures, this has not been done.

Effect

There is no clearly documented guidance to warehouse personnel and any other personnel supporting this function.

Recommendation

We recommend that the Procurement Director or his designee work with the two store clerks to develop policies and procedures suitable for this warehouse environment. In addition, all employees who utilize the services of the warehouse should receive a copy of the policy and procedure manual, and sign forms acknowledging receipt of the manual. Training should follow the written guidelines. Each employee should be held accountable for his or her role in carrying out inventory policies and procedures.

Management Response

We concur with this recommendation to develop a policies and procedures manual. We will update the Policy and Procedures by September 30, 2015.

6) Utilization of Inventory Reports in Monitoring Inventory Levels

Inventory reports traditionally used to monitor inventory levels are not utilized.

Criteria

Per the City of West Palm Beach Procurement Procedures, a minimum/maximum report is used to alert the Warehouse Supervisor of the impending depletion of certain items. The report specifies which items and the quantities to be re-ordered once the quantities on hand reach a pre-determined level. Also, per the Procedures, a Transaction Quantity Historical Summary report, which provides specific information on the movement of inventory (receipts and issuances), is used in tandem with the minimum/maximum report. These reports will assist the Supervisor in making a determination as to when to re-order and avoid carrying excess inventories.

Condition

Upon inquiry, the warehouse staff informed us that this is not being done. Instead, both employees take notes as to what is being depleted and needs to be re-ordered as they perform their daily duties. Then, orders are placed.

Cause

The warehouse supervisor left the City in 2010 and the clerks were not trained to run these reports.

Effect

There is a risk that the warehouse may carry excessive quantities to avoid running out of certain

items thus resulting in higher cost to the City.

Recommendation

We recommend that staff is trained to utilize these reports or similar reports within the Oracle system.

Management *Response*

We concur with this recommendation to provide training to staff. We will assess the competencies and coordinate training with the IT Department.

7) Purchasing Contracts

Many purchasing contracts have expired.

Criteria

Pre negotiated contracts provide convenience, efficiency, and reduced costs. More specifically they:

- Provide opportunities to negotiate improved discounts;
- Satisfy recurring requirements;
- Reduce administrative costs by eliminating repetitive acquisition efforts;
- Permit ordering activities to leverage buying power through volume purchasing;
- Enable streamlined ordering procedures;
- Reduce procurement lead time, etc.

Condition

Upon inquiry, the warehouse staff informed us that before ordering from any vendor a quote is first obtained since many contracts have expired and this is the one sure way to obtain up-to-date pricing.

Cause

Contracts have not been renewed since the City has been allowed by vendors to “piggy back” other governmental entities’ contracts.

Effect

There is a risk that the prices may be higher since the absence of a contract does not always

allow the City to leverage buying power through volume purchasing. In addition, this can lead to increased administrative costs due to the repetitive acquisition efforts of staff.

Recommendation

We recommend that the Procurement Department ensure that all vendor contracts are current.

Management *Response*

We concur with this recommendation to update all contracts with vendors; we are currently implementing this recommendation. Completion date for all contracts with vendors will be September 30, 2015.

8) Segregation of Duties

There is lack of segregation of duties.

Criteria

Segregating employee duties is an important internal control system feature in any environment including inventory management. Dividing specific duties between employees helps minimize risk of fraud, and maximize inventory and supply protection.

Inventory ordering, receiving, and record keeping functions should be performed by separate team members.

Condition

The same employee places orders, receives inventory, keeps records, issues inventory and updates inventory in Oracle, etc.

Cause

Over the past several years, the warehouse staff has shrunk from four (4), including one supervisor responsible for ordering, processing documentation, billing, etc., and three (2) store clerks, to just two clerks. The supervisory position has not been filled forcing staff to perform incompatible tasks.

Effect

There is a risk that inventory may be misappropriated.

Recommendation

We recommend that tasks are divided between the warehouse staff and Procurement Department's staff in such a way that one employee should be in charge of and authorized to complete the ordering function, another should receive inventory and inspect it, yet another should be in charge of the record keeping.

The Procurement Department may also wish to consider utilizing the services of other City employees similar to the way the City of Miami does, as outlined in our recommendation for improvement No. 1.

Management *Response*

We concur with this recommendation for segregation of responsibilities for internal control purposes. This will be achieved upon the transfer to and consolidation of warehouse operations with the Utilities Department. This should be completed by September 30, 2015.

9) Receiving Documentation

Inappropriate documentation is used during receiving.

Criteria

Best practices indicate that purchase orders without quantities ordered displayed should be used during receiving.

Condition

Upon inquiry, the warehouse staff informed us that they actually rely on visual inspection and the vendor's bill of lading/packing slip when determining if the correct items and/or correct quantities were shipped.

Cause

The warehouse supervisor left the City in 2010.

Effect

There is a risk that an incorrect shipment may be accepted.

Recommendation

We recommend that the warehouse staff begin to utilize purchase orders without quantities ordered displayed during receiving.

Management *Response*

We concur with this recommendation and will begin on March 1, 2015.

10) Warehouse Requisition Forms

Incomplete warehouse requisition forms are accepted.

Criteria

Per the City of West Palm Beach Procurement Procedures, Warehouse Requisition Forms must be completed in full and signed by an authorized department or division head from the respective department prior to any item(s) being issued out of inventory.

Condition

Upon inquiry, the warehouse staff informed us that often they would have to complete the requisition, fill out the stock numbers, etc.

Cause

Many employees are not familiar with the catalogue and find it difficult to locate the items they need.

Effect

Completing requisition forms for requesting departments is extremely time consuming for the two warehouse clerks that already have an overwhelming amount of responsibilities.

Recommendation

We recommend that the Procurement Department train City employees how to requisition items from the catalogue. This training should be done periodically.

Management Response

We concur with this recommendation regarding training of city employees on how to use the catalogue. We will implement training for warehouse requisitions on July 1, 2015.

11) Inventory Count

Inventory counts are not performed.

Criteria

Per the City of West Palm Beach Procurement Procedures, a cycle count listing should be generated weekly, randomly selecting inventory items to be counted. Additionally, an outside firm may be retained to conduct an annual physical inventory.

Condition

In the past, cycle counts were performed weekly. The discrepancy reports resulting from these cycle counts were kept by the Procurement Division (now the Purchasing Department). Currently, cycle counts are not performed. Also, monthly, the perpetual inventory records were reconciled to the general ledger. Currently, this is only done once a year.

In the past, an outside firm was hired to do a count of the entire inventory once a year. Upon inquiry, a complete count has not been conducted since 2012. This last count was conducted entirely by City employees, including the two store clerks.

Cause

This is not being done due to shortness of staff and absence of automation.

Effect

If inventory counts are not conducted regularly, differences between the physical inventory and the inventory records can occur and remain undetected. In addition, misappropriation of stock could occur without timely detection.

Recommendation

We recommend that the Procurement Department re-initiates cycle counts and complete yearly inventory counts to help ensure that records are brought up-to-date and are complete and

accurate. The yearly inventory counts should be done using personnel outside of the Procurement Department if possible if an outside firm cannot be contracted. In addition, the perpetual inventory should be reconciled monthly to the general ledger.

Management Response

We concur with this recommendation to re-initiate cycle counts and complete yearly inventory counts. We will conduct a physical inventory and reconciliation to our accounting records prior to transfer of operations to the Utilities Department. We anticipate a completion date by July 2015.

12) Non-Stock Inventory

Departments temporarily storing items at the warehouse are not required to complete non-stock inventory forms.

Criteria

Best practices indicate that a complete list of all inventory stored in the warehouse should be maintained.

Condition

Upon inquiry of the warehouse staff, we noted that many departments keep inventory on the premises temporarily. However, they are not required to fill out a non-stock inventory form prior to leaving their items for storage.

Cause

Over the past several years, the warehouse staff has shrunk from three (3), including one supervisor, to two (2) store clerks with the same number of responsibilities. This has not been a priority in light of all the other tasks they are expected to accomplish each day.

Effect

In the absence of a list of all items on hand, the ability to identify shrinkage, losses or other misappropriation is limited. Additionally, hazardous materials may be stored without the knowledge of the warehouse staff.

Recommendation

We recommend that records be kept of all the items stored at the warehouse.

Management Response

We concur with this recommendation to keep records of all items stored at the warehouse. We will also develop a policy to address non-stock items.

13) Obsolete Inventory

Inventory is not regularly examined for obsolescence.

Criteria

Best practices indicate that stored inventory be examined regularly to identify obsolete items.

Condition

Upon inquiry of the warehouse staff, general inventory items rarely become obsolete and thus are not examined. Also, utilities inventory items are seldom examined and the ones that have become obsolete are sold for scrap. Overall, it is up to the Procurement Director or his designee to direct staff regarding inventory obsolescence identification and disposal procedures; however, no formal obsolescence identification and disposal process and procedure has been provided or carried out.

Cause

It was a practice to examine inventory for obsolescence in the past, however, on several occasions, items that were disposed of were then requested and the practice was discontinued.

Effect

Storing obsolete items in the warehouse takes up space that may otherwise be used for storage of currently used items. In addition, if obsolete items have any salvage value, identifying and disposing of them may generate additional funds for the City.

Recommendation

We recommend that the Purchasing Department implement procedures for periodic review of inventory records and physical inventory to identify items that may be obsolete and dispose of them in the most appropriate and timely manner. We also recommend that those with technical expertise relating to specific inventory items be consulting when evaluating items for obsolescence.

Management Response

We concur with this recommendation. Obsolete items will be identified during the upcoming physical inventory and will be appropriately disposed of no later than September 30, 2015.

14) Overall Conclusion

Criteria

According to the Government Accountability Office (GAO), managing the acquisition, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Physical controls and accountability reduce the risk of (1) undetected theft and loss, (2) unexpected shortages of critical items, and (3) unnecessary purchases of items already on hand. These controls improve visibility and accountability over the inventory, which help ensure continuation of operations, increased productivity, and improved storage and control of excess or obsolete stock.

Cause

Please refer to the opportunities for improvement recommended in findings No. 1 through No. 13. The City's warehouse operation has been in need of greater funding for extended periods of time.

Effect

GAO provides an executive guide applicable to governmental and nongovernmental agencies holding inventory or property and equipment. The guide indicates that the lack of reliable information impairs the government's ability to:

- Know the quantity, location, condition, and value of assets it owns.
- Safeguard its assets from physical deterioration, theft, loss, or mismanagement.
- Prevent unnecessary storage and maintenance costs or purchase of assets already on hand.
- Determine the full cost of government programs that use these assets.

Recommendation

In light of the opportunities for improvement (No. 1 to No. 13), our visits to the Palm Beach County warehouse and the City of Miami warehouse, and independent research, we would like to recommend several different options for management's consideration.

- A. The Purchasing Department should prioritize the significant issues currently affecting the warehouse. The Purchasing Director should request that emergency funding be directed to his Department in order to implement the most pressing warehouse needs. Items that may directly affect the state of the inventory and the well-being of the warehouse staff and visitors should be addressed first followed by the installation of a bar code system to automate the process and make it more efficient.
- B. The Purchasing Department may wish to request that the Public Utilities Department takes possession of all Public Utilities related inventory and move it into one of the Utilities Department's several warehouses. Then, the remaining inventory should be evaluated for turn over activity and potential elimination or user direct purchase opportunities. The remaining inventory may be moved to a smaller facility.
- C. As an alternative, the Purchasing Department may wish to place control of the warehouse and all inventories with the Public Utilities Department which has more in-house warehouse expertise. For example, the Utilities Department stores significant inventories at its East Central Regional Reclamation Facility (ECRWRP) and the City's water plant.
- D. The Administration may also wish to consider an arrangement with the Palm Beach County (County) warehouse which performs similar services and appears to have excess capacity at their new facility. Administration may wish to enter into a service agreement with the County. During the Internal Audit Department's tour, we noted that the County carries similar inventory and that their delivery vehicles service County structures in close proximity to many City of West Palm Beach locations.
- E. Finally, the warehouse operation could be outsourced to a third party vendor who specializes in inventory management. There are many companies, which offer this type of service. From "middle man" companies that put their clients in touch with pre-screened vendors based on their needs determined by a questionnaire to actual third party logistics companies. There are a number of different choices available to Administration if this path is chosen.

Management *Response*

We agree with option C. City Administration has already made the determination to place control of the warehouse with the Public Utilities Department. This consolidation makes sense as the Utilities Department has an experienced warehouse supervisor, 70% of the warehouse items are assigned to the Utilities Department, greater efficiencies can be achieved and proper separation of duties can be instituted without adding more staff. The Procurement Director along with the cross-functional team will work with Utilities staff to enable a smooth and efficient transition no later than September 30, 2015.

APPENDIX A

**City of West Palm Beach Warehouse, along with
photos taken at other County/City Warehouses
for comparison purposes.**





















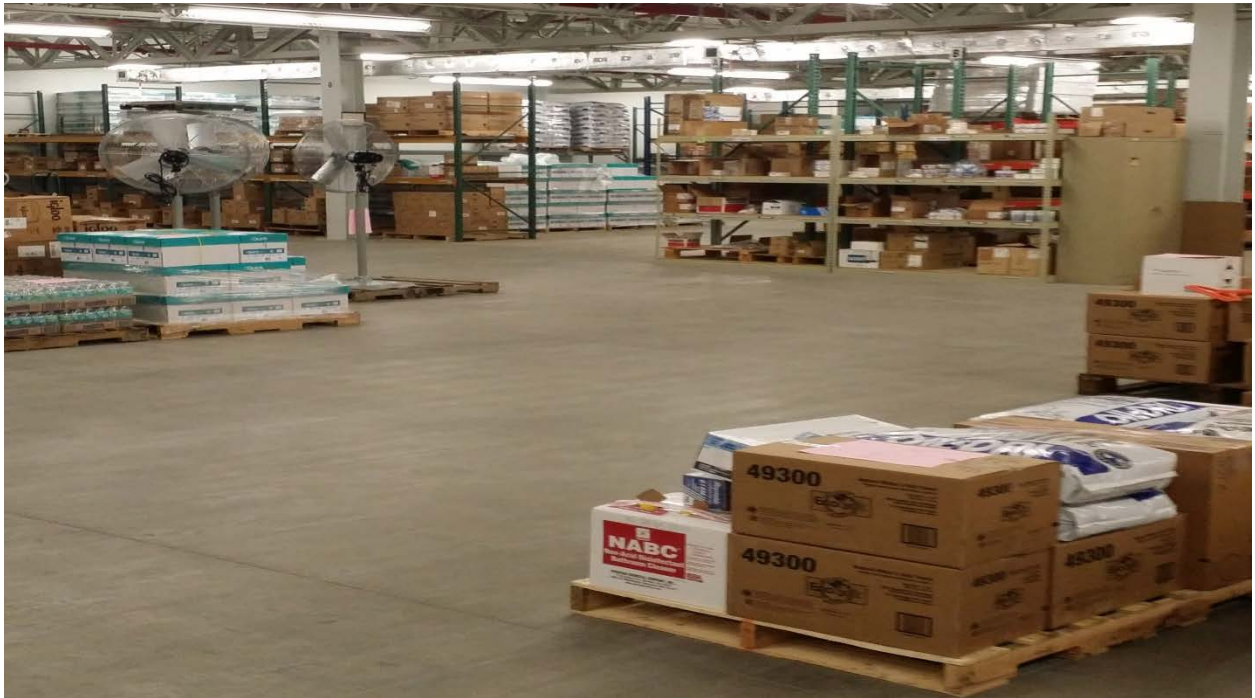




Palm Beach County Warehouse







City of Miami Warehouse





APPENDIX B

Warehouse Safety Remediation Status Report 02/17/2015

RECEIVED

FEB 18 2015

City of West Palm Beach
Mayor's Office

WAREHOUSE

Safety Issues Remediation Status Report 2/17/15

Shelving

Structural Issue #1

Currently there are 2 bent support legs in need of replacement (they were most-likely hit by merchandise being carried on a forklift)

Status: they have been taken out of service (materials have been off-loaded and they will not be used until the warehouse personnel can have the posts replaced).

Recommendation: Replace with the existing replacement parts. I do not know if existing staff has the ability or tools to make the replacement themselves. Utilities department can handle the repairs; but warehouse is not currently under their management.



Structural Issue #2

Currently, there are various types of shelving at the warehouse, but most of the shelving is 2-metal shelves (both with and without ledges). The ones without the ledge pose a problem as there is not system to keep material on the shelves and it poses a dropping hazard for the material in addition of the goods falling onto the forklift operator.

Photo below shows internal ledge: cross beams are supported on each side by the ledge.



Photo below shows pallet beams without inner ledge. It was previously covered by plywood that rested on the surface (January 2015), but the plywood was falling through the opening so it was immediately brought out of service due to it being a hazard.



Railings

Damaged handrails identified in the 1/30/15 walkthrough have all been repaired.



Additional handrails should be considered at the forklift ramp. OSHA requires fall protection for elevations greater than 4'. The ramp is technically for forklifts only, but it is commonly used for pedestrian traffic. As the height at the upper portion of the ramp exceeds 4', the existing guardrails should be extended for at least the top half section of the ramp. Alternatively, we could restrict pedestrian traffic by policy.



Forklift ramp

Fall Hazard

The initial 1/23/15 inspection identified a fall hazard issue at the loading dock. When a truck is making deliveries; there is no fall hazard because the truck blocks the opening; however, when there is no truck, there is a danger of an employee falling off the loading dock.

Immediate remedy: a chain is now being used to prevent employees from falling off dock.

Recommendation: A more secure gate should be installed to also prevent forklifts from driving off when a truck is not pulled up to dock (see following selection of options)

Before



After



Option 1



Edgeguard Dock Gate – (Adam) www.bandclip.com; 10' wide, price \$1,307

Option 2



8' gate \$648

Option 3



(loading dock gate from fallprotect.com 1-877-256-2870) 8' \$413 (powder coated safety yellow)

Tripping Hazard

The current dock had been bent up (probably being hit by forklift teeth) creating a tripping hazard because it is no longer flat on ground.

Immediate remedy – it has already been painted bright yellow to alert employees it is there.

Recommendation: It should be replaced at some future point or alternatively, a welder may be able to get it back down to it's previous level. Warehouse staff commented that it is very old and no longer functions properly and has moved away from it's original setting by several inches. It does not pose an obvious hazard at present.

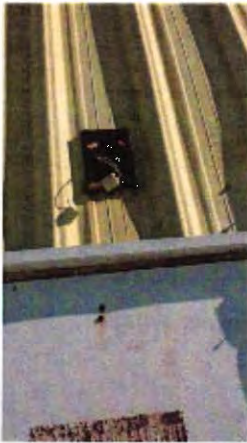


Electrical

2 exterior lights were not working and had seemingly exposed wiring.

Immediate remedy - All exposed wiring has been capped off. One of the lights were fixed, the other is in the process of being fixed by the Utilities' department.

Left light (before)



Left light (after)

Right light (before)



No after picture is available, but wiring has been capped off until the new light can be installed.

Breathing Hazard

During the 1/27/15 group inspection, open and damaged cement bags were creating a possible breathing hazard in the cement bags storage area. It has since been cleaned up and is staying clean.



After (no before picture available)

Fire Safety and Emergency Exiting

Extinguishers are all past due for inspection. Bill Thomas said he would be having all complex extinguishers serviced in the near future.



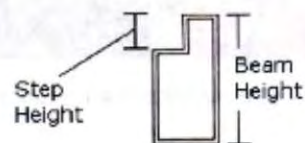
Staff is now keeping emergency exits clear as required by the Fire code.

Housekeeping

Housekeeping was and continues to be an issue, but there has been a significant improvement since the initial January inspection (with Frank, Susan, Josh, Jackson, Tim and I).



This is an example of the shelving we currently have. These cross beams (made of wood) are resting on the inner ledge, but not all of ours have ledges. We recommend all shelving without ledges be replaced. Also, the crossbeams should be metal or steel; the wood cross beams should also be replaced.



beam side view with ledge

At the recommendation of Tim (Oluwarotimi Dada), All plywood shelving should be replaced with wire rack decks. It prevents accumulation of dust, and prevents water pooling in the case of a roof leak.

Below: Shelving with wire rack decks.



Grainger is at the facility today (2/18/15) to give an estimate for the cost to replace the existing wood shelving with wire racking.

Ks 2/18/15