

INTERNAL AUDIT REPORT

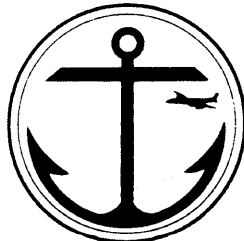
2012-04

Uniform and Entry Way Mat Rental Contract

Anchorage Water and Wastewater Utility

April 18, 2012

MUNICIPALITY OF ANCHORAGE
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Mayor Dan Sullivan

April 18, 2012


Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-04, Uniform and Entry Way Mat Rental Contract, Anchorage Water and Wastewater Utility** for your review. A brief summary of the report is presented below.

In accordance with the 2011 Audit Plan, we have completed an audit of the uniform and mat rental contract. The objective of this audit was to determine whether Anchorage Water and Wastewater Utility had proper internal controls over reviewing, authorizing, and issuing payment for uniform contract services. Specifically, we judgmentally selected a sample of paid invoices to determine whether the charges on the invoices for uniforms and entry way mats complied with the contract. We also reviewed the invoices to determine whether the types and quantities of uniforms currently issued to Anchorage Water and Wastewater Utility employees appeared reasonable. Finally, we interviewed appropriate Anchorage Water and Wastewater Utility staff to determine whether Anchorage Water and Wastewater Utility had an internal inventory system to track uniforms to ensure that Anchorage Water and Wastewater Utility only paid for uniforms actually provided by the Contractor, and retrieved issued uniforms from employees when they were terminated or transferred.

Based on our review, we determined that internal controls over reviewing, authorizing, and issuing payment for uniform contract services required strengthening. Specifically, the mandatory inventory was not conducted. In addition, the amounts billed by the Contractor and paid by Anchorage Water and Wastewater Utility for missing uniforms appeared excessive. Anchorage Water and Wastewater Utility also paid for uniforms that were not provided and the Contractor billed Anchorage Water and Wastewater Utility for entry way mats at a rate higher than the contract rate. Furthermore, the number of uniforms issued to some Anchorage Water and Wastewater Utility employees appeared to be excessive and the number and types of uniforms issued to Anchorage Water and Wastewater Utility employees were inconsistent. Also, Anchorage Water and Wastewater Utility did not maintain their own inventory records to track the quantity and type of uniforms issued to employees. Finally, Anchorage Water and Wastewater Utility's termination checklist did not include issued clothing to ensure employees returned uniforms when employment terminated or they transferred to another plant location.

There were eight findings in connection with this audit. Management was responsive to the findings and recommendations.


Peter Raiskums, CIA, CFE, CGFM
Director, Internal Audit

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Introduction. The Municipality has a contract with Snow White, Inc. (Contractor) to provide rental of a variety of industrial uniforms including coveralls, work shirts and pants, shop coats, lab coats, dress uniform shirts and pants, blazers as well as entry way mats. In addition, the Contractor provides laundry service for the rented uniforms and entry way mats. The original contract began on March 17, 2006 and expired on May 31, 2011. A new contract was awarded to the same Contractor effective December 1, 2011. In 2011, Anchorage Water and Wastewater Utility (AWWU) paid the Contractor \$62,711.

Objective and Scope. The objective of this audit was to determine whether AWWU had proper internal controls over reviewing, authorizing, and issuing payment for uniform contract services. Specifically, we judgmentally selected a sample of paid invoices to determine whether the charges on the invoices for uniforms and entry way mats complied with the contract. We also reviewed the invoices to determine whether the types and quantities of uniforms currently issued to AWWU employees appeared reasonable. Finally, we interviewed appropriate AWWU staff to determine whether AWWU had an internal inventory system to track uniforms to ensure that AWWU only paid for uniforms actually provided by the Contractor, and retrieved issued uniforms from employees when they were terminated or transferred.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of January through February 2012. The audit was requested by AWWU Administration.

Overall Evaluation. Internal controls over reviewing, authorizing, and issuing payment for uniform contract services required strengthening. Specifically, the mandatory inventory was not conducted. In addition, the amounts billed by the Contractor and paid by AWWU for missing uniforms appeared excessive. AWWU also paid for uniforms that were not provided and the Contractor billed AWWU for entry way mats at a rate higher than the contract rate. Furthermore, the number of uniforms issued to some AWWU employees appeared to be excessive and the number and types of uniforms issued to AWWU employees were inconsistent. Also, AWWU did not maintain their own inventory records to track the quantity and type of uniforms issued to employees. Finally, AWWU's termination checklist did not include issued clothing to ensure employees returned uniforms when employment terminated or they transferred to another plant location.

FINDINGS AND RECOMMENDATIONS

1. Mandatory Inventory Not Conducted.

- a. **Finding.** AWWU paid for missing uniform items billed by the Contractor even though a required semi-annual inventory of all items furnished by the Contractor had not been conducted. For example, in December 2011 AWWU paid the Contractor \$768.90 for one employee's missing uniforms. The contract required the Contractor to conduct a mandatory semi-annual, 100% inventory of all items furnished to each department/utility. Failure of the vendor to perform the required inventories forfeits the vendor's right to claim any costs for lost, misused, missing or damaged items. According to AWWU and Purchasing personnel, an inventory has never been performed.

- b. **Recommendation.** AWWU should not pay for missing items billed by the Contractor unless the required semi-annual inventory has been conducted.

- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Payments for Missing Uniforms Appeared Excessive.**

- a. **Finding.** The amounts billed by the Contractor and paid by AWWU for missing uniforms appeared excessive. For example, the Contractor billed AWWU \$187 in November 2011 for 11 missing shirts (\$17 for each shirt) which were put in service in July 2006. However, the contract states that the Contractor should have billed no more than 15 percent of the original invoice price for uniforms that have been in service for more than 3 years. When asked, the Contractor would not provide the original cost of the 11 shirts. Therefore, since cost information was not provided we calculated the original invoice price for each shirt to be \$113.33, based on the \$17 charge (\$17/15 percent).
- b. **Recommendation.** AWWU should not pay for missing uniforms until the charges have been verified.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Paid Uniforms Not Provided.

- a. **Finding.** AWWU paid for uniforms that were not provided. For example, a coverall had been in the Contractor's possession since October 2008, but the Contractor billed AWWU for the weekly rental of the coverall. As January 2012, AWWU paid \$76.01 for the coverall that was never delivered. In another example, AWWU paid \$133.09 for a different type of coverall that had been in the Contractor's possession since May 2009.
- b. **Recommendation.** AWWU should carefully review the Contractor's invoice before authorizing payment.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

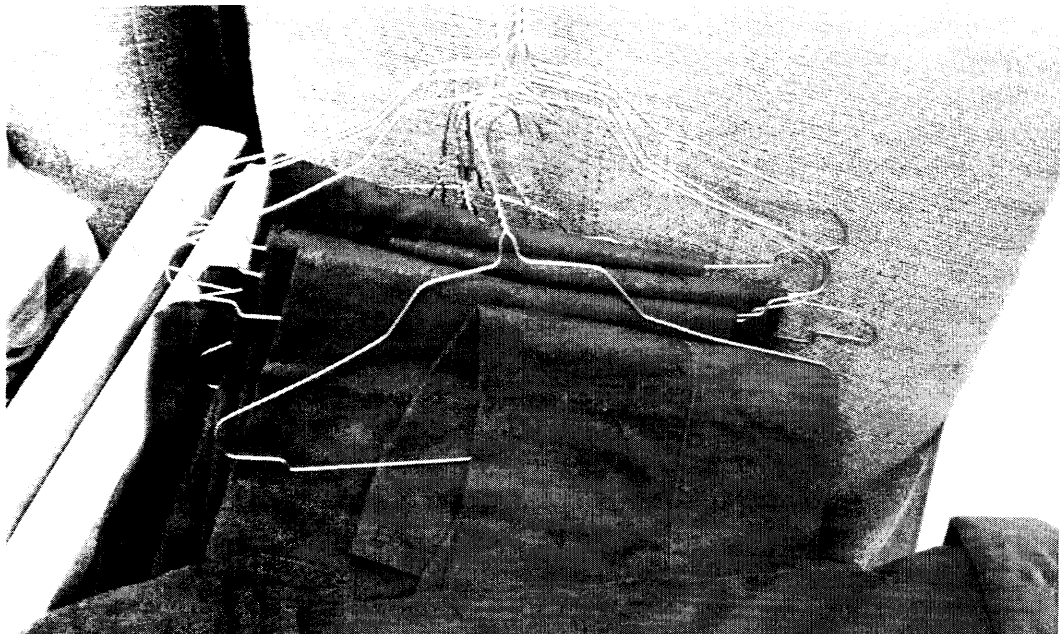
4. Entry Way Mats Incorrectly Billed.

- a. **Finding.** The Contractor billed AWWU for entry way mats at a rate higher than the contract rate. For example, for the billing cycles from August 26, 2011 to October 7, 2011, AWWU paid \$8.21 a week for two 3x10 mats for AWWU's Girdwood facility. However, the contract rate was \$3.75 per week, resulting in a \$62.44 overpayment. According to AWWU staff, billing rates are not always verified when payment is authorized.

- b. **Recommendation.** AWWU should review the bills to ensure that the Contractor bill entry way mats at the agreed contract rate.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Number of Issued Uniforms Appeared Excessive.**

- a. **Finding.** The number of uniforms issued to some AWWU employees appeared to be excessive. For example, one employee was issued 11 coveralls, 22 pants in two different sizes, 11 shirts, and 3 jackets. After questioning why the employee needed so many uniforms, two days later we found 11 of 22 pants in an office waiting to be returned to the Contractor as shown below.



In another case, we found a coverall in a chair that still had the manufacturer's tag on it, as shown below, the day after asking about excess clothing.



We inquired about the coverall and were told that it was being returned because it was considered excess clothing. Records indicated the coverall was issued to the employee in April 2006 and AWWU paid \$134.20 in rental costs for a coverall that was apparently never used.

- b. **Recommendation.** AWWU should adopt a policy and procedure that provides guidelines for types and quantities of employee uniforms.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. Number/Type of Uniform Issued Inconsistent.

- a. **Finding.** Our review revealed inconsistencies in the number and types of uniforms issued to AWWU employees in the same job description and same location. For example, one plant operator was issued 11 coveralls and 3 jackets compared to 3 coveralls, 8 shirts, 8 pants, and 3 jackets issued to another plant operator at the same location. According to AWWU management, there is no written policy and procedure regarding the type and number of uniforms that are issued.
- b. **Recommendation.** AWWU should adopt a policy and procedure that provides guidelines for types and quantities of employee uniforms.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. Lack of Internal Inventory Record for Uniforms Issued.

- a. **Finding.** AWWU did not maintain their own inventory records to track the quantity and type of uniforms issued to employees. As a result, AWWU had no method to verify the accuracy of the Contractor's invoices.
- b. **Recommendation.** AWWU should develop an internal inventory system to track the type and quantity of uniform issued to each employee and compare it to the Contractor's invoices.

- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Termination Checklist Did Not Include Clothing.**

- a. **Finding.** The termination checklist at AWWU did not include issued clothing to ensure employees returned uniforms when employment terminated or they transferred to another plant location. As a result, when employees failed to return uniforms when terminating their employment or changing job locations/duties, AWWU paid the Contractor for the losses and did not seek reimbursement from the employees.
- b. **Recommendation.** The termination checklist at AWWU should include issued uniforms to ensure employees return uniforms when employment is terminated or transferred to another plant. In addition, AWWU should also pursue to recover the cost of missing uniforms from the employees.
- c. **Management Comments.** Management concurred. See full text of management's response in Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Uniform and Entry Way Mat Rental Contract
Anchorage Water and Wastewater Utility
April 18, 2012

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on March 6, 2012.

Audit Staff:
Scott Lee

Attachment 1

Municipality of Anchorage
ANCHORAGE WATER & WASTEWATER UTILITY

M E M O R A N D U M

DATE: April 5, 2012

TO: Peter Raiskums, Director, Internal Audit, MOA

FROM: Craig Woolard, Ph.D., General Manager, AWWU

SUBJECT: Comments from AWWU Management on Audit of the Uniform and Mat Rental Contract

Thank you for your review of our processes and your working draft report dated February 17th, 2012, detailing your findings.

AWWU agrees that, based on the review you performed, our internal controls are inadequate to ensure the provisions of the contract are adhered to as called out. Improvements are required to AWWU's processes to avoid being incorrectly invoiced and detect errors associated with the delivery and inventory of requested clothing items. AWWU has completed AWWU Operating Procedure (AWWUP) 25-2, outlining the responsibilities to all employees utilizing, and those tasked with overseeing, this contract.

With respect to individual findings, we offer the following responses:

1) Mandatory Inventory Not Conducted

AWWU concurs with auditor's recommendation. AWWU is committed to working with the contractor to complete the required semi-annual inventory, as called out in the contract. AWWU has included this requirement and assigned responsibility within AWWUP 25-2. AWWU has a better understanding of the contract and will no longer pay for clothing not accounted for, unless the appropriate on-site inventories are conducted by the contractor.

2) Payments for Missing Uniforms Appeared Excessive

AWWU concurs with auditor's recommendation. AWWU Operations and Maintenance administrative staff is auditing each invoice provided by the contractor to catch these charges and address them with the contractor. These discrepancies are documented on the vendor's invoice. The corrected invoice is then forwarded to Accounts Payable for

processing. AWWU has a better understanding of the contract, and will require documentation from the vendor when all lost clothing is provided to verify all items are billed as the contract requires. Additionally, AWWU recommends that the replacement cost for each clothing item be agreed to, and included, within the contract.

3) Paid Uniforms Not Provided

AWWU concurs with auditor's recommendation. AWWU Operations and Maintenance administrative staff is auditing each invoice provided by the contractor to catch these charges and address them with the contractor. These discrepancies are documented on the vendor's invoice. The corrected invoice is then forwarded to Accounts Payable for processing. AWWU has included this requirement and assigned responsibility within AWWUP 25-2.

4) Entry Way Mats Incorrectly Billed

AWWU concurs with auditor's recommendation. AWWU Operations and Maintenance administrative staff is auditing each invoice provided by the contractor to catch these charges and address them with the contractor. These discrepancies are documented on the vendor's invoice. The corrected invoice is then forwarded to Accounts Payable for processing.

5) Number of Issued Uniforms Appeared Excessive

AWWU concurs with auditor's recommendation. AWWU provides uniforms to the employees as specified in the collective bargaining agreement. This agreement does not specify amounts per job description or work location. AWWU will develop guidelines which recommend the appropriate quantity of uniforms for each job description and location by July 31, 2012. These guidelines will be included in AWWUP 25-2, and uniform quantities will be adjusted to adhere to the guidelines by July 31, 2012.

6) Number/Type of Uniform Issued Inconsistent

AWWU concurs with auditor's recommendation. AWWU provides uniforms to the employees as specified in the collective bargaining agreement. This agreement does not specify amounts per job description or work location. AWWU will develop guidelines which recommend the appropriate quantity of uniforms for each job description and location by July 31, 2012. These guidelines will be included in AWWUP 25-2, and uniform quantities will be adjusted to adhere to the guidelines by July 31, 2012.

7) Lack of Internal Inventory Record for Uniforms Issued

AWWU agrees with auditor's recommendation. AWWU will inventory all uniforms and cross check the results against what the vendor has on record. Once the correct inventory has been established, Operations and Maintenance staff will do all of the ordering, and maintain an inventory, as called out in AWWUP 25-2. AWWU's internal inventory records

will then be utilized to verify the accuracy of the vendor's semi-annual inventory.

8) Termination Checklist Did Not Include Clothing.

AWWU concurs with auditor's recommendation. AWWU recommends that a change be made to the Employee Termination Check Off List, which will require employees to return all uniforms to the Operations and Maintenance staff responsible for overseeing the uniform contract. Employees who transfer to another job within AWWU will return all uniforms to the Operations and Maintenance staff responsible for overseeing the uniform contract, and request a new uniform allotment based on the guidelines for the appropriate number of uniforms.

We are confident that these steps will lead to improvement in the process of reviewing, authorizing, and issuing payment for uniform contract services. An additional benefit to the audit is the increased awareness to the details called out in the contract. We thank you for your assistance in bringing these discrepancies to our attention.