

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

PROCUREMENT DEPARTMENT

**City Lacks Accountability and Control
Over Computer and Other High-Tech
Equipment**

August 2017

City Controller
Alan Butkovitz



Promoting honest, efficient & fully accountable government



CITY OF PHILADELPHIA

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September 12, 2017

Trevor J. Day, Commissioner
Procurement Department
120 Municipal Services Bldg.
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102 - 1685

Dear Mr. Day:

Pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller conducted a performance audit of the City of Philadelphia's personal property inventory system. Our objective was to determine whether city agencies are effectively accounting for and safeguarding their equipment. A synopsis of the results of our work, which was performed in accordance with *Government Auditing Standards*, is provided in the executive summary to the report.

We discussed our findings and recommendations with you and your staff at an exit conference and included your written response to our comments as part of the report. We believe that our recommendations, if implemented by management, will improve operations of the City's personal property inventory system. Our recommendations have been numbered to facilitate tracking and follow-up in subsequent years.

We would like to express our thanks to you, your staff, as well as the agency heads and staff we visited during the audit for the courtesy and cooperation displayed throughout our work.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Alan Butkovitz".

ALAN BUTKOVITZ
City Controller

cc: Honorable James F. Kenney, Mayor
Honorable Darrell L. Clarke, President
and Honorable Members of City Council
Members of the Mayor's Cabinet



PROCUREMENT DEPARTMENT

CITY LACKS ACCOUNTABILITY AND CONTROL OVER COMPUTER AND OTHER HIGH-TECH EQUIPMENT

EXECUTIVE SUMMARY

Why The Controller's Office Conducted The Audit

Concerned about the risk of poor oversight with respect to computer and other high-tech equipment acquired by City of Philadelphia (City) departments, pursuant to Section 6-400(d) of the Home Rule Charter, the Office of the Controller (Controller's Office) conducted a performance audit of the City's personal property inventory system. The objective of this audit was to determine whether City departments were effectively accounting for such inventory and whether they had designed and implemented controls to safeguard it against loss or misappropriation.

What The Controller's Office Found

The City does not have an effective system in place to maintain accountability over its computer and other high-tech equipment. Our testing revealed that only 47% of the assets we sampled from the C400 database could actually be located in the specified City department. Moreover, the database contained a significant number of computer and other high-tech assets that are classified as "cannot locate" (CNL), some of which have remained in the database for years, even dating as far back as 1989.

Our assessment of the C400 database suggests that the problems mainly occurred because (1) procedures to ensure that City departments internally and uniformly account for personal property have not been updated, (2) the Procurement Department does not maintain adequate control over sequentially numbered inventory identification tags, (3) City departments often did not conduct physical inventory without prompting by the Procurement Department, and (4) despite repeated attempts to have CNL items removed from the inventory database, there is confusion among the departments as to the proper procedures to follow. As a result, departments' ability to determine the need to acquire computer and other high-tech equipment may be impaired, departments cannot provide assurance that equipment is protected from loss or being used only as authorized, and valuable equipment could be easily misappropriated.

What The Controller's Office Recommends

The Controller's Office has developed a number of recommendations to address the above findings. Some of the more significant include: (1) establishing a uniform recordkeeping system for departments to track and maintain their internal inventory information, (2) maintaining better control over sequentially numbered inventory tags, (3) performing annual inventory counts in accordance with standard accounting procedures, and (4) ensuring that CNL items are properly and promptly removed from the City's C400 database after three years.

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Background

The Philadelphia Home Rule Charter states that the Director of Finance shall supervise the making of inventory lists of furniture and equipment (personal property) by every officer, department, board, commission or other agency having possession of City owned property. The Director shall devise a system under which additions to and withdrawals from property shall be currently recorded, and he shall supervise the annual counting and reconciliation of such property with the City's perpetual inventory records.

The Home Rule Charter also gives the Director of Finance¹ the ability to appoint the Procurement Commissioner, who is responsible for the operations of the Procurement Department (Procurement). Among its many functions, Procurement is charged with compiling and maintaining current and comprehensive records of all real and personal property of the City².

Under the authority of the Finance Director, the Finance Department established Standard Accounting Procedure E-72-002, "Personal Property Perpetual Inventory"³, which specifically addresses Procurement's responsibility for keeping the City's central inventory records (also known as the C400 database), and implementing the property numbering and tagging procedures required to properly identify City-owned equipment. These procedures specifically recognize Procurement's Inventory Control Unit as the entity responsible for directing and coordinating tasks such as acquisition, transfer, and disposal of assets, and affixing accountability for avoidable loss, destruction or theft of personal property. A staff of three employees monitor and update the C400 database. The Office of Innovation and Technology (OIT) maintains the database software, which was originally created by a consultant in 1989.

The heads of all departments are accountable for all personal property assigned to their respective departments and are expected to institute reasonable measures to safeguard this property against loss, theft, damage or improper use. This responsibility may be delegated to subordinate staff.

Accounting procedures previously required that individual items of personal property valued over \$500 be included in the City's central inventory for tracking purposes. This threshold was increased to \$750 as of July 1, 2016.

¹ With the approval of the mayor, per Section 3-206(b) of the Philadelphia Home Rule Charter.

² Philadelphia Home Rule Charter Section 6-501.

³ Originally issued on November 13, 1972 and amended in April 2016.

When new equipment is needed, the requisitioning department will prepare a purchase order for Procurement's approval. The requisitioning department must then send a Tag Request Form, via email, to the Procurement Inventory Control Unit, which initiates the assignment of sequentially numbered property tags in the C400 database. The physical tags will be given to the requisitioning department and affixed to the purchased assets. A *Property Detail Report* (or *PDR*) will be sent to the department requesting the name of the person who received the property, the name of the property custodian, the date the equipment was received, and the serial number of the item, if any. This information and documentation supporting payment for the equipment, must then be sent to the Finance Department, which enters the equipment value, payment voucher information, and "added to inventory date" into the C400 database.

Lost or stolen items to be deleted from the C400 database must be reported to the Procurement's Inventory Control Unit using a *Detailed Report of Loss Due to Shortage, Theft, Damage, or Irregularity Form*, which first must be approved by the Finance Department Accounting Unit before the Inventory Control Unit can remove the equipment from the C400 database. For items that are stolen, the department requesting deletion must also provide copies of a police report to support the department's claim. Procurement can remove scrapped items from the inventory, without the Finance Department's approval, if a weight slip supporting disposal is submitted to them along with the *Detailed Report of Loss Due to Shortage, Theft, Damage, or Irregularity Form*.

In a further effort to account for each department's personal property inventory, the Finance Department issued Standard Accounting Procedure E-7321⁴, "Cycle Physical Inventory of Personal Property", to provide guidance to the individual departments on how to annually count and report on the personal property they possess. The annual inventory process commences with Procurement distributing a list of personal property that is assigned to each department. City departments then perform a physical inventory and a reconciliation of their personal property with the list provided by Procurement. The reconciled inventory listing is then sent back to Procurement to make any necessary adjustments.

⁴ Issued on February 24, 1961.

As of June 2016, the City's C400 database included over 121,000 pieces of equipment valued at almost \$600 million. Approximately 66 percent of the assets include, but are not limited to, computers, tablets, monitors, digital electronics, artwork, large power tools and firearms – items that, by their nature, are considered at higher risk of loss or theft than stationary, non-portable, items such as office furniture, photocopiers, and air conditioners. Additionally, the city spent an average of \$32.6 million annually from 2014 to 2016 to update and replace their personal property. Expenditures for computer equipment alone averaged \$6.8 million each year. Accordingly, the necessity of safeguarding such valuable equipment cannot be overstated.



Purpose of the Audit

Concerned about the high dollar amount of expenditures incurred for computer equipment and other high-tech portable equipment, the Office of the Controller (Controller's Office) believed it appropriate to evaluate whether City departments were effectively accounting for such equipment and whether they had designed and implemented controls to safeguard it against loss or misappropriation. Accordingly, we initiated this audit pursuant to Section 6-400(d) of the Home Rule Charter.

Lack of Accountability for Computer and Other High-Tech Equipment Leave These Assets Vulnerable to Loss or Misappropriation

The City does not have an effective system in place to maintain accountability over its computer and other high-tech equipment. Our testing revealed that only 47% of the assets we sampled from the C400 database could actually be located in the specified City department. Moreover, the database contained a significant number of computer and other high-tech assets that are classified as “cannot locate” (CNL), some of which have remained in the database for years, even dating as far back as 1989. Finally, the inventory continues to reflect equipment belonging to now-defunct City departments, or agencies that have chosen not to follow the City’s property directives.

The C400 inventory database did not accurately reflect the City’s equipment because:

- procedures to ensure that City departments internally and uniformly account for personal property have not been updated;
- the C400 database contains a large number of possible users with permissions to read, write, add, delete, and modify data, that cannot be traced back to the user;
- Procurement does not maintain adequate control over sequentially numbered inventory identification tags;
- neither the C400 database nor department internal recordkeeping systems contain sufficient data to always identify the location of equipment;
- City departments often fail to conduct physical inventories without prompting from Procurement;
- despite repeated attempts by departments to have CNL property removed from the database, numerous items still remain in the inventory;
- City departments frequently have inadequate controls over issuing equipment to their employees; and
- some City departments have an unacceptable level of missing inventory identification tags.

Because of the above inadequacies, departments’ ability to determine the need to acquire computer and other high-tech equipment may be impaired, departments cannot provide assurance that equipment is protected from loss or being used only as authorized, and valuable equipment could be easily misappropriated.

Over Fifty Percent of Recorded Computer and Other High-Tech Equipment Was Missing

Our attempts to locate personal property assets selected from the City's C400 database found that the assets could be located and accurately identified only 47 percent of the time. Specifically, of the 350 items sampled⁵ for the 29 departments we visited, 187 items, totaling \$300,151, could not be found and most were presumed either lost or misplaced. Table 1 below illustrates the ten sample items showing the greatest value that could not be located.

Table 1: Ten Highest-Dollar Items That Could Not Be Located

Item	Department	Value
GPS System	Office of Innovation & Technology	\$16,665
Life Pak 12 Defibrillator	Fire Department	\$14,997
Skid Mounted Generator	Fleet Management	\$12,326
Dell 192 GB Server	Police Department	\$11,844
Thermal Imaging Camera	Fire Department	\$8,611
Panasonic DVR	Office of Innovation & Technology	\$6,590
Thermal Imaging Camera	Fire Department	\$6,138
Multi-coupler	Office of Innovation & Technology	\$5,926
Self-contained Breathing Apparatus	Fire Department	\$5,431
Panasonic Toughbook	Fire Department	\$5,306

Prepared by the Office of the Controller

Also included in the 187 missing items were 48 desktop computers, 29 portable communication radios, 11 portable computers/notebooks, 11 monitors, 2 cameras, an electronic easel, a sound system and a mountain bicycle that were not identified as previously scrapped, donated or stolen. While the inability to locate these expensive items is troublesome, of greater concern are those missing items that could have an adverse impact on a department's ability to perform its functions. For instance, the Fire Department could not locate a stairchair or a pulse oximeter (a machine that measures oxygen levels in blood), in addition to the thermal imaging cameras, defibrillator, and breathing apparatus noted in Table 1 above – all vital life-saving equipment. Similarly, the Water Department was missing a pneumatic jackhammer, a hand-held meter, two water pumps, and a paving breaker. The Police Department could only locate one of thirteen portable radios, the Health Department was missing an x-ray film processor, the Streets Department could not locate a paving breaker, and

⁵ Originally, 381 items were selected but 31 belonged to the First Judicial District or other now-defunct departments. Refer to "Other Matters Coming to Our Attention" on page 17.

finally, the Parks and Recreation Department could not find a pool vacuum or a commercial lawn mower. Table 2 below provides a complete summary of the items tested, a count of the items lost or misplaced and their original value.

Table 2: Summary of Missing Equipment (by Department)

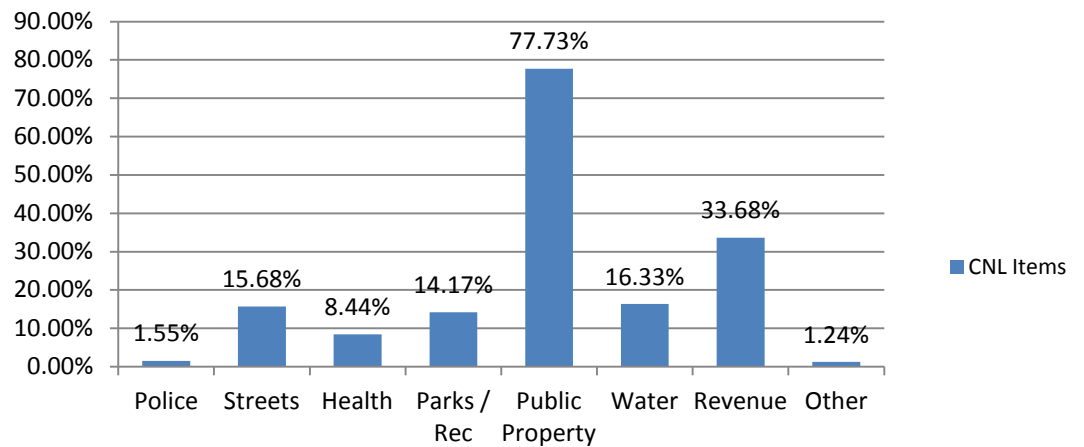
Department	Items Selected from Records for Observation	Items Lost or Misplaced	Value of Items Lost or Misplaced
City Council	2	1	\$659
Office of Innovation & Technology	84	33	\$55,312
Mayor's Office	1	0	\$0
Department of Housing & Community Development	1	0	\$0
Office of Community Empowerment & Opportunity	2	2	\$1,628
Managing Director's Office	4	3	\$4,595
Police Department	51	32	\$52,939
Streets Department	9	4	\$3,919
Fire Department	25	17	\$66,568
Health Department	28	20	\$17,394
Office of Behavioral Health and Individual Disability Services	3	3	\$3,654
Department of Parks & Recreation	15	9	\$8,419
Department of Public Property	6	6	\$5,944
Department of Human Services	20	7	\$6,889
Prisons Department	14	4	\$2,763
Office of Homeless Services	2	1	\$3,619
Office of Fleet Management	6	3	\$15,721
Department of Licenses & Inspections	2	2	\$2,967
Water Department	40	19	\$22,385
Records Department	1	0	\$0
Office of the Director of Finance	1	0	\$0
Revenue Department	7	7	\$5,728
Division of Aviation / Commerce Department	16	12	\$16,602
Free Library	1	0	\$0
Office of Property Assessment	2	1	\$1,576
Office of the City Controller	2	0	\$0
District Attorney's Office	3	1	\$870
Sheriff's Office	1	0	\$0
Office of the City Commissioner	1	0	\$0
Totals	350	187	\$300,151

Prepared by the Office of the Controller based on observations at selected department locations

High-Tech Equipment Designated as CNL Frequently Remains on the City's Database of Equipment for Very Long Periods

Our analysis of the C400 database as of June 2016 also determined that there were 4,765 portable electronics and other high-tech equipment totaling \$7,231,316 that were listed as CNL items. A recent Procurement memo stated that items deemed CNL for 3 years or more should be removed from the C400 database. Yet, CNL equipment still remains in the City's records, despite some of these items having been identified as missing over 20 years ago. The oldest CNL item in the database was classified as such in December 1989. Figure 1 shows the CNL items as a percentage of each department's computer and other high-tech asset inventory total.

Figure 1: CNL Items (as a Percentage of Department Computer & High-Tech Inventory)



Source: Prepared by the Office of the Controller based on analysis of CNL Items in C400 Database

The Water Department reported the most missing assets among the departments sampled in our testing -- 1,357 items. This amount represents over 16% of the total item count for computer and other high-tech equipment noted for that department on the C400 database, and nearly 30% of similar CNL items reported for all the departments we sampled. While most of the Water Department's CNL assets were purchased many years ago, several of the items were reported as CNL only a few years after the assets' acquisition.

The number of CNL items reported for the Department of Public Property indicates an even worse condition. As of June 2016, officials in Public Property asserted that 995 items could no longer be found in their department. This represents almost 78% of the department's total inventory for computers and other high-tech equipment. The majority of

these CNL items were reported missing in March 2007 – over 10 years ago. Other departments with a large number of missing items include the Revenue Department with 519 items, the Health Department with 504 items, and the Department of Parks and Recreation with 439 items.

**Multiple Factors
Contribute to the
Inadequacy of the
Equipment Database**

Procedures to Ensure that City Departments Internally and Uniformly
Account For Personal Property Have Not Been Updated

While the Finance Department provides written procedures to departments on how to acquire and dispose of personal property (see Background information), the revised procedures do not specifically address the preferred recordkeeping method for City departments to maintain their own internal property records. An earlier version of the procedures included information on the use of a card file to track asset acquisitions, transfers and deletions. However, as technology improved, this method of record-keeping became obsolete and now there are different interpretations among the departments as to how to internally track their personal property assets. Some use the C400 database in lieu of their own internal records, while others use Excel spreadsheets, Access files, or paper documents filed in folders to store crucial data for the assets in their possession. Still others have purchased or developed internal software applications designed for this purpose. The Department of Human Services is employing Absolute DDS software while the Water Department uses an internal database linked to FAMIS⁶, the City's accounting system. OIT has contracted with a well-known technology company to create another system that is currently under development.

Furthermore, Procurement does not provide periodic training to department inventory technicians to ensure that those new to this responsibility understand the procedures and carry them out efficiently and effectively. For example, we were informed that departments requesting removal of scrapped items do not always submit the weight slips as proof of disposal, so Procurement will not honor the request and the items remain in the inventory. Additionally, most departments did not follow accounting procedures by performing an annual count of their inventory, even in the absence of a formal request by Procurement.

It has also come to our attention that not all departments followed the City's policy that items exceeding \$500⁷ should be included in the personal property records. It appears that individual City departments, and not

⁶ Financial Accounting Management Information System.

⁷ Changed to \$750 as of July 1, 2016.

Procurement, make the decision as to whether an item should be tagged. For example, vehicles are not tagged, or individually included in the C400 database, but Fleet Management maintains a separate inventory to account for them. The Streets Department's "Bigbelly" street trash compactors, costing \$4,000 each are not tagged or inventoried, yet bicycle kiosks purchased by the Mayor's Office of Transportation and Utilities, costing between \$27,000 and \$57,000 each, are tagged. The Police Department does not tag bullet-proof vests, choosing instead, to inventory them as "clothing" rather than equipment. As a result, the value of the City's personal property inventory could be significantly understated.

The C400 Database Contains a Large Number of Possible Users With Permissions to Read, Write, Add, Delete, and Modify Data That Cannot be Traced Back to the User

The Controller's Office found 380 possible users of the C400 database with permissions to read, write, add, delete, and modify data. The C400 database does not record that a change has been made to a record, nor does it provide the ability to trace the change(s) to the person(s) making the change(s). In addition, responsibilities for making changes to the data are not always assigned to specific individuals. We observed that there were 20 generic user names that could access the C400 database. We also found the names of 12 individuals who were not City employees or who had retired from City service.

Procurement Does Not Maintain Adequate Control Over Sequentially Numbered Inventory Identification Tags

An analysis of the C400 database revealed that as of September 12, 2016, there were 2,432 new inventory identification tags that should have been sequentially accounted for in the C400 inventory, but were not. Auditors found that the C400 database reported only 11,626 new tags issued during the 12 months prior to that date, but the sequential numbering of the tags (with a starting number of 658910 and ending with 672967) would appear to indicate that 14,058 tags were generated. Procurement assigns the physical property tags in batches to their Procurement Special Services Officers (PSSOs), who work independently from other PSSOs when issuing tags to the departments. This resulted in series of tag numbers that were not yet assigned.

Additionally, Procurement does not record the series of tag numbers assigned to each of the PSSOs, nor does it try to account for what was

issued to departments during the year, thereby rendering the sequential nature of the numbering system useless for tracking purposes.

We tested ten of the 2,432 tag numbers not included in the C400 database to determine the reasons why the numbers were omitted. Without a system in place to readily identify missing tag numbers in the database, or show corrections when tags were issued in error, the Procurement Special Services Supervisor had to individually research each missing tag number we selected. For the 10 items we tested, it was discovered that:

- Three tags were issued to OIT for a laptop computer, a printer and a scanner that had already been assigned tag numbers. These three tags should have been voided in the C400 database.
- Two tags were issued to OIT (on behalf of other departments) for a computer and related hardware, but the individual purchase orders were later cancelled. These tags should have been voided.
- One property tag was issued for the purchase of a computer that was found to be defective and returned to the vendor. A different tag was issued for the replacement item. The C400 database should have indicated that the defective asset was removed from the inventory and referenced to the replacement asset's tag number.
- One tag was issued for a defective monitor that was returned to the vendor. A property detail search of the C400 database indicated that the asset was included in the inventory even though it did not appear in the Department Inventory List. The database should have indicated that the original asset was removed from the inventory and referenced to a replacement asset's tag number.
- One property tag for a portable radio purchased by OIT for the Police Department was physically lost. A replacement tag with a new number should have been issued and so noted in the C400 database.
- One tag was issued in error when the purchased scanner was found to cost less than \$500 (i.e. the minimum value required at the time for items to be included the C400 database). The inventory tag should have been returned to Procurement to be voided or re-issued at a later date.
- One property tag was lost and could not be accounted for.

Neither the C400 Database Nor Department Internal Recordkeeping Systems Contain Sufficient Data to Always Identify the Location of Equipment

The C400 database should be able to provide a user with the department and specific field location for all items in the inventory. However, we found that many field points in the C400 database are vaguely identified or incorrect. For example, since OIT (Department #04) often purchases computers and related equipment for other departments, items purchased for the Water Department (Department #28) were often coded as 04-028. However, the use of “04” as the prefix to the field location indicates that the assets are located within OIT, and not Water. Additionally, even allowing for this deviation from standard practices of identifying asset locations, the “028” part of the field point does not specifically identify where in the Water Department, with multiple field sites across the city, the assets could be found. Furthermore, the internal records of other departments affected by this situation did not contain sufficient information to provide assistance in locating the assets. In five such field points sampled for OIT, we were only able to locate 12 of the 25 items selected. The unaccounted-for items included communication radios and personal computers.

In other instances, we found that field points contained inaccurate or incomplete site names and addresses. We observed this for field locations within the Parks and Recreation and Police Departments, where the locations noted in the C400 database did not reflect the actual site or address where the equipment was stored.

City Departments Often Fail to Conduct Physical Inventories Without Prompting from Procurement

Procurement has historically initiated the annual count of the City’s personal property by sending each City department pertinent sections of the C400 database. Performing the physical count on a yearly basis helps departments safeguard the assets and provides a more accurate accounting of the inventory value for financial reporting purposes. For calendar year 2016, Procurement provided the annual inventory lists to other departments as our fieldwork was concluding in December. Procurement did not request departments to perform a physical inventory in calendar year 2015 since problems were found with the C400 database. Of the 29 departments we sampled only three had performed an annual

inventory for calendar year 2015. This was in contrast to calendar year 2014 when all but two of the sampled departments performed the annual count.

Despite Repeated Attempts by Departments to Have CNL Property Removed From the Database, Numerous Items Still Remain in the Inventory

The deletion of personal property assets from the City's C400 database is performed only by authorized Procurement employees. Many of the inventory technicians in the departments we tested believed that Procurement was not timely updating their files by removing property previously requested to be deleted. However, many seemed unaware that when items are donated, lost or stolen, they are required to receive written authorization from the Finance Department before Procurement can remove these items from the inventory. Likewise, when items are scrapped, departments need to provide Procurement with the weight slip supporting the disposal of the items.

Our testing found that several of the 187 items we couldn't locate were reported by the departments as having been previously disposed of. Two missing notebook computers once owned by the Mayor's Office of Community Empowerment and Opportunity were donated to a subrecipient agency in August 2015 and the request for removal from the records was timely reported to Procurement. However, the items still remained in the C400 database as of June 2016. It could not be determined if written authorization from the Finance Department was included with the formal request for deletion. In another instance, two items at the Health Department, an exam table and a hypodermic injector, were reportedly scrapped in May 2008. While the Health Department was able to provide an email to Procurement, dated in 2008, requesting that the injector be removed, it appears that a weight slip did not accompany the request, so Procurement did not remove the item. Consequently, removal would now require an approval from the Finance Department. However, there were other instances where a weight slip was provided to us along with the request to Procurement, yet the items remained in the inventory.

Confusion regarding the procedures departments should follow when requesting removal of their CNL items could have contributed to the problem. While the City's accounting procedures required the approval of the Finance Department for all lost or misplaced items, a June 2016 memo

from Procurement stated that the Finance Department authorized the removal of all items designated as CNL for at least three years, provided that department heads submit a written certification about the lost status of the items to Procurement. Many of the departments have also stated that even when they timely complete the required CNL paperwork, Procurement does not act on these requests. Yet, Procurement stated that it cannot remove the items without written approval from the Finance Department. Several departments have long-term CNL items that should have been removed years ago, including but not limited to, the Police, Commerce and Streets Departments with CNL items dating back to 2000, and the Office of the Managing Director and the Water Department with CNLs going back to 2001 and 2003, respectively.

Our testing confirmed the confusion involved in removing CNL property. Of the 187 items that could not be located, 23 were previously designated as CNL. This included a \$955 salt spreader in the Parks and Recreation Department that was reported missing in September 2005, a \$3,600 tractor mower in the Office of Homeless Services missing since December 2007, and three radios in the Department of Public Property, missing since March 2007, with a total value of \$2,680. Continuing to carry these outstanding items in the database makes the process of conducting the physical count more difficult and time-consuming.

City Departments Frequently Have Inadequate Controls Over Issuing Equipment to Their Employees

When department equipment is issued to specific individuals for their use only, it is especially important to keep complete and accurate records so that these assets may be easily located and quickly retrieved, if necessary. In several of the departments we tested, it did not appear that those responsible for tracking such equipment kept adequate records that would allow the department to easily match the asset to the C400 database, thereby assisting department technicians in conducting their annual physical inventories. For example, mobile radios (i.e. walkie-talkies) distributed by OIT for various departments could not be readily located since none of the departments maintained internal records that included the City assigned tag number. Instead, they catalogued the radios using the name of the employee to whom the radio was issued, and/or the item's serial number, which is not a required field in the C400 database. Consequently, there is no easy method to determine what tag number belongs with what serial number or which employee. When we requested the departments' assistance in locating the fourteen radios, only one could

be found due to the inability to match the tag numbers we selected to the assets on their internal records.

Some City Agencies Have An Unacceptable Level of Missing Inventory Identification Tags

During our review, we observed that the City assigned property tags are not always found on the assets, as required by standard accounting procedures. Daily wear and tear of frequently handled assets often causes the tags to fall off or become unreadable. Additionally, departments sometimes choose not to attach the tag to the asset knowing the likelihood that it will be lost or damaged by heavy use. This situation was noted for mobile radios in both the Police and Fire Departments, as property tags could not be observed for several of the items.

Furthermore, auditors observed an industrial air-conditioner, without a property tag, which was reportedly transferred from the Department of Public Property to City Council. The paperwork was filed with Procurement, but the required property tag number was not included on the form. Auditors performed a serial number search of the C400 database to determine if the asset could be found in the official records, but without the serial number being a required field in the database, no match could be made. City management did not know how it acquired the air-conditioner, why no tag was attached to the item, or whether it was properly assigned to City Council.

Conclusions

If the C400 database is intended to accurately account for equipment owned and used by the City, then it must be managed more effectively. The conditions noted above limit the Procurement Department's ability to physically safeguard its computer and high-tech equipment from loss or misappropriation, while also properly reflecting the assets in its financial records. The Procurement Department should provide record-keeping guidance to City departments maintaining the City's property. The Finance Department should also authorize Procurement to make timely and accurate corrections to the City's inventory records when departments communicate that adjustments are necessary, and it must ensure that all personal property exceeding a value of \$750 is included in the property database. Individual City departments must also do their part by conducting annual inventories when required to ensure the integrity of the City records, timely communicating required corrections to Procurement, and complying with property tagging procedures included in the City's accounting procedures.

Recommendations

To ensure that the City has an effective system in place to maintain accountability over its computer and other high-tech equipment, we recommend that Procurement work with individual City departments to:

- **Establish a uniform recordkeeping system for departments to record and maintain their internal inventory records [203816.01].** Sophisticated, smart technology could provide the type of record-keeping system that would enable the City departments to better maintain their inventory. With an eye to going city-wide, Procurement, with the assistance of OIT, should investigate new software options to identify the one that is most efficient and cost-effective. Furthermore, Procurement should offer periodic training for City inventory technicians so those new to this responsibility, or just in need of a refresher, can carry out their duties efficiently and effectively.
- **Ensure that all personal property exceeding \$750 is included in the C400 database [203816.02].** This would require the Procurement and Finance Departments to take an active role in determining whether newly purchased items, and those not tagged due to past department practices, are ultimately tagged and placed into the C400 database.
- **Ensure the list of users with the ability to write, add, delete, and modify data on the C400 database is limited to only authorized users [203816.03].** Procurement, with the assistance of OIT, needs to remove all rights under generic user names and ensure that only active City employees have the ability to access the database.
- **Maintain better control over sequentially numbered inventory identification tags [203816.04].** Procurement's Inventory Control Unit should secure the unused inventory identification tags in one place and eliminate the practice of assigning batched sets of tags to PSSOs. The six employees in the Unit should be required to select the tags, to be sent to departments, from the next available number(s) in the sequence. Individual City departments should be instructed to return all unused or erroneously received tags to the Inventory Control Unit for cancellation or possible re-use. The C400 database should also include notations that would allow the user to identify defective assets returned to the vendor, and the assets that replaced them. Additionally, the Procurement Special

Services Supervisor should periodically search for and investigate missing tag numbers in the C400 database to ensure that all property tags are accounted for.

- **Maintain accurate inventory records that identify the proper field locations where property is used or stored [203816.05].** Equipment purchased by OIT on behalf of other departments should be reported under the department and unit with physical custody of the asset. When conducting their annual physical inventory, City departments must also be required to inform Procurement when assets are moved from one unit location to another.
- **Perform annual physical inventory counts in accordance with the City's Standard Accounting Procedures⁸ [203816.06].** Procurement and the Finance Department should require the performance of an annual equipment inventory, even if not formally requested to do so each year. The individual department inventory results would continue to be signed by the respective department head, as evidence that he/she acknowledges accountability for the inventory in his/her possession. Procurement, in conjunction with the Finance Office, should consider whether failure to submit timely inventory counts should result in possible loss or delay of future equipment purchases.
- **Ensure that CNL items are properly removed from the C400 database after three years [203816.07].** Procurement should timely remove the CNL items from the C400 database after receiving authorization from Finance. This would better represent the total count and actual costs for assets physically in the City's inventory. Going forward, Procurement should require department inventory technicians to maintain internal records that show the name of the person to whom the asset was issued, or into what unit it was placed. Transfer of assets between individuals, units, or departments should be prohibited, without the consent of the department inventory technician and the department head.
- **Establish adequate controls over portable equipment issued to employees [203816.08].** Individual City departments need to maintain internal records that include the name of the person to

⁸ Specifically, Standard Accounting Procedure E-7321, "Cycle Physical Inventory of Personal Property"- Issued February 24, 1961.

whom the asset was issued, the City's inventory tag number and other unique identifiers, such as serial numbers, that would allow the department to easily match the item to the C400 database or locate the asset, if necessary.

- **Ensure that inventory identification tags are affixed to all equipment or make certain that the C400 database includes additional identifying information to easily allow the user to locate an item, when requested [203816.09].** For those assets subject to frequent handling that would cause wear or destruction of the inventory tag, departments should be required to report the serial number, or other unique identification numbers, to Procurement for inclusion in the C400 database. Finance should withhold payment for the equipment until all information required on the Property Detail Report is provided. This would assist database users or department management to easily match an item to the C400 database.

Other Matters Coming to Our Attention

As part of our audit work, we observed two additional matters that we believe require City management's attention. In our opinion, these matters directly impact the Procurement's ability to properly report and account for all equipment purchased by the City. Each of the matters is discussed below.

The C400 Database Continues to Reflect Inventory of City Departments That Have Ceased to Exist

Despite changes to the structure of City government over the years, which included the elimination and merging of City departments, the C400 database continues to reflect separate inventories for several now-defunct departments, and well as for court agencies that are integrated within the First Judicial District of Pennsylvania (FJD).

As of June 2016, the C400 database still included 1,322 inventory items, with an original valuation of \$1.9 million, for eight departments that should have been removed from the City's records several years ago. Included in this list are the Youth Study Center, which was placed under the control of the Department of Human Services in 1989, the Philadelphia Convention and Civic Center, which was demolished in 2005, and Traffic Court which was abolished by the Pennsylvania General Assembly in June 2013. The list also includes a separate inventory for Municipal Court. While Traffic Court⁹ and Municipal Court are judicial divisions of the FJD, it is not clear whether the inventory items included in the C400 database were transferred to the FJD. The City's C400 inventory still reflects both courts as separate

⁹ Replaced by the Municipal Court's Traffic Division.

departments with a combined total of 826 pieces of equipment assigned to them. Equipment still reflected in the records for all these locations include office furniture, stage equipment, an x-ray machine, boats, copiers and computers. Table 3 below shows asset counts for inactive City departments that are still included on the C400 database.

Table 3: Inactive Departments Still Showing Personal Property Assets

Department	Number of Items	Inventory Cost
Tax Reform Commission	33	\$54,868
Anti-Graffiti Network	9	\$16,495
Camp William Penn	48	\$67,222
Philadelphia Convention and Civic Center	290	\$538,175
Youth Study Center	103	\$93,773
Traffic Court	290	\$345,177
Unknown	13	\$8,203
Municipal Court	536	\$816,414
Totals	1,322	\$1,940,327

Prepared by the Office of the Controller

The FJD Chooses Not to Follow City's Property Directives

When we attempted to perform our search for selected items identified as FJD property, FJD officials refused to assist us, claiming that they have autonomy from the City for the purpose of maintaining property records. They stated that the Commonwealth oversees their personal property since they make equipment purchases on their behalf¹⁰. They further stated that, as a district office of the Pennsylvania court system, their personal property should not be part of the City's inventory. In 2014, Procurement accepted the FJD's position and consequently, no longer has access to the FJD's property records.

This situation presents Procurement, and the City, with a complex issue involving jurisdiction over personal property assets. Despite accepting FJD's arguments that their inventory should no longer be presented with the City's personal property assets, Procurement still carries \$16.7 million of FJD property in its C400 database. Likewise, the Finance Department includes the FJD inventory costs in its annual financial statements. Additionally, the Philadelphia Home Rule Charter¹¹ authorizes the Finance

¹⁰ Through the Administrative Office of Pennsylvania Courts (AOPC).

¹¹ Section 6-102(b).

Director (and by virtue of delegation, Procurement) to oversee ALL city-owned property. Given that the City reimburses the Commonwealth for all equipment purchases and provides the funds for FJD operations (i.e. payroll costs and other purchased services), it can be argued that the assets purchased through the Commonwealth are, in reality, City-owned property, and therefore, should be accounted for as such.

Recommendations

We recommend that Procurement:

- **Remove all equipment from the C400 database relating to the eight now-defunct City departments [203816.10].**
- **Seek a ruling from the City Solicitor's Office or possibly Commonwealth of Pennsylvania to determine if the FJD's position to remove itself from City oversight for matters such as equipment recordkeeping, is valid and consistent with how other courts are managed in the Commonwealth [203816.11].**

This appendix provides information on the scope of work and methodology we used to ascertain whether City departments are effectively accounting for and safeguarding computer and other high-tech equipment in order to ensure appropriate use of City funds.

To accomplish our objective we performed the following:

Obtained the City's equipment inventory report from Procurement's web site. This report (the C400 database) lists all portable electronics, non-portable electronics, non-electronics, furniture and appliances, and other equipment assigned to the various City departments. We sorted the database by category for each City department and extracted all items coded as portable electronics and other items. We chose to test portable electronics and other items because we determined that these assets were the most susceptible to missappropriation.

Selected a sample size of 381 equipment items (approximately 1 percent) covering 33 city departments to review in more detail. We selected our samples using a stratified random sampling method. The dollar value of the categories of equipment selected were partitioned by department and samples were then randomly selected based on the size of the department.

After removing selected items associated with the FJD and three now-defunct departments, we visited each of the 29 remaining City departments to observe the equipment selected in our sample. We interviewed department personnel to determine their policies and procedures for managing equipment inventory.

We also sorted each department's portable electronics and other items equipment inventory to determine the number and dollar value of items that have been marked "Can Not Locate" (CNL).

We performed our work from June 2016 through December 2016 in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) issued by the Comptroller General of the United States. 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.



CITY OF PHILADELPHIA

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Trevor J. Day
Procurement Commissioner

September 6, 2017

Mr. Alan Butkovitz, City Controller
Controller's Office
1230 Municipal Service Building
1401 John F Kennedy Blvd
Philadelphia, PA 19107

Dear Mr. Butkovitz:

Re: Response to City Controller's Report on the City of Philadelphia's personal property inventory system

The attached document contains the Procurement Department's formal response to the issues raised in the report on the City's personal property inventory system.

I would like to thank you and your staff for your efforts with respect to this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Trevor J. Day".

Trevor J. Day
Procurement Commissioner

TJD/mr
Attachment

Response to City Controller's Report on the City of Philadelphia's personal property inventory system

The Procurement Department accepts the findings and recommendations of the Controller's performance audit. As noted in the first page of the report, the Department is responsible for the coordination and management of the City's central inventory records. As further stated in the report, "it is the heads of all departments [that] are accountable for all personal property assigned to their respective departments and [they] are expected to institute reasonable measures to safeguard this property against loss, theft, damage or improper use."

As noted at our exit conference meeting on August 22, 2017, there are several points of clarification, as well as modifications, that should be addressed:

- **On page two, the report states "the requisitioning department will prepare a purchase order (PO) for Procurement's approval."** Each contract and purchase order is separate and distinct. There are controls around Purchase Orders that are audited by the Controller's Office Post-Audit Unit. The controls are set up so that purchase orders that have discreet pricing and under \$32,000 may only need to be approved by the operating department initiating the PO.

A requisitioning department can issue a PO directly and order those items. On other contracts, however, POs that are over \$32,000 or do not have discreet pricing require certain approvals that have more stringent controls. These POs are not only approved by the requisitioning and Procurement departments but are also approved by the Budget Office and the Controller's Office Pre-Audit Unit. It is more accurate to report, that after a PO for a piece of equipment over \$750 is created, approved, ordered from the vendor and received by the department, the requisitioning department requests a tag from the Procurement Department.

- **On page two, the report states "Procurement can remove scrapped items from the inventory, without the Finance Department's approval, if a weight slip supporting disposal is submitted to them along with the *Detailed Report of Loss [ROL] Due to Shortage, Theft, Damage, or Irregularity Form*."** A ROL is not required for a scrap disposal if the department requested authorization and then provided a weight slip illustrating that the items were properly scrapped those items are removed from the c400 system.
- **On page four of the report (bullet point 2) and page nine (para. 2), it states "the c400 database contains a large number of possible users with permissions to read, write, add, delete, and modify data, that cannot be traced back to the user."** At the time of the audit there were 25 users in Finance, Procurement and OIT that have permissions to read, write, add, delete and modify the data in the c400 database as part of their job

responsibilities. At the exit conference meeting, it was explained that the c400 system is a database with multiple instances set up for different applications. Not all users listed within the SQL database have access to the c400 system. Rights are maintained on the Active Directory and not on the database level. There are currently only two people (located in OIT) who can add, change or remove a user's access to the c400 system. They will only provide access upon approval from a Commissioner or Deputy Commissioner in Procurement.

- **On page four of the report (bullet point 3) and page nine (para. 3), it states "Procurement does not maintain adequate control over sequentially numbered inventory identification tags."** The Department accepts this finding and will implement a regular reconciliation of tags. At the exit interview the Department suggested that on a regular basis (bi-annually or annually), the Supervisor will account for and reconcile all tags, including ones that have not been distributed and reissue a group of tags to each inventory control technician. The Department will begin this process this fiscal year.
- **On page four of the report (bullet point 6) and page 7 of the report (1st paragraph), it states "despite repeated attempts by departments to have CNL [Cannot Locate] property removed from the database, numerous items still remain in the inventory."** The Standard Accounting Procedures (SAP) state that the Procurement Department cannot remove an item from the inventory database without the express written consent from the Accounting Office. The Department has been in discussions with the Accounting Office to resolve the CNL property to facilitate the removal of many CNL items. Since the beginning of the audit, Accounting has provided authorization to remove \$15 million of CNL items.
- **On page eight, (the section entitled Procedures to Ensure that City Departments Internally and Uniformly Account for Personal Property Have Not Been Updated), the report states Procurement has not provided adequate training and documentation on managing personal property inventory.** Since the end of the audit in December 2016, the Department has held two trainings open to each operating department/agency to attend. Future trainings are scheduled every 3 to 6 months. The current training documents are in the Standard Accounting Procedures (SAP) which were updated in June of 2016. The Procurement Department's intranet site also has specific training materials for personal property for use by departments.
- **On page eight, the report also states "it appears that individual City departments, and not Procurement, make the decision as to whether an item should be tagged."** Each department must request tags for any item over \$750 they have acquired. The Procurement Department does not individually approve every PO that is issued by a department as described previously in the letter. Equipment can be purchased or acquired in many ways by each department. Ultimately it is the administration of each

department that must ensure the proper controls of acquiring, tagging and disposing of inventory. The Procurement department provides materials, training and information on how departments should be managing these assets.

- **On page eleven, the report recommends that the system does not contain sufficient data as to the location of equipment.** The Department has already instituted a change with regard to items purchased by OIT on behalf of other departments. This change includes tracking the precise location along with the funding department (04-OIT) and the operating department for whom it was purchased (28-water). This fix was instituted beginning in 2017.
- **On page eleven, the report indicates that only three departments conducted physical annual inventories for calendar year 2015.** That is correct, as Procurement did not send out a request for the report because of the status of the CNL list. In discussion with the Accounting Office, we decided to put efforts around cleaning up the requested CNLs before asking Departments to begin a process that would have them requesting items be removed that they had previously requested. The call for the 2016 annual inventory went out in December 2016 and Procurement has received 70% of the reports back from the departments.
- **Regarding page twelve of the report (the section ending with “Numerous Items Still Remain in the Inventory”)** the current policy for departments is that items must be requested to be disposed via a memo request sent to Procurement which then is approved by Procurement's Inventory Control Unit. Once the item is removed, the department must send the documentation (weight slip; removal slip, etc.) showing it was properly disposed. After Procurement receives the proper documentation, it is then removed from the c400 system. The Procurement Department, during trainings have addressed some confusion from departments and agencies on this topic and intends to continue to communicate this policy to operating departments. Items that a department Cannot Locate and/or items that are lost or stolen follow the same process as stated above.

As the audit reports, the c400 system is beyond its useful life. It is a SQL database with a Microsoft Access front end that was first created in the mid-1990s. The Procurement Department officially requested capital funding for its replacement in June 3 of 2016, before the commencement of this Audit. During this last round of IT capital requests, the Department received approval and funding has been allocated in FY18 to replace the c400 inventory management system. The Department expects to begin the RFP process in 2018 with a new system in place one year after the project begins. We are confident that many of the conclusions and recommendations of this audit will be rectified with the rollout of the new system.

Thank you for meeting with us on August 22, 2017 for the exit interview. We appreciate the ability to review the documentation and respond.

CONTROLLER'S OFFICE CONTACT INFORMATION

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City Controller's Office Mission Statement

The City Controller's Office is the independent watchdog agency of the City of Philadelphia that strives to promote honest, efficient, effective, and fully accountable city government. We address this mission by: providing timely and objective analysis on the availability of funds for all City contracts; preventing inappropriate spending of public funds; and providing objective, timely, and relevant information to City officials, the public, and other interested parties about financial operations of the City, and on ways to improve City operations and the use of public resources.

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