



JIM STRICKLAND
MAYOR

EXECUTIVE DIVISION

June 30, 2016

Mr. Antonio Adams, Director
General Services Division
City of Memphis
125 N. Main, Suite 568
Memphis, TN 38103

Dear Director Adams:

We have completed our special investigation regarding the unauthorized usage of heavy equipment and attempted removal of salvage material (wood) by two Park Construction employees for their personal benefit or gain. The incident was witnessed by two members of your Park Operations management while responding to an alarm call at the Kennedy Maintenance Compound.

The primary objective of this investigation was to evaluate internal controls over safeguarding of equipment and tools at the Kennedy Maintenance Compound. Our secondary objective was to identify significant weaknesses in internal controls that may present opportunities for fraud, waste, abuse or misuse to occur if not properly managed. The scope was limited to the following high risk areas within Kennedy Maintenance Compound and Park Construction operations:

- Equipment and tools
- Inventory accountability
- Overtime usage
- Conflict of Interest/Secondary employment

To accomplish our objectives, we interviewed pertinent personnel to obtain an understanding of the high risk areas. We also reviewed relevant policies and procedures to identify internal control weaknesses. Finally, we conducted select transactional testing of payroll records.

CONCLUSION

We concluded that internal controls over safeguarding of equipment and tools need improvement. The employees' unauthorized usage of the excavator and access to the facility after hours constituted official misconduct. Therefore, we requested the assistance of Police Inspectional Services Bureau (ISB) to assist with the administrative and/or criminal investigation. We also noted other internal control weaknesses, including inadequate management controls over tools and equipment, inventory

accountability and overtime usage. Further, both employees admitted that they had gotten wood in the past and that it was common practice amongst the employees, including the former manager. We believe that the lack of controls, together with the employees' own admission of obtaining wood in the past, and the current attempt to obtain wood during the noted incident, are clear indications of an unethical work environment. Additionally, we believe it is highly unlikely that the work environment is conducive for promoting honesty, integrity and ethical behavior, which provides countless opportunities for employees to perpetrate a fraudulent act.

BACKGROUND

Park Operations is comprised of several work crews that are responsible for maintaining the City's parks and green spaces. Ground crews operate out of several facilities around the City to effectively serve the areas for which each crew maintains. The work crews assigned to the Kennedy Maintenance Compound are primarily responsible for grounds maintenance. Their work is typically performed using smaller tools and equipment (i.e., lawn mowers, blowers, etc.), which is maintained and secured in the maintenance shed located on the property at the end of each workday.

The Park Construction crew typically performs heavy duty maintenance work such as tree removal and asphalt repair, through the use of heavy equipment (i.e., dozer, excavator, etc.). Although the Kennedy Maintenance Compound is not the primary work location for the Park Construction crew, a few pieces of heavy equipment is maintained there. The heavy equipment is primarily used in the burn pit located behind the Kennedy Maintenance Compound, to haul debris, including tree wood, removed by the Park Construction crew. All wood and materials removed by the crew is considered salvage and is prohibited from being removed from the work site for personal use or benefit. For additional protection, the perimeter of the Kennedy Maintenance Compound is armed with an alarm system to further prevent unauthorized access. In compliance with the City's fixed asset policy, equipment and tools are tagged for accountability purposes.

SUMMARY OF INVESTIGATION

Controls over Tools and Equipment

On May 23, 2016, Miller Protective Services notified Park Operations management about a security breach that occurred after work hours at the Kennedy Maintenance Compound. Upon arrival, Park Operations management noted that the maintenance shed was still secured. However, the gate leading to the burn pit was open and the excavator was missing. Based upon Park Operations management's preliminary inquiry and investigative procedures conducted at that time, the two employees (involved in the incident) admitted that they used the excavator to obtain salvage wood for their personal benefit and gain. As a result of their actions, the employees blatantly violated City policy and General Services Work rules which prohibit the unauthorized use of City equipment and removal of salvageable materials from any work site. We believe the opportunity for the unauthorized activity existed due to the following weaknesses:

- Lack of written policies and procedures for safeguarding the City's assets, including equipment, tools and facilities, to prevent unauthorized access.
 - We found no written policies and procedures requiring all keys to vehicles, facilities, equipment, or tools to be locked to prevent unauthorized access.
- Keys to the gate leading to the burn pit and to the excavator were not properly secured at the end of the day to prevent unauthorized access.
- No formal process in place for the issuance, return, and monitoring of tools and equipment to Park Construction and Kennedy Maintenance Compound Ground Maintenance crews. Based upon our review of the inventory listings and discussions with management, we noted that chainsaws are assigned to specific individuals. However, the employees can obtain other equipment and tools as needed to perform their job duties. Other than the chainsaws, there is no accountability over the other tools and equipment to identify who had them or document the status (whether returned or still in use). Poor accountability provides the opportunity for theft or misuse of tools and equipment.

NOTE: We were informed that the process used by the Center City crew provides accountability. We confirmed that the Equipment Assignment List maintained by the Center City crew documents equipment accountability and believe it should serve as a model to be used Division wide.

Inventory Accountability

We requested and obtained copies of the most current physical inventory count conducted of tools and heavy equipment for the Park Construction and Ground Maintenance crews assigned to the Kennedy Maintenance Compound. According to Park Operations management, physical inventories are conducted every six months. Even though we were provided with two physical inventory listings representing two separate inventory counts, we noted the following weaknesses:

- Lack of written policies and procedures to provide guidance for conducting the physical count, including but not limited to, identifying personnel responsible for conducting the physical inventory, frequency of physical inventory and adequate procedures pertaining to research and resolution of inventory variances.
- The physical inventory count listings provided do not identify the physical location for each inventory item. We confirmed that the format of the inventory listing is consistent with the one used by the Center City crew. However, we questioned the accuracy of the Park Construction crew's inventory listing and determined it to be inadequate to account for all the listed equipment and tools. Particularly since we were informed that heavy equipment was often maintained at several locations.
- No method in place to account for, monitor, track and safeguard salvage materials (wood) to ensure it's not removed for personal benefit or gain.

Overtime Usage

We reviewed payroll records for the period January 1, 2015 through May 27, 2016 for overtime paid to all employees assigned to the Kennedy Maintenance Compound and Park Construction crews. Our tests included analyzing the overtime to identify any trends and patterns that would suggest opportunities for fraud, waste or abuse to occur through ineffective management of overtime.

Based upon our review of payroll records, overtime usage was minimum for the Kennedy Maintenance Compound crews and excessive for some within the Park Construction crew. Given the different work that both crews perform, we did not compare overtime usage, which is expected to vary based upon the expertise required to meet the overtime need. However, we questioned the reasonableness of overtime by some Park Construction employees due to inadequate controls (i.e., lack of approval documentation, etc.) Total overtime pay for Kennedy Maintenance Compound was \$2,005.84 and \$70,606.88 for Park Construction as noted in the following tables (by employee).

**TABLE 1 – OVERTIME (OT) HOURS AND PAY BY YEAR
KENNEDY MAINTENANCE COMPOUND EMPLOYEES (KMC)**

DESCRIPTION	KMC 1	KMC 2	KMC 3	KMC 4	KMC 5	KMC 6	KMC 7	KMC 8	KMC 9	TOTAL
2015 OT Hours			4.00	7.00		0.00	15.00	4.00	7.00	37.00
2015 OT Pay			\$ 95.92	\$ 167.86		\$ -	\$ 444.54	\$ 95.92	\$ 135.89	\$ 940.13
2016 OT Hours	7.50	4.00	4.00	7.00	4.00	3.00	9.50	4.00	0.00	43.00
2016 OT Pay	\$ 188.61	\$ 100.59	\$ 64.58	\$ 169.53	\$ 96.87	\$ 54.49	\$ 294.17	\$ 96.87	\$ -	\$ 1,065.71

80.00 TOTAL OT HOURS

\$ 2,005.84 TOTAL OT PAY

**TABLE 2 – OVERTIME (OT) HOURS AND PAY BY YEAR
PARK CONSTRUCTION EMPLOYEES (PC)**

DESCRIPTION	PC 1	PC 2	PC 3	PC 4	PC 5	PC 6	PC 7	PC 8	TOTAL
2015 OT Hours	441.00	64.00	213.00	210.00	192.00	200.00	179.00	410.00	1,909.00
2015 OT Pay	\$18,292.78	\$ 2,735.25	\$ 9,552.80	\$ 4,971.80	\$ 7,977.74	\$ 4,929.72	\$ 4,423.47	\$17,215.08	\$70,098.64
2016 OT Hours	0.00	3.00	3.00	2.00		2.00	2.00	2.00	14.00
2016 OT Pay	\$ -	\$ 129.48	\$ 144.90	\$ 48.44		\$ 50.30	\$ 50.30	\$ 84.82	\$ 508.24

1,923.00 TOTAL OT HOURS

\$70,606.88 TOTAL OT PAY

NOTE: Overtime hours and pay depicted in the tables above also include straight time, half time, and out of class overtime. Shaded areas indicate that the employee was not assigned to the location during that period.

- We found no justification to support any of the overtime hours. Per management, overtime approval was primarily verbal. Without adequate justification to explain why overtime was worked and proper approval of overtime hours, the likelihood for errors and irregularities to occur is significantly increased. Further, it provides the opportunity for employees to receive overtime pay for hours not worked or payments to support other instances of unauthorized usage of City resources (equipment and removal of salvage materials).
- We noted a dramatic decrease in overtime usage during the latter months of calendar year 2015, specifically for the Park Construction employees. Further, overtime usage for 2016 was consistent with hours reported for Kennedy Maintenance Compound crew. We attribute the decrease in overtime usage to tighter controls over overtime including management's requirement for all overtime to be approved by management prior to being worked and monthly monitoring of overtime to ensure hours are reasonable and properly approved.

Conflict of Interest/Secondary Employment

- Since the employees involved in this incident admitted that they were obtaining the salvage wood for personal use, we conducted additional inquiries to determine if they had other work or business ventures that would potentially conflict with their job duties (i.e., obtaining or selling wood for a contractor). We requested a copy of Secondary Employment Forms but found that none had been submitted by any of the Park Operations employees to disclose secondary employment or other business ventures. Therefore, we did not identify any potential conflicts of interest.

RECOMMENDATIONS

We recommend that management implement the following to strengthen controls and help prevent or reduce the opportunity for fraud to occur.

- Establish written policies and procedures for safeguarding the City's assets, including keys, equipment, tools and facilities to prevent unauthorized access.
- Ensure all keys, facilities, including exterior gates, tools and equipment are properly safeguarded at the end of each work day to prevent unauthorized access. Additionally, management should explore the feasibility of installing a system that disables the heavy equipment's electrical or ignition system if universal keys are used. Or, explore the feasibility of installing a tracking transmitter system in each unit designed for construction and heavy duty equipment.
- Establish a formal process for tracking the issuance, return and monitoring of all tools and equipment assigned to Park Construction and Kennedy Maintenance Compound crews. The equipment assignment list maintained by the Center City crew provides accountability and tracking for tools and equipment and should be adopted as part of the formal process.

- Establish written policies and procedures for all facets of conducting a physical inventory count. Procedures should include but not be limited to identifying personnel responsible for conducting the physical inventory, frequency of physical inventory and adequate procedures pertaining to research and resolution of inventory variances.
- Revise physical inventory count listings to identify the physical location of each item, including applicable notes pertaining to the status of inventory as of the date of the physical inventory count (i.e., accounted for, unaccounted for) to track inventory at other locations.
- Establish a formal process to account for, monitor, track and safeguard salvage materials.
- Continue to ensure all overtime hours are properly approved prior to being worked. Additionally, management should maintain approval documentation and monitor all overtime for reasonableness.

The work performed in this investigation does not constitute an audit under Government Auditing Standards. We appreciate the cooperation of the management and staff of General Services and the assistance of MPD during our investigation. Please do not hesitate to call me at (901) 636-6241 if you have any questions or need additional assistance.

Sincerely,



Debbie Banks, CFE, CICA, CMFO
City Auditor

- c: Jim Strickland, Mayor
Doug McGowen, Chief Operating Officer
Patrice Thomas, Deputy Chief Operating Officer
Michael Rallings, Interim Director, Police Services Division
Mike Ryall, Deputy Director, Police Services Division
Rowena Adams, Deputy Chief, Administrative Services, Police Services Division
Gregory Woods, Deputy Director, General Services
Larry Jenkins, Administrator, Property Maintenance