



Fiscal Audit

Department of Public Works Public Works Trust Fund (PWTF)

Report by the
Office of City Controller

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December 6, 2018

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MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

December 6, 2018

To the Honorables: Mayor William Peduto and
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this Fiscal Audit of the **Public Works Trust Fund** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Public Works Trust Fund (PWTF) was established via Resolution #85 of 2006 to account for all reimbursements from other Governmental agencies to include but not limited to Federal, State, County, Municipal and City agencies and authorities. Funds received from new or existing contracts are deposited into the trust fund for the payment of expenses including supplies, equipment, vehicles, utilities, materials, rentals, professional and miscellaneous services and any other services. The Department of Public Works (DPW) utilizes the PWTF as well as other funds for the purchase of sodium chloride/rock salt.

We performed certain procedures to determine whether policies, procedures, and internal controls relating to the administration of the fund are adequate and that expenditures charged to the fund are allowable and properly supported. Based on these processes, we noted that a lack of policies and procedures led to several areas in which a weakness in internal controls existed. We specifically noted that Public Works did not adequately track equipment rentals, made untimely deposits, and deposited improper revenue sources into the trust fund. Although there was no evidence of misappropriation based on the procedures performed, the absence of a segregation of duties as well as the nature of records maintained to support the transactions indicated that it could occur and not be detected timely.

Improved controls in the form of formal policies and procedures, proper segregation of duties, pre-numbered applications as well as tracking of equipment rentals will increase oversight and mitigate any potential risk for irregularities. These issues and our recommendations are further discussed in the Result section of this report.

We appreciate the cooperation of the staff involved with the management of the fund as well as their patience during the course of our audit.

Sincerely,

Michael E. Lamb
City Controller

INTRODUCTION

This fiscal audit of the **Public Works Trust Fund** was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

SCOPE AND METHODOLOGY

Our procedures were conducted pursuant to the Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter. Our procedures covered the period January 1, 2016, to December 31, 2017.

The objectives of this audit are to determine whether procedures and internal controls relating to the administration of the trust fund are adequate. In order to achieve these objectives, we performed the following procedures:

- Interviewed the personnel from the Department of Public Works involved with the fund to gain an understanding of the fund's operations, processes, and internal controls.
- Reviewed procedures and related internal controls over the administration of the fund.
- Reviewed procedures for the receipt and deposit of all revenue categories.
- Applied procedures to a sample of expenditures to determine whether they were properly documented and approved.
- Performed variance analysis on expenditures for plausible relationships.
- Summarized revenues by source and expenditures by category for the period of our audit.
- Reviewed the Pennsylvania Department of General Service's contract for purchase of Sodium Chloride/Rock Salt and completed testing of purchases.
- Reviewed the Pennsylvania Department of Transportation (PennDOT)'s contract for reimbursement of State Roads and completed testing of reimbursements.

BACKGROUND

The Asphalt Reimbursement Trust Fund (ARTF) was closed and replaced by the Public Works Trust Fund (PWTF) via Resolution #85 of 2006. The PWTF is used to account for all reimbursements from other Governmental agencies to include but not limited to Federal, State, County, Municipal and City agencies and authorities. Funds received from new or existing contracts are deposited into the trust fund for the payment of expenses including supplies, equipment, vehicles, utilities, materials, rentals, professional and miscellaneous services and any other services. The Department of Public Works (DPW) utilizes the General Fund, Liquid Fuels Tax Trust Fund, and the PWTF for the purchase of sodium chloride/rock salt¹.

During the audit period, the Department of Public Work's PWTF received revenues from several sources, which included the following categories: reimbursements from PennDOT, equipment rentals, and other intergovernmental agreements. The city entered into a 5-year year contract with PennDOT, in which DPW agreed to perform snow and ice clearance together with the application of anti-skid and/or de-icing materials for certain State Highways. The agreement listed all roadways for which DPW was responsible, as well as the total expenditure amount of state funding. Furthermore, DPW was provided a lump sum payment at the end of each year, which was received via check to the city's Office of Management & Budget (OMB), then forwarded to DPW administrative offices.

DPW routinely rents the following equipment to city departments and various community groups: showmobile, trans-bleachers, wood barricades, bike fencing, etc. Although there was an absence of policies and procedures, auditors were able to uncover/confirm certain information regarding the equipment rental process, which is further outlined below. Heavy equipment rentals, such as showmobiles, trans-bleachers, trans-stages, and black box platforms require the applicant to complete an equipment rental application. The application is then reviewed and approved by the operations manager, who also checks for its availability and arranges for its delivery. DPW also rents other equipment including wooden barricades, water barricades, fencing, and jersey barriers. Invoices for equipment rentals pertaining to special events scheduled through the Office of Special Events are administered by the DPW Operations Manager².

Lastly, revenue is received from intergovernmental agreements, which covered a broad area (i.e. payments from Port Authority, UPMC, etc). Based on the sample tested, this revenue category included the following: restitution payments from Allegheny County, payments from Farmers Insurance, and payments for memorial benches. Auditors confirmed that insurance payments were deposited in error, as they are not allowable. Additionally, we also discovered that revenue received from contracts with W.G. Tomko Inc and MRL & Associate-Forbes Allies, in addition to city community gardens and memorial park benches is allowable and are considered intergovernmental agreements.

¹ The expenditures from the General Fund or Liquid Fuels Tax Trust Fund were not examined as part of this audit.

² The Operations Manager also invoices for street sweeping, litter pick-up, landscaping and other services.

DPW receives revenue from the rental/lease of city land for gardening. Applicants can make formal inquiries for the usage of specific garden plots via DPW's website. The administrator reviews the inquiry by placing the applicant on a waiting list for follow-up; once the plot is available, the administrator will mail/email the application to the applicant. The application acts as a Release and Indemnification form, which is a licensed agreement for a three year term. The application and a non-refundable \$20.00 fee is sent to the DPW administration office for review. The application is reviewed by the administrator, who sends a copy of the approved application and license to the applicant. DPW also received revenue from the sale of memorial park benches. The administrator communicates directly with the applicant by providing the application and making arrangements for payment. The applicant is required to submit a \$250.00 check for deposit along with the completed application to the DPW administration office. The payments received for all aforementioned revenue sources are forwarded to DPW administrative offices, who then transmit the payment to the Department of Finance (DoF) accompanied by instructions for deposit into the trust fund.

The city regularly enters into contracts with the Commonwealth of Pennsylvania for the purchase of sodium chloride/rock salt. The contracts examined during the audit period were for the purchase of rock salt from American Rock Salt Co, LLC. The contracts set forth the price and estimated quantity of sodium chloride/rock salt for the life of the contract. DPW purchases rock salt from American Rock Salt Co. LLC, while utilizing Three Rivers Marine & Rail Terminals for the delivery of said rock salt orders. DPW is required to comply with minimum and maximum parameters of rock salt purchased per winter season. Thus, initial fill orders for each location are placed at the start of a winter season, which is typically from October to April.

DPW has several locations that are used for the storage of sodium chloride/rock, which are listed below:

Table I: DPW Rock Salt Locations-Capacity	
<i>Division</i>	<i>Capacity (tons)</i>
1st Division	5,000
2nd Division	5,000
5th Division-Main Station	5,000
5th Division-Sub Station	5,000
Blawnox**	2,500
3rd Division	1,500
4th Division*	1,200
6th Division	900
Moore Park	800
Asphalt Plant	700
South Side Park	700
Total Capacity:	27,100

**The 4th Division was dissolved at the end of 2016 and is not used in the calculation of the total capacity*

***The Blawnox Division is shared with Allegheny County, in which the total capacity of 5,000 is split 50/50.*

Replenishment orders are placed and filled for each location as the supply of rock salt depletes. The site supervisor determines the additional amount of rock salt needed before contacting the superintendent of Public Works. The superintendent's office prepares a purchase order (PO) request and sends it to the manager of personnel and finance for approval. Upon approval, a purchase order number is assigned to the PO request, which is sent back to the superintendent's office for ordering. The superintendent's office places the order as well as coordinates for the delivery of the rock salt. The delivery driver provides a bill of lading (BOL)³ to the site supervisor. The BOL is forwarded to the superintendent's office for verification of the completed delivery via an internal tracking sheet. The administrative offices is forwarded the BOL in order to verify that the amounts listed on the American Rock Salt invoices were delivered, prior to payment being made.

Other expenditures from the PWTF included reimbursements for equipment rentals such as showmobiles and barricades, as well as supplies for sign replacements. Each expenditure is tracked through the administration office via their PO request system, which is also used for the purchase of rock salt. As part of the system, an internal spreadsheet is maintained, which includes pertinent information for each expenditure, such as vendor name, invoice #s, amount and date paid. In addition to the internal tracking spreadsheet, a departmental invoice (DI) is generated before the invoice is paid. The DI is signed by two approved signers within DPW and then sent to the Controller's Office for payment.

A total of \$2,495,016 was deposited into the trust fund during the period of our audit, January 1, 2016 through December 31, 2017 as detailed below:

Table II: Public Works Trust Fund (PWTF) Revenues For the Period January 1, 2016-December 31, 2017			
<i>Fund Source</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
Reimbursements from Contracts/Agreements	\$1,562,863	\$932,115	\$2,494,978
Property Damage	-	38	38
Total:	\$1,562,863	\$932,153	\$2,495,016

A total of \$1,565,987 was paid out of the trust fund to cover eligible expenses for the same period as detailed below:

Table III: Public Works Trust Fund (PWTF) Expenditures For the Period January 1, 2016-December 31, 2017			
<i>Category</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
Sodium Chloride/Rock Salt	\$513,102	\$1,044,880	\$1,557,982
Machinery & Equipment	-	6,650	6,650
Operational Supplies	-	1,355	1,355
Total:	\$513,102	\$1,052,885	\$1,565,987

³ The Bill of Lading lists the following: the drop off location (for rock salt delivery), date of delivery, PW #, the quantity in tonnage, BOL #, driver signature, and the received by (DPW employee) signature.

FINDINGS AND RECOMMENDATIONS

Auditors completed testing of revenues and expenditures to determine whether procedures and internal controls relating to the administration of the trust fund were adequate. More specifically, we initially⁴ sampled 10% of the revenues deposited into the trust fund during 2016-2017. The sample consisted of the following revenue categories: \$1,979,718 from PennDOT, \$29,222 from equipment rentals, and \$4,723 from intergovernmental agreements. We tested whether deposits were timely, allowable per the resolution, and had proper supporting documentation. There were no exceptions found during testing of payments received from PennDOT. Thus, internal controls related to the revenue received from PennDOT were sound. Conversely, several exceptions were found during the testing of equipment rentals and intergovernmental agreements, which resulted in several findings that are further discussed in the Findings and Recommendations.

We performed multiple tests on expenditures during the selected audit period. More specifically, auditors performed testing on rock salt purchased over 2016-2017 to verify whether rock salt was purchased at the contract price of \$62.50 per ton⁵. Testing confirmed that over the period of the audit \$1,489,545 worth of rock salt was purchased at the contracted price. Additionally, auditors tested expenditures to determine if there were any weaknesses in existing internal controls. The 10% sample consisted of the following expenditure categories: \$282,608 for rock salt/sodium chloride and \$8,005 of other expenditure types. The sample of expenditures tested were properly documented, approved, and were allowable. Although no formal policies or procedures exist for the purchase of rock salt, it was determined that strong internal control mechanisms existed. The creation of formal policies and procedures for the purchase of rock salt will further strengthen internal controls.

Finding #1: Lack of Written Policies and Procedures

The Department of Public Works does not have a set of formal written policies and procedures outlining the management of the Public Works Trust Fund. Auditors verified that DPW utilizes the resolution that established the trust fund due to the absence of formal policies and procedures. The resolution provides a basic outline of the trust fund's sources of revenue and permissible types of expenditures. Written policies and procedures are an important control that provides instruction, performance standards, management expectations, and a basis for measuring compliance with trust fund guidelines. The absence of formal written policies and procedures can lead to inconsistent practices and may preclude management from enforcing employee accountability.

⁴ Auditors expanded the initial sample size from 10% to 50% in an attempt to test revenue received from equipment rentals.

⁵ The contract covering 8/1/2016 to 7/31/2018 set the price per ton of sodium chloride/rock salt at \$62.50. Additionally, rock salt was not purchased by the PWTF from 1/1/2016 to 8/1/2016.

Recommendation:

Develop and implement a set of policies and procedures that outlines specific duties, authority, and responsibility of all involved in the management of the trust fund. The policies and procedures should include specific processes for the intake of revenue as well as for the expenditure of funds, and should be made available to all DPW employees involved in the management of the PWTF for the purpose of training and to establish employee accountability and management oversight.

Finding #2: Segregation of Duties

The Department of Public Works' equipment rental process significantly lacks a segregation of duties. None of the equipment rental processes are documented in the form of a written policy and procedure. During the testing of revenue from 2016-2017, auditors noted that the operations manager received and approved applications, received payments, issued invoices, and at times approved these same invoices. The operations manager was also responsible for past due accounts and delivering revenue for deposit. Effective internal controls which dictate proper segregation of duties should be maintained within the collection, recording, and custody of assets.

Recommendation:

Establish a policy and procedure to properly segregate duties within the collection, recording, and custody of assets deposited into the Public Works Trust Fund.

Finding #3: Inadequate Tracking of Equipment Rentals

Auditors were unable to test equipment rental applications and invoices due to the retirement of the operations manager, lack of policies and procedures, and the department's limited knowledge of prior systems/practices used for the equipment rental process. However, auditors reviewed supporting documentation provided for a sample of revenue received from the rental of equipment. Auditors noted that there wasn't a formal process in place that tracked the rental of equipment, nor were equipment rental applications pre-numbered. Additionally, there were significant gaps in invoice numbers as well as designations preceding the invoice numbers that remained unexplained. Invoice numbers should follow an approved system that is documented in a subset of the written policies and procedures. Additionally, invoice numbers should not be generated by the individual who processes and approves the application. Although auditors did not uncover fraud or theft, the absence of pre-numbered applications as well as the absence of an approved invoice numbering system could lead to such future risks.

Recommendation:

Develop and implement policies and procedures for equipment rentals to generate and assign pre-numbered invoices, in addition to tracking initial applications and the payments made.

Finding #4: Untimely Deposits

The Department of Public Works did not always deposit funds into the trust fund in a timely manner. Additionally, DPW does not have a policy and procedure in place that outlines the acceptable amount of time required for the deposit of funds into the PWTF to be considered timely. Auditors sampled and tested revenue deposited into the trust fund during the audit period. Revenue sources that were sampled included the following: reimbursements from PennDOT, equipment rentals, and other intergovernmental agreements. Auditors tested several attributes, which consisted of whether deposits were timely, allowable per the resolution, and had proper supporting documentation. We found that several exceptions existed in the testing of timeliness of deposits. Failure to deposit revenue in a timely manner increases the department's exposure to theft as well as the potential loss of revenue due to stale dated checks.

Recommendation:

Implement a policy and procedure indicating the number of days required for the deposit to be considered timely, which we suggest be 3-5 business days. The policy and procedure should also include procedures to safeguard the revenue until time of deposit. Lastly, DPW should time stamp checks on the date received and deposit the funds within the time frame considered for the deposit to be timely.

Finding #5: Improper Revenue Sources Deposited

The Department of Public Works deposited sources of revenue not designated for the Public Works Trust Fund. DPW does not have a set of policies and procedures outlining approved sources of revenue permitted to be deposited into the trust fund. Additionally, in the absence of a policy and procedure, DPW uses the resolution for guidance. Auditors tested a sample of revenue to determine whether deposits were timely, allowable per the resolution, and had proper supporting documentation. During the testing of revenue, auditors questioned insurance payments and facility payments deposited into the trust fund, which were then deemed unallowable. The deposit of improper revenue sources demonstrates a lack of oversight and lack of clarity in terms of allowable revenue sources to be deposited into the trust fund.

Recommendation:

Develop a policy and procedure that specifies allowable and unallowable sources of revenue that can be deposited into the trust fund. Additionally, the policy and procedure should provide a clear description of what to do with funds received that aren't permitted to be deposited into the PWTF.



CITY OF PITTSBURGH

Department of Public Works

William Peduto, Mayor

Michael Gable, Director

November 30, 2018

Caleb Mejias-Shell, MSA
Fiscal Audit Manager
City of Pittsburgh, Controller's Office
City-County Building
414 Grant Street
Pittsburgh, PA 15219

RE: Public Works Trust Fund

Dear Caleb:

Thank you for the opportunity to provide our response to the exit conference and resulting findings and recommendations, from your audit of the Public Works Trust Fund. Additionally, I wanted to thank you for your time, effort and thoroughness in conducting this audit. I hope that Public Works staff were all helpful and responsive in their interactions with you and your staff.

Finding # 1: Public Works is in general agreement with this finding, and will endeavor to produce a formal written policy regarding the management of the trust fund. It is important to note that at all times Public Works adhered to existing City policies already in place, such as the authorizing resolution, Finance Department policies regarding deposit of items, and OMB policies regarding procurement, and fiscal management.

Finding #2: Public Works is in agreement with this finding in general, but as is the case many times, lack of adequate staffing, and other constraints often interferes with the ability to consistently segregate certain duties.

Finding # 3: Public Works believes that all equipment rentals were properly tracked, and invoiced at all times. Some records were not able to be located and provided due to the sudden retirement of the responsible employee, who then was not available nor willing to transition files and information to others.

Finding #4: Public Works believes all deposits, with a few specific exceptions, were deposited in a manner consistent with the existing Finance Department's deposit timelines. The timing of the receipt of checks from those making payment to the City, was often inconsistent with respect to how the checks were dated, and received.

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November 30, 2018

Finding #5: Public Works is in agreement with this finding, however must note that in the specific instances where this occurred, it was a direct result of an employee disregarding specific instruction, and making those deposits without channeling them through the proper personnel and processes.

Once again, thank you for all of your time and effort regarding this audit, and it was a pleasure working with you and your staff.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Gable".

Michael Gable, CPRP
Director

cc: Dave Osterman – Department of Public Works