City Auditor's Office

UCD Warehouse Inventory Process Audit

Report Issued: September 23, 2021

Audit Report No. 21-01

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TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: September 23, 2021

SUBJECT: Utilities Collection and Distribution (UCD) Warehouse Inventory Process Audit

The City Auditor's Office has completed the audit of the UCD Warehouse Inventory Process. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to the Utilities Department management and staff for the courtesy, cooperation and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380 or Jessica Pautz at 242-3382.

C: Rob Hernandez, City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Jeff Pearson, Utilities Director
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Steven Perun, Warehouse Supervisor
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EXECUTIVE SUMMARY

The City Auditor's Office conducted a performance audit of the UCD Warehouse Inventory Process. This audit is not included in the City Auditor's FY21 approved Audit Plan; however, it was added to the plan after the Office conducted a review of the UCD Warehouse Inventory processes.

Based on the test work performed and the audit recommendations noted below, we concluded overall that policies and procedures are in place; however, controls over inventory management, purchasing, and receiving need improvement. We noted control deficiencies in the following areas:

- Inventory safeguarding
- Warehouse Standard Operating Procedures (SOPs)
- Inventory management
- Issue Sheet management and processing
- Warehouse purchase order management

For further details on these findings and recommendations, see the Findings and Recommendations section. While we noted a lack of controls in some areas (lack of segregation of duties in purchasing, purchase receiving, and inventory management), no material control deficiencies were noted.

BACKGROUND

The City of Cape Coral (City) was incorporated in 1970. The population has grown to approximately 200,000 residents currently. Utility operations and maintenance are handled by the UCD Division which is made up of three sections: water, sewer, and irrigation.

UCD is responsible for the operation and maintenance of over 2,400 miles of water, sewer and irrigation piping as well as meters, valves, fire hydrants, and manholes in the city. In order for operations and maintenance to be conducted, UCD must maintain inventory of items such as various size pipes, fittings, meters, hydrants, and manholes. This inventory is kept at the UCD Warehouse (Warehouse) which is currently staffed by one Supervisor and three Inventory Clerks.

According to the Warehouse SOPs, the mission of the Warehouse is to acquire, stock, and issue all parts and tools needed to install and maintain the City's water, irrigation, and sewer infrastructure. Annually as part of the City's financial statement audit a physical inventory must be conducted. As of the latest year-end inventory conducted October 1, 2020, the Warehouse had approximately 1,000 items, totaling approximately $1.5 million.

AUDIT OBJECTIVE

The audit objective was to determine if controls over the UCD Warehouse inventory process are in place to ensure inventory is properly safeguarded and reported inventory amounts are accurate and complete.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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.

FINDINGS AND RECOMMENDATIONS

FINDING 2021-01 Safeguarding of UCD Inventory Needs Improvement
Rank: High

Condition:
Physical Safeguarding
The Warehouse is considered "closed" access to others outside of Warehouse personnel. Closed access means that only authorized individuals have access to the Warehouse. The Warehouse consists of one main building, three Quonset huts, and various areas near these buildings, referred to as "the yard," where inventory is stored outside being exposed to the elements. Although the City considers this a "closed" facility, the property, and those inventory items stored onsite, are accessible by non-UCD staff, such as Public Works Fleet as well as the public. Items stored in the yard can be seen and possibly accessed from the road. The Warehouse and yard have surveillance cameras which, until recently, are not monitored by designated staff. Warehouse I is considered the main warehouse location which houses inventory items that can be easily stored in bins and is also the location for staff offices. This is the only building where access is partially restricted by badge or key. The side of the building has a gate that is not locked. The other three Quonset huts are open with no restricted access. Records from Facilities indicate that 69 individuals have access to the Warehouse. 64 (93%) are not Warehouse personnel.

Software Access
According to software access reports, a total of 12 individuals, including Utilities (seven) and Finance personnel (five), can make inventory modifications; however, one of the 12 (8%) are no longer employed with the City. Of the seven individuals in Utilities five individuals work in the Warehouse with direct access to inventory items. Of the five, four individuals (80%) are Inventory Clerks and should not have the authority to make adjustments in the software.

Criteria:

- Warehouse Standard Operating Procedures
- GAO-02-447G: Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property
- Physical security
- Restricted access to software

Cause:

- Physical security needs improvement
- Monitoring needs improvement
- Controls need improvement
- Inappropriate/ outdated software access
- Incomplete/ unclear SOPs

Effect:

- Potential theft of inventory
- Increased risk of unauthorized access
- Noncompliant with SOPs

RECOMMENDATIONS:

2021-01a: Improve physical security in and around the warehouse to ensure only authorized individuals have access to inventory.

2021-01b: Improve monitoring of software access to ensure proper safeguarding of inventory records and segregation of duties where appropriate to ensure only appropriate individuals have access to software.

Management Response and Corrective Action Plan:

2021-01a. On August 13, 2021, UCD received the purchase order for Smith Fence to install the warehouse perimeter fence. On August 31, 2021 the perimeter fence construction is complete and secure metal storage containers are in place which improved access and security.

2021-01a. Responsible Person: Collection and Distribution Manager

2021-01a. Anticipated Completion Date: September 3, 2021

2021-01b. Access to the UCD Warehouse software is reduced to 5 employees. Of the five employees, two are read-only, and three are able to utilize Tyler Munis so they can receive, pay, and order parts inventory. At a minimum, one UCD Warehouse employee will be assigned after-hours when crews need parts for emergency repairs. UCD will incorporate in the SOP to have ITS Department and Facilities to provide annual software and door access reports respectively for the warehouse.

2021-01b. Responsible People: Collection and Distribution Manager

2021-01b. **Anticipated Completion Date:** October 29, 2021

FINDING 2021-02 Warehouse SOPs Need Improvement to Ensure Inventory Accuracy
Rank: High

Condition:
Cycle Count Observations
Warehouse SOPs state cycle counts are completed periodically. Inventory levels are verified by the completion of cycle counts. As part of our audit, we reviewed the cycle count process. We noted that cycle counts are not completed on a regular basis in the Warehouse. Also, different sources indicate different time frames for completing cycle counts. For example, the Warehouse SOP states cycle counts are completed periodically; the UCD Warehouse Supervisor job description states weekly; and correspondence with the Warehouse indicates counts are done daily. As part of the audit, we planned to observe two cycle counts. The first count was conducted a day early due to Warehouse staffing availability. While we were not able to observe, we did review the documentation from the count. We noted that variances exist, and the count was not conducted blindly. We observed another cycle count and noted the following:

- The item location on the report was not accurate
- Variances between quantity on the report and actual counts
- Cycle counts are not conducted blindly

Cycle Counts Reviewed
As part of audit testing, we reviewed a sample of ten weeks to determine if cycle counts were completed in accordance with SOPs. According to sources, cycle counts should be conducted in the following manner:

- Weekly (at a minimum)
- Blind
- If variances exist, another count must be performed by a separate individual

Based on testing, we noted seven of the 10 weeks (70%) did not have a corresponding cycle count conducted. Of the ten weeks, three weeks had cycle counts; however, all three (100%) of those counts were not completed in a blind manner. A blind inventory count indicates the individual counting the items, does not know what inventory amount is recorded in the software. Lastly, identification of a second individual counting the variances was difficult as no signature or initials were present in two of the three (67%) instances.

	Population tested for attribute	Number of exceptions	Exception Percentage
Cycle count was not completed	10	7	70%
Cycle count was not considered blind	3	3	100%
Two separate people did not complete the counting if a variance was present	3	2	67%

Inventory Adjustments
As defined in inventory procedures, cycle counts are conducted in addition to year-end inventory. During the cycle counts process, adjustments to inventory may be necessary. Once an Inventory Clerk completes a cycle count, the results are entered into Tyler Munis by the Supervisor who generates a variance report. All variances are counted by a second individual, generally the Supervisor. If the variance is deemed correct by the Supervisor an automated adjustment occurs. As part of the audit, we reviewed the process and documentation for modifications to inventory items. We noted of three cycle counts completed, there were 73 items verified and 32 (44%) had a variance. Of these 32, 16 (22%) had a variance greater than five items.

Audit conducted cycle counts
As part of testing for the audit we judgmentally selected a sample of 40 inventory items from a population of 1,289 to conduct our own cycle count. This resulted in a sample tested of 40 inventory items, two items were considered inactive; therefore, our sample consisted of 38 active items. While conducting walkthroughs of the Warehouse and accompanying yard we noted that items are moved from one location to another frequently, or that one item can be found in several locations. We also noted the following:

- Variances between actual count versus amounts recorded in the software
    - Some variances greater than five items
- Inaccurate item location in software
- Methodology for recording items in software does not agree to how items are purchased or disbursed
    - For example, oil is purchased by quart; however, it is recorded in the software by total ounces and disbursed in three-ounce quantities.

The results of our testing are below:

	Number of Exceptions	Exception Percentage
Variance between actual count and recorded count	26	68%
Items with a variance greater than 5	8	21%
Items with inaccurate location	17	45%

Criteria:

- Warehouse Standard Operating Procedures
    - Inventory Control Sections
- UCD Warehouse Supervisor Job Description
- GAO-02-447G: Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property

Cause:

- Insufficient oversight

- Controls need improvement
- Insufficient/ unclear SOPs
- Insufficient review of adjustments

Effect:

- Potential theft of inventory items
- Inaccurate inventory totals
- Cycle counts not conducted in accordance with SOPs
- Inaccurate write-off of inventory items

RECOMMENDATIONS:

2021-02a: Revise inventory SOPs to ensure inventory counts are accurate and complete. Procedures, at a minimum, should include the following:

- Cycle counts
  - Define who performs counts
  - Frequency of counts
- Threshold for inventory adjustments in accordance with best practices (i.e., 5% error rate)
- To ensure accurate counts are performed in accordance with SOPs
- Standardization of methodology of measuring items (i.e., gallons vs containers)
- Standardize the process for review and authorization of variance adjustments
- Recording of inventory items[1]
- Tracking of inventory items[1]
- Re-ordering of inventory items[1]
- Management and disposal of obsolete inventory items[1]

2021-02b: To account for inventory stored in different locations, conduct an inventory item walkthrough to verify location accuracy and update software as needed.

Management Response and Corrective Action Plan:

2021-02a. The UCD Manager will work with UCD Warehouse staff to modify and improve the current Standard Operating Procedures to ensure inventory accuracy. The auditor's recommendations will be incorporated into the new UCD Warehouse Standard Operating Procedures.
2021-02a. Responsible Person: Collection and Distribution Manager
2021-02a. **Anticipated Completion Date:** December 30, 2021

2021-02b. The UCD Manager conducted an inventory item walkthrough with UCD Warehouse staff on September 10, 2021 to verify the location of each warehouse item and document the physical location in the inventory software.
2021-02b. Responsible People: Collection and Distribution Manager
2021-02b. Anticipated Completion Date: September 23, 2021

[1] See Recommendation 2021-03b

FINDING 2021-03 Inventory Management Needs Improvement
Rank: High

Condition:
Recording of Inventory
Large inventory items, such as fire hydrants and water meters, are stored uncovered in the yard. As part of the audit, we judgmentally selected18 items to obtain inventory data such as purchase orders and financial software supporting documentation. Seven of the 18 items (39%) were not recorded in the software. We were unable to determine the cost of these items since no records exists. We inquired of warehouse staff as to why these items were not recorded as inventory. We received the following responses:

- Item was purchased years ago
- The item was given to the Warehouse from another department
- Items were extra material from a project within another department
- KIT A's (purple irrigation connections) are installed at every residential property. They are assembled at the Warehouse and the parts that are used are issued out to the Warehouse prior to assembly. The completed product is not recorded in the software.
- Items are rented out to contractors for projects, not part of UCD inventory

Of the 11 items recorded in the software with the corresponding quantities on hand, there was approximately $126,000 of goods in the yard that were accounted for.

Obsolete Inventory
Currently, no policies or procedures exist on monitoring and managing inventory, when to mark an item inactive, or how to properly dispose of inventory. A review of 25 items from the master inventory list reflected that 15 of the 25 (60%) where purchased prior to July 2019. In addition, with the items reviewed, there is an average of 1,136 days between when the item was last purchased compared to now.

Re-ordering Process
The Warehouse SOPs outline a re-order process that states a report is run daily for items that have reached a 15-day supply. To determine supply, pre-determined levels are set-up in the software. The Warehouse SOPs are vague regarding the re-ordering process. As part of our testing, we determined that Warehouse staff follow one of two processes for re-ordering:

1. Warehouse staff run a daily re-order report; physically verify quantities on the shelf; and adjust order amounts accordingly.
2. Warehouse staff do not verify inventory counts prior to re-order. Orders are placed based on quantity in software and pre-determined supply that should be recorded in inventory.

Criteria:

- Warehouse Standard Operating Procedures
    - Section: Re-order Report
- AR 23 – Purchasing

    - Sections: Certified Agency Buyer (CAB); Receiver; and Process for Purchasing and Receiving
- Council approval for disposal of obsolete items

Cause:
- Weak inventory management
- Lack of controls
- Insufficient procedures
- Inconsistent processes
- Non-compliance with City/UCD policies and procedures

Effect:
- Potential theft of inventory
- Inventory amounts are inaccurate
- Under/overstated inventory amounts
- Storage of unnecessary materials
- Unnecessary purchases
- Excess inventory in Warehouse

RECOMMENDATIONS:
2021-03a: Record all inventory that is on premise upon receipt.

2021-03b: Define the process for:
- Recording of inventory items
- Tracking of inventory items
- Re-ordering of inventory items
- Management and disposal of obsolete inventory items

This should be incorporated in Recommendation 2021-02a.

Management Response and Corrective Action Plan:

2021-03a. All inventory that is received by UCD Warehouse personnel will be immediately be recorded upon receipt and updated in the UCD Warehouse software for proper tracking and control. The standard operating procedures will be strictly followed.
2021-03a. Responsible Person: Collection and Distribution Manager
2021-03a. Anticipated Completion Date: October 29, 2021

2021-03b. As previously stated in Auditor's recommendation for 2021-02a, the UCD Manager will work with the UCD Warehouse staff to modify and improve the current Standard Operating Procedures to ensure inventory accuracy. The auditor's recommendations will be incorporated into the new UCD Warehouse Standard Operating Procedures.
2021-03b. Responsible Person: Collection and Distribution Manager
2021-03b. Anticipated Completion Date: December 30, 2021

FINDING 2021-04 Issue Sheet Management and Processing Need Improvements
Rank: High

Condition:
Issue sheets are completed by individuals requesting inventory. The issue sheet has a signature line for Warehouse personnel to sign to account for who is issuing versus who is entering the inventory into the software system. An “Issued By” signature was not available on 23 of the 42 (55%) issue sheets and an “Entered By” signature was missing on 3 of the 42 (7%) issue sheets. Out of the 42 issue sheets reviewed, 19 had both signatures; however, 18 of the 19 (95%) were signed by the same individual. Without defined roles and separation between issuance and processing within the software increases the risk of theft. During review of issue sheets, adjustments were made on 22 of the 42 issue sheets. Of those 22 issue sheets, 21 (95%) of them did not have a signature or explanation to support the change. Without any support or acknowledgement of the adjustments made on the sheets, there is no way to determine who made the adjustment and was it made with the requestor. This increases the risk of theft.

In addition, issue sheets are supposed to be processed daily; however, there is no time frame defined in the Warehouse Standard Operating Procedures. Based on our testing, we determined 19 out of 41 (46%) issue sheets were not entered in the software on the day the issue sheet was completed. It is important to note that issue sheets are entered on average by the following day; however, this timing affects cycle counts and other Warehouse processes.

We reviewed 42 issue sheets and noted six instances (14%), where inventory was not properly recorded from the issue sheet to the financial system. Within the six instances, either inventory was never adjusted, a different amount was entered, or inventory was adjusted to the wrong item number. The SOPs do not define a monitoring process to identify inventory amounts are accurate.

As part of our audit, we conducted a walkthrough of the inventory process at Charlotte County. As part of Charlotte County’s process, inventory requests are submitted electronically through the software system. This allows for supervisors to approve inventory prior to being billed to their respective department. This also allows Warehouse staff to gather inventory prior to crews arriving. This gives the Warehouse the ability to know inventory counts instantly, reduces human error in interpretating individual handwriting, and saves time for crews working in the field. Another advantage is that crews can transfer material from truck to truck in the event of an emergency.

Criteria:
- Warehouse Standard Operating Procedures – Section: Inventory Stock Issues

Cause:
- Insufficient segregation of duties
- Unclear Policies and Procedures
- Insufficient monitoring
- Manual process

Effect:

- Inaccurate inventory amounts
- Potential theft of inventory
- Inefficient, time-consuming process

RECOMMENDATIONS:

2021-04a: To eliminate confusion and reduce improper procedure, update Warehouse SOPs to clearly define:

- Roles for issuing vs. recording inventory
- Proper procedure for adjustments or changes to inventory amounts
- Define time standards for processing issue sheets
- On-going monitoring to ensure amounts are correct and process is followed

2021-04b: Consider establishing automated, live time inventory request to improve efficiencies and reduce errors.

Management Response and Corrective Action Plan:

2021-04a. The UCD Manager will work with UCD Warehouse staff to modify and improve the current Standard Operating Procedures to ensure inventory accuracy. The auditor's recommendations will be incorporated into the new UCD Warehouse Standard Operating Procedures.
2021-04a. Responsible Person: Collection and Distribution Manager
2021-04a. Anticipated Completion Date: December 30, 2021

2021-04b. The UCD Manager and UCD Warehouse staff have been diligently working with the IT Department on the implementation of the new Tyler Enterprise Asset Management program. Staff has reached out to IT to consider implementation of an automated, live time inventory software program to improve efficiencies and reduce inventory tracking errors if a better system can be procured.
2021-04b. Responsible Person: Collection and Distribution Manager[2]
2021-04b. Anticipated Completion Date: (Plan) March 31, 2022
2021-04b. Anticipated Completion Date: (Automation) August 31, 2022

FINDING 2021-05 Warehouse Purchase Order Management Needs Improvement
Rank: High

Condition:

UCD Warehouse follows City procurement policies and procedures. Purchasing and receiving policies and procedures are included in three separate documents (Administrative Regulation 23, the Purchasing Division's Procurement Manual, and UCD Warehouse SOP).

[2] This finding has two Anticipated Completion dates. One for the plan for implementation based on process changes and improvements and one for the software automation "go-live"

AR 23

AR 23 states a Certified Agency Buyers (CABs) have the authority to obtain quotes for purchasing requests; and upon receipt of the hard copy of the purchase order, place the order with the vendor. It is important to note that CABs have the ability to "receive" ordered items in the financial software. AR 23 further states the receiver's primary responsibility, when goods are physically received, is to review the packing slip of items purchased, physically inspect items, and confirm that the items received are the items ordered. The AR also states that where personnel demands allow, the receiver shall always be someone different than the CAB. Currently, all Warehouse personnel are considered CABs and receivers. This creates a segregation of duties issue whereby the same individual who purchased items can also physically receive them and enter their receipt in the system.

Purchasing Division's Procurement Manual

The Procurement Manual outlines procedures, in conjunction with AR 23, for the receiving of goods and materials. The manual states, upon receipt, materials are to be inspected and the delivery ticket signed, noting the quantity received and then it is forwarded to the respective CAB for processing. A signature on the receiving report (packing slip) signifies the items have been properly received, inspected, and accepted. We reviewed a sample of purchase orders (POs) and noted the following:

- The City of Cape Coral utilizes the National Institute of Governmental Purchasing, Inc. Commodity/Services Code Book to establish inventory item numbers. Therefore, item numbers and descriptions on the packing slip do not match item numbers and descriptions on the purchase orders.
    - As part of our audit, we conducted a walkthrough of the inventory process in Lee County. We noted that their inventory item numbers ending digit matches the vendor inventory item number to allow for better identification of items.

- It is difficult to determine when material was physically received and item quantities and descriptions were verified because the PO will have a check mark or circle around the quantity indicating the material was verified for accuracy; however, supporting initials or dates are not written on the PO to demonstrate who physically inspected the items and delineate when goods were received.

Warehouse SOPs

The Warehouse SOPs describe procedures on how to complete a purchase order and how to receive material; however, a time standard of when inventory needs to be added to the software system is not defined. 10 of 58 (17%) were not entered on the same day that the material was received. Furthermore, three out of 58 (5%) were not entered within 24 hours of receiving. 25 out of 56 (45%) PO's tested, had the same purchaser and receiver signature on the packing slip.

Criteria:

- Warehouse Standard Operating Procedures – Section: Purchase Order Receiving
- Procurement Manual: Section 16, Receipt of Goods & Materials
- AR 23: Purchasing: Sections Certified Agency Buyer (CAB), Receiver, Process for Purchasing and Receiving, and Purchasing Invoicing Procedures

Cause:

- Insufficient segregation of duties between purchaser and receiver
- Vague policies and procedures

Effect:

- Inaccurate inventory amounts
- Potential theft of inventory

RECOMMENDATIONS:

2021-05a: To ensure appropriate segregation of duties for the receiving and recording of inventory items, follow City policies and procedures in AR23 and the Purchasing Division Procurement Manual, and designate separate Certified Agency Buyers (CABS) and receivers.

2021-05b: To ensure inventory items are accurately received, develop a system that allows for easy verification of item numbers and descriptions in comparison to purchase order information. (i.e., utilizing pictures of items)

Management Response and Corrective Action Plan:

2021-05a. The UCD Manager will work with the UCD Warehouse staff to ensure that the Certified Agency Buyer is not the same person who receives the warehouse material as set forth in AR-23 and any guidelines established by the Purchasing Division. The updated Standard Operating Procedures will include clear and concise procedures.
2021-05a. Responsible Person: Collection and Distribution Manager
2021-05a. Anticipated Completion Date: September 30, 2021

2021-05b. The UCD Manager will work with the UCD Warehouse staff to update the Standard Operating Procedures to ensure quick and efficient verification of item numbers and descriptions and we will utilize pictures of the items.
2021-05b. Responsible Person: Collection and Distribution Manager
2021-05b. Anticipated Completion Date: December 30, 2021

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers UCD Warehouse Inventory Process for the period of September 1, 2020 to May 31, 2021. Testing was performed using applicable Administrative Regulations, the Purchasing Division's Procurement Manual, and UCD policies and procedures that were in place during the scope.

Original records as well as copies were used as evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology. To gain a better understanding and to ensure Warehouse SOPs were being followed, cycle counts were observed and documented. Judgmental sampling was utilized to select samples for observation of cycle count completion by Warehouse; CAO reperformance of inventory counts for selected items; tracing items to financial system; obsolete inventory item selection; and issue sheet compliance testing. The tests above support the objective to determine if controls are in place to support that inventory is accurate and complete. Random sampling was utilized to select purchase orders to determine compliance with policies and procedures.

To evaluate and compare if appropriate controls were in place to properly safeguard inventory, the CAO conducted walkthroughs of two other UCD warehouses. Finally, reports from the financial system and the Facilities division were reviewed to determine who had access to the warehouse property and items.

In order to achieve the audit objective, we relied on the City's financial system, which is continuously reviewed/tested by the external auditors as part of the annual financial audit. No additional data reliance testing was deemed necessary.

APPENDIX A

Finding Classification
Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.