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June 20, 2014

Taryn Kryzda, County Administrator
Martin County Board of County Commissioners
2401 SE Monterey Road
Stuart, FL 34996

Ms. Kryzda,

As you are aware, on March 20, 2014, this office was contacted through the Clerk's Fraud, Waste and Abuse phone system by an individual who wished to lodge complaints about a County Department. During successive calls, the complainant self-identified as a county employee who believed that fraud or lack of proper inventory controls may be occurring at the Utilities Department warehouse, located in Jensen Beach.

Enclosed, you will find the results of our investigation conducted by this office, along with suggestions for possible policy implementation by the County to address areas of concern that were identified during our review.

Please be assured this office appreciates the opportunity to provide diligent and professional service on behalf of the residents, employees and officials of Martin County. If you have any questions regarding this particular matter or any other issue of concern, please contact me directly.

Respectfully,

A handwritten signature in blue ink that reads "Carolyn Timmann". The signature is fluid and cursive, with a large loop at the beginning.

Carolyn Timmann
Clerk of the Circuit Court and Comptroller
Martin County

Enclosure

REDACTED

TO: Carolyn Timmann, Clerk of the Circuit Court and Comptroller

FROM: Thomas Harmer, Professional Standards Director

DATE: May 21, 2014

SUBJECT: Fraud, Waste, and Abuse Complaint involving Utilities Department

In the week leading up to March 20, 2014, the Clerk and Comptroller's Fraud, Waste, and Abuse line received several phone calls from an as-yet unidentified caller, asking questions about what could be investigated regarding suspicious activities at Martin County's Utilities Department warehouse. Eventually the caller identified himself as a worker for the county, assigned to the warehouse. A meeting was set up to meet with the worker on March 20, 2014. Present at the meeting was myself and the Clerk. The employee was identified as Jeff Fruggiero, the Warehouse Supervisor for Martin County.

Mr. Fruggiero had basically two concerns that he felt needed to be investigated. The first complaint stemmed from installation of water pipes using illegal materials. The second complaint involved a possible theft of materials from the county warehouse.

In regards to the first complaint, Fruggiero explained that effective January 4, 2014, federal regulations prohibited the use of certain lead pipes and materials from being used with the installation of new water pipes and/or meters. It was Mr. Fruggiero's belief that on at least two occasions after January 4, 2014, Martin County workers had used these prohibited materials in jobs performed by the county. Fruggiero explained that he had lodged a complaint to the Environmental Protection Agency (EPA) and that they were currently investigating this. After he showed us paperwork indicating that he had filed the complaint, it was decided that it was appropriate for the EPA to complete their investigation, rather than initiating a county-level investigation.

Mr. Fruggiero's second complaint dealt with the possible theft of materials from the county's utility warehouse. Mr. Fruggiero offered us a copy of an inventory completed by himself and Ms. Beverly Hess, one of his employees at the warehouse. The inventory was dated 9/23/2013, 9/24/2013 and 9/25/2013. Mr. Fruggiero stated that this inventory is completed annually by himself and Hess. Normally, he would conduct half of the inventory review and he would assign the other half to Ms. Hess. He stated that after Ms. Hess completed her portion of the inventory, he examined it and determined there were too many instances where the number that Ms. Hess entered as a count on a particular item was the same as it had been the last time they did the inventory. Believing that items probably had been used or deployed to the field and the numbers that Ms. Hess reflected could not possibly be the correct numbers, he went back and spot checked several items. There were several instances where the actual number of items he counted differed from what Ms. Hess reported, but there were others where the numbers were considerably off and in some instances, despite Ms. Hess recording numbers, some items could not even be found. The following items, along with the number that Ms. Hess recorded, were identified by Mr. Fruggiero as no longer able to be located:

- UT635200A Wago 1 amp fuse 040-0016 (200 items)
- UT635201A Wago 1 amp fuse block #281-611 DFS-00271-008-09 (123 items)
- UT635202A Wago 2 amp fuse block #261-623 DFS-00271-008-10 (20 items)
- UT635203A Wago 47K diode block #280-613 DFS-00271-0801 (60 items)
- UT635204A Wago1 amp fuse plug #281-511 026-0032 (60 items)
- UT635205A Wago terminal block #280-616 026-0031 (40 items)

UT635206A Wago terminal block #280-616 026-0031 (50 items)
UT635207A Wago 1 amp fuse 1.25" 040-0015 (200 items)
UT635208A Wago 2 amp fuse 1.25" 040-0019 (200 items)
UT635209A Wago gray end caps #249-116 (25 items)
UT635210A Wago orange end plates #281-309 026-0024 (100 items)

Subsequently, Fruggiero confronted Ms. Hess with his findings and ordered her to change the numbers on these items to "0" to reflect that they were no longer in stock.

Mr. Fruggiero was concerned because of the many inconsistencies that Ms. Hess reported and because there was no way to determine the actual number of items that were gone. Mr. Fruggiero stated that he did not know if the numbers were inaccurate because of poor bookkeeping or because of theft of the items. Fruggiero stated that he had reported his findings to his boss, Daren Brothers, and that Mr. Brothers' response was "It's not a state audit." Mr. Fruggiero also expressed concerns about his continued employment because he was reporting these concerns. He was referred to the "Whistle Blower Act" so that he could research that on his own.

On March 21, 2014, I spoke with Taryn Kryzda, the county administrator, and advised her that I was looking into allegations being made by an employee of the county regarding possible theft of county property. Ms. Kryzda, without being prompted, asked if Jeff Fruggiero was the complainant. When I did not answer, Ms. Kryzda stated that Mr. Fruggiero had made some allegations to this effect in the past and that Roger Baltz was looking at the matter. Ms. Kryzda suggested, and I agreed with her, that an independent auditor should perform an inventory of the Utilities warehouse. She stated that HCA Asset Management was currently performing inventories of other county equipment and she would authorize them to perform an inventory on the warehouse, which is located on Hillman Drive in Jensen Beach. Arrangements were made with Nicole Carey to have this audit conducted and subsequently, Brandon Hirons of HCA Asset Management made contact with me to get a description of what needed to be done.

Upon completion of the inventory by HCA, Mr. Hirons provided me with a copy of the report. Hirons and his crew imported the numbers that were reported in the original inventory to the report that HCA completed and compared that to the actual numbers that they found. They articulated the differences in the report. I noticed that the 11 items listed above were not included in the report submitted by Mr. Hirons. I asked him about the omission and he stated that if the items were not in the report, that it was because they were not located in the warehouse.

With this information in hand, I set up an appointment to meet with Daren Brothers about this matter. The appointment was set up for April 28, 2014. Upon meeting with Mr. Brothers, he gave me a tour of the utilities warehouse and introduced me to Beverly Hess. I showed Mr. Brothers the 11 items that were listed on the initial inventory and questioned him about their whereabouts. Ms. Hess then stated to me that the items had been discontinued and were no longer kept in stock. Mr. Brothers, upon hearing Ms. Hess' explanation, confirmed that those items were no longer used, stating that the inventory concerned was from the Dataflow SCADA system. I asked Ms. Hess how the items were counted by her if they no longer existed and she admitted that she had just entered numbers into the inventory without actually counting the items.

When I asked specific questions about how the inventory was tracked, Mr. Fruggiero, who was now present in the room with myself, Brothers and Hess explained that each item in the warehouse was

assigned a bar code. Fruggiero showed me a scanner that can be used to check out items quickly. By scanning the bar code of the item, they were able to then enter a number of items that were going out or coming in and this information was then transferred to the IPS (Infor Public Sector), formerly known as "Hansen", software that kept track of the inventory. This system only keeps track of items going in and out of the warehouse and being assigned to specific workers. This system does not log what occurs to the items checked out, once they are used for installations or repair. There is currently no system in place to document what occurs to the property once it is deployed to a truck, nor documentation of installation.

When I asked questions specifically related to where the items go once they are checked out of the warehouse, I was referred to Wendy Wheeler whose office is located at the Utilities Department on East Ocean Blvd. I set up a meeting with Ms. Wheeler. I had randomly picked out items by UTC code and asked Ms. Wheeler to provide me with reports showing the history of these items. Ms. Wheeler provided me with reports on each item that articulated when items were received, issued, adjustments made, transferred from one location to another, returned from issue, returned to vendor and reversals (if an incorrect part was issued). When I examined these reports, I discovered that based on these reports, there was no way to determine how many pieces of each item were actually kept in stock. I also noted that there were many different "Inventory Quantity Adjustments." There was nothing to indicate what happened to the inventory once it was issued to a field worker.

On May 14, 2014, I again traveled to the Utilities Department office located on Hillman Drive. The purpose of this meeting was to obtain more information about the practices of logging inventory in and out of the IPS system. I set up the meeting with Daren Brothers, who advised that he would have Dan Crans (who was recently assigned the job of Warehouse Supervisor), along with Jeff Fruggiero and Beverly Hess attend the meeting. When I arrived, I also discovered that two employee representatives would be sitting in on the meeting.

I questioned the group about the Inventory Quantity Adjustments, specifically noting that there were positive numbers coming in and negative numbers going out. I asked how this occurs. It was explained to me that some of the positive numbers came in as a result of the county taking over subdivisions in the county, and that when that occurs, sometimes stock held by the previous operators of the subdivision would be turned over to the county. Additionally, I discovered that if a county utility employee had been overstocked with an item, they would sometimes return the items and instead of using the "returned from issue" option, it would just be noted as an Inventory Quantity Adjustment. There were never any notes made in the comment section though, indicating that this was returning stock. I was told that this option was the easiest to use.

Further questioning about the negative numbers of "Inventory Quantity Adjustment" found that when the annual inventory is completed, if an item is less than what is indicated on the previous year's inventory, the adjustment is made, but no follow-up is conducted to find where the items went. The difference is noted and no further action is taken.

On 5/19/2014, I met with John Kozey from General Services to discuss security measures at the utilities warehouse. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

Throughout this investigation, I was informed by several different people that the vehicle maintenance department of the county currently uses the IPS system to keep track of their inventory and specifically, that Rick Taylor could show me how to properly use the system to show the proper tracking of property. I made contact with Taylor, who agreed to meet with me on May 20, 2014.

When I met with Taylor, he showed me from start to finish how he logs information into the computer when he receives new stock. Knowing that I was coming for a presentation on how to use the system, he held aside a receipt for new stock that he had just received. When Taylor receives new stock, he first checks the IPS system to see if it is an item that he's previously logged into the system. If this is a new piece of equipment that they've never logged into the system, he creates a new entry for the part. Once he has done this, he enters the information required about the piece of stock, to include the part number, the cost of the item, and how many of the item is being purchased. Upon completion of this, he is then able to issue the part to the mechanic who needed the part. If there are extra parts ordered for future use, he can show them in-stock. When the mechanic is done installing the new part, Taylor then uses the work order produced by the mechanic to go back into the computer and show the issued part as being no longer in stock, with a reference back to the work-order number to show where the part went. The record now reflects all new items received, minus the part that the mechanic has installed.

I showed Taylor how the Utilities Department currently logs out parts to their workers, but once this is done, there is no way to keep track of what eventually occurs with the part. Taylor confirmed that by doing it this way, there would be no way to track the history of the part once it leaves the utilities warehouse. Taylor suggested that this was an easy fix though. He stated that when parts are placed on a truck for future use, the location of the stock could just be changed to the truck, rather than showing the part as issued. Taylor showed me in his system where his county truck had been issued a location number. He keeps the truck stocked with commonly used items that he will need, should he be called out for a road service call. By doing it this way, he is still able to keep track of the stock until such time that it is actually used. If he uses a part off of the truck, he is then able to use the work order number to show where the part went. He can then restock the part on his truck by changing the location of one of the parts from the warehouse to his truck location.

Conclusions/Recommendations

Of the two complaints originally reported by Fruggiero, I only investigated the complaint dealing with improper inventory audit practices. Because of the lack of proper inventory control, I was unable to make a determination of whether there were criminal activities occurring or if the problems were strictly record keeping issues. I was able, though, to discover that Beverly Hess did in fact enter numbers in the audit that she had not verified. Subsequent discoveries showed that even if she had put the accurate numbers into the inventory, this alone would have done nothing to show the actual inventory. Anytime a shortage or overage of a part was found, the computer records were just altered to match the actual number in the storage location. No follow-up was conducted to see where the parts may have gone, or in the case of overages, where the parts came from. Additionally, because of the high level of tension that exists between the workers at the Utilities Department Warehouse, there

seems to be very little teamwork to resolve problems as they arise. In fact, there seems to be an air of conspiracy at this location, with certain individuals looking for reasons not to be cooperative with each other.

To their credit, members of the Utilities Department have been taking steps to correct problems identified during this investigation. They are currently in the process of setting up formal training for all involved in working with the IPS system and they are working on several other issues outlined below. The following recommendations should be considered to resolve the issues that have been uncovered during this investigation:

Inventory

1. Formal training should be provided to operators of the IPS software, to ensure a proper understanding of the program. By her own admission, and the admission of her supervisors, Beverly Hess' training for this program consists mostly of her taking home the manuals and studying them with no direction from someone familiar with the system. While her efforts may be valiant, it's obvious that the system offers a lot more than what she is using. The same training should be provided to Jeff Fruggiero, as it appears that his knowledge of the system is even less than Hess'. It's believed that these two are the only persons who have access to making changes of inventory in the IPS system, but this should be confirmed and the number of people with this access should be limited.
2. Utilities vehicles should be assigned a "truck location" number that would then allow the warehouse to change the location of stock to the "truck location," thereby still showing the part(s) in stock, until such time that they are actually used.
3. Employees in the field should be required to complete work orders articulating what parts were used on what job, so that follow up can occur by Hess or Fruggiero, or other designees, indicating that parts have been used and are no longer in stock. Because many of the items used by this department are mere pennies to purchase, it may be wise to set a threshold price of items that need to be documented on the work order, because this may add more work that may not prove to be cost-effective in the long run. Scanners such as the one used in the warehouse might prove helpful to employees in the field when documenting the usage of materials on a particular job.

Premise Security

- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

Personnel

7. Some type of intervention may be necessary to promote a better work attitude between workers in the warehouse. The tension in that location is very high, with little to no talking going on between parties that work there. This leads to a very unpleasant work environment that was almost immediately noticed by me, and is surely noticed by clients that may be coming to that location on a regular basis.

8. Closer supervision during inventories may be needed to ensure that proper counts of parts are being conducted. Because of the inability to keep track of parts with the current way of documenting inventory, the annual inventory is useless anyway, but once these recommendations are instituted, annual inventory's will have much more value.

Follow-up

9. Follow-up should be conducted in six months to determine the progress made on these issues and to make further recommendations depending on new or continuing problems.

If you should have any questions pertaining to this report, please feel free to contact me at your convenience.