



# City of Gainesville

Office of the City Auditor

## MEMORANDUM

To: Honorable Mayor and Members of the City Commission and Audit Committee

From: Ginger Bigbie, City Auditor

Date: May 31, 2022

Re: Internal Control Follow Up – Gainesville Regional Utilities (GRU) Deerhaven Generating Station Theft

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### OBJECTIVE

The objective of this memo is to communicate Internal Audit's internal control follow up on the management of non-inventoried equipment at the Deerhaven Generating Station following a 2021 theft event.

### BACKGROUND

#### Location

The Deerhaven Generating Station began commercial operation in 1972 when Unit One, an 81 megawatt (MW) fossil fired generating unit began producing electricity. In 1981, Unit Two began commercial operation. This 235-MW generating unit became the first municipally owned coal burning electric generating unit in the state of Florida. Today, Deerhaven has been recognized as one of Florida's most efficient and economical power generating stations.

#### Theft of Equipment

In late July 2021, GRU was made aware of the theft of equipment from the Deerhaven plant. The Gainesville Police Department (GPD) conducted an investigation in collaboration with the Columbia County Sheriff's Office and the State Attorney's Office that resulted in a search of the suspect's home on July 29, 2021, recovery of stolen items, and subsequent arrest of a GRU employee for grand theft. The employee was working as a Control Specialist at the Deerhaven plant. Law enforcement discovered the suspect sold a small amount of equipment through online market places while much of the equipment was recovered from the suspect's home.

The recovered equipment belonging to GRU was returned to GRU in May 2022. Law enforcement in discussion with GRU staff at the time of seizure of stolen property at the suspect's home, originally estimated the total value of recovered items at over \$200,000. The current management estimate of recovered GRU items where a replacement cost could be determined is approximately \$59,000. A few of

the items were determined to be failed or scrap. The total number and value of stolen items that had been sold by the suspect could not be determined.

The GPD case # 0220006399 was closed on August 4, 2021. The State Attorney's case # is 2021-2319-A . The suspect plead guilty and was sentenced in early 2022.

## **INTERNAL AUDIT FOLLOW UP OF MANAGEMENT'S INTERNAL CONTROLS**

Internal Audit became aware of the GRU Deerhaven equipment theft late July 2021 during the GRU Badge and Key Access Audit that was underway at the time. Internal Audit met with the GPD investigator in August 2021 to gain a better understanding of the control environment at Deerhaven and the extent of investigative procedures conducted by GPD.

Internal controls around the management of non-inventoried equipment and tools at the Deerhaven location were not reviewed in the law enforcement investigation; therefore, Internal Audit met with management to assess the status of their process improvements to be reasonably assured the risk of future theft would be mitigated to an acceptable level. Follow up of the internal control environment around non-inventoried equipment management is described below.

### Internal Audit Walkthroughs in 2021

At the time of the theft (May 2020-July 2021) there was a large amount of equipment, including electronic devices of value, located in the Deerhaven admin building and warehouses that were not formally tracked in the inventory system, resulting in higher risk that theft or error would not be detected timely.

FERC (Federal Energy Regulatory Commission) has a requirement for any inventory that contains FERC related equipment to use best business practices for managing inventory. GRU items that meet capitalization thresholds are added to inventory at the time they are placed in service. Items not placed in service should not be added to inventory; therefore, no policy violation was noted. However, non-inventory items, especially items of value, should be tracked to ensure items can be easily located when needed, to ensure a desirable number of items are on hand, and to minimize risk of waste due to overstocking, loss or theft, or disruption of services due to shortage of parts.

During our initial post-theft walkthrough at the Deerhaven location with management in December 2021, we noted several process improvements in progress but substantial efforts were still underway. Procedures were developed to track non-inventory items of value. Indoor non-inventoried electronic items were moved to a secure location and added to the tracking system. Items in outdoor storage locations were under review to track, possibly relocate as needed, remain in place, or scrap. The additional non- inventoried items added to the tracking system were included in periodic cycle counts.

During our May 31, 2022 final walkthrough at the Deerhaven location with management, we reviewed the following risks:

#### *Risk 1*

Storage of non-inventoried electronic equipment in rooms within the Deerhaven administration building increases the risk that theft will not be prevented or detected timely.

*Results*

No equipment or electronic devices, other than those in use, were stored inside the main administration building. Electronic equipment is now stored in a cooled section of the warehouse with controlled access. Electronic items not in service have been added to the tracking system.

Auditors traced equipment recovered from the theft and stored at Deerhaven location to their storage areas. No exceptions were noted.

*Risk 2*

Storage of other non-inventoried equipment of value in warehouses with open entries increases the risk that theft of items of value would not be prevented or detected timely. Also, additional funds may be expended or repairs delayed if functional used parts on hand cannot be easily located.

*Results*

Management has made substantial progress adding non-inventoried equipment to the tracking system. Most items in the main warehouse are now tracked, and other storage spaces on site have been substantially cleared. The space is primarily used for unusually large items, work in progress and obsolete items that will be scrapped.

*Risk 3*

Physical security controls that are not effective increase the risk of unauthorized access to buildings, warehouses, and systems within them.

*Results*

While physical security controls were covered in a recent internal audit, and are also covered in utility regulatory audits, through inquiry and review of documents we noted enhanced physical security controls and procedures have been implemented. Security risks will be included in the cybersecurity internal audit kicking off in June 2022.

*Risk 4*

Non-inventoried equipment of value not formally tracked and monitored increases the risk that theft or error will not be prevented or detected timely.

*Results*

Non-inventoried equipment of value has substantially been added to the tracking system with processes still underway. Auditors observed a cycle count of 15 items after selecting warehouse storage locations outside of the cooled area which had been reviewed.

- A. For the first cycle count attempt, management generated the system cycle count list under auditor observation; however, this count could not be completed because the storage shelf ID tags had been shifted so the physical location for each item would require time to identify the correct location. It is unknown how long ago the shelf location tag changes had been made.

- B. For the successful cycle count, Internal Auditors judgementally selected 15 warehouse items, including locations that were known to previously contain non-inventoried or tracked items. The auditor recorded the number of items observed. The Warehouse Supervisor was asked to look up each of the 15 items in the tracking system by serial number.

Two exceptions were noted:

- AP12 SUMP PUMP 1/2 HP 10FT CORD.  
5 items on hand observed. Tracking system reported 6 items. Discrepancy of 1.  
Resolution: Management researched this discrepancy and learned 1 sump pump cord had been checked out over the prior weekend where the employee completed an entry on the Warehouse Material Issue Sheet for the item.
- FL, SLIP 12", B16 A105, 150 LB.  
5 items on hand observed. Tracking system reported 6 items. Discrepancy of 1.  
Resolution: Management's research of discrepancy is in progress.

#### *Recommendation*

Management should continue periodic cycle counts of non-inventoried equipment and tools of higher value. The person counting the items in storage should not know the number of items recorded in the system until the count is completed. Management should perform periodic spot checks (and physical counts for highest value items) until the cycle counts of non-inventoried equipment at the Deerhaven plant are consistently accurate.

## **CONCLUSION**

Based on our internal control follow up and results described above, procedures and controls over management of non-inventoried equipment have been reasonably strengthened.

We would like to thank Deerhaven Generating Station Management and staff for their time and professionalism to accommodate our internal control follow up.

Cc: Tony Cunningham, Interim General Manager, GRU  
Dino De Leo, Energy Supply Officer  
Melissa Jones, Director of Production

#### Internal Audit Team

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