

**PURCHASING DEPARTMENT
INVENTORY & STORES
AUDIT 06-11
JANUARY 10, 2007**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

January 10, 2007

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Inventory & Stores, Audit 06-11

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Inventory & Stores.

The Purchasing Director has already taken positive actions in response to our recommendations. We thank the management and staff of the Inventory & Stores Division for their cooperation and assistance during this audit.

Sincerely,

Roger Strout
Internal Audit Director

cc: Darrell Smith, Chief of Staff
Gregory K. Spearman, Purchasing Director
David Peon, Inventory Manager

**PURCHASING DEPARTMENT
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INTRODUCTION

The Inventory and Stores Division is operated by the Purchasing Department and is charged with maintaining the City's perpetual inventory system. The objectives of the Division are:

- To verify and record the actual receipt and issue of materials.
- To establish and maintain efficient on-hand inventory balances.
- To provide the proper quantity and quality of materials when furnished with the proper authority.
- To cooperate with other City Departments/Divisions to establish and maintain inventories at satisfactory and cost efficient levels.

The detail perpetual inventory records are maintained on the Advance Purchasing and Inventory Control System (ADPICS).

STATISTICS

Following are inventory statistics for the period October 1, 2005 to September 30, 2006.

Inventory Balance @ 10/1/2005	\$ 2,855,837
Plus: Inventory Receipts	19,932,792
Inventory Adjustments (net)	7,595
Less: Inventory Issues	19,814,956
Inventory Balance @ 9/30/06	<u>\$ 2,981,268</u>

As of September 30, 2006, there were nine inventory locations with 30 budgeted positions including an Inventory Manager and Inventory Field Supervisor.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY06 Audit Agenda. The objectives of this audit were to ensure that:

1. Adequate internal controls over inventory existed to prevent and detect errors and irregularities.
2. The perpetual inventory records of on-hand inventory balances were accurate.
3. Inventory was monitored for obsolete or low usage items.
4. System access capabilities were properly segregated.

STATEMENT OF SCOPE

The audit period covered inventory activity that occurred from October 1, 2005 to September 30, 2006. We did not audit the City's Fleet Maintenance Division's inventory as it will be reviewed during the City's Fleet Maintenance Division audit. Source documentation was obtained from the Purchasing Department and the Inventory and Stores Division. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's Advanced Purchasing and Inventory Control System (ADPICS). We assessed the reliability of the data contained in the Inventory Module of ADPICS and conducted sufficient tests of the data contained in the system. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Internal controls over inventory were adequate to prevent and detect errors and irregularities.
2. The perpetual inventory records of on-hand inventory balances were consistently accurate.
3. Inventory was monitored for obsolete or low usage items; however, improvement is needed in the timely review and submission of the obsolete and low use reports.

4. System access capabilities were not properly segregated; however, a compensating control was in place to ensure the propriety of transactions.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Inventory and Stores Division, they do present risks that can be more effectively controlled.

PHYSICAL INVENTORY COUNT PROCEDURES

Section 7.0(B) of the Division's policies and procedures manual states the policy regarding the physical verification of each item to the perpetual inventory records. However, written procedures for taking the physical inventory count have not been developed and incorporated into the manual.

The United States General Accounting Office's Executive Guide – *Best Practice in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property* states that establishing and documenting policies and procedures are essential to an effective and reliable physical count. Policies and procedures demonstrate management's commitment to the inventory physical count process and provide to all personnel clear communication and comprehensive instructions and guidelines for the count. Up-to-date policies and procedures provide a reliable and credible resource to employees, encourage compliance with management's directions, and form the basis for a reliable physical count process.

RECOMMENDATION 1

Written procedures for conducting the physical count should be developed and incorporated into the policies and procedures manual.

AUDITEE RESPONSE

Procedures have been written and incorporated into the Inventory and Stores policy and procedure manual.

KEYS TO INVENTORY LOCATIONS

Each inventory employee is provided with a key to their inventory location. The Inventory Manager and Inventory Field Supervisor each have a master key that allows them access to all locations. Our review disclosed that a list of employees issued keys to inventory locations was not maintained. Also, some keys to inventory locations did not have “do not duplicate” engraved on the key. Having a list of the employees issued a key would assist management in obtaining keys from terminated employees and will provide accountability for the keys issued. The engraving of “do not duplicate” on keys would help deter the duplication of keys.

RECOMMENDATION 2

A list of employees issued a key to an inventory location should be maintained and “do not duplicate” should be engraved on all keys except for the master key.

AUDITEE RESPONSE

A list of employees issued keys to the respective inventory locations has been created. This list will be maintained and updated accordingly. Appropriate steps will be taken to ensure keys are stamped “do not duplicate” except for the master key.

RECOMMENDATION 3

Consideration should be given to changing the locks to an inventory location when an inventory employee terminates employment or is reassigned.

AUDITEE RESPONSE

When an inventory employee is terminated or reassigned, the employee is required at the exit interview to surrender employee ID, keys, and any other City owned assets assigned as part of their previous responsibilities. In that there is a low turnover rate in the Inventory Division and there is no history of breaches in security or theft by any former employees, this recommendation (if implemented) would incur significant cost.

OBSOLETE OR SLOW-MOVING INVENTORY REPORTS

Inventory items that have not been issued within the last calendar year are listed on the Inventory Not Issued report. Items issued less than four times in the previous calendar year are recorded on the Slow-Moving Inventory report. These two reports are prepared annually at the beginning of the calendar year for each of the inventory locations, and are distributed to be reviewed with the user department.

The reports were sent to the inventory locations on January 6, 2006. The memorandum accompanying the reports did not provide a firm due date, but stated that the review of the reports was expected to be completed by May 1, 2006. As of October 3, 2006, 4 of the inventory locations had not completed their review and 2 other locations were still under review by inventory management. Consequently, inventory items that might have been removed from the perpetual inventory system remain on the shelf.

RECOMMENDATION 4

The Inventory Not Issued and Slow Moving Inventory reports should be reviewed with the user departments in a timely manner.

AUDITEE RESPONSE

The Inventory Not Issued and Slow-Moving Inventory Reports will be circulated to the user department within seven (7) days of running these reports. A cover memo from the Purchasing Director addressed to key decision makers at the user department level will accompany the reports with a request to the using department to respond within forty-five (45) days of releasing the Inventory Not Issued and Slow-Moving Inventory Reports. If Inventory has not received a reply from the user department within forty-five (45) days of releasing these reports, Inventory will schedule a meeting with the user department to resolve the handling of slow moving inventory items.