

## **INVENTORY AND STORES**

### **BACKGROUND**

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 Department are to:

- Verify and record the actual receipt and issue of materials.
- Establish and maintain efficient on-hand inventory balances.
- Provide the proper quantity and quality of materials with the proper authority.
- Cooperate with other city departments/divisions to establish and maintain inventories at satisfactory and cost effective levels.

As of February 21, 1997 there were ten perpetual inventory locations staffed with 32 employees including two inventory supervisors.

### **SCOPE**

The audit will cover the period from October 1, 1995 through March 31, 1997 and will focus on internal controls, the accuracy of inventory and the user departments' perceptions of customer service.

### **PLANNING**

1. Prepare and send an entrance letter to the Purchasing Director (Inventory is under the Purchasing Department).
2. Begin an in-house review, which will include the examination of:
  - Prior internal and external audit reports and management letters.
  - Department manuals and organization charts.
  - The City code and City Charter.
  - The Annual City Budget and Budget Supplements.
3. Schedule and hold an entrance conference with the Purchasing Director and Inventory Supervisors. Obtain the name of the primary department contact and arrange for workspace as needed.
4. Begin the preliminary survey portion of the field work by interviewing inventory employees. Document the interviews with narratives in the file.
5. Review and document the system of internal controls. Conduct several transactions walk-throughs. Revise documentation as necessary.
6. Prepare a preliminary survey memo and risk analysis. Discuss with the Audit Supervisor, including suggested audit objectives and testing procedures.
7. Prepare the audit program and include a time budget for completion. Index the work file and turn in for review.
8. Clear review notes and make changes, if necessary.

### **OBJECTIVE # 1**

To determine if internal controls over inventory issues, transfers and receipts is adequate.

9. Interview the appropriate personnel and review written documentation of the internal control structure.
10. Observe procedures at several inventory locations in order to determine adherence to stated and written controls. Expand testing as needed.
11. Summarize and conclude.

### **OBJECTIVE # 2**

Determine if inventory balances recorded on city records are accurate.

12. Using the FIV010 (computer generated) report, select a sample of inventory items from each inventory locations.
13. Count the items at each inventory site and compare to computer records. Reconcile discrepancies.
14. Summarize and conclude.

### **OBJECTIVE # 3**

Determine if user departments are satisfied with the level of service they receive from Inventory and Stores.

15. Prepare a customer service survey to send to the inventory user departments.
16. Evaluate the results of the survey and assess the level of performance.
17. Summarize and Conclude.

### **OBJECTIVE # 4**

Determine if the maintenance of obsolete or low usage items as inventory is appropriate.

18. Obtain copies of the obsolete and low usage reports. Determine the parameters on which the reports are based. Assess reasonableness.
19. Review reports for the numbers and types of items on hand. Determine if there are valid reasons for maintaining such items.
20. Summarize and conclude.

**WRAP-UP**

21. Prepare the work papers for review.
22. Prepare an audit draft report and turn in for review.
23. Clear review notes and make changes, if necessary.
24. Send a copy of the audit report draft to the auditee and schedule an exit conference, if necessary.
25. Incorporate auditee's written responses into the final audit report and send to the printer.
26. Update the permanent file.