

**PURCHASING DEPARTMENT
INVENTORY & STORES
AUDIT 19-07
APRIL 8, 2019**



CITY OF TAMPA

Bob Buckhorn, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

April 8, 2019

Honorable Bob Buckhorn
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Inventory & Stores, Audit 19-07

Dear Mayor Buckhorn:

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

We thank the management and staff of the Purchasing Department, Inventory & Stores Division, for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: Dennis Rogero, Chief of Staff
Sonya Little, Chief Financial Officer
Gregory Spearman, Purchasing Director
Ernest Mueller, Chief Assistant City Attorney
DeAnna Marshall, Purchasing Systems Manager

**PURCHASING DEPARTMENT
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/s/ Stephen Mhere

Auditor

/s/ Christine Glover

Audit Director

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BACKGROUND

Inventory & Stores is a division of the City of Tampa (COT)'s Purchasing Department. Its main function is to supply the various departments with materials they need to serve city residents. To meet that objective, Inventory & Stores operates warehouses at three locations and an electronics store. The warehouses are located at Water Distribution and Consumer Services (Water), Transportation & Stormwater Services (TSS)¹, and Advanced Water Treatment Plant (AWTP).

The Purchasing Department has assigned 13 fulltime staff to Inventory & Stores, including the inventory field supervisor, three lead inventory specialists, four inventory specialists, four inventory technicians, and one inventory control technician. Their responsibilities include receiving goods and, if defective or incorrectly delivered, returning them to the vendors. They also issue inventory items requested by user department staff as well as dispose of, repair, or replace stock if it has depreciated, is worn out, damaged, or has become obsolete. In addition, warehouse staff transfer stock items between user departments when necessary, initiate the purchase of stock items when they reach predetermined threshold quantities, and they perform periodic physical counts of inventory. The table below shows total inventory values as of November 30, 2018.

Table 1: Inventory Values in November 2018			
AWTP	Water	TSS	Electronics
\$3,591,657	\$1,345,641	\$395,820	\$83,226

Source: Oracle's *All Inventories Value Report* provided by Inventory & Stores Division

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY 2019 Audit Agenda. Its objectives were to:

1. Determine whether Inventory & Stores has policies and procedures documenting internal controls relating to its functions.
2. Assess whether safety practices at the warehouses are consistent with the COT's goal to provide a safe working environment for its employees.
3. Verify that there are effective internal controls to keep slow-moving, non-moving, or infrequently used items at a minimum.

¹ TSS also warehouses Tampa Fire Rescue (TFR) inventory. References to TSS in this report include TFR.

STATEMENT OF SCOPE

The audit covered Inventory & Stores current fiscal year's activities as well as those of FY 2018. Activities prior to FY 2018 were reviewed if they have a bearing on current practice or conditions. We looked in detail at the three warehouses. The electronics store was given a summary review because it is very small and, beyond purchasing items once in a while, Inventory & Stores has a very limited involvement in inventory management there.

STATEMENT OF METHODOLOGY

We reviewed COT ordinances governing Inventory & Stores Division's activities and relevant federal standards on influencing COT's safety program. We evaluated internal controls, reviewing the division's policy manual and observing inventory count practices during our tour of warehouses. During the tours we also interviewed division staff including the inventory field supervisor, lead inventory specialists, and other warehouse staff.

We requested Inventory & Stores to generate system reports from the inventory system (Oracle). We received the data, both on current total inventory, including obsolete inventory levels, and analyzed it. We also reviewed safety information provided by Risk Management and analyzed employee safety training records provided by Training & Management Development staff.

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.

AUDIT CONCLUSIONS

The following are our conclusions, based upon a review of documented policies and practices we observed:

1. Inventory & Stores has a policy manual documenting its internal controls. However, the policy manual has not been updated on some aspects of the division's activities.
2. The division endeavors to practice safety at its warehouses. However, there is potential for improvement once Risk Management fully implements COT's safety program.
3. There are effective internal controls to help maintain optimal quantities of inventory in the warehouses. However, the division defers to user departments on decisions regarding removal of items from inventory, resulting in relatively high quantities of obsolete items.

POLICIES AND PROCEDURES MANUAL

STATEMENT OF CONDITION: Inventory & Stores Division's Policy & Procedure Manual was approved in July 2002. Since then important aspects of the division have changed following an organizational restructuring, implementation of a new inventory system, and change of personnel. However, the manual has not been updated to reflect these changes. An example of an important change that took place involves fleet maintenance inventory function – it was moved out of Purchasing and assigned to Fleet Maintenance, a division of Logistics and Asset Management Department. Another involves the technology system used for inventory management: Oracle is now being used and it replaced a system called ADPICS. Also, in terms of personnel, Inventory & Stores was reorganized to have only one inventory field supervisor instead of two.

Currently, the policies and procedures manual does not reflect these changes. However, according to Inventory & Stores Division staff, the process to update the manual began several weeks ago and is well underway.

CRITERIA: Policy and/or procedure manuals are living documents that should keep organizations up-to-date with changes in both their internal and external environments. As such, they should reflect changes in organizational structure and personnel, any technology advances, industry best practices, or any other changes that affect their critical activities. To that effect, COT ordinance Chapter 2-46 requires all departments to not only establish policies and procedures but also maintain them.

CAUSE: According to Inventory & Stores, guidance provided by the 2002 manual was sufficient for its activities over the years and the division did not find a need to update its procedures.

EFFECT OF CONDITION: Without current policies and procedures, training new employees and integrating them into the division will likely be inefficient and less effective, and may also result in inconsistencies in carrying out critical functions. Not updating policies and procedures in a timely manner may be noncompliant with the requirements of COT Ordinance Chapter 2-46.

RECOMMENDATION 1: We recommend Inventory & Stores Division:

- a) Update the policy/procedure manual and make it available to all employees.
- b) Implement a time-triggered, event-triggered, or other strategy to initiate when the policy/procedure manual is revised. If time-triggered, the manual is revised every year, for example. If event-triggered, revision is initiated by a critical event, for example when an inventory system is changed or important division responsibilities are reassigned to a different division or department.

MANAGEMENT RESPONSE: The Inventory & Stores Division agrees with the observations. As you have stated, we are in the process of updating our manual and will continue to do so. As for maintaining a current manual, the event-triggered updates would be the course of action to keep our information up to date.

TARGET IMPLEMENTATION DATE: Expected target date for the completion of the updated manual, July 31, 2019.

FORKLIFT OPERATOR TRAINING

STATEMENT OF CONDITION: Staff members at the Water Production, TSS, and AWTP warehouses routinely utilize forklifts as part of their daily responsibilities. There are three forklifts at the Water Distribution warehouse and one each at TSS and AWTP. All 11 employees at these warehouses, as well as one designated as a floater, operate the forklifts. According to the inventory field supervisor, Inventory & Stores' policy is to provide forklift training to all employees when they are hired.

We met with warehouse staff to discuss their training and, with the exception of one newly hired employee, they all attested to taking the forklift operator course or refresher course. However, there is no documentation to support this attestation for some of the employees: a records search by both Inventory & Stores and COT's Human Resources Training & Management Development Division could only verify training for the inventory field supervisor and four employees. Inventory & Stores has discussed this issue with Risk Management and all employees not meeting the training standard have been scheduled to be recertified in January 2019.

CRITERIA: COT strives to promote a safe working environment for its employees. To that end, Risk Management is in the process of working with departments to implement department specific safety programs. That program will specifically identify all City Safety training required for their employees, including the requirement for forklift operators to be trained prior to independently operating forklifts and to be retrained and/or evaluated at least once every three years.

CAUSE: Inventory & Stores' policy manual does not address forklift operator training. While the City forklift training requirement has been in-place for many years, as evidenced by the majority of inventory technicians who were current with this training, the lack of an easy to use formal tracking mechanism allowed for several employees training to lapse.

EFFECT OF CONDITION: Lack of proper training or retraining on forklift safety may create an unsafe working environment for warehouse employees.

RECOMMENDATION 2: Inventory & Stores should consider working with:

- a) Risk Management to implement and enforce a forklift training policy that is consistent with the goal of aligning safety practices with best practice standards.
- b) Training & Management Development to formulate an effective strategy for scheduling forklift training/retraining as well as capturing and maintaining training records.

MANAGEMENT RESPONSE: Inventory & Stores agrees with this observation. We will continue to work with Risk Management to ensure that all of our forklift operators receive the proper safety training. We will reach out to Training & Management Development to establish a certification program in the Employee Development Portal.

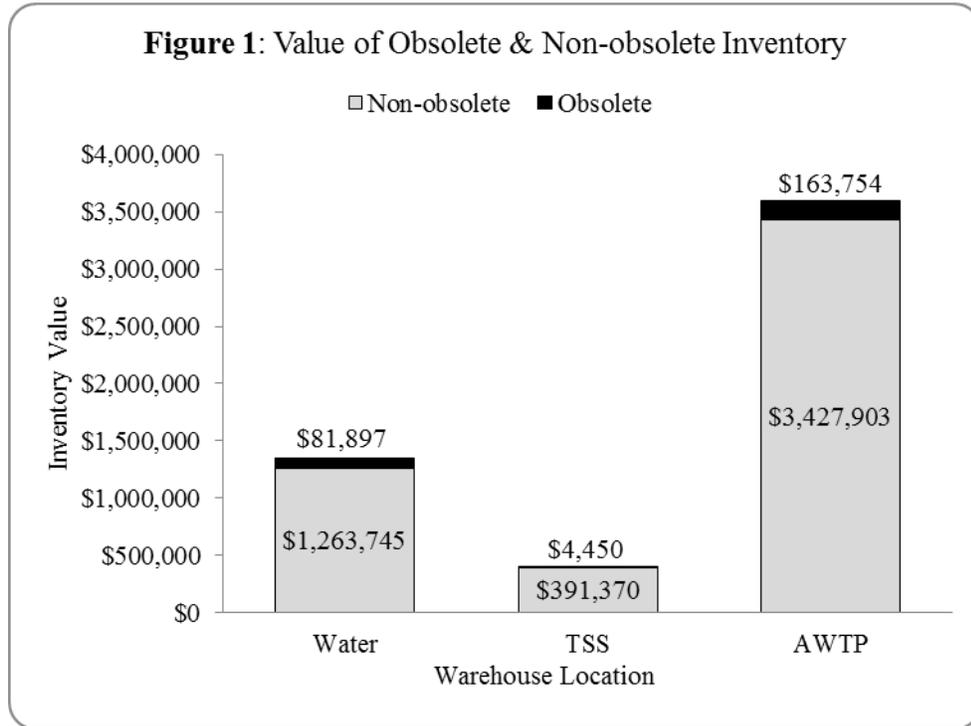
TARGET IMPLEMENTATION DATE: Risk Management and Training and Management Development will determine the timelines for recommendations a) and b). In the meantime, forklift training has been completed as of January 30, 2019, for all Inventory & Stores employees who had not completed training in the last 3 years.

HUMAN RESOURCES MANAGEMENT RESPONSE: Risk Management is working with the HR-Training Division on developing a formal forklift certification within the Employee Development Portal. This will provide for tracking and notifications to ensure that the formal classroom and hands-on training for the initial certification along with mandatory 3-year observations are performed to maintain the certification.

In addition, Risk Management will work with Purchasing and all Departments to ensure that all City safety training for their operations is included in the “Safety and Health Training” section of the Department specific safety program.

OBSOLETE INVENTORY

STATEMENT OF CONDITION: As of November 30, 2018, Inventory & Stores held \$250,101 worth of obsolete items at the AWTP, Water Distribution (Water), and TSS² warehouses. Figure 1 below shows how the inventory, including obsolete inventory, is distributed among the warehouses.



Source: Oracle's *All Inventories Value Report* provided by Inventory & Stores

The decision to remove non-moving items from inventory lies with user department(s). According to Inventory & Stores, the departments of Water and AWTP were notified about obsolete inventory but both advised warehouse staff to keep the items for possible future use. Below are examples of some of the obsolete inventory items:

- Three items valued at \$16,474 – in stock at Water for more than nine years.
- Six other items valued at \$8,310 – in stock at Water for more than 10 years.
- Twelve items valued at \$7,920 – in stock at AWTP for more than five years.
- Forty-nine other items valued at \$15,182 – in stock at AWTP for more than six years.

At AWTP, some of the items are stored outside the warehouse, possibly deteriorating due to being exposed to the elements.

CRITERIA: Inventory & Stores' policy manual directs that items that become obsolete in any warehouse be removed from inventory and either transferred to where they are needed or disposed of according to established procedure.

² The obsolete inventory shown in Figure 1 is only for Transportation & Stormwater; TFR had zero obsolete items.

CAUSE: Inventory & Stores can only dispose of obsolete items upon receiving the directive to do so by user departments. These departments have not given that directive and have expressed their intention to hold on to the inventory because they think they might need them in future. AWTP does not have enough warehouse space to store everything inside. So some items end up outside where they are exposed to the elements.

EFFECT OF CONDITION: Obsolete inventory unnecessarily ties up resources, taking storage space and staff time. Items that sit in a warehouse for extended periods create opportunities for inventory loss. Items that are exposed to the elements are likely to deteriorate, rendering them nonfunctional should they ever be needed for use.

RECOMMENDATION 3: Inventory & Stores should consider:

- a) Working with user departments to establish appropriate reorder levels for slow, non-moving, or infrequently used items.
- b) Establishing and documenting procedures that facilitate the timely identification of obsolete items.
- c) Taking appropriate measures to protect inventory items from exposure to the elements.

MANAGEMENT RESPONSE:

- a) We will continue to monitor inventory items for activity, identifying the slow move/no move items and maintain open lines of communication with the departments notifying them of our concerns.

Purchasing acknowledges Internal Audit's recommendation to remove/eliminate slow moving/obsolete Inventory stock items from various warehouse locations for TSS, Wastewater and Water, a meeting was held with each customer to discuss Internal Audit's findings and recommendations to obtain their concurrence and feedback. The results of those discussions are as follows:

- i). Wastewater is in complete agreement with our assessment of the obsolete items. We are waiting for instructions from Wastewater's Fiscal Analyst as to the correct accounting string to use in order to write-off the items.
- ii). Transportation/Stormwater agreed that five of the seven items listed are obsolete and they will provide the necessary accounting string for us to use in order to write-off those items. As for the two remaining items, they will continue to use the shelf stock until it has been depleted.
- iii). Water does not agree with our assessment of the obsolete items. They want to keep all of the items on inventory. They are concerned that an emergency might arise and they will not have the proper replacement available if the items are disposed.

- b) We currently have procedures listed in our manual for identifying obsolete items. They will be reviewed and updated if needed as we update our manual.
- c) As for protecting items from the elements, this is an issue with not having enough warehouse space. Because of the lack of covered space, it was necessary for us to select items that are least likely to be adversely affected by the elements and place them outside. This is common practice for this type of inventory.

TARGET IMPLEMENTATION DATE: July 31, 2019.