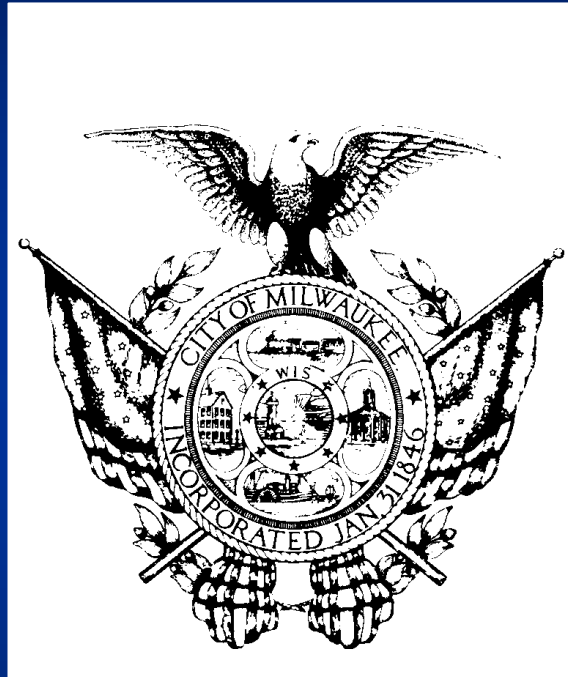


Audit of the Department of Public Works Fleet Inventory



W. Martin Morics

City Comptroller

Issued: June 2011

DPW Fleet Inventory Audit

Audit Objectives

- 1) Determine whether Fleet inventory accounts and records are accurate and complete.
- 2) Evaluate Fleet inventory policies, procedures, and internal controls.
- 3) Evaluate Fleet inventory physical security.
- 4) Evaluate Fleet inventory management and oversight.

DPW Fleet Inventory Audit

Background

	<u>2010</u>	<u>2009</u>
Total DPW Inventory	\$ 10.2M	\$ 9.7M
Fleet Inventory	1.1M	1.1M

DPW Fleet Inventory Audit

Background

- Fleet commodity parts, tools and supplies purchases for 2010 totaled about \$3,772,000.
- Approximately \$1,827,000 of the purchases was recorded into inventory.
- Approximately \$1,945,000 was directly purchased and expensed on a special order basis outside of the inventory process.
- Fleet inventory disbursements for 2010 totaled approximately \$1,855,000.
- Fleet inventory turns approximately 1.6 times per year.

DPW Fleet Inventory Audit

Background

- Fleet utilizes the Fleet Focus automated system to manage its inventory.
- Unlike other DPW divisions, Fleet Focus is a separate system not integrated with the FMIS financial reporting system.
- Fleet performs periodic cycle counts of quantities on hand throughout a ten month period, ensuring that all commodity items are counted at least once.
- Fleet inventory has not been audited since 1994.

DPW Fleet Inventory Audit

Objective 1: Accuracy of Inventory Records

The audit concluded that Fleet is not accurately or consistently recording its purchases of commodity parts, tools, and supply purchases.

- Consumable items are recorded at a price of zero, which understates inventory by approximately \$100,000.
- Adjustments to inventory prices result in lowered carrying value.
- Evidence was obtained of off-the-books inventory of spare parts.
- Unknown or unreconciled difference is recorded each month between City's financial reporting system and Fleet's inventory system.

DPW Fleet Inventory Audit

Objective 1: Accuracy of Inventory Records

The audit makes three recommendations to improve Fleet's accuracy of inventory records.

- **Recommendation 1:** Establish a process for getting current inventory records accurately valued.
- **Recommendation 2:** Eliminate all “off-the-books” inventory to reduce potential theft, loss, and waste.
- **Recommendation 3:** Redesign the inventory reconciliation process to place greater emphasis on the Fleet inventory system activity.

DPW Fleet Inventory Audit

Objective 2: Inventory Policy, Procedures and Internal Controls

The DPW inventory policy and procedures generally provide good guidance to the divisions, however, Fleet has not sufficiently implemented all aspects of the policy. In addition, the audit found the DPW policy could be improved to clarify the definition of inventory and provide guidance over the purchase of inventory.

DPW Fleet Inventory Audit

Objective 2: Inventory Policy, Procedures and Internal Controls

The audit makes five recommendations to improve Fleet's internal control policy and procedures.

- **Recommendation 4:** Expand purchasing guidance in DPW policy to include both inventoried items and special order items.
- **Recommendation 5:** Clarify DPW definition of inventory to establish when commodities are recorded as inventory.
- **Recommendation 6:** Formalize and document Fleet inventory procedures.
- **Recommendation 7:** Reduce overlapping job responsibilities.
- **Recommendation 8:** Enhance controls over manual adjustments.

DPW Fleet Inventory Audit

Objective 3: Physical security of Fleet inventory

The audit concluded that Fleet has good physical security controls with some improvement needed over the inventory access controls.

- The majority of Fleet inventory is stored within locked stockrooms and Fleet has installed key card access to a substantial number of entry points at its warehouse locations.
- Access to the locked stockroom appears excessive and the individuals with access do not appear to need 24/7 access to perform their job duties.
- Benefit of locked stockroom is rendered obsolete at Central Garage because keyed doors have not been restricted.
- Satellite locations still have keyed doors to the actual stockroom which are left open during repair shift.

DPW Fleet Inventory Audit

Objective 3: Physical security of Fleet inventory

The audit makes one recommendation to improve physical security.

Recommendation 9: Fleet should improve physical security by enhancing its inventory access controls, such as:

- Remove stockroom access to any individual that does not require access to perform job function.
- Develop a process for granting, monitoring, and removing temporary access.
- Install key cards on any remaining unmonitored points of entry including the satellite stockroom doors.
- Issue keys sparingly.

DPW Fleet Inventory Audit

Objective 4: Inventory Management and Oversight

The audit concluded that inventory management and oversight needs improvement.

- Current reporting does not monitor for compliance with DPW policies and procedures.
- Poor inventory practices occurring at Fleet indicate a need for increased management oversight.

DPW Fleet Inventory Audit

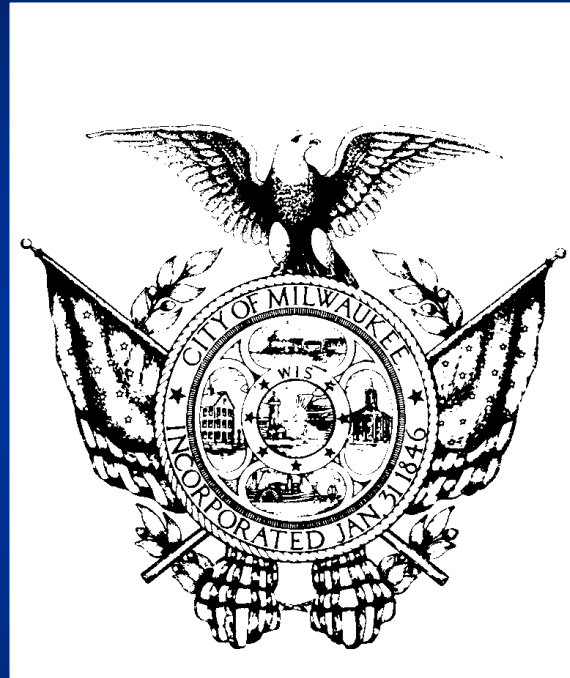
Objective 4: Inventory Management and Oversight

The audit makes two recommendations to improve inventory management and oversight.

Recommendation 10: Re-evaluate Fleet's inventory needs to determine if operational efficiencies could be made through establishing a just-in-time approach to purchasing parts versus stocking inventory.

Recommendation 11: In connection with Recommendation 6, DPW should develop new monitoring tools and reports to ensure Fleet's inventory transactions were processed accurately and in compliance with Fleet and DPW policy and procedures.

Audit of the Department of Public Works Fleet Inventory



W. Martin Morics

City Comptroller

Issued: June 2011