

**Post-Audit Review 21-06:
Moccasin Bend Inventory**

December 2022

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 14, 2022

To: Mayor Tim Kelly
City Council Members

Subject: Post-Audit Review of Moccasin Bend Inventory (Report #21-06)

Dear Mayor Kelly and City Council Members:

Attached is a summary report on the status of audit recommendations in our 2022 Moccasin Bend Inventory report. The purpose of this report is to confirm whether, and to what degree, management has implemented the recommendations made in the original audit.

The original audit concluded:

1. Purchases of inventory were made in accordance with laws, regulations, and city policies;
2. Several key inventory management best practices were not in place; and,
3. Overall, the inventory is safeguarded. However, the current process does not ensure an accurate perpetual inventory.

The audit had 22 recommendations to improve efficiency and effectiveness of the inventory process as well as address internal control deficiencies observed at the Moccasin Bend warehouse. At the time of this Post-Audit Review, twelve recommendations were not implemented, five were partially implemented, and five were implemented. Recommendations partially implemented and not implemented are herein reported to the Audit Committee for follow-up, as appropriate.

This Post-Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been

performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Ryan Ewalt, Acting Public Works Administrator
Joda Thongnopnua, Chief of Staff
Mark Heinzer, Deputy Director of Wastewater Systems
Justin Steinmann, Assistant Director of Public Works Administration
Julia Bursch, Deputy Chief Operating Officer
Jim Arnette, TN Local Government Audit

RECOMMENDATIONS NOT IMPLEMENTED (12)

Recommendation	Actions Taken
1 We recommended Public Works develop and implement performance goals.	Performance goals within Wastewater are currently based on three criteria; none of those criteria are related to warehouse/inventory. Moccasin Bend staff plan to work with DPW Administration to determine the most impactful performance goals related to warehouse inventory and will start working on that in the coming weeks.
2 We recommended Public Works develop comprehensive policies and procedures for the warehouse inventory process. We recommended the procedures define which variances (if not all) require research and explanation. We also recommended the policies document the type and frequency of cycle counts required.	Warehouse staff have met a few times to discuss policies and procedures. Due to staffing issues (still have 75% vacancies in warehouse positions), written policies are not finalized. That is now in progress. Once procedures are finalized, the staff will meet to explain the procedures and give copies of the SOP. Additional training will be given if needed.
3 We recommended management segregate warehouse staff duties, if practical, or implement mitigating controls.	The division is currently working on adding additional staff so they will have people to perform different duties.
5 We recommended a supervisor review and approve inventory adjustments.	Per our discussion with the Inventory Coordinator, a supervisor is not reviewing and approving inventory adjustments.
7 We recommended warehouse staff include detailed descriptions, a photo of the part, and the manufacturer part numbers in the Material ID.	The comprehensive effort to update part information is part of the warehouse management services contract the division is currently discussing with a service provider. Per warehouse staff, material ID fields are not currently being updated with photos and manufacturer part numbers.
8 We recommended management implement the available tools including the requisition function, ABC Classifications, audit intervals and economic order quantity.	Public Works is in the process of scheduling training with KCI (CityWorks vendor) to implement and use these functions/tools. Use of the requisitioning function in CityWorks will be contingent on a cost effective programming link to Oracle as the systems do not currently “talk” to each other.

Recommendation	Actions Taken
11 We recommended management implement barcoding for warehouse parts.	The comprehensive effort to implement barcoding is part of the warehouse management services contract Public Works is currently discussing with a service provider.
12 We recommended warehouse staff eliminate duplicate work by implementing real-time data entry.	This will be a part of the barcoding system Public Works will implement as referenced in recommendation 11.
14 We recommended Public Works implement review procedures to verify the receive cost in Storeroom matches the invoice quantity and cost.	Per Public Works they are working on a procedure where they would attach the invoice(s) to the item in Storeroom and verify cost are accurate. We reviewed a sample of ten receive transactions between August and October 2022. We found 40% did not include the correct cost in Storeroom.
17 We recommended warehouse staff periodically generate exception reports to identify issues without work order numbers as well as issues including zero cost parts.	Public Works plans to run and print exception reports (Zero Cost items, Zero on hand items, WO#,s, etc) from Storeroom. The reports will be used to research and work on issues (work order numbers and zero cost items) every other week as soon as they are fully staffed and have the resources to do so.
18 We recommended warehouse staff determine and update the cost of material ID's with zero cost values.	Management indicated they are currently working through the list of zero cost items and researching past invoices and/or current values. Our analysis of storeroom data identified 1,841 materials with a zero cost. We also found staff continue to add new parts without cost values using the "audit" transaction type.
21 We recommended Public Works update written policies to include the new procedure(s).	Written policies and procedures are in the developmental stage.

RECOMMENDATION PARTIALLY IMPLEMENTED (5)

Recommendation	Actions Taken
9 We recommended warehouse staff obtain signatures from the person picking up parts at the warehouse.	The Inventory Coordinator is obtaining signatures when documentation is provided. Public Works is working on implementing a more comprehensive procedure where every item picked up is signed for and documentation created, if necessary, to record the pick-up.
10 We recommended warehouse staff include responses to all available data fields (supplier, purchase order, signatures) when receiving product in Storeroom.	Per Public Works, warehouse staff is including all information available when receiving inventory items into Storeroom. A copy of the invoice is attached in Storeroom as well. We selected a random sample of ten receive transactions to verify implementation. 50% of material id's in the sample did not include a part number; 40% included an incorrect cost; 10% didn't include the suppliers name and 100% were missing the photo.
13 We recommended Public Works implement procedures to ensure transactions recorded in Storeroom are accurate and complete.	Per Public Works, a report has been identified in Storeroom that will print the items and quantities entered. We reviewed a sample of ten issue transactions between August and October 2022. We found all records included the purchase order number. We also selected a random sample of ten receive transactions to verify implementation. 50% of material id's in the sample did not include a part number; 40% included an incorrect cost; and 10% didn't include the suppliers name.
16 We recommended Public Works implement procedures to ensure cost of repairs and maintenance are accurately allocated to work orders.	The warehouse issues parts to specific work orders when appropriate. Public Works is also in meetings to discuss ways to improve the manner in which they record these costs. Our analysis of issue transactions from August through October 2022 identified one issue transaction that was missing the work order number.

Recommendation	Actions Taken
19 We recommended warehouse staff correct issue transactions missing work order numbers.	Public Works stated they are correcting transactions as they find work order number errors. (See #17) As previously reported, our analysis of issue transactions from August to October 2022 identified one issue transaction missing a work order number.

RECOMMENDATIONS FULLY IMPLEMENTED (5)

Recommendation	Actions Taken
4 We recommended management perform research to identify discrepancies in cycle counts.	Moccasin Bend has begun to reinstate regular cycle counts. Due to staff shortages, counts are performed on a monthly basis with an ultimate goal to perform them daily. Public Works stated discrepancies are researched.
6 We recommended warehouse staff maintain the support documentation (including research notes) as an attachment to the audit adjustment in Storeroom.	Support documentation is maintained. The adjustment documentation from the Oracle system is printed and attached to the Storeroom transaction. Invoices, ERFs, research notes and other support documents are scanned and attached to audit adjustments in Storeroom.
15 We recommended Public Works implement inventory controls to identify and surplus obsolete inventory.	Public Works uses inventory reports, general warehouse staff knowledge, and division confirmations to determine which parts need to be surplus.
20 We recommended Public Works implement procedure(s) to ensure invoices are accurate and in accordance with contract terms.	Invoices are reviewed and approved by the person receiving the good or service. Account Techs also reviewing invoices to verify the PO quantities and amounts match and that the prices charged match the current blanket pricing. Our review of ten purchase invoices found no discrepancies.
22 We recommended the Public Works Accounting Technicians follow the payment policies and procedures.	Accounting Technicians are following policies and procedures set forth by Purchasing, Accounts Payable and the department. Our review of ten purchase invoices found no discrepancies.

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