

FOLLOW-UP AUDIT REPORT
OF
INVENTORY POLICIES, PROCEDURES & CONTROLS
DEPARTMENT OF MUNICIPAL DEVELOPMENT
REPORT NO. 05-01-105F



City of Albuquerque
Office of Internal Audit and Investigations



City of Albuquerque
Office of Internal Audit and Investigations
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Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Follow-Up: INVENTORY POLICIES, PROCEDURES & CONTROLS
DEPARTMENT OF MUNICIPAL DEVELOPMENT
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FINAL

INTRODUCTION

The Office of Internal Audit and Investigations performed a Follow-up Review of Audit No. 01-105, Inventory Policies, Procedures & Controls, Public Works Department. After the issuance of the audit report, the Water Utility Division and the Wastewater Utility Division of the Public Works Department was removed from the City of Albuquerque by State of New Mexico Statute and placed into the Albuquerque Bernalillo Water Utility Authority (Water Authority,) a separate governmental entity.

During FY2005, the Public Works Department (Public Works) became part of the Department of Municipal Development (DMD.) The Fleet Management Division of the Public Works Department was transferred to the Department of Finance and Administrative Services (DFAS). The purpose of our follow-up was to review the status of the audit recommendations that had been implemented by the auditee.

At the time of the audit, four divisions of Public Works Department had warehouses or parts storerooms where inventory was maintained for use in the department's operations, as follows:

Wastewater Utility Division - Now part of the Water Authority.

Water Utility Division - Now part of the Water Authority.

Traffic Engineering Division (Traffic Engineering) - Now a division of DMD
Two warehouses: Signals & Signs

Fleet Management Division (Fleet Management) - Now a division of DFAS
Two warehouses: located at 6th Street and Pino Yards

Due to the creation of the Water Authority and the subsequent reorganization of certain City of Albuquerque departments as noted above, this follow-up review only covers the inventory operations of the Traffic Engineering Division and the Fleet Management Division which were Finding Nos. 1, 3, 4, and 11 of the audit report.

We determined the following, regarding the status of the recommendations that were made in the original audit:

RECOMMENDATION NO. 1:

The audit determined that if the five City warehouse operations located at the Pino Yards facility were consolidated, it would be feasible to use a single inventory control system to track and monitor all of these City assets. This could help to reduce inventory shrinkage, increase efficiency and reduce costs overall for the City.

The audit recommended that DFAS and Public Works evaluate the feasibility of consolidating the five City warehouse operations that were located at the Pino Yards facility.

The Administration responded to the audit as follows:

Under normal conditions, the Administration would agree with the finding. In fact, in prior years, studies have been conducted regarding the feasibility of warehouse consolidation. However, at this time, with a county-wide vote on unification pending in less than a month and the uncertainty related to the newly mandated Albuquerque Bernalillo County Water Utility Authority, it would appear to be imprudent to expend limited resources on such an activity.”

ACTIONS TAKEN

This finding is considered resolved. The legislative creation of the Water Authority and the merging of Fleet Management Division into DFAS eliminate the feasibility of warehouse consolidation and the related economies of scale which would have been gained.

RECOMMENDATION NO. 3:

The audit noted that the FY2003 complete physical inventory done at Fleet Management resulted in a reduction in inventory value of approximately \$20,000. A portion of this adjustment was related to an inventory theft in November 2002. The audit determined that there continued to be quantity discrepancies for parts inventory.

We recommended that Public Works Fleet Management review the possible causes for the quantity discrepancies in its parts inventory and implement corrective actions to mitigate the causes.

Public Works responded to the audit as follows:

PWD concurs. Fleet Management is in the process of reviewing the possible causes for the quantity discrepancies in its parts inventory. Corrective actions will be instituted as appropriate. Fleet Management will complete this activity by the end of the fiscal year.

ACTIONS TAKEN

The recommendations have been fully implemented. Subsequent to the original audit, Fleet Management closed the facility where the inventory theft in November 2002 had occurred. Our discussions with Fleet Management personnel indicated that internal controls over inventory were strengthened. OIAI reviewed the FY2005 year-end physical inventory count listing and noted only minor inventory adjustments which totaled less than \$1,000.

RECOMMENDATION NO. 4:

The audit identified the following problems:

- Traffic Engineering did not have an inventory system, either manual or computerized, to keep records of the items coming in and issued from its physical inventory. It did maintain records of materials and supplies that were used by work crews. This information was contained in work orders. However, these controls did not effectively compensate for the lack of an inventory system that recorded receipts and issues, and provided information regarding the quantities of items on hand in the physical inventory.
- Traffic Engineering employees did not perform either cycle counts, or an annual 100 percent physical inventory because there were not any inventory records in this division to compare

with the results of any inventory physical counts. There were no written inventory procedures.

- Traffic Engineering had an outside storage area in which large items were stored. There were items such as large aluminum poles for traffic signals, which were left over when Traffic Engineering changed the traffic signals at an intersection and needed to use different types of poles. Because the traffic signal poles are made of aluminum, they have a market value even though they were used. Traffic Engineering did not have a tracking process, to ensure that items such as these that had a market value were always returned to the division's storage area for later reuse.

The audit recommended that the Public Works Department take the following actions:

- Public Works should evaluate the feasibility of implementing the inventory module of the Work Management System at Traffic Engineering.
- Public Works management should ensure that Traffic Engineering prepares written inventory procedures for inventory control. The written procedures should identify the processes and responsibilities of the different inventory-related functions.
- Traffic Engineering should implement a tracking process, to ensure that items such as used aluminum signal poles that have a market value are always returned to the division's storage yard for later reuse.

The Public Works Department responded to the audit as follows:

PWD concurs. The Traffic Engineering Division is working with PWD IT personnel to develop a database that can function as an inventory module for the Division. In addition, Traffic Engineering will develop and implement a tracking process that ensures that used items with a market value be returned to the Division's storage yard for possible later reuse.

ACTIONS TAKEN

The audit recommendations have not been implemented. Traffic Engineering has not implemented an inventory system, either manual or computerized, to keep records of the items coming in and issued from its physical inventory. Traffic Engineering employees do not perform either cycle counts, or an annual 100 percent physical inventory because there are not

any inventory records in this division to compare with the results of any inventory physical counts. Traffic Engineering has not prepared written procedures for inventory control. Traffic Engineering has not developed and implemented a tracking process that ensures that used items with a market value is returned to the division's storage yard for possible later reuse.

The Traffic Engineering manager stated because of "lack of manpower," Traffic Engineering could not make progress on the audit recommendations.

FOLLOW-UP RECOMMENDATIONS

DMD should ensure that Traffic Engineering implements an inventory control system, either manual or computerized, to keep records of the items coming in and issued from its physical inventory.

DMD should ensure that Traffic Engineering prepares written procedures for inventory control.

DMD should ensure that Traffic Engineering develops and implements a tracking process that ensures that used items with a market value is returned to the division's storage yard for possible later reuse.

DMD should ensure that Traffic Engineering employees perform either cycle counts, or an annual 100 percent physical inventory, and compare the results to inventory records.

RESPONSE FROM DMD

"At the time of the audit, there was no inventory system for Traffic Engineering Operations due to a lack of staff to develop, initialize, and maintain such a system. In response to the original audit, two engineering intern positions were added to Traffic Engineering Operations to develop and initialize an inventory system. However, shortly thereafter, three engineering intern positions were cut from Traffic Engineering's budget. Traffic Engineering's remaining interns were used to accomplish the Section's core functions.

"Nonetheless, efforts have been made to develop a basic inventory system. The Work Management System has very limited capabilities and has not

been supported for a number of years, so it was decided to create an inventory system using Excel. The initial creation and inventory for the Pavement Marking Section has been completed and work has started on the Sign Section. Work on the Signal Section will be completed next. It is anticipated that a basic inventory system for all Sections will be in place by July 2006.

“Once the initial inventory systems are developed for each Section, a full 100% physical inventory will be completed. This is anticipated to occur in July 2006 and annually thereafter. Also, the developed inventory system includes establishing minimum stock-on-hand requirements or reorder thresholds to help monitor supplies.

“Items returned to the shops that are reusable will be included in the inventory system. Items returned to the shops that are unusable, but still have some market value (such as damaged aluminum signs and poles, and signal poles) will not be inventoried. These items are placed in a separate recycling dumpster which is salvaged once a month and accounted for by weight. It is not feasible at this time, based on both equipment and staffing constraints, to attempt to reconcile returned material by weight and ultimate salvage weight. DMD has worked with the crews to ensure they understand that scrap aluminum and similar materials are City property and must be handled and accounted for accordingly. Also, DMD has worked with local recycling companies who have agreed to notify Traffic Engineering Operations should they observe any scrap sign or signal parts attempting to be recycled.”

RECOMMENDATION NO. 11:

The audit determined that an internal control weakness existed with the main City warehouse’s “on-line” electronic requisition system. Using this system, a City employee who is an approved user can requisition items from the warehouse electronically. Supervisory review and approval of the specific order is not required before the order is placed.

The audit recommended that DFAS implement controls to ensure that City of Albuquerque supervisors can review purchases made by their employees from the Internal Services warehouse, via electronic requisitions, prior to the order being filled by the warehouse.

DFAS responded to the audit as follows:

DFAS concurs that supervisors should review items requisitioned from the warehouse. However, the Department does not agree that electronic requisitions should necessarily be approved prior to the order being filled by the warehouse . . . DFAS agrees that supervisors should monitor transactions using the available system reports, whether it is on a daily, weekly or monthly basis and will remind department directors of the availability of COGNOS as a management control tool. The overall issue of requisition approval will be addressed when the City of Albuquerque implements a new financial system.”

ACTIONS TAKEN

The audit recommendation has not been implemented. A City of Albuquerque employee who is an approved user can still requisition items from the Internal Services warehouse electronically without the system requiring any supervisory review and approval of the specific order before the order is filled by the warehouse.

FOLLOW-UP RECOMMENDATION

DFAS should address requisition approval when the City of Albuquerque implements a new financial system.

RESPONSE FROM DFAS

“DFAS agrees with the finding. The issue of requisition approval will be addressed in conjunction with the implementation of a new purchasing/inventory system for the City. In the interim period, department directors will again be reminded of their responsibility to monitor purchasing transactions using available system reports. A special effort will be made by DFAS to educate new department directors on the availability of COGNOS as a management control tool.”

CONCLUSION

The Department of Municipal Development can adequately safeguard City assets by developing procedures to account for all inventories.

We appreciate the assistance and cooperation of the Department of Municipal Development personnel during the audit.

Principal Auditor

REVIEWED:

Audit Supervisor

APPROVED:

APPROVED FOR PUBLICATION:

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