



Internal Audit Report for April 2021

Summary

One report was issued during the month:

Stores Inventory Audit Report

Discussion Section

This report highlights the significant activities of the Internal Audit Department during April 2021. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Stores Inventory

The Audit Department has completed a review of the accounting and administrative controls over Stores Inventory as of June 2020.

Scope

We reviewed the controls over the receiving, storing, and distribution of material and supplies. We also evaluated the effectiveness of periodic cycle counts, physical security, and reconciliations of warehouse inventory to the general ledger.

Background

The Contracting Services Unit of the Administrative Services Section is responsible for managing eight warehouses in Metropolitan's service area. These facilities control the receiving, warehousing, and distribution of materials, supplies, and equipment ordered through the Oracle Inventory R12 Module system. Employees requisition warehouse inventory via MyWarehouse; a one-stop-shop user interface with Oracle. Requisitions for tools, safety equipment, and district furnished equipment (DFE) are received and processed by the warehouse. Also, paint, pipe, electrical, janitorial, and office supplies are available from these facilities.

The Oracle Inventory R12 Module system provides inventory control and supply chain management measures, including inventory trends, stock on order, and supplier on-time performance. It also assists in periodic physical cycle count efforts by interfacing with handheld barcode scanners and enables data entry adjustments to inventory balances.

Operating Policies and Warehouse Inventory Procedures establish control over inventory and define verification processes. Operating Policy F-08, *Stores Inventory Verification*, sets the

policies to verify materials and supplies maintained in stores inventory. Whereas the *Warehouse Inventory Cycle Count Procedures* define inventory cycle count criteria as follows. The Controller's Section of the Chief Financial Officer establishes the criteria used for cycle counts. The Inventory Management Team Manager sets the standards for inventory classification, variance tolerances, and cycle count frequencies. Finally, the Warehouse Team Manager assists with research and approves adjustments to the cycle counts.

Metropolitan staff counts all inventory items valued from \$3.01 to \$49.99 once annually; they count items valued at \$50.00 or more twice yearly. Lastly, the Chief Financial Officer's staff performs surprise cycle counts at two warehouses each quarter. As of June 30, 2020, the Stores Inventory balance totaled \$11.6 million, excluding chemical inventory controlled separately by Water Systems Operations.

Opinion

In our opinion, the accounting and administrative controls over Stores Inventory include those practices usually necessary to provide for a generally satisfactory internal control structure. The degree of compliance with such policies and procedures provided effective control between November 2016 to June 2020.

Comments and Recommendations

CYCLE COUNTS

Periodic cycle counts provide an ongoing measure of inventory accuracy, procedure execution and help identify the root causes of inventory discrepancies. Management uses these counts to identify missing or damaged inventory and to adjust inventory balances in the accounting records.

The Operating and Expensed Equipment Manual, Chapter 5, requires all class A fixed assets such as audio-visual equipment, communication equipment, computer hardware, and peripherals to be counted every 12 months. Additionally, the manual requires all class B fixed assets such as construction equipment, lab equipment, pumps, vehicles, and portable buildings to be counted every 18 months.

Twenty-two of 34 cycle counts we tested revealed 40 items for which management could not produce evidence of counting.

Failure to perform accurate cycle counts may result in undetected loss of assets and incorrect accounting records.

We recommend that management take steps to ensure accurate and timely cycle counts are performed and properly documented.