REPORT TO THE CITY COUNCIL
BY THE CITY INTERNAL AUDITOR

AUDIT OF THE CITY OF SHREVEPORT CITYWIDE INVENTORY CONTROL

INTERNAL AUDIT REPORT (IAR) 280016-01

March 31, 2016

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Report Highlights	Page(s)
• Physical access controls for unused water meter inventory have been strengthened, but detailed records were not available to reconcile the total number of water meters purchased, used, and missing	4
• Lack of timely day-to-day inventory control	4-5

Leanis L. Steward
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The Council
City of Shreveport

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March 31, 2016

Councilman Willie Bradford
Chairman, Shreveport City Council

Dear Councilman Willie Bradford:

Subject: IAR 280016-01 – Audit of the City of Shreveport Citywide Inventory Control

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF THE CITY OF SHREVEPORT
CITYWIDE INVENTORY CONTROL
INTERNAL AUDIT REPORT (IAR) 280016-01

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

INTRODUCTION

The City of Shreveport has several inventory systems in thirty locations with a total value about $4.7M in 2014. The individual Departments are responsible for maintaining the inventory systems. The Accounting Division of the Finance Department is responsible for the accounting of all the inventory systems.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains 4 findings and 5 recommendations.

Risk Levels	Recommendations
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	• Secure the unused water meters in a controlled access locked area. Work towards reconciling the water meters purchased. (Finding 1)
Medium Risk Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.	• Provide training and request funding to create new robust inventory system and frequently check inventory control system in order to have better control of inventory. (Finding 2) • Correct any discrepancies of inventory items and follow up on major discrepancies. (Finding 3)
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	• Create guidelines for inventory control systems (Finding 4)

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FINDINGS	**Risk Factor**	**Page Number**

AUDIT OF THE CITY OF SHREVEPORT
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OBJECTIVES

We have completed an audit of Citywide Inventory Control of the City of Shreveport. The objectives of this audit were to ascertain the effectiveness and efficiency of inventory control throughout the City of Shreveport and determine whether inventory was properly tracked and safeguarded from loss and damage.

SCOPE AND METHODOLOGY

The scope of the study of internal control was limited to the general controls surrounding our objectives from January 1, 2012 to June 1, 2015. Audit procedures applied included the following: reviewing applicable records and documents, interviewing operating personnel and management, testing compliance with stated policies, practices, and procedures as well as applicable ordinances, laws, and regulations; and performing site visits.

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.

BACKGROUND

The City of Shreveport has several inventory systems in thirty locations around the City with a total value about $4.7M in 2014. The individual Departments are responsible for maintaining the inventory systems. The Accounting Division of the Finance Department is responsible for the accounting of all the inventory systems.

CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of Public Works, Water & Sewerage, and Finance for their cooperation and assistance provided during our audit. Based on our review, we believe management could enhance the efficiency and control environment by addressing the following concerns:

- Reconcile inventory items.
- Implement perpetual inventory system.
- Improve the accuracy of inventory.
- Create uniformity across various inventory systems.

1. Internal Controls for Water Meters

Criteria: Fundamental basis for inventory internal control is to number all locations, identify each inventory item, and track these items by location. An important inventory control is preventing unauthorized access, such as locking down the warehouse with a fence around the inventory, locking the gate, and only allowing authorized personnel into the warehouse.

Condition: Prior to 2014, several hundred brass water meters the Water and Sewer Department purchased (costing in the range from $394 to $16,418 for each meter) had been left outside in an open area without any control over the access to them. In 2014, an employee from the Water & Sewer Department was arrested for allegedly stealing items, such as brass meters and metal components. Indications are that the stolen meters were taken from the unsecured brass meters. Since the arrest incident, Water & Sewer Department management has secured the area and entered all the remaining meters' information, such as serial numbers and descriptions into the water meter inventory system (Enquesta). However, management was unable to reconcile how many meters were ordered, how many were used, and the total number missing.

Effect:
- City's properties were stolen.
- Untimely detection of errors and fraud.

Cause: There was no control over the access to the brass water meters.

Recommendation: We recommend management continue to secure the unused water meters in a controlled access locked area and work towards reconciling the water meters purchased to the water meters used.

Management Plan of Action from Water & Sewerage: All water meters that are purchased are entered into the Enquesta billing system. As meters are installed, removed or scrapped, they are designated as such. We will work with Enquesta to create reports on meter inventory status and will formalize a Standard Operating Procedure for regular inventory checks by serial number rather than by size and count. We will continue to keep access to the meters controlled and secured.

Timetable: Inventory report and Standard Operating Procedure will be in place by April 30, 2016.

2. Implement Perpetual Inventory System

Criteria: Perpetual inventory system is a system where inventory quantity and availability are updated on a continuous basis as a function of doing business.

Condition: At year-end, an annual physical count is performed by employees of each Department of the City's inventory locations. If the inventory count is different from the record, the inventory record is changed by employees to show the number of items counted. There is no further review of why the count on-hand is different than the count shown in the inventory record.

Effect:

- Possible delay in fulfilling service requests.
- Untimely detection of errors.

Cause: Lack of priority and funding to create and implement perpetual inventory system.

Recommendation: We recommend that Management:

- Provide training and request funding to create a new robust inventory system that is more user friendly and responsive.
- Check inventory control system frequently in order to have better control.

Management Plan of Action from Finance: Several new programs have been purchased by the City during 2015. While they may not address the inventory problem directly they may provide fix. The fire department is the first division to use one of these programs for inventory. We will monitor the accuracy of the counts. If they are within acceptable tolerance then we will move other departments on the system.

Timetable: It takes a while to enter all of the inventory items in to the system so it will be late this 2016 before we know if the fire experiment is working and we start moving other departments to system.

3. Inventory Count

Criteria: Inventory systems should reflect the amount of items on the inventory floor. When an item is added into the inventory system or is picked from the inventory for use, those items should be recorded into the inventory systems.

Condition: Our test work of inventory indicated that the Water & Sewer Construction Warehouse inventory had numerous errors, such as 91% of inventory had discrepancies. Most of these items were small valued items such as nuts, bolts, screws, and cleaning supplies. Some item counts were off by double digits, and there were some negative inventory numbers on the inventory report.

Effect: Unreliable inventory quantities.

Cause:

- Warehouse employees did not fully follow procedures and protocols for inventory control.
- Legacy systems would not let employees make timely corrections on inventory quantities.

Recommendation: We recommend that Warehouse personnel correct any discrepancies of inventory items and review the major discrepancies in their inventory systems.

Management Plan of Action from Water & Sewerage: The Water and Sewer Construction Warehouse inventory consists of almost 2,000 different items. The legacy inventory system would not allow for correction of actual inventory and as such, year to year analysis of inventory could not be correctly conducted. The Department of Water and Sewerage recognized this issue and reacted accordingly by implementing a new inventory system in late January 2016. The new inventory system is tied directly to the new asset management/work order system. Parts issued by the Warehouse are now assigned to job work orders for tracking of parts and materials as well as to provide overall costs of repair work.

Timetable: New inventory system is on-line. The Department will work throughout the year to ensure the system is properly utilized and inventory counts corrected for the year end audit in 2016.

4. Inventory Systems Uniformity

Criteria: A single standardized inventory system for the City of Shreveport would be easier for inventory personnel across the City to control and manage, reduce the time and money for training, and improve the accuracy of inventory count by reducing errors.

Condition: We observed that there are various types of inventory systems used, from a paper-based inventory system to spreadsheets and different computer-based inventory programs. There was no standard for inventory control for the City of Shreveport.

Effect:
- Difficult to assess and control.
- Extra cost for duplication of inventory.

Cause:
- Lack of funding to implement a standard inventory system.

Recommendation: We recommend that management create guidelines for inventory control systems that would outline minimum functional requirements.

Management Plan of Action from Finance: Because each department has different requirements for inventory, ranging from gas and oil at the airport to 3000 items required to keep ambulances running for fire department, one program may not work everywhere. While we do agree some standardization is necessary Management will work with departments and IT to come up with best software or control over inventory.

Timetable: NA

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bn:nd

c: City Council
    Clerk of Council
    Mayor
    Chief Administrative Officer
    Carr, Riggs & Ingram
    Department of Water & Sewerage Director
    Finance Department Director