



CITY OF RICHMOND

**Citywide Warehousing and Inventory
Management – Department of Public
Utilities (DPU) Main Warehouse (Phase I)**

**Office of the City Auditor (OCA)
Audit Report**

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Executive Summary

Citywide Warehousing and Inventory Management – Department of Public Utilities (DPU) Main Warehouse (Phase 1)

The Office of the City Auditor (OCA) conducted this audit as part of the FY 2024 audit plan approved by the Audit Committee. The objective of this audit was to evaluate the warehouse inventory management controls and efficiency regarding duplication/ordering for the warehouses operated by the City.

Background

Inventory management is the process of ordering, receiving, storing, tracking, and distributing goods, parts, and materials. An organization's inventory is one of its most valuable assets, and a shortage when needed, can be extremely detrimental. At the same time, carrying a large inventory creates the risk of spoilage, theft, damage, and shifts in demands, resulting in a liability for an organization and inefficient use of resources.

The City has six main warehouses that are operated by five different departments: Public Works (DPW), Public Utilities (DPU), Parks, Recreation and Community Facilities (DPRCF), Police (RPD), and Fire (RFD). Each Department oversees its respective warehouse and independently functions using internal staff, processes, and procedures.

Audit Report Issuance Approach

The audit will be issued in phases with this report covering the DPU Main Warehouse. The warehousing and inventory management processes and procedures employed for the remaining warehouses and the efficiency regarding duplication/ordering will be discussed in separate reports that will be subsequently issued. However, the OCA notes that due to the inaccuracies in inventory data described in this report, the DPU Main Warehouse data cannot be used to determine if there is a duplication of items being ordered among the different City warehouses.

Overall Conclusion

The DPU Main Warehouse has a perpetual inventory system to track the inventory and physical access controls that include gates, locked doors, and a camera surveillance system. However, opportunities for improvement exist as industry standards and inventory management best practices have not been fully implemented. The OCA found inadequate internal controls, oversight, and inventory monitoring that resulted in inaccurate and unreliable inventory data and misstatement of financial statement amounts. Industry standards and best practices need to be fully implemented to ensure accountability throughout the inventory management processes. The current environment exposes the City to significant risk for error, fraud, and waste that could go undetected.



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We note that the DPU Senior Director is fully committed to resolving the problems we identified in this report. In March 2024, DPU hired a Program and Operations Supervisor and is in the process of correcting the deficiencies noted and implementing industry best practices. According to management responses and the provided documentation, improvements have already been made, including the drafting of standard operating procedures and the creation of work standards that outline employees' roles and responsibilities. We will follow up on the progress made by DPU during our Quarterly Open Recommendation Follow-Up Reviews.

Summary of Opportunities for Improvements

Finding 1 - The inventory data was inaccurate and incomplete, resulting in the inventory value being overstated by approximately \$955,000 in the inventory system and FY 2023 financial statements. The inventory data needs to be reviewed and updated as information entered into the inventory system was not always accurate or complete. The OCA counted 72 inventory items valued at approximately \$2 million and noted discrepancies between the physical counts and the on-hand quantities in the inventory system for 42% (30/72) of the counted items. The OCA also noted that some inventory items delivered to the job sites, instead of the Main Warehouse, were received in the inventory system but not timely requisitioned from the inventory. As such, the items were incorrectly noted as in stock in the warehouse with available quantities.

The OCA further noted that approximately 14% (494 out of 3,602) of the inventory items included in the March 15, 2024, inventory report were set up in the system without unit costs. There are legitimate reasons for some items not having unit costs. However, there may be some items that should have unit costs. Without cost information, management may be unable to make informed budgeting, operating, and financial decisions, including developing and implementing inventory management controls and procedures.

Finding 2 - Improvements are needed in the inventory count process to ensure the accuracy of the inventory records. As noted in Finding 1, the inventory data was inaccurate, resulting in incorrect inventory balances. Per the United States Government Accountability Office (GAO),¹ inventory counts are an integral component of an organization's internal control environment to verify the accuracy of inventory records and financial data.² The OCA assessed the Main Warehouse's inventory count processes against the best practices issued by GAO and noted opportunities for improvement as follows:

¹ GAO is an independent, non-partisan agency that works for Congress and examines how the federal government spends taxpayers' dollars. GAO provides Congress and federal agencies with information to help the government save money and work more efficiently. The GAO is the supreme audit institution for the United States. Federal and state auditors look to GAO to provide standards for internal controls, financial audits, and other types of government audits.

² GAO-02-447G "Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," <https://www.gao.gov/assets/gao-02-447g.pdf>, pages 7 and 10



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- Written policies and procedures were not in place to detail the physical inventory count process, roles and responsibilities, and documentation requirements. The GAO³ notes that policies and procedures (1) are essential to an effective and reliable physical count, (2) demonstrate management's commitment to the count process, (3) provide clear communications and comprehensive instructions and guidelines for the count process, (4) ensures consistent and accurate compliance and application needed to achieve a high level of accuracy in the count process, and (5) becomes a basis for employee training.
- The current inventory count strategy will not identify incorrect inventory balances in a timely manner. Further, it may result in stock overages, shortages, and unnecessary spending of government funds. In addition, misappropriation or theft of these items may not be detected in a timely manner or at all. Under the current count process, approximately 26% of the inventory items totaling at least \$2.4 million on the March 15, 2024, inventory report would not be counted.
- There was no formal process to research inventory count variances and identify the root cause. Reconciling and researching count variances is an essential element of an effective physical count process that allows management to implement corrective actions, rectify underlying problems causing variances, and support inventory adjustments.
- Duties for the inventory count process were inadequately segregated without any mitigating controls. The warehouse staff conducting the inventory counts are also responsible for issuing and storing inventory. In addition, one of the staff processed and approved the inventory adjustments, including the items he counted.

Finding 3 - Inventory monitoring needs improvement to maintain optimal inventory levels and avoid excessive purchasing. The Main Warehouse has no written policies and procedures regarding inventory monitoring, tracking, or stock levels. A formal process was not in place to review and assess minimum and maximum inventory levels or re-order quantities. As such, some of the established levels in the inventory system may be outdated as needs for the inventory items may have changed. The OCA reviewed the inventory report dated March 15, 2024, and noted the following:

- 26% (934 out of 3,602) of the inventory items did not have established minimum inventory levels,
- 93% (3,338 out of 3,602) of the inventory items did not have established maximum inventory levels, and

³ GAO-02-447G "Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," <https://www.gao.gov/assets/gao-02-447g.pdf>, page 16



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- 23% (816 out of 3,602) of the inventory items did not have established re-order points.

The OCA also found that the established minimum inventory level was not met for 262 inventory items, and the established maximum inventory level was exceeded for 151 inventory items. The inventory value of the quantities exceeding the established maximum inventory levels totaled approximately \$96,000.

Adequate inventory management strategies and procedures help ensure an organization has the right amount of stock on hand to prevent inventory shortages and excessive purchases, reduce inventory carrying costs, and minimize waste and losses. The OCA noted that as of March 24, 2024, 319 obsolete items and 42 inactive items were included on the Inactive Items Report. DPU management indicated these items are still in the warehouse as the department does not have a disposal policy.

Finding 4 - Safeguarding of inventory needs improvement to prevent deterioration and damage. Inventory items stored in Building 20 at the rear of the Main Warehouse premises are improperly safeguarded and subject to damage and deterioration. Part of this building has been demolished, and the remaining portion is used to store inventory items. The roof of the remaining portion of the building is comprised, and the inventory items are exposed to the weather elements, falling debris, and pests. While conducting physical inventory counts, the OCA noted rust damage and deterioration to some of the items. As of the inventory report dated March 15, 2024, 14 items were in the old building with a total inventory value of approximately \$249,210. In addition, the building appears unsafe, and employees may be subject to injury when entering the building, thereby creating a liability for the City. Inventory should be safeguarded to prevent or promptly detect and correct theft, damage, and/or unauthorized use or disposal of assets, materials, and supplies.

Finding 5 - Written policies and procedures are not in place to govern and guide DPU's Main Warehouse operations and inventory management function. A lack of policies and procedures could lead to staff confusion, inconsistent application of processes and procedures, non-compliance with laws and regulations, resulting in legal risks, inefficiencies, and an organization not achieving its mission and objectives. Per the GOA,⁴ management is responsible for developing and implementing policies and procedures to achieve an entity's objectives and guide its operations.

Summary of Recommendations

The OCA issued 13 recommendations and management concurred with 13 recommendations. Management has advised that eight recommendations have been partially implemented, and five recommendations remain open as of the report issuance date. A detailed listing of recommendations and management responses are included in **Appendix C**, and a listing on the status of all recommendations made in this report as of the report issuance date is included in **Appendix D**. We will review the implementation status of the recommendations during our Quarterly Open Recommendation Follow-Up Review.

⁴ GAO-14-704G, "Standards for Internal Control in Federal Government," <https://www.gao.gov/assets/gao-14-704g.pdf>, pages 7-8



Introduction, Background, and Internal Controls

Introduction

Overview of the City's Warehouses' Operations and Inventory Management Processes

Warehouse operations and inventory management processes and procedures are decentralized in the City. The City has six Main Warehouses that are operated by five different departments: Public Works (DPW), Public Utilities (DPU), Parks, Recreation and Community Facilities (DPRCF), Police (RPD), and Fire (RFD). Each Department oversees its respective warehouse and independently functions using its own staff, processes, and procedures.

Audit Report Issuance Approach

The audit will be issued in phases with this report covering the DPU Main Warehouse. The warehousing and inventory management processes and procedures employed for the remaining warehouses and the efficiency regarding duplication/ordering will be discussed in separate reports that will subsequently be issued. However, the OCA notes that due to the inaccuracies described in this report, the DPU Main Warehouse data cannot be used to determine if there is a duplication of items being ordered among the different City warehouses.

Background

What is Inventory Management and Why is It Important?

Inventory management is the process of ordering, receiving, storing, tracking, and distributing goods, parts, and materials. An organization's inventory is one of its most valuable assets and a shortage when needed can be extremely detrimental. At the same time, carrying a large inventory creates the risk of spoilage, theft, damage, and shifts in demands, resulting in a liability for an organization and inefficient use of resources.

Adequate inventory management strategies and procedures help ensure an organization has the right amount of stock on hand to:

- Prevent stockouts and overstocking,
- Reduce inventory carrying costs, and
- Minimize waste and losses.

Proper inventory management also improves warehouse operations, resulting in the following:

- Better order fulfillment,
- Improved quality control checks,
- Increased employee efficiency, and
- Reduced employee risks.



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Inventory Management Industry Standards and Best Practices

The GAO issued a best practices framework and guide to improve the accuracy and reliability of the government’s inventory data. The guide summarizes the best practices that have been successfully implemented by companies recognized for outstanding inventory management practices and are applicable to any governmental or non-governmental entity with inventory and/or property and equipment.

Per the GAO,⁵ accurate and reliable data are essential to an efficient and effective operating environment. As such, managers and decision-makers need to know how much inventory is on hand and where items are located to make effective budgeting, operating, and financial decisions. This creates an effective government that works better and minimizes costs.

Similar to the City of Richmond, each State of Virginia agency is responsible for controlling and securing all inventories within its organization. The inventory controls employed by the State agencies vary based on the agency’s size, complexity of operations, and the quantity and variety of inventory items. The Virginia Department of Accounts has outlined minimum requirements that must be included in inventory management systems (computerized or manual) for supplies and materials.

As shown in **Figure 1** below, the OCA compiled principles and best practices⁶ from these agencies and noted why they are an important component supporting the daily operations of the City’s warehouses.

Figure 1: Inventory Management Best Practices

Best Practice	Why is it Important?
Accurate and Reliable Inventory Data	Accurate and reliable data allow managers to make informed budgeting, operating, and financial decisions to maximize resources and minimize costs. Decision makers need to know how much inventory is on hand and where it is located to optimize inventory levels to prevent shortages or overstocking.
Physical Counts	Physical inventory counts are critical in verifying the inventory exists and that on-hand quantities agree with the inventory records contributing to the accuracy and reliability of the inventory and financial data.

⁵ GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>, page 5

⁶ Reviewed best practices included:

- GAO-14-704G, “Standards for Internal Control in Federal Government,” <https://www.gao.gov/assets/gao-14-704g.pdf>,
- GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>
- Virginia Department of Accounts – Commonwealth Accounting Policies and Procedures (CAPP) Manual Supplies and Materials Inventory, CAPP Manual - 30515 - Supplies and Materials, [CAPP Manual - 30515 - Supplies and Materials Inventory \(virginia.gov\)](https://www.dca.virginia.gov/CAPPManual-30515-SuppliesandMaterialsInventory)



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<p>Oversight and Monitoring of Inventory</p>	<p>Inventory monitoring refers to continuously tracking and analyzing inventory levels, stock movements, and related data. An agency's ability to locate and accurately identify supplies and materials as needed reduces overall inventory costs.</p> <p>The inability to locate or identify supplies and materials could cause unnecessary purchases. Savings may accrue through the reduction of theft and obsolete items.</p>
<p>Safeguarding Inventory</p>	<p>Inventory must be safeguarded to prevent or promptly detect and correct theft, damage, and/or unauthorized use or disposal of assets, materials, and supplies.</p> <p>Storage areas should be:</p> <ul style="list-style-type: none"> • controlled and limited to authorized personnel only and • kept neat, safe, and clean to prevent inventories from being damaged or deteriorating. <p>Inventory should be organized orderly and properly labeled to allow the items to be easily identified and located.</p>
<p>Segregation of Duties</p>	<p>Segregating key duties and responsibilities among different people reduces the risk of error and fraud, as a single individual cannot control an entire process. Ideally, segregation of duties should exist between receiving, stocking, processing, and recording assets and approving transactions. If segregation of duties is impractical, other controls should be implemented to mitigate the risks.</p>
<p>Policy and Procedures</p>	<p>Policies and procedures are essential to any organization and provide a roadmap for day-to-day operations. They help to:</p> <ul style="list-style-type: none"> • ensure compliance with laws, regulations, and internal processes, • guide decision-making, • streamline processes, • ensure management expectations are consistently carried out and • serve as training aids for employees. <p>Policies and procedures should include the information employees need to know to carry out their job functions consistently and accurately.</p>

Source: Compiled by the OCA using identified best practices cited in footnote 6.



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Overview of DPU’s Main Warehouse

The Main Warehouse is an internal service fund whereby inventory is purchased and sold to other DPU divisions (i.e., gas utility) on a cost-reimbursement basis. The materials and supplies purchased by the Main Warehouse are recorded as inventory and then expensed when sold and distributed to other divisions. The Main Warehouse inventory balance is captured within the annual financial statements under the Stores and Transportation Division. **Table 1** below displays the Main Warehouse year-end inventory balances for FY 2019 – FY 2023.

Table 1
Main Warehouse Inventory Balance
FY 2019 to FY 2023

FY	Inventory Balance
2019	\$4,631,600
2020	\$4,616,005
2021	\$5,338,332
2022	\$5,995,662
2023	\$9,044,280

Source: City of Richmond Annual Comprehensive Financial Reports

Five employees staff the Main Warehouse: a Program and Operations Supervisor, three Materials Technician Seniors, and one Maintenance Specialist.⁷ The inventory is tracked in the Inventory Module within the City’s financial system. Purchases for materials and supplies by DPU are processed through the Main Warehouse and entered into the inventory system. Authorized users complete requisitions in the City’s financial system to reserve inventory items from the warehouse. The authorized user or designee picks up the items from the warehouse and signs, certifying they received them. Once the items are picked up, the warehouse staff closes the ticket in the inventory system, which adjusts the on-hand quantities. Inventory items ordered and delivered to the warehouse are counted, validated against the packing slips, and received into the inventory system. There are occasions when the warehouse coordinates items being delivered directly to a job site.

Conclusion on Internal Controls

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency’s plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for

⁷ There were four warehouse employees at the start of the audit. However, the Program and Operations Supervisor was hired in March 2024.



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measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

The DPU Main Warehouse has a perpetual inventory system to track the inventory and physical access controls that include gates, locked doors, and a camera surveillance system. However, opportunities for improvement exist as industry standards and inventory management best practices have not been fully implemented. The OCA found inadequate internal controls, oversight, and inventory monitoring that resulted in inaccurate and unreliable inventory data and misstatement of financial statement amounts. Industry standards and best practices need to be fully implemented to ensure accountability throughout the inventory management processes. The current environment exposes the City to significant risk for error, fraud, and waste that could go undetected.

Findings and Recommendations

Finding 1: The inventory data is inaccurate and incomplete, resulting in the inventory value being overstated by approximately \$955,000 in the financial statements and inventory system.

Per the GAO, accurate and reliable data are essential to an efficient and effective operating environment.⁸ As displayed in **Table 1** above, inventory represents a large portion of assets for the City, totaling over \$9 million at the end of FY 2023. As such, managers and decision-makers need to know how much inventory is on hand and where items are located to make effective budgeting, operating, and financial decisions and create an effective government that works better and minimizes costs. To promote accurate and reliable data, the Virginia Department of Accounts recommends that perpetual inventory systems contain fields for tracking inventory, such as item description, storage locations, min/max levels, cost, inventory receipts, requisitions, and inventory balances.⁹

The OCA found that the Main Warehouse's inventory system was set up in line with the Virginia Department of Accounts recommendations as it contained all relevant fields described. However, the inventory data needs to be reviewed and updated as the data entered into the established fields were not always accurate or complete. Until the data is reviewed and updated, and processes are

⁸ GAO-02-447G "Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," <https://www.gao.gov/assets/gao-02-447g.pdf>, page 5

⁹ Virginia Department of Accounts – Commonwealth Accounting Policies and Procedures (CAPP) Manual Supplies and Materials Inventory, CAPP Manual - 30515 - Supplies and Materials, [CAPP Manual - 30515 - Supplies and Materials Inventory \(virginia.gov\)](#), page 6



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put in place to ensure its accuracy, management cannot rely on the inventory data to help make effective decisions, identify irregularities, or be used for required financial reporting.

The OCA reviewed inventory reports, the City’s financial reports, and performed physical inventory counts, and specifically identified the following:

- Inventory records did not reflect the actual quantities on hand,
- Adequate controls were not in place to ensure that items that were delivered directly to job sites were requisitioned from the inventory,
- Inventory value was overstated in the inventory system and financial statements, and
- Cost data was not captured for approximately 14% of the inventory items.

1A. Inventory records did not reflect the actual quantities on hand.

The OCA judgmentally sampled 72 inventory items valued at a cost of approximately \$2 million and performed physical counts of the items on hand to test the accuracy of the Main Warehouse inventory data. The OCA then compared the counts and item locations against the corresponding fields in the Main Warehouse’s inventory system.

The OCA counted 72 inventory items and noted discrepancies between the physical counts and the system on-hand quantities for 42% (30/72) of the items counted. The OCA could not determine the physical count on hand for one item in the sample because we could not confirm if the item in the warehouse matched the item in the inventory system due to a lack of labeling. The inventory balances in the system were both overstated and understated for the sampled items, resulting in a net overstatement of approximately \$54,000. **Table 2** below summarizes the physical count observations for the items that did not match the inventory balance.

Table 2: Summary of OCA’s Observations after Physical Inventory Count

Observation	No. of Tested Inventory Items	Inventory System Overstated/(Understated) Value
More items were on hand than noted in the inventory system, which understated the inventory balance.	14	\$(73,276.00)
There were fewer items on hand than noted in the inventory system, which overstated the inventory balance.	16	\$127,431.00
Totals	30	\$54,155.00

Source: Created by the OCA using testing results



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Additionally, the OCA noted that 19% (14/72) of the sampled inventory items were not stored in the designated locations noted in the inventory system. Items were relocated to other areas in the warehouse or stored in multiple locations, and the warehouse staff could not locate them readily. Per the supervisor, there is no process in place to review and update the inventory locations in the inventory data, and he relies on the warehouse staff to know where items are located.

The warehouse supervisor and staff identified the following factors that may have contributed to the above-identified inventory discrepancies.

- One of the reviewed inventory items was delivered directly to a job site instead of the Main Warehouse and was received in inventory. However, the item was not requisitioned out of the inventory due to a lack of controls and procedures. As such, the item was inappropriately noted as still on hand in the inventory system.
- Inventory items were pulled and issued from the warehouse; however, the tickets may not have been closed out in the system. As such, the on-hand quantity was not reduced in the inventory system. Per the warehouse supervisor, a Warehouse Materials Technician Senior obtains copies of the tickets and compares them to the inventory system to ensure they are closed. However, the OCA notes that this process only accounts for the tickets provided to the Warehouse Materials Technician Senior; if tickets are not provided, they would be excluded from this reconciliation process. As such, adequate controls were not in place to ensure all tickets were closed in the inventory system.
- Incorrect items were pulled and issued.
- Incorrect quantity of received or issued items were input into the inventory system.
- Inventory counts or adjustments were incorrectly posted to the inventory system.

The OCA could not validate if the reasons provided by warehouse staff caused the discrepancies identified in our sample. However, the OCA notes that the reasons for the discrepancies are valid explanations and would need to be addressed by warehouse staff with policy and process changes.

In addition to the above explanations provided by the Main Warehouse staff and supervisor, the OCA notes that the following factors may have also contributed to the inventory discrepancies:

- Inventory items could have been received or removed from the warehouse without being entered into the inventory system.
- Inventory counts may not have been conducted for the reviewed items, as counts are only conducted for items at the reorder point.
- Items may have been misappropriated or stolen.



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1B. Adequate controls were not in place to ensure that items delivered directly to job sites were properly requisitioned from inventory.

One thousand one hundred ninety-six (1,196) invoices totaling approximately \$13 million were processed and paid for warehouse purchases in FY 2023. The OCA judgmentally selected a sample of six invoices totaling approximately \$2.3 million and traced and agreed the purchases to the inventory system to ensure items were received (added) in the inventory system to test the completeness of the inventory data. One hundred percent (100%) of the tested inventory purchases were received into the inventory. However, similar to the observation in Finding 1A, two invoices totaling approximately \$900,000 were for items shipped directly to the job site but were incorrectly recorded as still on hand in the inventory system. These items were not requisitioned from inventory until prompted by the OCA's inquiry.

Per the warehouse supervisor, the normal process for tracking inventory delivered directly to a job site consists of the supervisor being at the project site to verify the delivery, take photos, and obtain the packing slip and bill of lading. Upon delivery confirmation, the warehouse staff receives the items into inventory and the applicable project manager is notified to requisition the items out of inventory immediately. It is unknown if this process was carried out for these items due to a lack of documentation and the fact that items were not requisitioned out of inventory until the OCA inquired about them. The warehouse supervisor also indicated that controls were not in place to ensure that items delivered directly to job sites were requisitioned out of the inventory. However, DPU staff went to the job site on April 4, 2024, took photos, and provided them to the OCA to confirm that items were delivered and still on site.

1C. Inventory value was overstated by approximately \$955,000 in the financial statements and inventory system.

The Main Warehouse is an internal service fund; purchases are recorded as inventory in the City's annual financial statements and expensed when items are distributed/issued from the warehouse. However, as noted in findings 1A and 1B, the OCA found that purchased inventory items delivered directly to the job sites instead of the Main Warehouse were not timely requisitioned out of the inventory system. As noted above, the supervisor indicated that once the items were received in the inventory, they should be immediately requisitioned out of the inventory system. The OCA noted that the items were received in the inventory system in FY 2022 and FY 2023 but were still incorrectly shown as on hand in FY 2024, resulting in the inventory value being misstated by approximately \$955,000 in the inventory system and the City's FY 2023 annual comprehensive financial report (ACFR). The inventory balance in the FY 2022 ACFR was also overstated by approximately \$53,000. After discussing with the Warehouse Material Technician Senior, the items reviewed were requisitioned out of the inventory system.

Table 3 below displays the three items reviewed, their quantities noted on hand, their dates of receipt, and the date that the warehouse supervisor requisitioned them out of the inventory balance after being informed by the OCA.



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Table 3: Items Reviewed that Overstated Inventory by Approximately \$955,000

Item No.	Material Cost	Received Qty	Receipt Date	Requisition Date
246064	\$53,476.00 ¹⁰	1	4/26/22	3/22/24
263033	\$628,642.80	1,116 ft	2/24/23	4/12/24
263033 ¹¹	\$272,637.20	484 ft	5/04/23	4/12/24
Total Overstatement	\$954,756.00			

Source: Created by the OCA using testing results

Inaccurate inventory data results in incorrect balances being captured in the financial statements. Also, inaccurate and incomplete inventory data impairs management’s ability to make effective decisions and ensure the right amount of inventory/stock is on hand. Per DPU management, this will have a minor impact on the financial statements as inventory is overstated and cash is understated. The OCA notes that additional procedures will need to be conducted by Main Warehouse staff to identify and correct other instances where this issue occurred.

1D. Costs for some of the inventory items were not captured.

Per guidance outlined in the Virginia Department of Accounts CAPP Manual for Materials and Inventory, the cost and sensitivity of the individual inventory items should be assessed to determine the extent to which inventory controls should be established.¹²

As of March 15, 2024 (inventory report date), there were 3,602 active inventory items on the inventory listing, with an inventory value of approximately \$11.5 million. The majority of the inventory items contained corresponding unit costs. However, approximately 14% (494) of the items did not have unit costs. Of the 494 items, approximately 3% (14) had recorded on-hand quantities. As such, these items were not captured in the total inventory value. Per DPU management and warehouse staff, some items were set up in the inventory system without cost due to the following:

- Accessory kits are provided for some of the inventory items. If the kits are unused, they are entered into the inventory as separate items without costs.

¹⁰ This overstatement amount is captured in the \$127,431 noted in Table 2.

¹¹ Total amount ordered was 1,600 ft. A portion of the order (484 ft) was backordered and shipped separately.

¹² Virginia Department of Accounts – Commonwealth Accounting Policies and Procedures (CAPP) Manual Supplies and Materials Inventory, CAPP Manual - 30515 - Supplies and Materials, [CAPP Manual - 30515 - Supplies and Materials Inventory \(virginia.gov\)](#), page 8



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- Spare parts from the capital projects are returned to the warehouse and entered into inventory without costs.
- Items replaced under warranty are entered into the inventory system without cost.
- Items found in the warehouse and material costs were unknown.
- Eight items were shell records set up for new inventory items that had been ordered but not received.

The OCA recognizes that there are legitimate reasons why some items do not have costs. However, there may be items that should have unit cost information. Per the warehouse supervisor, there is no process to review the inventory data to determine if material costs are needed.

Without cost information, management may be unable to make informed budgeting, operating, and financial decisions, including developing and implementing inventory management controls and procedures.

Recommendations

Recommendation 1

High Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure that the inventory data is accurate and complete, including at a minimum:

- Reconciling the system quantities to physical on-hand quantities,
- Capturing material costs, where appropriate, and
- Updating inventory locations as needed.

Recommendation 2

Medium Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to validate the quantity and existence of items delivered to job sites. For example, obtain packing slips and bills of lading.

Recommendation 3

High Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure materials and supplies delivered directly to job sites are immediately requisitioned/issued out of the inventory system.

Recommendation 4

Low Priority

We recommend the DPU Senior Deputy Director over Finance work with the Finance Department to determine if any additional actions are needed to correct inventory discrepancies.



Finding 2: Improvements are needed in the inventory count process to ensure the accuracy of the inventory records.

Per the GAO, inventory counts are an integral component of an organization’s internal control environment to verify the accuracy of inventory records and financial data.¹³ The two most predominant approaches to inventory counts are full inventory counts at a point in time and cycle counts.¹⁴ Organizations may choose to use only one approach or a combination of the two approaches in their inventory count process.

The GAO notes that management should establish written policies and procedures detailing the entire count process and review and update them regularly.¹⁵ When selecting an inventory count strategy, management should consider several factors, including staff resources, the existing control environment, the nature of the inventory, the time needed to conduct the count, and the degree of controls required. Management should also consider the dollar amount of items, items critical to operations, and items susceptible to theft and fraud.

The GAO also notes that when performing the inventory count, management should maintain segregation of duties.¹⁶ Specifically, physical custody of assets, processing and recording transactions, and approving transactions should be segregated among different individuals. If not practical, mitigating controls (i.e., two-member count team, blind counts,¹⁷ or increased supervision) should be implemented. Finally, the GAO notes that after the count is complete, management should have a process to research variances and identify and document causes.¹⁸

The OCA assessed the Main Warehouse’s processes generally against these best practices from the GAO and noted that there were opportunities for improvement in the inventory count process as follows:

2A. Written policies and procedures are not in place to detail the physical inventory count process, roles and responsibilities, and documentation requirements.

The GAO notes that policies and procedures (1) are essential to an effective and reliable physical count, (2) demonstrate management’s commitment to the count process, (3) provides clear communications and comprehensive instructions and guidelines for the count process, (4) ensures

¹³ GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>, pages 7 and 10

¹⁴ Cycle counting is a method by which a portion of the inventory is counted daily, weekly, or monthly until the entire inventory has been counted over a period.

¹⁵ GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>, page 16

¹⁶ GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>, page 28

¹⁷ A blind count is when you conduct an inventory count without knowledge of or access to the on-hand quantity balances in the inventory records.

¹⁸ GAO-02-447G “Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property,” <https://www.gao.gov/assets/gao-02-447g.pdf>, page 51



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consistent and accurate compliance and application needed to achieve a high level of accuracy in the count process, and (5) becomes a basis for employee training.¹⁹

Management at the Main Warehouse has not documented policies and procedures that detail the physical inventory count process. Without a documented plan and process, the OCA could not determine if management had performed a thorough risk assessment in selecting an inventory count strategy. However, as described below, we did identify significant flaws in the current inventory count process.

2B. Under the current count process, approximately 26% of the inventory items with a total inventory value of \$2.4 million on the March 15, 2024, inventory report would not have been counted.

Although not documented, the Main Warehouse staff and management advised the OCA that they do not perform full inventory counts at a point in time of the warehouse's inventory. Instead, they utilize a form of cycle counting to ensure accurate inventory records and help prevent excess inventory from being ordered. These cycle counts are performed for inventory items when they reach a system-established re-order point.

Specifically, per Main Warehouse staff, inventory reports are run daily and reviewed to identify items at the re-order point. These specific items are counted to ensure the stock is low before placing an order. Two Warehouse Material Technician Seniors individually conduct the inventory cycle count. The Warehouse Material Technician Seniors document the counts, and corresponding adjustments are made to the inventory system if necessary. However, documentation demonstrating counts were conducted was not provided to the OCA.

The OCA reviewed inventory reports to assess the effectiveness of this inventory count strategy. When reviewing the reports, the OCA found that 26% of the inventory items listed on the inventory report did not have an established minimum stock level and, therefore, would never be flagged as requiring a cycle count in the current process. As of the March 15, 2024, inventory report, these items totaled approximately \$2.4 million. Furthermore, if the system noted quantities are above the established minimum stock levels that inventory item would not be counted. As discussed in **Finding 1**, inventory items with an approximate value of \$955,000 remained in inventory well after they were distributed from inventory, even though there was no actual quantity on hand. The current inventory count strategy will not identify incorrect inventory balances in a timely manner. Further, it may result in stock overages, shortages, and unnecessary spending of government funds. In addition, misappropriation or theft of these items may not be detected timely or at all.

Upon discussing this observation with the warehouse staff and management, the OCA was informed that a full count of the warehouse was completed in June 2024 to verify the accuracy of the inventory data. The full count revealed numerous discrepancies between the system on-hand quantities and physical counts, which the supervisor indicated he is currently researching to make

¹⁹ See footnote 15 for reference.



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necessary inventory adjustments. This is a good start to remedy the observations noted above. However, warehouse management needs to develop policies and procedures and implement processes to ensure an accurate and reliable count process is utilized moving forward.

2C. There was no formal process to research inventory count variances and identify the root cause.

As noted above, there were no policies and procedures in place to detail the physical inventory count process, roles and responsibilities, and documentation requirements. This includes no policies and procedures documenting what is required when variances are identified in the inventory count. The Warehouse Material Technician Senior who performed the inventory counts and made the corresponding adjustments indicated that he does not have a process to identify the root causes of any variances that are identified. When variances are identified, he adjusts the on-hand quantities in the inventory system to what was counted. He advised that depending on how significant the variance is and the item's dollar value, he might recount the item to ensure the count was correct, but further analysis is not performed on the variance.

Researching and reconciling count variances is an essential element of an effective physical count process that allows management to implement corrective actions, rectify underlying problems causing variances, and support inventory adjustments.

2D. Duties for the inventory count process are inadequately segregated without mitigating controls.

Per the American Institute of Certified Public Accountants (AICPA), segregation of duties is a basic building block of sustainable risk management and internal controls. “The principle of segregation of duties is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.”²⁰ As noted above, the GAO recommends that physical custody of assets, processing and recording transactions, and approving transactions be segregated among individuals. If not practical, mitigating controls (i.e., two-member count team, blind counts,²¹ or increased supervision) should be implemented.

The OCA reviewed the Main Warehouse’s inventory count process and found that duties may not be properly segregated. Specifically, we found that the Warehouse Material Technician Seniors conducting the inventory counts are also responsible for issuing and storing inventory. In addition, one of the Warehouse Material Technician Seniors was also responsible for processing and approving the inventory adjustments, including the items he counted. The Warehouse Material Technician Senior became the acting supervisor in August 2023 and assumed responsibility for processing system adjustments.

²⁰ Source: <https://us.aicpa.org/interestareas/informationtechnology/resources/value-strategy-through-segregation-of-duties>, accessed August 31, 2024.

²¹ A blind count is when you conduct an inventory count without knowledge of or access to the on-hand quantity balances in the inventory records.



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Allowing an employee physical custody of inventory and the ability to make adjustments with limited oversight increases the risk of fraud at the Main Warehouse. This risk is heightened even further when, as described above, there is no formal process to research inventory count variances and identify root causes for the variance.

The OCA notes that the Main Warehouse has only five employees, including the supervisor. Four employees have overlapping responsibilities in the key areas requiring segregation (physical custody, processing, recording, and approving transactions). Achieving adequate segregation of duties in a shop this size may not be practical. However, mitigating controls such as utilizing blind counts and additional supervision can be implemented to offset risks to an acceptable level. The OCA notes that a permanent warehouse supervisor was hired recently and is expected to take over the responsibility for making the system adjustments.

Recommendations

Recommendation 5

High Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop, document, and implement an inventory count process. At a minimum, this process should ensure an appropriate amount of inventory is counted, assess which inventory items should be counted, and assess the frequency of the counts required.

Recommendation 6

Low Priority

We recommend that the DPU Senior Director develop performance measures for the inventory count process and ensure the performance goals are met. Examples of performance goals include dollar value of adjustments, quantity of adjustments, number of accurate accounts, and percent of accurate inventory records.

Recommendation 7

Medium Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor implement adequate segregation of duties or mitigating controls in the inventory count process.

Recommendation 8

Medium Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement criteria identifying which count variances need to be researched to identify root causes and ensure the cause is documented to support the inventory adjustments.



Finding 3: Inventory monitoring needs improvement to maintain optimal inventory levels and to avoid excessive purchasing.

Inventory monitoring refers to continuously tracking and analyzing inventory levels, stock movements, and related data. Per the Virginia Department of Accounts²² guidance, standard order quantities and re-order points must be established to maintain adequate control over the inventory levels. When the inventory on hand falls to the minimum stock level, an order should be placed at the established order quantity. The order quantity identifies the number of items to order once an item reaches its reorder point. The reorder point identifies when items need to be replenished. The order quantity should be set to an amount that will cause the stock level to approach the maximum stock level but not exceed it.

The Main Warehouse does not have written policies and procedures regarding inventory monitoring, tracking, and stock levels. Specifically, the Main Warehouse staff and management advised us that there is no formal process to review and assess minimum and maximum inventory levels or re-order quantities. As such, some of the already established levels in the inventory system may be outdated as needs for the inventory items may have changed. Furthermore, some inventory items, minimum and maximum stock levels and standard reorder quantities were not established, while for others, these levels were either exceeded or fell below the required amounts.

As described in **Finding 2**, the OCA found that 26% of the inventory items listed on the inventory report did not have an established minimum stock level. The OCA further reviewed the inventory report dated March 15, 2024, to determine the extent to which items were missing minimum quantities, maximum quantities, and re-order points. This inventory report contained 3,602 unique inventory items. We found the following:

- There was no established minimum quantity for 934 items listed in the inventory report. Of this amount, 210 items had quantities on hand, while the remaining 724 items currently had no quantities on hand.
- There was no established maximum quantity for 3,338 items listed in the inventory report. Of this amount, 2,493 of these items had quantities on hand, while the remaining 845 items had no quantities on hand.
- There was no established re-order point for 816 items listed in the inventory report. Of this amount, 157 of these items had quantities on hand, while the remaining 659 items had no quantities on hand.

In addition to the observations above regarding items without minimum and maximum established quantities, we also assessed if the items noted on hand on the March 15, 2024, inventory report

²² Virginia Department of Accounts – Commonwealth Accounting Policies and Procedures (CAPP) Manual Supplies and Materials Inventory, CAPP Manual - 30515 - Supplies and Materials, [CAPP Manual - 30515 - Supplies and Materials Inventory \(virginia.gov\)](#), page 9



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met the established minimum or maximum threshold. We found that the established minimum inventory level was not met for 262 inventory items, and the established maximum inventory level was exceeded for 151 inventory items. The inventory value of the quantities exceeding the established maximum inventory levels totaled approximately \$96,000.

After discussing the above observations, the Main Warehouse staff and management explained that employees requesting inventory items do not submit minimum or maximum quantities to be established in the inventory system when the inventory items are initially requested. The Main Warehouse staff and management also noted that established maximum quantities may have been exceeded because some individuals have requested order quantities exceeding established maximum levels. Finally, the Main Warehouse staff and management noted that some items identified may be obsolete and need to be removed from the active inventory listing. Some of the established levels may be outdated as needs for the inventory items may have changed.

Adequate inventory management strategies and procedures help ensure an organization has the right amount of stock on hand to prevent inventory shortages and excessive purchases, reduce inventory carrying costs, and minimize waste and losses. The OCA noted that as of March 19, 2024, 319 obsolete items and 42 inactive items were included on the inactive inventory listing. DPU management indicated items are still in the warehouse as the department does not have a disposal policy. The warehouse supervisor indicated he is currently reviewing the warehouse to identify inventory items that need to be surplus or disposed of to free up space in the warehouse. Disposal of obsolete materials is a sound inventory management control procedure resulting in proper inventory valuation, efficient warehouse space utilization, and reduced carrying costs.

Recommendations

Recommendation 9

Medium Priority

We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to:

- establish minimum and maximum levels and re-order quantities,
- periodically reviewing the inventory data to assess existing minimum and maximum levels and make changes as needed; and
- optimize the level of inventory maintained.

Recommendation 10

Low Priority

We recommend the DPU Senior Director develop and implement a process for disposing of obsolete inventory.



Finding 4: Safeguarding of inventory needs improvement to prevent deterioration and damage.

Inventory should be safeguarded to prevent or promptly detect and correct theft, damage, and/or unauthorized use or disposal of assets, materials, and supplies. Per the guidance outlined in the Virginia Department of Accounts CAPP Manual for Materials and Inventory, storage areas should be kept neat, safe, and clean to prevent inventories from damage and deterioration.²³ Inventory should be organized, orderly, and properly labeled to allow the items to be easily identified and located. Throughout the audit, the OCA performed various site visits to the Main Warehouse and assessed the practices, procedures, and measures to protect inventory from loss, damage, theft, mismanagement, or any other risks that could negatively affect the stock.

The OCA found that inventory items are stored in the Main Warehouse, Building 20, in the rear of the warehouse premises, and outside areas. We found that the Main Warehouse and outside yard areas were clean, organized, and labeled. We also found that various controls were put in place to safeguard the Main Warehouse inventory. This included:

- Interior and exterior cameras that cover the inside of the Main Warehouse building, the outside yard areas, and vehicle entrance areas,
- Requiring individuals to either badge in or go through a security checkpoint to access the grounds on which the warehouse is located and
- Requiring badges to access the actual Main Warehouse building.

However, during our site visits, we found that items stored in Building 20 were not properly safeguarded and were subject to damage and deterioration. Part of this building was demolished, and the remaining portion is used for storage. The roof of the remaining portion of the building is compromised, and the inventory items are exposed to the weather elements, falling debris, and pests. While conducting physical inventory counts, the OCA noted rust damage and deterioration to some of the items. The rust damage made it impossible for the OCA to clearly identify the manufacturer, part number, or item descriptions. As of the inventory report dated March 15, 2024, 14 items were in the old building with a total inventory value of approximately \$249,210.

During our site visits, we also noted that the building was not clean, organized, or properly labeled to allow for the easy identification and location of inventory parts. In addition, the building appears unsafe, and employees may be subject to injury when entering the building, thereby creating a liability for the City. When we discussed these observations with management, we were informed that DPU plans to hire a contractor to demolish the building.

²³ Virginia Department of Accounts – Commonwealth Accounting Policies and Procedures (CAPP) Manual Supplies and Materials Inventory, CAPP Manual - 30515 - Supplies and Materials, [CAPP Manual - 30515 - Supplies and Materials Inventory \(virginia.gov\)](#), page 15



Recommendations

Recommendation 11

Low Priority

We recommend that the Director of Public Utilities properly safeguard the inventory items currently stored in Building 20.

Recommendation 12

High Priority

We recommend that the Director of Public Utilities follow through with demolishing Building 20 and ensure precautions are taken for any employees entering the building.

Finding 5: Policies and procedures that govern the warehouse and inventory management function are not in place.

Per the GOA, management is responsible for developing and implementing policies and procedures to achieve an entity's objectives and guide its operations.²⁴

Written policies and procedures provide a foundation for effectively managing an entity's inventory and:

- Demonstrates management commitment,
- Guides employees,
- Helps ensure processes and procedures are consistently and accurately carried out,
- Serves as a training aid for employees, and
- Should be periodically updated.

As noted throughout the report, written policies and procedures were not in place to govern and guide DPU's Main Warehouse operations and inventory management function. A lack of policies and procedures could lead to staff confusion, inconsistent application of processes and procedures, non-compliance with laws and regulations, resulting in legal risks, inefficiencies, and an organization not achieving its mission and objectives.

²⁴ GAO-14-704G, "Standards for Internal Control in Federal Government," <https://www.gao.gov/assets/gao-14-704g.pdf>, pages 7-8



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Recommendation

Recommendation 13

Low Priority

We recommend that the DPU Main Warehouse Manager develop and implement written policies and procedures to govern and guide warehouse operations and inventory management. At a minimum, these policies and procedures should address all recommendations in this report, including processes for ordering, receiving, storing, distributing, disposing, tracking, counting, and reconciling inventory. They should also define employees' roles and responsibilities and establish accountability.



Appendix A (Definition of Audit Recommendations Priorities)

The Office of the City Auditor (OCA) assigns priority ratings for the recommendations based on the importance and impact of each recommendation to the City, as outlined in the table below. The OCA is responsible for assigning priority ratings for recommendations, and the City Administration is responsible for establishing target dates for implementing the recommendations.

PRIORITY LEVEL	PRIORITY LEVEL DEFINITION
HIGH	The recommendation addresses critical issues that are occurring that pose significant risks to the organization, including significant internal control weaknesses, non-compliance with laws and regulations, financial losses, fraud, and costly or detrimental operational inefficiencies.
MEDIUM	The recommendation addresses moderate issues that could escalate into larger problems if left unaddressed. While they may not pose an immediate risk, they could lead to significant financial losses or costly operational inefficiencies over time. There is potential to strengthen or improve internal controls.
LOW	The recommendation improves overall efficiency, accuracy, or performance in City operations.



Appendix B (Compliance Statement, Objectives, Scope, and Methodology)

Compliance Statement

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Objectives

The objective of this audit was to evaluate the warehouse inventory management controls and efficiency regarding duplication/ordering for the Main Warehouses operated in the City.

Scope

Warehouse inventory management controls and procedures employed within the main warehouses operated by DPW, DPU, PRCF, RPD, and RFD during FY 2023 and the current environment. DPW Fleet and RPD Property and Evidence were excluded from this audit.

The audit will be issued in phases, with this report covering the DPU Main Warehouse. Subsequent reports detailing the warehousing and inventory management processes and procedures employed for the remaining warehouses will be issued.

Methodology

The OCA performed the following procedures to complete this audit:

- Researched and reviewed inventory management industry standards and best practices and compared them to DPU's practices,
- Interviewed Department and warehouse staff to determine the inventory management processes and procedures employed at the DPU Main Warehouse,
- Conducted site visits to observe the warehouse's layout and noted the physical access controls,
- Reviewed and analyzed the warehouse inventory data,
- Judgmentally selected a sample of inventory purchases to ensure items were properly



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added to the inventory records,

- Judgmentally selected a sample of items from the inventory listing and counted them to determine if the on-hand quantities in the inventory records were correct,
- Haphazardly selected and counted a sample of items from the warehouse's shelves to determine if the items were included in the inventory listings and if the correct on-hand quantities were noted in the inventory records,
- Compared the on-hand inventory quantities to the established minimum and maximum levels to determine if sufficient or excessive inventory was in stock, and
- Conducted other tests as deemed necessary.

Management Responsibility

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.



Appendix C (Management Response Form)

MANAGEMENT RESPONSE FORM			
2025-03			
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	<p>We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure that the inventory data is accurate and complete, including at a minimum:</p> <ul style="list-style-type: none"> a. Reconciling the system quantities to physical on-hand quantities, b. Capturing material costs, where appropriate, and c. Updating inventory locations as needed. 	y	<p>1. Creation and filing of daily cycle counts based on Min/Max report. 2. Weekly evaluation of Inactive items report. Material cost and inventory locations will be updated and maintained during cycle counts and contract evaluations.</p>
	TITLE OF RESPONSIBLE PERSON		
	Program and Operations Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy signed and we are physically testing. We will fully implement the SOP by 10/11/2024		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	<p>We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to validate the quantity and existence of items delivered to job sites. For example, obtain packing slips and bills of lading.</p>	y	<p>Refer to Policy 2024-01. Additionally, we have a filing system that includes pictures, BOL, and packing slips for records. Please see the attachment of pictures and offsite delivery documents from an offsite delivery observed and facilitated by Program and Operation Supervisor on 9/11/2024@ 0936.</p>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy, and we are physically testing. We will fully implement the SOP by 10/11/2024		



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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure materials and supplies delivered directly to job sites are immediately requisitioned/issued out of the inventory system.	y	Refer to Policy 2024-01. Additionally, we have a filing system that includes pictures, BOL, and packing slips for records. Please see the attachment of pictures and offsite delivery documents from an offsite delivery observed and facilitated by Program and Operation Supervisor on 9/11/2024@ 0936.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy, and we are physically testing. We will fully implement the SOP by 10/11/2024		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend the DPU Senior Deputy Director over Finance work with the Finance Department to determine if any additional actions are needed to correct inventory discrepancies.	y	DPU makes the corrections
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	DPU Deputy Director, Sr for Finance		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop, document, and implement an inventory count process. At a minimum, this process should ensure an appropriate amount of inventory is counted, assess which inventory items should be counted, and assess the frequency of the counts required.	y	1. Create a Physical Inventory and Cycle Count SOP with defined perimeters. Refer to Policy 2024-03
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24



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	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy, and we are physically testing. We will fully implement the SOP by 10/11/2024		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend the DPU Senior Director develop performance measures for the inventory count process and ensure the performance goals are met. Examples of performance goals include dollar value of adjustments, quantity of adjustments, number of accurate accounts, and percent of accurate inventory records.	y	We will put performance measures in place for total value of adjustment vs stated value, perimeters being less than or equal to 5%. Total number of accurate locations vs total number of adjusted locations, perimeters being within 10% of total number counted locations. Total value of inventory virtually vs total value of physical on hand inventory, perimeters being within 5%
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Senior Director of DPU		1-Nov-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend that the DPU Main Warehouse Program and Operations Supervisor implement adequate segregation of duties or mitigating controls in the inventory count process.	y	The Physical Inventory and Cycle Count process will include defined roles and responsibilities. Refer to Policy 2024-03.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operations Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy, and we are physically testing. We will fully implement the SOP by 10/11/2024.		



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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement criteria identifying which count variances need to be researched to identify root causes and ensure the cause is documented to support the inventory adjustments.	y	All count variances will be researched, documented, and corrected as outlined in the Physical and Cycle Count SOP. Refer to Policy 2024-03.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
9	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to: <ul style="list-style-type: none"> a. establish minimum and maximum levels and re-order quantities, b. periodically reviewing the inventory data to assess existing minimum and maximum levels and make changes as needed; and c. optimize the level of inventory maintained. 	y	Defined the optimal level of inventory based on historical usage and anticipated projects. This will be evaluated for the entire fiscal year to capture data and revised the beginning of new fiscal year.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We are having meeting and gathering data with all business sources		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	We recommend the DPU Senior Director develop and implement a process for disposing of obsolete inventory.	y	Create a SOP. Refer to policy 2024-02.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Senior Director DPU		11-Oct-24



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	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policy, and we are physically testing. We will fully implement the SOP by 10/11/2024.		
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
11	We recommend that the Director of Public Utilities properly safeguard the inventory items currently stored in Building 20.	y	Shipping containers with locks are placed outside to store inventory from Building 20.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		1-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	The Warehouse team is removing inventory items from Building 20.		The containers are outside Building 20. The contractor is on site starting the removal and pre-demolition process. Contractors arrived 10/1/2024.
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
12	We recommend that the Director of Public Utilities follow through with demolishing Building 20 and ensure precautions are taken for any employees entering the building.	Y	We have an existing quote and PO for demolition. Program and Operations Supervisor is the POC and authorized escort for all individuals entering Building 20. Proper PPE defined, steel toe boots, safety glasses, hard hats, and safety vest required.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	DPU staff identified items stored in the building.		Contractor for demolition arrived 10/2/2024 met with Program and Operation Supervisor and, mapped out the demolition area. Plans are set to start demolition on 10/11/2024.



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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
13	We recommend that the DPU Main Warehouse Manager develop and implement written policies and procedures to govern and guide warehouse operations and inventory management. At a minimum, these policies and procedures should address all recommendations in this report, including processes for ordering, receiving, storing, distributing, disposing, tracking, counting, and reconciling inventory. They should also define employees' roles and responsibilities and establish accountability.	y	Create and implement warehouse operation standards of work. Refer to COR job description, LSW (Leadership Standards of Work) created by Program and Operation Supervisor. We will create SOP for Receiving, Ordering, Cycle Counting, Inventory Disposition, Offsite delivery. There is not a need for a distribution policy. Refer to the Ordering Policy.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Program and Operation Supervisor		11-Oct-24
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	We have the written policies, and we are physically testing. We will fully implement the SOP by 10/11/2024.		Signatures have been acquired, and Policies are uploaded.



Appendix D (Status of Recommendations as of Report Issuance)

Throughout the audit, City management provided the OCA with various documents to support action steps taken to implement recommendations. This included draft and final policies. The table below outlines recommendations that were partially implemented or remain open as of the report's issuance date. The OCA will continuously review partially implemented and open recommendations for closure as part of our Quarterly Open Recommendation Follow-Up Review.

#	RECOMMENDATION	PRIORITY	STATUS
1	<p>We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure that the inventory data is accurate and complete, including at a minimum:</p> <ul style="list-style-type: none"> a. Reconciling the system quantities to physical on-hand quantities, b. Capturing material costs, where appropriate, and c. Updating inventory locations as needed. 	High	Partially Implemented
2	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to validate the quantity and existence of items delivered to job sites. For example, obtain packing slips and bills of lading.	Medium	Open
3	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to ensure materials and supplies delivered directly to job sites are immediately requisitioned/issued out of the inventory system.	High	Open
4	We recommend the DPU Senior Deputy Director over Finance work with the Finance Department to determine if any additional actions are needed to correct inventory discrepancies.	Low	Open
5	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop, document, and implement an inventory count process. At a minimum, this process should ensure an appropriate amount of inventory is counted, assess which inventory items should be counted, and assess the frequency of the counts required.	High	Partially Implemented



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6	We recommend the DPU Senior Director develop performance measures for the inventory count process and ensure the performance goals are met. Examples of performance goals include dollar value of adjustments, quantity of adjustments, number of accurate accounts, and percent of accurate inventory records.	Low	Open
7	We recommend that the DPU Main Warehouse Program and Operations Supervisor implement adequate segregation of duties or mitigating controls in the inventory count process.	Medium	Partially Implemented
8	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement criteria identifying which count variances need to be researched to identify root causes and ensure the cause is documented to support the inventory adjustments.	Medium	Partially Implemented
9	We recommend that the DPU Main Warehouse Program and Operations Supervisor develop and implement a process to: <ul style="list-style-type: none"> a. establish minimum and maximum levels and re-order quantities, b. periodically reviewing the inventory data to assess existing minimum and maximum levels and make changes as needed; and c. optimize the level of inventory maintained. 	Medium	Open
10	We recommend the DPU Senior Director develop and implement a process for disposing of obsolete inventory.	Low	Partially Implemented
11	We recommend that the Director of Public Utilities properly safeguard the inventory items currently stored in Building 20.	Low	Partially Implemented
12	We recommend that the Director of Public Utilities follow through with demolishing Building 20 and ensure precautions are taken for any employees entering the building.	High	Partially Implemented
13	We recommend that the DPU Main Warehouse Manager develop and implement written policies and procedures to govern and guide warehouse operations and inventory management. At a minimum, these policies and procedures should address all recommendations in this report, including processes for ordering, receiving, storing, distributing, disposing, tracking, counting, and reconciling inventory. They should also define employees' roles and responsibilities and establish accountability.	Low	Partially Implemented