

Supply Management Warehouse and Inventory Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Supply Management Warehouse and Inventory Audit Report to Administration on August 20, 2019. The report includes Supply Management's response to three recommendations raised by the City Auditor's Office to resolve the operation of a system control over significant inventory write off and adjustments, and to enhance the physical inventory count processes. Supply Management accepted all three recommendations and has committed to the implementation of action plans no later than March 30, 2020. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

RECOMMENDATIONS:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, 2019 SEPTEMBER 06

That Council receive Report AC2019-1027 for information

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2019/2020 Annual Audit Plan was approved on September 18, 2018. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2019/2020 Annual Audit Plan. Supply Management provides a Procurement and Warehousing service as well as an Inventory sub-service to support City Business Units. This includes both Business Unit specific inventory such as vehicle batteries, and more general usage items such as safety vests. During 2018, Supply Management managed 26 warehouses and an average monthly inventory value of approximately \$43 million. Inventory items are recorded in Finance and Supply Chain Management (FSCM) enterprise system, a perpetual inventory system.

The objective of this audit was to assess the effectiveness of The City's management of inventory by evaluating the design and operation of key process controls that support the accuracy and completeness of the inventory records. Testing was based on sample activity during the time period between January 1 and December 31, 2018 occurring in the Oliver Bowen Maintenance Facility warehouse, and the General Store warehouse, as these two warehouses stored approximately one third of the 2018 total inventory value.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Based on our sample testing, we concluded that controls in operation that support the accuracy and completeness of inventory records are partially effective. Controls that support the accurate

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entry of inventory received in FSCM, access to warehouses, and physical inventory count are designed and operating effectively. However, the system control to force a second person approval of significant inventory write off and adjustments is not operating as expected.

Stakeholder Engagement, Research and Communication

This audit was conducted with Supply Management acting as the principal audit contact within Administration.

Strategic Alignment

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

N/A

Current and Future Capital Budget:

N/A

Risk Assessment

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure. This audit was undertaken as part of the approved City Auditor's Office 2019/2020 Annual Audit Plan as effective management of inventory supports the delivery of City of Calgary services by facilitating availability of inventory, while managing obsolete or unneeded inventory to make best use of City dollars, and to avoid waste. Accurate and complete inventory records provide key information to support decisions regarding the ordering, managing, distributing, disposal of inventory, and also mitigate the risk of misappropriation and loss of inventory.

REASONS FOR RECOMMENDATIONS:

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual Audit Report and forwards these to Council for information."

ATTACHMENT

Supply Management Warehouse and Inventory Audit - AC2019-1027 ATT