

**Audit Report 2020-04
Transportation Operations Inventory Audit**

RECOMMENDATIONS AND MANAGEMENT RESPONSES

November 5, 2020

**Office of the City Auditor
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Recommendations

The following 18 recommendations will strengthen controls and increase process efficiencies related to inventory to reduce the risk of loss and misappropriation:

- 1. We recommend that standard operating procedures be created for all inventory-related processes, including the disposal of obsolete and excess inventory (that aligns with *Procurement By-Law No. 17-064*), disbursement of inventory to contractors and other City employees, inventory counts and security footage review. These procedures should apply to all current and future inventory locations. These procedures should include roles, responsibilities, process flow charts, sample documents and clear instructions to assist employees understand what is expected. A change management plan should be created to introduce the new operating procedures, including training and reinforcement with staff. Procedures must be reviewed at least annually and updated (as required). Evidence of the annual review should be documented and retained for audit purposes.**

Management Response

Agreed. The Transportation Operations & Business Initiatives sections will develop an operational plan to include all components of inventory management. The purpose of this operational plan is to document policies and procedures related to the operation and maintenance of the inventory system.

Anticipated completion date: Q3 2021.

- 2. We recommend that management implement a more robust system of measurement by incorporating performance metrics into the standard operating procedures outlined in Recommendation #1. These metrics should be monitored by management and used to enhance inventory management around obsolescence, shrinkage, waste and scrap values.**

Management Response

Agreed. The definition of performance metrics will be a key element in the development of the operational plan. The optimization of the new metrics will be monitored through the existing performance measurement methodology via the divisional balanced scorecard and annual reports.

The definition of metrics will be in alignment with the development of standard operating procedures in recommendation #1. The reporting and monitoring of metrics via the divisional scorecard and annual report will be incorporated in the 2022 work plan.

Anticipated completion date: Q4 2021.

- 3. We recommend that management review the job duties and roles performed for all positions to ensure that responsibility and accountability for inventory management is included at appropriate levels and duties are appropriately organized overall. Changes should be reflected in standard operating procedures as well as in job descriptions (as required).**

Management Response

Agreed. The division is reviewing and will modify the organizational structure implementing the changes accordingly. The associated changes to the roles and responsibilities will be outlined in the operational plan and standard operating procedures.

Anticipated completion date: Q1 2021.

- 4. We recommend that Transportation Operations management be provided with read-only access and training to view inventory levels in Hansen and run inventory reports.**

Management Response

Agreed. Business Initiatives will coordinate immediate access to Hansen with revised permission settings and complete require training for Supervisor level and above. Business Initiatives will develop an inventory report schedule for staff reference.

Anticipate completion date: Q4 2020.

- 5. We recommend that management undertake initiatives to break down silos between various sections and build a more inclusive, cooperative and collaborative environment. Such activities should focus on building awareness, desire, knowledge, ability and reinforcement to support change.**

Management Response

Agreed. The operational plan will also include the development of a change management plan so that the construction of an operational plan will assist in building awareness and enhance collaboration among cross-functional groups.

Anticipated completion date: 2020-2022.

- 6. We recommend that management review the primary and secondary inventory structure and what is stored in each area. Focus should be placed on the level of risk, control and access required when decided which items are stored in primary or secondary inventory.**

Management Response

Agreed. Management will undertake the risk-based assessment of storage and complete a Kaizen event to optimize the inventory structure and breakdown.

Anticipated completion date: Q2 2021.

- 7. We recommend that management implement additional controls to monitor higher risk items that remain in secondary inventory. Such controls may include cycle counts, reasonability analyses, utilizing usage-tracking technology (such as vending machines and rope counters), or creating and monitoring additional inventory classifications (such as work vehicles).**

Management Response

Agreed. The definition of control measures required for the secondary inventory will be in alignment with the development of standard operating procedures in recommendation #1.

Anticipated completion date: Q3 2021.

- 8. We recommend that management record all non-consumable items as inventory in Hansen. As part of this work, management should consult with Hansen support personnel to determine whether current capital items may be recorded in Hansen for tracking purposes only without charging costs out when materials are used.**

Management Response

Agreed. Management will prioritize the implementation of this recommendation before the end of this calendar year to ensure correct identification and tracking of all non-consumable items. Alternative approaches to Hansen will be investigated and may be adopted for tracking purposes.

Anticipated completion date: Q4 2020.

- 9. We recommend that Business Initiatives undertake a Kaizen or Kanban exercise to improve the organization of the stockroom and other secondary locations. Consideration should be given to designating specific areas to segregate and hold materials set aside for specific projects, obsolete goods awaiting disposal and items designated as "do not inventory".**

Management Response

Agreed. We will undertake a Kaizen event or a methodology that results in a stockroom that is clean, uncluttered, safe and well organized.

Anticipated completion date: Q2 2021.

- 10. We recommend that Business Initiatives review current part numbers and improve how inventory items are classified. This should include creating individual identifiers for kit components and signage.**

Management Response

Agreed. Business Initiatives will prioritize the implementation of this recommendation to ensure the correct identification and tracking of all existing part numbers before the end of the calendar year.

Anticipated completion date: Q4 2020.

- 11. We recommend that Business Initiatives include a description, picture and location code in Hansen for each part number to assist Traffic Operations Clerks locate items quickly within the warehouse.**

Management Response

Agreed, in part. Business Initiatives will investigate alternative approaches to fulfill the need of an ideal classification and identification of the inventory. Management may not necessarily use the current system Hansen for implementation of this recommendation.

Anticipated completion date: Q2 2021.

- 12. We recommend that management revise the returned materials policy to include more oversight and a more formal process over the reuse and disposal of goods (e.g. storage location, disbursement, etc.). A record should be kept of more significant disposed items which should be reviewed by management to identify possible product issues or warranty opportunities. Training should be provided to staff to build awareness of how items may be reused and recycled. Inappropriate behavior should be reinforced through the performance management process.**

Management Response

Agreed. The development of a returned material policy will be incorporated in the standard operating procedures in recommendation #1.

Anticipated completion date: Q4 2020.

- 13. We recommend that Business Initiatives reach out to Finance and Tangible Capital Assets to determine the best way to value materials returned from the street and how these transactions are recorded in Hansen. The valuation choices in Hansen should be restricted to eliminate possible data entry errors.**

Management Response

Agreed. Business Initiatives will collaborate with Finance to define the best methodology to record system transactions and value materials returned from the street.

Anticipated completion date: Q4 2020.

- 14. We recommend that management explore the feasibility of going paperless or adopting a paper-lite approach in both inventory management and operations. Opportunities should be explored in advance of implementing a new Enterprise Asset Management system in early 2021. A change management plan should be developed to support staff at all levels.**

Management Response

Agreed, in part. Management will adopt a paper-lite approach in accordance with the implementation of the Enterprise Asset Management System.

Anticipated completion date: To be determined – timeframe is dependent on the implementation of the Enterprise Asset Management System.

- 15. We recommend that management develop an inventory count procedure describing the strategy and methodology to be followed for both year end and cycle counts. Management should oversee and monitor staff performance during inventory counts, including observation during the count, review of count documents and performing sample recounts.**

Management Response

Agreed. Business Initiatives will prioritize the implementation of this recommendation to ensure an accurate inventory count procedure is adopted before the end of the calendar year.

Anticipated completion date: Q4 2020.

- 16. We recommend that management create a schedule indicating when cycle counts will occur and what will be counted. Staff should provide the cycle count forms to management at the end of the count for review and approval.**

Management Response

Agreed. Business Initiatives will prioritize the implementation of this recommendation to create a schedule for cycle counts before the end of the calendar year.

Anticipated completion date: Q4 2020.

- 17. We recommend that management implement safeguards for adjusting inventory within the system. One consideration may be for management to review and approve all inventory adjustments on a weekly basis. Management should compare the adjustment to the count form and explanations provided by staff to validate that the adjustment is appropriate. Management should sign and retain the transaction listing, along with supporting documentation, as evidence of their review for future audit purposes.**

Management Response

Agreed. The associated changes to the roles and responsibilities for inventory adjustments will be outlined in the operational plan and standard operating procedures.

Anticipated completion date: Q4 2020.

- 18. We recommend that management recommit to the nine management action plans outlined in the original audit. Management should review the audit observations to understand the issues which led to the audit recommendations and consider implementing alternative action plans (as required) considering the new recommendations brought forward.**

Management Response

Agreed. All outstanding recommendations will be addressed by the Transportation Operations & Business Initiatives sections with the development of an operational plan to include all components of Inventory Management.

The purpose of this operational plan is to document policies and procedures related to the operation and maintenance of the inventory system.

Anticipated completion date: Q3 2021.

Please note that there are four additional recommendations contained in the Private and Confidential Appendix "E" to Report AUD200008. A total of 22 recommendations were made for this audit.