

ATTACHMENT C

INVENTORY MANAGEMENT INTERNAL CONTROLS TESTING FINAL SUMMARY REPORT

Executive Summary Review of Warehouse Operations



JANUARY 6, 2020

**Prepared by:
City Manager's Office
City of Newport Beach**



Project Scope and Methodology

As part of the City's commitment to providing premium services to the community in a cost-effective and expedient manner, various operations are audited to determine their efficiency and effectiveness. This review focused on the City's centralized warehouse and auto parts inventory operations. Several areas were identified that should be addressed to create highly functioning, effective, and efficient central warehouse and auto parts inventory operations.

This review involved collecting information, identifying strengths and weaknesses of the operations, and making recommendations on how to maximize efficiencies. To facilitate the review and analysis, interviews were conducted with Finance Department staff responsible for these operations, as well as with relevant staff from other City Departments that regularly interact with the Finance Department staff. A variety of materials, including current inventory usage and accounting records for the past three fiscal years, internal controls documentation, and operational processes, were also reviewed.

Background

Warehouse and auto parts inventory operations are governed by City Charter Sections 1106 (Centralized Purchasing) and 1111 (Purchasing Supplies); City Council Policies F-9 (City Vehicle / Equipment Replacement Guidelines), F-11 (Custody and Disposal of Controlled Property), F-14 (Authority to Contract); and Administrative Policies AP-001 (Contracting for the Procurement of Services) and AP-002 (Purchasing Procedures for Goods, Equipment, and Materials). The City's purchasing functions are managed by the City's Purchasing and Contracts Administrator, which is a supervisory position reporting to the Finance Director. The purchasing staff includes four additional employees, each of which spends some portion of their time dedicated to the warehouse and auto parts functions.

- 1.0 Senior Buyer
- 1.0 Buyer

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- 1.0 Senior Fiscal Clerk
 - 1.0 Fiscal Specialist (shared position with the Budget Division)

The warehouse currently stocks 1,100 items with a value of just over \$200,000. The number of individual items issued in a year is over 40,000; however, there are over 400 items that are only needed between 1 and 50 times per year. On the high end of usage, there are two items picked 4,000-9,000 times per year. Batteries are the most frequently utilized inventory item, followed closely by toilet seat covers and toilet paper. Departments identified janitorial and cleaning supplies, landscaping supplies, and batteries as items they prefer to have warehoused for easy accessibility and discounted cost. Although the warehouse does not deliver, having inventory available at the warehouse eliminates the need for non-warehouse personnel to take time out of their day to purchase directly from an outside vendor. This is a significant convenience for City staff. Additionally, the warehouse is useful for departments that do not have the storage capacity to store items that are heavily used and/or bulky.

The warehouse staff are also responsible for disposing of obsolete property. Aside from the Police Department, which has its own surplus property process, surplus items are dropped off at the warehouse. Upon receipt, warehouse staff remove tagged fixed assets from the accounting records, and when there are enough items to surplus a contracted auction company is called, and the items are picked up and sold at auction. The proceeds from the auction are then disbursed to the City.

The Public Works Department manages the City's Fleet operations and is served by a small auto parts warehouse located next to the auto shop. Although the auto parts inventory is smaller than the warehouse, the items are of greater value and access to them is more time sensitive due to the need to keep fleet vehicles and equipment in service. The auto parts inventory carries approximately 780 unique parts to service the City's fleet of over 400 vehicles and pieces of equipment. The majority of inventory items are pulled between 1 and 10 times per year. 716 items were pulled 1 to 10 times in FY 2019-20 and 998 items were pulled 1 to 10 times in FY 2018-19. It seems likely there are many parts that could be secured pursuant to a daily auto parts call and removed from the inventory.

Recommendations

Following detailed review of all of the applicable policies and procedures, field visits to the facilities, and interviews with purchasing staff and customers, the below recommendations were developed to improve the efficiency and effectiveness of the City's warehouse and auto parts inventory operations.

Staffing – The Finance Department staff located at the Corporation Yard should receive more direct and regular supervision from management.

Accounting – Internal controls related to warehouse operations are inadequate and should be evaluated in comparison to best practices. Accounting adjustments at year-end should be justified with reasons documented for any adjustments to inventory.

Warehouse Management – Opportunities exist to revise the system for pulling items from the warehouse to be more efficient, eliminate infrequently used inventory items, provide a process for requesting new items to be added to inventory, provide an intranet listing of warehouse items for reference purposes, enhance monthly reporting of warehouse use by City Departments, standardize forms, conduct an annual user survey, and evaluate offering a delivery service.

Auto Parts Inventory Management – A full inventory of all parts on hand should be conducted, the parts storage area should be cleaned and organized, actual inventory should be reconciled against the inventory management system, and unused or infrequently used parts should be purged from the inventory.

Fleet Management – A flow chart for new vehicle purchases should be created that highlights responsibilities and DMV paperwork management should be a responsibility of the Finance Department.

Utilities Yard Inventory Management – Certain inventory items stored at the Utilities Yard should be tracked and counted regularly.