



INTERNAL AUDIT DEPARTMENT

**Audit of Internal Controls for the
Annual Physical Inventory**

Fiscal Year 2013

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Performance Audit

Project P1305

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EXECUTIVE SUMMARY

INTRODUCTION

Port Authority internal auditors observed the fiscal year (FY) 2013 annual physical inventory (Inventory). The Inventory is coordinated by the Purchasing and Materials Management Department. Its purpose is to ensure that the on-hand quantity for each inventory item is accurately recorded in the PeopleSoft financial system so that transit operations are supported by having materials and supplies available when needed. For the fiscal year, material and supply expenditures were approximately \$18 million or 4.8% of total expenses of \$376 million.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to determine the adequacy of internal controls for the Inventory and to determine if inventory items were accurately counted, variances and adjustments were recorded correctly in PeopleSoft and the cut-off process was followed for requisitions and receivers issued before and after the Inventory. The scope of this audit was the FY 2013 Inventory.

We observed the employees as they counted the inventory items and independently tested a sample of inventory counts and the cut-off process and assisted in resolving variances.

STATEMENT OF OPINION

In our opinion, in general, the FY 2013 Inventory was conducted in a manner that provides reasonable assurance that inventory items were accurately counted, adjustments to on-hand quantities were recorded correctly in PeopleSoft, the cut-off process was followed for requisitions and receivers issued before and after Inventory and significant variances were resolved and recorded correctly in PeopleSoft. We made recommendations to improve internal controls and business processes going forward as summarized below.

STRENGTHS NOTED DURING THE AUDIT

- 1) Based on our statistically valid sample and an actual error rate of 8.6%, we are 95% confident that the true accuracy rate of item counts in the population is between 87.4% and 95.4%.
- 2) Changes were made to the count sheets to increase the accuracy rate of counts for items with a unit of measure other than each.

- 3) Of the requisitions and receivers examined as part of the inventory cut-off testing, 70 of 71 or 98.6% were processed according to cut-off instructions.

RESULTS OF TEST COUNTS

Based on our statistically valid sample and an actual error rate of 8.6%, we are 95% confident that the true accuracy rate of item counts in the population is between 87.4% and 95.4%.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – SYSTEM QUANTITY DIFFERENCES

The quantities in the “System Quantity” column on the Physical Accounting Reconciliation Report sometimes differed from quantities in PeopleSoft for the Manchester location resulting in the processing of inventory adjustments incorrectly and an additional \$11,086.45 in overage adjustments. The reason for these differences is that some items have more than one bin location established in PeopleSoft.

In addition, we noted the following:

- 1) PeopleSoft permits stock items to be putaway at locations that differ from their default bin locations and does not permit a user to change a unit of measure for a stock item.

Personnel in the Purchasing and Materials Management and the Information Technology Services departments identified all inventory items with more than one location in PeopleSoft and management stated that these items will be cycle counted and assigned to only one bin location.

Business Impact:

Having more than one bin location for a stock item can result in incorrect inventory adjustments. If the value of these items is significant, the financial statements might be misstated and, from an operational standpoint, materials might not be available when needed.

RECOMMENDATION 1

The PeopleSoft inventory system should be reviewed to ensure it is configured to allow only one inventory location for each stock item at each location and quantities should only be capable of being putaway at the stock item default bin location. When stock items are transferred to a new bin location, the entire quantity in PeopleSoft should be transferred to this new location and the previous inventory location should be deleted or disabled for this stock item.

The stock items with duplicate bin locations should be recounted, bin to bin transfers should be processed in PeopleSoft, the default putaway location should be adjusted, if necessary and management should run a query on at least a quarterly basis and prior to the Inventory to identify stock items with quantities in PeopleSoft at more than one bin location. The stock items identified should be recounted and the quantities should be adjusted based on the process described above.

MANAGEMENT RESPONSE 1

PeopleSoft is configured to allow only one default storage location for each item. During the putaway processes, either Express Putaway or Stockroom Feedback, PeopleSoft allows users to change the default storage location. This functionality to allow users to change the default storage location during the Express Putaway or Stockroom Feedback processes was disabled in January 2014.

This change alone will not eliminate an item from having two storage locations. If the default storage location is changed without the on-hand quantity from the old storage location being moved to the new location, (a bin to bin transfer), then the item could show two storage locations. Queries were created to identify items with duplicate storage locations.

The items identified with duplicate bin locations were recounted and if necessary were moved to one bin location and if bin to bin transfers were required, they were completed in March 2013. Otherwise the stock was adjusted to zero at one of the bin locations. The queries will be run the week before the FY 2014 Physical Inventory.

As of March 2014, management responded that prior to the FY 2014 Inventory, queries were developed in PeopleSoft listing all stock items with more than one inventory location in the Transactions Inventory Table and no items with duplicate bin locations were noted during the FY 2014 Annual Physical Inventory.

Target date for Implementation: Implemented as of the FY 2014 Annual Physical Inventory.

OBSERVATION 2 – MARKING ITEMS WITH OVERFLOW AND MULTIPLE ITEMS IN A BIN

We noted numerous instances where more than one inventory item was assigned to the same bin location at the Manchester storeroom.

Business Impact:

Assigning more than one item to a bin and not clearly marking inventory overflow increases the risk of counting the quantities of the inventory items incorrectly which can lead to a misstatement of the value of Inventory on the financial statements and, from an operational standpoint, materials not being available when needed. These

practices also require additional time to identify the correct item to count and locate the overflow stock.

RECOMMENDATION 2

- 1) Only one item should be assigned to a bin location.
- 2) All bins with overflow stock should be clearly marked and the overflow stock itself should be clearly marked.

MANAGEMENT RESPONSE 2

- 1) We are in the process of only assigning one item per bin location as new parts are entered into PeopleSoft.

Target date: All new items added to Inventory moving forward are being assigned to their own bin location and we are in the process of re-assigning the approximately 3,000 items that share a bin and hope to have it completed by the FY 2017 Inventory.

- 2) New “overflow stock” signs were printed last year and were used in some areas but not in others. It is our goal to insure uniformity in the use of the new signs in all stockrooms.

Target date for Implementation: Implemented during the FY 2014 Annual Physical Inventory.

OBSERVATION 3 – INVENTORY ISSUES OBSERVED AT THE AUTO SHOP

Several active stock items over \$2.00 in value were not included on the count sheets and should have been. Some of these items were counted at the time of Inventory and their correct quantities were entered into PeopleSoft at the time of Inventory. Management stated that some of the other items were cycle counted in February 2013, before the Inventory.

In addition, we observed the following:

- 1) Personnel in stores and inventory operations and distribution entered putaway quantities in PeopleSoft that differed from the actual quantity of items purchased for two stock item numbers. This adjusted the quantities listed in PeopleSoft for the stock items. When this method is used to correct quantities, there is a risk that an inventory shortage would not be identified.
- 2) A three-way match is usually used to pay for purchases of stock items; however, a two-way match was used to pay for the items on an invoice that was identified and this does not require quantities to be entered into PeopleSoft. In researching this invoice, we observed that the invoice had been listed twice in PeopleSoft

(one invoice was a reprint or copy) and both invoices were scheduled for payment.

A potential duplicate payment could have been detected by PeopleSoft prior to payment if the invoice would have been set-up as a three-way match instead of a two-way match because a three-way match prevents quantities received/paid from exceeding the quantities authorized on the purchase order.

PeopleSoft records show that invoice number 257042/257130 for \$3,260.40 was paid on March 19, 2013 and that invoice number 257042 was not paid and has been closed.

Business Impact:

If stock items do not appear on the inventory count sheets, there is a risk that these stock items may not be counted as part of the Inventory. If quantities putaway do not always agree with quantities received, there is a risk that the on-hand inventory quantities in PeopleSoft will be incorrect. If stock items are purchased using a two-way match rather than a three-way match or if items received using a two-way match are not properly authorized, there is a risk that vendors can be paid improper amounts for quantities delivered.

RECOMMENDATION 3

We recommend the following:

- 1) Management should identify the reasons for stock items over \$2.00 in value not appearing on the count sheets and a process should be developed to ensure that all active stock items with unit values over \$2.00 appear on the inventory count sheets.
- 2) Quantities putaway in PeopleSoft should always agree with quantities received. If stock items are cycle counted and adjustments are needed to the quantities of these stock items, inventory adjustments should be processed to bring the system balances in PeopleSoft into agreement with the actual quantity of items on the shelf.
- 3) Purchase orders should be established to require a three-way match for inventory items. The three-way match, in addition to providing the assurance that the invoice amount cannot exceed the amount authorized by the purchase order, also assures that the quantities of materials actually received cannot exceed the quantities authorized by the purchase order.
- 4) Invoices should not be paid for purchases requiring a two-way match unless appropriate supervisory personnel indicate on the invoice that it is "ok to pay" and sign and date the invoice.

MANAGEMENT RESPONSE 3

- 1) The reason why stock items over \$2.00 did not appear on the count sheets was because some items were set up in the Item Group "Supplies", and the remaining items had two different bin locations associated with them. The items listed as Supplies have been changed to Materials and the remaining items with two bin locations were identified with the query listed under Management Response 1 and have been corrected.
- 2) The current procedure is as cycle counts are performed and shelf quantity and PeopleSoft (quantity) do not match; the Supervisors make adjustments to quantities up or down.
- 3) A meeting was held on May 30, 2013 with the Manager of Non-Revenue Vehicles, Manager of Purchasing Materials, Manager of Operations & Distribution, Auto & Truck Shop Foreman - FL, Fleet Maintenance Clerk, and the SHJ buyer to review the coding errors. As a result of this meeting, when the Auto Shop & Truck Shop Foreman - FL needs to purchase items that are inventory items he contacts the SHJ Buyer who enters the purchase order as a three-way match using the correct inventory encumbered account.
- 4) Accounts Payable staff has been very diligent in making sure all guidelines are followed.

Target Date: Implemented.

We made several observations/recommendations during previous audits that were implemented and only one observation/recommendation remains open. A summary of the recommendations is in the full report.

FOLLOW UP ON OUTSTANDING RECOMMENDATIONS FROM PREVIOUS AUDITS

We made several observations/recommendations during previous audits and only one observation/recommendation remains open. The current status of management's progress in implementing the recommended change is summarized below.

Observation/Recommendation 6 from the FY 2010 Audit and Observation/Recommendation 4 from the FY 2012 Audit - Multiple Items Per Location and Labeling Overflow Stock (This part of these recommendations is open)

We noted several instances where more than one inventory item was assigned to the same bin location at the Manchester storeroom. This increases the possibility of incorrectly counting the quantities of the inventory items sharing the same inventory location. As a result of these conditions, additional time was needed to locate the items during the physical inventory count. Incorrect bin locations and bin locations with more

than one inventory item assigned to them can make obtaining accurate counts difficult which can lead to a misstatement of the value of inventory on the financial statements and, from an operational standpoint, materials not being available when needed. This issue was also noted during the FY 2013 Inventory and is discussed in Observation 2 above.

In Observation 2 above, management responded that all new items added to the Inventory moving forward are being assigned their own bin locations and they are in the process of re-assigning approximately 3,000 items that share a bin location and hope to have it complete by the FY 2017 Inventory.

Current status – Open and combined with Observation 2 in this (FY 2013) report for follow up.

Observations/recommendations closed during this audit period are summarized below.

Observation/Recommendation 1 from the FY 2012 Audit – Overages and Shortages at the Manchester Location

1A From the FY 2012 Audit – Some Inventory Items Listed on Count Sheets not Found at Bin Locations

Inventory counters were unable to find the inventory items at the location specified by PeopleSoft on the count sheet for 34 stock items at Manchester. These items were physically removed from the shelf and the bin tag was removed but the PeopleSoft inventory records were not updated to reduce quantities to zero and/or inactivate the stock number in the PeopleSoft inventory records.

We recommended that management should review the list of all items that have been classified as obsolete during the fiscal year to ensure that the process for scrapping them has been carried through to completion. We also recommended that the Obsolete Inventory Identification Procedure should be reviewed by management personnel and adjusted, if necessary, to ensure that all steps required as part of scrap process are properly documented and that appropriate storeroom personnel should be provided a copy of these procedures and should receive training if needed.

Status Update: These 34 stock items have been inactivated, bin tags have been removed and this issue was not noted in the FY 2013 inventory report.

Current Status – Closed

1B From the FY 2012 Audit – Instances of Putaway Process and Receiving not Completed in PeopleSoft

The putaway process was not run in PeopleSoft for some items that had been received into Inventory at the Manchester inventory location. The director of the Purchasing and Materials Management Department reported that a process has been developed at the Manchester location for handling in-house repairs, rebuilds and manufactured items, that

purchase orders are now being created for the mirrors that are assembled and that these mirrors are received into stock.

We recommended that written cut-off instructions should be provided to stores foremen, stores supervisors and receivers prior to the start of each annual physical inventory and that stock items received after the cut-off date and time should be segregated, labeled, not counted as part of the Inventory and not placed in their assigned bin locations until after the Inventory has been completed and the inventory adjustments have been processed.

Status Update: A “Stores Supervisor and Receiver Inventory” shut down procedure for cut-off time prior to the shutting down of the business units has been established by management personnel. In addition, the manager of inventory operations and distribution established a receiver cut-off date and time prior to the Inventory and material coming to the loading dock after this date and time was properly segregated and labeled and was not entered into PeopleSoft until the physical inventory was completed. We determined that the putaway process was run in PeopleSoft for all stock items that were included as part of our cut-off testing at Manchester.

Current Status – Closed

1C From the FY 2012 Audit – System Quantities on Physical Accounting Reconciliation Report Sometimes Differed from On-hand Quantities in PeopleSoft

The quantities in the “System Quantity” column on the Physical Accounting Reconciliation Report sometimes differed from quantities in PeopleSoft at the Manchester location resulting in the processing of inventory adjustments incorrectly.

We recommended that the PeopleSoft inventory system should be reviewed to ensure it is configured to allow only one inventory location for each stock item and that when stock items are transferred to a new bin location, the entire quantity in PeopleSoft should be transferred to this new location and the previous inventory location should be disabled for this stock item. We also recommended that a query should be developed in PeopleSoft which lists all stock items with more than one inventory location in the Transactions Inventory Table.

As of March 1, 2014, management responded that prior to the FY 2014 Inventory queries were developed in PeopleSoft listing all stock items with more than one inventory location in the Transactions Inventory Table and no items with duplicate bin locations were noted during the FY 2014 Annual Physical Inventory.

Current status – Closed

1D From the FY 2012 Audit – Stock Item at Manchester With Two Separate Tag ID Numbers

Stock item number 96-4225 (Filter Kit) had two separate tag ID numbers in PeopleSoft at Location 2ND 0051 0007 0000 0000. As a result of the two separate tag ID numbers in PeopleSoft, these filter kits were adjusted for a quantity of 56.5 over rather than a quantity of 27 short. Management stated that this stock item was originally set up with a unit of measure of “each” and, in an attempt to change the unit of measure to “kit”; a second bin location was created in PeopleSoft.

We recommended that a process should be developed in PeopleSoft that ensures that each stock item at each inventory location can only have one Tag ID number assigned to it.

Status Update: This stock item number was also assigned a duplicate tag ID number during the FY 2013 Inventory. Since this was the only stock item identified with a duplicate tag ID number and this stock item was accurately counted during the Inventory, this observation is considered closed.

Current status – Closed

Observation/Recommendation 3 from the FY 2012 Audit

The number of inventory items with unit prices of at least \$2.00 differed between the number reported verbally by Purchasing and Materials Management Department personnel prior to the start of the FY 2012 Inventory and the number of items counted.

We recommended that Purchasing and Materials Management Department personnel should determine the reason that the number of inventory items with unit prices of at least \$2.00 changed to ensure that all items with unit prices of at least \$2.00 are listed on the count sheets to be counted during the Inventory.

Management responded that the inconsistent number of inventory items greater than \$2.00 was due to PeopleSoft tables being incorrectly joined when the query was written by the manager of purchasing and inventory thus resulting is less items being reported to Internal Audit.

Current status – Closed.

Observation/Recommendation 2 from the FY 2011 Audit

In the FY 2011 audit, we noted that five stock items which were on-hand at the Auto Shop at the time of Inventory were not included on the Physical Count Data Sheets because no inventory location was established for these stock items in PeopleSoft. In addition, we noted that 12 inactive inventory items at the Auto Shop appeared on the Physical Count Data Sheets because they were not moved to the “None” bin in PeopleSoft after they were made inactive.

We recommended that procedures should be developed for the Auto Shop to help ensure that bin locations are established for all inventory items and inactive items are moved to the "None" bin in PeopleSoft.

At that time, management in the materials management function responded that it was considering reducing inventory quantities stocked at the Auto Shop or reclassifying all inventory items at the Auto Shop from inventory items to nonstock (supply) items. We concur that reducing inventory quantities stocked would be beneficial to controlling Inventory; however, reclassifying them as nonstock (inventory) items will reduce internal controls because Port Authority will not be able to identify shortages in quantities which is a concern for items such as tires and batteries which have personal uses.

In this audit (FY 2013), we noted 18 stock items at the Auto Shop did not appear on the count sheets and that inactive inventory items were not included on the count sheets.

Internal Audit noted that during the FY 2014 Inventory all items appeared on the count sheets at the Auto Shop.

Current Status – Closed

**Observation/Recommendation 6 from the FY 2010 Audit and
Observation/Recommendation 4 from the FY 2012 Audit - Multiple Items Per
Location and Labeling Overflow Stock (This part of these recommendations is
closed)**

On the first floor of Manchester, some of the inventory items had overflow placed in a secondary location and were not marked as having an overflow. This issue was also noted during the FY 2013 Inventory and is discussed in Observation 2 above.

Internal Audit noted that new uniform overflow stock location signs have been made and installed prior to the FY 2014 Inventory that show the item number, overflow location, item description and unit of measure.

Current status – Closed

All other recommendations from prior audits are considered to be closed.

INTRODUCTION

Port Authority internal auditors observed the fiscal year (FY) 2013 annual physical inventory (Inventory). The Inventory is coordinated by the Purchasing and Materials Management Department. Its purpose is to ensure that the on-hand quantity for each inventory item is accurately recorded in the PeopleSoft financial system so that transit operations are supported by having materials and supplies available when needed. This Inventory was performed from February 22, 2013 through February 24, 2013. For the fiscal year, material and supply expenditures were approximately \$18 million or 4.8% of total expenses of \$376 million.

OBJECTIVES, SCOPE AND METHODOLOGY

The audit objectives were to determine the adequacy of internal controls for the Inventory and to determine if:

- Items were accurately counted,
- Dollar variances of at least \$250.00 (\$150.00 at the garage inventory locations and \$50.00 at the Auto Shop) and a quantity variance of at least 10 percent (5 percent at the Auto Shop) were resolved and recorded correctly in PeopleSoft,
- Adjustments to on-hand quantities were properly recorded in PeopleSoft, and
- The cut-off process was followed for requisitions and receivers issued before and after the Inventory. The cut-off is the time at which system processing of receivers and requisitions is suspended in PeopleSoft. The purpose of the cut-off testing is to determine if:
 - Items that were physically received and placed in stock prior to the start of counting were included in PeopleSoft's on-hand quantities,
 - Items that were physically received and not placed in stock prior to the start of counting were not included in PeopleSoft's on-hand quantities,
 - Requisitions that were filled and shipped prior to the start of counting were processed in PeopleSoft so that the on-hand quantities in the system are reduced prior to counting,
 - Items removed from stock after counting has begun (emergency requisitions) are added to the physical count if the item was removed from stock before it was counted,
 - Items physically received while the inventory is in progress are held at the receiving dock instead of being placed in inventory, and
 - Employees do not resume filling requisitions, stocking items and processing requisitions and receivers in PeopleSoft until after the Inventory is finalized and the cut-off is ended.

Audit of Internal Controls for the FY 2013 Annual Physical Inventory

The scope of this audit was the FY 2013 Inventory.

We conducted this performance audit in accordance with generally accepted government auditing standards except for Internal Audit's role in resolving variances in on-hand quantities at the Manchester, South Hills Village, South Hills Junction and the Auto Shop locations. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We observed the employees as they counted the inventory items and we tested inventory counts and the cut-off process at the Manchester, South Hills Village, South Hills Junction and the Auto Shop locations. We tested the accuracy of the inventory cut-off process by tracing a sample of requisitions and receivers to the transaction history records in PeopleSoft to ensure that they were processed in PeopleSoft at the correct time in relation to the cut-off. We also actively assisted in resolving variances. In addition, at these four locations and at the West Mifflin and Ross operating locations, we tested the accuracy of on-hand quantities recorded by the employees conducting the Inventory by independently counting a sample of inventory items and comparing our counts with the counts on the count sheets.

STATEMENT OF OPINION

In our opinion, in general, the FY 2013 Inventory was conducted in a manner that provides reasonable assurance that inventory items were accurately counted, adjustments to on-hand quantities were recorded correctly in PeopleSoft, the cut-off process was followed for requisitions and receivers issued before and after Inventory and significant variances were resolved and recorded correctly in PeopleSoft. We made recommendations to improve internal controls and business processes going forward as summarized below.

STRENGTHS NOTED DURING THE AUDIT

- 1) We estimated that the employees who counted the Inventory recorded accurate counts between 87.4% and 95.4% of the time based on a statistically valid sample of 186 test counts at a 95% confidence level and an actual error rate of 8.6%. In addition, the accuracy rate at which employees counted Inventory based on our judgmental test counts was approximately 92%.
- 2) Prior to the start of the Inventory, the manager of purchasing and inventory worked with personnel in the Information Technology Services Department to adjust the inventory count sheets by increasing the font size, using bold font, and putting a box around units of measure other than "each". This change appears to have been beneficial as the accuracy rate for statistical test counts with a unit of measure other than "each" increased from 73% during the fiscal year FY 2012 Inventory to 78% during the FY 2013 Inventory and the accuracy rate for judgmental test counts with a unit of measure other than "each" increased from 75% during the FY 2012 Inventory to 95% during the FY 2013 Inventory.

Audit of Internal Controls for the FY 2013 Annual Physical Inventory

RESULTS OF TEST COUNTS

Based on our statistically valid sample and an actual error rate of 8.6%, we are 95% confident that the true accuracy rate of item counts in the population is between 87.4% and 95.4%.

Using attribute sampling for a population size of 13,000 items, a statistically valid sample of 186 inventory items was selected for testing from a population of 12,371 inventory items with an average unit cost of at least \$2.00. Internal Audit Department personnel counted each item in the sample and compared our count to the count recorded on the count sheets. Any discrepancies were resolved. We noted 16 errors (an overall accuracy rate of 91%). In addition to the systematically selected test counts from our sample, 538 judgmentally selected test counts were performed by Internal Audit Department personnel during the Inventory. Of these 538 counts, 493 counts were determined to be correct and 45 counts were incorrect (an overall accuracy rate of 92%). The table below summarizes the results of the testing.

Summary of Systematically Selected Test Counts

Location	Number of Items with a Unit Price of at Least \$2.00	Number of Test Counts	Number of Count Discrepancies	Number of Accurate Counts	Percentage of Accurate Counts
Manchester	8,691	132	12	120	91%
South Hills Village	2,092	30	1	29	97%
South Hills Junction	1,566	23	3	20	87%
Auto Shop	<u>22</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>100%</u>
Totals	<u>12,371</u>	<u>186</u>	<u>16</u>	<u>170</u>	<u>91%</u>

Of these 186 test counts, 177 items had a unit of measure of "each" and 9 items had a unit of measure something other than "each" such as "case" or "set". We determined that 2 of these 9 items were incorrectly counted by the inventory count crews (an accuracy rate of 78%). For the 177 items with a unit of measure of "each", 14 were incorrectly counted (an accuracy rate of 92%).

Audit of Internal Controls for the FY 2013 Annual Physical Inventory

Summary of Judgmentally Selected Test Counts

Location	Number of Test Counts	Number of Discrepancies	Number of Accurate Counts	Percentage of Accurate Counts
Manchester	220	27	193	88%
South Hills Village	22	0	22	100%
South Hills Junction	94	12	82	87%
Auto Shop	Note 1	-	-	-
West Mifflin	100	5	95	95%
Ross	<u>102</u>	<u>1</u>	<u>101</u>	<u>99%</u>
Totals	<u>538</u>	<u>45</u>	<u>493</u>	<u>92%</u>

Note 1: Internal Audit personnel assisted in counting the items at this location because it has a small number of items, so no judgmentally selected test counts were performed.

Of these 538 judgmental test counts, 478 items had a unit of measure of “each” and 60 items contained a unit of measure something other than “each” such as “case” or “set”. We determined that 3 of these 60 items were incorrectly counted by the inventory count crews (an accuracy rate of 95%). For the 478 items with a unit of measure of “each”, 42 were incorrectly counted (an accuracy rate of 91%).

Note that the accuracy rates discussed above estimate the accuracy of the counts that are made by the inventory count crews. This accuracy rate should not be compared with the Purchasing and Materials Management Department’s estimate of the accuracy rate at which the on-hand quantities of inventory items are maintained in PeopleSoft’s records.¹

¹ Purchasing and Materials Management Department staff calculates their accuracy rate, which is reported on the Recap of Inventory Results – FY 2013 Inventory Accuracy Report, for inventory items with a unit value of at least \$2.00. The rate is calculated by dividing the number of items with no variances and the number of items with minor variances as determined by the Purchasing and Materials Management Department staff, by the total number of items with a unit value of at least \$2.00. The Purchasing and Materials Management Department staff defines a minor variance for the Manchester, South Hills Village and South Hills Junction warehouses as one that is less than \$250.00 in value and 10% in quantity. For the Auto Shop, a minor variance is defined as one that is less than \$50.00 in value and 5% in quantity. For the garage locations, a minor variance is defined as one that is less than \$150.00 in value and 10% in quantity.

Audit of Internal Controls for the FY 2013 Annual Physical Inventory

RESULTS OF CUT-OFF TESTING

Of the 71 requisitions and receivers examined as part of the inventory cut-off testing, 70 (98.6%) were processed according to cut-off instructions. The only exception noted relates to one receipt at the Auto Shop for which the quantity entered into PeopleSoft as being received/putaway was different than the quantity invoiced on the purchase order which is discussed in Observation and Recommendation 4.

A summary of the inventory cut-off test results for requisitions and receivers is included in the table below.

Inventory Location	Number of Requisitions and Receivers Examined	Number Processed According to Cut-Off Instructions	Number Not Processed According to Cut-Off Instructions	Description of Exception Items
Manchester	20	20	0	No exceptions noted
South Hills Village	20	20	0	No exceptions noted
South Hills Junction	20	20	0	No exceptions noted
Auto Shop	11	10	1	Quantities entered into PeopleSoft as being received/putaway were different than quantities invoiced on purchase order number 193783 (Refer to Observation 4).
Totals	71	70	1	

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – SYSTEM QUANTITY DIFFERENCES

The quantities in the “System Quantity” column on the Physical Accounting Reconciliation Report sometimes differed from quantities in PeopleSoft for the Manchester location resulting in the processing of inventory adjustments incorrectly.

The following differences, which resulted in an additional \$11,086.45 in overage adjustments, were noted between the system quantities on the Physical Accounting Reconciliation Report and the quantities in PeopleSoft for the Manchester location:

Audit of Internal Controls for the FY 2013 Annual Physical Inventory

Stock Item Number	Description of Item	Quantity on Physical Accounting Reconciliation Report as of 2/24/13	PeopleSoft Quantity on 2/24/13 (Before Processing Inventory Adjustments)	Final Inventory Count	PeopleSoft Quantity on 2/24/13 (After Processing Inventory Adjustments)
89-0238	Tray Asm, Battery	0	2	2	4
79-0190	Compressor	5	6	6	7
24-0024	Module, Rubber	0	3	3	6
90-5018	Turbo Assembly	13	14	11	12
90-9000	Belt A/C Compress.	17	56	61	100
97-4159	Piston	1	10	10	19
98-4160	Planet Carrier	1	3	2	4
89-0189	Motor, Air Door	0	3	3	6

The reason for these differences is that some items have more than one bin location established in PeopleSoft. To produce the count sheets, PeopleSoft lists only the location with the most recent activity (depletion, putaway, etc.) on the count sheets and it ignores any other locations to which an inventory item has been assigned. Conversely, to calculate the system quantity on the transaction history panel, PeopleSoft correctly adds the system quantities from all locations for the inventory item being queried. This practice of excluding secondary bin locations from printing on the count sheets creates the following risks:

- 1) Inventory items with more than one location might not be counted correctly because only the location with the most recent activity is listed on the count sheets. Any quantities that are physically located in other bin locations might never be counted because they are not listed on the count sheets; therefore, the employees performing the counts will not know that they should be counted. The potential effects of this practice are that the value of the Inventory can be understated or overstated in situations where items with secondary locations are not being verified as part of the Inventory due to them being omitted from the count sheets.

- 2) Adjustments might be processed incorrectly resulting in incorrect on-hand PeopleSoft system quantities.

The Physical Accounting Reconciliation Report (Variance Report) is created after all the counts have been entered into PeopleSoft. It lists variances of at least 10% (5% at the Auto Shop) in quantity and \$250.00 (\$150.00 at the garage inventory locations and \$50.00 at the Auto Shop) in dollar value. Storeroom staff and auditors visit these bin locations and recount the on-hand quantities to resolve the variances. PeopleSoft misstated the system quantity on the Variance Report because, in situations where an item is recorded in PeopleSoft as

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having two locations, the report only shows the quantities in one of the locations which might create a variance.

In addition, we noted the following:

- 1) PeopleSoft permits stock items to be putaway at locations that differ from their default bin locations.
- 2) PeopleSoft does not permit a user to change a unit of measure for a stock item. As a work around, a new bin location must be created for an item as a means of correcting the unit of measure on the item. In these instances, the initial record needs to be disabled or deleted from the system before the new record is created.

The manager of purchasing materials worked with personnel in the Information Technology Services Department to identify all inventory items with more than one location in PeopleSoft and, as of April 2013, has identified 89 stock items at Manchester, 6 stock items at South Hills Junction, 5 stock items at Ross, 3 stock items at West Mifflin, 3 stock items at East Liberty and 1 stock item at Collier with two inventory locations. Management has stated that the items identified with more than one bin location will be cycle counted and these items will be assigned to only one bin location.

Business Impact:

Having more than one bin location for a stock item can result in incorrect inventory adjustments. If the value of these items is significant, the financial statements might be misstated and, from an operational standpoint, materials might not be available when needed.

RECOMMENDATION 1

The PeopleSoft inventory system should be reviewed to ensure it is configured to allow only one inventory location for each stock item at each location and quantities should only be capable of being putaway at the stock item default bin location. When stock items are transferred to a new bin location, the entire quantity in PeopleSoft should be transferred to this new location and the previous inventory location should be deleted or disabled for this stock item.

The stock items listed in the table above and the stock items identified by management with duplicate bin locations should be recounted. After these stock items are recounted, bin to bin transfers should be processed in PeopleSoft and the default putaway location should be adjusted, if necessary, to the location at which these stock items are actually stored. In addition, management should run a query on at least a quarterly basis and prior to the Inventory to identify stock items with quantities in PeopleSoft at more than one bin location. The stock items identified should be recounted and the quantities should be adjusted based on the process described above.

MANAGEMENT RESPONSE 1

PeopleSoft is configured to allow only one default storage location for each item. During the putaway processes, either Express Putaway or Stockroom Feedback, PeopleSoft allows users to change the default storage location. This functionality to allow users to change the default storage location during the Express Putaway/Stockroom Feedback processes was disabled by the Information Technology Services Department on January 6, 2014.

This change alone will not eliminate an item from having two storage locations. If the default storage location is changed without the on-hand quantity from the old storage location being moved to the new location, (a bin to bin transfer), then the item could show two storage locations. To identify these items, the following public queries were created for each part room and warehouse:

PAG_010RO_DUP_ITM_LOC
PAG_024CO_DUP_ITM_LOC
PAG_046WM_DUP_ITM_LOC
PAG_056EL_DUP_ITM_LOC
PAG_140CS_DUP_ITM_LOC
PAG_141FS_DUP_ITM_LOC
PAG_142AT_DUP_ITM_LOC
PAG_144R_DUP_ITM_LOC

The above queries can be run by anyone in the Purchasing and Material Management Department who has query access. The results can be sorted and have the conditional formatting applied to identify items with duplicate storage locations.

The items on the above table and other items identified with duplicate bin locations were recounted and if necessary were moved to one bin location and if bin to bin transfers were required, they were completed on March 26, 2013. Otherwise the stock was adjusted to zero at one of the bin locations. The queries will be run the week before the FY 2014 Physical Inventory.

As of March 1, 2014, management responded that prior to the FY 2014 Inventory, queries were developed in PeopleSoft listing all stock items with more than one inventory location in the Transactions Inventory Table and no items with duplicate bin locations were noted during the FY 2014 Annual Physical Inventory.

Target Date: Implemented as of the FY 2014 Inventory.

OBSERVATION 2 – MARKING ITEMS WITH OVERFLOW AND MULTIPLE ITEMS IN A BIN

We noted numerous instances where more than one inventory item was assigned to the same bin location at the Manchester storeroom. We also observed 25 stock items that had overflow stock stored in an auxiliary bin location. For 16 of these 25 items, the auxiliary bin location was displayed on the primary bin. However, for the other 9, the auxiliary bin location was not displayed on the primary bin.

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Business Impact:

Assigning more than one item to a bin and not clearly marking inventory overflow increases the risk of counting the quantities of the inventory items incorrectly which can lead to a misstatement of the value of Inventory on the financial statements and, from an operational standpoint, materials not being available when needed. These practices also require additional time to identify the correct item to count and locate the overflow stock.

RECOMMENDATION 2

- 1) Only one item should be assigned to a bin location.
- 2) All bins with overflow stock should be clearly marked and the overflow stock itself should be clearly marked.

MANAGEMENT RESPONSE 2

- 1) We are in the process of only assigning one item per bin location as new parts are entered into PeopleSoft.

Target date: All new items added to Inventory moving forward are being assigned to their own bin location and we are in the process of re-assigning the approximately 3,000 items that share a bin and hope to have it completed by the FY 2017 Inventory.

- 2) New "overflow stock" signs were printed last year and were used in some areas but not in others. It is our goal to insure uniformity in the use of the new signs in all stockrooms.

Target date: Implemented during the FY 2014 Inventory.

OBSERVATION 3 – LABELING OF INVENTORY LOCATIONS AND STOREROOM APPEARANCE

We noted that the location section numbers on the first floor of the Manchester storeroom are typically placed near the center of each section; however, it is sometimes difficult to determine where each section starts and ends. In addition, the labeling of the bins within each section can be improved to indicate where each bin starts and ends.

We also noticed that many stock items are stored on the floor of the Manchester storeroom and it can be difficult at times to accurately count these stock items. An example of this is Stock item number 35-0001 (Fabric for LRV Rail Car Seats) which had a default bin location of Section 9, Bin 1, but was actually stored on the floor and surrounded by other stock items in Section 13, Bin 4. The initial count of this stock item was zero and the initial inventory shortage was \$17,619.67. This inventory item was located prior to booking final inventory adjustments and the final adjustment for this stock item was a shortage of \$138.74. There was no overflow marking at the default bin location for this stock item.

In addition, there was a significant amount of scrap (particularly Nova bus parts) at the Manchester storeroom. Subsequent to the Inventory, Purchasing and Materials

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Management Department personnel indicated that the Nova bus parts have been sold and that these parts have been removed from the Manchester storeroom.

Business Impact:

If the location sections and bins are not clearly labeled and identified, or different stock items are stored together on the floor, these items may be incorrectly counted or the Inventory might take an excessive amount of time to complete.

RECOMMENDATION 3

Inventory location section numbers should be placed throughout the first floor of the Manchester storeroom and signs should be placed to identify areas where one section ends and a new section begins. In addition, bins should be labeled within each section to identify where each bin starts and ends.

MANAGEMENT RESPONSE 3

The Sign Shop is making new signs for the first floor indicating with arrows where one section ends and the next section begins. Utilizing this signage will address both points in Recommendation 3.

Target date: Implemented during the FY 2014 Inventory.

OBSERVATION 4 – INVENTORY ISSUES OBSERVED AT THE AUTO SHOP

There were 22 stock items listed on the inventory sheets for the Auto Shop. However, 18 additional active stock items over \$2.00 in value were not included on the count sheets and should have been. Nine of these items were counted at the time of Inventory and their correct quantities were entered into PeopleSoft at the time of Inventory. Management stated that the other nine items were cycle counted in February 2013, before the Inventory. The 18 additional active stock items that should have been listed on the count sheets are as follows:

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Stock Item Number	Description of Item	Item Group
219500	Battery 875 CCA Top & Side Post	Supply
219501	Battery 525 CCA Top Post	Supply
219502	Battery 900 AMP Top Stud	Supply
219503	Battery 525 CCA Top Post	Supply
219504	Battery 650 CCA Top & Side Post	Supply
219505	Battery 875 CCA Post only	Supply
219506	Battery 650 CCA Side Post only	Supply
219507	Battery 850 CCA Top Post	Supply
219508	Battery 12V Side Post only	Supply
211110	Tire 425/65R/22.5 Load Range L	Tires & Tube
211224	Tire 215/85R/16 All Season LOA	Tires & Tube
211226	Tire 385/65R/22.5 Load Range J	Tires & Tube
211264	Tire 8/19.5 Radial Mud/Snow	Tires & Tube
211274	Tire 245/75R/22.5 Front Steering	Tires & Tube
211280	Tire 225/70R/19.5 Front G159	Tires & Tube
211281	Tire 11R24.5 Load Range G164	Tires & Tube
211285	Tire 205/60TR16 (Ford Fusion)	Tires & Tube
211210	Tire 11 x 22 5R Standard Tubeless	Tires & Tube

In addition, on Goodyear invoice number 257042 (for stock item numbers 211268 and 211284) we observed the following:

- 1) Personnel in stores and inventory operations and distribution entered putaway quantities in PeopleSoft that differed from the actual quantity of items purchased for both stock item numbers. This adjusted the quantities listed in PeopleSoft for the stock items. When this method is used to correct quantities, there is a risk that an inventory shortage would not be identified. Typically, putaway is used for items that are received into Inventory and in this case the items were not received into PeopleSoft. Therefore, an inventory adjustment should have been entered to correct an incorrect quantity in PeopleSoft.
- 2) A three-way match is usually used to pay for purchases of stock items; however, a two-way match was used to pay for the items on this invoice which does not require quantities to be entered into PeopleSoft. A summary of this information is below.

Stock Item Number	Quantity on Invoice/Receiver	Quantity Listed as "Putaway in PeopleSoft"	Date	Quantity PAAC Paid for
211268	8	10	02-21-13	8
211284	8	3	02-21-13	8

In researching this invoice we observed the following:

- 1) The initial invoice number 257042 (purchase order number 193783) listed four items. The third item was circled and stated that a credit (invoice number 257130) was attached for the item. The invoice was marked "Ok to Pay" but did not have a signature on it.

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- 2) Internal Audit Department personnel observed that this invoice was listed twice in PeopleSoft (once under invoice number 257042/257130 and once under invoice number 257042) and that both of these invoice numbers were scheduled for payment on the same date (March 11, 2013). We informed the manager of accounts payable who researched this matter and determined that the second invoice did not appear to be the original invoice but was a reprint of invoice number 257042 (for which a separate purchase order number 194009 had been created), which appeared to have been faxed. The invoice listed four items on it; however, it did not state that a credit should be applied for the 3rd item and incorrectly listed the total amount due of \$4,355.76. The manager of accounts payable stated that they have an understanding with the buyers that if the related invoice number is listed on the purchase order screen in the item description box, then the invoice is ok to pay. Internal controls can be strengthened by requiring a supervisor to approve the payment of the invoice.

A potential duplicate payment could have been detected by PeopleSoft prior to payment if the invoice would have been set-up as a three-way match instead of a two-way match because a three-way match prevents quantities received/paid from exceeding the quantities authorized on the purchase order.

PeopleSoft records show that invoice number 257042/257130 for \$3,260.40 was paid on March 19, 2013 and that invoice number 257042 was not paid and has been closed.

Business Impact:

If stock items do not appear on the inventory count sheets, there is a risk that these stock items may not be counted as part of the Inventory. If quantities putaway do not always agree with quantities received, there is a risk that the on-hand inventory quantities in PeopleSoft will be incorrect. If stock items are purchased using a two-way match rather than a three-way match or if items received using a two-way match are not properly authorized, there is a risk that vendors can be paid improper amounts for quantities delivered.

RECOMMENDATION 4

We recommend the following:

- 1) Management should identify the reasons for stock items over \$2.00 in value not appearing on the count sheets and a process should be developed to ensure that all active stock items with unit values over \$2.00 appear on the inventory count sheets.
- 2) Quantities putaway in PeopleSoft should always agree with quantities received. If stock items are cycle counted and adjustments are needed to the quantities of these stock items, inventory adjustments should be processed to bring the system balances in PeopleSoft into agreement with the actual quantity of items on the shelf.
- 3) Purchase orders should be established to require a three-way match for inventory items. The three-way match, in addition to providing the assurance that the invoice

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amount cannot exceed the amount authorized by the purchase order, also assures that the quantities of materials actually received cannot exceed the quantities authorized by the purchase order.

- 4) Invoices should not be paid for purchases requiring a two-way match unless appropriate supervisory personnel indicate on the invoice that it is "ok to pay" and sign and date the invoice.

MANAGEMENT RESPONSE 4

- 1) The reason why stock items over \$2.00 did not appear on the count sheets was because some items were set up in the Item Group "Supplies", and the remaining items had two different bin locations associated with them. The items listed as Supplies have been changed to Materials and the remaining items with two bin locations were identified with the query listed under Management Response 1 and have been corrected.
- 2) The current procedure is as cycle counts are performed and shelf quantity and PeopleSoft do not match; the Supervisors make adjustments to quantities up or down.
- 3) A meeting was held on May 30, 2013 with the Manager of Non-Revenue Vehicles, Manager of Purchasing Materials, Manager of Operations & Distribution, Auto & Truck Shop Foreman - FL, Fleet Maintenance Clerk, and the SHJ Buyer to review the coding errors. As a result of this meeting, when the Auto & Truck Shop Foreman - FL needs to purchase items that are inventory items he contacts the SHJ Buyer who enters the purchase order as a three-way match using the correct inventory encumbered account.
- 4) Accounts Payable staff has been very diligent in making sure all guidelines are followed.

Target Date: Implemented.

ADVISORY COMMENT 1 –EMERGENCY REQUISITIONS

A summary of the inventory cut-off test results for requisitions and receivers is included in the table below.

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Inventory Location	Number of Emergency Requisitions Tested	Number Processed According to Instructions	Number Not Processed According to Instructions	Description of Exception Items
Manchester	3	2	1	Top white copy of "Item Removed From Bin Form" not removed from shelf and not turned into supervisor with the count sheet and folder. (Stock Item Numbers 11-0109 and 14-0033)
South Hills Village	1	1	0	No exceptions noted
South Hills Junction	3	1	2	Top white copy of "Item Removed From Bin Form" not removed from shelf and not turned into supervisor with the count sheet and folder. (Stock Item Number 96-6503)
Auto Shop	0	0	0	N/A
Totals	7	4	3	

Proper procedures for handling emergency requisitions were not followed for 3 of the 7 emergency requisitions tested because these items were removed from inventory before being counted and the white copy of the form was left on the shelf and was not turned into the supervisor. Internal Audit personnel advised appropriate storeroom personnel of the associated item numbers and the quantities removed were appropriately added back to the counts prior to processing inventory adjustments. We recommend that one storeroom employee at each inventory location should be responsible for ensuring that the emergency requisition process is properly followed.

The FY 2013 Physical Count Instructions state that the employee counting the item should return the top copy of the 2 part form to the supervisor with their count sheet.

FOLLOW UP ON OUTSTANDING RECOMMENDATIONS FROM PREVIOUS AUDITS

We made several observations/recommendations during previous audits and only one observation/recommendation remains open. The current status of management's progress in implementing the recommended change is summarized below.

Observation/Recommendation 6 from the FY 2010 Audit and Observation/Recommendation 4 from the FY 2012 Audit - Multiple Items Per Location and Labeling Overflow Stock (This part of these recommendations is open)

We noted several instances where more than one inventory item was assigned to the same bin location at the Manchester storeroom. This increases the possibility of incorrectly

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counting the quantities of the inventory items sharing the same inventory location. As a result of these conditions, additional time was needed to locate the items during the physical inventory count. Incorrect bin locations and bin locations with more than one inventory item assigned to them can make obtaining accurate counts difficult which can lead to a misstatement of the value of inventory on the financial statements and, from an operational standpoint, materials not being available when needed. This issue was also noted during the FY 2013 Inventory and is discussed in Observation 2 above.

In Observation 2 above, management responded that all new items added to the inventory moving forward are being assigned their own bin locations and they are in the process of re-assigning approximately 3,000 items that share a bin location and hope to have it complete by the FY 2017 Inventory.

Current status – Open and combined with Observation 2 in this (FY 2013) report for follow up.

Observations/recommendations closed during this audit period are summarized below.

Observation/Recommendation 1 from the FY 2012 Audit – Overages and Shortages at the Manchester Location

1A From the FY 2012 Audit – Some Inventory Items Listed on Count Sheets not Found at Bin Locations

Inventory counters were unable to find the inventory items at the location specified by PeopleSoft on the count sheet for 34 stock items at Manchester. These items were physically removed from the shelf and the bin tag was removed but the PeopleSoft inventory records were not updated to reduce quantities to zero and/or inactivate the stock number in the PeopleSoft inventory records.

We recommended that management should review the list of all items that have been classified as obsolete during the fiscal year to ensure that the process for scrapping them has been carried through to completion. We also recommended that the Obsolete Inventory Identification Procedure should be reviewed by management personnel and adjusted, if necessary, to ensure that all steps required as part of scrap process are properly documented and that appropriate storeroom personnel should be provided a copy of these procedures and should receive training if needed.

Status Update: These 34 stock items have been inactivated, bin tags have been removed and this issue was not noted in the FY 2013 Inventory report.

Current Status – Closed

1B From the FY 2012 Audit – Instances of Putaway Process and Receiving not Completed in PeopleSoft

The putaway process was not run in PeopleSoft for some items that had been received into Inventory at the Manchester inventory location. The director of the Purchasing and Materials Management Department reported that a process has been developed at the Manchester

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location for handling in-house repairs, rebuilds and manufactured items, that purchase orders are now being created for the mirrors that are assembled and that these mirrors are received into stock.

We recommended that written cut-off instructions should be provided to stores foremen, stores supervisors and receivers prior to the start of each annual physical inventory and that stock items received after the cut-off date and time should be segregated, labeled, not counted as part of the Inventory and not placed in their assigned bin locations until after the Inventory has been completed and the inventory adjustments have been processed.

Status Update: A “Stores Supervisor and Receiver Inventory” shut down procedure for cut-off time prior to the shutting down of the business units has been established by management personnel. In addition, the manager of inventory operations and distribution established a receiver cut-off date and time prior to the Inventory and material coming to the loading dock after this date and time was properly segregated and labeled and was not entered into PeopleSoft until the physical inventory was completed. We determined that the putaway process was run in PeopleSoft for all stock items that were included as part of our cut-off testing at Manchester.

Current Status – Closed

1C From the FY 2012 Audit – System Quantities on Physical Accounting Reconciliation Report Sometimes Differed from On-hand Quantities in PeopleSoft

The quantities in the “System Quantity” column on the Physical Accounting Reconciliation Report sometimes differed from quantities in PeopleSoft at the Manchester location resulting in the processing of inventory adjustments incorrectly.

We recommended that the PeopleSoft inventory system should be reviewed to ensure it is configured to allow only one inventory location for each stock item and that when stock items are transferred to a new bin location, the entire quantity in PeopleSoft should be transferred to this new location and the previous inventory location should be disabled for this stock item. We also recommended that a query should be developed in PeopleSoft which lists all stock items with more than one inventory location in the Transactions Inventory Table.

As of March 1, 2014, management responded that prior to the FY 2014 Inventory queries were developed in PeopleSoft listing all stock items with more than one inventory location in the Transactions Inventory Table and no items with duplicate bin locations were noted during the FY 2014 Inventory.

Current status – Closed

1D From the FY 2012 Audit – Stock Item at Manchester With Two Separate Tag ID Numbers

Stock item number 96-4225 (Filter Kit) had two separate tag ID numbers in PeopleSoft at Location 2ND 0051 0007 0000 0000. As a result of the two separate tag ID numbers in PeopleSoft, these filter kits were adjusted for a quantity of 56.5 over rather than a quantity of

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27 short. Management stated that this stock item was originally set up with a unit of measure of “each” and, in an attempt to change the unit of measure to “kit”; a second bin location was created in PeopleSoft.

We recommended that a process should be developed in PeopleSoft that ensures that each stock item at each inventory location can only have one Tag ID number assigned to it.

Status Update: This stock item number was also assigned a duplicate tag ID number during the FY 2013 Inventory. Since this was the only stock item identified with a duplicate tag ID number and this stock item was accurately counted during the Inventory, this observation is considered closed.

Current status – Closed

Observation/Recommendation 3 from the FY 2012 Audit

The number of inventory items with unit prices of at least \$2.00 differed between the number reported verbally by Purchasing and Materials Management Department personnel prior to the start of the FY 2012 annual physical inventory and the number of items counted.

We recommended that Purchasing and Materials Management Department personnel should determine the reason that the number of inventory items with unit prices of at least \$2.00 changed to ensure that all items with unit prices of at least \$2.00 are listed on the count sheets to be counted during the Inventory.

Management responded that the inconsistent number of inventory items greater than \$2.00 was due to PeopleSoft tables being incorrectly joined when the query was written by the manager of purchasing materials thus resulting is less items being reported to Internal Audit.

Current status – Closed.

Observation/Recommendation 2 from the FY 2011 Audit

In the FY 2011 audit, we noted that five stock items which were on-hand at the Auto Shop at the time of Inventory were not included on the Physical Count Data Sheets because no inventory location was established for these stock items in PeopleSoft. In addition, we noted that 12 inactive inventory items at the Auto Shop appeared on the Physical Count Data Sheets because they were not moved to the “None” bin in PeopleSoft after they were made inactive.

We recommended that procedures should be developed for the Auto Shop to help ensure that bin locations are established for all inventory items and inactive items are moved to the “None” bin in PeopleSoft.

At that time, management in the materials management function responded that it was considering reducing inventory quantities stocked at the Auto Shop or reclassifying all inventory items at the Auto Shop from inventory items to nonstock (supply) items. We concur that reducing inventory quantities stocked would be beneficial to controlling inventory; however, reclassifying them as nonstock (inventory) items will reduce internal controls

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because Port Authority will not be able to identify shortages in quantities which is a concern for items such as tires and batteries which have personal uses.

In this audit (FY 2013), we noted 18 stock items at the Auto Shop did not appear on the count sheets and that inactive inventory items were not included on the count sheets.

Internal Audit noted that during the FY 2014 Inventory all items appeared on the count sheets at the Auto Shop.

Current Status – Closed

Observation/Recommendation 6 from the FY 2010 Audit and Observation/Recommendation 4 from the FY 2012 Audit - Multiple Items Per Location and Labeling Overflow Stock (This part of these recommendations is closed)

On the first floor of Manchester, some of the inventory items had overflow placed in a secondary location and were not marked as having an overflow. This issue was also noted during the FY 2013 Inventory and is discussed in Observation 2 above.

Internal Audit noted that new uniform overflow stock location signs have been made and installed prior to the FY 2014 Annual Physical Inventory that show the item number, overflow location, item description and unit of measure.

Current status – Closed

All other recommendations from prior audits are considered to be closed.

ACKNOWLEDGEMENTS

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Participating auditors were Brenda Fink, Sheila Dillard, Dave Leaf and Rick Thimons



Sheila Dillard, Director, Internal Audit Department



Date

Disclaimer:

This report is intended solely for the information and use of Port Authority management for decision making purposes. It is not intended for use by any other party.

ATTACHMENT A – BUSINESS PROCESS FOR PUTAWAY AND DEPLETION

Putaway Process:

When an inventory item arrives at the receiving dock, the receiver takes possession of it and enters the receiving information into PeopleSoft which then stages the batch of items that are to be placed into the Inventory. The stockperson then places the items into the correct bin in the Inventory. At the Manchester and South Hills Junction locations, the storeroom supervisor runs a process called “Complete Putaway” which increases the on-hand quantities for all items that are in the staged batch status. At the South Hills Junction location, the “Complete Putaway” process is done at the time of receiving the item. At the South Hills Village location, the “Complete Putaway” process is run automatically as part of the receiving process.

Depletion Process:

When an item needs to be removed from Inventory, the employee who needs it initiates the process by submitting a materials stock request online in PeopleSoft. PeopleSoft includes this item on its pick list which is generated nightly. After the item has been picked from the shelf, the supervisor provides feedback to PeopleSoft to notify the system that the item is no longer in Inventory. At South Hills Village, a batch process runs every half hour to look for new material stock requests and a Pick Sheet prints at the stockman’s printer. The stockman then fulfills the order and closes the order in the system by performing the “Material Picking Feedback” process, which confirms, ships and depletes the items that have been fulfilled. At all locations except the Auto Shop, the depletion process is run nightly to automatically reduce on-hand quantities for which feedback has been entered into PeopleSoft. At the Auto Shop, the depletion process must be run manually.