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INTERNAL AUDIT DEPARTMENT

Audit of Internal Controls for the
Annual Physical Inventory

Fiscal Year 2014

Issued: November 2015

Performance Audit

Project P1405

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EXECUTIVE SUMMARY

INTRODUCTION

Port Authority internal auditors observed the fiscal year (FY) 2014 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 $17.8 million or 4.6% of total expenses of $389 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 2014 Inventory.

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

STATEMENT OF OPINION

In our opinion, in general, the FY 2014 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 noted improvement in identifying the overflow stock at the Manchester inventory location.

2) Additional signs were placed on the first floor of the Manchester storeroom to more clearly identify section numbers.

3) Prior to the Inventory, management in Purchasing and Materials Management department worked with personnel in the Information Technology Services Department to identify all items with more than one bin location in PeopleSoft and no related issues were noted during the FY 2014 Inventory.

RESULTS OF TEST COUNTS

Based on our statistically valid sample and on the actual error rate of 6.9%, we are 95% confident that the true accuracy rate of item counts in the population is between 89.6% and 96.8%.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – INVENTORY CUT-OFF PRACTICES REQUIRE IMPROVEMENT

A total of 189 items valued at more than $167,000.00 were not processed in accordance with cut-off instructions. These items had been received, entered in PeopleSoft and placed on the shelf before the FY 2014 and FY 2011 Inventories; however, these items were not putaway in PeopleSoft until after the FY 2014 Inventory because they had not been staged for putaway before the business unit was shut down before the Inventory.

In order to properly adjust the on-hand quantities and the value of Inventory, after the Inventory was completed, the putaway process was run in PeopleSoft for these stock items, they were cycle counted and adjustments were processed when necessary.

As part of our cut-off testing, we determined that 69 of 74 (93.2%) of the requisitions and receivers examined were processed in accordance with cut-off instructions. The five exceptions noted (which are included as part of the 189 items above) relate to stock items that were not processed in accordance with cut-off instructions as discussed above.

Business Impact:

When items are received before Inventory and not putaway in PeopleSoft until after the Inventory, there is a risk that inventory quantities can be overstated if the putaway process occurs in addition to processing inventory adjustments for the items.

RECOMMENDATION 1

We recommend that before shutting down the business units for Inventory, storeroom supervisors should verify that all items that are received in PeopleSoft are placed on the shelf and that there are no items listed in the "stockroom feedback" or the "load staged items" panels in PeopleSoft. If any items are identified in either of these PeopleSoft panels, these items should be manually staged and putaway in PeopleSoft before the system is shut down.

MANAGEMENT RESPONSE 1

Moving forward, before shutting down the business units for Inventory, the storeroom supervisors will verify that all items that are received in PeopleSoft are placed on the shelf and that there are no items listed in the "stockroom feedback" or the "load staged items" panels in PeopleSoft. If any items are identified in either of these PeopleSoft panels, these items will be manually staged and putaway in PeopleSoft before the system is shut down.

Target date for Implementation: Implemented during the FY 2015 Inventory.

OBSERVATION 2 – PREVIOUS ON-HAND QUANTITIES CHANGED FOR SOME ITEMS IN PEOPLESOFT

2a)   The Most Recent and Previous On-hand Quantities Changed in the Review Transaction History Panel

The most recent and previous on-hand quantities listed on the Review Transaction History panel for item number 14-5050 (ATS Wayside (CIS 2/305312)) at the South Hills Junction location changed incorrectly for the entire time period the item was tracked in PeopleSoft (from the date of the most recent transaction on March 10, 2014 back to May 29, 1999). The incorrect changes to the on-hand quantities were observed, after transactions were processed in PeopleSoft in an effort to reflect the correct quantity of items on the shelf.

The item's most recent on-hand quantity listed in this panel should reflect the quantity on the shelf and the previous on-hand quantities listed in the panel should not change when transactions are entered.

This issue was discussed with personnel in the Purchasing and Materials Management and Information Technology Services departments and the reason why the on-hand quantities changed incorrectly could not be determined. We collaborated with personnel from both departments and attempted to recreate the exact scenario in PeopleSoft's test environment; however, the on-hand quantities changed correctly during the test.

Therefore, we performed additional analysis and determined that item number 14-5050 was the only item in our sample whose on-hand quantities incorrectly changed in the Review Transaction History panel since 2007. Management stated that PeopleSoft was upgraded at Port Authority between 2005 and 2008 to modify/correct programing areas and to enhance the product.

Business Impact:

If the most recent on-hand quantities listed on the Review Transaction History panel for items in PeopleSoft can change incorrectly, there is a risk that incorrect inventory adjustments could be processed. In addition, operations can be affected by not having required materials on-hand when needed.

2b)   Non-Typical Distribution Types Used with Putaway and Depletion

Non-typical distribution types were used with recent putaway and depletion transactions for item number 14-5050 at the South Hills Junction location and management explained that a quantity of six items were returned to the shelf after Inventory.

Business Impact:

The use of "Transaction Group 020-Putaway" with the Distribution Type "ADJUSTMENT" would not allow for proper analysis of "Transaction Group 050-Adjust".

RECOMMENDATION 2

We recommend the following:

2a)   Information Technology Services Department personnel consult with Oracle (the company that acquired PeopleSoft) in an effort to determine why the on-hand quantity incorrectly changed for item number 14-5050.

2b)   Proper procedures are reviewed with and followed by storeroom personnel for:

    o   Returning an item to stock.
    o   Adjusting inventory quantities.

2c)   Going forward, if abnormal changes to on-hand quantities for an item in PeopleSoft are observed, the issue should be brought to the immediate attention of Information Technology Services Department personnel via a Helpdesk ticket.

MANAGEMENT RESPONSE 2

2a)   Based on the recommendation, personnel in the Information Technology Services Department consulted with Oracle regarding this issue and Oracle personnel responded that they did not note any discrepancies in reports related to current inventory levels and recommended monitoring for any new occurrences, noting any differences in processing, and/or error messages and pointed to possible causes as customized processing or have inventory integration with an external product and or having run "manual sqls".

Target Date for Implementation: Implemented.

2b)   Moving forward, when an item is returned into stock in the Storeroom it must have the proper bill of lading or receipt, Return To Stock Form #17-0002-A and have the Receiver receive the item into stock and the Supervisor adjust the inventory quantity (only when necessary).   Also when adjusting inventory quantities, the "Transaction Group 050-Adjust" will be used to adjust on-hand quantities rather than using the "Transaction Group 020-Putaway. These procedures will be discussed with storeroom personnel.

Target Date for Implementation: Prior to the FY 2015 Annual Physical Inventory.

2c)   Moving forward, if abnormal changes to on-hand or transaction history quantities for an item in PeopleSoft are observed, the issue will be brought to the immediate attention of the Information Technologies Department via a Helpdesk ticket.

Target Date for Implementation: Not Applicable.

OBSERVATION 3 – SECURITY PROTOCOL IN PEOPLESOFT

We noted three transactions were initiated in PeopleSoft by either an employee using another employee's user ID and password or by using another employee's computer after that employee had already signed into PeopleSoft. Management explained that these transactions were entered into PeopleSoft by the employee in order to perform required job duties when the employee was not able to access the necessary storeroom location using their own login information. The employee's PeopleSoft user profile has since been updated to allow access to all required work locations to perform their job; therefore, no recommendation is necessary.

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.

Observations/Recommendations 3 from the FY 2013 Audit, 4 from the FY 2012 Audit and 6 from the FY 2010 Audit – Multiple Items in a Bin Location

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.

We recommended that only one item should be assigned to each bin location.

Current Status: Open – Management stated that all new items added to Inventory moving forward are being assigned to their own bin location and that they are in the process of re-assigning the approximately 3,000 items that have more than one item at a specific location and they hope to have it completed by the FY 2017 Inventory.

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

INTRODUCTION

Port Authority internal auditors observed the fiscal year (FY) 2014 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 21, 2014 through February 23, 2014. For the fiscal year, material and supply expenditures were approximately $17.8 million or 4.6% of total expenses of $389 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:

  o Items that were physically received and placed in stock prior to the start of counting were included in PeopleSoft's on-hand quantities,

  o 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,

  o 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,

  o 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,

  o Items physically received while the Inventory is in progress are held at the receiving dock instead of being placed in Inventory, and

  o 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.

The scope of this audit was the FY 2014 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 Collier and East Liberty 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 2014 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 noted improvement in identifying the overflow stock at the Manchester inventory location as compared to the FY 2013 Inventory. Lime green overflow stock notices were typically placed for inventory items with overflow stock at both the default bin location and the excess inventory location. These notices referenced the item number, default bin location and the location of the overflow stock. In addition, the manager of inventory operations and distribution created a spreadsheet of overflow stock items at Manchester which included the default location of these items and this was provided to Internal Audit Department personnel to use during the inventory.

2) Additional signs were placed on the first floor of the Manchester storeroom to more clearly identify section numbers.

3) Prior to the start of the Inventory, the manager of purchasing materials worked with Information Technology Services Department personnel to identify all items

with more than one bin location in PeopleSoft and no issues related to items being located in more than one bin location were noted during the FY 2014 Inventory.

RESULTS OF TEST COUNTS

Based on our statistically valid sample and on the actual error rate of 6.9%, we are 95% confident that the true accuracy rate of item counts in the population is between 89.6% and 96.8%.

Using attribute sampling for a population size of 13,000 items, a statistically valid sample of 189 inventory items was selected for testing from a population of 12,307 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 13 errors (an overall accuracy rate of 93%). In addition to the systematically selected test counts from our sample, 635 judgmentally selected test counts were performed by Internal Audit personnel during the Inventory. Of these 635 counts, 563 counts were determined to be correct and 72 counts were incorrect (an overall accuracy rate of 89%). The tables below summarize 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	8,495	131	10	121	92%
South Hills Village	2,070	31	2	29	94%
South Hills Junction	1,699	26	1	25	96%
Auto Shop	43	1	0	1	100%
Totals	12,307	189	13	176	93%

Of these 189 test counts, 176 items had a unit of measure of "each" and 13 items had a unit of measure of something other than "each" such as "case" or "set". We determined that 1 of these 13 items was incorrectly counted by the inventory count crews (an accuracy rate of 92%). For the 176 items with a unit of measure of "each", 12 were incorrectly counted (an accuracy rate of 93%).

Summary of Judgmentally Selected Test Counts

Location	Number of Test Counts	Number of Discrepancies	Number of Accurate Counts	Percentage of Accurate Counts
Manchester	214	36	178	83%
South Hills Village	117	14	103	88%
South Hills Junction	100	10	90	90%
Auto Shop	Note 1			
East Liberty	103	3	100	97%
Collier	101	9	92	91%
Totals	635	72	563	89%

Note 1: Internal Audit Department 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 635 judgmental test counts, 584 items had a unit of measure of "each" and 51 items contained a unit of measure something other than "each" such as "case" or "set". We determined that 5 of these 51 items were incorrectly counted by the inventory count crews (an accuracy rate of 90%). For the 584 items with a unit of measure of "each", 67 were incorrectly counted (an accuracy rate of 89%).

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]

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[1] Purchasing and Materials Management Department staff calculates their accuracy rate, which is reported on the Recap of Inventory Results – FY 2014 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.

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1 – INVENTORY CUT-OFF PRACTICES REQUIRE IMPROVEMENT

A total of 189 items valued at more than $167,000.00 were not processed in accordance with cut-off instructions because these items had been received, entered in PeopleSoft and placed on the shelf before the FY 2014 and FY 2011 Inventories; however, these items were not putaway in PeopleSoft until after the FY 2014 Inventory because they had not been staged for putaway. Typically the staging process at Manchester occurs automatically during the nightly batch process; however, if items are received on the day the business unit is shut down for Inventory, these items will need to be manually staged because these items will remain in the "load staged items" panel until they are staged. After these items are manually staged, they will need to be loaded into "stockroom feedback" and then manually putaway in PeopleSoft before the business unit is shut down.

In addition, the putaway process, which increases the on-hand quantities in PeopleSoft, was not run for these items before cut-off. When the putaway process is not run before cut-off, it typically causes on-hand quantities to be overstated (because the on-hand quantity is increased as a result of the adjustment made during the Inventory and the stock item's quantity is increased again after Inventory when the business units are reopened and the putaway process is run).

In order to properly adjust the on-hand quantities and the value of Inventory, after the Inventory was completed, the putaway process was run in PeopleSoft for these stock items, they were cycle counted and adjustments were processed when necessary.

As part of our cut-off testing, we determined that 69 of 74 (93.2%) of the requisitions and receivers examined were processed in accordance with cut-off instructions. The five exceptions noted (which are included as part of the 189 items above) relate to stock items that were not processed in accordance with cut-off instructions because they were received and entered into PeopleSoft before the Inventory but were not putaway in PeopleSoft until after the Inventory.

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

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	15	5	10 stock items were received and entered into PeopleSoft on 2/20/14 (before the Inventory) and were not putaway in PeopleSoft until 2/25/14 (after the Inventory). These items are included in the 189 items discussed above.
South Hills Village	20	20	0	No exceptions noted.
South Hills Junction	20	20	0	No exceptions noted.
Auto Shop	14	14	0	No exceptions noted.
Totals	74	69	5	

Business Impact:

When items are received before Inventory and not putaway in PeopleSoft until after the Inventory there is a risk that inventory quantities can be overstated if the putaway process occurs in addition to processing inventory adjustments for the items.

RECOMMENDATION 1

We recommend that before shutting down the business units for Inventory, storeroom supervisors should verify that all items that are received in PeopleSoft are placed on the shelf and that there are no items listed in the "stockroom feedback" or the "load staged items" panels in PeopleSoft. If any items are identified in either of these PeopleSoft panels, these items should be manually staged and putaway in PeopleSoft before the system is shut down.

MANAGEMENT RESPONSE 1

Moving forward before shutting down the business units for Inventory, the storeroom supervisors will verify that all items that are received in PeopleSoft are placed on the shelf and that there are no items listed in the "stockroom feedback" or the "load staged items" panels in PeopleSoft. If any items are identified in either of these PeopleSoft panels, these items will be manually staged and putaway in PeopleSoft before the system is shut down.

Target date for Implementation: Implemented during the FY 2015 Inventory.

OBSERVATION 2 – PREVIOUS ON-HAND QUANTITIES CHANGED FOR SOME ITEMS IN PEOPLESOFT

1) <u>The Most Recent and Previous On-hand Quantities Changed in the Review Transaction History Panel</u>

The most recent and previous on-hand quantities listed on the Review Transaction History panel for item number 14-5050 (ATS Wayside (CIS 2/305312)) at the South Hills Junction location changed incorrectly for the entire time period the item was tracked in PeopleSoft (from the date of the most recent transaction on March 10, 2014 back to May 29, 1999). The incorrect changes to the on-hand quantities were observed, after transactions were processed in PeopleSoft on March 7, 2014 and March 10, 2014, in an effort to reflect the correct quantity of items on the shelf.

The item's most recent on-hand quantity listed in this panel should reflect the quantity on the shelf and the previous on-hand quantities listed in the panel should not change when transactions are entered.

This issue was discussed with personnel in the Purchasing and Materials Management and Information Technology Services departments and the reason why the on-hand quantities changed incorrectly could not be determined. We collaborated with personnel from both departments and attempted to recreate the exact scenario in PeopleSoft's test environment; however, the on-hand quantities changed correctly during the test.

Therefore, we performed additional analysis to determine if the on-hand quantities in the Review Transaction History panel may have changed for any other items. We identified 19 changes, 18 of which appeared to relate to putaways, inspections and adjustments and occurred in 2007 or earlier (the majority of which occurred shortly after PeopleSoft was implemented in 1999). We determined that item number 14-5050 was the only item in our sample whose on-hand quantities incorrectly changed in the Review Transaction History panel since 2007. Although the exact cause of the incorrect changes to on-hand quantities could not be determined, management stated that PeopleSoft was upgraded at Port Authority between 2005 and 2008 to modify/correct programing areas and to enhance the product.

We also noted that a transaction processed on March 10, 2014 for item number 14-5050 involved the selection of "Transaction Group 030–Depletions" with the Distribution Type "RECEIVE". A query confirmed this was the only instance when the above combination was used since the implementation of PeopleSoft. The table below summarizes the results of our testing.

Summary of the Number of Items that Appeared to Incorrectly Change

Year in Which On-Hand Quantities Appeared to Incorrectly Change	Transaction Group 020 - Putaway	Transaction Group 030 - Depletions	Transaction Group 050 - Adjust	Transaction Group 010 - Inspection	Totals Per Year
2014	-	1	-	-	1
2007	1	-	-	-	1
2005	2	-	-	-	2
2004	-	-	1	-	1
2000	2	-	-	2	4
1999	2	-	-	8	10
Totals	7	1	1	10	19

Business Impact:

If the most recent on-hand quantities listed on the Review Transaction History panel for items in PeopleSoft can change incorrectly, there is a risk that incorrect inventory adjustments could be processed if this quantity is compared to the quantity on the shelf, which could result in the misstatement of the value of Inventory. In addition, operations can be affected by not having required materials on-hand when needed if on-hand quantities in PeopleSoft are overstated compared to the actual quantities on the shelf.

2) Non-Typical Distribution Types Used with Putaway and Depletion

Non-typical distribution types were used with recent putaway and depletion transactions for item number 14-5050 at the South Hills Junction location. Management explained that a quantity of six items were returned to the shelf after Inventory and putaway and depletion transactions were entered into PeopleSoft as follows:

- Two putaway transactions were entered using "Transaction Group 020-Putaway" with the Distribution Type "ADJUSTMENT", rather than "Transaction Group 050-Adjust" or having a purchase order created for the item and receiving it into the inventory, and

- One depletion transaction was entered using "Transaction Group 030-Depletions" with the Distribution Type "RECEIVE", rather than "Transaction Group 050-Adjust" and there was not a valid material stock request, which is used to document the department requesting the item.

Management explained that these items had been removed from the shelf and were used to replace the same item that had failed on the Northshore project. The items that failed were still under warranty and could be replaced by the vendor; however, there was a long lead time; therefore, available items in Inventory or from other places in the system were used for the project and later returned to Inventory.

Business Impact:

The use of "Transaction Group 020-Putaway" with the Distribution Type "ADJUSTMENT" would not allow for proper analysis of "Transaction Group 050-Adjust".

RECOMMENDATION 2

We recommend the following:

1) Information Technology Services Department personnel consult with Oracle (the company that acquired PeopleSoft) in an effort to determine why the on-hand quantity incorrectly changed for item number 14-5050.

2) Proper procedures are reviewed with and followed by storeroom personnel for:

   - Returning an item to stock. When this issue was discussed with management they stated when an item is returned into stock in the Storeroom it must have the proper return to stock Form #17-0002-A and have the receiver receive the item into stock and the supervisor adjust the inventory quantity (only when necessary).

   - Adjusting inventory quantities. The "Transaction Group 050-Adjust" should be used to adjust on-hand quantities rather than using the "Transaction Group 020-Putaway" with the Distribution Type "ADJUSTMENT" or "Transaction Group 030-Depletions".

3) Going forward, if abnormal changes to on-hand quantities for an item in PeopleSoft are observed, the issue should be brought to the immediate attention of Information Technology Services Department personnel via a Helpdesk ticket.

MANAGEMENT RESPONSE 2

1) Based on the recommendation, personnel in the Information Technology Services Department consulted with Oracle regarding this issue and Oracle personnel responded as follows:

   "I checked the ins9090 report and it does not have any discrepancies. This indicates all is ok with the current inventory levels. Your physical inventory matches the business unit item level and there are no other issues. If there had been a discrepancy, I would have suggested use of a correction sqr infixit. As there is no discrepancy, I can only recommend monitoring new occurrences of the issue. If new cases do occur, then recommend checking with users to advise of any differences in processing and or perhaps error messages. My other thoughts of a possible cause is if you have customized processing or have inventory integration with an external product and or have run manual sqls."

2) Moving forward, when an item is returned into stock in the Storeroom it must have the proper bill of lading or receipt, Return To Stock Form #17-0002-A and have the Receiver receive the item into stock and the Supervisor adjust the inventory quantity (only when

necessary). Also when adjusting inventory quantities, the "Transaction Group 050-Adjust" will be used to adjust on-hand quantities rather than using the "Transaction Group 020-Putaway". These procedures will be discussed with storeroom personnel.

Target Date for Implementation: Prior to the FY 2015 Inventory.

3) Moving forward, if abnormal changes to on-hand or transaction history quantities for an item in PeopleSoft are observed, the issue will be brought to the immediate attention of the Information Technologies Department via a Helpdesk ticket.

Target Date for Implementation: Not Applicable.

OBSERVATION 3 – SECURITY PROTOCOL IN PEOPLESOFT

We noted three transactions were initiated in PeopleSoft by either an employee using another employee's user ID and password or by using another employee's computer after that employee had already signed into PeopleSoft. Management explained that these transactions were entered into PeopleSoft by the employee in order to perform required job duties when the employee was not able to access the necessary storeroom location using their own login information. During the audit, this issue was discussed with Information Technology Services Department personnel and the employee's PeopleSoft user profile has since been updated to allow access to all required work locations to perform their job, therefore no recommendation is necessary.

ADVISORY COMMENT 1 – EMERGENCY REQUISITIONS

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

Inventory Location	Number of Emergency Requisitions Tested	Number Processed According to Instructions	Number Not Processed According to Instructions	Description of Exception Items
Manchester	10	5	5	Top white copy of "Item Removed from Bin Form" not removed from shelf and not turned into Supervisor with the count sheet and folder in 5 of 10 instances tested.
South Hills Village	3	3	0	No exceptions noted.
South Hills Junction	0	0	0	No exceptions noted.
Auto Shop	0	0	0	No exceptions noted.
Totals	13	8	5	

Proper procedures for handling emergency requisitions were not followed for 5 of the 13 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 not turned into the supervisor. Internal Audit personnel advised appropriate storeroom personnel of the associated item numbers and the quantities removed prior to the Inventory were appropriately added back to the counts before 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 2014 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.

ADVISORY COMMENT 2 – LABELING AND STORAGE OF INVENTORY ITEMS

At the Manchester storeroom:

- Some of the stock item numbers painted on the first floor are starting to wear off and were sometimes difficult to read.

- Certain items in Section 2 on the first floor were difficult to identify, locate and/or count. The initial and final counts of these items were as follows:

Item #	Default Bin Location	Description	Initial Count	Final Count
65-0350	1st-2-0-0	Absorbent Oil Dry All Purpose	480 BG	320 BG
85-8500	1st-2-11-0	Diesel Exhaust Fluid-55 Gal. (DEF)	0 DR	16 DR
89-0017	1st-2-0-0	Frame Assy Rear Engine Door	0 EA	1 EA

Item number 85-8500 was located behind item number 65-0350, which may have caused the initial counts for Absorbent Oil Dry All Purpose and Diesel Exhaust Fluid to be incorrect. Item number 89-0017 was stored against the wall near the material conveyor belt and was difficult to locate. We recommend that stock item numbers on the first floor of the Manchester storeroom that are difficult to read be more clearly identified.

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.

Observations/Recommendations 3 from the FY 2013 Audit, 4 from the FY 2012 Audit and 6 from the FY 2010 Audit – Multiple Items in a Bin Location

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.

We recommended that only one item should be assigned to each bin location.

Current Status: Open – Management stated that all new items added to Inventory moving forward are being assigned to their own bin location and that they are in the process of re-assigning the approximately 3,000 items that have more than one item at a specific location and they hope to have it completed by the FY 2017 Inventory.

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

ACKNOWLEDGEMENTS

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Participating auditors were Sheila Dillard, Maria Nickerson, Rick Thimons and Dave Leaf.

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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 material 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.