

**Report on
Onondaga County Department of Water Environmental Protection
Physical Inventory Review for the Year Ending 12/31/21
By Onondaga County Comptroller Martin Masterpole**

Report Index

Report Section	Section Name	Page Number
I	Background and Executive Summary	2
II	Scope and Methodology	5
III	Findings and Recommendations	6
IV	Management Response	11

SECTION I

BACKGROUND AND EXECUTIVE SUMMARY

Background

Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires inventories greater than or equal to \$500,000 to be presented as an asset on governmental financial statements. Onondaga County has established policies in order to comply with this requirement.

The Onondaga County Department of Water Environment Protection (WEP) maintains an inventory of parts and supplies with a value exceeding \$7,000,000 throughout multiple locations. WEP's management is responsible for establishing internal controls of the inventories as well as providing accurate inventory information to the Comptroller's Office each year.

WEP uses the Maximo Inventory Management Software system for inventory control. The software maintains a perpetual inventory, is used for requisition/purchase of necessary items, receiving of purchased items, and issuing items into service. The software system maintains the amount/count of each inventory item and maintains the cost of the items. The system uses the FIFO (first in, first out) costing principle thus the inventory is valued at the most recent purchase price. The Maximo system also contains Asset Management and Maintenance sections. When parts issued from inventory are assigned to work orders the inventory count is automatically updated.

In 2020 WEP's administration expressed concerns with having a full physical count of inventory performed by a 3rd party company due to the COVID 19 pandemic. In order to limit possible COVID 19 exposure for the WEP staff and to help reduce County expenses during this unprecedented time it was agreed the Onondaga County Comptroller's Division of Audit would perform a test count of the inventory at selected locations.

Due to the continued high level of the COVID 19 virus cases in the County, WEP's administration expressed interest in having the Comptroller's Office perform a partial physical inventory of WEP's various locations for the fiscal year ending 2021.

Executive Summary

The audit noted the following:

- The County again saved an estimated \$30,000 this year by having the Comptroller's Audit Division perform test counts of the physical inventory instead of contracting with a third party for an annual full physical inventory count.
- The results of the physical inventory test counts performed by the Audit Division found discrepancies between the physical item counts as compared to the quantities in the Maximo inventory system, mostly in the inventory of a satellite storage location. The total value of the discrepancies (\$49,243) when compared to the total value of the inventory at the tested locations (\$4,887,259) equates to a 1% error rate.
- The low error rate of 1% further supports our recommendation of having the Audit Division perform an annual physical inventory count on a sample basis.
- A weakness exists in control over recording of parts removed from unmanned satellite inventory storage locations.
- A weakness exists ensuring inventory parts removed from storage locations are added to work orders within the Maximo Inventory Control System accurately and timely.

Recommendations:

We recommend WEP Management consider using the Audit Division to perform future annual test counts of the physical inventory instead of contracting with an outside third party. This could save the County approximately \$30,000 or more each year.

We recommend in the event there is a major turnover of employees involved with inventory control, WEP's administration consider having a more extensive physical inventory be performed and arrange for an internal audit of the policies, procedures and controls of the entire inventory control process.

We recommend WEP Management review policies, procedures and internal controls regarding the issuance/removal of inventory stock at unmanned/satellite inventory storage locations to improve the accuracy and integrity of the inventory counts for those locations and reduce the risk of misuse or loss of county assets.

We recommend WEP Management review policies, procedures and internal controls to ensure all inventory parts are added to work orders at the time they are issued/removed from inventory.

We recommend WEP Management create a procedure for reviewing open work orders on a regular basis to determine if all inventory parts have been added to work orders. This review should also take place before any physical inventory count is performed.

We recommend no work orders be closed until there has been a supervisory review and approval of all the information contained on the work order to ensure accuracy and integrity of the inventory counts.

WEP management should consider using handle-held inventory devices at all inventory locations that directly interface with Maximo to update the inventory count in real time. There is potential for increased efficiency and accuracy in the handling of inventory assets.

SECTION II

SCOPE AND METHODOLOGY

Scope and Objectives

The scope of this audit was the WEP physical inventory of parts and supplies at multiple locations and the internal controls relating to the established Maximo Inventory software system used to record and report parts and supply activity.

The objectives for this audit were to:

- Verify the accuracy of the parts and supplies item count maintained by the Maximo inventory software system.
- Determine if WEP's established policies and procedures regarding storeroom activity are sufficient to provide a reasonably accurate year end valuation balance as well as safe guarding County assets.

Methodology

In order to complete the objectives we:

- Received and reviewed detailed Maximo inventory reports from WEP Inventory Control management.
- Selected testing items from the inventory reports received.
- Received inventory reports from WEP Inventory Control Supervisor the morning of the audit for only the selected testing items to ensure we used the most current information contained in the Maximo system.
- Worked with WEP Inventory Control and storeroom personnel to plan and perform inventory testing for a random sample of items at various WEP locations.
- Worked with WEP Inventory Control management to resolve/reconcile discrepancies between the inventory item count reported by Maximo and the physical inventory item counted by the audit team.

SECTION III

FINDINGS AND RECOMMENDATIONS

Nearing the end of 2021 the COVID 19 virus remained at a high level in the County. WEP's administration expressed concern with having a full physical count of inventory performed by a third party company due to the COVID 19 pandemic. In order to limit possible COVID 19 exposure for the WEP staff and to help reduce County expenses it was agreed the Onondaga County Comptroller's Division of Audit would perform a test count of the WEP inventory at the end of 2021.

The Audit Division chose to perform testing of the physical inventory at five WEP locations.

2021 Inventory Valuation	
<u>Location</u>	<u>Value</u>
Baldwinsville Maintenance	\$ 515,514
Wetzel Road Maintenance	\$ 390,495
Metro Storeroom	\$ 3,135,004
Metro POC	\$ 683,019
Metro Tools	\$ 163,227
Total of selected locations	<u>\$ 4,887,259</u>
 Total 2021 WEP Inventory Valuation	 \$ 7,943,189
 % testing coverage	 62%

Items for testing were randomly selected from inventory reports provided by WEP’s Inventory Control Management. The number of items selected for testing at the five locations were:

Test Selections by Location	
Location	# of Items
Baldwinsville Maintenance	68
Wetzel Road Maintenance	48
Metro Storeroom	139
Metro POC	12
Metro Tools	39
Total of items to test	<u>306</u>

After performing the physical inventory testing, with the assistance of the WEP stockroom personnel at the 3 Metro stockrooms, Wetzel Road, and Baldwinsville locations, the auditors noted discrepancies between the physical counts and the Maximo inventory amounts.

The discrepancies noted from the testing are listed in the chart below:

Onondaga County Water Environment Protection 2021 Inventory Test Count Discrepancies noted				
Location	Total Items Counted	Total Discrepancies	Discrepancy error %	
Baldwinsville Maintenance	68	21	30.9%	
Wetzel Road Maintenance	48	7	14.6%	
Metro Storeroom	139	3	2.2%	
Metro POC	12	3	25.0%	
Metro Tool room	39	1	2.6%	
Total	306	35	11.4%	

The dollar value of the discrepancies in the inventory count is shown in the following chart:

Onondaga County Water Environment Protection 2021 Inventory Test Count Value of Discrepancies			
Location	Value of Inventory	Value of Discrepancies	Discrepancy Error %
Baldwinsville Maintenance	515,514	36,060	7.0%
Wetzel Road Maintenance	390,495	9,102	2.3%
Metro Storeroom	3,135,004	13	0.0%
Metro POC	683,019	3,988	0.6%
Metro Tool room	163,227	80	0.0%
Total	4,887,259	49,243	1.0%

The chart shows the value of the discrepancies noted during the audit test count is immaterial as compared to the total value.

The Maximo Inventory program is tied directly to the Asset management and Maintenance sections within Maximo so when parts are issued and properly and timely recorded to work orders the inventory count is automatically updated in the Maximo inventory control section.

Some satellite locations have computers with access to the Maximo system. Other locations use a manual sign-out log which is sent to their associated manned stockroom for updating the Maximo system. Parts used for repairs are updated after the fact when the associated main stockroom personnel receive the logs. The use of manual logs decreases efficiency and the possibility of vital information not being recorded timely or at all is a potential possibility.

Recommendation:

We recommend WEP Management review processes currently in place to record inventory stock activity at all locations. Where necessary, management should institute procedures and controls at the location whether automated or manual, to accurately and timely record the issuance of inventory parts. Manual reporting of inventory stock activity to primary storerooms needs to be done on a timely basis as it directly effects the accuracy and integrity of the Maximo Inventory Control system.

Consideration should be given to using handle-held inventory devices, at all inventory locations, which would directly interface with Maximo to update the inventory count in real time. Opportunity exists for increased efficiency and accuracy in the handling of inventory stock.

After the completion of the audit test counts the WEP Inventory Control Supervisors worked with Crew Leaders and Coordinators to resolve the discrepancies. Through review of various records and notes they were able to provide explanations for all the discrepancies noted from the audit physical count. The explanations are summarized in the chart below:

Onondaga County Water Environment Protection 2021 Inventory Test Count Type of discrepancy by location					
Type of Discrepancy	Number of Occurrences per Location				
	Baldwinsville Maint	Wetzel Rd Maint	Metro Storeroom	Metro POC	Metro Toolroom
Count error	1	2			
Part found in different bin location	4	1			
Part removed from inventory, not recorded in Maximo			1	1	1
WEP researched after audit, added part to workorder	16	4	2	2	
Total	21	7	3	3	1

Based on the number of differences there appears to be a weakness in managing and monitoring work orders. It appears inventory parts are being removed from stock and not being recorded on work orders. It appears work orders are being closed prematurely before all parts have been recorded.

Upon resolving the discrepancies WEP Inventory Control staff was given limited authorization to re-open the closed work orders and add the inventory parts used for repairs. This process updated the inventory part counts in Maximo.

Recommendation:

We recommend WEP management review the processes involved in assigning parts to work orders. Policies and procedures need to be in place to ensure the accuracy and integrity of the Maximo Inventory Control system and reduce the risk of misuse or loss of county assets.

We recommend WEP management review the processes involved in monitoring open/in-process work orders to ensure timely and accurate posting of inventory items used and closing of work orders. Timeliness and accuracy of this process directly effects the accuracy and integrity of the Maximo Inventory Control system.

We recommend WEP Management consider using the Audit Division to perform future annual test counts of the physical inventory instead of contracting with an outside third party. This could save the County approximately \$30,000 or more each year.

We recommend in the event there is a major turnover of employees involved with inventory control, WEP's administration should considered a more extensive physical inventory be performed and an audit of the procedures and controls of the entire inventory control process be performed.

SECTION IV
MANAGEMENT RESPONSE



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March 2, 2022

Martin Masterpole, Comptroller
Office of the Onondaga County Comptroller
421 Montgomery Street
Syracuse, NY 13202

Re: WEP Physical Inventory Review for Year Ending 12/31/21

Dear Comptroller Masterpole:

We are in receipt of the draft Audit Report relating to review of the physical inventory at the Department of Water Environment Protection (WEP). First, I would like to commend your Audit Division staff for their professionalism and their ability to conduct the review in a safe and judicious manner, especially important during this time of pandemic.

We are extremely proud of the work our Inventory Management division does throughout the year in maintaining \$8,000,000 worth of inventory, which includes around 35,000 unique line items and close to 600,000 objects.

The following additional information is provided in response to the Audit staff's recommendations cited in the Report:

- First and foremost, our department is in the process of implementing a pilot project on Maximo Mobile that involves the use of handheld devices by several levels of employees in all sectors of WEP to ensure accurate inventory tracking and accounting on Maximo Work Orders. The pilot implementation will include an extensive training program to ensure uniform processes across all sectors of WEP. Upon successful implementation of this pilot project, we intend to implement it in full scale for all stockrooms.
- We appreciate and welcome your offer and recommendation to use the Audit division for sample audits/counts. We believe that the best option for WEP is a combination of using the services offered by the Comptroller's office (Audit Division) to perform sample audits/counts and continue using the services of our third-party vendor to perform full physical audits/counts. We believe this combination will help us detect more potential discrepancies and improve the quality/accuracy of our inventory control services.
- We agree with your recommendation that in the event there is a major turnover of employees involved with inventory control, WEP's administration should and will

consider having a more extensive physical inventory performed and arrange for an internal audit of the policies and procedures of the entire inventory control system. In the next two years we expect some turnover, and we are planning to follow your recommendations.

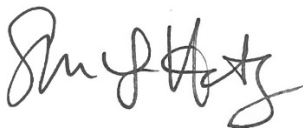
- In compliance with your recommendation regarding satellite/unmanned stock rooms, we are in the process of reviewing the related policies, procedures, and control systems. This includes working with all of our field staff to enact a more precise and efficient way of issuing the parts in a timelier manner. We are planning on initiating training and review of existing Standard Operating Procedures (SOPs). In addition, we believe that the use of Maximo Mobile and the use of hand-held devices will be helpful to address the above concern.
- With regards to your recommendation to review policies, procedures, and internal controls to ensure all inventory parts are added to work orders at the time they are issued/removed from inventory, we are in the process of training all sectors of our personnel, in all levels, to use Maximo and make sure that all materials that are used in any work order are captured at the time they are actually taken from any stock room.
- In compliance with your recommendation, we will also be creating a procedure to review open/in progress work orders on a regular basis. Our Maximo training will instruct our employees and supervisors that work orders must not be closed until there has been a supervisory review and approval of all the information contained on the work order to ensure accuracy and integrity of the inventory counts.

In conclusion, we completely agree with the Report findings and recommendations presented to our department. The only addition we would respectfully present to your recommendations is our opinion that at this time it would be prudent to continue our annual full Inventory Physical counts (provided by the third-party vendor) combined with sample/test counts performed by your office, since we feel that this is a needed investment of time and resources to properly maintain an inventory of our size. We remain committed to seeking cost-saving measures wherever possible.

If you have any questions or would like to discuss further, please feel free to contact me.

Sincerely,

ONONDAGA COUNTY DEPARTMENT OF
WATER ENVIRONMENT PROTECTION



Shannon L. Harty, P.E.
Commissioner

cc: Pete Headd, Dep. Comptroller
Rustan Petrela, OCDWEP
David Snyder, P.E., OCDWEP
James Renk, OCDWEP