



**Report on
Onondaga County Department of Water Environment Protection
Physical Inventory Review for the Year Ending 12/31/20**

By Onondaga County Comptroller Martin Masterpole

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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 that exceeds \$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.

For the past 5 years WEP has contracted with a third party company to perform a full inventory count at all locations prior to the County's fiscal year end. The inventory company has certified the perpetual inventory balances recorded by WEP in the Maximo inventory system has maintained a level of 96% accuracy when reconciled to the physical count.

WEP's administration expressed concerns 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 help to 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.

Executive Summary

The audit revealed the following:

- GASB 34 does not require a full physical inventory count be performed by a third party.

- WEP's inventory is immaterial to the governmental activities from a financial statement audit perspective.
- The County could save an estimated \$30,000 annually 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 WEP Maximo inventory software system and established policies and procedures are sufficient to achieve a 96% accuracy level of the physical inventory items.
- The results of the physical inventory test counts performed by the Audit Division found very few discrepancies between the physical item counts as compared to the quantities in the Maximo inventory system.
- It appears WEP's inventory policies, procedures, and internal controls are operating effectively to provide a reasonably accurate year end valuation as well as safeguarding County assets.

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 each year.

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 Maximo Inventory software system used to record and report parts and supply activity.

The objectives for this audit were to:

- Determine if it is necessary for WEP to contract with a third party for an annual full inventory count.
- 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 as well as safeguarding County assets.

Methodology

In order to complete the objectives we:

- Received and reviewed detailed Maximo inventory reports from WEP storeroom management.
- Worked with WEP storeroom personnel to plan and perform inventory testing for a random sample of items at key WEP locations having the highest inventory value based on the 2020 year end valuation.

SECTION III

FINDINGS AND RECOMMENDATIONS

In 2016 WEP contracted with a new third party company to perform a full physical inventory count of WEP parts and supplies at all locations. WEP’s administration informed the Audit Division the company withdrew their bid close to the time period which the count was to take place. The Audit Division consulted with the County’s contracted independent certified public accounting firm regarding their opinion of the need to hire an outside company to perform a full physical inventory count. In their opinion the monetary value of WEP’s inventory is immaterial to the overall governmental activities reported on the financial statements taken as a whole. The Audit Division offered to do test counts of the inventory instead of WEP contracting with a third party company. WEP’s administration declined the offer stating they would continue to use an outside source to reconcile their inventory as a Best Management Practice.

In 2020 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 help to 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.

The Audit Division estimates a savings of \$30,000 annually by performing test counts of the WEP inventory instead of WEP contracting with a third party to perform a full physical inventory count.

The chart below illustrates the cost of contracting with a third party to perform a full physical inventory count for the previous 5 years.

5 Year		
Cost of Physical Inventory Count		
Year	Vendor Name	Cost
2015	Reliant Inventory Group	\$ 21,500.00
2016	PICS Inventory	\$ 21,064.00
2017	PICS Inventory	\$ 34,092.00
2018	PICS Inventory	\$ 29,514.00
2019	PICS Inventory	\$ 34,852.00
		<u>\$ 141,022.00</u>

Recommendation:

To reduce County expenses WEP's administration should consider having the Comptroller's Audit Division perform inventory test counts on an annual basis.

The Audit Division chose to perform testing of the physical inventory at the 3 WEP locations having the highest inventory value.

2020 Inventory Valuation	
Location	Value
Metro Storeroom	\$ 3,056,309
Henry Clay Storeroom	\$ 970,547
Oak Orchard Storeroom	\$ 903,557
total selected locations	<u>\$ 4,930,413</u>
 Total 2020 WEP Inventory Valuation	 \$ 7,799,014
 % testing coverage	 63%

Items for testing were randomly selected from inventory reports provided by WEP's inventory manager. The number of items selected for testing at the three locations were: Metro Storeroom 47 items, Oak Orchard Storeroom 49 items, and Henry Clay Storeroom 53 items. The discrepancies noted from the testing are listed in the chart below:

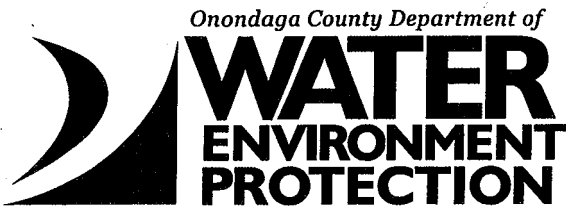
Discrepancies by location				
Location	Item	Inventory Report	Physical Count	Discrepancy
Metro Storeroom	#28115 Steel toe Barn boots sz 11	15	16	1
Henry Clay Storeroom	#39137 Hooded Sweatshirt 2X	36	35	-1

After performing the inventory testing with the assistance of the WEP stockroom personnel at Metro, Oak Orchard, and Henry Clay locations the auditors noted very few discrepancies from the Maximo inventory amounts.

Due to the high level of accuracy maintained by the WEP staff the Audit Division deemed it unnecessary to perform test counts at other WEP locations for this fiscal year.

Recommendation:

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.



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February 5, 2021

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

Re: WEP Physical Inventory Review for Year Ending 12/31/20

Dear Comptroller Masterpole:

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

WEP is extremely proud of the work our inventory management division performs throughout the year in maintaining a large and varied group of assets. We agree with the Audit Report's findings that the inventory management system and procedures implemented in our department are effective and efficient (96% accuracy) in safeguarding ratepayer assets. And while we have carefully deliberated the Comptroller's recommendation that it *consider using the Comptroller's Audit Division to perform future annual test counts of the physical inventory instead of contracting with an outside third party*, at this time, WEP is reluctant to completely dispense with the full inventory counts performed by our third party vendor in exchange for periodic test counts.

While we are aware that GASB 34 accounting standards do not require engagement of a third party vendor, that engagement provides assurance that the assets reported are valued as accurately as possible, while minimizing the risk of compounding errors. The ability to effectively and accurately manage a \$7.8 million inventory comprised of over 35,000 items dispersed over 13 separate locations, depends upon full inventory counts. In fact, the practice of employing an outside vendor to perform full counts originated as a result of difficulties experienced in the past with recurring variances. Since that time, WEP has worked very hard to implement inventory practices that have stood the test of time and under much scrutiny.

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Notwithstanding our reluctance to change a process that has proved exceedingly effective, WEP will evaluate modifications to our current approach in an effort to reduce costs while keeping paramount the integrity of our processes.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'F. Mento', with a long horizontal stroke extending to the right.

Frank M. Mento, P.E.
Commissioner

cc: Mary Beth Primo, Physical Services Administrator
Steven Morgan, Chief Fiscal Officer
Peter Headd, Deputy Comptroller/Audit Division
Judith Ellis, Auditor II