



Date: November 9, 2004

To: Jeryl Covington, Jim Westmoreland, Rick Lusk, Allan Williams, Darryl Jones, Johnny Teeters, Bonnie Kuester, Matt Brown, Walter Simmons


From: Internal Audit

Subject: Reply to Inventory Responses

We have received and reviewed your responses we requested regarding Inventory Procedures. We concur with the recommendations and procedures you have devised as we move forward. We realize this is a difficult task.

We understand several of these inventories will be tracked in the Lawson System in the near future. This can only minimize potential discrepancies we've experienced in the past. While we agree with your recommendations and written procedures as a whole, we do not concur that Internal Audit should take the lead role in developing a uniform process for inventory management and periodic inventory review as proposed in one recommendation.

We feel that the departments and managers involved in the day-to-day operations should accept responsibility for their assigned assets and activities. We're here to assist in any way possible. We would like to thank all department heads and their managers for their responses and time involved in this process.


Fred Newnam
Internal Auditor


Tina McKoy
Internal Auditor


Len Lucas
Internal Audit Director

Cc: Mitchell Johnson, Deputy City Manager
Ben Brown, Assistant City Manager for Economic Development
Bob Morgan, Assistant City Manager



City of Greensboro
North Carolina

Date: October 6, 2004

To: Len Lucas
Director, Internal Audit

From: Jeryl W. Covington
Director, Environmental Services Dept.

Reference: Year End Inventories

The Environmental Services Department is in receipt of the findings of the year end inventories. The process that is currently utilized is one that was developed by the Equipment Services Division in conjunction with their FASTER inventory control system. The waste disposal staff could not understand the double entry/billing for this system; however, utilized this process since it was one which had been uniformly established for the City.

The recommendation submitted in your documentation dated September 22, 2004 is one which appears to be logic in that the equipment purchases do not get charged to an inventory and then charged to the job. For most of the equipment purchases, the items are not placed into an inventory surplus but directly utilized in the operation.


A copy of your documentation has been submitted to the waste disposal staff. Alternative accounts will be developed to establish direct charge accounts versus utilization of the procedures established by our utilization of the FASTER system.

If alternative processing systems are recommended to be developed, please let me know.

cc: Mitchell Johnson
Deputy City Manger

Memorandum

To: Mitch Johnson, Deputy City Manager

From: Jim Westmoreland, Director of Transportation 

CC: Ed Kitchen, Ben Brown, Bob Morgan, Rick Lusk, Jeri Covington, Bonnie Kuester, Allan Williams, Darryl Jones, Matt Brown, Butch Simmons, Johnny Teeters, Len Lucas, Dale Wyrick, Mike Mabe, Steve Huddy, Fred Newnam, Tina McKoy

Date: October 8, 2004

Re: Inventory Audit Response

This is in response to the findings and recommendations made by Internal Audit on the City's inventories. We apologize for the tardiness of our reply. However since our department was not specifically identified as having issues in the report, we did not realize that a reply was required.

Transportation has reviewed the report and will endeavor to implement all of its general findings and recommendations. As you know, we are already practicing many of these items and will continue to do so in the future.

For the record, our decrease in the GL in 2003/2004 was due to charge outs recorded after the physical count on 6/28/04 and one journal entry for an item that was previously sold at a city surplus sale.

We currently have written procedures in place for inventories, cycle counts, receiving, and issues, but we need to update the information due to changes in inventory and work management software. We are still tweaking the new procedures after the recent addition of our citywide work management software. We will have that information updated and in place before Spring of 2005.

Thanks and please advise if you have questions or need additional information.



Date: October 19, 2004
To: Len Lucas, Internal Audit Director
From: Rick Lusk, Finance Director *RL*
Subject: Response to Year End June 30, 2004 Inventories Memo

Supply Room

During FY 03-04 the central office supply room operation was terminated with this service now being provided on a contract basis with supplies ordered on-line and delivered to city offices. Prior to the change, the supplies inventory was reduced significantly. There is a remaining inventory valued at approximately \$900 that will be disposed of as follows: (1) usable items will be sold to departments, (2) items not sold and obsolete items, which represent the bulk of the remaining inventory, will be placed on a future surplus sale. Accounting entries will then be made to close out the related general ledger inventory account.

Graphic Services

We agree with the inventory adjustment proposed by Internal Audit.

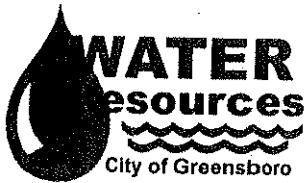
Equipment Services

We agree with the comments regarding the inventories and adjustments proposed by Internal Audit. With Equipment Services becoming a part of the Financial and Administrative Services Department in FY 04-05, we have reviewed the inventory system and processes and have made several improvements. We have implemented a monthly inventory reconciliation procedure and will be performing periodic test counts of the various Equipment Services inventories. We will also develop written guidelines and procedures for inventory management.

Our review also identified several weaknesses in the city's year-end inventory review. In past years Internal Audit did not provide any feedback on inventory adjustments, problems with inventory recordkeeping or suggest improvements to inventory management practices of the Equipment Services Division, which had been requested. Thus, division employees mistakenly believed that no changes or improvements in their inventory procedures were necessary. When initial inventory adjustments at June 30, 2004 proposed by Internal Audit were unusually high, the Accounting Division worked with Equipment Services and Internal Audit to determine if other accounting adjustments were required. This reconciliation resulted in discovering the inventory errors noted by Internal Audit and reducing the amount of the inventory adjustment in the general ledger.

Also, as noted in Internal Audit's findings in the Year End Inventories memo, inventory management documentation and inventory control practices are lacking within the organization. Based on the above, we are suggesting that Internal Audit take a lead role in developing a uniform process for inventory management and periodic inventory review, with the assistance of the City's external auditors and Financial Services staff. With the development of standardized written procedures and inventory management training for city employees responsible for inventory control, we believe that significant improvement can be made in understanding and accounting for inventories. This will enhance the effectiveness of inventory controls and improve reliance upon inventory counts by the external auditors.

Cc: Ed Kitchen, City Manager
Mitch Johnson, Deputy City Manager
Bob Morgan, Assistant City Manager
Ben Brown, Assistant City Manager



Administration
(336) 373-2055
Fax (336) 412-6305

Customer Service
(336) 373-2344
Fax (336) 412-3932

Water Supply
Mitchell Plant
(336) 373-5855
Fax (336) 373-5834

Townsend Plant
(336) 375-2230
Fax (336) 375-2207

Water Reclamation
North Buffalo Plant
(336) 373-5913
Fax (336) 274-7585

T.Z. Osborne Plant
(336) 375-2240
Fax (336) 621-3523

Construction &
Maintenance
Service Center
(336) 373-2033
Fax (336) 412-3936

Meter Services
(336) 373-2071
Fax (336) 574-4067

Water Conservation
(336) 373-7610
Fax (336) 412-6305

Stormwater
Management
(336) 373-2055
Fax (336) 412-6305

MEMORANDUM

DATE: October 20, 2004

TO: Mitchell Johnson, Deputy City Manager
Len Lucas, Internal Audit

FROM: Allan E. Williams, Director

SUBJECT: Inventory Audit Response

A handwritten signature in black ink, appearing to read "Allan E. Williams", is written over the "TO:" line of the memorandum.

This is in response to the audit findings from Internal Audit regarding the City's inventories. Water Resources did not realize a response was required; hence this memo is late and for that we apologize.

Water Resources has reviewed the report and will implement the findings and recommendations. There has been confusion in appropriate procedures as we have migrated to the ERP. For example, purchases that are made and received in Lawson are then manually entered into the main frame for inventory purposes. We are currently doing spot inventory checks on a weekly basis. We understand that our inventory will be moved to Lawson in the next few months. We believe it would be appropriate to create new written procedures at that time and have Internal Audit review them then to assure proper accounting compliance.

Water Resources looks forward to assuring the financial integrity of our inventory and other accounting systems.

INVENTORY PROCEDURES

The success of the City of Greensboro Telecommunications Services inventory system, at the present is totally dependent on correct record keeping by all involved. The intent of this memo is to ensure that we understand and are using the same procedures and policies relating to inventory control. We must be certain everyone is aware of and using the same steps when entering or removing items from inventory.

WORKORDERS AND TROUBLE REPORTS

All items removed from or returned to inventory will be shown on **Workorder or Trouble reports**, as described on the Inventory Count sheets, **no exceptions**.

Information on workorders/troubles will include:

1. DN # associated with items
2. Quantity
3. Description (as listed on Inventory Count sheet)
4. Action taken (in, out, bad, returned good)

INVENTORY CONTROL SHEET

Inventory control sheets must be completed and turned in at the end of each work day or first thing the next work day. **All** items relating to inventory will be entered on an inventory control sheet, regardless of how the items are handled (in, out, returned from repair, out to repair or new).

Under the "In" column, the correct entry **must** be made either **good** or **bad**. All information on this form must be correct. After items are submitted via the inventory control sheets, they are keyed into an Excel spreadsheet where count sheets are generated. The inventory control sheets are then sent to the Finance Department for billing to user Departments/Divisions.

Inventory Control Sheet information needed:

1. Date (date work was completed)
2. W/O: Workorder, Trouble or P.O. #'s (new items ordered, when received P.O. #'s should be entered in this block)
3. Dept: (Finance, Executive, etc.)
4. Location: (Building and/or Building Street Address)
5. DN #: Telephone number
6. Description: **Item as listed on Inventory Count sheets** (not "single line" or "multi-line")
7. QTY: Number of items. (If new items are received, the total number should be entered: 10, 25, 100, etc.)

8. New Service: A **check mark** should be entered in this column.
9. Repair: A **check mark** should be placed in this block.
10. Out: A **check mark** is needed in this block.
11. In: This block will either have a check mark, bad, good or unrepairable entered as needed. This block and entry made is important, it will show if the item is either good or bad and sent out for repair, or unrepairable – which will cause the inventory to be reduced by that number. An entry of “good” will cause the inventory to increase by that number.
12. Amount: This block is used to show the Finance Department an amount to deduct from the inventory account and charge to the user’s Department. In the case where an item is returned to inventory “not needed”, an amount is entered so our inventory will be credited with this amount. When new items are received into inventory, the cost of each is entered in this block by the person making the entry. The cost of the item will be taken from the Purchase Order receiving report (get from Sylvia). This price will then be used to calculate a price average for this item.

INVENTORY COUNT REPORT

This report is used to count and balance the inventory account after all previous paper work has been entered into the system. The report lists a description for each item, total quantity, unit cost and total cost per item. This will give a total inventory cost.

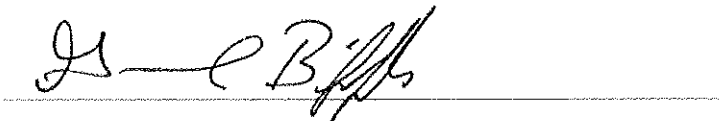
We arrive at a total inventory count by adding inventory stock in each technician’s car/van, out for repair items and located in the stockroom.

No item will be added to or deducted from the inventory without a Telecommunications workorder , Trouble report or Purchase Order number. We must have these in order to track inventory items while they are in the system.

Each step in the City of Greensboro Inventory system must be completed correctly and on a timely manner basis to ensure the inventory account is both up-to-date and accurate.



MIS Director



Telecommunications Manager

Greensboro Fire Department Garage Inventory Procedures

Inventory Control

The purpose of inventory control is to maintain correct and current information of department assets, to tag new parts and update stock records of all items.

Stock Room

Parts Categorization

1. Stocked Parts: Parts bought out of inventory account and added to the parts inventory.
2. Receiving Inventory: Inventories are simply delivered to a neutral area location to be stocked as soon as possible, still some items such as fuel and other liquids require measurements to be taken before and after delivery the receiver will sign the delivery document (packing slip, delivery ticket, counter slip, etc.) is the official receipt document. This document is processed and sent to finance (or other individual) for payment.
3. Misc. Items: Nuts, bolts, washers, wire connectors, bulbs, fittings etc., are under one part number.
4. Items In Stock Room Not On Inventory: These may be items/equipment from old fire apparatus that has been sold, items that were not bought out of the inventory account, or may be items such as rolls of wire, wire connectors, or bolts, (large quantity or "packaged" items) bought out of the inventory account for a particular repair and there were items unused.
5. Emergency Purchases: Items bought out of the inventory account and charged out upon receipt.

6. Work Orders: Work Orders are used for issuing and posting inventory items. Parts are issued against a work order so material costs are tracked to a job and subsequently to an Equipment number.

Inventory Procedures

Proper accounting for parts and materials requires the taking of a periodic, physical inventory (at least once each year) in order to reconcile the items shown on the stock record inventory with the parts and material items actually in stock. But first promptly upon completion of the physical inventory and before matching inventoried quantities against stock record balances, review inventory documents to ensure that all items on inventory have been counted or verified, quantities counted are legibly recorded and compatible with related units of issue, all locations applicable to the inventory segment have been checked. When discrepancies between the two records are found, the items involved are re-inventoried. If a discrepancy still remains, the accuracy of the computations and postings to all the material records involved are rechecked. If a difference still cannot be located, the stock record is adjusted to the quantities and amounts determined by physical inventory.

Adequate amount of parts and accurate inventory control is essential for efficient and reliable operations.



Ken Murray
Maintenance Supervisor



Johnny W. Teeters
Fire Chief

In June PMD's annual inventory audit was taken and a discrepancy of \$80,731.00 was noted. At our request Fred Newman came to PMD and we went over the audit, looking for the possible reasons for the large difference. It appeared that many of our purchases for various sections of the Parks and Recreation Department (both by P.O. and procurement cards) were being charged directly to that sections' M&O account/non licensed equipment maintenance, and not being entered into the 101-0000-00.1610 inventory account. As these parts were installed to the equipment, the mechanics use the "Faster Work Order System", to account for labor/parts the same as the Equipment Services Division does. This seems to be where the bulk of our problems were occurring. I.E. parts were being charged out of inventory that had never been placed into the running inventory account.

After having the mechanics go through the past physical years' purchases and placing all parts purchases INTO the .1610 inventory account, the discrepancy was reduced to \$1,772.20 versus the original \$80,731.00 in the original audit.

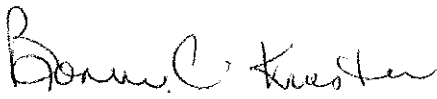
We have implemented the following procedures to prevent similar occurrences in the future:

Parts Inventory Procedure

- **All parts purchased using procurement cards will be charged to the 101-0000-00.1610 account (default account) with the exception of parts for shop equipment repairs I.E. grinding wheels, tools, service/inspections on hoists, etc.**
- **All parts purchased on Purchase Orders will be charged to the 101-000-00.1610 account and not to any section's M&O account.**
- **All parts purchases (P.O. or Procurement Card) will be entered into the 101-000-00.1610 account before the parts are installed on various equipment.**
- **No small equipment, I.E. weed eaters, blowers, saws, etc. will be purchased by the shop staff for any section of the P&R Department.**
- **Inventory will be counted 100% at both shop locations by the shop staff before the annual audit.**
- **The "Faster System" will be used to track all parts purchases.**

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- No small equipment, I.E. weed eaters, blowers, saws, etc. will be purchased by the shop staff for any section of the P&R Department.
- Inventory will be counted 100% at both shop locations by the shop staff before the annual audit.
- The "Faster System" will be used to track all parts purchases.



Department Head



**Park Resources
Superintendent**

Greensboro Coliseum Complex
Inventory Procedures
October 1, 2004

History, prior to 12/23/03, the Coliseum inventory was made up of mostly Food and Beverage Inventory Items, but there were also janitorial supplies and miscellaneous supplies used by the Coliseum. Inventory was maintained by a position in the Event Prep Area (non food and beverage items) and an accountant in the Food and Beverage division maintained all other inventory. Inventory counts and reconciliation was reported to Business Manager for appropriate entries.

Centerplate was contracted to operate the Coliseum Food and Beverage operation of the Greensboro Coliseum and the last references to any food and beverage items and reconciliation of this inventory was shown on inventory balanced 6-30-04.

Effective September 1, 2004, the handling of all non food and beverage inventory is now a part of the assignments of a position that also handles telephone system for the facility. The Business Manager of the Coliseum supervises this position.

2004/05

Not only has the responsibility of inventory moved under Business Office, the inventory documentation will be moving from being managed by Mainframe to Lawson. This is anticipated to take place by December 1, 2004.

The following procedures will be adhered to in accounting for inventory:

The inventory clerk will be responsible for taking appropriate Lawson classes which includes basic Lawson and Lawson Purchasing classes.

The inventory clerk will be responsible numbering and identifying like items to be stored and identified properly in a well-organized area.

The inventory clerk will be responsible for entering direct expenses from the written documentation provided by Supervisors of the Coliseum removing inventory for re-stocking throughout the Complex. Direct expense entries will be done no less than twice a week. These entries should be completed on Mondays and Fridays. Other entries as demand requires.

(Note: Until Lawson is in place, the Business Manager will make the direct expense entries and input purchases of items.)

The inventory clerk will be responsible for monitoring levels of stock in order to initiate requisitions for re-order.

The inventory clerk will inform the Business Manager about the addition of new inventory items.


No inventory items should be purchased by Procurement Card.

The Business Manager or assigned designee will be responsible for counting of inventory no less than once each month. If at such time, that it is felt cyclical counts could be made, the Managing Director must be advised. Reconciliation to ledger is to be done no less than once a quarter, preferably September 30, December 30, April 30, and June 30. Entries will be submitted to Accounting in accordance to findings. The Business Manager or assigned designee is to take into account outstanding encumbrances in reconciling inventory ledger.

All reconciliations will be available to Internal Audit when counts and reconciliation are done on June 30th each year.

Submitted by: Laura S. Smith, Business Manager

Reviewed and accepted by:

A handwritten signature in black ink, appearing to read 'M. G. Brown', with a long horizontal line extending to the right.

Matthew G. Brown
Managing Director

**Engineering & Inspections
Building Maintenance Division**

Building Maintenance Inventory Procedures

The procedure for ordering, procurement, receiving, stocking and entering of new stock, dispensing of chargeable items and changing, deleting and/or removal of inventory is as follows:

Ordering/Procurement

- Inventory items are typically ordered through Purchasing with a purchase order requisition. Purchasing shops for the best price based on inventory specifications or material details. Occasionally small inventory items are purchased with the procurement card.

Receiving/ Stocking

- Inventory items are received at the Sanford Smith Building. The inventory items are received and counted to ensure the items match up to the quantity and specifications before being moved to the storeroom. In the Sanford Smith Building we currently have 7 different and very small locations to place stock inventory items.

Entering New Stock

- Once inventory items are placed in their proper storeroom locations, the Dispatcher enters the quantity and new cost into the inventory system manually using program M564 on the old mainframe system.

Dispensing of Chargeable Inventory Items

- Inventory items are dispensed to many city departments. Most of the items dispensed are custodial supplies. The Building Maintenance operation uses most of the maintenance and structural inventory items. Different color inventory sheets are used to distinguish between Mechanical, Structural and Custodial. When inventory items are dispensed, the department picking up the material fills out an inventory sheet and turns it in to the dispatcher or custodial supervisor. The dispatcher or custodial supervisor pulls the inventory items and places them with the person picking up supplies.

**Engineering & Inspections
Building Maintenance Division**

Charging, Deleting and Removal of Inventory Items

Inventory items are charged out based on inventory sheets filled out by the customer, the dispatcher or custodial supervisor. Chargeable items are then entered into the mainframe with program M555. Inventory items that are no longer carried or stocked are removed and deleted manually using the same program.

Conclusion:

In 2002/2003 we were informed of the loss in inventory items for the year, we deemed that to be quite a significant loss in inventory. We do not believe these items were misplaced or stolen. We believe we simply did not have tight enough control of the stockrooms. At the time each supervisor had keys to the storeroom. We then changed the locks to a Best lock system and did not give the supervisors keys. Keys were limited to the Building Maintenance Manager, Assistant Building Maintenance Manager, Dispatcher and the Custodial Supervisor. One of these 4 individuals was to go with each customer to ensure the quantity checked out and the right inventory number was written down. Most of the time this has been the case, but on occasion the dispatcher is left short handed with no one in the office to cover the phones and only mechanics have been allowed to get their own materials. Another problem encountered was when we ordered materials in a case quantity of 12 or 24 we have several times received case quantities of different amounts. When material was charged out at 12 per case and the case actually had 18 or 24 per case, we encountered a loss in inventory. We recognized these problems in our HVAC filters, toilet paper, paper towels and fluorescent lamps. We have taken steps to ensure this no longer happens.

Recommendations:

The first recommendation and by far the most important recommendation is to move all the store items into one location and for inventory to be ordered, received, dispensed and accounted for by one storeroom clerk. At this time the plan is to put into place a relocation of the Building Maintenance Custodial storerooms to the Service Center Complex.

**Engineering & Inspections
Building Maintenance Division**

The inventory items to be relocated to the Service Center will mostly be custodial supplies. Most of the Mechanical and Structural items will be phased out and removed from the inventory. We currently have started the phase out by not replacing these items as the stock drops to zero. The procurement cards have allowed this to happen because we can shop at many different vendors approved by the city. The new Data Stream/ Lawson System will also help with automatic reordering when stocks dwindle or becomes low. There will always be a possibility for mistakes as long as we use a human counting and changing system by simply entering the wrong data. With proper training, less staff using the system and a controlled checks and balance system, we should be able to continue to reduce future losses.

With our most recent changes in our operational procedures we reduced our 2003/2004 losses by 400% in the Structural and Custodial areas. In the Mechanical Maintenance area, we reduced our losses by over 800%. We intend to continue to reduce our losses and work to have a balanced inventory.

Department Head Walter L. Du

Date: 11-8-04