



Office of Multnomah County Auditor

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Date: January 31, 2014

To: Marissa Madrigal, Multnomah County Chair
Commissioners McKeel, Shiprack, Smith and Wendt

From: Steve March, County Auditor

Re: Facilities Inventory Management Follow-up Audit

This audit is a follow-up of our 2009 *Audit of Inventory Management: Facilities*. Inventory management encompasses the purchase, use and storage of materials and supplies needed to accomplish the work of Facilities staff.

Some progress has been made on the recommendations from that audit and we urge Facilities and Property Management (FPM) to continue with that progress. We have made follow-up recommendations:

- Continue to reduce inventory on hand, which we noted was valued at \$400,000 including tools and supplies. FPM actually recorded more than \$2 million in total in materials and supplies expense for FY 2013, thus the importance of good inventory controls.
- FPM did not have and still has not developed a strong method of tracking materials and supplies though they are using methods such as a Stock Relocation form; we recommend continuing refinement of the current inventory management process.
- Progress has also been made around high-risk inventory items like tools although not all are captured in SAP, the County's enterprise system; making greater use of the County's Multco Market Place will assist in the tracking of high-risk items, as will developing consistent tool policies across trade groups.

We would like to thank Facilities and Property Management and Department of County Assets management and staff for their cooperation and assistance in this follow-up and appreciate the work and progress they are making. Fran Davison, Senior Management Auditor conducted the work related to this report and also worked on the original 2009 audit.

C: Sherry Swackhamer, Director, Department of County Assets; Michael Bowers, Division Manager, DCA
Facilities and Property Management; Sheriff Staton; District Attorney Underhill



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Facilities Inventory Management Follow-up Audit
January 2014
Fran Davison, Management Auditor

The Multnomah County Auditor's Office released the *Audit of Inventory Management: Facilities* in May 2009. The audit's objective was to determine if internal controls over inventories of materials and supplies in Facilities and Property Management Operations and Maintenance (O&M) were sufficient to protect the County and Facilities O&M from the risk of loss, inefficient purchasing and inaccuracies in financial reports. In summary, our recommendations were to:

- Simplify the inventory control environment by having less inventory. Limit the practice of purchasing more materials than needed for a specific work order.
- Develop and implement a practical periodic inventory system that accurately accounts for the purchase, use and storage of materials and supplies.
- Assess risk in inventory and establish consistent controls on the basis of risk.

Background

The Facilities Operations and Maintenance (O&M) Program is responsible for providing ongoing building maintenance, and ensuring that buildings meet safety and other regulatory requirements. According to management in FY 2013, the Facilities O&M consisted of 54 FTE in 10 trade groups who performed the day-to-day activities necessary for the maintenance and operation of the County's 131 buildings and their systems, 24 hours a day, 7 days a week. These activities included preventive, predictive (planned) and corrective (reactive) maintenance.

Since the 2009 audit, there have been changes in the leadership of Facilities, including a new Facilities Director and changes in senior managers and supervisors. Further, Facilities' fiscal and contracting staff moved to the Administrative Hub in another building, leaving O&M staff with limited on-site administrative support. Also, a new O&M supervisor had just started as our review was under-way.

Facilities O&M maintains workshops and vans stocked with tools, materials and supplies needed to accomplish various work tasks. At the close of FY 2013, staff reported materials and supplies and tool inventories for 36 vans and shop/storage areas for carpenters, lighting, electrical trades, alarms and engineers. This inventory was valued at an estimated \$170,000 in materials and supplies and an additional \$230,00 in tools, or approximately \$400,000 in total. During FY 2013, Facilities O&M staff completed an estimated 19,000 workorders and spent approximately \$2 million on materials and supplies. Staff members used purchasing cards to make more than 1,400 transactions.

Scope and Methodology

The objective of this follow-up audit was to verify the status of recommendations from the May 2009 Audit of Inventory Management: Facilities. As part of our work, we interviewed Facilities O&M managers and supervisors and Fiscal staff. We observed van counts of inventory, reviewed spreadsheets of inventory counts and talked with other jurisdictions.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Status of Recommendations:

Facilities O&M has made progress toward addressing recommendations from the 2009 audit. Management continues to work with staff to improve processes associated with more efficient purchasing as well as improvements to the annual inventory count process. However, monitoring is needed to ensure controls are consistently applied. Also, opportunities exist to strengthen controls in high-risk areas by reducing the amount of inventory on hand, developing consistent practices across trade groups, communicating expectations and procedures and exploring new opportunities for managing risk and increased cost savings. For example, the Multco Market Place may offer Facilities O&M opportunities to streamline purchasing with the benefit of increased monitoring over purchases.

Audit Recommendation #1:

Facilities management can simplify the inventory control environment by having less inventory. The practice of purchasing more materials than needed for a specific work order should be limited.

Status: This recommendation is in process.

Auditor Observations – Recommendation #1:

The practice of purchasing more materials than needed for a specific work order is limited.

- Management said they use just-in-time purchasing and, to the extent possible, buy only what is needed for a work order.

- Management said they have increased the amount of scheduled work and some work is grouped and batched, which allows O&M to plan purchases as needed and allocate purchases to a work order.
- Management said they have contracted for some routine maintenance activities. The contractor provides materials, eliminating the need to purchase and store materials required for those maintenance activities.
- Management simplified inventory by improved organization of stored materials and supplies and reducing obsolete parts in storage.

Follow-up Recommendations - #1:

- Continue efforts to reduce the amount of inventory on hand, increase just-in-time purchasing and look for opportunities to schedule work in advance.
- Consider vendor-managed inventories and vending machine solutions that provide inventory. A vendor managed inventory could be coupled with policies that help ensure materials are charged to work orders as they are used.

Audit Recommendation #2:

Working with its stakeholders, Facilities management should develop a practical periodic inventory system that accurately accounts for the purchase, use and storage of materials and supplies. They should design and conduct future physical inventories with this system in mind. Such an inventory system will provide O&M with more accurate accounting of the dollar value of materials and supplies that go through the system.

Status: This recommendation is in process.

Auditor Observations – Recommendation #2:

Facilities O&M does not have a system that accounts for the purchase, use and storage of materials and supplies. Management worked with County IT to develop a process to track material in SAP, but the initiative did not go forward.

Annual Inventory – To satisfy financial reporting requirements and to account for tools, materials and supplies, Facilities O&M instituted an annual physical count, conducted at the close of the fiscal year for each van and shop/storage area. Staff use a checklist to compare the past year's inventory to the current year. Staff estimate values for items, the inventory is reported to General Ledger and the value of materials and supplies is included in the financial statement. Management said that they will investigate if any tools or materials are missing.

Facilities O&M does not have written policies to guide the physical count. Monitoring varies across trade groups. For example, some trades conducted their own counts. In FY 2013, managers did not perform mandatory physical inventories for all shops and vans, so some van and shop stock was not included in the reported inventory.

Stock Relocation Form – To account for the purchase and storage of materials that are purchased in excess of what is needed for a work order (e.g., a box of switches or fixtures or filters), Management developed a stock relocation process. The stock relocation form allows O&M staff to purchase and use what is needed for a work order, store any remaining material and use the form to charge remaining material to a different work order the next time material is used.

While the stock relocation form adds a small administrative burden, it appears to be a viable solution for charging excess materials and supplies to the appropriate work order when it issued. This system provides a more accurate accounting of materials purchased. However, the stock relocation form is not used consistently across trade groups. We found that some groups used the form regularly while other trade groups did not. Further, there did not appear to be guidelines to determine an appropriate threshold of value to trigger use of the stock relocation form.

Follow-up Recommendations - #2:

- Continue to refine the annual physical count and inventory reporting process and include more supervisory involvement to ensure accuracy and accountability. Focus the count on tools and high value consumables.
- Develop written documentation to guide the annual inventory process, ensure consistency across trade groups and ensure that full counts are conducted each year. Instructions to guide the process could prevent errors and ensure consistency. Physical counts should be reviewed and missing items investigated.
- Develop guidelines for using the stock relocation form, ensure staff are aware of the policies and monitor for consistency.
- Determine an appropriate dollar value threshold for using the form.

Audit Recommendation #3:

Facilities management should assess the risk in its inventory environment and establish inventory controls on the basis of risk. These controls should be applied consistently across the trade groups. For example, tools could be tracked separately from materials and the requirements for purchase of tools should apply to all trade technicians.

Status: This recommendation is in process.

Auditor Observations – Recommendation #3:

Management conducted an inventory of high risk equipment, tools and materials.

- According to management, all high-risk tools and equipment have been cataloged and are accounted for in the annual physical inventory.
- According to management, leads or supervisors review and approve invoices prior to payment. There were plans to put high-risk tools and equipment into SAP, but the SAP initiative didn't go forward.

Facilities O&M has controls in place to help ensure that purchases made by trade technicians are appropriate for their work, however, not all controls are applied consistently. For example, management said that supervisors monitor cost center charges, that is, purchases not charged to a work order. In FY 2013, spending for materials and supplies charged to trade cost centers appeared to be higher than budgeted, although management said that was due, in part, to some rebalancing of charges.

Tool purchase practices are not consistent among supervisors or across trade groups. For example, one supervisor requires purchase approval for new tools not charged to a work order, while another supervisor does not have a policy for tool purchases. It does not appear that tool purchases are consistently tracked at the time of purchase.

Follow-up Recommendations - #3

- Management should monitor cost center expenses to ensure greater accountability over purchases not charged to a work order.
- Develop a written tool purchase policy that is consistent across trade groups and monitor to ensure policies are followed.
- Work with Multco Market Place to identify whether high-risk items could be efficiently purchased and tracked through the Market Place system.

Facilities and Property Management

DATE: January 28, 2014
TO: Steve March, County Auditor
FROM: Michael Bowers, Facilities Director
SUBJECT: Response to Facilities Inventory Audit

MB 1/28/14

The Department of County Assets and the Facilities and Property Management Division thank you for the time that you and your staff have invested in the review of the facilities inventory practices. Your findings and recommendations present opportunities to improve our service deliver to all County programs. We appreciate the opportunity to provide comment on your report.

Facilities & Property Management's primary goal is to balance and prioritize the overall operational efficiency of 3.1 million square feet and an operating budget of \$15.3 million. In relative terms, inventory expenses amount to \$400,000 or 2.6% of our operating budget.

Our staff is also working closely with the Strategic Sourcing and Contracts team to prudently add value via added sourcing contracts that further benefit our just in time (JIT) business practices. These efforts should result in reduced inventory risks. We will continue to balance and prioritize this effort, as well as, your recommendations for ensuring greater accountability through consistent monitoring, ordering and materiel handling.

Thank you again for the time and effort taken to compile this report and make recommendations to improve our services.