

TTC AUDIT COMMITTEE REPORT NO. 3(g)

MEETING DATE: May 12, 2014

SUBJECT: TTC AUDIT REPORT – AUDIT OF CENTRAL INVENTORY CONTROL – CORPORATE SERVICES GROUP, MATERIALS AND PROCUREMENT DEPARTMENT, MATERIALS MANAGEMENT SECTION

INFORMATION ITEM:

RECOMMENDATION

It is recommended that the TTC Audit Committee receive for information the attached TTC Audit Report.

01-27



TORONTO TRANSIT COMMISSION

AUDIT OF CENTRAL INVENTORY CONTROL

CORPORATE SERVICES GROUP MATERIALS AND PROCUREMENT DEPARTMENT MATERIALS MANAGEMENT SECTION

Covering Period:
January 2012 to June 2013

TTC AUDIT DEPARTMENT
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EXECUTIVE SUMMARY

An audit to assess the procedures and controls over the receipt of stock inventory at the Central Inventory Control locations of the Materials Management Section has been completed. An Exit Meeting was held on February 6, 2014 with the Chief – Financial and Administration Officer, the Head of the Materials and Procurement Department and the Director – Materials Management Section to discuss the results of the audit.

The results of the audit tests indicated that the processes and controls for the receipts of stock inventory at the Duncan and Greenwood warehouses were operating as intended and no significant control weaknesses were identified.

We wish to express our thanks to the staff of the Materials Management Section for their cooperation and assistance during the course of this audit.



Joseph Kennelly
Head of Audit



Dante Torralba
Audit Manager

BACKGROUND

The Materials Management section of the Materials and Procurement (M&P) Department monitors TTC's inventory for bus, subway, streetcar and building material and provides support to ensure user needs are met. Within the Materials Management section, the Central Inventory Control is responsible for the receipt, inspection, warehousing, and issuance of the inventory stored at Hillcrest, Greenwood, Downsview, and inventory stored at divisional stores located at the Hillcrest and Greenwood complexes and Gordon Baker warehouses. This inventory consists of bus and streetcar parts and other material used in the day-to-day maintenance of the system. The section has 73 employees who processed in 2012, 28,505 receipts valued at \$100,955,703. The movement of inventory is accounted for using the Industrial Financial Systems (IFS) computer application.

An audit of the Inventory Management section was completed in 2012 and the TTC Audit Committee expressed concerns on the reported deficiencies and requested for assurance that they have been addressed. This audit is a follow-up to the 2012 audit.

This audit reviewed the procedures and controls over stock inventory received and processed by Central Inventory Control at Duncan and Greenwood warehouses. The audit also verified whether the 2012 audit recommendations were implemented.

AUDIT SCOPE AND OBJECTIVES

Scope: The audit scope included an assessment of the procedures and controls over stock inventory received by Central Inventory Control at Duncan and Greenwood warehouses.

The review covered the period from January 2012 to June 2013.

Objectives: To assess the procedures and controls over stock inventory received by Central Inventory Control noting that:

- policies and procedures have been established and documented for warehouse management
- the receipt, inspection, acceptance and distribution of goods is controlled, accurately recorded, and duties are segregated in accordance with established M&P procedures
- warehouse inventories are secured and maintained, and physical access is controlled

AUDIT METHODOLOGY

To achieve the audit objectives, we reviewed the processes and controls over materials inventory at the Central Inventory Stores. Our audit methodology included the following:

- interviews with Materials Management staff
- site visits and observations of receiving and shipping activities at the Central Inventory Control warehouses
- review of Central Inventory Control policies, procedures documentation and records
- tests for compliance on a sample of inventory received and shipped
- review of access to and security over materials stored at Central Inventory Control warehouses
- evaluation of management controls and practices
- other procedures deemed appropriate.

CONCLUSION

No significant risks or weaknesses were identified during the audit. Procedures and controls in place were verified to be operating as intended.

ANALYSIS AND RECOMMENDATIONS

CENTRAL INVENTORY CONTROL

OBJECTIVE: To assess the adequacy and effectiveness of procedures and controls over the receipt of goods at the Central Inventory Stores locations and verify that controls are operating as intended.

ANALYSIS: No significant control weaknesses were identified during the audit. The results of audit procedures conducted are as follows:

Receiving and Shipping

A sample of inventory purchases processed by Central Inventory Stores was selected for analysis and testing. Audit found the receiving and shipping activities in compliance with the established policies and procedures.

Receipt/Inspection/Recording

The controls to ensure the goods are received, inspected and accepted were found to be acceptable.

Audit verified the following:

- when goods arrive at the loading docks they are electronically matched to a purchase order in IFS, the receiver signs the packing slip and records the receipt information in IFS
- goods are inspected and counted, and the packing slip is signed; items on order and damaged goods are noted, and the acceptance is recorded in IFS
- a label is attached to the inventory item that indicates the storage location

Inventory Access and Security

Audit noted that security over the goods on the receiving floor is in place, as access to goods is restricted to receiving dock employees. Attractive items (items that can be used for personal or general purposes, e.g., batteries, tools) are stored in a locked cabinet and recorded in a log book.

Shipping

Audit found that the movement of goods is controlled and recorded in the IFS system as per required procedures.

Audit verified the following:

- when the inventory is moved from the receiving floor, the goods are transferred to the location with the supporting documentation and approvals
- inventory is accepted by the receiving section and recorded in IFS

Policies and Procedures

There is an IFS manual that details the use of the inventory system.

Audit found that employees were trained and knowledgeable of warehouse operations, requirements and system use. In addition, the Materials Management section has an Operating Procedures Manual.

RECOMMENDATION: Based on the results of the audit, no recommendation is warranted.