

**Presentation to the TTC Audit and Risk Management Committee
May 25, 2016**

Auditor General's Report on the Audit of TTC Inventory Controls

Phase I: Improving Controls to Safeguard Inventory

Beverly Romeo-Beehler, Auditor General

Jane Ying, Assistant Auditor General

Gawah Mark, Senior Audit Manager

Elaine Lu, Audit Manager



Audit Divided in Two Phases

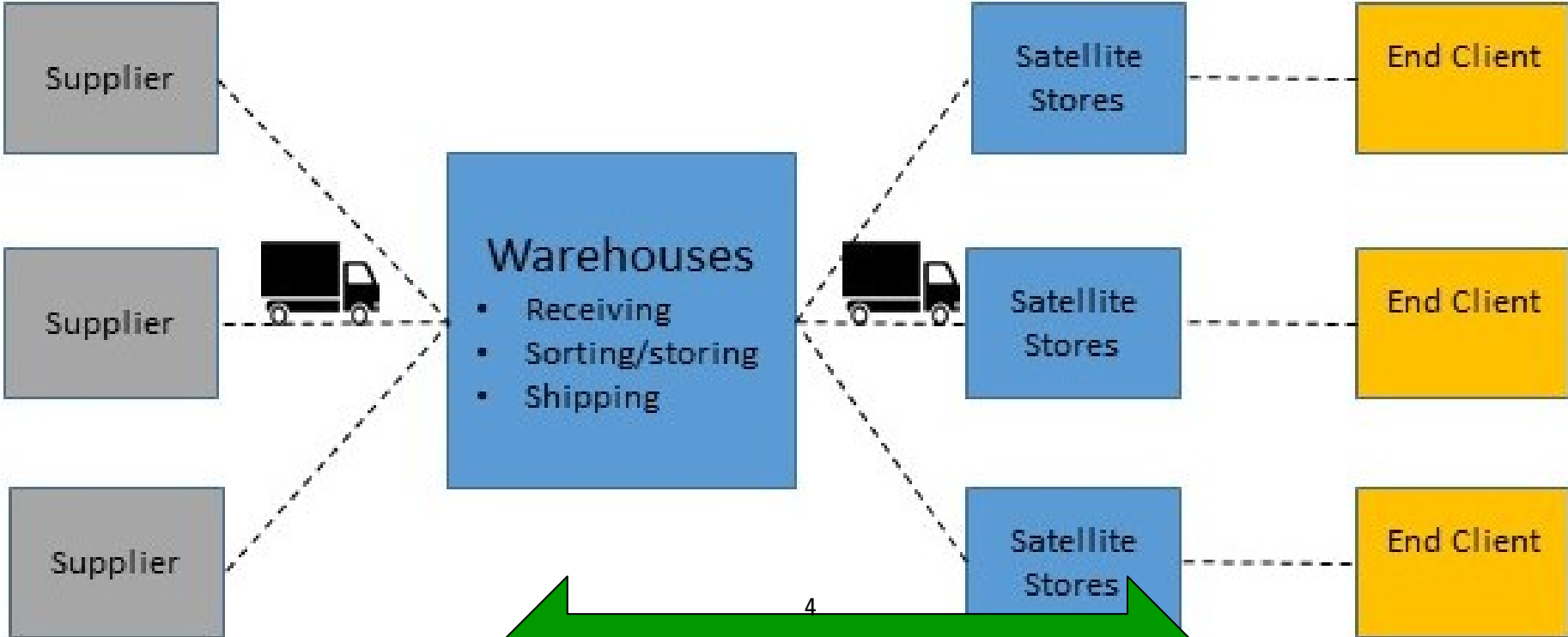
- TTC Inventory Controls
 - Phase I – Safeguarding of inventory at warehouses and stores
 - Phase II – Inventory management
- This report presents the results of Phase I
- The report contains 10 recommendations
 - TTC management have agreed with all 10 recommendations
 - Management action plans are appended to the report

Presentation Outline

- Background
- Audit Objectives and Scope
- Summary of Findings and Recommendations
- Conclusion

Background:

Materials Management Supply Chain and Logistics



Audit Objectives & scope

Objective

- To assess controls over inventory transactions, safeguarding of inventory, and the accuracy of and reliability of inventory records

The work we performed included:

- Reviewing processes over the receiving, inspecting, transferring and returning of goods
 - Physical inventory counts
 - On-site visits at warehouses and stores
- We conducted our work between June 2015 and March 2016

Key Findings – Warehouse Operations

Delays in Processing Goods Received

- For 83 orders received (\$367,162) the inventory system record was not updated. Therefore, the goods could not be distributed for operational use.
- Management upon investigation advised that:
 - 6 orders valued at \$23,887 could not be located
 - 10 orders valued at \$94,040 have not been located at the time of our report
 - Remaining inventory of \$249,235 was eventually located

Key Findings – Warehouse Operations

Delays in Processing Returned Goods

Aging of Returns at Duncan Warehouse

Days in Storage	Inventory Value (\$)	Percentage of Total Value (%)
0-30	31,795	5
31-60	31,513	5
61-90	45,492	7
91-180	203,143	32
181-365	137,376	22
> 365	187,568	29
Total	\$636,887	100%

- As of February 1, 2016 the total value of goods at Duncan warehouse waiting to be returned was \$636,887 of which over 80% had been there for longer than three months
- Almost 30% (totalling \$187,000) had been in the warehouse for longer than a year
- Delays may result in TTC forfeiting the right to replacement or credit

Key Findings – Store Operations

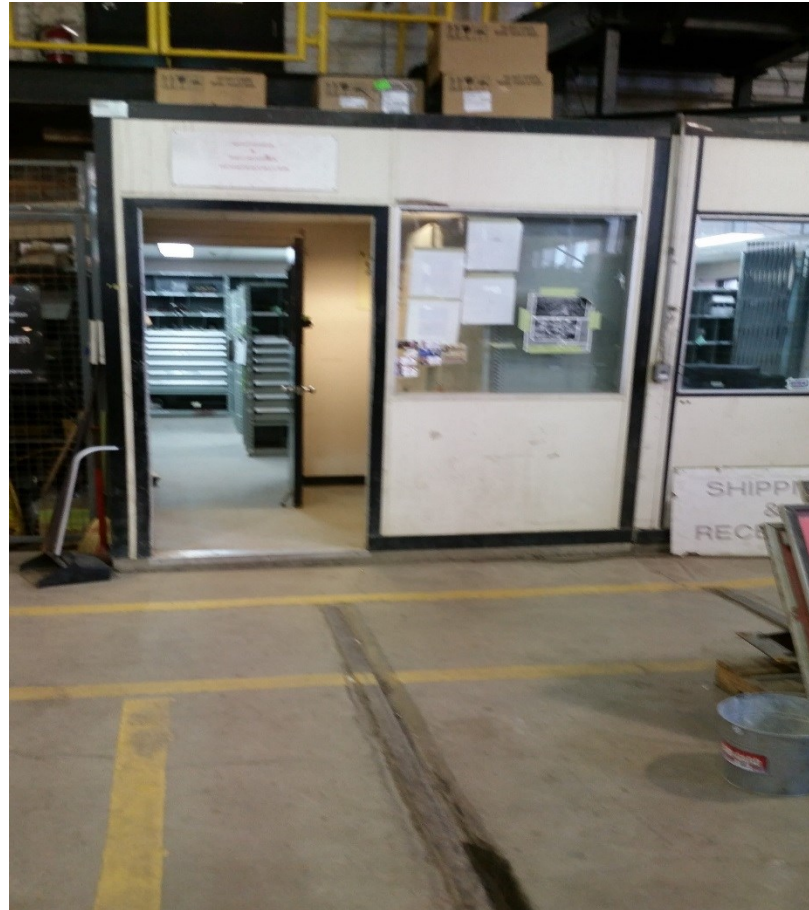
Lack of Adequate Access Controls at Stores

- Existing controls at open stores are not effective to safeguard TTC inventory
- A major challenge faced by Materials Management is the lack of staff to cover all shifts in stores
- 18 smaller stores operate like a self-serve grocery store allowing staff open access to inventory
- Garage staff do not always record items taken from stores
- None of the stores have surveillance systems

Key Findings - Store Operations

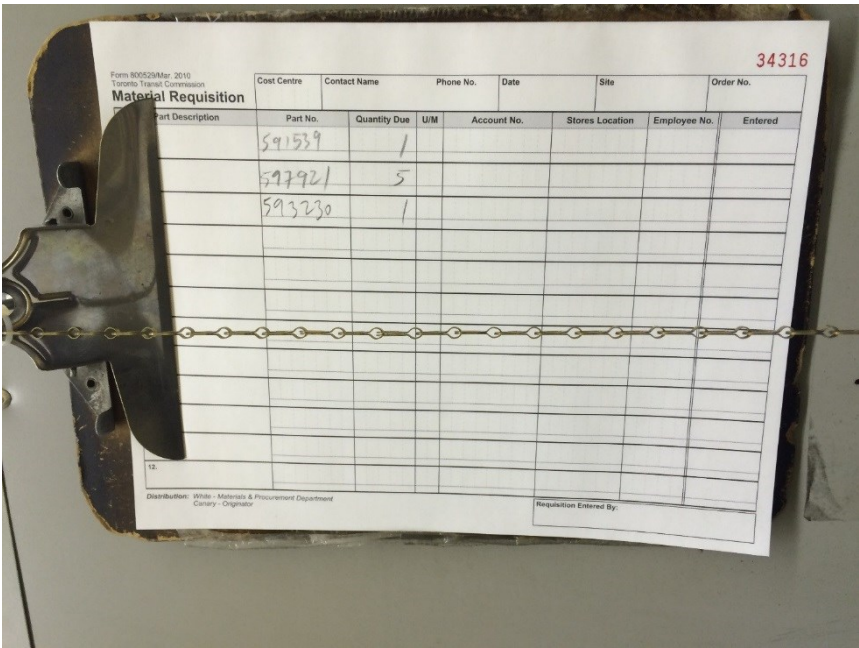
Lack of Adequate Access Controls at Stores

An Example of an Open Store Located Inside a Garage



Key Findings – Store Operations

Lack of Adequate Access Controls at Stores



Key Findings – Physical Counts

Cycle Counts - Warehouses and stores

- A portion of the inventory is counted daily until **entire inventory is counted over the calendar year**
- Adjustments charged or credited back to Materials Management

Strip Counts – Stores only

- A portion of inventory is counted daily until the **entire inventory is counted over each month**
- Adjustments charged or credited back to TTC operations



Key Findings

Merits of Daily Strip Counts at Stores Need to be Re-Assessed

- The intent of the strip count is to increase inventory accuracy
- Strip counts are problematic and impractical because:
 - Adjustments are treated as regular inventory transactions
 - Discrepancies are not adequately reviewed or approved
 - Staff conducting counts have access to the system quantity balance
 - Strip counts are prone to error and not always completed

Overall Results Phase 1

Opportunities to:

- Improve warehouse and store operations to reduce the risk of unaccounted inventories
 - Approximately \$427,000 worth of inventory were losses due to shrinkage
 - Additional \$1 million worth of unaccounted inventory adjustments charged to operations
- Strengthen access controls at stores
- Improve the accuracy of physical counts

Conclusion

- TTC carries a significant amount of inventory at its warehouses and stores
- Enhanced controls and management oversight are needed to:
 - Prevent inventory loss due to delays in processing goods received
 - Ensure returned goods are properly and timely processed for replacement or credit
 - Improve access controls at satellite stores
 - Achieve consistent and accurate physical count results