



Internal Audit

Facilities Management Year-End Inventory

October 17, 2014

Office of Internal Audit



Missouri State
UNIVERSITY

DATE: October 17, 2014

TO: Robert Eckels, Director of Facilities Management

FROM: Donna Christian, Director of Internal Audit and Compliance
Tami Reed, Senior Internal Auditor

CC: Ken McClure, Associate Vice President – Administrative and Information Services
Clifton M. Smart III, University President

RE: INTERNAL AUDIT: FACILITIES MANAGEMENT YEAR-END INVENTORY

BACKGROUND

The Facilities Management Department maintains an inventory of items used for maintenance, signage, locksmith, and custodial. Facilities Management’s inventory at June 30, 2014 totaled **\$455,886**.

OBJECTIVE AND SCOPE

To review inventory procedures and test the annual physical count of the Facilities Management inventory for June 30, 2014.

SUMMARY

On July 10, 2014, Internal Audit reviewed and tested the annual physical inventory count of the Facilities Management inventory. Individual inventory counts were substantially accurate and any quantity exceptions noted were corrected by management prior to finalizing the inventory balance. Some recommendations were made to improve inventory controls and procedures.

We wish to thank Facilities Management staff for their support during this review.

Sincerely,

Donna Christian, CPA, CGFM
Director of Internal Audit and Compliance

Senior Internal Auditor: Tami Reed
Audit Field Work Completed: August 11, 2014

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Facilities Management personnel continue to take the necessary steps to fully utilize their maintenance management software systems (TMA system) for work orders and inventory management. Over the recent years, inventory of supplies previously not managed and included in the Facilities Management inventory are now being recorded. In the most recent year, custodial inventory totaling \$96,716 was added to the system to provide more control and accountability.

Reported inventory balances are as follows:

Description	FY14	FY13	FY12	FY11
Maintenance	\$295,867	\$364,142	\$378,599	\$381,098
Signage	3,597	3,809	2,754	5,073
Locksmith	59,706	73,399	44,032	(A)
Custodial	96,716	(B)	(B)	(B)
Total	\$455,886	\$441,350	\$425,385	\$386,171

(A) – Locksmith inventory added on June 30, 2012

(B) – Custodial inventory added on June 30, 2014

1. INVENTORY MANAGEMENT

- A. Manual adjustments to inventory should be reviewed periodically by management to provide increased controls over inventory. Adjustments to inventory may result from broken or defective items, missing inventory items observed during cycle counts, or obsolete inventory items. Manual adjustments to inventory are frequently discussed in Facilities Management staff meetings but at this time management does not review shrinkage reports.

The shrinkage reports provide some description for all adjustments to the inventory. During the year ended June 30, 2014, shrinkage reports totaled:

<u>Description</u>	<u>Amount</u>
Maintenance	\$(66,783)
Locksmith	(2,307)
Signage	(144)

Of the \$66,783 written off the maintenance inventory, \$19,735 was noted as obsolete.

- B. Maintaining appropriate inventory levels is a critical part of inventory management. Inventory levels require a balance between having critical or high volume items on hand to avoid productivity and down time while controlling excess inventory that may result in loss or obsolete inventory items. There are hidden inventory costs with maintaining inventory in stock: cost of capital tied up in inventory, costs of space occupancy, labor costs for tracking excess inventory, and inventory shrinkage. Inventory shrinkage includes those items that are not only lost to theft, but damaged, contaminated or become obsolete while in stock.

Purchases of maintenance and custodial inventory items in fiscal year 2014 were \$1,174,996 and \$195,205, respectively. As a result, the balance on hand at June 30, 2014 for maintenance and custodial inventories were 25.1 percent and 49.5 percent of total purchases. Management should consider reviewing the quantity of inventory on hand to ensure inventory levels are not too high.

Recommendations:

1. Shrinkage reports should be reviewed by management on a monthly basis, evaluating the amount and type of manual adjustments.
2. Management should review quantity of inventory maintained on hand.

Responses:

Shrinkage reports will be reviewed on a monthly basis and inventory reports will be reviewed on a quarterly basis by the Administrative Coordinator for Facilities Management as well as the Assistant Director for Facilities Maintenance. The intended goal is to provide oversight and accountability for inventory, by identifying and addressing areas of concern with regard to shrinkage, which includes discontinued and/or obsolete inventory and unaccounted items.

2. FINAL INVENTORY COUNT AND OBSERVATIONS

Internal Audit verified inventory counts of \$52,712 of the \$455,886 of inventory items. In contrast to last year's verification, individual inventory counts were substantially accurate. One 4" valve, costing \$734 could not be located and was later determined to be used at some point earlier in the year without a work order being processed. As **many** work orders are processed during a fiscal year, overlooking this particular work order is not substantial, however the omitted valve should have been identified during the inventory count process.

Accurate and complete inventory records are not only necessary for accounting purposes, but also to ensure required supplies/parts are on hand for issued work orders.

Recommendation:

Continue to focus on accurate inventory counts with 100% counts of the high value inventory items.

Response:

Facilities Management will continue to perform periodic spot-checks or cycle-count reviews of the inventory at least monthly as well as a 100% inventory count of all items at fiscal year-end. In order to alleviate unaccounted inventory, Facilities Management has instituted card access reports reflecting access to Stores for call-backs. This will continue to be reviewed weekly and compared to call-back work orders to assure inventory accuracy. Issues will be addressed directly with the Assistant Director of Facilities Maintenance.