

CITY AUDITOR'S OFFICE



Audit of Management Controls over Purchasing and Inventory at Darling Tennis Center

Report No. CAO 2900-0910-11

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CITY AUDITOR

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BACKGROUND

The City's Department of Leisure Services (Leisure Services) operates the Darling Tennis Center (DTC) located in the Charlie Kellogg and Joe Zaher Sports Complex. The DTC has a pro shop with various tennis related items (e.g., tennis racquets, clothing, balls) for sale to the public. This is the only City facility that sells retail merchandise to the public.

OBJECTIVES

The audit objective was to evaluate the adequacy and effectiveness of management controls over purchasing and inventory at the DTC.

SCOPE AND METHODOLOGY

The scope of this audit was limited to the review of management controls over purchasing and inventory at Darling Tennis Center. The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit.

Our audit methodology included:

- Research of policy and procedures and applicable guidelines,
- Interviews of City personnel,
- Observing the operation of the Darling Tennis Center,
- Observations of work processes, and
- Analysis and detail testing of available data.

We conducted this audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no affect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

The following conclusions were noted:

- The Darling Tennis Center staff should follow the City's Procure to Pay process in purchasing inventory. (Finding 1)
- Improved management controls are needed over the inventory at the Darling Tennis Center. (Finding 2)

Further information is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. Inventory Purchasing Procedures

Criteria

City departments are to use Purchasing's Procure to Pay process to expedite the processing of invoices by Accounts Payable and the researching of purchase transactions by Purchasing & Contracts. Procurement Card Purchase Procedure and Policy (FN605a.11 and FN605.11) states that any items currently covered under a contract should not be purchased using a PCard.

Condition

The DTC uses both a Purchase Card (PCard) and Purchase Orders for purchasing inventory for resale and supplies inventory for programming activities. No differentiation is made between the two types of inventory by the DTC when making purchases. These practices are an obstacle to the timely processing of invoices by Accounts Payable and the researching of purchase transactions by Purchasing & Contracts.

The DTC completes special orders for customers upon request. While this practice is offered as a convenience to customers, it is an inefficient use of the City's resources.

During the audit, we identified that the DTC Staff inappropriately used the City's account to order \$1,205.73 worth of tennis goods for a non-City entity, the David Pate Junior Tennis Fund in Henderson. While the City inappropriately purchased these items, they were paid for directly by the David Pate Junior Tennis Fund.

Cause

The Darling Tennis Center is not appropriately following the Purchasing Procure to Pay guidelines.

Effect

- Invoices may not be timely processed by Accounts Payable and researching purchasing transactions is more challenging.
- Inefficient use of City resources.

Recommendations

- 1.1 Leisure Services management should require that DTC staff use purchase orders for all retail inventory and supplies inventory purchases, per the Procure to pay process.
- 1.2 Leisure Services management should evaluate whether the DTC should continue to provide special orders for customers, eliminating CLV as the middleman.
- 1.3 Leisure Services management should communicate to DTC staff that only goods and services for the benefit of the city are to be ordered using city accounts.
- 1.4 Leisure Services management should request that Purchasing & Contracts provide additional training on Procure to pay purchasing procedures for all DTC employees with responsibilities for ordering inventory.

2. Inventory Controls

Criteria

The risk of loss of inventory is minimized with the implementation of proper inventory controls.

Condition

The DTC has a pro shop with various tennis related items (e.g., tennis racquets, clothing, balls) for sale to the public. In addition, the DTC uses various inventory items for use in tennis clinics, camps, rentals, and tournaments.

The following deficiencies in management controls over inventory were identified:

- The Class system that is used for tracking inventory does not allow for differentiation between the two types of inventory (i.e., resale and internally used items).
- The DTC's retail inventory is stored in unlocked drawers in the pro shop and in an electrical utility room unsuitable for inventory storage. The electrical utility room has a skylight entrance that was found to be unlocked.

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- Leisure Services management has concerns that the DTC has unsalable retail inventory and recently requested that the DTC stop ordering certain merchandise. We observed that the DTC may have an overstock of tennis racquet string.
- The DTC does not have a video surveillance system.
- The DTC staff are not always appropriately verifying the receipt of inventory by matching inventory received against the corresponding purchase order. They often inappropriately use the express function in Oracle (acknowledgement that everything ordered has been received) upon receipt of partial inventory shipments.
- The DTC sells snacks and drinks as a convenience to customers. This is a violation of the City's vending agreement with the Bureau of Services to the Blind and Visually Impaired.

Cause

- Class system limitations.
- Lack of implementation of proper inventory controls.
- Lack of adherence to vending agreement.

Effect

- Potential for misstated inventory records.
- Increased risk of loss of inventory.

Recommendations

- 2.1 Leisure Services management should work with the CLASS System Administrator to make system changes to allow the DTC to track retail inventory separately from program supplies inventory.
- 2.2 Leisure Services management should evaluate the adequacy of the storage and security of inventory at the DTC and address the identified inventory deficiencies.
- 2.3 Leisure Services management should evaluate the appropriateness of the type of retail inventory and supplies inventory being ordered by the DTC and identify appropriate inventory levels to be maintained.
- 2.4 Leisure Services management should evaluate installing a video surveillance system to monitor the cash register and inventory at the DTC. The City's Safety/Loss Control Officer is available upon request to perform a site visit to assist management as needed.

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- 2.5 Leisure Services management should require that DTC employees verify the receipt of inventory items individually against purchase orders. Any discrepancies should be reported to Purchasing & Contracts for resolution.
- 2.6 Leisure Services management should work with Purchasing & Contracts in resolving the DTC's violation of the vending agreement with the Bureau of Services to the Blind and Visually Impaired.

MANAGEMENT RESPONSE

1. Inventory Purchasing Procedures

Recommendation 1.1: Leisure Services management should require that DTC staff use purchase orders for all retail inventory and supplies inventory purchases, per the Procure to pay process.

Management Response: Agree with this recommendation, staff at DTC will be directed to secure all inventory items through the Procure to Pay Process. Staff will be offered additional training to assist in breaking down any communication issues regarding the process. Management will be responsible to Audit P-card Purchase to ensure this directive is not deviated from. Deviation from the process will lead to staff being addressed through the “Positive Progressive Discipline Process”.

Estimated Date of Completion: July 1, 2009

Recommendation 1.2: Leisure Services management should evaluate whether the DTC should continue to provide special orders for customers, eliminating CLV as the middleman.

Management Response: Agree with this recommendation, staff will be directed to cease special orders for customers. PO’s will not be electronically approved for individual items that are special orders for individuals.

Estimated Date of Completion: July 1, 2009

Recommendation 1.3: Leisure Services management should communicate to DTC staff that only goods and services for the benefit of the city are to be ordered using city accounts.

Management Response: Agree with this recommendation, staff will be directed to not place orders on city accounts for outside users of the facility for tournaments or events. Tracking may be difficult but management will again review and question all purchases on PO’s at the DTC. Management will explore opportunities to track this.

Estimated Date of Completion: July 1, 2009

Recommendation 1.4: Leisure Services management should request that Purchasing & Contracts provide additional training on Procure to pay purchasing procedures for all DTC employees with responsibilities for ordering inventory.

Management Response: Agree with this recommendation, a training is tentatively being set up for mid July, to include DTC Staff, Ed O'Neil, Dan Dixon, and a representative from Accounts Payable. An agenda and sign in sheet will be provided to Auditor's Office for back up of completion.

Estimated Date of Completion: August 1, 2009

2. Inventory Controls

Recommendation 2.1: Leisure Services management should work with the CLASS System Administrator to make system changes to allow the DTC to track retail inventory separately from program supplies inventory.

Management Response: Agree with this recommendation, management will set up a meeting with Class Administrator and Finance to devise a system in Class and also an expense coding option so that inventory is not comingled. Class Administrator will be ask to provide a written document outlining the process that is put into place, a copy will be provided to City Auditor's Office for back up of the completion of this recommendation.

Estimated Date of Completion: August 1, 2009

Recommendation 2.2: Leisure Services management should evaluate the adequacy of the storage and security of inventory at the DTC and address the identified inventory deficiencies.

Management Response: Agree with this recommendation, the security system that will be pursued will assist greatly in the matter if installed. Staff will be directed to perform a physical inventory at the end of each month, staff must provide a copy of this inventory to management and highlight and discrepancies for review. Items identified as missing on regular bases or in high volume will be eliminated from the Pro Shop and any future ordering. Also staff will be directed to not receive or store any equipment or supplies of outside users. In the future outside users must order, secure, and receive all their own goods; DTC is willing to allow temporary Pods for storage to be dropped at the facility for this process. Monthly Inventory reports will be sent to City Auditor's Office for record and tracking of the completion of this recommendation.

Estimated Date of Completion: July 1, 2009

Recommendation 2.3: Leisure Services management should evaluate the appropriateness of the type of retail inventory and supplies inventory being ordered by the DTC and identify appropriate inventory levels to be maintained.

Management Response: Agree with this recommendation, management will explore with staff the purchasing of individual “Tennis String” and look at the option of purchasing in bulk rolls. Additionally DTC will be directed to not carry and sell court shoes. Clothing items will be purchased “on a limited bases”, to have items on the rack, perhaps DTC logo’d apparel for quick sale. A meeting will take place with Management and DTC staff to set “limits of appropriate Pro Shop Items”, notes will be summarizing this meeting and business direction will be sent to the City Auditor’s Office for backup documentation that the recommendation has been met.

Estimated Date of Completion: July 1, 2009

Recommendation 2.4: Leisure Services management should evaluate installing a video surveillance system to monitor the cash register and inventory at the DTC. The City’s Safety/Loss Control Officer is available upon request to perform a site visit to assist management as needed.

Management Response: Agree with this recommendation, staff will set up a meeting with Facilities Management and City’s Safety/Loss Control Officer to asses and get a bid for video surveillance. Costs are however the issue, if funding can be established outside the department, DTC will progress to completing this recommendation as soon as possible. Backup documentation from Facilities and Safety/Loss Control Officer will be sent to City Auditor’s Office for backup of completion of this recommendation.

Estimated Date of Completion: Evaluation and bid complete by August 1, 2009

Recommendation 2.5: Leisure Services management should require that DTC employees verify the receipt of inventory items individually against purchase orders. Any discrepancies should be reported to Purchasing & Contracts for resolution.

Management Response: Agree with this recommendation, a directive to staff will go to staff to perform a detailed verification of orders. Comparing the invoice to what is actually received on the order. Staff will also be directed to only “receipt” in Oracle the goods that were received and not “receipt” any items that are back ordered.

Estimated Date of Completion: July 1, 2009

Recommendation 2.6: Leisure Services management should work with Purchasing & Contracts in resolving the DTC’s violation of the vending agreement with the Bureau of Services to the Blind and Visually Impaired.

Management Response: Agree with this recommendation, Sky Top Vending has been contacted and a site for the vending machines has been established. If Sky Top agrees to the designated vending area staff will work with Facilities Management to ensure proper

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electrical needs are met. Once completed an E-mail will be sent to City Auditor's Office for backup documentation that the recommendation has been resolved.

Estimated Date of Completion: July 1, 2009 (Vending Machines are now on the property)