



City Auditor

Date: May 23, 2006

To: Christopher Brady, City Manager

Cc: Debbi Dollar, Deputy City Manager
Harry Beck, Fire Chief
Gary Bradbury, Assistant Fire Chief

From: Gary Ray, Acting City Auditor *AR*

Subject: Fire Resource Management Inventory Audit Report

Transmitted with this letter are the Audit Report and three Corrective Action Plans from our audit of the Fire Resource Management Inventory. The Fire Department's response has been incorporated into the report.

We would like to express our appreciation to the Fire Resource Management staff for their assistance and cooperation during the audit. If you have any questions, please call me at x3210, or Jennifer Ruttman at x3767.

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Audit Report

Department: Fire Department – Fire Resource Management Division

Audit Subject: Fire Resource Management Inventory Observation – September 2, 2005

Date: May 23, 2006

Objectives: We performed an observation and review of the Fire Resource Management Division's annual warehouse inventory process, in order to determine whether inventory procedures were adequate to provide reasonable assurance that the Division's inventory records are complete and accurate.

Scope: To accomplish this objective, we:

- Visited the Fire Resource Management Division's warehouse/parts room on the day of the inventory and observed as counts were performed.
- Reviewed the Inventory Procedures provided to the count teams.
- Performed sample counts of the physical inventory.
- Verified that discrepancies were appropriately resolved.
- Reviewed resulting post-inventory adjustments to system quantities on hand.
- Reviewed results of subsequent cycle counts for evidence of improvement over the annual count.

Conclusion: As of September 2, 2005, there was a 16% discrepancy rate between actual and recorded quantities on hand. In our opinion, the Division's procedures are not adequate to provide reasonable assurance that the inventory records are complete and accurate.

Comments: Due to the high discrepancy rate noted in September and in response to recommendations made by our office during the audit, the Resource Management Division has taken steps to improve inventory accuracy. Management has developed a strategy for improvement based on 12 key factors, which were identified by the GAO as critical to achieving consistent and accurate inventory count results.¹ Actions taken thus far include the implementation of cycle counts and the development of a new procedures manual. We commend the Fire Department for initiating these changes and we encourage them to continue to work toward implementation of all 12 key factors. We believe that these changes, in conjunction with the recommendations noted in the attached Corrective Action Plans (CAPs), will ensure more consistent, accurate inventory records in the future.

¹U.S. General Accounting Office. *Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property*. GAO-02-447G. Washington, D.C.: March 2002.

Recommendations: The following recommendations are included in the attached CAPs:

CAP #1:

- 1-1. The warehouse should be staffed at all times when mechanics are on duty, and should be secured to prevent unauthorized access.
- 1-2. Incompatible duties should be segregated.
- 1-3. A thorough analysis of the access roles defined in the FleetFocus system should be performed.

CAP #2:

- 2-1. Different parts should be assigned unique locations, except when it is impossible or impractical to do so.
- 2-2. Shelf labels should be accurate and should be updated in a timely manner when stock changes occur.

CAP #3:

- 3-1. Procedures for the adjustment process should be documented. In addition, staff should be trained and required to use the bar code readers and inventory count functions in the FleetFocus system to record counts and to calculate and execute all necessary adjustments.
- 3-2. All counts and re-counts should be performed on a "blind" basis.
- 3-3. Count sheets that have been signed-off and turned in by the count team should not be altered for any reason.
- 3-4. All discrepancies identified should be researched and the resolutions and any resulting actions should be documented.
- 3-5. Management should implement controls to ensure that all discrepancies are resolved appropriately.
- 3-6. Cut-off procedures should be improved and enforced.

Client Response: The Fire Resource Management Division provided the following response:

CAP#1:

- 1-1. At the EMSC the Fire mechanics are on duty from 0630 – 1430 hrs. Fire Resource staffs the warehouse during the hours the mechanics are here. Fleet has mechanics on duty from 0630 – 2200 hrs. Fleet's staffing of the warehouse in the evening hours is not consistent. Fire Resource is unable to protect the warehouse assets during this time.
- 1-2. Fire Resource has segregated as many incompatible duties as is possible with the limited staffing now operating in the warehouse. Until new staff is hired, it is unlikely any further separation is likely.
- 1-3. The warehouse supervisor has almost unlimited access to FleetFocus because of limited staffing. No changes are likely until more staffing is hired.

CAP#2:

- 2-1. Fire Resource has different parts assigned unique locations as per the list of duplications provided by Jennifer Ruttman and will constantly be reviewed.
- 2-2. Shelf labels are constantly updated and reviewed. This process is impacted by lack of staff.

CAP#3:

- 3-1. Bar code readers will not be used due to the training hours and time necessary to implement any new programs. Procedures for adjustments are being added to the SOP.
- 3-2. All counts and recounts will be performed on a "blind" basis.
- 3-3. Documentation for discrepancies is available and will be used for all future inventory counts.
- 3-4. All discrepancies will be initialed by the Fire Resource Manager, after the proper documentation and resolution has been completed.
- 3-5. With the completion of the warehouse SOP's, it is likely that there will be sufficient controls to ensure discrepancies are resolved appropriately.
- 3-6. Fire Maintenance will agree to use the OADJ (manual parts issuing form) when pulling parts during a manual inventory count.