MEMORANDUM

DATE: DECEMBER 28, 2020

TO: MARK B. JINKS, CITY MANAGER

FROM: ROBERT SNYDER, CHIEF INTERNAL AUDITOR

SUBJECT: RELEASE OF AUDIT REPORT - CITY-WIDE AUDIT OF INVENTORY OPERATIONS (AR21-01)

Please find the attached referenced audit report. As part of this engagement the Office of Internal Audit (OIA) issued memorandum reports to 10 departments with 18 recommendations. Significant developments from this audit included the reporting of additional inventory stockpiles to the Accounting Division, an increase in accuracy of reported inventory, and the increase in awareness of internal control and physical security concepts by staff members responsible for inventory. While many recommendations have been completed others require the major undertaking of revising AR 4-4 Inventory of Supplies and Material which was last updated in 1991. The Finance Department will need support from key stakeholders in order to update the regulation. This audit report contains two (2) recommendations to the City Manager which are:

1. Direct the High-Performance Organization (HPO) Council to convene a task force composed of key stakeholders to develop an updated AR 4-4;

2. Maintain the task force as a standing body in order to continuously improve the effectiveness and security of City inventory operations.

This audit was delayed due to several factors including the COVID-19 pandemic, investigation and conviction of a City employee involved in theft of inventory, as well as other audit engagements. OIA undertook this first comprehensive audit of inventory operations based on the following three (3) factors: 1) a previously scheduled inventory test count established differences in departmental compliance with inventory procedures, 2) a theft occurred in the Transportation and Environmental Services Signals Division, and 3) inventory values submitted as part of the FY2019 year-end financial statement audit indicated a wide variance. We would like to thank the inventory custodians, fiscal officers and department heads for their support during the audit.

Cc.
Emily Baker, Deputy City Manager
Debra R. Collins, Deputy City Manager
Laura B. Triggs, Deputy City Manager
James Spengler, Director Office of Organizational Excellence
Results of
City-wide Audit of Inventory Operations
AR21-01

December 28, 2020
What We Reviewed

The City of Alexandria maintains 15 separate inventory stockpiles under the control of eight (8) different departments. Office of Internal Audit (OIA) staff submitted questionnaires to departments and then conducted site visits to all locations with inventory. We interviewed inventory custodians, fiscal staff, as well as department heads. We reviewed financial records to include purchase card reports as well as accounting records concerning departmental expenditures related to software and physical security systems.

What We Found

We found that two (2) departments which had not previously reported inventory to the Accounting Division had material stockpiles of inventory. Three (3) other departments had additional inventory that must be reported to the Accounting Division. Although AR 4-4 *Inventory of Supplies and Equipment* requires departments to utilize a perpetual inventory record system, nine (9) of the inventory stockpiles did not have such a system in place. We noted that the physical security measures deployed by the departments varied and that the understanding of the requirements of AR 4-4 is generally weak. In addition, there is generally poor communication between departments regarding deployment of perpetual inventory records systems as well as physical security systems.

What We Recommended

We issued memorandum reports to 10 departments containing 18 separate recommendations. For the two (2) departments that did not report inventory, we required them to provide a listing of all items to the Accounting Division. We recommended that the Finance Director update AR4-4 to increase the accountability of department fiscal staff. We recommended that departments prepare their own policy based on the update of the AR. In order to address the lack of communication involving the perpetual inventory record systems, we recommended that departments partner with Finance and ITS. In order to enhance understanding of physical security we recommend that General Services direct their newly hired physical security manager to include inventory in his work plan and partner with the Police and Sheriff’s Office to increase general knowledge of physical security measures.

Although this has been the first City-wide audit of inventory operations, OIA has conducted inventory test counts and has recommended updates of relevant ARs before with limited success. Based on this experience we are recommending that the City Manager take the following actions:

1. **Direct the High-Performance Organization (HPO) Council to convene a task force composed of key stakeholders to develop an updated AR 4-4;**

2. **Maintain the task force as a standing body in order to continuously improve the effectiveness and security of City inventory operations.**

If implemented the estimated completion time to update the AR could be reduced to 90 to 120 days. A standing task force would allow for further process improvement and improved communication throughout the organization regarding inventory operations.
Audit of Inventory Operations

AR 21-01

This Audit Report has been approved for release and has been transmitted to the individuals listed below.

- Original Signed -

__________________________________________________________
Robert Snyder
Chief Internal Auditor

Report Distribution:
Mark B. Jinks, City Manager
Emily Baker, Deputy City Manager
Debra R. Collins, Deputy City Manager
Laura B. Triggs, Deputy City Manager
James Spengler, Director, Office of Organizational Excellence

December 28, 2020
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City-wide Audit of Inventory Operations

FY 2021
Background

The City of Alexandria maintains large quantities of assets which include individual items such as office supplies which are expensed, stockpiles of inventory with combined values of over $5,000 which are reported on the City’s balance sheet, and fixed assets which are individually recorded. Our audit focused on inventory stockpiles. As of June 30, 2020, the City held $3.8 million worth of inventory between eight (8) departments in 15 separate inventory stockpiles. Accurate record keeping of the inventory is imperative for several reasons which include 1) the inherent requirement to be stewards of public assets, 2) inventories allow for effective budgeting, operating, and financial decisions, 3) inventories are a strong deterrent against theft, and 4) inventory records serve as a starting point for law enforcement investigations should a theft occur. This is the Office of Internal Audits (OIA) first comprehensive audit of inventory operations.

This project began with a previously scheduled inventory test count engagement of select departments (Recreation, Parks and Cultural Activities (RPCA), Fire Department, and General Services Fleet Division). During this process, the Office of Internal Audit (OIA) was notified that an alleged theft had occurred at the Transportation and Environmental Services (T&ES) Signals Division (See Page 7 regarding the theft). After being directed to review the T&ES Signals Division procedures, we observed that inventory documentation provided to the Accounting Division from departments as part of the FY2019 year-end close indicated that material fluctuations in all, but one (1) department had occurred. Based on these three (3) events, OIA requested that a comprehensive City-wide audit of inventory be performed.

This audit was delayed due to the City’s response to the COVID-19 pandemic. During this time period the City activated elements of the Emergency Operations Plan and centralized the procurement function for COVID-19 response under the Logistics Section of the Office of Emergency Management. A COVID Warehouse was established to track the inventory purchase to support the City response efforts. The findings section contains our analysis of the procedures used by the COVID Warehouse.

Objective Scope & Methodology

The objective of the audit was to obtain an understanding of the City’s posture with regard to inventory operations and review compliance with policies and procedures, segregation of duties, perpetual inventory record systems, physical security, and inventory processes. Our audit was confined to inventory as defined under AR 4-4 Inventory of Supplies and Materials. All departments were included in the audit. We reviewed documentation submitted to the Accounting Division for the previous two (2) years, information regarding vendor payments related to perpetual inventory record systems in the MUNIS system, as well as data from the J.P. Morgan system.

Our audit methodology was to review relevant City and departmental policies and procedures, submit questionnaires to department heads, interview key staff members, review inventory
records, and conduct physical inspection tours of all inventory sites throughout the City. We did not review policies, procedures or records that did not involve the inventory program. As such we will not express an opinion on compliance or noncompliance in these areas. Department heads were issued memorandum reports the last week of February and have responded in official memorandum format. The department responses are contained on Pages 12-33.

Findings, Conclusions, and Recommendations

I. Compliance with Policies and Procedures

Our audit indicated that the policies and procedures which provide the regulatory framework for the inventory program require significant improvement. The regulatory requirements for tracking of City inventory are established through two (2) documents, 1) AR 4-4 *Inventory of Supplies and Materials*, and 2) Chapter 23 *Surplus Property* of the Purchasing Manual. AR 4-4 was issued on June 28, 1991 and focuses on compliance with Government Accounting Standards Board (GASB) requirements. Rather than defining all classes of City-owned property and stating how each should be accounted for, AR 4-4 states that inventory standards only apply to stockpiles of materials and supplies that exceed $5,000. This AR appears to have been prepared mainly to address financial reporting requirements and not to address other internal control concerns regarding City property. The AR states that the responsibility for the physical security and record keeping of inventory rests with the departments and provides detailed instructions on conducting the required year-end inventory. The AR does not require departments to provide formal policies and procedures to the Finance Department.

Departments are notified annually of the requirement to provide a year-end inventory listing to the Accounting Division through memos which are sent in the March-April timeframe. The *Year-End Inventory of Supplies and Materials* memo references the AR and was sent to a set distribution list rather than all department heads. The notification process was changed in response to this audit and now requires all departments to confirm their inventory status. We identified two (2) departments with inventory stockpiles, Office of Historic Alexandria (OHA), and Department of Emergency and Customer Communication (DECC) which had never reported inventory to the Accounting Division. Other departments (Police, Sheriff’s Office, and Transportation and Environmental Services (T&ES) Signal Division reported inventory but may have omitted items due to lack of understanding of the requirements. Other departments are failing to meet the perpetual inventory record requirements listed in the AR and are not required to provide evidence of compensating controls.

When we reviewed the inventory reports submitted to the Accounting Division, we noted that in FY2019 the overall change in inventory valuation was 33%. This was compared to 3% the prior
year and an average of 7% for the period FY2010-FY2019. When questioned about the changes in inventory valuation some of the department fiscal officers needed to contact personnel in control of the inventory in order to respond. This indicates a disconnect between those charged with departmental financial reporting and the personnel physically in control of the inventory.

Chapter 23 of the Purchasing Manual states that “Each Department is responsible for tracking its inventory and maintaining a list of all personal property in its possession.” Chapter 23 primarily focuses on vehicle disposal but does mention other types of property such as electronics and furniture. The chapter says departments shall submit lists of personal property to the Purchasing Agent. Our review indicated that the disposal requirements are generally being complied with but the requirement to maintain lists of personal property is not. We believe that the Purchasing Manual should mirror any update to AR 4-4 and provide requirements for each type of property.

Although not wishing to create a regulatory burden, the AR should list all types of property and what must be done to secure each type. Assets that are not capitalized or in an inventory stockpile may still be highly valuable and subject to loss or theft. The AR should specify that departments should take reasonable efforts to secure such items (televisions, phones, cameras, etc.) We reviewed other regulations and noted that a formal inventory of IT equipment such as computers, monitors, and printers is also not specified. ITS maintains a general inventory of new and surplus equipment as part of its equipment management procedures. This allows them to ensure software licensing, version control, and other systems updates are being conducted. We believe that the lack of formalized processes with regard to IT inventory presents a challenge for accountability and an opportunity for further improvement. Based on these facts we believe that the IT inventory process should be clarified in an update to AR 4-4.

II. Segregation of Duties

Our audit identified that the segregation of duties between ordering, receiving, storing, and issuing inventory requires significant improvement in most City departments. AR 4-4 is silent regarding formal assignment of responsibility to specific employees. Other than the Police Department and Sheriff’s Office, no department stated that they require formal assignment to the position. Few departments had formal written procedures regarding actions to be taken to order, receive, store, or issue inventory. When asked on our inventory questionnaire “Is the same person responsible for ordering, receiving, tracking, issuing, and inventorying your department/section’s inventory?” over 50% of the respondents answered yes. In addition, review of purchase card records for employees assigned to inventory duties indicated that between July 1, 2017 and November 2019 these individuals purchased over $6.8M of supplies and materials. Based on these facts the inventory program’s internal control rests on the controls built into the MUNIS system and the purchase card policies and procedures.

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1 The COVID-19 pandemic response began during the audit and the FY2020 year-end inventory value should not be considered an example of significant change. Increases in inventory value between FY2019 and FY2020 were dramatic based on the need to procure large quantities of Personal Protective Equipment (PPE).
Although the MUNIS approval path allows personnel outside those immediately charged with inventory to view and authorize major purchases, the bulk of City inventory is acquired using purchase cards. Internal controls related to the purchase card program are detective controls and require department officials to review and reconcile transactions that have already been made. These reviews are performed after the fact and the volume of transactions increases the potential for error. Although the risk of theft of inventory on hand is one concern, the ability for the same employee to order, receive, store, and issue inventory is another significant risk.

Segregation of duties can be improved in several ways. First inventory should be assigned to a specific employee in writing. The Finance Department requires personnel that are receiving access to financial processes in MUNIS as well as personnel that receive purchase cards to obtain training and sign documents before receiving access to these systems. A review of the Authorized Signature for Fiscal Matters form does not list inventory control. This form should be changed to list a primary inventory custodian and an alternate. When personnel assigned as inventory custodians leave their position a 100% inventory of all items should be required.

Departments should be required to provide written policies and procedures for their inventory stockpile when they assign an inventory custodian. If the departments do not have the personnel to demonstrate that proper segregation of duties exists, they must provide compensating controls such as providing increased reporting, reconciliation, or inspections to ensure that the inventory is secure. Departments using perpetual inventory record systems software must address the ability of the inventory staff to make inventory adjustments. All policies should require that any adjustments to the inventory be reported and approved by someone without access to the inventory. Any year-end adjustments should be reported to the Accounting Division.

Although most of the inventory custodians indicated many years of service in their capacity as well as significant prior experience with inventory, the Office of Internal Audit knows of no specific training requirement for these employees. Formal training should be provided to inventory custodians and fiscal officers who supervise them. At a minimum further training at the monthly fiscal officers meeting should be provided on a regular basis to ensure the topic remains fresh.

III. Perpetual Inventory Record System

AR 4-4 states that departments will utilize a perpetual inventory record system. The perpetual inventory record system provides the department with an ongoing capability to track what inventory they hold as well as the opportunity to conduct spending analysis and random spot checks and cycle counts. Without a perpetual inventory system, they must rely on the single year end count which merely “trues up” their inventory balance. Should a theft occur, the perpetual inventory record system can play an important role in establishing the value of the assets involved.

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2 AR 4-4 §II.D. All departments whose inventories of materials and supplies exceed $5,000 in value are to maintain a set of perpetual records. The records must be periodically verified through the physical counting of goods.
The desirability of such a system is increased because of the dual purchasing strategy currently in use by the City. Currently payments made through our accounts payable system and payments made to vendors using purchase cards would need to be reviewed separately in order to identify payments made to individual vendors.

Perpetual inventory record systems benefit the department in other ways. Some systems have the capacity to enter information such as expiration dates which would identify items before they reach obsolescence. Other systems can record calibration or maintenance data which would allow for increased compliance with laws and regulations. The Police Department has implemented a system known as Quartermaster which can capitalize on these capabilities. The Sheriff’s Office has also expressed interest in this system. The Fire Department maintains several pieces of equipment that could benefit from this tracking capability such as items purchased with Federal Grant funding.

The optimal situation would be for the City to deploy one perpetual inventory record system that would be integrated into the City’s MUNIS Enterprise Resource Planning (ERP) system. The next most desirable option would be for departments to deploy separate systems that would be integrated into MUNIS. Either method would theoretically provide seamless flow of information and greater visibility by management. Due to various operational reasons such as systems capabilities, budgeting, staffing, and types of inventory maintained, City departments have adopted several perpetual inventory record systems, or utilize spreadsheet-based records, none of which are integrated into the MUNIS system.

A. Departments with Perpetual Inventory Record Systems

At this time only four (4) City inventory stockpiles (T&ES-Fleet Services Division, Fire Department- Bunker, Fire Department Maintenance Shop, and the Police Department) have deployed dedicated perpetual inventory record system software. In addition to these four (4), the Office of Historic Alexandria utilizes Lode Systems “The Assistant Manager” point of sale system which can provide inventory valuation. OHA provided their inventory value of $234,482 to the Accounting Division based on our recommendation. (Table 1 page 11 shows the current perpetual inventory record system implementation status)

B. Departments without Perpetual Inventory Record Systems

The largest inventory stockpile without dedicated perpetual inventory record system software is the COVID Warehouse which will be discussed on page eight (8). Other City inventory stockpiles do not make use of perpetual inventory record systems and utilize spreadsheet-based records to value the inventory at the end of the year. T&ES and RPCA desire a system that links their CityWorks Customer Relations Management System (CRM) to their inventory. CityWorks assigns tasks but does not link them to the inventory. A module called Storeroom can be implemented that will allow this function. T&ES and RPCA have been working on this program for several years. Coordination between T&ES, RPCA, and ITS is ongoing but has been delayed due to COVID-19 response.
Other City Departments did not have active plans to install perpetual inventory record systems but see the benefit to their operations. The Sheriff’s Office maintains stockpiles of supplies to support the detention center operations such as cleaning products and uniforms. They have explored the Police Department Quartermaster system. They stated in their audit response that the implementation and annual maintenance costs could not be budgeted until FY2022 at the earliest.

The Fire Department maintains inventory of medical supplies such as bandages and other consumable items used to replenish their ambulance stockage. Medication is replaced on an exchange basis with the INOVA Alexandria hospital and is not held in inventory. The Fire Department has considered including the EMS inventory with their Bunker inventory, but the rate of consumption and staffing levels have made this option impractical. Due to COVID-19 the EMS inventory has increased which may necessitate a more robust inventory tracking capability.

Some City departments maintain either a small amount of inventory or only a small number of items below the capitalization threshold. The General Services Mail Room maintains a small balance of inventory of a few distinct types. DECC’s inventory was identified in our audit survey and they have provided inventory values to the Accounting Division. DECC maintains a cache of radios for emergency purposes which are below the capitalization threshold on an individual basis but above the inventory stockpile valuation amount in the aggregate. A perpetual inventory record system may not be cost efficient based on their operations, however additional control measures should be put in place and these should be reviewed and approved.

C. Inventory Adjustments

A significant concern considering the segregation of duties status of the departments are the policies related to the entry and adjustment of inventory records. AR 4-4 provides very minimal guidance on this subject. Generally, departments do not appear to recognize the significant risk associated with having limited numbers of staff members who are involved in the inventory program. As stated in the segregation of duties portion of this report, individuals should not simultaneously be capable of ordering, receiving, storing, and issuing inventory. This condition provides another opportunity for Finance to exert control over departmental processes by requiring that any adjustments of inventory be approved by the department fiscal officer and records submitted of adjustments to the Accounting Division as part of the year-end close process.

D. Information Technology Concerns

Any software system purchased by a department should be implemented in accordance with AR 10-1 Procedures for Requesting and Ordering Computers, or Computer-Related Equipment, Finance Department Policy 2-1 Fixed Assets require assets with an acquisition cost of $5,000 or more to be recorded as a fixed asset. This policy meets requirements issued by the Government Accounting Standards Board (GASB)
Software, and Services. Interviews indicated that the T&ES Fleet Services Division’s FASTER system, the Police Departments Quartermaster system, and OHA’s The Assistant Manager systems were implemented in accordance with AR 10-1. We believe that AR 4-4 should reference the requirement to install all systems in accordance with AR 10-1 which will ensure proper vetting for all systems for security compliance requirements.

IV. Physical Security

A. Theft at T&ES Signals Division

As mentioned in the background section of this report, a theft in the T&ES Signals Division was detected on July 8, 2019 when management determined that an employee was able to obtain both copper cable used for traffic signal equipment as well as scrap material and sell it to a local scrap dealer. The employee was detected using other internal control measures put in place by the department and not by any system inherent to our inventory policies. The employee was subsequently arrested, charged, and convicted on one (1) count of embezzlement (Va. Code 18.2-111). After the theft the department installed several measures such as caging and surveillance camera systems.

B. Policies and Vendor Payments

Anytime a theft occurs the root cause is always a breakdown in physical security. The Department of Homeland Security defines physical security as “that part of security concerned with physical measures designed and placed to safeguard personnel; to prevent unauthorized access to installations, equipment, material and documents, and to safeguard them against espionage, sabotage, damage, and theft.” Although AR 4-4 places responsibility for security of inventory with the respective department head, no specific reference regarding access control systems, caging, locks, alarms, or surveillance cameras is contained in the regulation. Other policies such as AR 4-3 Petty Cash Fund Procedure and AR 4-8 Collection and Deposit of City Monies also reference security and place responsibility with the department head. However, the City does not currently have a comprehensive physical security policy that covers inventory.

In FY2019 the City paid over $321,000 to our two (2) primary security technology vendors. Despite this large outlay of funds our analysis determined that these expenditures were directed at general physical security initiatives and not directed specifically at securing the inventory stockpiles. City inventory stockpiles are currently protected by a myriad of measures which are not standardized which increases the risk of theft in some departments.

C. Opportunities for Improvement

The City has several initiatives which could improve our physical security posture with respect to inventory. The General Services Department has hired a Physical Security Coordinator and we have recommended that this individual include inventory as part of any City-wide physical security
plan. ITS has been charged with conducting a Closed-Circuit Television (CCTV) study. We have recommended that this study be provided to the Physical Security Coordinator. In addition to General Services and ITS, both the Police Department and the Sheriff’s Office have staff members with expertise in both crime prevention and physical security. We have recommended that these departments partner with the General Services Physical Security Coordinator and communicate their expertise.

V. Other Concerns

A. Inventory Procedures

AR 4-4 currently contains specific inventory steps which may not fit current department practices and be applicable to perpetual inventory systems. We recommend that the Finance Department update AR 4-4 to address best practices but require departments to provide their own policies and procedures. Departmental policies and procedures would address the specific perpetual inventory record system, or type of inventory be accounted for. The Finance Department should provide guidance to departments in order to ensure uniform reporting. As new inventory systems are implemented or industry best practices change, the departmental policies should be modified.

B. Disposal of Scrap

Our audit also indicated that departments generate significant amounts of scrap material which if not properly accounted for can be diverted to personal use. We recommend that the Finance Department update both AR 4-4 and Chapter 23 of the purchasing manual with similar language to ensure that all City owned property will not be disposed of without the consent of the Purchasing Director and that contracts for disposal will be utilized to dispose of scrap materials. All dumpsters or other disposal areas should be controlled to prevent pilferage.

C. COVID-19 Response

In response to the COVID-19 pandemic, the City activated their Incident Command System and partially staffed the Emergency Operations Center (EOC). This action allowed the establishment of a Logistics Section who reports to the Incident Commander and is responsible for the procurement of items in support of the City’s response. Large quantities of Personal Protective Equipment (PPE) were purchased in order to meet the needs of the Public Safety Agencies as well as other City departments. In order to safeguard these assets, the Logistics Section established a COVID Warehouse. The COVID Warehouse provided centralized receiving, issuance, and inventory of all inventory purchased for COVID response.

Incorporating many industry best practices, the COVID Warehouse was staffed by personnel with inventory experience and was equipped with physical security measures to include security fencing and video surveillance cameras. Inventory is requested through the Logistics Section via a workflow process using online request forms. The inventory items are pulled from the shelves by
staff member and held until the requestor picks them up. The requestor must sign for the items before they can be issued. Inventory is tracked using a staff developed spreadsheet-based system. Although practical and efficient, the spreadsheet-based system does not provide the same level of functionality of other perpetual inventory control systems. Records indicate that the on June 30, 2020 the City maintained an inventory balance of over $2.3 Million in supplies in the COVID Warehouse. We view that the practices used at the COVID Warehouse as providing a good model for deployment to other City inventory operations.

Conclusion

Our City-wide audit of inventory operations found that while there is need for immediate improvement, there are also opportunities for greater efficiency and collaboration. The regulation regarding inventory was issued in 1991 and was primarily directed towards compliance with financial reporting requirements. These regulations must be updated and accountability for inventory must be directed not only at the Finance Department but at all departments with inventory stockpiles. Personal accountability must be assigned to individual staff members. Although the regulations for inventory require the use of perpetual inventory systems several departments do not currently have them. This places more inventory at risk of loss due to theft or obsolescence. Departments should be required to initiate these systems or establish approved compensating controls to ensure the security of the inventory and accuracy of its valuation.

Our audit exposed a lack of attention to physical security that can be mitigated by connecting the subject matter experts in the Police Department, General Services, and Information Technology to address the problem. In addition to the physical security concerns, our audit identified several information silos that if eliminated would provide greater collaboration and potential cost reduction for the organization. The COVID Warehouse presents an example of collaboration and efficiency. The COVID Warehouse is staffed and supported by personnel from several departments, is secured by physical security measures, and while not using a dedicated perpetual inventory system, has a working process to identify inventory on hand. If the methods used by the COVID Warehouse were utilized across the organization, it could reduce cost and risk.

Departmental Recommendations

Based on our audit we made 18 separate recommendations to departments of which several have been completed. The two (2) departments that had not reported inventory in the past provided a listing to the Accounting Division. The three (3) departments which may not have reported all their inventory items provided updated listings as well. The Finance Department submitted requests for inventory to all departments and updated all inventory balances as part of the year end close process. The ITS department is continuing to review the security and risk assessments of the software packages and is partnering with General Services to incorporate the security camera study into their work. Many of the recommendations made concerned partnering with other departments in order to improve communications and reduce the risk of duplication of effort. (See Table 2 Page 12)
**Recommendations to the City Manager**

The biggest unresolved recommendation is that the Finance Department reissue AR 4-4 which would result in departments being required to develop and submit their own internal policies. Due to the complexity of updating AR 4-4, we are recommending that the City Manager formally task the HPO Council to create a task force to update this regulation with input from the impacted departments. Such a task force could be formed, with OIA as a facilitator, to prepare an updated AR within 90 to 120 days from receiving the assignment.

As of June 30, 2020, the City held $3.8 million worth of inventory. The fiscal environment will become more constrained as the City moves out of the COVID economic downturn. Careful stewardship of inventory is another tool that can be used to control costs but will only work if there is a mechanism for continued improvement. Maintaining the requested task force as a standing body would allow for improved communication. Such a task force would be able to recommend adoption of new procedures that would increase internal control or reduce costs. With these factors in mind we present the following recommendations to the City Manager.

**Recommendation to the City Manager**

1. Formally task the HPO Council to create a task force to draft an update to AR 4-4 and provide this to the Director of Finance;

2. Maintain the aforementioned task force to convene on a semi-annual basis to address issues related to inventory policies, perpetual inventory record systems, and physical security.
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<td></td>
<td></td>
<td>$2,768,909</td>
<td></td>
</tr>
<tr>
<td><strong>Inventory Stockpiles without Perpetual Inventory System</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COVID Warehouse</td>
<td>Supplies</td>
<td>Spreadsheet Based System**</td>
<td>$2,304,541</td>
<td>Established March 2020</td>
</tr>
<tr>
<td>T&amp;ES</td>
<td>Traffic</td>
<td>No System</td>
<td>733,489</td>
<td>Exploring Storeroom***</td>
</tr>
<tr>
<td>T&amp;ES</td>
<td>Solid Waste</td>
<td>No System</td>
<td>367,090</td>
<td>Exploring Storeroom***</td>
</tr>
<tr>
<td>RPCA</td>
<td>RPCA Supplies</td>
<td>No System</td>
<td>156,677</td>
<td>Exploring Storeroom***</td>
</tr>
<tr>
<td>Sheriff's Office</td>
<td>No System</td>
<td>No System</td>
<td>93,573</td>
<td>(Exploring Quartermaster)</td>
</tr>
<tr>
<td>Fire Department</td>
<td>EMS</td>
<td>No System</td>
<td>54,186</td>
<td></td>
</tr>
<tr>
<td>DECC</td>
<td>No System</td>
<td>No System</td>
<td>27,600</td>
<td>Added as part of FY2020 based on audit.</td>
</tr>
<tr>
<td>General Services</td>
<td>Mail Room</td>
<td>No System</td>
<td>6,362</td>
<td></td>
</tr>
<tr>
<td><strong>Total Value</strong></td>
<td></td>
<td></td>
<td>$3,802,402</td>
<td></td>
</tr>
</tbody>
</table>

*The APD’s Quartermaster system was implemented during the audit.
** The COVID Warehouse utilizes a spreadsheet-based system developed internally. Although functional it does not provide some of the capabilities that at dedicated perpetual inventory system provides.
*** RPCA and T&ES have been exploring the CityWorks Storeroom system for several years.
<table>
<thead>
<tr>
<th>Department</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Revise AR 4-4 Inventory of Supplies and Equipment</td>
<td>Pending Approval of HPO Task Force</td>
</tr>
<tr>
<td>Finance</td>
<td>Partner with departments and ITS to ensure that any perpetual inventory record systems installed work with the Finance department’s reporting systems.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Finance</td>
<td>Change year-end financial memos to require positive confirmation by departments that they either have inventory.</td>
<td>Complete</td>
</tr>
<tr>
<td>Finance</td>
<td>Updates all inventory values to include the newly identified inventory stockpiles.</td>
<td>Complete</td>
</tr>
<tr>
<td>All</td>
<td>Review existing practices and formalize them into written procedures in advance of an update of AR 4-4.</td>
<td>Pending update of AR 4-4</td>
</tr>
<tr>
<td>GS</td>
<td>Task the Physical Security Coordinator with the creation of City-wide physical security policy which would address inventory as well as other measures.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>GS</td>
<td>Direct the Physical Security Coordinator to establish communications with departments to coordinate physical security efforts.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>OHA, DECC</td>
<td>Provide the Accounting Division with a listing of all inventory on-hand.</td>
<td>Complete</td>
</tr>
<tr>
<td>OHA, T&amp;ES, RPCA, Fire, Police, Sheriff</td>
<td>Partner with Police, GS, ITS to increase the physical security of inventory.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>T&amp;ES, RPCA</td>
<td>Partner with RPCA and ITS to develop the governance and business processes necessary to adopt a perpetual inventory record software system.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>T&amp;ES, Police, Sheriff</td>
<td>Analyze all inventory on hand and if any items are identified that are not on the inventory list, report them to the Accounting Division.</td>
<td>Complete</td>
</tr>
<tr>
<td>Fire, Sheriff</td>
<td>Evaluate the Quartermaster system.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Fire</td>
<td>Evaluate any new fleet management/inventory systems.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Fire, Police</td>
<td>Review/consider implementation of a scrap disposal contract.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Police</td>
<td>Ensure APD Directives fully reference the Quartermaster System.</td>
<td>Complete</td>
</tr>
<tr>
<td>ITS</td>
<td>Review the perpetual inventory record software systems currently deployed by departments to ensure compliance.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>ITS</td>
<td>Review the physical security software systems currently deployed by departments to ensure compliance.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>ITS</td>
<td>Coordinate the surveillance camera study program with the DGS Physical Security Coordinator.</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 13, 2020

TO: ROBERT SNYDER, ACTING CHIEF INTERNAL AUDITOR

THROUGH: LAURA TRIGGS, DEPUTY CITY MANAGER

FROM: JEREMY MCPIKE, DIRECTOR, GENERAL SERVICES

SUBJECT: AUDIT OF INVENTORY OPERATIONS - RESPONSE

The purpose of this memorandum is to respond to Internal Audit’s recommendations detailed in the Audit of Department of General Services Inventory Operations Report dated February 12, 2020 and received by General Services on February 12, 2020.

In October, 2019, the Department of General Services (DGS) was notified by the Office of Internal Audit that a City-wide audit of inventory operations was being conducted and because the Print and Mail Services Division of General Services was identified as an operation with inventory in the amount of $5,000 or more, this operation was included in the City-wide audit.

Following completion of the audit, the Office of Internal Audit held an exit interview on February 12, 2020 with DGS staff to discuss the results of the audit and provide recommendations based on data collection, staff interviews and investigation by Internal Audit staff. In addition, based on the pending recruitment and hiring of a Physical Security Coordinator in DGS, the results of the audit also included recommendations for enhanced physical security and access control City-wide. The Department of General Services acknowledges and concurs with the findings and recommendations of the Office of Internal Audit and will be taking steps to comply with and implement the recommendations to develop and implement written policies and procedures for inventory control as well as City-wide physical security and access control policies.

Below are the Department of General Services’ responses to the recommendations contained in the draft Internal Audit report:

*Internal Audit Recommendation #1: “Upon update of A.R. 4-4 by the Finance Department, General Services should develop its own internal written policies and procedures regarding inventories in their possession.”*

General Services concurs with the Internal Audit recommendation that the department should develop its own written policies and procedures regarding inventory control. However, Internal
Audit does note in their report that A.R. 4-4 - Inventory of Supplies and Materials requires both year-end reporting of inventory and the use of a perpetual inventory record system. The perpetual inventory record system requires continuous tracking of inventory which can be accomplished via a software solution however, Internal Audit does note that due to the small size of the Print and Mail Division’s inventory, the expense of purchasing such as system would be cost prohibitive at this time. Print and Mail will continue to utilize its flery system to track print jobs generated throughout the year and serve as a “compensating control” for lack of a perpetual inventory system. Staff will continue to evaluate software which may be more affordable and/or identify savings that may help offset the cost required to purchase the perpetual inventory record system software in the future.

General Services will begin development of written inventory policies and procedures however, date of completion will be dictated by the completion of the revisions to A.R. 4-4 by the Finance Department to ensure that the DGS policies and procedures are consistent with the revised A.R.

Internal Audit Recommendation #2: “The General Services Department should task the Physical Security Coordinator with creation of City-wide physical security policy which would address inventory as well as other measures.”

The new Physical Security Coordinator started with DGS on March 9, 2020. The Coordinator will be spending several months getting acclimated to his job, City facilities, staff and departments. The Coordinator will then begin assessing the current state and security requirements of all City facilities. DGS concurs with Internal Audit’s recommendation to create a City-wide security policy that would address inventory however, the completion of this policy will be weighed against other more pending security related priorities which will ultimately be determined by the City Manager.

Internal Audit Recommendation #3: “The General Services Department should direct the Physical Security Coordinator to establish communications with the Finance Department, ITS, APD Crime Prevention Specialist, Sheriff’s Office and Fire Department to coordinate physical security efforts”

The Department of General Services concurs with Internal Audit’s recommendation that the Physical Security Coordinator should establish communications with the Finance Department, ITS, APD Crime Prevention Specialist, Sheriff’s Office and Fire Department to coordinate physical security efforts. The new Physical Security Coordinator started with DGS on March 9, 2020. He will be spending several months getting acclimated to his job, City facilities, staff and departments. He will then begin assessing the current state and security requirements of all City facilities. During this period the Coordinator will be establishing professional relationships with all of the City agencies including communication with appropriate staff in the City’s public safety agencies.

Thank you for conducting and completing an audit of the Department of General Services Inventory Operations particularly in the Print and Mail Division and including physical security and access control. Internal Audit staff have provided our staff with a greater understanding of
our inventory operations and areas of needed improvement. If you have any questions, concerns or additional recommendations, please feel free to contact me. Thank you.

Attachment:

Results of Audit Inventory Operations Memorandum, dated February 12, 2020

Cc: Mark Jinks, City Manager
    Alfred Coleman, Deputy Director, General Services
    Donna Poillucci, Deputy Director, General Services
This memo is in response to the audit of inventory operations and its recommendations for the Office of Historic Alexandria. Currently, each museum is operated as its own separate entity but soon these types of functions, policies, and operations will become centralized as part of the department’s reorganization. In the short term, here are the updates to the recommendations:

1) Provide the Accounting Division with a list of all inventory on-hand.
   a. OHA agrees with this recommendation and will take the following actions:
      i. A list of inventories will be provided to Brigitte Perrussot and Carmen Fraser as the FY20 baseline.
      ii. Inventories have been a challenge to complete due to short staffing, however with the reorg, OHA will work to have the inventories updated and counted by the end of FY21.
      iii. A spot check inventory process will be formalized with the incoming Admin Division Chief/Fiscal Officer.

2) Review existing practices and formalize them into written procedures in advance of an update of AR4-4.
   a. OHA agrees with this recommendation and will include the following instructions into our Museum Aide handbook:
      i. Inventory custodian (staff responsible for inventory) and alternate
1. Gadsby’s + Apothecary + Freedom House  
   a. Lauren Gleason, Liz Williams  
2. Lyceum + Friendship  
   a. Lauren Gleason, Jim Holloway  
3. Black History  
   a. Audrey Davis, Lauren Gleason  
4. Archaeology  
   a. Lauren Gleason, Emma Richardson  
5. Fort Ward  
   a. Susan Cumbey, Brian Briones  

ii. Segregation of duties  
1. Currently there are segregation of duties for buying and receiving in the department. Buying is completed by the inventory custodians above and the OHA director on brief occasions. Receiving is completed by the front of house Museum Educators and Guest Services Representatives, as well as Sue Walker, a Museum volunteer who assists with the GTM shop.  
2. Copies of the packing list are held with the inventory custodians’ facility and will be scanned for record-keeping purposes.  

iii. Reporting requirements to keep fiscal officers informed  
1. The incoming Admin Division Chief/Fiscal Officer will have access to TAM and can pull respective reports as needed.  

iv. Adjustments of inventory approved by fiscal officer  
1. An adjustment of inventory process will be formalized with the incoming Admin Division Chief/Fiscal Officer.  

3) Partner with General Services, ITS, and the Alexandria Police Department to increase the physical security of inventory.  
   a. OHA agrees with this recommendation and will work with General Services and ITS. In addition, we wish to note:  
   i. Inventory at all the sites is kept in staff-only areas of the museum, with many storage locations behind a lock and key.
ii. High wholesale items are rare in the overall inventory and for those items, very few are kept in back stock.
T&ES leadership has reviewed the memo dated February 20, 2020 from Internal Audit regarding the results of audit of inventory operations (MR20-03.03). We are in agreement with the findings of the audit and appreciate your time and effort. In addition, we remain committed to making improvements in our inventory control processes.

In response to the four listed recommendations we offer the following:

1. Partner with RPCA and ITS to develop the governance and business processes necessary to adopt a perpetual inventory record software system to account for the Sanitation, Signals, and Supply Divisions.

   T&ES acknowledges this recommendation and will work with our partner agencies (ITS and RPCA) to implement the use of CityWorks Storeroom as our perpetual inventory system. As the implementation requires resources outside of the department, we are unable to commit to a timeframe for this.

2. Review existing practices and formalize them into written procedures in advance of an update of AR4-4. Key recommendations include 1) formally designate an inventory custodian and alternate in writing, 2) ensure segregation of duties is in place or compensating controls are developed, 3) devise reporting requirements to keep fiscal officers informed, 4) require adjustments of inventory to be approved by fiscal officers.

   T&ES will address all four of these concerns with a written policy and associated training within the next 60 days. Internal Audit will be provided a copy of the policy for review in advance of implementation. In the meantime, compensating controls including the realignment of purchasing authority for our warehouse manager, have been implemented.
3. Partner with the Department of General Services, ITS, and the Alexandria Police Department to increase the physical security of inventory.

T&ES acknowledges this recommendation and will work with our partner agencies (General Services, ITS, APD) to review and improve the physical security of our facilities and inventory. As this requires resources outside of the department, we are unable to commit to a timeframe for this.

4. Analyze all inventory on hand and if any items are identified that are not on the inventory list, report them to the Accounting Division.

T&ES recognizes that this recommendation was targeted towards our Traffic Operations Division. Over the next 60 days our team will properly inventory all surplus inventory and ensure the results of the inventory are reported to the Accounting Division. In addition, T&ES staff will properly surplus and dispose of excess inventory.
City of Alexandria, Virginia

MEMORANDUM

DATE: February 28, 2020

TO: Robert Snyder, Acting Chief Internal Auditor

FROM: Jim Spengler, Director Recreation, Parks and Cultural Activities

SUBJECT: Results of Audit of Inventory Operations (MR20-02.04)

I have reviewed your report of February 14, 2020, concerning MR20-02.04 and your three recommendations. Our departmental response is as follows:

1. Partner with T&ES and ITS to develop the governance and business processes necessary to adopt a perpetual inventory record software system.
   Response: RPCA will coordinate with ITS and TE&S to review the scope and feasibility of an inventory control system and the development of all processes associated with the system. This solution is to give real-time tracking to all on-hand materials, authorized vendors, and their contact information and also give us the ability to initiate inventories on a more frequent basis.

2. Review existing practices and formalize them into written procedures in advance of an update of AR4-4. Key recommendations include 1) formally designate an inventory custodian and alternate in writing, 2) ensure segregation of duties is in place or compensating controls are developed, 3) devise reporting requirements to keep fiscal officers informed, 4) require adjustments of inventory to be approved by fiscal officers.
   Response: RPCA Internal Control Council and Park Operation will develop a policy to address all the recommendations.

3. "Partner with the Department of General Services, ITS, and the Alexandria Police Department to increase the physical security of inventory.
   Response: "RPCA will coordinate with APD and DGC, to perform an assessment of the warehouse areas and to identify areas for improvement to enhance the physical security of inventory. The implementation of the findings will begin after the assessment is completed. We will share our preliminary action plans with both the APD and DGS to ensure that all facets of operations are identified and there are no lapses in coverage."
Please let me know if these responses are satisfactory and whether you need any additional information.

Cc. Oscar Mendoza, Division Chief Park Operation
    Faye Maslaki, Division Chief Administrative Services
Thank you for meeting with the fire department to discuss the results from the Citywide inventory audit. We continue to appreciate the collaborative approach the Office of Internal Audit takes to share/review audit recommendations. The ability to review and discuss findings continues to allow both Departments to work together towards addressing issues that are raised.

I have conferred with my staff and reviewed your discussion with them. We agree with many of your findings and that there are some areas that need improvement (separation of duties, physical storage/security of inventory). In order to accomplish these tasks, additional resources (personnel, space, software, building security systems) are required, some of which have been requested in previous year’s budgets. As a result, full implementation of all the solutions must be categorized based on available resources. I have compiled your recommendations below with the Fire Department’s response for review.

Review existing practices and formalize them into written procedures in advance of an update of AR4-4. Key recommendations include:

Fire Department Response

AFD will begin developing a policy to address inventory management. As both your memo and subsequent meeting discussed, we will draft a policy that can realistically be followed given the resources (both staffing and budget) allow us to do. This new policy will address the issues raised in the audit. Note* Any update to A.R. 4-4 must reflect proposed policy.

1. Formally designate an inventory custodian and alternate in writing:

Fire Department Response

The Department currently has three areas for inventory (bunker supplies, auto supplies, & EMS supplies) for which we can designate inventory custodians in writing. However, alternates become much harder as the “inventory” portion of the job for at least 2 of these
3 employees is only one minor task of many other tasks (and for the third employee, while inventory could be considered the main task, it is still one task of many). We simply do not have the staffing to designate an alternate (or even several alternates) and expect that those alternates can equally keep up with the inventory custodian. The nature of emergency services (24hrs/365days), several people need access to supplies at all times, hence the supplies are not/cannot be controlled by one person alone. The department will incorporate chain of custody/supply management procedures to ensure industry best practices.

2. Ensure segregation of duties is in place or compensating controls are developed:

**Fire Department Response**

This will be the hardest portion of policy and practice for the Fire Department to meet. It would require a separation of duties which either existing employees (who are not currently assigned to these spaces) will have to adjust to take on more responsibilities, or new employees are added to absorb these duties. Neither is without problems given the nature of business or size of the sections (which are not small enough to have another employee easily incorporated, but not large enough that consolidation with other agencies could easily be accomplished).

In the case of the supply unit (bunker) the separation of ordering supplies and then receiving, stocking, storing, and distributing them would require (at minimum) one additional FTE and more likely two FTEs. In the case of the auto shop, it would require at least one FTE who assists with parts management and maintenance and constant tracking. This includes ordering and storing of parts which is a concern (addressed later in this memo). In the case of EMS supplies, this practice could be conferred to the supply section and will be explored, but it raises the issues of adding work to one employee, while still having others who will need access to these supplies potentially when the employee is off.

At this time, the Fire Department would require additional discussion and research to develop a policy with current staffing compliment.

3. Devise reporting requirements to keep fiscal officers informed and 4. Require adjustments of inventory to be approved by fiscal officers.

**Fire Department Response**

(These recommendations pertain to the fact that our current software inventory systems can be manually adjusted by the employee without a record or required oversight).

The Department agrees that manual adjustments made to the inventory system requires oversight and this is a challenge with the existing systems. We recommend that adjustments to the inventory should first go through these employees’ supervisors, with the fiscal office serving as a backup signature for further review. This can be incorporated into our supply management policy for review. The Department will also
review the existing software programs to see if they have protocols for manual adjustments to their inventory counts.

5. Partner with the APD and Sheriff's Department to evaluate the Quartermaster system. This system may have benefits above the existing Property Tracker System which may be useful for other AFD operations.

**Fire Department Response**

Fire Department staff will schedule a meeting with APD to review the Quartermaster system to review cost/benefits of the system compared to current systems in use by AFD.

6. Partner with T&ES, DASH, and ACPS to evaluate any new fleet management/inventory systems which may be considered.

**Fire Department Response**

The Fire Department will evaluate any new fleet management system which may be considered. We acknowledge that a separate report on fleet management recommended that General Services & ACPS examine the RTA database.

7. Partner with the Department of General Services, ITS, and the Alexandria Police Department to increase the physical security of inventory.

**Fire Department Response**

The Fire Department is certainly open and eager to partnering with these Departments, and reviewing any major changes to our current practices where applicable (i.e., consulting with General Services on their facility access and control, consulting with ITS on new software, consulting with APD on their security protocols). Additional research and evaluation must be given consideration to change any practices and AFD recommends this process is best executed in line with the budget process as many changes will have fiscal implications.

Thank you.
The purpose of this memorandum is to serve as our response to the findings and recommendations of your audit in your memorandum dated February 12, 2020.

The key piece of this process is whether we are adhering faithfully to the tenets of City Administrative Regulation 4-4 Inventory of Supplies and Materials (AR 4-4), last written in 1991, and how to address that long-outdated policy in the modern organization of the City, now so very different from when the AR was originally enacted. We are compliant with this AR and welcome the opportunity to be at the forefront of updating this AR to ensure other City agencies are tracking key supplies and expendables (like construction materials) while also ensuring that those City agencies that have extensive layers of oversight and experience on this field are properly considered and provide the needed information to the City for accountability.

Perhaps the single most glaring issue in AR 4-4 is that it fails to provide a modern definition of "consumable inventory." Gasoline was once a commodity held by separate agencies in 1991 but is now the responsibility of only one agency – a change enacted about 20 years ago. APD regularly "consumes" ammunition, training targets, copy paper, filing supplies (folders, clasps, etc.), road flares, and batteries of various types. This is not an exhaustive list. Other items like uniforms, radios, key cards, and holsters are issued to each member individually and are only replaced one-for-one when the item reaches the end of its service life or is damaged during use (e.g., torn pants from chasing a suspect over a fence). Uniform items are not "consumables" and are accounted annually by policy, as are weapons and other gear issued by APD.

We are bringing the Quartermaster system (a powerful software-based inventory and item tracking and control system expected to be fully deployed by February 2021) into our agency to aid in our ability to track and manage all the items we issue and deploy. It is a very robust system and, by happenstance, this audit further proves its likely value to this agency, as well as its potential for use by all other city agencies to track their own items, equipment, tools, etc.

Follows are our item-specific responses to the recommendations you provided to us:
1. Review the definition of inventory contained in AR 4-4 to ensure that no items were improperly excluded. Should corrections be necessary provide an updated listing to the Accounting Division.

- The City AR is outdated. APD is willing to participate and lend our expertise in this field throughout the AR update process.

2. Review APD Directives for potential improvements and make necessary adjustments upon the Finance Department’s update of AR4-4.

- APD’s SOPs and Directives currently exceed the standards of the outdated City AR 4-4, and also are in compliance with Virginia Code and CALEA standards.

3. Ensure APD Directives fully reference the Quartermaster System and establish business rules to ensure segregation of duties as well as periodic inventories and inventory adjustments.

- Once fully implemented, APD directives and SOPs affected by the Quartermaster system (expected to be fully deployed by early 2021) will be reviewed and updated to ensure full policy and practical compliance is met. The purchasing and approval processes are already segregated and have layers of oversight not documented in the audit. For example, the Property supervisor cannot buy more uniform pants without submitting the proper form and justification to Fiscal Management and the Assistant Director. Once approved, the purchase order is generated by Fiscal and sent to Property for transmission to the vendor. Once received from the vendor, the P&E supervisor has his/her staff verify the contents and place on the uniform storage shelves by sizes. The P&E supervisor then notifies Fiscal Management that the order was received and was or was not complete, and it is Fiscal Management who authorizes the City to release the funds to the vendor.

4. If approved, support City-wide physical security improvement programs by assigning staff members with physical security backgrounds to any task force or committee.

- APD has always been willing to participate and will continue to do so. We anticipate and expect to be included in these processes to aid other City agencies with addressing their unrealized security needs.

5. Contact the Purchasing Division regarding implementation of a scrap disposal contract for the Police Range.

- The Police Range already has a local scrap metal dealer (Potomac Metals) remove the spent brass casings twice per year, for which they pay the City the scrap value of the brass. The check provided is submitted to APD Fiscal Management and deposited in the General Fund. APD does not collect or produce any other bulk scrap metals.
MEMORANDUM

DATE: FEBRUARY 20, 2020

TO: ROBERT SNYDER, ACTING CHIEF INTERNAL AUDITOR

FROM: DANA LAWHORNE, SHERIFF

SUBJECT: RESPONSE TO THE RESULTS OF AUDIT OF INVENTORY OPERATIONS MEMORANDUM

This memorandum is in response to the four recommendations made to the Alexandria Sheriff's Office stated in the Results of Audit of Inventory Operations memorandum submitted by Acting Chief Internal Auditor Robert Snyder.

Recommendation 1: Review the definition of inventory contained in AR 4-4 to ensure that no items were improperly excluded as well as Canteen fund purchased items. Should corrections be necessary provide an updated listing to the Accounting Division.

Response: ASO has reviewed AR4-4 and will ensure that no items are improperly excluded from or included in the year-end report to Accounting per AR4-4. Items purchased from the Canteen Fund are limited to items for use for the benefit of the inmates and any inventory stockpiles consist solely of hygiene items for indigent inmates. These combined items generally are less than $5,000 and are kept separate from inventory purchased with City funds. Canteen Fund items will not be included in year-end reports.

Recommendation 2: Review S.O.P. 27.03 for potential improvements and make necessary adjustments upon the Finance Department’s update of AR4-4.

Response: ASO will review and revise as needed S.O.P. 27.03 in accordance with any updated AR4-4 by Finance Department.

Recommendation 3: Carefully review the potential for the implementation of a dedicated perpetual inventory record software system.
Response: ASO has reviewed the Quartermaster system being implemented by the Alexandria Police Department and we believe the system would provide the ASO with capabilities that will improve operations and reduce the workload through automation. This system has been vetted by ITS and meets information security requirements. We would like to implement the system now, but the funds were not included in our FY20 budget. The cost to implement the system would be $16,000 in FY20 (the initial year) and approximately $9,000 in FY21 (annual maintenance). Based on where we are in the annual budget cycle, we would not be able to make a Supplemental Budget Request for the funds until FY22.

Recommendation 4: If approved, support City-wide physical security improvement programs by assigning staff members with physical security backgrounds to any task force or committee.

Response: ASO supports the proposed City-wide physical security improvement program and would assign someone to assist with a task force, dependent upon staffing availability.
DATE: FEBRUARY 19, 2020

TO: ROBERT SNYDER, ACTING CHIEF INTERNAL AUDITOR

FROM: RENEE GORDON, DIRECTOR, DECC

SUBJECT: COMPLIANCE OF INVENTORY OPERATIONS (MR20-02.08)

I concur with the results, findings and recommendation(s) of the audit of inventory operations for the Department of Emergency and Customer Communication (DECC) received February 4, 2020.

DECC is currently developing policy to include a property/inventory custodian as outlined in the recommendations section of the inventory results. DECC will align itself with AR 4-4 and any revised versions thereafter. DECC has also identified the need to separate and assign individual responsibilities with respect to purchasing/ordering and receiving vs core inventory functions through an internal DECC policy that provides separation of tasks.

DECC will provide the Accounting Division with a yearly list of all applicable inventory on-hand.

This includes the Department will: 1) comply with reporting requirements listed in the AR, 2) formally designate an inventory custodian for the department, 3) devise compensating controls to address the segregation of duties concerns raised in this report and, 4) ensure that physical security measures are coordinated with the Alexandria Police Department, the Department of General Services, and ITS.

DECC shall continue to maintain the minimal number of personnel necessary who have access to the inventory, this includes the disposal of any assets in accordance with procedures outlined in the city regulations.
City of Alexandria, Virginia

MEMORANDUM

DATE: June 8, 2020

TO: ROBERT SNYDER, ACTING CHIEF INTERNAL AUDITOR

FROM: KENDEL TAYLOR, DIRECTOR OF FINANCE

SUBJECT: FINANCE DEPARTMENT RESPONSE TO INVENTORY AUDIT (MR20-02.09)

1. Revise AR 4-4 Inventory of Supplies and Equipment and the Purchasing Procedure Manual to incorporate the findings of this audit. Key areas of concern are 1) formally define all types of inventory and the tracking requirements of each type, 2) require formal designation of inventory custodians and alternates by each department, 3) require departments to write policies and procedures which address segregation of duties and other key internal controls, 4) require use of perpetual inventory record software systems, 5) require departments to reference physical security measures in their policies and procedures in conjunction with the Department of General Services and ITS, and 6) address the disposal of scrap material.

Finance agrees with these areas of concern. At this time, it is apparent that the majority of the organization, the Accounting Division included, does not recognize the financial significance of inventory, and fundamentally is not clear on what constitutes inventory. The primary immediate objective is to help the organization view inventory with the same regard that it currently holds cash and cash-like assets. Revisions to the AR, the Purchasing Procedure Manual and the establishment of written policies and procedures in departments are necessary. There are numerous areas of inventory management that need to be addressed. Accountability and segregation of duties are the areas that Finance feels confident can be operationalized through education and training. For the foreseeable future, education and training of primary financial officers in each department is likely the only areas of concern that will be able to be addressed.

Prior to the hiring freeze, a seasonal employee had been identified to develop an organizational-wide Inventory Policy. This former employee previously worked in the Office of the Sheriff and is particularly well-suited to helping the Finance Department develop policies and procedures that have utility for the Accounting Division, while taking into account the realities of departmental operations.

Physical security and limited access to inventory will be more difficult, but as many of the City's facilities are in transition (DCHS, City Hall) the ability to factor in inventory security exists and should be considered as this workspaces are designed.
Although the majority of this work will center on the safeguarding and reporting of inventory and supplies that are expected to be put to use in the organization, there is a need to establish policies and procedures for scrap material. The City currently has a fairly mature process for disposing of surplus assets (vehicles, furniture, etc.), particularly when the asset still appears to be usable. The process for disposing of unusable assets or supplies is less mature, and the awareness that scrap material has value and requires adherence to an established procedure is even less evident. Although this is very important and it will be incorporated into the education and policies that are developed, the primary focus in the near term will be on the safeguarding and management of inventory and supplies that are not scrap, but are intended to be utilized in the City's day to day operations. This is not intended to downplay the importance of this element of the recommendation, but to recognize that these changes will take a significant amount of time and attention and a prioritization is necessary.

2. Partner with departments and ITS to ensure that any perpetual inventory record systems installed work with the Finance department’s reporting systems to increase visibility and tracking of assets.

Finance agrees with this recommendation. The Tyler Munis financial system is the City’s system of record for financial transactions and reporting, but at this time it is not recommended to be the solution for Inventory tracking and reporting for departments. Ultimately, it may be a useful tool for aggregating the information provided by departments for financial reporting. The most appropriate solution may be inventory-specific, which is the direction that departments are heading. Grouping departments by common inventory types may make the most sense, e.g., Quartermaster for all public safety agencies, Storeroom for public works agencies, a hospital/pharmaceutical tool for the Alexandria Health Department and the pharmacy and substance abuse-prevention programs within DCHS. Inventory stockpiles associated with general government and the unique inventories associated with the Office of Historic Alexandria may be addressed using a simple OTS system or the Munis Inventory module. Compatibility with the Munis system or the ability to easily interface information between the external system and Munis will be critical. The Finance Department will need to work with ITS to ensure interoperability.

3. Change year-end financial memos to require positive confirmation by departments that they either have inventory and will provide a year-end listing, or do not have inventory.

Finance agrees with this and has incorporated this recommendation into the Year End close training.

4. Ensure that the Accounting Division updates all inventory values to include the newly identified inventory stockpiles.

Finance agrees with this and has incorporated this recommendation into the Year End close training.