

**08-010 #1.B CENTRAL STORES INVENTORY AUDIT - PURCHASING &  
CONTRACTING DEPARTMENT**

**Auditor Recommendation**

Maintain a file of authorization memos for those departments that permit the same individual to authorize the requisition and receive the goods

**Not Implemented**

No change in status from previous reporting cycle. Management does not maintain a file of authorization memos for departments that allow a requisition authorizer to also receive the items. For paper requisitions, copies of requisitions are provided to the department for review/retention; for online requisitions through SAP, departments designate which employees have the ability to create the reservation. Because this does not address internal controls over inventory issuance, the recommendation is categorized as "Not Implemented." Management must ensure an updated file of authorization information is maintained in order to satisfactorily implement the recommendation. If it has been determined that implementation of the recommendation is not feasible, management must ensure a compensating control over inventory issuance is put in place to fulfill the intent of the recommendation. (Target Date: March 3, 2011) We should note that this the department's third target implementation date. The first date was April 1, 2008 followed by December 31, 2010. We will continue to follow up during our next reporting cycle.

**Completed (Yes/No) – Pre SAP**

**Response Due Date – April 1, 2008**

**Adjusted Due Date – December 31, 2010**

**April 5, 2011 Management Response**

*The original recommendation was made prior to the implementation of the SAP Materials Mgt. Module on 7-1-2009. With the implementation of SAP, an on-line requisition process called a Reservation was included in the system. The Reservation requires City departments to designate Reservation Administrators, who are authorized to create storeroom requisitions in SAP. Reservation Administrators have the ability to both create and receive stock items from the storerooms. With the implementation of SAP, Central Stores accepted both Reservations and hard copy paper requisitions. In an effort to fully utilize the functionality that SAP offers, Central Stores will begin only accepting material reservations submitted electronically via SAP.*

*Departments were notified on March 30, 2011 that as of April 18, 2011, Central Stores will only accept Reservations submitted in SAP for all City departments with the exception of Public Utilities-Water and Streets Division. Additional training is required for these storeroom customers. Streets Division will be required to submit Reservations*

*by May 16, 2011 and Public Utilities-Water by June 1, 2011 (citywide memo attached). Both Public Utilities-Water and Streets Div. will provide authorization memos that permit the same individual to authorize the paper requisition and receive the goods up to the time that only reservations will be accepted.*

**Adjusted Due Date- June 1, 2011**

**08-010 #2.B**

**Auditor Recommendation**

Ensure surcharge percentage billed to Non-City Agencies is sufficient to recoup all overhead costs and stock purchases incurred by the City

**Not Implemented**

Currently no evidence exists to determine whether a study has been conducted. We will continue to follow up during the next reporting cycle to determine the status of this recommendation. We should note the original implementation date was December 31, 2007 and subsequently revised to January 1, 2011 and as of end of January 2011 the recommendation has not been implemented.

**April 5, 2011 Management Response**

*Central Stores completed and provided the copy of the study regarding the recovery of overhead costs for stock purchases billed to Non-City Agencies in January, 2011 (attached).*

**Response Due Date – December 30, 2007**

**Adjusted Due Date – January 1, 2011**

**Completed (Yes/No) - Yes**

## **08-010 #3.B**

### **Auditor Recommendation**

For items with pricing discrepancies due to unit of measure or differing brand name, require Central Stores staff to include descriptive notations in the FleetFocus system.

### **Partly Implemented**

Management is capturing variances in inventory pricing. However, basic descriptive notation explaining variances has not been developed. We will continue to follow up on this recommendation during our next reporting cycle. We should note the original implementation target date was January 1, 2008 and then subsequently revised to December 31, 2010.

### **April 5, 2011 Management Response**

*Central Stores has developed a basic descriptive notation explaining any stock item unit pricing discrepancies identified from the Daily Purchase Order Receipt Report. The notations are highlighted on the actual report and the reports will be stored in a folder by fiscal year.*

**Response Due Date – December 30, 2007**

**Adjusted Due Date – January 1, 2011**

**Completed (Yes/No) – Yes- February 1, 2011**

**08-010 #5**

**Auditor Recommendation**

Update the Central Stores' Policy and Procedure Manual.

**Partly Implemented**

A new manual for Central Stores Materials Management is in the process of being drafted as part of the new SAP manual. We will continue to follow up on the recommendation implementation during our next reporting cycle. (Target Date: March 31, 2010)

**April 5, 2011 Management Response**

*The original recommendation was to update the FleetFocus Storeroom Policy and Procedure Manual. Updates were made to the FleetFocus manual in 2008. A subsequent audit recommendation was to document storeroom policies and controls and update procedures as part of the implementation of the ERP system. Central Stores is currently completing the SAP storeroom procedures manual with a updated completion date of April 15, 2011.*

**09-023 #2      AUDIT OF THE CENTRAL STORES INVENTORY (FY08)**

**Auditor Recommendation**

Develop a written policy requiring departments to notify Storerooms immediately when there are changes in inventory needs to minimize obsolete inventory. Work with departments to indentify an effective procedure for this process

**Partly Implemented**

Administrative Regulation 35.50 serves as the written policy for identification and disposition of Central Stores surplus stock. However, management has stated that they will continue to be the ones notifying departments of obsolete items. Further evaluation should be conducted once an updated policy manual is issued to determine the language in the document addressing obsolete items. (Target Date: March 31, 2011)

**April 5, 2011 Management Response**

*Administrative Regulation 35.50, Sections 2.2 & 2.3 dated July 1, 2010, states the policy regarding the departments responsibility for notifying Central Stores of any changes in inventory requirements and the department's financial responsibility for surplus or obsolete stock items.*

**Response Due Date – March 1, 2009**

**Adjusted Due Date – December 31, 2010**

**Completed (Yes/No) - Yes**

09-023 #3

**Auditor Recommendation**

If manual requisitions are used after the implementation of ERP, use internal authorization cards for those employees using manual requisitions to request and receive supplies. If implemented, ensure controls, such as employee names on cards, an annual card expiration date and reports to departments, are put in place to prevent misuse.

**Not Implemented**

No change in status from previous reporting cycle. (Target Date: December 31, 2010)

***Recommendation Specific Deliverable***

*Although manual requisitions are still accepted in the storerooms, it is our expectation that the Reservation (On-line SAP req) becomes the primary source for storeroom requisitions and that we proceed with manual requisitions in emergency situations only. It is our goal to reduce the manual requisitions to less than 5% of the requisitions we receive and that storeroom customers use the efficiencies offered through the SAP Reservation.*

***April 5, 2011 Management Response***

*Departments were notified on March 30, 2011 that manual storeroom requisitions will no longer be accepted by Central Stores from any City department by June 1, 2011. All Stores requisitions will be required to be submitted electronically through the SAP Reservation process.*

**Response Due Date – December 31, 2010**

**Adjusted Due Date – June 1, 2011 (citywide memo attached)**

**Completed (Yes/No) - No**

09-023 #5

**Auditor Recommendation**

Ensure ERP provides accurate inventory reports so Central Stores is able to reconcile beginning to ending inventory and provide this reconciliation to the Comptroller at year end. Ensure ERP provides accurate summary reports related to inventory accounting so Comptroller staff is able to reconcile beginning and ending inventory in the general ledger and ensure the general ledger activity matches inventory activity reports from Central Stores. Comptroller staff should review and document the reasons for any variances between inventory records and accounting records.

**Not Implemented**

No change in status from previous reporting period. Management stated that Central Stores does not have written evidence that Comptroller's staff reviewed variances between inventory and accounting records as part of SAP Material Management implementation. No response was received after requests for additional information. (Target Date: December 31, 2010)

**April 5, 2011 Management Response**

*We are continuing to work with Comptroller's and OneSD to provide inventory reports at the end each fiscal year to ensure that the information required for accurate inventory reconciliation is available with the implementation of the SAP Material Mgt module. The 2009 inventory report was provided August 2009 to the Comptroller. Purchasing & Contracting is awaiting the closing of Fiscal Year 2010 books to provide the Comptroller's the 2010 inventory report.*

**Response Due Date – December 31, 2010**

**Adjusted Due Date – December 31, 2011 Per Comptroller's review**

**Completed (Yes/No) - No**

**09-023 #6**

**Auditor Recommendation**

In conjunction with the Comptroller, revise the accounting for storeroom inventory to segregate purchases from city-wide purchases and consider establishing a clearance account for city-wide purchase orders.

**Partly Implemented**

A separate account has been created separate from citywide open POs to capture storeroom stock items. According to management, a clearance account for city-wide purchase orders was not established. (Target Date: December 31, 2010)

**April 5, 2011 Management Response**

*We are continuing to work with Comptroller's and OneSD to develop the best accounting method in SAP for the Central Stores Fund.*

*The response from Comptroller regarding establishing a clearance account for citywide purchase orders should be finalized no later than December 31, 2011.*

**Response Due Date – July 1, 2009**

**Adjusted Due Date – December 31, 2011**

**Completed (Yes/No) - No**

**09-023 #7**

**Auditor Recommendation**

Document storeroom policies and controls related to storeroom operational risks. Update storeroom procedures at the implementation of the ERP system

**Not Implemented**

Management communicated that the updated policy manual is set to be completed and implemented by March 31, 2011. During the next recommendation follow-up cycle, documentation should be provided and analyzed to determine compliance with the recommendation. (Target Date: March 31, 2011).

**April 5, 2011 Management Response**

*Detailed process mapping has been accomplished for all storeroom transactions, with the direct involvement of the Internal Control group within OneSD. A policies and procedures manual will be complete in FY11.*

**Response Due Date – December 31, 2010**

**Adjusted Due Date – April 15, 2011**

**Completed (Yes/No) - No**

**10-001 #10**

**Auditor Recommendation**

The Purchasing & Contracting Department should evaluate the benefits of negotiating a flat fee for services based on average expenditure.

**Not Implemented**

Per Susan LaNier, they are currently unprepared to present supporting documentation on this recommendation. Public Utilities should provide supporting documentation for review for the June 30th review. (Target Date: August 31, 2010)

**April 5, 2011 Management Response**

*The City is serving as the lead agency with NIPA. Based upon research the establishment of an overall flat rate is inconsistent with the industry standards for uniforms. The City did address all known issues in its pricing schedule that lead to the audit issues and will include the price in existing contracts.*

**Response Due Date – August 31, 2010**

**Adjusted Due Date – N/A**

**Completed (Yes/No) - No**

## 10-001 #11

### **Auditor Recommendation**

The City's Purchasing & Contracting Department should ensure that it maintains up-to-date pricing lists of all appropriate possible charges, updated in its files with each new pricing agreement or change to services rendered.

### **Partly Implemented**

Per Susan LaNier, they are currently unprepared to present supporting documentation on this recommendation. Public Utilities should provide supporting documentation for review for the June 30th review. (Target Date: December 31, 2010)

### **April 5, 2011 Management Response**

*The Purchasing & Contracting (P&C) department ensures all appropriate charges are updated in its files and that copies of the files are distributed to the department when updates or changes occur. PDF copies are emailed to the department when changes are made to the Agreement. Purchasing & Contracting has worked with the Vendor, AmeriPride, to obtain all pricing changes, and has updated Purchasing & Contracting files accordingly. Purchasing & Contracting has advised the department to notify P&C if vendor's invoices have items that are not on the Agreement list, if invoiced pricing is different than the Agreement pricing and when it is the case that the department wants to modify, add or remove items from the Agreement.*

**Response Due Date – February 23, 2010**

**Adjusted Due Date – December 31, 2010**

**Completed (Yes/No) - Yes**

## 10-018 #1

### **Auditor Recommendation**

Incorporate the use of requisition form similar to a form 2610 in the Departmental Blanket/Open Purchase Order program to reduce the risk of misappropriation.

### **Not Implemented**

No change in status from previous reporting cycle. (Target Date: June 30, 2011)

### **April 5, 2011 Management Response**

*Purchasing & Contracting agrees with the recommendation process which accomplishes the PA-2610 Form process be incorporated as part of the City MRO program, which grants the City better budget control. The individual department will be responsible for management and control of their budget. Purchasing and Contracting will coordinate with its primary departmental users and the Comptroller's Office to develop the process within the next 12 months. Purchasing and Contracting agrees that the use of the City-wide Purchase Order Program is not the most efficient delivery method for providing common city-wide goods and services to City departments. The use of the Departmental Blanket/open Purchase Order does reduce of the risk of misappropriation in that the requisition will be fully encumbered at the time of receipts by the Purchasing and Contracting Department. This methodology does not, however, address the issue of use by unauthorized City employees and the possibility that the Purchase Order could be exceeded and the contractor continues to release materials or provide services at the request of City staff. A fully funded and approved purchase requisition is required from all City departments in order to receive a Departmental Blanket/Open PO which includes the SAP funds availability approval process. Purchasing & Contracting will work with OneSD to identify a SAP release strategy for Departmental Blanket/Open PO's that will incorporate best business practices and internal controls within City departments.*

**Response Due Date – June 30, 2011**

**Adjusted Due Date – N/A**

**Completed (Yes/No) - No**

## 10-018 #2

### **Auditor Recommendation**

City Management should institute a process and timeline for the elimination of the Citywide Blanket/Open Purchase Order program. Instead, citywide contracts should continue to be established and departments should procure goods and services using the newly revised Departmental Blanket/Open Purchase order program or some other method that is more efficient and incorporates effective controls.

### **Not Implemented**

No change in status from previous reporting cycle. (Target Date: June 30, 2011)

### **April 5, 2011 Management Response**

*Purchasing & Contracting agrees with the recommendation that a more efficient process should be implemented to replace the current Citywide Open Purchase Order program. Purchasing & Contracting will actively pursue implementation of the SAP catalog solution currently not in use. Citywide contracts will continue to be established. P&C will continue to establish Departmental Blanket/Open Purchase Orders. The One SD/SAP option is a best business practice and integrates into the City's existing technology platform. The following information represents a phased approach for the elimination of the Citywide Open PO program; Phase 1 - Implementation of MRO contract - June 2011. Phase 2 - Identification of Citywide Open PO's that support a small number of City departments - October 2011. Phase 3 - Maximize the use of OneSD, City departments and vendors to indentify the most efficient method to procure goods and services for the remaining Citywide Open PO's - December 2011.*

**Response Due Date – June 30, 2011**

**Adjusted Due Date – December 31, 2011**

**Completed (Yes/No) - No**

### 10-018 #3

#### **Auditor Recommendation**

Modify Administrative Regulation 35.15 to adequately reflect the new policies as a result of the actions taken from Recommendations one and two above. Additionally, the Administrative Regulation should include a requirement for departments to document and retain a reconciliation of the requisition forms, similar to the form 2610, on a quarterly basis.

#### **Not Implemented**

No change in status from previous reporting cycle. (Target Date: June 30, 2011)

#### **April 5, 2011 Management Response**

*As referenced in the response to Recommendation 1., Purchasing and Contracting agrees to develop a process to the current PA-2610 Form, to be used for Departmental Blanket/Open PO's, is a solution to strengthening the internal controls for making purchases from Departmental Blanket/Open Purchase Orders. As stated, Purchasing and Contracting will work with Comptroller's Office and OneSD/SAP to identify the best solution within SAP for reducing possible risk associated with releases from Departmental Blanket/Open PO's and once the process is reviewed and agreed upon, will modify Administrative Regulation 35.15 to include the new process and procedures.*

**Response Due Date – December 30, 2010**

**Adjusted Due Date – June 30, 2011**

**Completed (Yes/No) - No**

## 10-018 #4

### **Auditor Recommendation**

City Management should analyze the Stores Revolving fund balance of \$1.4 million to determine how much of this balance represents a surplus. If this analysis results in the determination of surplus, it should be transferred back to the applicable funds (general, enterprise, etc.) per the annual appropriations ordinance.

### **Not Implemented**

No change in status from previous reporting cycle. (Target Date: December 31, 2010)

### **April 5, 2011 Management Response**

*Central Stores agrees to analyze the Stores Revolving fund balance and transfer any surplus funds back to the appropriate departments however the fund balance was (\$331,544) (post accrual) as of July 1, 2009 (FY10) as verified with the Comptroller's Office. This analysis cannot be completed until FY10 financial statements are finalized. A reasonable reserve is needed to fund the Central Stores Inventory purchases as it only earns revenues after the commodities are purchased. The formula for determining what is considered a more prudent reserve for the Fund has been developed in conjunction with the Comptroller's Office. The Comptroller's Office and Central Stores will jointly determine the specific methodology for transferring back any surplus to the applicable funds if applicable. The formula will be adjusted annually or as needed, depending on the unique needs of the City.*

**Response Due Date – December 31, 2010**

**Adjusted Due Date – Completion of FY10 Financial Statements**

**Completed (Yes/No) - No**

## 10-018 #5

### **Auditor Recommendation**

Central Stores should conduct an annual analysis to ensure that all surcharges (storerooms, mailrooms, etc.) are set at an appropriate level to only recoup the cost of service. This analysis should also include a procedure to transfer any surplus at fiscal year end back to the applicable fund(s).

### **Not Implemented**

No change in status from previous reporting cycle. (Target Date: December 31, 2010)

### **April 5, 2011 Management Response**

*P&C agrees with this recommendation. Central Stores monitors revenues to operating expense on-going throughout the fiscal year. As referenced in the report, in FY05 Central Stores, as part of the Purchasing & Contracting BPR, reduced the surcharge rate for all activities (Citywide Open PO Program, Storeroom Operations and Mail Center Operations) from 10% to 5%. This will be accomplished by making significant budget reductions, mostly in the Storeroom Operations activity. In fiscal years 2007 and 2008, the surplus amounts represented 4% and 2.4% respectively of total revenues per year. To recoup FY07's operating expense; Central Stores calculated at 4.9%. Based on this analysis, Central Stores would not have reduced the 5% surcharge. Although sales did remain consistent with FY07 and FY08, operating expenses decreased by approximately 14% due Central Stores ability to project cost and adjust expenses accordingly. This created an increase to funds of over \$377,000 and calculates to a 4.2% overall surcharge to recoup operating expense. Central Stores is currently projecting revenues to exceed operating expenses in FY10. Central Stores will review the current formula for calculating surcharges to equal operating expenses and will contacting other agencies to review how rates are set. Central Stores will employ best business practices to assist in its annual rate analysis. The analysis will include a procedure for transferring surplus revenue back to applicable funds starting FY11.*

*Central Stores conducted an analysis of the current surcharge rate of 5% of inventory sales utilizing the FY11 mid-year Budget Monitoring Report (attached)*

**Response Due Date – December 31, 2010**

**Adjusted Due Date – February 1, 2011**

**Completed (Yes/No) - Yes**

**10-018 #6****Auditor Recommendation**

City Management should ensure that all departments are aware of discounts and have appropriate procedures in place to ensure that all discounts are taken advantage of for timely payment on City purchases in order to reduce costs.

**Not Implemented**

No change in status from previous reporting cycle. (Target Date: December 31, 2010)

**April 5, 2011 Management Response**

*We agree with this recommendation not only as it relates to the Citywide Open PO program but for the organization as a whole. Central Stores is not authorized to submit for payment any invoice until a matching requisition document (PA-2610 Form) has been submitted by the customer departments. A Department Open PO does reduce a step in the payment process and thus will create a better opportunity for the City to earn vendor payment discounts.*

**Response Due Date – June 30, 2011****Adjusted Due Date – January 31, 2011****Completed (Yes/No) - Yes**