



Department of Public Safety

Inventory Audit

Audit Period: October through December 2012

Results Summary:

Objective	Conclusion
Inventory Management Process	Improvement Needed
Inventory Counts and Reconciliation	Well-Controlled with Improvement Needed

Report number: 2013-DPS-04

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Executive Summary

Background

The Department of Public Safety's (DPS) Business Services division is charged with overseeing many administrative and logistical functions of the agency including distribution and inventory services. Distribution and Inventory Services' (DIS) section is organized into seven units with personnel overlapping areas to make efficient use of resources to provide manufacturing, internal and external distribution, accountability, and record retention support to DPS.

OIA identified opportunities for DPS to strengthen internal controls and improve business operations. This audit conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DPS staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA performed assurance testing on DPS' inventory management controls at the Shipley Building and Alum Creek facility. This work was completed between October 2012 and January 2013. The scope of this audit was limited to transactions during July through September 2012. Detailed audit objectives included:

- Evaluate the design and effectiveness of internal controls of the inventory management process to include:
 - Receiving Inventory
 - Tracking Inventory
 - Asset Security
 - Assignment / Distribution of Inventory
- Assess the design of periodic inventory counts and reconciliation

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.



Observation 1. – Lack of Segregation of Duties

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should prevent one employee from having incompatible duties.

Inventory Control Specialists, Asset Management Supervisor and Chief of Distribution and Inventory Services have access to assets in warehouse locations (asset custody); assign asset numbers in Asset Inventory Management System (AIMS) (recording); edit asset location, value, and status in AIMS (recording); perform physical inventory counts (asset custody); record results of physical inventory counts (recording); complete final physical inventory results documentation (authorization) and process items submitted for salvage (custody of assets).

Adequate mitigating controls were not identified. This lack of segregation of duties increase the risk of asset misappropriation and inaccurate inventory records.

Recommendation

Evaluate procedures to ensure incompatible duties are delegated such that no individual has at least two of the following: custody of assets; authorize transactions or processes; or perform recording or reporting of transactions. If process changes are not cost effective, consider compensating controls to help ensure errors or irregularities are detected timely.

Management Response

DPS management agrees with the separation. Directives for asset inventory data recorders and data verification individuals were separated. The data recorder will no longer verify their own data inventory sheets.

DIS will analyze the salvage process. Asset management personnel will no longer transport salvage to DAS State Surplus; function to be performed by ACF Transport & Delivery Unit. Individual recording salvage information will no longer update information in AIMS; to be updated by another inventory member. DIS will continue to send Coordinating Action forms for all items being salvaged, ensuring each entity concurs with the release of items to be salvaged.

DAS Turn-In documentation will no longer be prepared by those who originally collected the data. This duty will be delegated to the Administrative Assistant.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Chief, Distribution and Inventory Services	June 2013



Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee