



Office of the City Auditor  
Kansas City, Missouri

## Highlights

### Why We Did This Audit

As of November 2017, storeroom inventories included pipes, meters, safety equipment and clothing, and other items and supplies valued at more than \$5.6 million. Managing and safeguarding inventories carries with it inherent risks such as potential loss and theft, shortages of critical items, and unnecessary purchases.

### Objective

Our audit work focused on determining whether the Water Services Department had adequate controls in place to safeguard storeroom inventories.

### Background

Water Services uses six storerooms at four locations to supply tools, materials, and protective supplies to department crews and contractors.

The 18<sup>th</sup> Street storerooms are overseen and operated by a store manager and seven employees. Employees provide day, evening, and call back coverage seven days a week.

Storeroom employees use the Hansen 8 work order and inventory system. Inventory counts are conducted daily and annually, along with two to three surprise counts during the year.

Water Services purchased \$10 million in storeroom inventory during fiscal year 2018.

Click [here](#) to view the full report.

To view other audit reports, please visit our website <http://kcmo.gov/cityauditor> and click on Search Our Work.

## PERFORMANCE AUDIT

### Control Gaps Leave Water's Storeroom Inventory Vulnerable to Errors, Loss, and Theft

#### What We Found

Weak controls leave Water Services' storeroom inventory vulnerable to errors, loss, and theft. Because the reliability of the electronic inventory is questionable, we did not attempt to identify actual loss or theft.

Water Services did not include \$2.9 million of materials issued to work crews in its 2018 annual physical inventory count or plan to include that inventory in its financial statements.

Water Services has not incorporated some recommended inventory practices into its storeroom practices. The department does not have written policies and procedures for storeroom inventory counts or storeroom operations. During the annual inventory, employees did not conduct blind inventory counts; not all teams included an employee independent of the storeroom he or she was counting; and inventory count supervision for one storeroom was provided by an individual who also had access to the inventory being counted.

The department has not separated employee responsibilities for ordering and receiving inventory or keeping records and custody of inventory. Segregating these incompatible duties reduces the risk that unintentional errors, loss, or theft could go undetected while also protecting employees from unwarranted suspicion if inventory items are missing.

Storeroom employees use methods to make adjustments to electronic inventory records that cannot be tracked, controlled, or monitored. Making changes to the electronic inventory as if an item was actually issued or returned masks the true nature of the transaction and leaves the reliability of the electronic inventory in question.

Although storeroom employees are issued identification cards to issue inventory and track their transactions, we observed these cards being shared among employees, eliminating accountability.

Water Services is not following city password requirements and employee access to the electronic inventory system is not always provided timely or periodically reviewed for continued need.

Management did not document who had storeroom keys and some keys are not marked "Do Not Duplicate." Unaccompanied, non-storeroom employees were observed in storerooms.

#### What We Recommend

We make recommendations to improve Water Services' methods of recording inventory transactions and adjustments, conducting physical inventories, and strengthening IT and physical security.

Management agreed with all of the recommendations.