

OFFICE OF THE CITY CONTROLLER



**PARKS AND RECREATION DEPARTMENT
UNANNOUNCED INVENTORY AUDIT**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

December 16, 2003

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Parks and Recreation Department
Unannounced Inventory Audit (Report No. 04-02)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed an Unannounced Inventory Audit of the Parks and Recreation Department's (Department) warehouse located at 6200 Wheeler Street as of September 3, 2003. The audit objective was to assist management with the assessment of the adequacy of internal controls related to inventory management at the above warehouse location. Additionally, the financial related audit evaluated compliance with departmental standard operating procedures.

The report, attached for your review, concluded that internal controls over physical inventory at the warehouse are adequate to provide Department management with reasonable assurance that physical inventories are properly safeguarded and managed, except for the finding noted in this report. Draft copies of the matters contained in the report were provided to appropriate Department officials. The finding and recommendation are presented in the body of the report and the views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We commend the Department for their extensive research of ongoing issues discussed during the audit and for taking immediate action on the recommendation identified in the report. Also, we appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Stephen O. Tinnermon, Chief of Staff, Mayor's Office
Sara Culbreth, Acting Chief Administrative Officer
Roksan Okan-Vick, Director, Parks and Recreation Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

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SCOPE AND PURPOSE

Our scope consisted of conducting an unannounced inventory count and reviewing inventory management procedures at the Parks and Recreation Department's 6200 Wheeler Street Warehouse as of September 3, 2003. Our objective was to assist management with the assessment of the adequacy of internal controls related to issuing, recording, safeguarding, and valuing assets. Additionally, the audit evaluated the Department's compliance with its own standard operating procedures.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately safeguard the physical inventory as an integral part of the Department's overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Due to the inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected in a timely fashion. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may change.

CONCLUSION

Based on the results of our audit, we concluded that internal controls over the Parks and Recreation Department's inventory warehouse are adequate to provide Department management with reasonable assurance that physical inventories are properly safeguarded and managed, except for the finding noted in this report.



Ebenezer Robinson
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

On September 3, 2003, Controller's Office auditors conducted an unannounced inventory audit of Parks and Recreation Department's Warehouse located at 6200 Wheeler Street. The approximate value of the inventory on the date of the audit was \$441,703. The turnover analysis in the following table was based on reports dated September 3, 2003.

AUDIT FINDING AND RECOMMENDATION

I. SLOW TURNOVER OF INVENTORY ITEMS

BACKGROUND

The following table reflects inventory usage at the Parks and Recreation warehouse.

Inventory Usage Analysis Tables

PARKS AND RECREATION – WAREHOUSE 040
AS OF SEPTEMBER 3, 2003

	NO. OF COMMODITIES	12-MONTH USAGE IN \$	VALUE ON-HAND 9-3-2003	ON- HAND %	INVENTORY TURNOVER	SUPPLY ON-HAND IN YRS
	796	0.00	150,459	34.06%	0	Infinite
	102	1,912	59,355	13.44%	0.03	10 Yrs & Up
	323	42,486	85,324	19.32%	0.50	1 To 9.99 Yrs
Subtotal/ Calculation	1221	44,398	295,138	66.82%	.15	6.65 Yrs
	152	93,961	58,359	13.21%	1.61	.50 To .99 Yrs
	227	388,074	88,206	19.97%	4.40	.01 To .49 Yrs
	168	56,078	0	0.00%	∞	0 Yrs
Subtotal/ Calculation	547	538,113	146,565	33.18%	3.67	.27 Yr
Total/ Calculation	1768	\$582,511	\$441,703	100.00%	1.32	.76 Yrs

Sources for Turnover Schedules: Weekly Warehouse Inventory Status by Part Number Report (ICS102) dated September 3, 2003. We also used the ABC Inventory Control by Warehouse Report (ICS661) for the Quantity Issued Amount.
SCHEDULE CONTAINS ROUNDED PERCENTAGES.

FINDING

Parks management has been cognizant that the cost of acquiring, Warehousing, and managing excessive quantities of inventory is an unnecessary commitment of City resources and exposes the inventory to obsolescence and misappropriation. Over the past

several years management has taken significant steps to reduce inventory. As noted in the Parks and Recreation Department Performance Review dated April 21, 1999, inventory at the Central Warehouse as of June 30, 1998 was valued at \$647,158, whereas at September 3, 2003 inventory was valued at \$441,703.

Our analysis of the inventory at Warehouse 040 indicates that although progress has been made in reducing inventory, opportunities to further reduce inventory continue to exist. Our analysis revealed that \$295,138 (67%) of the \$441,703 total inventory on hand, will be in inventory an average of 6.65 years. Of the \$295,138, \$209,814 of the commodities have a supply greater than 10 years and \$85,324 of the commodities have a supply greater than one but less than 10 years. The remainder, \$146,565 (33%) will be in inventory an average of less than 4 months.

RECOMMENDATION

We recommend that management continue to dispose of excess and obsolete items. Further, management should draft a Standard Operating Procedure to include a schedule for a periodic review to remove obsolete items from stock.

EXHIBIT I



CITY OF HOUSTON

Parks and Recreation
Department

Interoffice

Correspondence

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CONTROLLER'S

To: Judy Gray Johnson, Controller

From: Roksan Okan-Vick, AIA
Director

Date: November 25, 2003

Subject: **Unannounced Inventory Audit –
Management Response**

The Parks and Recreation Department (PARD) received the Controller's Office's draft audit entitled "Unannounced Inventory Audit" on November 19, 2003. The audit identifies that the department's warehouse contained zero usage items valued at \$150,459. PARD's response to the finding follows.

FINDING #1: SLOW TURNOVER OF INVENTORY ITEMS

PARD has had a very aggressive program for reducing zero usage items from the warehouse inventory for over two years. Between December 2001 and September 2003, PARD removed and/or utilized zero usage items valued at \$105,444 from the warehouse inventory. In addition, between the time that the audit was conducted in September 2003 and the date of this memo, PARD was able to utilize zero usage items valued at \$23,574. Therefore, although the warehouse still contains zero usage items, PARD has made significant progress towards using inventory items that were classified as zero usage.

However, we realize that our work in this regard is not complete. Our goals for improvement are as follows:

1. Remove and/or utilize 100% of zero usage items that were identified in your audit from our warehouse no later than March 31, 2004;
2. Achieve an inventory turnover rate of no less than 3.50 in calendar year 2004;
3. Reduce the number of slow moving inventory items as follows:

Number of Items As Of November 15, 2003	No Later Than	Reduce # of Slow Moving Items To
425	January 1, 2004	300
	March 1, 2004	200
	June 1, 2004	100

To accomplish these three goals, the Division Manager for Purchasing and Warehouse Operations, Ms. Diane M. Deaton, has convened a Warehouse Steering Committee, which is made up of key employees from every division in the department. This committee will review the existing inventory (not just "zero usage items") and recommend which items should continue to be stocked and which should be eliminated from the warehouse inventory.

*Views of Responsible
Officials*

EXHIBIT I

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Based on the committee member's comprehensive knowledge of their individual operational areas, the committee will also assist Ms. Deaton in setting and/or adjusting warehouse "min/max" levels. This will minimize the cost of inventory and maximize inventory turnover.

Please contact Maggie Mottesheard (5-1304) if you have any questions about the Department's response.

Sincerely,



Roxsan Okan-Vick, AIA
Director
Parks and Recreation Department

Cy: Steve Schoonover, City Auditor
Ken Teer, Audit Manager
Ebenezer Robinson, Auditor-in-Charge
Susan Bandy, Assistant Director, Finance and Administration Department
Maggie Mottesheard
Diane M. Deaton

**Views of Responsible
Officials**