Winnipeg | Audit

Stores Audit

October 2022

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Audit Background

The intent of the audit is to:

- conduct a high-level review of five in-scope department stores operations (collectively referred to as "Stores operations") with a focus on inventory management and purchasing policies, processes, and controls.
- conduct a high-level review and assessment of the sufficiency of the current state operations considering procurement, inventory management, warehouse management and operations compared to leading practices.

Audit Objective

- The objective of this audit was to assess the sufficiency of the current state stores operations as compared to leading practices.

Conclusions

- Stores operations of the five departments are consistent with leading practices in a number of key areas: purchase approval, purchase guidelines, and inventory adjustments.
- However, there are gaps in some key areas (e.g. manual requisitions, lack of performance targets for reviewing and monitoring inventory management, lack of documented standardized procedures). These should be addressed to ensure stores operations are operated effectively and efficiently with sufficient controls in place to manage the risks, including but not limited to obsolescence and loss.

Independence

The Audit Department team members and external firm selected for the audit did not have any conflict of interest related to the audit's subject matter.

Acknowledgement

The Audit Department wants to extend its appreciation to all of the stakeholders who participated in this audit.



November 2022

Jason Egert,
Acting City Auditor

Date

Overview

1.1 Overview

The larger City of Winnipeg (City) departments all have their own stores operations. The stores operations are responsible for procuring and distributing supplies, materials, uniforms and personal protective equipment required for the departments and their staff to provide essential services to the city. They perform a vital role in ensuring the right products are available at the right time to ensure services are provided in a timely manner and with the expected quality. Effectively and efficiently run stores operations strike the balance between having enough stock on hand to ensure sufficient materials and supplies are available when they are needed but not having too much on hand to risk the items becoming obsolete and requiring unnecessary costly storage space. In addition to this, sufficient safeguards (i.e. controls) must be in place to ensure these items are stored safely and securely to prevent injury or theft. Also, these controls help ensure the inventory number and location of items on hand are consistent with what is shown in the system.

Five City departments were included in the review and collectively they manage over 25,000 different SKUs (products) with a combined value at December 31, 2021 of $15,584,023 (see Key Metrics table below). The Water and Waste Department and Winnipeg Police Service stores operations were not included in the review as they both had recently completed independent assessments of their stores operations.

Key Metrics

Department	Store Locations	Number of Full-time equivalents (FTEs)	Number of SKUs	Inventory $ Value[1]
Community Services	1	5.25	784	$217,683
Fire and Paramedic Services	2	8	3,182	$2,085,094
Fleet Management Agency	3	12	5,533	$1,223,631
Public Works	1	5	2,300	$4,648,344
Transit	1	14	13,595	$7,409,271

Note 1: Inventory value as at December 31, 2021

1.2 Key Processes

All of the operations performed in a Stores facility can be generally categorized into four key process areas:

Procurement: processes that involve the purchasing of goods or services

Inventory Management: processes that include confirming the inventory recorded in the system, this affords a true reflection of inventory on-hand. This provides financial accuracy and whether inventory stock levels are sufficient to meet operational demands. Inventory management also ensures the right item and quantity is available at the right time and place.

Warehouse Management: processes that focus on timely receipt, storage, delivery of inventory when requested, restocking, and processing vendor returns.

Operations: processes to focus on talent/staffing levels, utilization of facilities, security, and access to the Stores.

1.3 General Analysis

- We assessed the stores operations in five City departments: Community Services, Fleet Management Agency, Fire Paramedic Services, Public Works and Transit.
- Procedures performed are included in Appendix 1 – Audit Methodology – Approach and Methodology.
- All the in-scope department stores operations are run independently with minimal guidance from the Corporate Finance group with the exception of the purchasing function. This has led to each department utilizing different core inventory management systems and processes and procedures.
- Common themes were identified across the stores operations highlighting both areas of strength and areas for improvement.
    - An area of strength in all stores operations is the purchasing approval and supporting guidelines for staff.
    - A key organization-wide area for improvement is to document a set of standardized policies, procedures and guidance on the management of stores operations to ensure consistent practices throughout the City departments.
    - We have included these observations in this report as they require a coordinated, centralized effort to ensure they are implemented.
- Areas of strength and areas for improvement were also identified that are unique to each departmental stores operation. These have been included in separate management reports provided directly to each department Director and Controller for their follow-up and implementation of recommendations.

Operational Management

2.1 General Observations

Observations

- Standardization: The City does not have standardized baseline procedures applicable to all areas of a stores operation. These baseline procedures should be required to be utilized across all major department stores operations. This will improve consistency and minimize opportunity for obsolescence and theft.
- Inconsistent stores operation practices were observed across all City departments. Development and documentation of standardized baseline procedures is applicable for the following criteria:
    - Inventory request initiation: Requisition process consistency – Inconsistency in processes can lead to inefficiencies, have varying levels of transparency and increase the risk that employees are not compliant.
    - Supplier selection: Tracking vendor performance - Vendor performance should be monitored to identify underperforming vendors, reduce supply chain risk and disruptions, avoid costs and improve internal processes.
    - Identification of inventory demand: Procedures to effectively identify inventory/stocking needs, including utilizing minimum and maximum inventory levels to forecast supply and demand.
    - Performance indicators: Setting targets to measure performance against including minimum inventory turnover, inventory accuracy, and excess/obsolete inventory should be monitored and inventory loss.
    - Security & Access: Identifying items with greater susceptibility to theft and implementing safeguards can prevent opportunistic theft and reduce inventory loss.

RECOMMENDATION 1			
We recommend that the Corporate Controller should develop standardized stores operations procedures, to the extent possible, to be used by all departments to ensure decentralized departments are consistent in their baseline practices. This is applicable, at minimum, to the following processes: • Stores inventory requisitions – improve consistency and efficiency of the requisition process • Supplier selection - tracking vendor performance • Identification of inventory demand – effectively identify inventory needs • Performance indicators - setting targets to measure performance against • Security and Access - identifying items with greater susceptibility to theft and implementing safeguards.			
RISK AREA	Process	**ASSESSMENT**	High
BASIS OF ASSESSMENT	The City does not have standardized procedures for all areas of stores operations.		
MANAGEMENT RESPONSE			
The Administrative Standards will be updated to include standard processes and procedures, where practical, as identified above, with additional resources to be included in the 2024 multi-year budget process.			
IMPLEMENTATION DATE	Q4 2023		

2.2 Procurement

Observations

Criteria	Department [1]				
	1	2	3	4	5
Purchase Initiation - There are formal processes in place to initiate and create a purchase order					
Supplier Selection and Evaluation - Vendor performance is monitored to guide decisions on future use of vendors					
Purchase Approval - Purchases are authorized by appropriate personnel and proper segregation of duties is applied					
Purchasing Guidelines - Procurement policies exist outlining the procedures for different types of purchases: single- and sole-source purchases, purchases requiring multiple quotes, and purchases requiring formal tendering					

Legend

Positive observation	
Area for improvement	

Strengths

- The City of Winnipeg purchase approval process and purchasing guidelines are in line with inventory leading practices.
    - Purchase Approval - Purchase approvals are defined by a delegation of authority, which is set-up and restricted by the PeopleSoft Procurement system and there is a defined process in place to make changes to these approval limits.
    - Purchase Guidelines - Purchasing guidelines are formally documented and provide governance over procurement of goods and services to meet the City's needs in an effective and efficient manner and take into consideration the requirements of external trade agreements.

Areas of Improvement

- Purchase Initiation - The use of manual requisitions for requisitioning inventory was identified as a common area of improvement for three of the departments reviewed.
    - Manual processes are typically more time-consuming and less transparent and can increase the risk of non-compliance with processes.
- Supplier Selection & Evaluation – The City has a formalized process to identify and suspend contractors who perform poorly; however, there is no formalized process to track performance of vendors that are contracted solely through purchase orders with the City.
    - Each of the departments has an informal process in place to avoid using vendors with whom they have had poor experiences; however, this knowledge is either

[1] The reader is cautioned that the order of department names has been revised from the Key Metrics table (page 5) so as not to draw any conclusion on a specific department's performance.

held by one or two employees or communicated verbally to staff and is not documented and/or tracked.

- Tracking vendor performance can help identify areas of improvement for departments and their suppliers; as well as prevent departments from using underperforming vendors in the future. Monitoring these partnerships can reduce supply chain risk and disruptions and avoid unnecessary costs.

RECOMMENDATION			
No new recommendation accompanies this analysis. Recommendation 1 addresses the absence of standardized stores inventory requisition process. Recommendation to evaluate feasibility of using system generated stores inventory requisitions versus manual is being communicated in separate management letters to each department.			
RISK AREA	Process	**ASSESSMENT**	Medium
BASIS OF ASSESSMENT	Three of the five departments utilized manual stores inventory requisition processes, which are typically more time consuming and have a higher risk of errors and non-compliance with processes.		

2.3 Inventory Management

Observations

Criteria	Department [1]				
	1	2	3	4	5
Identification of Inventory Demand - A process exists to effectively identify inventory/stocking needs					
Receive & Audit Delivery - There are controls and efficient processes in place to ensure inventory receipt is complete and accurate. Examples include segregation of duties, documentation review and assessments for accuracy when information is entered into system					
Adjustments to Inventory - Adjustments to the inventory system are appropriately reviewed and approved					
Obsolete Inventory - Inventory movement is monitored to identify slow moving or obsolete inventory					
Performance Indicators - Expectations and tracking mechanisms are in place to measure performance					

Legend

Positive observation	
Area for improvement	

Strengths

- The City of Winnipeg inventory adjustment processes are in line with inventory leading practices
    - Adjustments to Inventory - Adjustments to inventory, system generated or manual, require approval from the departmental Controller or Assistant Controller prior to being processed in PeopleSoft Procurement.
    - Obsolete Inventory – Departments have implemented processes to review obsolete inventory at least annually with some embedding the process in the year-end count procedures.

Areas for Improvement

- Identification of Inventory Demand - Current system functionality is limiting the ability to utilize minimum/maximum inventory quantities.
    - Each department has attempted to utilize system monitored minimum/maximum order quantities; however, limitations due to seasonal demand, lead times, and loaned inventory were encountered. This has led to this system function not fully being used. Enhancing the use of minimum and/or maximum quantity restrictions can help to avoid stock-outs and excess inventory levels.
- Receive and Audit Delivery – Current processes often lack segregation of duties nor are there compensating controls in place.

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- Appropriate segregation of duties minimizes the occurrence of errors or fraud by reducing the opportunity for an individual to both perpetrate and conceal errors (e.g., place an order, receive inventory and enter receipt into system).
- Intentional or accidental input errors due to human error can affect the data integrity of the inventory system.
- Limitations in software or supporting technology (e.g. barcode scanner) are impacting the ability of some departments to align with leading practices.

- Performance Indicators - Performance targets for reviewing and monitoring inventory management are not implemented.
  - Some of the departments have processes in place to review factors such as inventory loss; however, there are no expectations or thresholds set to be reviewed against.
  - Setting performance targets creates the ability to measure progress and provides insights that help make enhanced decisions.
  - Currently, the main barrier to monitoring performance is access to insightful information.
  - For the departments using PeopleSoft, Corporate Finance indicated that in some instances the barrier to information is not a system restraint, but rather users not knowing which reports are available or how to pull or request information. It would be beneficial to hold training sessions for the departments so they can understand how the PeopleSoft Inventory system can be better utilized to aid them in inventory management of the stores operations.
  - Corporate Finance noted that a temporary additional resource may be necessary to serve as a Corporate leader in inventory management. Their role would be to create metrics, and provide training, documentation, and preparation.

RECOMMENDATION 2			
We recommend that the Corporate Controller develop training material and hold learning sessions on the inventory and reporting functionalities of the systems, to help the departments better understand how to obtain valuable information from the system that can be used in the inventory performance management process. This should be mandatory training for all staff involved in inventory performance management.			
RISK AREA	Human resources	**ASSESSMENT**	Medium
BASIS OF ASSESSMENT	Department staff are not aware and/or have not taken the necessary PeopleSoft training to fully utilize inventory reporting capabilities of the PeopleSoft system. Specifically, the inventory reporting that is available and/or how to access the information and generate the report in order to assist in managing the stores operations.		
MANAGEMENT RESPONSE			
The Corporate Controllers' office will investigate the ability to provide training to stores operations personnel regarding the use of the inventory reporting capabilities of systems that are already in place.			
IMPLEMENTATION DATE	Q4 2023		

RECOMMENDATION 3			
We recommend that the Corporate Controller develop and implement a set of centralized performance metrics established and monitored at the Corporate Finance level to provide oversight over inventory management and stores operations, which departments are required to report on. At a minimum, inventory turnover, inventory accuracy, and excess/obsolete inventory should be monitored. Departments can choose to supplement with metrics that will provide additional insights specific to their Stores operations.			
RISK AREA	Process	**ASSESSMENT**	Medium
BASIS OF ASSESSMENT	There are no minimum centralized performance metrics established or monitored at the Corporate Finance level to measure the effectiveness or efficiency of the departments' stores operations.		
MANAGEMENT RESPONSE			
The Corporate Controllers' office will investigate which metrics can be used and where additional metric can be configured. Additional resources to be included in the 2024 multi-year budget process to achieve this.			
IMPLEMENTATION DATE	Q2 2023		

2.4 Warehouse Management

Observations

Criteria	Department [1]				
	1	2	3	4	5
Tracking Inventory Location - Inventory levels are effectively monitored using strategies such as inventory counts, barcode scanners, and consistent labelling conventions					
Inventory Usage/Check-out - Inventory issued is automatically updated in the system or there are compensating controls in place such as reviews for input accuracy					

Legend

Positive observation	
Area for improvement	

Strengths

- Tracking Inventory Location - Annual year-end inventory count of inventory is performed and is supplemented with cycle counts during the year
    - This is consistent with leading practice to monitor the existence of inventory.
    - Labelling conventions such as consistent labelling of shelves including the unit of measure are in place to assist with data reliability.
- Inventory Usage/Check-out – Secondary review is completed to ensure the accuracy and completeness of the data inputted.
    - Two staff perform separate review of the requisition and work order issued and compare it to the data entered the inventory system.

Areas for Improvement

- Inventory Counts - Cycle counts
    - In two of the five departments, there is an opportunity to enhance the cycle count process by implementing a strategy to identify the frequency of counts needed based on risk level; such as, monthly, quarterly or semi-annually.
- Inventory Usage/Check-out - system is manual updated when inventory is issued.
    - System is manually updated when inventory is issued and in some departments there is no second check for accuracy. This increases the risk of human errors and can affect the data accuracy and integrity of the inventory system.

[1] The reader is cautioned that the order of department names has been revised from the Key Metrics table (page 6) so as not to draw any conclusion on a specific department's performance.

RECOMMENDATION			
No new recommendation accompanies this analysis. Recommendations related to inventory counts and inventory usage are being communicated in separate management letters to each department.			
RISK AREA	Process	**ASSESSMENT**	Medium
BASIS OF ASSESSMENT	Three of the five departments utilized manual stores inventory requisition processes, which are typically more time consuming and have a higher risk of errors and non-compliance with processes.		

2.5 Operations

Observations

Criteria	Department [1]				
	1	2	3	4	5
Talent & Staffing - Stores are adequately staffed, relative to the needs of the facility, with employees who understand their roles and responsibilities and have access to the resources needed to be able to perform their roles					
Record Retention - There is a record retention policy in place to adequately support administrative, financial, legal and historical purposes					
Security & Access - There are appropriate safeguards in place related to securing Stores locations and preventing against inventory loss; such as, restricted access to inventory, doors locked after hours, camera systems and processes to identify inventory with higher susceptibility to theft					
Utilization of Facilities - Stores locations are designed to optimize operations; such as, layout of warehouse, adequate storage space, and accessibility of Stores based on hours and location					

Legend

Positive observation	
Area for improvement	

Strengths

- Record Retention - The City of Winnipeg record retention processes are in line with inventory leading practices.
    - The City of Winnipeg has a "Records Retention and Classification Schedule" which specifies how long records must be kept before they may be destroyed or transferred to the archives.
- Security & Access – Restricting access is an effective tool to mitigate against fraud.
    - One department's stores operation is monitored by cameras. The cameras are in place to monitor assets.
    - Other departments restrict access via key card and stores areas are locked after hours.
- Utilization of Facilities – Storage space is sufficient and inventory is spaced to allow easy movement.
    - Stores operations' location and hours are appropriate to effectively support service delivery in three departments

Areas for Improvement

- Talent & Staffing - Enhanced documentation and standardization of departmental processes and procedures is an overarching area of improvement identified across all departments.

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    - The departments all have a high degree of human capital with knowledge being obtained via experience. The absence of well-documented controls, processes and procedures can lead to gaps and non-compliance with expectations.
    - The documentation of procedures prevents loss of information and skillsets that are acquired through experience.
- Security & Access - The pre-identification of items that are more susceptible to theft is an area of improvement that is common among all departments (excluding one department). This includes items with common practical use or items of higher value.
    - One department has a process in place to identify and store such items in a separate locked storage cage; other departments do not currently have a similar process in place.
    - Analyzing and identifying inventory items as being more susceptible to theft can prevent opportunistic theft and reduce inventory loss.
    - Restricting access to only authorized stores staff protects against theft and unnecessary safety risks.
- Utilization of Facilities – Storage space is lacking making it difficult to maintain a well- organized store operation.
    - A crowded stores operation increases the risk of items being misplaced, mislabeled or could pose a safety risk to the personnel.
    - Changing of suppliers increases the number and variety of inventory parts that must be stocked and requires space that could be used more efficiently (e.g., excess capacity for bulk orders to capitalize on savings).

RECOMMENDATION			
No new recommendation accompanies this analysis. Recommendation 1 addresses the need for standardized policies, processes and procedures to be developed at the Corporate level. Recommendations related to specific documentation of departmental process and procedures is being communicated in separate management letters to each department.			
RISK AREA	Process	**ASSESSMENT**	Medium
BASIS OF ASSESSMENT	Enhanced documentation and standardization of departmental processes and procedures is an overarching area of improvement identified across all departments. The absence of well-documented controls, processes and procedures can lead to gaps and non-compliance with expectations.		

Appendix 1 – Audit Methodology

- The City Auditor is a statutory officer appointed by City Council under *The City of Winnipeg Charter*. The City Auditor is independent of the Public Service and reports directly to Executive Policy Committee, which serves as the City's Audit Committee.
- The City Auditor conducts examinations of the operations of the City and its affiliated bodies to assist Council in its governance role of ensuring the Public Service's accountability for the quality of stewardship over public funds and for the achievement of value for money in City operations.
- Once an audit report has been communicated to Council, it becomes a public document.

Project Risk Analysis

Our audits are conducted using a risk-based methodology. A risk assessment was performed to identify areas of focus.

Scope

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our observations and conclusions, based on our audit objectives. We believe the evidence we have obtained provides a reasonable basis for our observations and conclusions

Departments included in this review	Departments not included in this review
• Community Services • Fire & Paramedic • Fleet Management • Public Works • Transit	• Winnipeg Police Service • Waste and Water

Approach and Criteria

This stores audit work was conducted by an external contractor due to the skill set required to conduct review of management of stores operations.

The following procedures were performed in each of the five departments:

- Reviewed all relevant documentation and reports made available by the departments
- Performed risk assessment, identified areas of focus, developed criteria based on leading practice and determined whether additional procedures required
- Conducted interviews with key Stores personnel to obtain an understanding of the challenges within operations, inventory management and purchasing processes and identified future state vision
- Visited a sample of store locations to observe operations
- Performed additional procedures based on our risk assessment
- Benchmarked processes to leading practices
- Leveraged our subject matter expert to assess operations and current processes to leading practices and to identify areas of gaps or opportunities for improvements to improve the efficiency and effectiveness of the inventory management and related internal controls
- Held meetings with the project team and departments to validate the gap analysis and prioritize the findings

The following are the primary focus areas and criteria used in the assessment:

Procurement: process of purchasing goods or services

> **1.0 Purchase Initiation:** There are formal processes in place to initiate and create a purchase order.
>
> **2.0 Supplier Selection and Evaluation:** Vendor performance is monitored to guide decisions on future use of vendors.
>
> **3.0 Purchase Approval:** Purchases are authorized by appropriate personnel and proper segregation of duties are applied.
>
> **4.0 Purchasing Guidelines:** Procurement policies exist outlining the procedures for different types of purchases: single and sole-source purchases, purchases requiring multiple quotes, and purchases requiring formal tendering

Inventory Management: process of confirming inventory recorded in the system is a true reflection of inventory on-hand. This provides financial accuracy and whether inventory stock levels are sufficient to meet operational demands. Inventory management also ensures the right item and quantity is available at the right time and place.

> **5.0 Identification of Inventory Demand:** A process exists to effectively identify inventory/stocking needs.

6.0 Receive & Audit Delivery: There are controls and efficient processes in place to ensure inventory receipt is complete and accurate. Examples include segregation of duties, documentation review and assessments for accuracy when information is entered into system.

7.0 Adjustments to Inventory: Adjustments to the inventory system are appropriately reviewed and approved.

8.0 Obsolete Inventory: Inventory movement is monitored to identify slow moving or obsolete inventory.

9.0 Performance Indicators: Expectations and tracking mechanisms are in place to measure performance.

Warehouse Management: process focuses on timely receipt, storage, delivery of inventory when requested, restocking, and processing of returns to vendor.

10.0 Tracking Inventory Location: Inventory levels are effectively monitored using strategies such as inventory counts, barcode scanners, and consistent labelling conventions.

11.0 Inventory Usage/Check-out: Inventory issued is automatically updated in the system or there are compensating controls in place such as reviews for input accuracy.

Operations: process focuses on talent/staffing levels, utilization of facilities, security, and access to the Stores.

12.0 Talent & Staffing: Stores are adequately staffed, relative to the needs of the facility, with employees who understand their roles and responsibilities and have access to the resources needed to be able to perform their roles.

13.0 Record Retention: There is a record retention policy in place to adequately support administrative, financial, legal and historical purposes.

14.0 Security & Access: There are appropriate safeguards in place related to securing Stores locations and preventing against inventory loss; such as, restricted access to inventory, doors locked after hours, camera systems and processes to identify inventory with higher susceptibility to theft.

15.0 Utilization of Facilities: Stores locations are designed to optimize operations; such as, layout of warehouse, adequate storage space, and accessibility of Stores based on hours and location

Appendix 2 – Risk Assessment

Likelihood	Potential Risks **Insignificant** • None or minor change in services, project or processes • Very limited exposure of sensitive information • Very minor, non-permanent environmental damage • Insignificant financial impact to service, project, or organization	**Minor** • Minor change in achievement of service objectives • Limited exposure of sensitive information • Minor, non-permanent environmental damage • Minor financial impact to service, project, or organization	**Moderate** • Moderate change is delivery of essential services • Exposure of limited amount of confidential information • Moderate environmental damage • Moderate financial impact to service, project, or organization	**Major** • Significant change in delivery of essential service • Exposure of significant amount of confidential information • Significant change in quality of life indicators • Major environmental damage • Major financial impact to service, project, or organization	**Extreme** • Unable to perform essential services for extended period • Exposure of critical confidential information • Very significant change in quality of life indicators • Significant damage to environment • Significant financial impact to service, project, or organization
Almost certain Expected to occur unless circumstances change	M	M	H	C	C
Likely Probably will occur in most circumstances	M	M	H	C	C
Possible Might occur under different circumstances	L	M	M	H	H
Unlikely Could occur if circumstances change	L	L	M	H	H
Rare May occur in exceptional circumstances	L	L	M	M	M

Legend:

C - Critical risk:	Requires urgent action, monitor and review at least monthly by Senior Management, inform CAO and Committee of Council
H - High risk:	High impact, monitor and review at least quarterly by Senior Management inform COO
M - Moderate risk:	Monitor and review at least quarterly by management
L - Low risk:	Review periodically, no specific action required