M E M O R A N D U M

FINAL AUDIT REPORT WITH RECOMENDATIONS
Internal Operations No. 10-002

SUBJECT: Review of Controls Over Storeroom Operations

DATE: March 24, 2010

FROM: IG/OIG – Helen Lew /s/

TO: DGMA/CFO – Carol Kissal

This Final Audit Report entitled**,** *Review of Controls Over Storeroom Operations*, presents the results of our audit. The objectives of the audit were to (1) determine the size and rate of growth of the Washington Metropolitan Area Transit Authority's (WMATA) inventory; (2) assess the effectiveness of WMATA's inventory management systems, including the accuracy of accounting for its inventory; (3) assess the effectiveness of the methodology used for setting and re-setting order points; (4) assess whether WMATA follows its policies and procedures for maintaining and using bench stock inventory**;** and (5) assess the effectiveness of WMATA's strategies for identifying and accounting for slow-moving inventory.[1]

Background

WMATA maintains an inventory of supplies and materials to support the normal functions of administrative and maintenance personnel. Inventory includes supplies and materials for special projects, campaigns, and programs necessary for the effective, long-term operations of WMATA's public transportation system. The financial statements showed that the inventory value at the end of Fiscal Year (FY) 2009 was $95 million.

Washington Metropolitan Area Transit Authority

WMATA operates a wholesale storeroom, the Metro Supply Facility (Storeroom 400), and retail stores (storerooms) that are located throughout WMATA. Storeroom 400 supplies parts and materials to the storerooms, and the storerooms provide materials and parts to maintenance personnel. WMATA also uses locations, known as Forward

[1] Slow-moving inventory is a combination of obsolete and excess inventory items and includes inventory items that the Office of Procurement and Materials determines have no usage for two or more years.

Supply Points (FSPs), to store inventory intended for immediate use by some operational groups.[2] FSPs contain low-value and high-value inventory items used to complete projects. A low-value item could be a nut or a bolt, and a high-value item could be an escalator step.

Bus Maintenance (BMNT) and Railcar Maintenance (CMNT) maintain bench stock inventory for immediate use. The WMATA Maintenance and Materials Policy and Procedures Manual (Manual) does not define or describe bench stock. Bench stock inventory and items in the FSPs are charged to the operational group when they leave the storerooms and are no longer included in the inventory figure.

The Office of Procurement and Materials (PRMT), Bus Services (BUSV) and Transit Infrastructure and Engineering Services (TIES) operate the storerooms. According to the Manual, the storeroom clerk is responsible for securing material to avoid loss or theft, receiving material and inspecting its content, placing items in the correct bins, conducting physical inventory counts and reconciliations, and identifying items that could be obsolete or excess. All stock removed from the storeroom must be documented through a work order.

WMATA has a Surplus Property Program that oversees the management of surplus inventory. PRMT administers the program in conjunction with BUSV and TIES at its Open Material Storage Facility (Storeroom 450) in Hyattsville, Maryland. The Surplus Property Program was established for departments to turn in property that has become excess to an assigned WMATA activity and to coordinate effective reutilization of that property to another WMATA activity. The program was also established as a means for disposing property found to be surplus or obsolete.

Audit Results

We found that WMATA's inventory grew by 25.3 percent between FY 2006 and FY 2009. We also found internal control weaknesses in WMATA's inventory management systems that can adversely affect its ability to rely with assurance on information generated by the systems to make sound management decisions.

[2] Staff employed in Bus Services and Transit Infrastructure and Engineering Services are considered operational personnel/groups.

Specifically, we found that WMATA did not: (1) accurately report its inventory at the FSPs, (2) ensure that daily counts of inventory in the storerooms are performed accurately, and (3) properly safeguard inventory at the Congress Heights FSP.

Our discussions with planners and users did not reveal any problems with WMATA's methodology for setting and resetting order points; this methodology appears to be effective as long as BUSV and TIES communicate their needs to PRMT. We noted that WMATA has no policies and procedures regarding bench stock inventory, and until recently, WMATA did not consistently identify and dispose of obsolete inventory in accordance with its Surplus Property Program. WMATA also has not defined and identified excess inventory for disposal.

Lastly, we have concerns about controls over access to Storeroom 450, and the lack of segregation of duties in processing and receiving obsolete and excess inventory. These concerns are discussed in the "Other Matters of Concern" section of this report.

In the Deputy General Manager for Administration/Chief Financial Officer's March 22, 2010, response to the draft of this report, she concurred with our findings. She also submitted a corrective plan with milestone dates to address the findings and recommendations. The complete text of the response is included as attachment I to this report.

Inventory Grew From FY 2006 to FY 2009

According to information in Maximo,[3] WMATA's inventory grew from $78.3 million in FY 2006 to $98.1 million in FY 2009, a 25.3 percent increase.[4] According to PRMT personnel, parts purchased for the 2000, 3000 and 5000 series rail cars, new bus purchases, major bus overhauls, and the increased use of eight-car trains are the primary reasons for the growth in inventory.

[3] The Maximo system is a maintenance and inventory software package that maintains data on inventory and maintenance tasks, as well as other operations. WMATA implemented Maximo in 2006.

[4] Differences between the inventory figures in the financial statements and Maximo are due to adjustments of inventory items at some FSPs.

Finding 1. Internal Control Weaknesses Identified in Inventory Management Systems

We found that WMATA has internal control weaknesses in its inventory management systems that adversely affect its ability to rely with assurance on information generated by the systems to make sound management decisions. Specifically, WMATA did not (1) accurately report inventory at the FSPs, (2) ensure that daily counts of inventory in the storerooms are performed and are accurate, and (3) properly safeguard inventory at the Congress Heights FSP.

WMATA did not accurately report inventory at the FSPs—We found that WMATA did not accurately report inventory at the FSPs because (1) it did not adjust the inventory test amounts in Maximo which were used in the general ledger to match actual amounts on hand at the FSPs, and (2) its policy for expensing inventory transferred from the storerooms to the FSPs is flawed for inventory items not used immediately. As a result, WMATA does not have accurate information on the value of inventory at the FSPs.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* state that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. The standards further state that all transactions and other significant events need to be clearly documented.

Failure to have accurate information on inventory can give management the mistaken impression that operating departments require larger budgets than necessary.

- **Inventory test amounts in Maximo not adjusted**—We found that during the initial set-up of Maximo in 2006, a test amount of approximately $5.66 million was entered into the system to represent the value of inventory at the FSPs. However, WMATA did not adjust the test amount to ensure that it matched the inventory at the FSPs.

WMATA's general ledger showed inventories of $5.4, $5.5, and $5.6 million at the FSPs for FYs 2007, 2008, and 2009, respectively. Personnel in the Office of Accounting (ACCT) told us that these amounts were obtained from Maximo. We noted that some FSPs recorded transfers and/or withdrawals of inventory items from the FSPs, which affected the above general ledger values. A subject matter expert in the Office of Plant Maintenance (PLNT) indicated that Maximo contained some of the test amounts since the system's inception that were not subsequently corrected to reflect actual values at the FSPs.

The General Ledger Supervisor could not provide us with support for the test inventory amounts entered into Maximo. We found that most of the 16 FSP locations[5] we visited did not have support for information in Maximo or manual records of inventory received and withdrawn from the FSPs. There also were no records of any physical inventory counts at the FSPs.

- **Policy for expensing inventory is flawed**—According to the Manual, Chapter 1, section 2: "Finance [ACCT] records the value of inventory as an asset until items are issued from the storeroom for use, transported to a forward stock point (also known as forward supply point) or disposed of." Chapter 1, section 2 of the Manual directs that inventory transferred to an FSP is to be used "immediately." The Manual does not define "immediately." The Acting Warehouse Manager told us that inventory at the FSPs should be used in a relatively short period of time, generally not more than 60 days. We found that all inventory at the FSPs we visited was not used immediately. For example, at the Congress Heights FSP, we noted boxes of escalator plate combs with an estimated total value of $2,861 and a shipping document, dated April 26, 2008.

  The policy of expensing inventory not yet used and failing to conduct a physical inventory at the FSPs understates inventory in the financial systems.

[5] We visited Track and Structure System Maintenance (TSSM), Plant Maintenance (PLNT), and Elevator Escalator Maintenance (ELES).

We also noted that WMATA does not accurately track to particular projects inventory items that are issued in multiple units, partially used, and where remaining units are stored in FSPs. For example, if a mechanic is issued a box containing 10 filters, but he needs only five filters to complete a project, this project is charged the entire cost of the box of 10 filters. The remaining five filters are not returned to the storeroom; instead they are placed in a FSP. There would be no record of the transfer of five filters to the FSP. If the remaining filters are subsequently withdrawn from the FSP for use on other projects, there would be no record of this withdrawal. In this example, the policy of expensing inventory not yet used overstates the cost of the first project and understates the cost of subsequent projects. It also can lead to fraud and mismanagement because there is no paper trail of how the inventory was used. This policy of expensing can also affect the re-order point because consumption is not accurately captured in Maximo.

We shared our finding that WMATA did not accurately report inventory at the FSPs with WMATA's external auditors. They reported this matter in a Management Letter, dated October 22, 2009, to the WMATA Board of Directors. The external auditors recommended that the test amount of approximately $5.66 million in Maximo be adjusted and additional review controls be put in place during implementation of any new system related to financial data to ensure that test data is removed prior to use. The external auditors also recommended that, based on the amount of inventory being held by the FSPs and the length of time this inventory is held, the policy of expensing inventory when it is transferred be re-examined, and that the inventory held by the FSP be tracked and inventoried on an annual basis to ensure propriety of the inventory balance.

As of February 3, 2010, WMATA had not finalized a corrective action plan to address the inventory matter raised in the external auditors' Management Letter.

WMATA provided limited assurance that daily counts of inventory in the storerooms are performed accurately—The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* state that an agency must establish physical controls to secure and safeguard vulnerable assets. The

standards further state that these assets should be periodically counted and compared to control records. The Manual states that the storeroom clerks are responsible for counting daily the inventory in the storerooms.

The task of identifying inventory items to be counted daily is determined by Maximo and is based on item usage and value. During our visits to the storerooms, we noted that the storeroom clerks who perform daily inventory counts have access to the quantity on-hand in Maximo. Specifically, the clerks could access the quantity in Maximo by opening the "Inventory Transaction" screen before completing the physical inventory. These clerks should only have access to the "Count Book Report" screen, which lists the (inventory) item number, bin number (location), item description, and unit of issue and not the quantity in Maximo.

The Assistant General Superintendent BMNT Administration, told us that prior to Maximo's implementation, the storeroom clerk did not have access to the quantity on-hand in the inventory system until the inventory count was completed. Because clerks now have access to on-hand quantity information in Maximo, there is limited assurance that daily counts of inventory are performed, and if performed, are accurate.

WMATA did not properly safeguard inventory at the Congress Heights FSP—Of the 16 FSPs we visited, one FSP was not secured. The Congress Heights FSP did not have a high-security lock to secure the inventory as required in the Manual. Some of the inventory items stored at the FSP included chains, belts, florescent light bulbs, and a transformer. The Supervisor, *Office of Elevator and Escalator* (ELES), in charge of the facility did not know the FSP was not secure, because he is not physically located at that facility.

According to Maximo, the Congress Heights FSP had an inventory value of $0. But the Manager, TIES ELES Administration estimated the value of inventory to be about $5,000.

The Manual, Chapter 7, Sections 7.2 and 7.5 requires all storerooms and FSPs to be secured at all times. The Manual also states that all storeroom and ancillary storage

facilities must be secured with high-security locking hardware provided by a PRMT supervisor or manager, and the storerooms may only be accessed by authorized personnel. Failure to ensure adequate security of FSP locations increases the risk of loss, damage, or theft of WMATA assets.

Recommendations

We recommend that the Deputy General Manager for Administration/Chief Financial Officer in conjunction with the Deputy General Manager/Chief Operating Officer:

1.1 Finalize the Corrective Action Plan to address the FSP inventory matter raised by the external auditors in their October 22, 2010, Management Letter.

1.2 Take appropriate action to limit the storeroom clerks' access to Maximo screens that shows on-hand quantities in the system until the inventory count is completed by the storeroom clerk.

1.3 Ensure that all operations personnel comply with the security measures prescribed in Chapter 7, Sections 7.2 and 7.5 of the Manual.

Finding 2. Methodology Used to Set Stock Re-Order Points Appears Effective

We did not identify any major problems with WMATA's methodology for setting stock re-order points, based on discussions with planners and users about the availability of parts and supplies.

Operational personnel and inventory planners consider several factors when they order inventory items. They estimate demand for the item, the lead time to purchase the item, and the quantity they need to have on hand when the item reaches the re-order point. For example, the initial stock level of an inventory item takes into consideration how the operating department or office uses the item, the availability of the item from vendors, whether the item must be specially manufactured, whether the item can be made by more than one manufacturer, the number of items needed each time to complete a maintenance job, and how many items are used during a specific time period.

Operational personnel and inventory planners periodically monitor demand for an item to determine if the re-order point is reasonable. Maximo tracks the items in stock and

lets PRMT buyers know when stock items fall below the re-order points based on the above criteria. When the stock items fall below re-order points, Maximo creates a purchase requisition to restock needed items.

WMATA uses the Xtivity software package to analyze inventory activity in Storeroom 400 and uses Maximo data to calculate re-order points. The Xtivity software monitors consumption of inventory items and provides general assurance that the re-order points are reasonable. Xtivity readjusts re-order points using historical demand.

Although the planners and users we interviewed did not identify any major problems with the availability of parts and supplies in the storerooms, they did note that sometimes inventory demand changes unexpectedly. When this happens, inventory planners in PRMT have to manually readjust the re-order points to avoid overages and shortages in inventory items. For example, the General Superintendent of BMNT stated that during the cold months, there is a high demand for antifreeze. In this situation, the planner would change the re-order point to accommodate increase in demand. Therefore, it is important that planners and users communicate regularly and effectively with each other to ensure that re-order points are at appropriate levels.

Finding 3. WMATA Has No Policies and Procedures Regarding Bench Stock Inventory

According to the GAO *Standards for Internal Control in the Federal Government*, policies and procedures are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources for achieving effective results.

During our review, we found that WMATA lacked policies and procedures for defining, maintaining, and using bench stock inventory. WMATA has no formal definition or criteria for bench stock. For purposes of this report, we define bench stock as items of low value, which are not major parts, *e.g.*, nuts, bolts, washers, and screws, which are issued in boxes with multiple quantities and which are expensed when removed from storerooms and located at the mechanic's work bench or in the FSPs.

Bench stock is charged to the operational group that expects to use the parts, and the parts are no longer included in the inventory value figures. The lack of policies and procedures surrounding bench stock may be attributed to WMATA not requiring accountability or monitoring of inventory items/parts once they have been issued from the storerooms even though those items may not have been completely consumed on a maintenance project.

Since there is no physical inventory of bench stock, WMATA does not know how much bench stock inventory it has at year-end. In addition, a project's cost may be understated or overstated because bench stock inventory may not be properly allocated.

We found that no one within WMATA counts bench stock inventory. However, according to a manager in BMNT, two storerooms have bolts, nuts, screws, washers, and similar items that WMATA buys from a vendor under a blanket purchase order agreement. This vendor conducts a monthly inventory and replenishes the items to the contracted level.

We also found that the accounting of bench stock inventory varies among transit authorities. For example, we contacted the Metropolitan Transit Authority in New York, the Chicago Transit Authority, and the Los Angeles County Metropolitan Transportation Authority and found that there is no consistent method for accounting for bench stock inventory. The Metropolitan Transit Authority in New York placed unused bench stock back into inventory for accountability purposes at the end of the year. The Chicago Transit Authority does not track bench stock once the items are withdrawn from the storerooms. The Los Angeles County Metropolitan Transportation Authority assigns bench stock inventory to a supervisor who tracks usage via spreadsheets to ensure accountability.

Recommendation

We recommend that the Deputy General Manager for Administration/Chief Financial Officer:

3.1 Develop and issue policies and procedures for defining, maintaining, and accounting for bench stock inventory.

Finding 4. Obsolete and Excess Inventory was Not Actively Identified and Disposed of Prior to FY 2009.

In FY 2009, PRMT initiated a special project to identify and dispose of obsolete inventory. Prior to that year, obsolete inventory was not disposed of timely in accordance with the Surplus Property Program requirements. The special project to identify and dispose of excess inventory, however, was postponed.

The Manual states that departments and offices are responsible for identifying property as surplus, obsolete or excess and transferring it to the Investment Recovery Administrator, who works in PRMT's Warehousing and Distribution. The Investment Recovery Administrator manages the Surplus Property Program and seeks to assist other WMATA offices to identify products and materials that can be reused or sold. PRMT disposes of obsolete inventory items by sales (if marketable), as scrapped metal, donations, or by discarding.

According to the Manual, obsolete items are those that have been phased out or the operating systems that used the items were phased out or modified. The Manual does not include a definition for "excess inventory." PRMT, BUSV, and TIES personnel are responsible for identifying property that will be transferred to the Investment Recovery Administrator.

At the beginning of FY 2009, PRMT initiated a special project to identify obsolete and excess inventory, during which PRMT, BUSV and TIES identified $5.5 million of obsolete inventory. Of this amount, WMATA wrote-off $5.4 million in FY 2009. The

amount written-off in FY 2009 far exceeded the amounts written-off in FY 2008 and 2007: approximately $406,000 and $488,000 in obsolete inventory, respectively.[6]

We found that prior to the special project, the accumulation of obsolete items occurred because PRMT, BUSV and TIES had not consistently disposed of obsolete inventory on an on-going, annual basis, as required by the Manual. According to the former Director of PRMT, the special project to identify and dispose of excess inventory was postponed due to a shortage of staff.

The identification and disposal of obsolete and excess inventory is intended to maximize the cost effectiveness of inventory management. The timely identification and disposal of obsolete and excess inventory improves the management of warehouse storage space and accuracy of inventory in financial systems.

Recommendations

We recommend that the Deputy General Manager for Administration/Chief Financial Officer in conjunction with the Deputy General Manager/Chief Operating Officer:

4.1 Ensure that the process for identifying and disposing of obsolete and excess inventory, outlined in the Manual are consistently undertaken.

4.2 Revise the Manual to include a clear definition of excess inventory.

Other Matters of Concern

Lack of control over access to Storeroom 450

Our audit raised a concern about the lack of control over access to Storeroom 450. PRMT uses Storeroom 450 to store excess, obsolete, and non-inventory materials for disposal and temporarily stores inventory that is not obsolete when additional space is needed. Access to Storeroom 450 is not limited to PRMT employees with custody and management responsibility at the facility. We found that PRMT provided delivery personnel with keys to make deliveries at Storeroom 450 when the Investment

[6] Examples of obsolete items identified include 160 piston kits valued at $28,984 and 1,523 insulator, assembly, and fiberglass items valued at $28,601. The latter became obsolete because the specifications were changed to a new style that did not catch trash and cause fires on the tracks.

Recovery Administrator is not present. PRMT also provided the Office of Power with a key so they could access new and used electrical equipment stored at the facility at all times. The Investment Recovery Administrator told us that he is present at the facility most of the time, and the delivery personnel can always make arrangement for deliveries in advance.

The Manual states that property should not be delivered to Storeroom 450 without prior notification to, and approval of, the Investment Recovery Administrator. In addition, the GAO Standards for *Internal Control in the Federal Government* state that assets that are vulnerable to theft, or unauthorized use, such as inventories, should be physically secured. Access to assets and facilities should be controlled and restricted.

During FY 2009, over $5.5 million in obsolete inventory was transferred from various storerooms to Storeroom 450. Failure to have adequate control over access to the facility increases the risk of theft or unauthorized use of inventory.

Recommendation

We recommend that the Deputy General Manager for Administration/Chief Financial Officer:

5.1 Ensure that access controls to Storeroom 450 are in place and followed.

Lack of segregation of duties in the shipping to and receiving of obsolete inventory at Storeroom 450

Our audit also raised a concern about the lack of segregation of duties in the process of shipping and receiving obsolete inventory at Storeroom 450.

The Manual, Chapter 8, Section 8.8, states that a Storeroom 400 person will create an internal purchase order in Maximo to identify obsolete inventory items that are to be transferred to Storeroom 450. Once the items have been delivered to Storeroom 450, the supervisor (at this storeroom) is to compare information on the items received with information reported in Maximo. In addition, the GAO Standards for *Internal Control in the Federal Government* states that key duties and responsibilities,

such as authorizing and recording of transactions, and custody functions should be divided or segregated among different people to reduce the risk of error or fraud.

We found that the same individual located at Storeroom 400 performed conflicting duties. He processed the shipment of obsolete inventory items to Storeroom 450, as well as processed information on the receipt of these items at Storeroom 450. This individual is not a supervisor located at Storeroom 450. We were told by the former Manager, Warehousing and Distribution, that Storeroom 450 computer network access had not been upgraded from the "dial-up" system. As a result, the system was slow and inefficient for processing Maximo transactions. Because of this, the former Manager, Warehousing and Distribution, decided to conduct the receiving function for Storeroom 450 at Storeroom 400. This decision resulted in the override of controls for receiving obsolete items at Storeroom 450. This lack of segregation of duties is an internal control weakness that increases WMATA's exposure to fraud, theft, and abuse of its assets.

Recommendation

We recommend that the Deputy General Manager for Administration/Chief Financial Officer:

6.1 Ensure that there is adequate segregation of duties in shipping to and receiving obsolete inventory items at Storeroom 450.

Objectives, Scope and Methodology

The objectives of the audit were to (1) determine the size and rate of growth of WMATA's inventory; (2) assess the effectiveness of WMATA's inventory management systems, including the accuracy of accounting for its inventory; (3) assess the effectiveness of the methodology used for setting and re-setting order points and order rates; (4) assess whether WMATA follows its policies and procedures for maintaining and using bench stock inventory and (5) assess the effectiveness of WMATA's strategies for identifying and accounting for slow-moving inventory. We held exit meetings on August 25, 2009, and February 2, 2010, to discuss the findings and recommendations derived from the audit.

We reviewed selected records and transactions that were completed from FY 2007 through July 2009. We performed analyses of the security of inventory items issued from the FSPs, valuation of inventory assets, daily inventory counts, and items considered obsolete.

We selected two targeted samples from the inventory population. We selected storerooms with inventory valued at $1 million or greater and all FSP locations with inventory valued at $300,000 or greater. Our targeted sample consisted of eight storerooms and six FSP locations, with an aggregate value of $34 million ($29.1 million for storerooms and $4.9 million for FSP locations).

During the audit we selected 10 additional FSPs, because we found six FSPs that were not listed in WMATA's *Maintenance and Material Management System FSP & Storeroom Inventory Balance Report* and four other FSPs which were in close proximity to the six FSPs chosen in our sample.

We reviewed documentation of daily physical counts, observed the daily physical inventory counts, observed the organization of these storage locations, identified safety and security deficiencies, and interviewed superintendents, supervisors, storeroom clerks, and maintenance personnel to assess if their needs were sufficiently met.

We conducted interviews with officials in the Office of Accounting, Bus Maintenance, Railcar Maintenance, the Office of Elevator and Escalator, the Office of Procurement and Materials, the Office of Plant Maintenance, and the Office of Track and Structures System Maintenance. We conducted walkthroughs in storerooms and forward supply points.

We also reviewed the WMATA Maintenance Policies and Procedures Manual, prior audit reports issued by the Office of Auditor General (the predecessor to the Office of Inspector General), reports issued by WMATA's external auditors, reports produced in the Office of Accounting, the *Maximo Users Guide,* and the Government Accountability Office's *Standards for Internal Control in the Federal Government.*

We conducted our audit in accordance with *Government Auditing Standards* appropriate to the scope of the review described above. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance requirements of laws and regulations when necessary to satisfy our audit objectives. We believe that our audit provides a reasonable basis for our conclusion.

Administrative Matters

Corrective actions proposed (resolution phase) and implemented (closure phase) by the affected Departments/Offices will be monitored and tracked through the Office of Inspector General's Audit Accountability and Resolution Tracking System. Department policy requires that you develop a final corrective action plan (CAP) for our review in the automated system within 30 days of the issuance of this report. The CAP should set forth the specific action items and targeted completion dates necessary to implement final corrective actions on the findings and recommendations contained in this report.

We appreciate the cooperation and assistance extended by your staff during our audit. If you have any questions, please contact Andrew Clemmons, Assistant Inspector General for Audits, on (202) 962-1014 or me on (202) 962-2515.

/s/

Helen Lew
Inspector General

Attachment

cc: GMGR—John B. Catoe
DGM/COO—Dave J. Kubicek
BUSV—Jack Requa
IT—Suzanne J. Peck
CHOS—Shiva K. Pant
COUN—Carol A. O'Keeffe

Attachment I

M E M O R A N D U M

SUBJECT: OIG Audit Report: *Review of Controls Over Storeroom Operations 10-002*

DATE: March 22, 2010

FROM: DGMA/CFO – Carol Dillon Kissal

TO: IG/OIG – Helen Lew

This is in response to the Office of Inspector General's (OIG) Draft Audit Report, entitled "Review of Controls Over Storeroom Operations", dated March 2, 2010. We offer the following comments for your consideration prior to finalizing the audit report.

Management concurs with the findings identified by the Office of Inspector General as outlined in the *Review of Controls Over Storeroom Operations 10-002*. Many of these issues date back to FY2006 and the initial Maximo implementation by Booz Allen Hamilton. The deficiencies from this implementation include insufficient system controls, interface issues with PeopleSoft and lack of user training.

Finding 1. Internal Control Weaknesses Identified in Inventory Management Systems

Auditor's Recommendations:

We recommend that the Deputy General Manager for Administration/Chief Financial Officer in conjunction with the Deputy General Manager/Chief Operating Officer:

1.1 Finalize the Corrective Action Plan to address the FSP inventory matter raised by the external auditors in their October 22, 2010, Management Letter.

1.2 Take appropriate action to limit the storeroom clerks' access to Maximo screens that shows on-hand quantities in the system until the storeroom clerk completes the inventory count.

1.3 Ensure that all operations personnel comply with the security measures prescribed in Chapter 7, sections 7.2 and 7.5 of the Manual.

Management Response
Response 1.1
The corrective action plan follows:

1) Inventory in the Forward Supply Points will be physically moved to either storeroom 300 or 400 or will be converted to a 900 series storeroom by May 31, 2010.

2) After step 1 has been completed, no later than June 30, 2010, entries will be recorded to write off any remaining value of FSP inventory.

3) The use of FSP's will be eliminated effective June 30, 2010 and all references will be removed from the applicable manuals._

Response 1.2

The Office of Procurement (PRMT) has identified the appropriate system access to Maximo based on user/job requirements. PRMT has provided the Department of Information Technology (IT) with these requirements. Modifications to the software are required and this change is scheduled for completion by May 31, 2010.

Response 1.3

The Office of Storeroom and Materials Logistics (SRML) over Bus and Rail are preparing two Staff Notices to make all Storeroom Clerks aware of the Storeroom Access procedures and Inventory Security procedures. Both Staff Notices will be distributed to SRML staff no later than March 19, 2010.

Finding 3. WMATA Has No Policies and Procedures Regarding Bench Stock Inventory

Auditor's Recommendations:

We recommend that the Deputy General Manager for Administration/Chief Financial Officer:

3.1 Develop and issue policies and procedures for defining, maintaining, and accounting for bench stock inventory.

Management Response

Response 3.1

Procurement currently has a Maintenance and Materials Policy and Procedures Manual that governs the use and management of inventory. The manual will be updated to include the policies and procedures for defining, maintaining and accounting for bench stock inventory by April 30, 2010. Comprehensive user training on the updated procedures will be completed by June 30, 2010.

Finding 4. Obsolete and Excess Inventory was Not Actively Identified and Disposed of Prior to FY 2009

Auditor's Recommendations:

We recommend that the Deputy General Manager for Administration/Chief Financial Officer in conjunction with the Deputy General Manager/Chief Operating Officer:

4.1 Ensure that the process for identifying and disposing of obsolete and excess inventory, outlined in the Manual are consistently undertaken.

4.2 Revise the Manual to include a clear definition of excess inventory.

Management Response

Response 4.1
The Manager, Warehouse and Distribution or his designee will re-train the MSF staff, the Storerooms Operations staff, and the end users to ensure processes and procedures are being followed. The Manual will be updated to ensure that SRML and BMNT storeroom operations staff are specifically included in the processes. This will be completed by August 1, 2010.

Response 4.2
PRMT will ensure that the Manual is updated to reflect the following definitions of excess inventory:

- For FY 11, no more than a 3 years supply on hand based on current movement history
- For FY 12, no more than a 2 years supply on hand based on current movement history
- For FY 13, no more than a 1 years supply on hand based on current movement history
- After FY 13, PRMT will review definition to ascertain whether or not a lower than 1 year supply on hand is a practical goal.

This will be completed by April 1, 2010.

Other Matters of Concern
Auditor's Recommendations:

We recommend that the Deputy General Manager Administration/Chief Financial Officer:

5.1 Ensure that access controls to Storeroom 450 are in place and followed.

Management Response

Response 5.1
PRMT will work with IRPG to install an electronic entry system at Storeroom 450 requiring WMATA ID card or assigned token to be used to gain entry to the facility. A funding source needs to be identified so that the $150K system can be installed. Expected completion date of January 1, 2011.

Auditor's Recommendations:

We recommend that the Deputy General Manager Administration/Chief Financial Officer:

6.1 Ensure that there is adequate segregation of duties in shipping to and receiving obsolete inventory items at Storeroom 450.

Management Response

Response 6.1
PRMT is in the process of having Storeroom 450 internet capability it is expected to be completed by June 1, 2010. Once completed, new receiving procedures will be created. These procedures will include that a Storeroom clerk will report to Storeroom 450 on a daily basis to receive in and stow materials into Maximo. They will accomplish this by physically reviewing and comparing the material received to paperwork with the shipment and record receiving events into Maximo in accordance with established storeroom processes and procedures.

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