



Airport Warehouse Inventory – Internal Controls Audit Report A2017-08

Issued by the
Internal Audit Office
July 12, 2017

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

EXECUTIVE SUMMARY

At the request of the El Paso International Airport's Management, the Internal Audit Office has completed an audit of the Airport Warehouse Inventory Internal Controls. Based on the results of the audit, five findings have been identified. All five findings are considered significant in nature.

Listed below is a summary of the findings identified in this report:

1. The El Paso International Airport does not have documented Policies and Procedures for the Airport Warehouse.
2. A review of inventory data and inventory adjustments recorded in the Airport's Inventory Management System (WebTMA) identified the following:
 - Inventory data is incorrect and incomplete.
 - Inventory adjustments are not reviewed, approved, controlled, or properly justified.
3. Part requests, orders, arrivals, issuances, and payment of parts are not properly reviewed, approved, or supported.
4. Physical inventories at the Airport Warehouse are not properly performed, reviewed, nor documented.
5. Warehouse items, equipment, and tools are exposed to theft, loss, or misplacement due to the lack of monitoring and internal control measures.

For a detailed explanation of the findings please refer to the body of this Audit Report.

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

BACKGROUND

The Airport Warehouse houses the buyers for the El Paso International Airport. All items are delivered to the Warehouse before they are disbursed to their respective division. The Warehouse is divided into three separate areas: the Administrative area, “Warehouse #1,” and “Warehouse #2.” Warehouse #1 houses the “quick turnover” items and bulky items such as asphalt, concrete, salt, and etc. are stored in Warehouse #2. The Warehouse uses a Work Order System from WebTMA to order and track supplies. According to Airport calculations, the Warehouse holds and purchases approximately \$1.6 million worth of inventory every year.

AUDIT OBJECTIVES

The purpose for the Airport Warehouse Inventory – Internal Controls Audit was to ascertain whether internal controls are adequate and operating as intended. To determine this, the following areas were assessed:

- Airport’s internal Policies and Procedures,
- Separation of duties,
- Security access to the warehouse, tools, and supplies,
- The Airport’s Inventory Management System – WebTMA,
- Ordering, receiving, and payment of goods and services.

AUDIT SCOPE

The audit period covered the operations of the Airport Warehouse during Fiscal Years 2016 – 2017. Site work was conducted during the period of February 21, 2017 to July 12, 2017.

AUDIT METHODOLOGY

In order to achieve the audit objectives, we:

- Conducted interviews and observations with Airport management and Warehouse staff,
- Reviewed Warehouse practices for safeguarding inventory, equipment, and tools,
- Reviewed Warehouse inventory and tested for accurate inventory records,
- Reviewed access levels and software capabilities of the Airport’s Warehouse Inventory Management System – WebTMA,
- Determined if periodic inventory counts are conducted properly,
- Reviewed adjustments made between inventory counts and inventory records,
- Reviewed process for requesting, ordering, issuing, and authorizing payment of goods and services,
- Reviewed inventory records for Warehouse tools.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding 1

Policies and Procedures

City of El Paso Strategic Plan 2016:

- Goal 6.13; *Maintain systems integrity, compliance, and business continuity.*

A strong system of internal controls requires that Policies and Procedures are written to document routine or repetitive activity followed by an organization. The development and use of Policies and Procedures are an integral part of a successful quality of system as it provides individuals with the information and guidance to perform a job properly.

The El Paso International Airport (EPIA) does not have documented Policies and Procedures for the Airport Warehouse. There are no Policies and Procedures for:

- Requesting, ordering, receiving, or issuing materials,
- Reviewing invoices/receipts,
- Authorizing payment of goods/services prior to sending to Accounts Payable,
- Check-in/out of tools,
- Storing, tagging, or recording inventory,
- Disposing of or transferring materials from the Warehouse,
- Physical inventory counts or inventory adjustments,
- Warehouse security controls.

Recommendation

EPIA should develop a comprehensive Policies and Procedures Manual for the Airport Warehouse to address all the areas listed above. Once developed, the manual should be distributed to all the Warehouse employees.

Management’s Response

EPIA will formulate a Policies and Procedures Manual in the areas denoted above and ensure that such manual will be dispersed to all pertinent employees.

Airport staff will be researching Best Management Practices (BMP's) in warehouse operations & established practices in place at other departments within City of El Paso (COEP) facilities and will incorporate with COEP established accounting procedures and policies.

Responsible Party

Terry Sharpe, Deputy Director of Operations and Security

Implementation Date

6/1/2018

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Finding 2

Airport's Inventory Management System - WebTMA

City of El Paso Strategic Plan 2016:

- Goal 6.6; *Ensure continued financial stability and accountability through sound financial management, budgeting, and reporting.*

City of El Paso Asset Accounting Manual (dated January 2011):

- Section 10.0 states; *In accordance the City of El Paso procedures, each department is the custodian of and shall be responsible for all City's property with-in the said department.*
- Section 10.1 states; *Each department of the City of El Paso is responsible for maintaining a current inventory of moveable property in their department.*

A review of inventory data and inventory adjustments recorded in the Airport's Inventory Management System (WebTMA) identified the following:

- Inventory data is incorrect and incomplete.
 - 10 out of 10 (100%) items reviewed did not have the correct "Quantity On-Hand" amounts resulting on an inventory shortage of \$15,852.69.
 - 4 out of 10 (40%) items reviewed listed the wrong "Bin Location."
 - 3 out of 10 (30%) items reviewed did not have a "Bin Location" on file.
 - Inventory adjustments are not reviewed, approved, controlled, or properly justified.
 - Six out of eight (75%) Warehouse employees have access to post inventory adjustments.
 - A non-Warehouse employee (Electrician Supervisor) has access to post inventory adjustments.
 - Inventory adjustments are posted manually by computer or remotely through a phone app.
- Manual Adjustments
- 290 out of 290 (100%) adjustments did not have supervisor approval.
 - 25 out of 290 (8.62%) adjustments did not have a justification.
 - 262 out of 290 (90.34%) adjustments listed the same vague justification – "Cycle Count."
- Remote Adjustments
- 6 out of 6 (100%) adjustments did not have supervisor approval nor a justification.

Recommendation

El Paso International Airport (EPIA) Management should:

- Perform a physical inventory to reconcile WebTMA records and items stored at the Airport Warehouse,
- Limit the number the employees who can post inventory adjustments,
- Implement a review process to ensure inventory adjustments are approved and properly justified,
- Consideration should be given to updating the Inventory Management System to a version that will address the needs and requirements of the EPIA.

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Management's Response

The EPIA warehouse annual inventory is scheduled for August 28-30, 2017. Warehouse and Accounting sections have developed protocols to follow during this inventory to include separation of duties and oversight/auditing of the process by EPIA Accounting section. Information gathered during this inventory will drive the study of replacing the work order/inventory management system. Additionally, lines of authority and separation of duties will be defined and implemented to follow accepted warehouse practices, to include limitation of number of employees who can post inventory adjustments.

Responsible Party

Terry Sharpe, Deputy Director of Operations and Security

Implementation Date

6/1/2018

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Finding 3

Material Requests, Orders, Arrivals, Issuance, and Payment Authorization

City of El Paso Strategic Plan 2016:

- Goal 6.6; *Ensure continued financial stability and accountability through sound financial management, budgeting, and reporting.*

Procedures In-Practice followed by the Airport Warehouse Staff (*Procedures Not Documented*):

- Material requests must be approved by a supervisor/manager and supported by a Material Request & Issue (M&I) Slip or an email.
- Material “arrivals” must be documented on carrier’s paperwork (receipt, invoice, packing list, etc.) with a “Received By” stamp to acknowledge arrival and review. Plus, arrival must be recorded in Airport’s Management Inventory System (WebTMA) by posting materials to corresponding Purchase Order.
- Material “issuance” must be documented on the M&I Slip/Sales Order by obtaining signature/initials of the employee who received the materials. Plus, issuance must be recorded in WebTMA by posting the person who received the materials and charging materials to the appropriate Work Order/Sales Order.
- Invoices and receipts must be reviewed for accuracy and approved before authorizing payment.

Part requests, orders, arrivals, issuances, and payment authorizations are not properly reviewed, approved, or supported. A random sample of 15 transactions posted in the Airport’s Inventory Management System (WebTMA) between January 1, 2017 – March 31, 2017 were reviewed to evaluate how part requests to payment authorizations are managed at the Airport Warehouse. Our review identified the following:

Area Tested	Discrepancies
Part Requests	4 out of 15 (26.66%) transactions did not have documentation (M&I Slip) to support the request and/or supervisor approval to authorize the request.
Ordering Parts	5 out of 15 (33.33%) transactions did not have supervisor approval when parts were ordered.
Part Arrivals	9 out of 15 (60.00%) transactions had inaccurate “Part Arrival” information recorded in WebTMA or no “Received By” stamp acknowledging the arrival and review of parts delivered.
Issuing Parts	10 out of 15 (66.66%) transactions had inaccurate "Issued Part" information recorded in WebTMA or no signature on file of the employee who received the parts.
Authorizing Payment	8 out of 15 (53.33%) transactions contained an invoice not approved for payment by a supervisor and/or no evidence demonstrating invoice amounts were reviewed for accuracy.

Recommendation

EPIA should implement a secondary review and approval process to ensure material requests and purchases are properly documented, posted, and supported before payment is authorized by the Airport Warehouse.

City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08

Management's Response

EPIA will enhance the payment review process already in place to include more rigorous oversight by the EPIA Accounting section. This will involve creating a flowchart for all invoices to follow so that all necessary paperwork and approvals are in place prior to payment authorization.

Responsible Party

Terry Sharpe, Deputy Director of Operations and Security
Monica Vera, Administrative Services Manager

Implementation Date

12/1/17

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Finding 4

Physical Inventories

City of El Paso Strategic Plan 2016:

- Goal 6.6; *Ensure continued financial stability and accountability through sound financial management, budgeting, and reporting.*

City of El Paso Asset Accounting Manual (dated January 2011):

- Section 10.1 states; *Each department of the City of El Paso is responsible for maintaining a current inventory of moveable property in the department.*
- Section 10.6 states; *Department head should not rely solely on the annual inventory conducted by Property Control Section for physically validating their assigned property, but should conduct their own periodic physical inventory.*

Physical inventories at the Airport Warehouse are not properly performed, reviewed, nor documented. A review of the Airport Warehouse's practices for performing physical inventory counts identified the following:

- A "floor to sheet" or "sheet to floor" test is not performed when validating inventory counts.
- No supporting documentation is kept to demonstrate a physical inventory was performed or to support total inventory costs.
- There is no secondary review for the inventory counts and inventory cost calculations submitted by the Airport Warehouse staff.

Recommendation

EPIA Management should implement a review process to ensure physical inventory counts and total inventory cost calculations are properly conducted, calculated, and documented.

Management's Response

The upcoming inventory will establish a baseline of warehouse inventory under which new procedures will be established and implemented. As previously stated, Airport staff will be researching and procuring a true warehouse inventory-tracking system.

Responsible Party

Terry Sharpe, Deputy Director of Operations and Security
Monica Vera, Administrative Services Manager
Irene Lucero, Materials Specialist Supervisor

Implementation Date

8/1/2018

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Finding 5

Physical Security of Warehouse Inventory & Tools

City of El Paso Strategic Plan 2016:

- Goal 6.7; *Deliver effective and efficient processes to maximize value in obtaining goods and services.*

City of El Paso Asset Accounting Manual (dated January 2011):

- Section 10.0 states; *In accordance the City of El Paso procedures, each department is the custodian of and shall be responsible for all City's property with-in the said department.*
- Section 10.1 states; *Each department of the City of El Paso is responsible for safeguarding said property.*
- Section 10.02 states; *Each Department Head is accountable for inventory, as defined in this manual, within his/her organizational unit....*

A review of the Airport's practices for physically safeguarding Warehouse inventory and tools from theft, loss, or misplacement identified the following weaknesses:

Warehouse Surveillance Cameras

- The Warehouse Supervisor does not have access to review camera footage and there are no interior cameras covering the Warehouse Offices or the main Warehouse entry door.
- 3 out of 17 (18%) surveillance cameras were not functioning properly on March 7, 2017.

Warehouse Entries

- After-Hour Card Swipe entries are not reviewed on a regular basis.
- No logs are kept to record non-Warehouse employee, visitor, or after-hour visits and the purpose of their visits.

Inventory Security

- Warehouse employees are allowed to have personal items (lunch box, purses, backpacks, etc.) in their work area instead of limiting the items to their lockers.
- The customer counter area has an unlocked door with access to the inventory items that is sometimes left unattended.
- Warehouse employees are not required to declare and inspect all materials leaving the Warehouse.

Warehouse Tools

- The Airport Warehouse does not maintain an inventory list or conduct periodic physical inventories of the tools and equipment stored in the Tool Room.

Recommendation

EPIA Management should address these physical security weaknesses in order to strengthen and improve internal controls to safeguard Warehouse inventory and tools from loss, misplacement, or theft.

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

Management's Response

- The warehouse surveillance camera system will be relocated to the warehouse supervisor's office to allow the warehouse supervisor to monitor activity via the camera system.
- Warehouse entry procedures are being modified to include full-time access control at the public entryway; a sign-in sheet for visitors; and after-hours entry tracking by non-warehouse employees.
- Warehouse employees will be required to store personal items in their lockers and not at their work stations.
- Warehouse customer door is being modified to not allow entry without proper escort.
- All Employees will be required to declare and inspect materials leaving the warehouse.

Responsible Party

Terry Sharpe, Deputy Director of Operations and Security
Irene Lucero, Materials Specialist Supervisor

Implementation Date

12/1/2018

**City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded our work on the objectives of the Airport Warehouse Inventory – Internal Controls Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with *Generally Accepted Government Auditing Standards*, we are required to conclude whether the El Paso International Airport (EPIA) met the objectives of this audit. Based on our audit work, we have determined that:

EPIA did not meet the audit objectives. Inefficiencies and internal controls weaknesses were identified in all the areas assessed:

- There are no documented Policies and Procedures for the Airport Warehouse,
- There is no supporting documentation, separation of duties, or proper justification for inventory adjustments and physical inventories,
- Security measures to safeguard Warehouse supplies and tools are exposed to theft, loss, or misplacement,
- Access levels and inventory records listed in the Airport's inventory database – WebTMA are incorrect, incomplete, and not monitored,
- Requests, ordering, receiving, issuing, and payment of goods and services are not properly reviewed, approved, and supported.

Based on the results of our review, inventory records in WebTMA are not reliable and security measures at the Warehouse are not adequately designed to detect fraud, waste, and abuse. By implementing the recommendations contained in this report, it will assist management in improving the internal controls at the Warehouse. Consideration should be given to update the Inventory Management System to a version that will address the needs and requirements of the EPIA.

We wish to thank the EPIA management and Warehouse staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File

Miguel Ortega, CGAP
Auditor II

Signature on File

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Auditor IV

City of El Paso
Internal Audit Office
Airport Warehouse Inventory – Internal Controls Audit A2017-08

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