



Storeroom & Materials Audit Review

Governance & Audit Report No. 2021-1

Report Issued June 08, 2021

EXECUTIVE SUMMARY

Background

The FY 2021 Internal Audit Work Plan approved by the Governance and Audit Committee included a review of IndyGo's Storeroom & Materials Management Process.

We noted that IndyGo is preparing to move to a multi-site structure and the Storeroom and Materials Management function will be, to some extent, duplicated at a new facility. Accordingly, in performing this review over the Storeroom and Materials Management function, we considered what aspects of the current operation should be modified or changed prior to moving. By performing this review at this point in time, there will be ample time to make any proposed changes to the process at both the current 1501 Washington location as well as the future East Campus site.

Our assessments are performed in accordance with the professional practice standards of the Institute of Internal Auditors. This report was prepared for use by IndyGo's Board of Directors, Governance and Audit Committee, and management.

Objective and Scope

The objective was to obtain an understanding of key processes supporting IndyGo's storeroom and materials functionality and assess the effectiveness of the design and operations of internal controls throughout the process. In addition, as with all of our reviews, we aimed to also identify any potential opportunities for control and process improvement.

The scope of the audit was to review storeroom security, inventory management systems, inventory accounting, segregation of duties, inventory documentation controls and management oversight/review of internal controls surrounding the Inventory function.

Overall Report Rating & Observations

(See Appendix A for definitions)

	Report Rating	Number of Observations by Rating		
		High	Medium	Low
Storeroom & Materials Management Process Audit	Medium	0	3	0

Overall Summary and Review Highlights

As a result of our review, we have noted three opportunities for process improvement and no opportunities for internal control improvement. We would like to recognize current Storeroom & Materials leadership, and the entire Storeroom & Materials team, for having implemented the policies and procedures that have supported the positive results of our review.

Also notable is that the Storeroom function was recently reorganized. Previously the Storeroom reported into Operations, whereas under the new structure it reports up into Procurement. There were numerous reasons for the shift and doing so had helped to provide Storeroom leadership with resources and expertise not previously available to them. Procurement leadership and Storeroom leadership have worked together throughout the reorganization process, including having collaborated in the drafting of a comprehensive, multi-point action plan that has become a roadmap of continuous improvement for the Storeroom as a whole.

In our review, we noted through observation, testing and inquiry three areas for improvement consideration, including one related to cycle counts, another around tracking of core credits and a third involving system access. We believe these are medium risk and can be easily rectified.

We would like to thank IndyGo staff and all those involved in assisting us in connection with the review. Questions should be addressed to the IndyGo Department of Governance and Audit at: batkinson@indygo.net.

OBSERVATIONS SUMMARY

Following is a summary of the observations noted. Definitions of the observation rating scale are included in Appendix A.

Governance and Audit Observations	
Recommendation Title	Rating
1. Cycle Count Process	Medium
2. CORE Credit Process	Medium
3. Accounting Access to AX Inventory Module	Medium

1. Cycle Count Process

Observation:

IndyGo's Storeroom and Materials Management does not have an adequate cycle count system in place.

Recommendation:

We recommend that Storeroom and Materials Management review possible options for a new cycle count system or minimally added capabilities and functionalities in existing system.

Management's Response:

Observation Rating: Medium

As previously identified in the Storeroom Action Plan created by Procurement and Storeroom Management, the current cycle count system is not designed to adequately meet the needs of the Storeroom. The current cycle count process utilizes handheld scanners that were originally intended to add efficiencies into the counting process. In practice, however, the scanners do not have adequate functionality.

Specifically, the following issues were noted with regards to the existing cycle count process:

- Scanners generate at random all over the storeroom.
- Scanners do not have PRINT capabilities
- Management is unable to generate specific/future counts
- Scanners are unable to scan items out of place

The scanners generate the cycle count items at random. Based on the randomness of the selection, this may dictate that the counter must travel from one end of the storeroom to the next and then back again. It will only generate one item at a time and

Management should research possible options for a new cycle count system or look for ways to enhance the functionalities of the current cycle count system.

Before a new solution is selected and implemented, Storeroom Management should be involved in the planning process leading up to the forthcoming D365 upgrade. IndyGo should ensure that the appropriate cycle counting functionalities are made available within D365's Inventory module.

Additionally, Storeroom leadership should explore best-fit handheld technology to help facilitate the cycle counts. Various types of handheld device configurations can be leveraged, such as handheld scanners, tablets, tablets + finger scanners, etc. Efforts should be dedicated to deciding upon the most appropriate solution for IndyGo.

Action Plan:

Management agrees and has also identified this gap. We will work diligently though the D365 upgrade which is currently underway to ensure this invaluable tool and necessary process is rectified. The D365 upgrade is slated to be complete by Spring 2022.

Responsible Parties:

Director of Procurement & Supply Chain Management

Due Date:

Expected Spring 2022 with D365 Implementation

management cannot limit the count to one particular area of the storeroom. This becomes an issue of productivity and is labor intensive for storeroom personnel.

The scanners do not have PRINT capabilities. If storeroom management was able to print the cycle counts, they could organize the counts based on location to mitigate the added time it takes to perform these cycle counts.

The scanners do not allow for management to generate specific items they want to count or future counts. It would be beneficial for management to be able to either check a particular item in question or work ahead on cycle counts. Understanding that the storeroom is especially busy on certain days or if occasions arise where it is short staffed, management could work ahead when Storeroom personnel aren't as busy. This could help alleviate the times where storeroom personnel get behind.

The scanners are also unable to scan any item found in a bin location that is not included in the generated cycle count. This information must be manually input to the scanner, which is time consuming and creates room for human keying errors.

2. CORE Credit Process

Observation:

IndyGo currently does not have a formal process for tracking a CORE item from time of receipt into inventory through returning the item back to the vendor.

Recommendation:

We recommend that management develop and document a process for ensuring that all CORE items received by IndyGo are returned to the vendor after use for a credit.

Management's Response:

Observation Rating: Medium

Certain types of parts can be recycled or, more specifically, remanufactured for future sale. These parts include a 'core' price that is used as a form of deposit on the portion of the part that can be remanufactured and that is designed to encourage the return of the used part. Returning cores provides IndyGo with an invoice credit which partially offsets the original cost.

G&A inquired with management as to how these parts are being tracked from the time of receipt through to receiving the credit back from the vendor. The process, even though it has been improved from the last time it was reviewed, we feel there is still opportunity for further improvement. We believe that there is no process to ensure that all core parts received in are actually returned for credit. The part is marked as CORE when received but there is no tracking to ensure that IndyGo ultimately returns that part for core credit.

IndyGo receives approximately \$125,000+/- per year in core credits. We were also unable to review what has been received into inventory that is a core part to ensure we are receiving all the credits we are entitled to. There is no way of confirming whether

Management should develop a formal process to track all core parts upon receipt. If the part is tracked on the front end, then either the Storeroom or Accounting can match these up with the credit at the end of the process and be assured that we know which items have not been returned. This process should be documented and communicated to the Maintenance and Operations Teams.

Action Plan:

The core parts are stamped "CORE" on the box upon receipt prior to receiving and stocking in the warehouse. This ensures that the mechanic or end user is aware that this part is subject to credit. As the warranty administration position remained with the operations team when restructuring, we ask that this position develops the process. The store will then follow it diligently.

We suggest working with the D365 consultant to implement a notation on the stock number that notes it is a core part. The reporting mechanisms in D365 could then be leveraged to understand inventory levels at any time of all stock items denoted core.

Responsible Party:

Director of Procurement & Supply Chain Management

Buying & Warranty Administrator

Due Date:

December 31, 2021

<p>all core parts had indeed been returned for credit or how much in core credit we had potentially missed.</p>		
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3. Accounting Access to AX Inventory Module

Observation:

There is currently no visibility by Accounting Management to inventory modules in AX and Dynaway.

Recommendation:

Management should consider reviewing access rights to the AX inventory module to ensure that Accounting is granted the appropriate access rights.

Management's Response:

Observation Rating: Medium

While IndyGo Accounting does not have significant involvement with the day-to-day operation of the Storeroom, we noted through discussion with the Director of Accounting that they do not have access to the inventory modules in Microsoft AX. Accounting is responsible for month-end balancing of the entire general ledger but cannot access the inventory module even on a read-only or review capacity.

We recommend that access be reviewed for the AX inventory modules that directly impact the month-end review process performed by Accounting. More importantly, going forward as part of the D365 upgrade, access rights should be re-assessed for reasonless and appropriateness. At a minimum, Accounting should be granted read-only access.

Action Plan:

It has been the past belief that this activity delineated a separation of duties. In light of understanding how the accounting team is responsible for all GL balancing, and they do not even have read-only rights, this permission will be granted via IT ticket. The ticket should be created by the requestor and will be approved by the Deputy CFO.

Responsible Party:

Director of Procurement & Supply Chain Management

Due Date:

On or before August 1, 2021

APPENDIX A – RATING DEFINITIONS

Observation Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
Low	Process improvements exist but are not an immediate priority for IndyGo. Taking advantage of these opportunities would be considered best practice for IndyGo.	Low	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	Medium	Certain internal controls are either: <ol style="list-style-type: none"> 1. Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the review. 2. Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.
High	Significant process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	High	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. <ol style="list-style-type: none"> 1. Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed. 2. Significant non-compliance with laws and regulations. 3. High observations which are pervasive in nature.
Not Rated	Observation identified is not considered a control or process improvement opportunity but should be considered by management or the board, as appropriate.	Not Rated	Adequate internal controls are in place and operating effectively. No reportable observations were identified during the review.