DRAFT – FOR INTERNAL DISCUSSION PURPOSES

Regional Transportation Authority

Inventory Management Review

January 2015

Table of Contents

Executive Summary

Background: In 2011, the Regional Transportation Authority's (RTA) Internal Audit function conducted an enterprise-wide risk assessment, which included RTA, the Chicago Transit Authority (CTA), Metra, and Pace, also known as the service boards. A key output of the risk assessment was a risk based five-year Internal Audit Plan. The five-year Internal Audit Plan was composed of internal audits based on an universal risk profile of all the service boards. The Inventory Management Review was identified as part of the five-year Internal Audit Plan.

Objective: The objectives of this engagement were to:

1. Evaluate the effectiveness of internal controls, and assess the appropriateness of current policies, procedures and system applications that are used to record and track agency assets.
2. Assess current policies and procedures for the Inventory Management functions.
3. Identify process improvement opportunities, if applicable.

Scope: The scope of this review included inventory management policies, procedures, and transactions in place or occurring during the period of January 1, 2012 through December 31, 2013.

Approach: The approach employed to meet the project objectives included five (5) tasks, which are summarized in the following table.

Phase		Sub-Task Overview
I	**Conduct Initial Evaluation:** The objective of this phase was to conduct scoping activities to help determine the level of audit effort required to meet RTA's objectives.	• Conducted initial planning meeting with the RTA and/or Service Board stakeholders to baseline expectations for the engagement, including confirming the objectives, scope and approach, project team, necessary involvement and support, timeline, and deliverables. • Conducted interviews with appropriate employees to assess the level of audit activity conducted related to the in scope audits and receive input on the perceived risk level to warrant a thorough audit. • Conducted document review of appropriate documentation to include prior audits, reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years to gain an understanding of level of audit activity related to in scope audits. • Conducted analysis of information received from interviews and documentation review.
II	**Develop Audit Approach & Audit Program:** The objective of this phase was to develop the audit program and audit approach based on the level of audit activity previously conducted at the RTA and service boards.	• Drafted audit program guide based on our understanding of compliance requirements and other relevant information identified. • Reviewed audit program guide with RTA Project Sponsor to ensure completeness and reasonableness of testing procedures to be conducted. • Received validation of audit program guide form RTA Project Sponsor prior to testing procedures.

Phase		Sub-Task Overview
III	**Execute Audit Approach:** The objective of this phase was to execute the audit approach and initiate fieldwork activities.	• Executed audits per approved audit program guide requirements. • Documented audit results in a manner that is easily understandable and can be substantiated by supporting documentation.
IV	**Review Results of Audit:** The objective of this phase was to review and analyze the audit results to formulate findings and recommendations.	• Conducted analysis of testing results to formulate into exceptions, trends, and common themes amongst Services Boards.
V	**Issue Audit Report:** The objective of this phase is to communicate the draft report to applicable stakeholders, solicit feedback, and finalize the report.	• Documented observations and recommendations resulting from audits, where applicable. • Discuss draft audit report with Client Sponsor and Key Stakeholders to solicit feedback. • Incorporate Client Sponsor and Key Stakeholders feedback and management responses, as necessary and finalize report for distribution to RTA.

Summary of Results: As a result of this review, there were observations identified in the areas of compliance, process gaps, and process improvement opportunities. Detailed results are located in the Testing Overview and Observations and Recommendations sections of each Service Board review; however, a summary of the results are as follows:

Observation		METRA	PACE	CTA	RTA
1	Exceptions were identified during the file review related to inventory management process compliance with policies and procedures.	4	2	N/A	Not In Scope

Key themes identified in the findings were:

1. Inventory management systems are standalone and are limited in their ability to:
    a. Record audit trail to track the history of cycle counts and adjustments.
    b. Migration of historical data between old and new systems.
    c. Extraction information in a manner to be manipulated or sorted to perform specific queries.
2. Cycle counting process is manual in nature with an opportunity to leverage technology to help streamline processes, manage documentation, increase operational efficiencies, and promote standardization.
3. Compliance exceptions were identified related to adherence with existing policies and procedures and/or completion of file documentation:
    a. Missing receiving document number.
    b. Missing material request number and approver.
    c. Missing support documentation/audit evidence.
    d. Inventory items may be issued to user departments prior to formal Work Order being submitted.

METRA

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Testing Overview

Testing Overview: To help determine the scope of each Service Board audit, an initial assessment was conducted to gain an understanding of level of previous audit activity related to the in-scope objectives. The initial assessment included interviews and review of relevant documentation, such as prior audits, reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years. As a result of this initial evaluation, it was determined that there were no previous activities conducted at Metra that addressed the current scope of work; therefore, the full audit program was to be executed to meet the project objectives.

The testing procedures executed consisted of two components: (1) compliance testing against applicable governance documents, and (2) process analysis against industry standards/better practices, if applicable.

To gain an understanding of the policies, procedures, regulations, etc. related to inventory management, we conducted multiple internal stakeholder interviews, and reviewed the following documentation.

Document Name	Document Description
Inventory Management Procedures	Procedures/guidance governing hiring and promotion procedures.

As part of the process testing, there were six (6) core processes identified from the above policy and procedure documentation and current Metra practices related to inventory management processes. A gap analysis of the twelve (12) processes was conducted against defined criteria to help identify potential gaps. The six (6) core processes identified are as follows:

	Process
1	Count Structure, Recording & Reconciliation
2	Procurement
3	Receiving, Inspection & Stocking
4	Material Issuance & Transfer
5	Obsolescence
6	Restocking & Replenishment

The results of the gap analysis are provided in the following table. The table provides an overview of the process, testing criteria, if there was a gap identified with expected content and Metra practices, and description of such gap, if applicable. The following scale was utilized to assess if a gap was identified:

Gap Analysis Scale	
Yes	**The current process did not include/address the defined criteria.**
No	**The current process included/addressed the defined criteria.**
Partial	**The current process partially included/addressed the defined criteria but did not fully incorporate all aspects.**

The results of the gap analysis are as follows:

Category		Process Definitions Testing Criteria	Maturity Rating	Gap Description
1	**Count Structure & Reconciliation**	Processes for schedule/frequency for the counting process; developed written physical inventory instructions for individuals participating in the count; defined variance tolerances between quantity counted for each inventory classification compared to the inventory record; processes for error investigation, recount and resolution of identified variances; segregation of duties; defined reporting relationships with approvers and reviewers; defined roles, responsibilities and position titles assigned to specific processes; documented management/record retention process.	**Established**	• Variance tolerances between quantities counted for each inventory classification compared to the inventory record are not defined in the policies and procedures. • Document management/record retention policies and procedures do not address if cycle counts sheets are filed/retained and for what period of time.
2	**Procurement**	Processes for initiating orders via Purchase Decision Matrix Purchase Order (Requisitions); preparing, reviewing and issuing PO changes; competitive sourcing (solicitation of RFPs and RFQs); evaluating and selecting suppliers; purchasing from approved suppliers; non-competitive (sole source) procurement and exceptions to competitive sourcing; evaluating supplier performance and related competences; defined transaction authority levels for purchases; segregation of duties between purchasing and warehousing process; defined reporting relationships with approving and review duties; defined roles, responsibilities and position titles assigned to specific processes; documented management/Record retention process.	**N/A**	• Procurement for inventory is a part of the general procurement process, which is not a directly a part of this scope, but is governed by its own separate set of policy and procedures documentation.
3	**Receiving & Inspection**	Processes for inspecting shipments to verify minimum conditions and determining level of acceptance; matching supplier's packing list to PO to determine if there are any discrepancies; handling product substitutions and over-shipments; partial deliveries; failed inspections; segregation of duties between purchasing and warehousing process; defined key performance indicators related to the supplier performance for delivery of shipment; defined roles, responsibilities and position titles assigned to specific processes;	**Established**	• Key performance indicators related to the supplier performance for delivery of shipment are not defined in policies and procedures.

Category		Process Definitions Testing Criteria	Maturity Rating	Gap Description
		defined document management/record retention process.		
4	**Material Request, Issuance & Transfer**	Processes for initiating approved request of inventory via formal documentation; defined procedures for filling requests, monitoring, controlling movement of inventory in and out (or between) warehouse facilities; segregation of duties between warehousing and user/requesting departments; formal review and approval processes; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**Better Practice**	• None identified
5	**Obsolescence**	Processes for periodic evaluation, identification, and determination of obsolete inventory; established process for removal and options for disposition of obsolete inventory; segregation of duties; defined review and approval processes with user departments; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**Better Practice**	• None identified.
6	**Restocking & Replenishment**	Defined operating levels of inventory based on consumption/rate of usage; defined reporting, review and approval processes; defined key performance indicators related to the consumption/rate of usage; segregation of duties; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**Established**	• Document management/record retention protocols are not defined in the policies and procedures.

As part of the compliance testing, an audit program was developed with testing procedures designed to assess compliance and meet the project objectives. The audit program included ten (10) categories to be reviewed and tested. An overview of the categories, testing procedure(s), exceptions identified, and observation reference, if applicable, is presented below.

Testing Category		Testing Procedure	Exceptions Identified	Observation Reference	Page Number
1	**Cycle Count Frequency**	Determine if cycle counts are occurring based on the frequency of ABC categorizations in compliance with policy or established policy including verifying all items are appropriately classified (i.e., no unclassified item); blind counts are being performed at all locations.	Yes	#1	10
2	**Annual Physical Count Frequency**	Determine if annual physical counts are occurring based on the annual frequency in compliance with policy or established policy.	No	N/A	N/A

Testing Category		Testing Procedure	Exceptions Identified	Observation Reference	Page Number
3	Variance Reconciliation and Adjustment	Determine if counts (cycle and annual) and variance adjustments are updated based on the prescribed frequency in compliance with policy including approval by appropriate authority.	No	N/A	N/A
4	Receiving	Determine if all material was properly received in the inventory in compliance with policy including required forms, required approvals, etc.	Yes	#3	12
5	Material Request, Issuance	Determine if the material were properly issued from inventory in compliance with policy or established policy including material is tied to a Material Request Form/Work Order #; material issued is charged to a department or project; approval by an appropriate authority.	Yes	#4	13
6	Obsolescence	Determine if obsolete items are charge to obsolescence account occurred in compliance with policy or established policy.	No	N/A	N/A
7	Restocking & Replenishment	Determine if replenishment process for whether inventory levels are sufficient to meet demand of the user departments occurred in compliance with policy or established policy.	No	N/A	N/A
8	System User Access	Determine whether adequate user access controls and appropriate privileges are in place protect information in the department's computerized environment and inventory management system from authorized access.	No	N/A	N/A
9	Policies and Procedures	Assess whether comprehensive policies and procedures have been established for inventory management function; policies and procedures are up-to-date; approved; communicated to storehouse personnel and are available on site.	Yes	N/A	N/A
10	Documentation Records Retention	Assess availability and adequacy audit evidence.	Yes	#2	11

Observations & Recommendations

Observations and Recommendations: Presented below are the observations identified as part of the review. The following table helps illustrate the format in which each observation is presented, with its related risk and recommendation.

Observation #	Title / area of finding identified.
Observations	Presents supporting detail related to each award for which a finding applies.
Risk	Provides the associated potential risk of the current state observation and/or exception.
Recommendation	Provides suggested courses of action aimed at resolution of compliance issues or mitigation of risks to process effectiveness.
Management Response	Captures the department's response to the findings and observations, responsible persons, and timeframe to implement recommendations, if applicable.

Observation #1	**Weekly Cycle Count Sheets and Cycle Count Exception Reports are not retained after counts are entered and exceptions are resolved**	Risk Rating**: Medium**
Observation	<u>*Counts sheets are not retained as supporting documentation of information entered into system.*</u> Procedure 5.1 Maintaining Cycle Count Schedule and Procedure 5.2 Perform Cycle Counts state, *"Cycle counts will be performed on a regular basis with all stock items counted at least once per year. "A" items will be counted most often, followed by "B" and then "C" items."* Procedure 5.2, Section 14 states, *"File the Weekly Cycle Count Sheet and Cycle Count Exception Report, and forward the Inventory Adjustment Form to the Supervisor of Material Planning."* The current practice is cycle count work sheets are not retained after the counts are entered and the exceptions resolved. Cycle count schedules and counts entered are not retained by the Rail Material Inventory System, only the last count date, not for historical records. As such, Internal Audit could not perform test to verify cycle counts are being performed on a weekly basis, due to nonexistence of supporting documentation for our sample period of 25 weeks.	
Risk	Noncompliance of policies and procedures may pose the risk of lack of supporting documentation to validate accuracy of information entered into the system, inaccurate tracking of materials, and/or inability to appropriately resolve discrepancies.	
Recommendation	We recommend Management: 1. Define retention period of *Weekly Cycle Count Sheets and Cycle Count Exception Reports,* update policies and procedures, and ensure current practices are compliant, or	

Observation #1	**Weekly Cycle Count Sheets and Cycle Count Exception Reports are not retained after counts are entered and exceptions are resolved**	Risk Rating: **Medium**
	2. Revise policies and procedures to reflect current practices. The expectation is that management actions be formally documented and implemented within 30 days.	
Management Response	After the count information is entered and all exceptions cleared, the count sheets will be maintained for a period of years (length to be determined) after the annual financial statement audit is completed. In the short term, count sheets will be kept indefinitely until an acceptable destruction schedule is approved by the State of Illinois. Our policies and procedures will be updated to reflect this change as appropriate. Note, however, that the State of Illinois is revising its Record Retention Policy, scheduled to be completed by the end of 2015, and therefore, the retention period for the count sheets may be revised at that time based on the State's direction.	

Observation #2	**RMIS does not have the capability to track the history of cycle counts and adjustments**	Risk Rating: **Medium**
Observation	*The system does not provide access to an audit trail of transactions.* The RMIS system does not provide access to an audit trail of transactions but overwrites the previous count date when a new count date is inputted. As such, Internal Audit could not perform test to verify cycle counts are being performed on a weekly basis, due to the system dates being updated as new information is inputted.	
Risk	Lack of a system audit trail may pose the risk of inability to validate accuracy of information entered into the system, inaccurate tracking of materials, and/or inability to appropriately resolve discrepancies.	
Recommendation	We recommend Management: 1. Access RMIS system functionality to determine if audit trails can be maintained. 2. Access the risk of not having access to system audit trails and determine appropriate actions to be taken. The expectation is that management actions be formally documented and implemented within 60 days.	
Management Response	The RIMS system does not have a robust audit functionality which has been noted in previous internal and external audit procedures. Substantive testing has not identified significant issue and therefore we have determined the risk in this area is low. Also, Metra is in the process of implementing a new financial system which will include an updated inventory system and presumably more robust audit functionality. Based on the approaching timeline for the new system, and the estimated cost of trying to develop audit functionality for the old system, we will accept the risk of not having robust audit functionality until the new system is implemented.	

<table>
<tr><th>Observation #3</th><th>Materials received without a receiving document/PO number</th><th>Risk Rating: Low</th></tr>
<tr><td>Observation</td><td colspan="2"><u>There were instances of noncompliance with policies and procedures identified.</u>

Procedure 15.1: Receive material from vendors - at storehouse states, “All material delivered to Metra must be properly received against an open purchase order, blanket PO release, or internal repair order. The receipt must be recorded the same day Metra takes possession of the material.”

There were 5 out of 27,304, or 0.02% instances of Material Receipt where receiving document number/PO # was missing.

<table>
<tr><th>Location</th><th>Missing Receiving Doc Numbers</th><th>Total Receipts</th><th>Exception Rate</th></tr>
<tr><td>01</td><td>2</td><td>5,155</td><td><1%</td></tr>
<tr><td>02</td><td>3</td><td>7,612</td><td><1%</td></tr>
<tr><td>04</td><td>-</td><td>7,901</td><td>-</td></tr>
<tr><td>05</td><td>-</td><td>6,631</td><td>-</td></tr>
<tr><td>Total</td><td>5</td><td>27,304</td><td><1%</td></tr>
</table>
</td></tr>
<tr><td>Risk</td><td colspan="2">Noncompliance of policies and procedures may pose the risk of unauthorized purchases or receipt of materials.</td></tr>
<tr><td>Recommendation</td><td colspan="2">We recommend Management:

1. Ensure materials received are reconciled to an open purchase order, blanker PO release, or internal repair or provide justification in the system for lack of required documentation.

As this is not an internal control deficiency, the expectation is that management continues current processes and protocols. .</td></tr>
<tr><td>Management Response</td><td colspan="2">Although the number of exceptions is low (<1%), our goal is adherence to policy and procedures. We will reiterate the policy to all affected staff and reinforce the requirements going forward.</td></tr>
</table>

<table>
<tr><th>Observation #4</th><th>Materials issued from storehouse without a Material Request Document number and without an approver</th><th>Risk Rating: Low</th></tr>
<tr><td>Observation</td><td colspan="2"><u>There were instances of noncompliance with policies and procedures identified.</u>

Procedure 1.1 Request material from storehouse through to Procedure 1.3 Issue material from storehouse state, “A properly prepared and approved Material Request is required by the storehouse for issuance of material from inventory. An incomplete or unapproved Material Request will be refused and returned to the user/requester.”

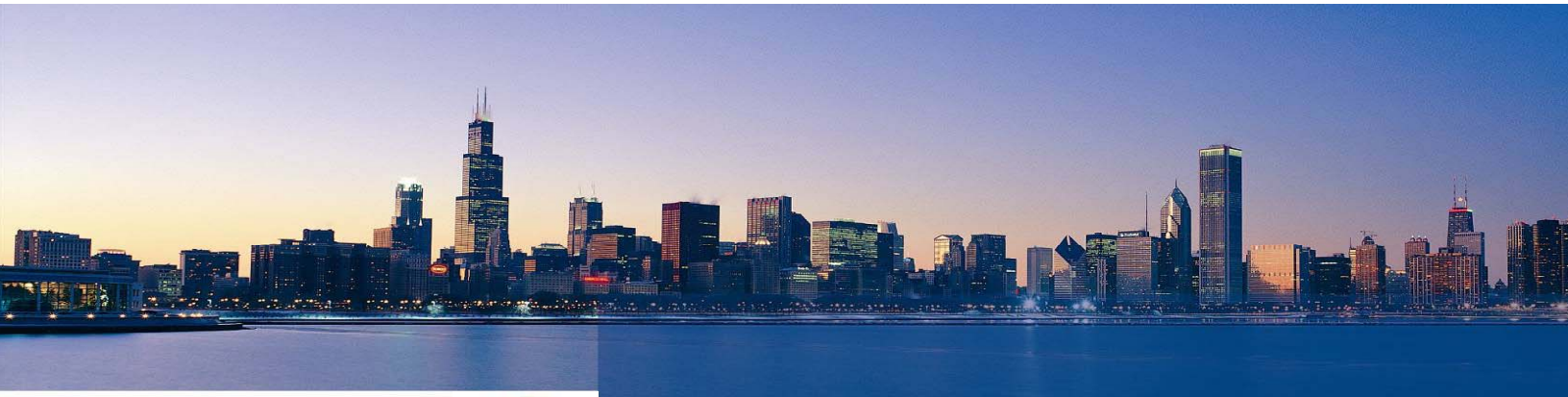
Procedure 1.4 Return material to storehouse from recovery transaction states, “A properly prepared and approved Material Return Form is required to return previously issued material to a storehouse.”

There were 382 out of 95,077, or 0.40% instances of Material Issue where a material request document number and approver was missing.

<table>
<tr><th>Location</th><th>Missing Request Doc Numbers</th><th>Total Issues</th><th>Exception Rate</th></tr>
<tr><td>01</td><td>5</td><td>17,208</td><td><1%</td></tr>
<tr><td>02</td><td>82</td><td>37,233</td><td><1%</td></tr>
<tr><td>04</td><td>192</td><td>21,019</td><td><1%</td></tr>
<tr><td>05</td><td>103</td><td>19,617</td><td><1%</td></tr>
<tr><td>Total</td><td>382</td><td>95,077</td><td><1%</td></tr>
</table>
</td></tr>
<tr><td>Risk</td><td colspan="2">Noncompliance of policies and procedures may pose the risk of unauthorized issuance or inaccurate tracking of materials.</td></tr>
<tr><td>Recommendation</td><td colspan="2">We recommend Management:

1. Ensure materials disbursed have the appropriate documentation and approvals or provide justification in the system for lack of required documentation.

As this is not an internal control deficiency, the expectation is that management continues current processes and protocols.</td></tr>
<tr><td>Management Response</td><td colspan="2">We have reviewed the results and based on the low volume of exceptions (<1%) we have determined that there is no requirement for additional controls in this area. We will reinforce the policy and reiterate to the procedure and expectations to all affected staff.</td></tr>
</table>



PACE

Testing Overview

Testing Overview: To help determine the scope of each Service Board audit, an initial assessment was conducted to gain an understanding of level of previous audit activity related to the in-scope objectives. The initial assessment included interviews and review of relevant documentation, such as prior audits, reviews, evaluations, risk assessment results, policies and procedures, internal correspondence, etc. within last 2 years. As a result of this initial evaluation, it was determined that there were no previous activities conducted at Pace that addressed the current scope of work; therefore, the full audit program was to be executed to meet the project objectives.

The testing procedures executed consisted of two components: (1) compliance testing against applicable governance documents, and (2) process analysis against industry standards/better practices, if applicable.

To gain an understanding of the policies, procedures, regulations, etc. related to inventory management, we conducted multiple internal stakeholder interviews, and reviewed the following documentation.

Document Name	Document Description
Inventory Management Procedures	Procedures/guidance governing hiring and promotion procedures.

As part of the process testing, there were six (6) core processes identified from the above policy and procedure documentation and current Pace practices related to hiring and promotion processes. A gap analysis of the six (6) processes was conducted against definition criteria to help identify potential gaps in the current processes. The twelve (12) core processes identified are as follows:

	Process
1	***Count Structure, Recording & Reconciliation***
2	***Procurement***
3	***Receiving, Inspection & Stocking***
4	***Material Issuance & Transfer***
5	***Obsolescence***
6	***Restocking & Replenishment***

The results of the gap analysis are provided in the following table. The table provides an overview of the process, testing criteria, if there was a gap identified with expected content and Pace practices, and description of such gap, if applicable. The following scale was utilized to assess if a gap was identified:

Gap Analysis Scale	
Yes	**The current process did not include/address the defined criteria.**
No	**The current process included/addressed the defined criteria.**
Partial	**The current process partially included/addressed the defined criteria but did not fully incorporate all aspects.**

The results of the gap analysis are as follows:

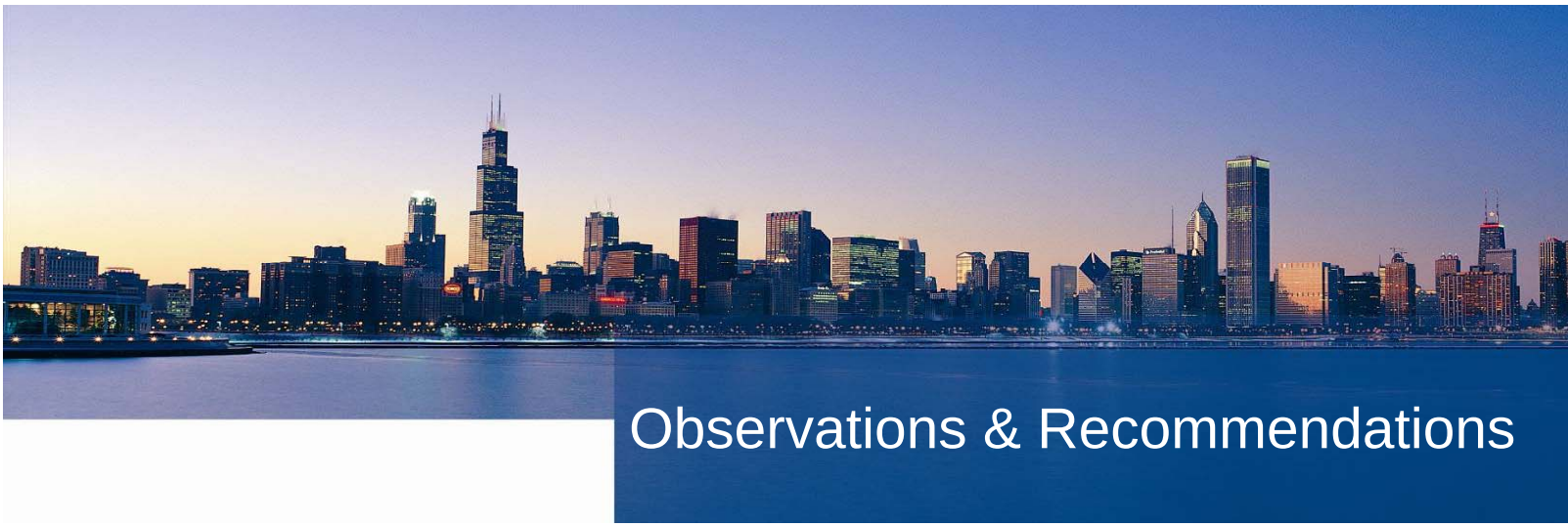
Category		Process Definitions Testing Criteria	Maturity Rating	Gap Description
1	**Count Structure & Reconciliation**	Defined schedule/frequency for both the counting process and the inventory reconciliation; defined variance tolerances between quantity counted for each inventory classification compared to the inventory record ; process for error investigation/recount/process for resolution and follow-up of identified variances; process for variance reconciliation/adjustments; defined signature authority/review and approval process; defined roles, responsibilities and position titles assigned to specific processes; defined assumptions used for inventory classification and count selection process; defined document management/record retention process.	**Established**	• Variance tolerances between quantities counted for each inventory classification compared to the inventory record are not defined in the policies and procedures. • Document management/record retention protocols are not defined in the policies and procedures.
2	**Procurement**	Process for initiating orders via Purchase Decision Matrix Purchase Order (Requisitions); process for preparing, reviewing and issuing PO change; process for competitive sourcing (solicitation of RFPs and RFQs); process for evaluating and selecting of suppliers; process for non-competitive (sole source) procurement and exceptions to competitive sourcing; process for evaluating supplier performance and related competences; defined transaction authority levels for purchases; segregation of duties between purchasing and warehousing process; defined reporting relationships with approving and review duties; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**N/A**	• Procurement for inventory is a part of the general procurement process, which is not a directly a part of this scope, but is governed by its own separate set of policy and procedures documentation.
3	**Receiving, Inspection & Storage**	Process for inspecting and testing shipments to verify minimum conditions; process for matching supplier's packing list to PO to determine if there are any discrepancies; process for handling product substitutions and over-shipments, partial deliveries, failed inspections; process for determining level of acceptance, notifying purchasing agent for items to be placed on payment hold as necessary; segregation of duties between purchasing and warehousing	**Established**	• Document management/record retention protocols are not defined in the policies and procedures.

Category		Process Definitions Testing Criteria	Maturity Rating	Gap Description
		process; defined key performance indicators related to the supplier performance for delivery of shipment; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.		
4	**Material Request, Issuance & Transfer**	Defined guidelines for initiating approved request of inventory via formal documentation process for filling requests, monitoring, controlling movement of inventory in and out (or between) warehouse facilities; segregation of duties between warehousing and user/requesting departments; defined review and approval processes; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**Established**	• Document management/record retention protocols are not defined in the policies and procedures.
5	**Obsolescence**	Process for periodic evaluation, identification, and determination of obsolete inventory; process for removal and options for disposition of obsolete inventory; segregation of duties built around the process ; defined review and approval processes with user departments; defined roles, responsibilities and position titles assigned to specific processes; defined document management/Record retention process.	**Established**	• Document management/record retention protocols are not defined in the policies and procedures.
6	**Restocking & Replenishment**	Process for establishing operating levels of inventory based on consumption/rate of usage; defined reporting, review and approval processes; defined key performance indicators related to the consumption/rate of usage; segregation of duties; defined roles, responsibilities and position titles assigned to specific processes; defined document management/record retention process.	**Established**	• Document management/record retention protocols are not defined in the policies and procedures.

As part of the compliance testing, an audit program was developed with procedures designed to assess compliance and meet the project objectives. The audit program included ten (10) categories to be reviewed and tested. An overview of the categories, testing procedure(s), exceptions identified, and observation reference, if applicable is presented below.

Testing Category		Testing Procedure	Exceptions Identified	Observation Reference	Page Number
1	**Cycle Count Frequency**	Determine if cycle counts are occurring based on the frequency of ABC categorizations in compliance with policy or established policy including verifying all items are appropriately classified (i.e., no unclassified item); blind counts are being performed at all locations.	No	N/A	N/A

Testing Category		Testing Procedure	Exceptions Identified	Observation Reference	Page Number
2	Annual Physical Count Frequency	Determine if annual physical counts are occurring based on the annual frequency in compliance with policy or established policy.	N/A	N/A	N/A
3	Variance Reconciliation and Adjustment	Determine if Counts (Cycle and Annual) and Variance adjustments are updated based on the prescribed frequency in compliance with policy including approval by appropriate authority for variance adjustments greater than $50 (or 10% value) threshold.	No	N/A	N/A
4	Receiving	Determine if all material was properly received in the inventory in compliance with policy including all receipts were received against a valid PO, etc.	No	N/A	N/A
5	Material Request, Issuance	Determine if the material were properly issued from inventory in compliance with policy or established policy including material is tied to a Material Request Form/Work Order #; material issued is charged to a department or project; approval by an appropriate authority.	Yes	#1	19
6	Obsolescence	Determine if Obsolete items are charge to obsolescence account occurred in compliance with policy or established policy.	No	N/A	N/A
7	Restocking & Replenishment	Determine if replenishment process for whether inventory levels are sufficient to meet demand of the user departments occurred in compliance with policy or established policy including safety stock, min/max levels and reorder points are reviewed and updated periodically; Replenishment methodology used are adequate and approved by appropriate authority.	No	N/A	N/A
8	System User Access	Determine whether adequate user access controls and appropriate privileges are in place protect information in the department's computerized environment and inventory management system from authorized access; A process is established for periodic review and update of system user access and privileges; Employees have appropriate and non-conflicting privileges; Terminated or revoked access have been effected in the system.	No	N/A	N/A
9	Policies and Procedures	Assess whether comprehensive policies and procedures have been established for inventory management function; policies and procedures are up-to-date; approved; communicated to storehouse personnel and are available on site.	No	N/A	N/A
10	Documentation Records Retention	Assess availability and adequacy audit evidence.	Yes	#2	20



Observations & Recommendations

Observations and Recommendations: The following section illustrates the observations identified as part of the review. The following table helps illustrate the format in which each observation is presented, with its related recommendation.

Observation #	Title / area of finding identified.
Observations	Presents supporting detail related to each award for which a finding applies.
Risk	Provides the associate potential risk of the current state observation and/or exception.
Recommendation	Provides suggested courses of action aimed at resolution of compliance issues or mitigation of risks to process effectiveness.
Management Response	Captures the department's response to the findings and observations, responsible persons, and timeframe to implement recommendations, if applicable.

Observation #1	**Inventory items may be issued prior to formal Work Order being submitted**	Risk Rating**: Medium**
Observation	*It was observed that inventory was being issued prior to a Word Order being submitted.* The Procedures and Processes Manual, "Issuing Inventoried Parts", states, "Issuing parts is done by a Work Order process. The issuing of stock always requires a work order number for charging." At 1 out of 4 locations, it was observed that practices of tracking/obtaining inventory (i.e. posted-notes, etc.) were utilized to track/obtain inventory parts prior to the formal work order being submitted and processed. For these instances, it was communicated that the related Work Order is to be completed by the end of the day; however, this reconciliation process was not validated.	
Risk	Noncompliance of policies and procedures may pose the risk of unauthorized issuance or inaccurate tracking of inventory.	
Recommendation	We recommend Management: 1. Ensure that disbursements from stockrooms are allowed only upon receipt of properly authorized requisition documents. 2. Develop protocols for emergency circumstances where timing may not permit (up-front) completion of a Work Order.	

Observation #1	**Inventory items may be issued prior to formal Work Order being submitted**	Risk Rating**: Medium**
Management Response	***Recommendation 1*** *– Ensure that disbursements from stockrooms are allowed only upon receipt of properly authorized requisition documents.* Pace's Materials Management has provided a copy of the Materials Management parts issuing procedures to the Maintenance Superintendents wherein it states that an Oracle work order must be created to charge parts against; before any parts may be removed from the stockroom. The procedures also require that the inventory controller shall do the issuing of the parts. Materials Management also sent an order to the stockroom inventory controllers requiring that they issue any parts removed from the stockroom, and requiring that they check all parts charged out by the mechanics to ensure that the parts were charged out in accordance with Materials Management procedures. ***Recommendation 2*** *– Develop protocols for emergency circumstances where timing may not permit (up-front) completion of a work order*. Materials Management has distributed manual (paper) work orders to issue parts against when an Oracle work order cannot be created in time to respond to an emergency. These will be kept with the regular work orders. The parts on the manual work order will be entered into Oracle as an Oracle work order as soon as possible. Manual work orders will only be used when no inventory controller is available but where a part is required to respond to a real time need such as **a road call**, **a run would be missed** or **the mechanic must stop working because the part is not available**. The procedures will be sent to the inventory controllers as well as maintenance personnel.	

Observation #2	**Information from TIS cannot be extracted in a manner to be manipulated or sorted to perform specific queries.**	Risk Rating**: Low**
Observation	*The supporting documentation available from the previous TIS system is hardcopy and cannot be sorted in a manner to extract specific information.* The scope of this review was 1/1/12 to 12/31/13; however, a majority of the inventory history within this period remains in previous TIS system, and could not be extracted in a manner to be manipulated or sorted to perform specific audit queries. The information available from the TIS system is printed reports, and the volume and format of reports were not conducive to application of the audit program. Therefore, the testing was performed for the period of 6/1/2013 and 12/31/2013, when the Oracle system maintained the required information for testing.	
Risk	Lack of a viable audit trail may pose the risk of inability to validate accuracy of information entered into the system, inaccurate tracking of inventory, and/or inability to appropriately resolve discrepancies.	
Recommendation	As the TIS system has been replaced and the need for historical information may require an increase level of effort to understand/obtain, there is no recommendation for management to consider.	
Management Response	We appreciate the understanding that the bulk of our inventory history currently resides in the TIS system dating back to 1991. The information will remain available for any future audits. TIS has been replaced by the Oracle System. Materials Management has already started the implementation and/or improvement of the findings given by KPMG. Going forward, Materials Management will continue to evaluate and upgrade our inventory policies, supply chain, quality control, and internal/external procedures on a routine basis.	

CTA

We did not perform inventory management review for CTA, as CTA has made the determination to conduct this audit internally. At the conclusion of the Service Board Reviews, CTA has not provided any deliverables to RTA for inclusion or comments.

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