



Performance Audit:

Department of Watershed Management - Inventory Management

What We Found

Although department management has been aware of inventory management problems for several years, it has yet to put consistent processes in place to track inventory and safeguard against loss and theft. Inconsistent and incomplete recording of inventory transactions render records unreliable for tracking items, for ensuring accountability for use of materials, and for detecting loss. We identified control gaps in all aspects of inventory management and in all locations.

Unreliable data prevent a reasonable estimate of inventory shrinkage, but the exposure could be large. The Department of Watershed Management spent an average of \$21 million annually on inventory, non-capital equipment, and supplies between 2009 and 2013. Further, more than 10,000 water meters, about 7% of the meters purchased between 2006 and 2013, are unaccounted for based on review of vendor-produced records and the department's billing system.

We observed security weaknesses at warehouse locations, including non-functioning key card access points, lack of control of warehouse keys, and no separation of visitor and employee parking. The department's homeland security measures are geared toward reducing risks to the city's water supply and do not focus on securing its inventory.

Decentralization contributes to the control weaknesses. Watershed management houses inventory in ten locations that use different processes and software applications for managing inventory. Based on our review of manual records of items issued from the warehouses in October 2013, the department could consolidate locations to better focus its efforts.

We visited all 10 inventory locations (warehouses and storerooms) and completed most of the audit work during June 2014.

Why We Did This Audit

We undertook this audit in response to Council Resolution 14-R-3104, which expressed concerns about the Office of Safety and Security, the use of revenue generated by the department's homeland security surcharge, implementation of the department's security master plan, and loss and/or theft of inventory and equipment during the past year.

We concluded from our preliminary analysis that inventory management represented the most immediate risk because of well-publicized thefts of water meters and other equipment, and the risk inherent from the number of warehouse locations and decentralized management systems.

What We Recommended

In order to strengthen inventory management, the Commissioner of the Department of Watershed Management should:

- Convert all inventory operations to one software system, Hansen 8
- Limit user software access based on job requirements
- Purchase an inventory barcode system
- Develop new policies and procedures to standardize inventory management
- Establish monitoring and control procedures for employee compliance
- Establish regular inventory reports
- Review non-inventory labeling practices
- Reconcile meters purchased with meters installed and on-hand inventory levels
- Develop new physical access controls
- Install additional security cameras

Once watershed has shifted to Hansen 8, the Chief Information Officer should:

- Implemented updated security controls in the department's inventory software applications

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