



Program Evaluation and Audit

Metro Transit

Garage Stockrooms Audit

Fred T. Heywood

Nicollet

R. J. Reuter

15 September 2007

INTRODUCTION

Background

To ensure timely, cost-effective maintenance for Metro Transit vehicles, many of the most commonly used parts and equipment are kept on hand at one of the Transit stock rooms. Keeping the items on site is valuable, but also poses a risk of misappropriation or theft. As a result, the stock rooms have been viewed by Metro Transit and Program Evaluation and Audit (Audit) as relatively high risk. Audit annually reviews one to three of the stock rooms for procedural compliance, accuracy of records, and identification of any missing items.

Audit conducted the annual stockroom audits during April 2007 and previously reported the results to the Metropolitan Council Audit Committee at its June 2007 meeting. This audit resulted from discussions between Audit, Stores and Maintenance personnel specific to issues with garage stockrooms subsequent to the close of that review and includes a more in-depth audit of stockrooms to include operational flow and procedural relationships between Metro Transit's Stores and Maintenance personnel.

The TXbase System, implemented in 1995-96, consists of interactive computer software designed to provide an integrated inventory control, inventory management, purchase order management, materials requisition management and accounts payable matching system. Since implementation, eleven stockrooms have been established to control and account for parts and supplies used in Metro Transit operations. Five of these are located within Metro Transit's bus garages.

Assurances

This review was conducted in conformance with Government Auditing Standards and the Standards of the Institute of Internal Auditors. Findings are reported to auditee senior management, the Regional Administrator and the Audit Committee of the Council.

Scope

The present inventory audits were conducted at Fred T. Heywood (FTH), Nicollet (Nic) and R. J. Reuter (RJR) garages, which were identified as high risk areas based upon initial interviews with Stores and Maintenance personnel. The audits included our standard reviews of procedural compliance, accuracy of records, and identification of any missing items, plus detailed reviews of actual garage stock room operations and the interrelationships between Stores and Maintenance personnel in each of the garages.

Methodology

After eliminating inventory items with zero extended costs, Audit selected a statistically significant, random sample with a 95% level of confidence and a 5% error rate. Then Audit physically counted randomly selected inventory items and compared that count to the quantity stated in the Txbase inventory system. Universe and sample stratification data based on average unit cost is as follows for all three stockrooms.

F. T. Heywood

<u>Average Unit Cost</u>	<u>Size of Universe</u>	<u>Size of Sample</u>	<u>Value of Universe</u>	<u>Value of Sample</u>
\$0 to \$500	5,284	72	\$295,637	\$ 3,713
\$501 to \$2,000	218	55	203,513	37,835
\$2,001 to \$35,000	35	24	177,971	95,201
\$35,001 and above	<u>1</u>	<u>1</u>	<u>106,395</u>	<u>106,395</u>
Total	5,538	152	\$783,516	\$243,144

Nicollet

<u>Average Unit Cost</u>	<u>Size of Universe</u>	<u>Size of Sample</u>	<u>Value of Universe</u>	<u>Value of Sample</u>
\$0 to \$300	4,597	72	\$186,206	\$ 3,051
\$301 to \$1,500	301	59	182,850	23,850
\$1,501 and above	<u>31</u>	<u>22</u>	<u>188,668</u>	<u>42,852</u>
Total	4,929	153	\$557,724	\$69,753

R. J. Reuter

<u>Average Unit Cost</u>	<u>Size of Universe</u>	<u>Size of Sample</u>	<u>Value of Universe</u>	<u>Value of Sample</u>
\$0 to \$300	5,078	72	\$212,307	\$ 3,067
\$301 to \$1,500	354	61	209,018	24,881
\$1,501 and above	<u>54</u>	<u>31</u>	<u>269,953</u>	<u>93,445</u>
Total	5,486	164	\$691,278	\$121,393

1. Items were physically counted and compared to the Txbase inventory quantity.
2. Differences were noted and discussed with on-duty personnel.
3. Security camera tapes were reviewed to look for the presence of unauthorized personnel.
4. Weekend sign-out sheets and Sunday night reports were reviewed for accuracy.

5. Maintenance and Stores parts charging practices were audited to identify risk and inconsistencies.
6. Stockkeeper overtime records were reviewed as an indication of organizational effectiveness.
7. Txbase fuel inventory algorithms were reviewed for assurance that calculations are correct.
8. Findings and results were recorded and summarized.

OBSERVATIONS

Physical Inventory Count

On May 17, 2007 a physical inventory count was performed at the Heywood garage stockroom. On June 5, 2007 a similar count of physical inventory was conducted at the Reuter and Nicollet garages. The following observations were made:

Heywood Garage

Audit sampled 152 items valued at \$243,144, finding 9 shortages totaling (\$8,202) and 3 overages totaling \$1,999, representing (3.37%) and .82% of sampled inventory value, respectively. The net result for all 12 variances is a shortage of (\$6,203). The 12 variances represent a variance rate of 8%, indicating a medium level of concern for inventory accuracy. One item (\$190 overage) which was difficult to see in its bin had been written off during the last annual inventory count. Oil (\$730 shortage) that is stored outside the stockroom was believed to have been taken by building maintenance personnel without checking it out with Stores personnel.

Bulk fluids are measured by placing a long measuring stick into the fluid tank, recording the reading in inches and inputting the measurement into Txbase. Within Txbase, an algorithm converts the linear measurement into gallons. The coolant tank was measured at 34", whereas Txbase listed the current inventory at a level close to 37." As a result, this item accounted for an inventory shortage of 228 gallons (\$1,365). Txbase also maintains a 1,573 gallon 40 weight oil inventory even though this oil was scrapped because it had been used in engines no longer in use by Metro Transit and it had also become contaminated. This amounted to an inventory shortage of (\$5,301).

Extrapolating the results of this sample to the \$783,516 total Heywood inventory, Audit estimates 98 shortages totaling (\$20,852) and 78 overages totaling \$4,107. This represents 176 inventory variances with a net shortage of (\$16,746).

During pre-audit discussions with maintenance personnel it was noted that sometimes the stockkeepers could be seen watching TV. Although Audit did not observe this same activity, a TV was observed in a cabinet within easy viewing distance from the stockkeeper's work area. Subsequent to this observation, the Stores Manager directed that any stockroom equipped with a TV should remove it immediately and send it to Central Stores for disposal.

Reuter Garage

Audit sampled 164 items valued at \$121,393, finding 19 shortages totaling (\$2,841) and 8 overages totaling \$188, representing (2.34%) and .16% of sampled inventory value, respectively. The net result for all 27 variances is a shortage of (\$2,653). The 27 variances amount to a variance rate of 16%, representing a significant number of individual part inventory errors. Forty gallons of bus wash soap (\$223), three seat cushions (\$332), a remote wheelchair lift controller (\$794), two batteries (\$215) and 12 rims (\$643) account for the bulk of Reuter's inventory shortages. In addition, diesel fuel and oil inventory levels are supposed to be taken daily; however, they had not been taken for four days.

Extrapolating this sample to the \$691,278 total Reuter inventory, Audit estimates 741 shortages totaling (\$22,155) and 370 overages totaling \$3,343. This represents 1,111 inventory variances with a net shortage of (\$18,812).

Nicollet Garage

Audit sampled 153 items valued at \$69,753, finding 11 shortages totaling (\$1,342) and 14 overages totaling \$2,683, representing (1.92%) and 3.85% of sampled inventory value, respectively. The net result for all 25 variances is an overage of \$1,341. As at Reuter, Nicollet's 25 variances amount to a variance rate of 16%, representing a significant number of individual part inventory errors. Txbase also maintains a 102 gallon 40 weight oil inventory even though this oil was scrapped because it had been used in engines no longer in use by Metro Transit and it had also become contaminated. This amounted to an inventory shortage of (\$344). The Stores Manager has stated that the Txbase inventory for the 40 weight oil at both Nicollet and Heywood will be removed and properly accounted for as scrap.

Extrapolating this sample to the \$557,724 total Nicollet inventory, Audit estimates 287 shortages totaling (\$10,532) and 538 overages totaling \$17,175. This represents 825 inventory variances with a net overage of \$6,643.

Fuel Inventory

Stockkeepers take fuel inventories by lowering a long measuring pole through an opening in the top of the fuel tank, lifting it out and visually identifying the point where fuel first appears on the measuring pole. The depth in inches is read from the pole, recorded on a daily log and input into Txbase. Txbase then calculates fuel inventory using an algorithm developed by personnel within Metro Transit's Information Systems Department. Audit reviewed the algorithm with the IS developer and also verified Txbase results for nine fuel tanks at three different garages (three at each garage) using an on-line fuel tank capacity calculator. The same results were obtained from Txbase and the on-line calculator.

As a further measure of fuel usage, Audit reviewed a random sample of security camera recordings of the Nicollet garage fueling stations for the previous two month period. Audit observed that only buses were refueled from these stations. According to Metro Transit Asset Protection personnel, of the three garages under review, only the Nicollet garage was equipped with security cameras that could record bus fueling station activity.

Weekend Reports

Weekend Sign-Out Sheets

Stockrooms are not staffed on the weekends, except for the third shift on Sunday night/Monday morning. Procedures are in place to assure stockroom security and proper accounting for parts taken from stock when stockkeepers are not present. These include proper supervision of employees entering the stockroom and adequate recording of parts taken from and returned to inventory. A Senior Mechanic or Supervisor may retrieve parts, but one or the other is required to be with a mechanic who retrieves parts from the stockroom during weekend shifts (see the "*Security Cameras*" section below for further

analysis). In addition, prior to this review, a standardized weekend stockroom sign-out sheet had been used to assure correct accounting for parts taken when a stockkeeper is not on duty. During this review, the Stores Manager revised this sheet to make it easier to use, developing separate sign-out sheets for each of the three daily work shifts. These sheets are to be dated and signed by the appropriate Supervisor or Senior Mechanic. Audit reviewed the sheets submitted during the period May 11 – July 22, 2007, with the following results:

	<u>Total</u>	<u>Signed</u>	<u>Dated</u>	<u>% Signed</u>	<u>% Dated</u>
Heywood	46	39	44	85%	96%
Reuter	51	35	42	69	82
Nicollet	<u>31</u>	<u>4</u>	<u>12</u>	<u>13</u>	<u>39</u>
	128	78	98	61%	77%

The results vary significantly by garage with Heywood doing the best and Nicollet being the most lax in complying with this important risk abating procedure.

A judgmentally selected sample of line items from two weeks of weekend sign-out sheets was selected and verified to what was input into TXbase the following Monday. Heywood had the best record with one item improperly charged of the 31 items reviewed. Nicollet and Reuter did not do as well with Nicollet having differences between Txbase and the sign-out sheets on nine of 38 line items tested and Reuter on 13 of 41. Differences included items not being input into Txbase, incorrect employee, bus and quantity numbers, and a duplicate entry.

Filling out the sign-out sheet properly leads to accurate recording of inventory usage and eases the time burden for the Stores personnel inputting the data into Txbase. The Heywood mechanics did a good job filling out the information required by the weekend sign-out sheet. Out of 115 line items representing 805 total data fields over two weekends, there were only nine blank fields, five being the “employee number.” Such was not the case at Reuter where Audit found 84 (59 being the “time of entry”) blank fields out of a possible 763 fields over 109 line items. Nicollet was similarly lax with 90 (87 being “time of entry”) blank fields out of a possible 742 fields over 106 line items. As can be seen from the above data, the sign-out sheets have been used with mixed results and additional measures are needed to assure accurate recording of weekend stockroom activity.

Sunday Night Reports

Diesel fuels and engine oils are inventoried daily. Other liquids that are used less often are counted weekly. In addition, some inventory items (rims, batteries, and bulk coolant and cleaning liquids) are counted on Sunday evening and the inventory charged accordingly. A review of the Sunday night parts sheets revealed that they are not adequately filled out. Nicollet reports require only a minor adjustment; however, the reports received from Reuter and Heywood are inadequate with some weeks missing most of the information required, including the actual count of some items, item locations, inventory date and name of person taking the inventory.

Organizational Effectiveness

Garage stockrooms support maintenance operations within the garages. Management and operation of the Stockroom and Maintenance Departments is separate. This is an appropriate separation of duties. To effectively maintain buses, control and protect inventory and provide appropriate purchasing information for restocking parts, it is important for personnel from both departments to work together in a spirit of unity. Unfortunately, such is not always the case and disharmony between personnel from the two departments has resulted in maintenance personnel hoarding parts and not following procedures and in stores personnel being absent from the stockroom during times when mechanics come for assistance and in reports of stock room personnel belittling mechanics.

Currently, all positions within the Stores Department are filled. Even so, there is no coverage on weekends and overtime is used extensively during employee absences when Stores facilities are normally staffed. In the first six months of 2007, Stores Department Stockroom Coordinators and Stockkeepers worked 4,632 overtime hours at a cost of \$158,660; the equivalent of almost five full time employees. The average overtime worked per pay period was 13.20 hours. During the 26 weeks reviewed, total individual overtime ranged from 1.5 to 545 hours which means that one employee worked an average of 20.97 hours of overtime per week. A review of individual pay periods disclosed that on 24 occasions, employees worked between 20-25 hours of overtime/week, on six occasions employees worked between 25-30 hours of overtime/week and on five occasions, employees worked between 30-35 hours of overtime/week. Such use of overtime rather than staffing regular full time employees leads to inefficient operations and increases the possibility of inventory errors.

Parts Charging Practices

Audit reviewed listings of parts charged out from Stores during the first five months of 2007. This review disclosed evidence of Maintenance personnel hoarding parts, parts being charged to buses when they were not used on those buses and conversely buses not being charged for parts actually used. Audit reviewed charges assigned to Maintenance personnel who incurred charges substantially in excess of the norm. Our review disclosed:

- Bus parts valued at \$9,994 were charged to “shop supplies” or “small parts.”
- Rims are under the management of the Goodyear Tire representative and are accounted for differently depending upon the garage. At MJR, rims valued at \$2,181 have been charged to “Shop Supplies,” about half under each the maintenance supervisor and the maintenance manager. At FTH, all rims totaling \$12,737 were charged to “small parts” under the maintenance manager’s name. At Nicollet, all rims (\$7,284) were charged also to “small parts,” but under the Goodyear Tire representative’s name. Rims are neither shop supplies nor small parts and should be appropriately and consistently charged across all garages. In addition, rims actual inventory matched Audit’s physical count at Heywood and at Nicollet, but was off by 12 out of 86 rims at Reuter.
- Janitorial supplies were generally miss-charged to “shop supplies.”

- Lubricants were generally miss-charged to “Miscellaneous.”
- Duplicate items were charged to buses, i.e. 2 A/C controllers versus 1 required.
- An instance wherein sufficient training on new bus maintenance had not been provided.
- Inappropriate work order charges, i.e. a bicycle rack included on an electrical work order.
- Excessive charges to buses, “shop supplies” and “small parts,” indicating parts hoarding.

Security Cameras

Audit reviewed a judgmental sample of weekend stockroom security camera recordings from each of the garages under review. These recordings revealed the following:

- Nicollet - Maintenance and office personnel enter the stockroom through a door leading from the Maintenance Manager’s office. This provides open access to the stockroom and it also breaches the separation of duties requirement for reducing risk. The Maintenance Department should not have open access to parts inventory. During a visit to the Nicollet stockroom during regular working hours, the Auditor also observed a person entering through this door with a large box to be mailed. The appropriate access to the stockroom is by walking to the dispensing window and asking for assistance.
- Heywood – One security camera is focused on the back overhead door of the stockroom. The amount of activity viewed from this camera is minimal; however, on one occasion the back overhead doors were left open and unattended for over half an hour. A second camera records activities around the dispensing window. The recordings taken by this camera were unavailable at the time of our review.
- Reuter – For the vast majority of the time, the stockroom half door window was open allowing unrestricted access. Audit recorded 46 instances of employees entering the stockroom; 10 times in pairs, but 36 times alone. On one occasion when the stockkeeper was present, Audit recorded 11 instances of mechanics going in and out again by themselves. They would merely reach over the upper portion of the half door, unhitch the bottom half and walk in, unassisted by the stockkeeper. In addition, three times mechanics came for assistance when the stockkeeper was out for an extended period of time. In these cases, the mechanics did not enter the stockroom, but left without the parts they needed. During a visit to the Reuter stockroom during regular working hours, Audit also observed a mechanic reaching over the parts dispensing half door, unlatching the door from the inside and walking in.

CONCLUSIONS

1. *Heywood Garage – Internal controls are not adequate to assure accurate inventory and bus maintenance reporting, and the proper safeguarding of assets.*

A gross absolute variance of \$24,959 (3.2%) indicates that controls are in place to assure that the actual inventory of parts accurately reflects what is recorded in Txbase.

However, the number of variances recorded on liquid inventory, including a 228 gallon coolant shortage, the absence of 3 barrels of oil used by building maintenance personnel, and the presence of 1,573 gallons of obsolete 40 weight oil in Txbase raises concerns regarding the practices used to account for liquid inventory items.

2. *Reuter Garage – Internal controls are not adequate to assure accurate inventory reporting or proper safeguarding of assets.*

A gross absolute variance of \$25,494 (3.7%) indicates that controls are in place to assure that actual inventory value accurately reflects what is recorded in Txbase. However, the 16% variance rate represents a significant number of individual part inventory errors. As with Heywood, there is concern regarding liquid inventory tallies. Although diesel fuel and oil inventory levels are supposed to be taken daily, they had not been taken for four days.

3. *Nicollet Garage – Internal controls are not adequate to assure accurate inventory reporting or proper safeguarding of assets.*

A gross absolute variance of \$27,707 (5.0%) indicates that controls are lacking to assure that actual inventory value accurately reflects what is recorded in Txbase. As at Reuter, Nicollet's 25 variances amount to a variance rate of 16%, representing a significant number of individual part inventory errors. Similar to Heywood, Txbase also maintains a 102 gallon 40 weight oil inventory at Nicollet even though this oil was scrapped because it was for use in engines no longer in use by Metro Transit and it had become contaminated.

4. *Organizational Effectiveness – Disharmony between Maintenance and Stores personnel adversely affects the operational efficiency of each department. In addition, the excessive use of overtime by Stores stockroom personnel exacerbates the tension and increases the possibility of errors.*

Disharmony between personnel from the two departments has resulted in maintenance personnel hoarding parts, not following procedures regarding accessing the stores area, and sloppy weekend sign-out sheet reporting. Similarly, stores personnel are frequently absent from the stockroom during times when mechanics come for assistance and reportedly belittle some mechanics. In addition, in the first six months of 2007, Stores Department Stockroom Coordinators and Stockkeepers worked 4,632 overtime hours; the equivalent of almost five full time employees. In some weeks, overtime was clearly excessive. On 24 occasions, employees worked between 20-25 hours/week overtime, on six occasions employees worked between 25-30 hours/week overtime and on five occasions, employees worked between 30-35 hours/week overtime.

- 5. Stockroom Security – Procedures are in place to assure proper security of stores area. However, both Stores and Maintenance personnel do not consistently abide by required practices.*

At the Nicollet garage, a door from the Maintenance Manager’s office opens into the Stores area. It is common practice for personnel to use this entrance which provides open access to the stockroom. On one occasion at Reuter with the stockkeeper present, cameras recorded 11 instances of mechanics going in and out by themselves. They would merely reach over the upper portion of the half door, unhitch the bottom half and walk in, unassisted by the stockkeeper. Policy provides for the half door to be locked and that if a mechanic needs to be in the stockroom, the stockkeeper be alongside. Also at the Reuter garage, for the vast majority of time under review, the stockroom half door was left open allowing unrestricted access.

- 6. Parts Charging Practices – Practices are inconsistent resulting in misclassification of parts to the wrong accounts and work orders, and of duplicate charging to buses and other expense accounts.*

Our review disclosed that bus parts valued at \$9,994 were charged to “shop supplies” or “small parts,” janitorial supplies were generally miss-charged to “shop supplies,” lubricants were generally miss-charged to “miscellaneous,” duplicate items were charged to buses, i.e. 2 A/C controllers versus 1 required, and inappropriate work order charges, i.e. a bicycle rack included on an electrical work order. Audit also identified numerous instances of excessive charges to buses, “shop supplies” and “small parts,” indicating parts hoarding by mechanics. In addition, rims inventory charging and management varied widely depending upon the garage, with Reuter being of greatest concern.

- 7. Weekend Reports – Weekend sign-out sheets and Sunday night reports have been enacted to account for parts used when stockkeepers are not on duty and for items that only require weekly inventory adjustments. However, the reports have not been consistently or completely filled out.*

The weekend sign-out sheets were signed from 13% to 85% of the time depending upon the garage, and dated 39% to 96% of the time, with Heywood doing the best and Nicollet being the most lax. The number of actual line item errors was significant at both Nicollet and Reuter, but minor at Heywood, ranging from one to 13. There was also a lack of interest in filling in all the required information, again with Heywood doing the best job and the other two garages being more lax. The Sunday night reports followed a similar pattern with Heywood personnel filling in the forms adequately, but Reuter and Nicollet forms missing substantial bits of information.

- 8. Fuel Inventories – Fuel inventories are adequately monitored and accurately calculated. In addition, buses appear to be the only vehicles refueled at garage fueling stations.*

Stockkeepers using a long measuring pole visually identify storage tank fuel levels and manually record the level in inches on a daily log. Variations can occur in placing the measuring stick in the tank, visually identifying fuel level and manually recording the data. Once the data is entered into Txbase, the algorithm used to calculate the actual

gallons of fuel in inventory accurately does so. In addition, a review of security camera recordings disclosed that buses are the only vehicles refueling at garage refueling stations.

RECOMMENDATIONS

Program Evaluation and Audit recommendations are categorized according to the level of risk they pose for the Council. The categories are:

- **Essential** – Steps must be taken to avoid the emergence of critical risks to the Council or to add great value to the Council and its programs. Essential recommendations are tracked through the Audit Database and status is reported twice annually to the Council’s Audit Committee.
- **Significant** – Adds value to programs or initiatives of the Council, but is not necessary to avoid major control risks or other critical risk exposures. Significant recommendations are also tracked with status reports to the Council’s Audit Committee.
- **Considerations** – Recommendation would be beneficial, but may be subject to being set aside in favor of higher priority activities for the Council, or may require collaboration with another program area or division. Considerations are not tracked or reported. Their implementation is solely at the hands of management.
- **Verbal Recommendation** – An issue was found that bears mentioning, but is not sufficient to constitute a control risk or other repercussions to warrant inclusion in the written report. Verbal recommendations are documented in the file, but are not tracked or reported regularly.

1. (Essential) Inventory and maintenance personnel should work to assure that parts are charged to the correct account/bus and to the proper employee.

Our review disclosed that bus parts valued at \$9,994 were charged to “shop supplies” or “small parts,” janitorial supplies were generally miss-charged to “shop supplies,” lubricants were generally miss-charged to “miscellaneous,” duplicate items were charged to buses, i.e. 2 A/C controllers versus 1 required, and inappropriate work order charges, i.e. a bicycle rack included on an electrical work order. Audit also identified numerous instances of excessive charges to buses, “shop supplies” and “small parts,” indicating parts hoarding. In addition, rims inventory charging and management varied widely depending upon the garage, with Reuter being of greatest concern. Finally, parts were charged in excessive amounts to the Heywood Maintenance Manager (over three times that charged to either the Reuter or Nicollet counterparts).

It is essential that maintenance personnel correctly classify parts and their usage when preparing work orders and that stockroom personnel charge out parts and supplies to the correct personnel and to assign shortages to the proper inventory adjustment account so that financial records and bus maintenance history are accurately maintained. Maintenance personnel should also draw only what is required for the bus being maintained. In addition, consistent part and supply charging practices need to be enacted and enforced to assure effective data is maintained and that management personnel can properly assess similar operations among all garages.

Management Response: The Material Manager will work with staff to tighten procedures to more properly account for product and parts. By November 30, 2007, new processes will be put into place to remove the possibility of error when charging

supplies to general work such as shop and janitorial supplies. Stockkeepers are flagged by the system when duplicate parts are requested for the same work order. Stockkeepers will verify with Maintenance personnel before issuing any duplicate parts. Additionally, the proper procedure for charging rims has been reaffirmed by the Material Manager and will be enforced. That policy is that rims are charged out as small parts to the Goodyear Tire Specialist. All Goodyear Tire Specialists have employee numbers in TxBase. By charging the rims to the Goodyear person, it allows Metro Transit to track the usage properly.

Maintenance and Material Management have already taken steps to improve the lines of communication. Maintenance will continue to work with Material Management to develop reporting tools (i.e. Crystal Reports) that will notify management of deviations or noncompliance of inventory used so that appropriate corrective action can be taken. The mechanic's comments on each work order should also reflect that the work performed actually used the parts that were charged-out. Maintenance will continue to monitor the way in which repairs are documented, and subsequently entered into TXbase, and make adjustments where necessary.

In regards to the bike rack example, each work order can only have one Procedure Group I.D. Multiple repairs, not related to that specific Procedure Group, are often performed on a work order. Consequently, the work order may have items unrelated to the Procedure Group charged to it. This is the appropriate procedure and in no way compromises the ability to properly track the parts associated with the repairs performed.

2. (Essential) Metro Transit should strengthen security controls regarding access to Stores inventory areas by Maintenance personnel.

At the Nicollet garage, a door from the Maintenance Manager's office opens into the Stores area. It is common practice for personnel to use this entrance which provides open access to the stockroom and it also breaches the separation of duties between the using (Maintenance) and the procuring (Stores) activities and increases risk of loss and reporting errors. On one occasion at Reuter when the stockkeeper was present, Audit recorded 11 instances of mechanics going in and out by themselves. They would merely reach over the upper portion of the half door, unhitch the bottom half and walk in, unassisted by the stockkeeper.

Also at the Reuter garage for the vast majority of the time, the stockroom half door was open allowing unrestricted access. Audit recorded 46 instances of employees entering the stockroom; 10 times in pairs, but 36 times alone. When a stockkeeper is not on duty or away from the stockroom, it should be properly secured, requiring keyed entry.

It is essential for safeguarding Metro Transit assets and to assure proper accounting for parts taken from inventory that access to stockrooms be restricted to stockkeepers and in their absence to authorized supervisory personnel. When stockkeepers are present, maintenance personnel need to remain outside the stockroom and obtain parts through the assistance of the stockkeeper. In addition, stockroom half doors should be locked to assure outside personnel cannot enter.

Management Response: The Material Manager is working with Asset Protection and Building Maintenance to modify structure and access card locations for the Nicollet Garage. The contract to make the modifications at the Nicollet Garage has been awarded. Work is scheduled to begin about September 21, 2007 and be completed by October 31st. The Material Manager has updated all of the garage access rosters with Asset Protection. Additionally, Material Management has talked to all parties and continues to reaffirm and enforce procedures regarding access into all stockrooms.

3. (Essential) Metro Transit should strengthen its inventory control practices regarding diesel fuel, engine oils and other liquid inventory items.

Txbase included obsolete 40 weight engine oil in its inventory records for both Heywood and Nicollet garages even though such inventory had been physically disposed. At Heywood, three barrels of oil commonly used by building maintenance personnel were missing. At Reuter, although diesel fuel and oil inventory levels are supposed to be taken daily, they had not been taken for four days.

Management Response: The 40 weight engine oil inventory has been corrected. The storage location of the barrels has been changed. Additionally, the security of barreled fluids has increased with the barrels secured behind multiple chains with high-security locks.

4. (Essential) Metro Transit personnel should reinforce the need for full and accurate placement of information on the weekend sign-out sheets and Sunday night reports and assure that such is accomplished.

The weekend sign-out sheets were signed from 13% to 85% of the time depending upon the garage, and dated 39% to 96% of the time, with Heywood doing the best and Nicollet being the most lax. The number of actual line item errors was significant at both Nicollet and Reuter, but minor at Heywood, ranging from one to 13. There was also a lack of interest in filling in all the required information, again with Heywood doing the best job and the other two garages being more lax. The Sunday night reports followed a similar pattern with Heywood personnel filling in the forms adequately, but Reuter and Nicollet forms missing substantial bits of information. This information is a key element of mechanics' accountability for the parts they remove. Because this is considered a high risk area for the Council, it is important that this issue be resolved.

Management Response: The sign-out process and expectations of managers and their employees were discussed at the September 11, 2007 manager's meeting. The issue sheets from the previous weekend were also issued and discussed. Both the Material Management and the Maintenance managers will continue to work together to obtain performance and policy-compliance feedback from their respective departments and take corrective steps where necessary. As a routine procedure, the manager at each location will check with the head stockkeeper each Monday for a written list of concerns from the previous week, and also review the previous weekend's issue sheets. Issues will be addressed as appropriate and both the Maintenance and Materials managers will be copied with the resolutions.

5. (Significant) Metro Transit Stores Management personnel should review the practice of stockkeeper staffing using overtime versus hiring additional full time employees.

In the first six months of 2007, Stores Department Stockroom Coordinators and Stockkeepers worked 4,632 overtime hours at a cost of \$158,660; the equivalent of almost five full time employees. A review of individual pay periods disclosed that on 24 occasions, employees worked between 20-25 hours/week overtime, on six occasions employees worked between 25-30 hours/week overtime and on five occasions, employees worked between 30-35 hours/week overtime. Such use of overtime rather than staffing regular full time employees leads to less efficient operations and increases the possibility of inventory errors.

Management Response: Material Management agrees that staffing was a problem at the beginning of the year. We had 4 to 6 personnel gone at any one time for much of the first half of the year. These absences included things such as position vacancies, military leave, long-term medical leave, vacations and sick time. Material Management has hired 3 personnel in the last 4 months and is currently at 100% staffing. The Rail Stockroom has expended a significant portion of the overtime mentioned above. A supervisor/planner for Rail will be hired by November 9, 2007. A second stockkeeper is budgeted to begin at Rail in 2008, date yet to be determined. Additionally, the current budget does not allow for floaters. Therefore, all absences have to be covered with overtime.

6. (Significant) Metro Transit Maintenance and Stores Management personnel should work together to establish a cooperative working environment so that garage maintenance and stockroom personnel can work in a more harmonious and efficient manner.

To effectively maintain buses, control and protect inventory and provide appropriate purchasing information for restocking parts, it is important for personnel from both departments to work together in a spirit of unity. Disharmony between personnel from the two departments has resulted in maintenance personnel hoarding parts, not following procedures regarding accessing the stores area, sloppy weekend sign-out sheet reporting and in stores personnel being absent from the stockroom during times when mechanics come for assistance and belittling some mechanics.

Management Response: Material Management and Maintenance have had discussions about their working relationship. Communication between the departments is a major factor in a harmonious workplace, and steps have already been taken to make improvements. As of August 21, 2007, the Material Manager is now attending the Maintenance Garage Manager meetings and we have restarted the monthly parts meeting which includes Material Management, Overhaul Base and Service Garage Management, and Purchasing. Both of these meetings allow for greater dialogue to help improve the customer relationship. Material Management is also attempting to establish customer service training for stockkeepers by the fall of 2008, raise the professionalism of the stockkeepers and provide more management interface with the service garages.

7. (Consideration) Metro Transit considers placing security cameras in all garages in positions that can record fueling station activity.

Discussions with Metro Transit Asset Control personnel disclosed that of the three garages under review, only Nicollet was equipped with security cameras that could record fueling station activity. Although a review of Nicollet garage recordings disclosed that only buses refueled at the Nicollet refueling stations, fuel inventory can be at risk for misappropriation.

Management Response: The Material Manager and Asset Protection Manager discussed this recommendation and came to the conclusion that due to the heavy investment in equipment that would be required and the low risk of misappropriation, that it is not feasible to install security cameras in the garages as recommended herein.