

Staff Report



To	Committee of the Whole
Service Area	Office of the Chief Administrative Officer
Date	Monday, November 2, 2020
Subject	Fleet Parts Inventory Audit Report

Recommendation

That report titled 'Fleet Parts Inventory Audit Report' dated November 2, 2020 be received.

Executive Summary

Purpose of Report

To provide Committee of the Whole with the results of the Fleet Parts Inventory audit performed to assess the adequacy of the internal controls and compliance to policies, procedures, by-laws and legislation.

Key Findings

- Fleet Operations does not receive adequate information from the vendor that would help them to assess the vendor to key performance indicator (KPI) metrics. It is recommended that management determine what information is critical in helping to manage parts inventory and ensure it is received from the vendor timely.
- It is recommended that metrics related to parts inventory such as equipment downtime and maintenance department service efficiency be developed and tracked.
- The current consignment arrangement expired in June 2020. Both the Operations and Transit location parts storerooms should be evaluated and a decision on how to manage the parts inventory going forward made.
- As of September 21, 2020, Fleet Operations has issued a new RFP (20-074 - Request for Proposals for Consignment Parts Inventory).

Financial Implications

No direct financial implications as a result of the audit, however, the recommendations should lead to more effective and efficient use of resources and potential cost savings in the future.

Report

At the request of the Operations department of Public Services, a review was performed to assess the effectiveness and efficiency of Fleet parts inventory processes for both the Operations and Guelph Transit storeroom facilities. As part of this audit, a value for money component was included to assess the current parts consignment arrangement in place at both locations.

The Fleet parts inventory audit was included as part of the 2019 Internal Audit Work Plan approved by Council in February 2019.

Both the Operations and Guelph Transit facilities have onsite parts storerooms that are managed by the Program Manager, Fleet Planning under the direction of the Manager, Fleet Services who reports to the General Manager, Operations, a department of Public Services. Each storeroom is staffed by two fulltime Store Clerks. The storerooms contain City owned inventory items such as equipment parts, bulk fuel and fluids, personal protective equipment, and at Operations small hand tools stored on behalf of other City departments.

As of 2011, through a consignment inventory agreement entered into with NAPA Auto Parts Inc. the majority of inventoried equipment parts are owned by the vendor. The vendor has one person responsible for managing their inventory at both locations. As parts are needed to service equipment, the City store clerks take them from the shelves and record the sale on the vendor's inventory system, then record the usage through the WAM system.

Audit Objectives and Scope

The objective of the review is to assess the effectiveness of the City's processes and internal controls related to the parts inventory located at both Guelph Transit and Operations facilities. Included in the audit is compliance to applicable policies, procedures, By-Laws and legislation, ensuring that an adequate inventory management system is in place, and assessing physical security measures.

Additionally, we evaluated the benefits derived from the consignment arrangement from a value for money (VFM) perspective.

The scope of the review includes:

- Inventory handling procedures - receipt & issuing of parts from the two store room locations, and bulk fuel receiving only;
- Value for Money (VFM) Review of the consignment parts arrangement;
- Segregation of Duties (including fraud prevention);
- Physical Security at the two locations;
- Inventory Recordkeeping including cycle counts, year end counts, adjustments including assessing obsolescence;
- Training and procedure documents;
- Management oversight & governance of both inventory vendor management, and internal reporting including.

The scope of the review excludes:

- Inventory procurement process including vendor management;
- Inventory accounts payable and expense recording;
- Maintenance repair processes including service quality;
- Fuel and oil security and systems (an audit of this was completed in 2017);
- Fuel Usage and removing from inventory – this was also covered in the Fuel and Security audit completed in 2017;
- Procurement system (WAM).

The audit coverage period includes activity between January 2018 and September 2019.

Summary

Internal Audit conducted a review of Fleet parts inventory to assess the effectiveness and efficiency of its controls and processes.

In 2010, the City issued a request for proposal to select a vendor to work in partnership and provide a turnkey parts procurement and supply service for the complete fleet of vehicles and equipment for both the Operations and Guelph Transit facilities. A five year contract was awarded to NAPA Auto Parts Inc. It was renewed with no changes to the original terms and was in effect until June 2020. Subsequently, a new RFP (20-074) has been issued and a consignment parts supplier will be chosen through this process.

Each storeroom is staffed with two City unionized employees responsible for handling City owned inventory including items such as bulk fuel and oil, small hand tools, and personal protective equipment. Within the storerooms, the vendor has dedicated space to store the consignment inventory. Vendor personnel work alongside the store clerks to manage their on hand inventory.

Internal Audit assessed the current consignment arrangement from a value for money perspective by evaluating the benefit derived from the consignment arrangement.

Operations, a department of Public Services service area, is responsible for the management of the parts storerooms at both the Transit and Operations facilities.

The audit identified opportunities for improvement to strengthen the Fleet parts inventory process.

Key opportunities for enhancement are summarized below.

Governance

Management Oversight of Vendor

Vendor oversight activities such as overseeing contractual performance, managing compliance to the agreement, and evaluating the current state of the relationship help ensure management remains informed and that the consignment parts arrangement continues to provide the benefit expected.

Currently, fleet management does not receive adequate information from the vendor that would help them to assess the vendor to key performance indicator (KPI) metrics both outlined in the RFP and that could be useful in managing both inventory and fleet services. It is recommended that Fleet Operations determine what information is critical in helping to manage inventory and ensure it is received from the vendor in a timely manner.

Review of the vendor contractual compliance requirements shows that the vendor is not compliant with key requirements. This includes not providing required reports, conducting a competitive price review every six months, providing annual pricing proposal to outline prices to be charged for the coming year, and delivery of non-inventory parts within 24 hours of order. It is recommended that Fleet Operations monitor and ensure the vendor complies with the requirements of the agreement.

Management Oversight of Inventory

Oversight over operational practices is a critical component in ensuring management is able to assess effectiveness of processes, identify trends, monitor and report performance to ensure service delivery meets objectives.

Fleet management has not developed specific metrics to measure key operational objectives such as, reduced equipment downtime and increased service efficiency as related to parts inventory. It is recommended that specific metrics that measure key performance indicators be developed and are tracked.

Additionally, there are no policies, procedures or guidelines including training materials developed for inventory processes in either the parts storerooms or for fuel ordering. It is recommended that formal procedures for inventory handling processes be developed and used for training purposes.

Communication between stakeholders ensures awareness of challenges faced and provides opportunities to evaluate the current state, and develop action plans so that effectiveness in service delivery be attained. Purposeful communication methods that will facilitate overall better understanding of parts inventory management need to be developed.

Inventory Management

Physical Security

Physical security of parts inventory is an important element for properly managing inventory from theft and mismanagement. To achieve this, enhanced storeroom access controls is required so that only on duty store clerks and relevant Supervisors have access to the room.

Storeroom Activities

Accurate parts inventory processes allows the storeroom to be more proactive and responsive, and can lead to savings by not having to expedite parts as frequently, or negatively impact equipment service times. Currently, recording of parts usage is a manual paper based process that is susceptible to inaccuracies. It is recommended that automating inventory handling such as receiving parts and recording usage by using scanners along with other system functionality be implemented.

Counting inventory is essential to maintaining accuracy of the inventory records. A formal cycle count process should also be implemented for each storeroom and would improve inventory accuracy and minimize year end adjustments.

Consignment Arrangement

The current consignment arrangement is not deriving the expected benefits that were anticipated when the original RFP was signed in 2011. It is recommended that the consignment arrangement with the vendor be reevaluated going forward and that Fleet management consider alternatives including managing the store rooms internally, or having a vendor manage the storerooms.

The current consignment arrangement with Napa has not produced the anticipated savings of 8-10% on parts purchases at either the Operations or Transit locations, and in 2018 is estimated to have potentially cost the City an additional \$106,000.

This is predominantly due to a mark-up fee charged by Napa for any parts procured outside of Napa's branded supply chain with no ascertainable parts cost savings.

As of September 21, 2020, Fleet Operations has issued a new RFP (20-074 - Request for Proposals for Consignment Parts Inventory).

Financial Implications

No direct financial implications as a result of the audit, however, the recommendations should lead to more effective and efficient use of resources and potential cost savings in the future.

Consultations

Doug Godfrey, General Manager, Operations
Executive Team

Strategic Plan Alignment

This report supports the Strategic Plan – Working Together for our Future Priority. The recommendations identified are designed to improve the effectiveness and/or efficiencies of the Fleet parts inventory governance, risk management and internal control processes.

Attachments

Attachment-1 Summary of Recommendations

Departmental Approval

N/A

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Summary of Recommendations

Rec #	Recommendation	Management Action Plan	Implementation Due Date
1.1	Ensure vendor complies with the requirements of the agreement.	Agree: The existing consignment contract expires June 2020. Fleet shall ensure clearer contract requirements shall be included in all future parts contract.	Q1 - 2021
1.2	Determine what information is critical in helping to manage inventory and ensure it is received from the vendor timely.	Agree: Fleet will identify* or if necessary, seek through the budget process, funding for temporary staffing resources to research, develop and determine the necessary inventory reports, monitoring systems, measureable Key Performance Indicators (KPI's) and Standard Operating Procedures (SOP's) required to improve management and control of automotive inventory. (Target date is based on the fact that we do believe that funding can be identified).	Q1 - 2021
1.3	Work with vendor to improve on hand stock levels to increase effectiveness of the min/max process, include monitoring and having one key person manage this.	<p>Agree:</p> <p>a) Fleet will request vendor to provide a current updated list of on-hand (consignment inventory) stock items.</p> <p>b) Fleet determine (in detail) what inventoried automotive components and min/max level of these components are required to be on-hand.</p>	<p>a) Completed</p> <p>b) Q1 - 2021</p>
1.4	Incorporate SMART goals and KPIs into the next signed agreement.	<p>Agree:</p> <p>This will be completed through recommendation 1.1 and 1.2</p>	Q1 - 2021

Rec #	Recommendation	Management Action Plan	Implementation Due Date
2.1	<p>Ensure compliance to the requirements outlined in RFP 10-146. This includes but is not limited to:</p> <ul style="list-style-type: none"> Providing an Operations equipment listing to the vendor; Complete an annual competitive price check on key parts; Develop and track specific metrics that measure key performance indicators such as increased service efficiency and reduced equipment downtime as related to parts inventory. 	<p>Agree: As outlined in action item 1.1 and 1.2.</p> <p>The existing consignment contract expires June 2020. Fleet shall ensure clearer contract requirements are included and adhered to in all future automotive parts contracts.</p>	Q1 - 2021
2.2	<p>Develop and use inventory system reports such as on hand listings and aging reports that will help inventory management.</p>	<p>Agree: Fleet Services, in coordination with other departments (e.g. IT, Asset Management, Finance) and in conjunction with the replacement of the Fleet FMIS (WAM) inventory management reports will be created.</p> <p>NOTE: Full completion and progress of this initiative will be is dependant on replacement and implementation of WAM with a Fleet Management Information System (FMIS) equipped with and automotive inventory (data) management capabilities.</p>	Q1 - 2022

Rec #	Recommendation	Management Action Plan	Implementation Due Date
3.1	Develop formal departmental procedures for inventory handling processes related to the storerooms and fuel ordering to reflect current practices. These be completed using a standardized approach that includes version and revision standards. It should also include but not be limited to a description of responsibilities of all staff and supervisors in executing their duties. Ensure procedures are reviewed periodically and updated when necessary.	Agree: Fleet will strengthen and formalize existing inventory handling processes. Updating the inventory handling procedures will be developed with action item 1.2.	Q2 - 2021
3.2	Implement formalized training programs once procedures have been developed and/or updated.	Agree: Once 3.1 is complete, formal training will be rolled out to all relevant fleet staff.	Q3 - 2021
4.1	Develop purposeful communication methods between City employees, management, and the vendor that will facilitate overall better understanding of parts inventory management. The methods selected should help to proactively identify potential challenges, and allow open discussion to resolve any issues identified. Identify a single key contact person to handle all communication between the City and vendor going forward.	<p>Agree: For all future vendors/suppliers contracts, Fleet management will develop processes for improved communication between the parties.</p> <p>As well, Fleet will utilize the Purchasing Department's vendor performance mechanisms, to ensure adequate supplier performance and take appropriate steps to resolve vendor performance issues.</p>	Q1 - 2021

Rec #	Recommendation	Management Action Plan	Implementation Due Date
5.1	Establish more restricted access to the storerooms so that only on duty store clerks and relevant Supervisors have access to the room. When a store clerk is not present, restrict access to Maintenance Supervisors and lead hands.	<p>Agree:</p> <p>a) Access to automotive inventory shall be restricted to on-site fleet personnel only (as outlined in 5.2 and 5.4).</p> <p>b) Stockroom access will be restricted to store clerks and relevant Supervisors, noting Maintenance Supervisors and Lead Hands will be permitted access when a store clerk is not present. Fleet Services through the budget process will submit a request to add to the current inventory storeroom staffing levels to reduce the need for others to have access.</p>	<p>a) Completed</p> <p>b) Q2 - 2021</p>
5.2	Enhance physical security at both external doors to include working access card readers.	Agree: Security shall add card access readers to rear external doors located on the automotive inventory control room at Watson Street fleet repair shop. Room access will be restricted to on-site fleet maintenance personnel only.	Q1 - 2021
5.3	Assign individuals their own key fobs for dispensing diesel fuel in the bus cleaning area.	Agree: The existing fuel management system will be changed over to the corporate standard fuel management system. The corporate system activates the fuel pump through an (employee) access card reader eliminating the need for a 'generic' fuel key fob.	Q1 - 2021
5.4	Review access card rights and if possible, reduce the number of people with access.	Agree: Security services shall restrict access to authorized on-site fleet maintenance personnel only.	Completed
5.5	Assign access cards to individuals only and remove all generic access cards.	Agree: (As per above) Security services shall eliminate generic vendor card access and issue cards to authorized individuals only. Vendors shall promptly notify Fleet of staff changes to ensure card access restrictions are maintained.	Completed

Rec #	Recommendation	Management Action Plan	Implementation Due Date
5.6	Review and update the access list regularly.	Agree: Security along with Fleet Services will review and update the employee access on a regular basis.	Completed
6.1	Consider automating inventory handling such as receiving parts and recording usage by using scanners and other system functionality such as but not limited to setting up min/max levels with automatic re-order capability for all City owned inventory.	Agree: Consideration shall be given to review complete this item in conjunction with action items 1.2 and 2.2.	Q4 - 2021
6.2	Review store clerk standard hours and ensure that the storerooms are covered as much as possible. Ensure that both clerks are not scheduled to be off work at the same time for periods greater than a few days, and assign back up roles in the event store clerks are not present so that someone else can fill the duties.	Agree: As outlined in action item 5.1. Fleet will take measures to add to existing staffing levels to ensure parts counter service coverage match operational needs especially during peak times. A review of storeroom shift coverage will be completed and available shift coverage options be implemented.	Q4 - 2021
6.3	Implement a standardized way of recording parts usage for each work order required that captures the parts used for the particular service and bus.	Agree: Consideration shall be given to review complete this item in conjunction with action items 1.2 and 2.2.	Q4 - 2021

Rec #	Recommendation	Management Action Plan	Implementation Due Date
7.1	<p>Update inventory count guidelines to include:</p> <ul style="list-style-type: none"> Making regular cycle counts a mandatory requirement; Provide departments with information on ensuring proper cut off considerations are incorporated in the year end counts; Incorporate separation of duties considerations into the guidelines such as having a person not involved in daily storeroom activities responsible for some key steps of the inventory counts. 	<p>Agree with the recommendation to update the inventory count guidelines. This will be completed as part of the preparation for the 2020 year-end process.</p>	Q1 - 2021
7.2	<p>Implement a formal cycle count process for each storeroom including a documented yearly schedule, recording and retaining results showing manager approval for all adjustments.</p>	<p>Agree: As outlined in action item 1.2</p> <p>Fleet will add temporary staffing to review and strengthen existing inventory count duties. Fleet management staff will work with Finance staff to determine (inventory control) variances.</p> <p>Consideration shall be given to include Finance staff in the annual inventory count task, adjustment and financial reconciliation process.</p>	Q1 - 2021
7.3	<p>Ensure all inventory count sheets are completed fully and include manager approval.</p>	<p>Agree: As outlined in action item 7.1 above.</p> <p>Fleet will strengthen record keeping practices to ensure count sheets are completed and approved by Management.</p>	Q1 - 2021
7.4	<p>Implement an annual review of inventory for potential obsolete parts.</p>	<p>Agree: This will be completed as part of action items 1.2 and 1.4.</p>	Q1 - 2021