



Inspector General Insights

Background: Unannounced inventory audits are performed by the Office of the Inspector General (OIG) on a routine basis to ensure controls are in place to prevent and detect fraud or financial misstatements.

Objective: The objective of the unannounced inventory audit included the following:

1. Use the understanding of the agency and its environment to consider inherent risks, including fraud risks, related to inventory controls.
2. Obtain an understanding of internal controls over inventory.
3. Assess the risks and controls inherent to the inventory process.

Scope: Inventory at the main Facilities distribution warehouse for the 2023 fiscal year was in scope. OIG conducted onsite observations of the year end count that were in progress in October. We also conducted surveys and performed control substantive tests through onsite walkthroughs regarding inventory security, purchases, receiving, recording, use, and disposal. We also performed analytical reviews of inventory transactions recorded during the 2023 fiscal year.

Observations: Facilities staff was very accommodating during the onsite review. OIG worked with management to identify and document 27 primary controls supporting 7 key process objectives related to the inventory process. OIG selected 19 controls for testing and provided management with the following conclusions:

Control Conclusion	Issue Risk to Process Objectives			Control Count
	High	Medium	Low	
Operating Effectively	None			6
Operating Effectively with Recommendation			4	4
Control Gap	2		1	3
Control Deficiency	1	3	2	6
	Total			19

What's Working:

- ✓ Facilities Management has direct view of live security camera footage to ensure oversight.
- ✓ Inventory staff have implemented a new inventory system to improve inventory tracking.

Needs Improvement:

- The annual inventory adjustment calculation was off due to rounding and zero-dollar inventory adjustments. Due to immateriality, Finance determined not to record a post close adjustment.
- Policies regarding inventory are inadequate.

Recommendations & Actions: OIG will be working with Management to ensure the implementation of 19 action plans. Implementation of these action plans will enhance internal control effectiveness related to inventory safeguarding and recording.

Conclusion Inventory internal controls at Facilities are operating effectively to provide reasonable assurance that employee job duties are properly segregated, inventory transactions are valid and recorded in the appropriate accounting period.

Due to control gaps and deficiencies, IG cannot provide reasonable assurance that inventory is properly controlled, master inventory records are complete and accurate, or that stocking levels are appropriate.

At this time, no opinion will be issued regarding the disposal of inventory being in compliance with policy since there is no clear policy on inventory disposal.

Total # Transactions	Amounts Audited or Reviewed	Questioned Costs	Taxpayer Savings	# Observations / Recommendations
1	\$ 503,520.99	N/A	N/A	19