



INTERNAL AUDIT

Performance Audit of Supply Chain

R-23-01

Sept 19, 2023

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action ¹	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer		*	*
Director of Supply Chain		*	*
Warehouse & Inventory Operations Manager		*	*

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

The Audit Committee directed Internal Audit (“IA”) to perform an audit to determine if controls over Supply Chain are designed adequately and operating effectively according to internal policies and procedures as well as to support the achievement of management objectives. The Audit Plan was approved by the Audit Committee on December 12, 2022.

This engagement was planned as a preliminary assessment but was completed as a performance audit based on objectives and scope defined during the planning phase. The performance audit was concluded on September 12, 2023, and was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors.

Background and Functional Overview

UTA’s Supply Chain procures, stores, and delivers needed items and material to all divisions within the organization. As of September 2023, the management and direction of UTA Supply Chain is led by Todd Mills – Director of Supply Chain and then divided into management groups under the following: Troy Hamilton – Procurement Manager and Scott Ith – Warehouse-Inventory Operations Manager. This engagement was focused on the Warehouse function of Supply Chain.

Objectives and Scope

Audit objectives and audit plan were determined by completing a risk and fraud risk assessment. Additionally, IA met with the various maintenance shops that are serviced by Supply Chain Warehouse. Through these discussions IA determined that the most significant risks are not in the warehouse segment of Supply Chain but in Procurement. Procurement topics were out of scope for this engagement and time did not permit adding to the scope.

Given the risk assessment’s narrow scope and the relatively low inherent risk, IA focused on testing key performance indicators (KPIs) for the period of July 1, 2022 – July 31, 2023 in the following areas:

- Warehousing Space and Procedures
- Inventory Accuracy
- Parts Delivery Time
- Vehicle Downtime

IA reviewed internal policies and procedures, conducted physical walkthroughs of warehousing and maintenance areas, interviewed Supply Chain personnel, and analyzed warehouse performance data.

Summary

Audit testing confirmed success in the following areas:

- Vehicle downtime due to missing parts is generally attributable to a difficulty in Procurement and not because of something in Warehouse’s control.
- Warehouse accurately fills orders and can quickly resolve discrepancies.
- No safety incidents were reported during the period reviewed.
- Physical inventories were completed at all warehouse locations with accuracy within limits specified by management.
- Parts provided to maintenance shops meet or exceed Original Equipment Manufacturer (OEM) standards.

- Maintenance shops have low need for purchase card purchases as an alternative to Warehouse.
- Warehouse has an established method for setting parts number equivalents when necessary.
- The maintenance shop Meadowbrook #8 has not had a dedicated parts clerk because they share a building with the central warehouse. Management gave sound reasons for this decision that demonstrated this is the best arrangement for success.
- Warehouse has significant overtime needs. The trends and causes of this overtime were examined, with the determination that the issue was not severe enough to warrant additional headcount.

Warehouse shares their central space with Meadowbrook #8, which has disadvantages, such as space constraints, inventory control issues, and security and storage issues. These disadvantages are currently controlled through processes and warehouse accessibility. As UTA considers future planning and space needs, a separate, dedicated warehousing space should be considered

IA appreciates the assistance offered by Supply Chain management and staff in completing this preliminary assessment.