CYANAMID

Wayne - September 10, 1974
OFFICE DATE

TO: Mr. B. H. Loper

LOCATION: Bound Brook

FROM: Operations Audit Department

SUBJECT: Chicago, Illinois (MacGregor) Plant Audit

REFERENCE:

COPY TO:
Mr. F. J. Byrne - BB
Mr. C. H. Calder - NA
Mr. F. E. Detoro - BB
Mr. T. P. Forbath - NA
Mr. H. C. Gaffney - CG
Mr. R. D. Reisman - NA
Mr. G. W. Russell - NA
✓Mr. B. G. Witherspoon - MI
Mr. J. J. Zanetti - BB

Attached is a copy of our Operations Audit Report on the Chicago, Illinois Plant (MacGregor Lead Company), dated September 10, 1974.

We will be glad to furnish you with any additional information you may require regarding this audit.

P M O'Connor

P. M. O'Connor, Acting Director
Operations Audit Department

PMOC:ejn

Attachment

Additional copies of this report were distributed to:

P. M. M. & Co. - Wayne (2)

records retention

OPERATIONS AUDIT DEPARTMENT

•• AUDIT REPORT ••

REPORT DATE September 10, 1974

Location CHICAGO, ILLINOIS PLANT
(MACGREGOR LEAD COMPANY)

As of August, 1974

74-23

CYANAMID

N9412.01

CY0002534

Mr. B. H. Loper, President
Organic Chemicals Division

cc: Mr. F.J. Burns - BB
Mr. C.H. Calder - NA
Mr. F.E. Detoro - BB
Mr. T.P. Forbath - NA
Mr. H.C. Gaffney - CG
Mr. R.D. Reisman - NA
Mr. G.W. Russell - NA
Mr. B.G. Witherspoon - MI
Mr. J.J. Zanetti - BB
P.M.M. & Co. (2)

I. INTRODUCTION

We have completed an examination of procedures and controls of the

Chicago Illinois Plant
(MacGregor Lead Company)
during August 1974

Scope of Work Performed

Our examination included a review of all plant functions, including inventories, production, maintenance, security, safety, and plant, property and equipment.

General Comments

Our major observations and suggestions are contained in Section II The material in this report was discussed with Mr. H. C. Gaffney, Plant Manager, Mr. C. Dadko, Plant Superintendent and Mr. B. G. Witherspoon, Plant Accountant.

Review of Internal Control

In our opinion, controls are generally adequate given the present scope of activity, however, some improvement is needed within the purchasing, receiving, and reporting functions.

Reply

Your reply to our observations and suggestions in Section II shoul be received by the Corporate Controller, the Assistant Corporate Controller, and the Director, Operations Audit Department by October 25, 1974.

In your reply please indicate whether each suggestion has been a) accepted and implemented, b) accepted but not yet implemented, or c) rejected. If either b or c, appropriate explanations shoul be furnished.

This review was conducted by Messrs. Melvin E. Bailey and Charles F. Verhoff who wish to acknowledge the cooperation and courtesy of all people contacted during the review.

OPERATIONS AUDIT DEPARTMENT

SECTION II OBSERVATIONS AND SUGGESTIONS

A. GENERAL BACKGROUND

The Chicago, Illinois Plant is a small plant dedicated almost entirely to producing intermediates for the Division's Damascus, Virginia Plant. Maintenance is a contracted service, and plant accounting is co-ordinated from the Division's Michigan City, Indiana Plant.

B. PURCHASING

1. In some cases purchase requisitions were not used and requests were written on sheets of paper. Certain purchase requisitions were written in pencil and others were not signed or approved.

   Formal purchase requisition forms should be used at all times, pencil should not be used, and they should be properly signed and approved.

2. Purchase orders were not being signed and the vast majority of purchase orders did not indicate prices.

   All copies of purchase orders should be signed, and prices should be shown, except in impractical instances.

3. The Plant Manager signs monthly commitments with American Smelting and Refining Company for the purchase of about 900,000 pounds ($215,000) of corroding lead. This is well above signature authorization limits set in Bound Brook (signature authorization limit #426 of May 3, 1974).

   We suggest that proper authorization be obtained from Bound Brook and/or the Central Purchasing Division to cover this situation.

C. RECEIVING AND INVOICES

1. Receiving reports are not always signed and properly approved by a foreman.

   We suggest that all receiving reports be properly approved and subsequent invoices be reviewed and approved by the Plant Superintendent or Plant Manager as appropriate.

2. Extensions on invoices should be initialed by the payables clerk to indicate that they were properly checked and are accurate.

D. MATERIAL USAGE VARIANCE

1. The plant reports show a $14,553 favorable material usage variance for the first six months of 1974. This figure is questionable because of various errors in reporting of production usage. Production usage is sometimes omitted entirely from reports and

incorrect coding has occurred. This situation persists even though the reports are reviewed and initialed by the foremen.

To highlight and correct these deficiencies in reporting we suggest preparation of a monthly error detect report to be reviewed with respective foremen.

2. Monthly spot check of physical inventories has resulted in sizable differences for some items, mainly due to errors in reporting within the plant. These errors are usually washed through the material usage variance for reporting purposes.

   To properly resolve these differences, we suggest that all significant physical inventory differences be investigated, adequately explained, and that production reports be corrected.

   We also suggest that the Plant Manager review and approve physical inventory work sheets.

E. <u>INVENTORIES</u>

1. The perpetual inventory system for raw materials does not contain minimum/maximum and re-order levels. Reliance is placed upon the Plant Superintendent to initiate purchases of raw materials.

   We suggest that minimum/maximum and re-order levels be incorporated into the perpetual inventory system.

2. A raw material, Neo Fat #12, is being accounted for as a supply item.

   We suggest that this item, though minor, be properly recorded as a raw material and be properly costed as such.

F. <u>MAINTENANCE</u>

1. Periodic maintenance and most emergency maintenance service is done on an outside contract basis. However, some minor maintenance is done under the direction of the Assistant Plant Superintendent, who also is in charge of production when the Plant Superintendent is absent.

   We suggest that another hourly person be trained to perform routine maintenance jobs, as time permits, to alleviate possible conflicts should simultaneous production and minor maintenance problems arise.

2. There is no machine maintenance history kept relating to machine downtime and operating efficiency.

   We suggest that a maintenance repair history be initiated and kept current. This will aid in preventive maintenance, identify equipment repairs and problem areas, and assist in making replacement decisions.

G. SAFETY

1. Based on reports by Cyanamid's Industrial Engineers and OSHA reports, (Occupational Safety and Health Act of 1970) the plant does not comply with safety codes, specifically permanent ladders on production equipment used for repairs and maintenance.

   We suggest that this situation be reviewed by appropriate divisional management for possible corrective action.

2. Laws of the City of Chicago require a licensed boiler operator to be on hand when the boiler is in operation. The boiler is only in operation during the daytime shift and the Plant Superintendent is presently the only licensed boiler operator.

   We concur with the Cyanamid's Industrial Engineering report, recommending a second licensed boiler operator on the premises.

H. PLANT, PROPERTY AND EQUIPMENT (P.P.&E.)

1. No physical inventory of P.P.&E. has been taken since June 1971 and the latest recapitulation is dated April 1973.

   We suggest a complete physical inventory of P.P.&E. be taken as soon as feasible, preferably by year end 1974.

2. Several pieces of equipment obtained during the acquisition are not recorded on the books. According to the Plant Superintendent, this equipment is obsolete but does have a high salvage value because of their brass content.

   We suggest this equipment be properly sold for scrap as soon as practical.

3. There are several other pieces of equipment, recorded on the books at an acquisition value of $24,781, that are considered obsolete.

   We suggest that a prompt decision be made regarding scrapping or abandonment in place. There may be possible tax savings in this regard.

OPERATIONS AUDIT DEPARTMENT