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*Paula S. O'Neil, Ph.D.
Clerk & Comptroller
Pasco County, Florida*

July 16, 2014

The Honorable Jack Mariano, Chairman
Board of County Commissioners
Pasco County Courthouse
37918 Meridian Avenue
Dade City, Florida 33525

Dear Chairman Mariano:

On your behalf, the Division of Inspector General has completed an audit of the Utilities Inventory as of September 30, 2013. The purpose of our review was to determine that the inventory reported existed and was recorded accurately, and that controls over inventory were adequate and effective.

Except as noted in our report, we concluded that inventory reported existed and was properly recorded, and controls over the inventory were adequate and effective.

We appreciate the cooperation and assistance received from Utilities Management staff during this review. Please let us know if you wish to further discuss our comment and recommendation.

I am requesting that the Board receive and file this report, and also direct the County Administrator to implement the recommendations made by the Clerk & Comptroller.

Sincerely,

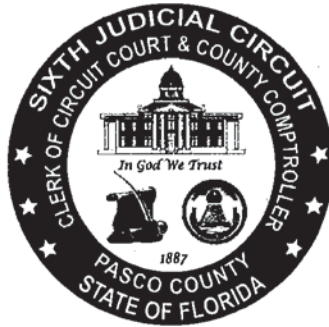
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PSO/pm

*Office of Paula S. O'Neil
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Pasco County, Florida*

**Pasco County Board of County Commissioners
Utilities Inventory Audit**

April 29, 2014



Division of Inspector General

Patrice Monaco, CIG, CGFO, Inspector General
Erika Hendricks, CIA, CFE, Senior Auditor
Michelle Bishop, CIA, CFE, Former Senior Auditor

Report No. 2014-02

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Executive Summary

Background information:

Utilities inventories were maintained at two warehouses located in Port Richey and Wesley Chapel. A computerized perpetual inventory system Enterprise Asset Management (EAM) was used to track inventory records for each location. Inventory expenditure accounts were maintained for Utilities inventory. Charge-backs to user departments were posted on a monthly basis from the Issue Register generated from the inventory system. Physical inventories were performed by Utilities staff on an annual basis and all inventory items were counted. The control account in the General Ledger was adjusted to reflect inventory values at year-end.

Objectives:

The objective of the audit was to determine that the controls over inventory were adequate, inventory reported existed and the quantities and amounts recorded were accurate.

Scope and Methodology:

The audit period was October 1, 2012 through September 30, 2013. The Division of Inspector General observed, counted and tested the inventory records at each location as of September 30, 2013. The audit was neither designed nor intended to be a detail study of every relevant system, procedure or transaction.

We randomly selected a five percent sample of stock items and additional items were judgmentally selected for testing. Audit procedures included but were not limited to: observing the physical inventories, reviewing inventory procedures, comparing physical counts to inventory records, re-calculating inventory report totals, testing last items issued and receipted for in the system, and verifying the unit price per the inventory system. Statistics related to Utilities' inventory and items tested were as follows:

	Port Richey	Wesley Chapel	Total
Total items in inventory	1,477	840	2,317
Number of items tested	78	47	125
Percent of inventory tested	5.28%	5.62%	5.39%
Total value of inventory	\$630,123.20	\$451,531.48	\$1,081,654.68
Value of items tested	\$ 43,512.42	\$ 15,579.64	\$ 59,092.06
Percent of value tested	6.91%	3.45%	5.46%

Overall Evaluation

The Utilities staff was responsive to our inquiries and provided available information when requested. We found the staff to be very cooperative and committed to helping us to identify all relevant data to bring this audit to a close.

It appeared procedures for reporting inventory values, issuing items in the inventory system and procedures over the year-end physical inventories could be improved.

The following table summarizes the findings contained within this report. For each finding, a page is referenced to where the details of each item can be found.

Finding	Description	Page Reference
1	Non-inventory items were included on the inventory reports.	4
2	An independent person was not involved in the physical inventory at the Wesley Chapel warehouse.	5
3	Items were issued and received in the EAM system after inventory cut-off date.	5
4	An item was removed from inventory that was not issued in the inventory system.	6

Overall conclusion:

Except as noted in our report, we concluded that the inventory reported existed and was properly recorded, and the controls over the inventory were adequate.

The inventory value for both warehouses was \$1,081,654.68 as of 9/30/13. The control account in the General Ledger was adjusted \$350,602.39 to reflect an increase in the inventory value.

Findings & Recommendations

Control Activities: Listed below are findings that represent opportunities to strengthen the internal controls. For each finding, a recommendation has been included.

Finding 1

Non-inventory items were included in the inventory reports.

There were numerous non-inventory items included in the "Beginning/ Ending Inventory Reports". The bin location for these was "as needed". Some items had a quantity and value included in the total inventory amount.

- There were 808 unique non-inventory items included in the report for Embassy Hills out of the 2,285 total items. Eight of these non-inventory items had a quantity on hand totaling 195 items with a value of \$1,258.53.
- There were 261 unique non-inventory items included in the report for Wesley Chapel out of the 1,101 total item numbers. The quantity on hand and value of these non-inventory items was zero.

This was noted in our prior audits and according to management's response received last year, it was to be resolved. The number of unique non-inventory items decreased significantly from previous audits.

Recommendation:

Review the inventory reporting process to ensure non-inventory item quantities and values are not included in the stock inventory value reports and that the inventory value and current stock on hand is accurate.

Management Response:

"A report from our Enterprise Asset Management program (EAM) has been created that only includes parts with regular inventory bins."

Finding 2

An independent person was not involved in the physical inventory at the Wesley Chapel warehouse.

It appeared the physical inventories at the Wesley Chapel warehouse did not have an independent person involved in the inventory counts. According to the inventory count team sheet, the three people involved in the physical inventory counts were storekeepers.

At least one independent person who does not normally have access to the inventory or the inventory system should be involved in the taking of the physical inventories to help ensure counts are accurate and effective.

Recommendation:

Establish policies and procedures to require an independent person be involved in the year-end physical inventory counts to strengthen controls over the inventory process.

Management Response:

"An independent person will participate in the inventory at the Wesley Center Warehouse in future inventory events."

Finding 3

Items were issued and received in the EAM system after the inventory cut-off date.

The warehouses were closed for year-end inventories between 9/26/13 and 9/30/13. According to department procedures, items received or emergency items issued during year-end inventories should not be entered into the inventory system until after the inventories were completed. Once inventories are completed the items should be entered in the new fiscal year. The following was noted:

- At the Embassy Hills warehouse the number of inventory items per the beginning Inventory Report (1,477) as of 9/30/13 did not agree to the number of items reflected on the count sheets (1,475) with a bin location number as of 9/26/13. According to staff, it appeared one item was added to the system during inventories and after the count sheets were printed. The remaining item was not identified.

- At the Wesley Chapel warehouse, it appeared emergency items were issued in the inventory system during the year-end inventories on 9/27/13 as reflected on store to store request #29164.

Recommendation:

Review policies and procedures with staff to ensure items issued or received are not entered into the inventory system during year-end inventories. Although the amount is immaterial, all differences between the count sheets and inventory reports should be investigated to determine cause.

Management Response:

"Staff will verify that the count sheets and the Beginning / Ending Inventory reports match."

Finding 4

An item removed from inventory that was not issued in the inventory system.

For one item (#230114) at the Embassy Hills warehouse, our physical count agreed to the quantity on hand as reflected in the inventory system (four). However, Utilities physical count was zero and indicated an adjustment was not necessary. It appeared this item was ordered for a special project but was not properly issued in the inventory system at the time of relocation to the shed. The items were corrected in the inventory system subsequent to our count.

Recommendation:

Review and update policies and procedures to ensure items received into inventory are not physically removed from inventory until issued in the inventory system.

Management Response:

"Staff will abide by the written standard operating procedure."