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Excellence...Always

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

February 14, 2019

The Honorable Ron Oakley, Chairman, and
Members of the Board of County Commissioners
Pasco County Board of County Commissioners
8731 Citizens Drive
New Port Richey, Florida 34654

Dear Chairman Oakley and Members of the Board:

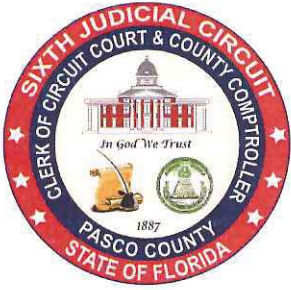
Enclosed is Audit Report No. 2018-04, an audit of the Pasco County Board of County Commissioners Utilities Inventory. The overall objective of this audit was to determine that Utilities Inventory records were accurate, physical inventory was in existence, and that the internal controls over the year-end inventory process were adequate to prevent fraud, waste, or abuse of public inventory assets.

Based on the results of the completed audit, 15 audit comments were identified. Recommendations were provided to Warehouse Services management to improve compliance with existing governance, and the overall control environment in the warehouses. All comments and recommendations were brought to management's attention, and their verbatim responses were included in this report.

The areas that were identified as needing improvement of internal controls were as follows:

Compliance:

1. Emergency issuances during inventory were not always executed in full compliance with the Standard Operating Procedures (SOP's).
2. At the Embassy Hills warehouse, 11 items (6.5% of the test sample) were not organized, maintained in an orderly manner, and/or clearly labeled.
3. Items were not always properly safeguarded.
4. Staff did not comply with policies and procedures and the internal control over the inventory was weakened.
5. The Issuance of Inventory SOP was not always followed.
6. An adjustment that was required for the Embassy Hills warehouse was not made.



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Utilities Inventory
February 14, 2019
Page 2

Control:

7. All warehouses maintained a large amount of items that were either obsolete or belonged to another department.
8. The Year End SOP did not always provide clear guidance and directions.
9. Two warehouse counting teams had access to system totals during the Year End Inventory process.
10. Bins were not always sorted properly.
11. Some items were not properly stored to conserve and preserve original condition of the inventory items.
12. An item's physical bin location was not consistent with the bin location that EAM had assigned.
13. Of the nine adjustments required at the Embassy Hills warehouse, eight were identified by the IG team as they were in the random sample of 169 items.
14. It appeared that blind counts were not performed.
15. After review of the Store Inventory Pre-Count Sheet for the Embassy Hills warehouse, and the comparison with the original count sheets, the IG team determined that four items that were not from the test sample required a recount were not recounted.

During the course of this audit, management took corrective action and implemented some of the recommendations. We appreciate the cooperation and professional courtesy received from the Warehouse Services team during this audit. Please let us know if you wish to discuss any of the information provided in the report.

We request the Board to receive and file this report.

Sincerely,

Paula S. O'Neil, Ph.D.
Clerk & Comptroller

PSO/sd

Office of Paula S. O'Neil
Clerk & Comptroller
Pasco County, Florida

Utilities Inventory

March 12, 2018



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Report No. 2018-04

Table of Contents

Executive Summary	2
Background Information	2
Scope and Objectives	3
Methodology	3
Statutory Authority and County Guidelines	4
Conclusion	4
Audit Comments and Recommendations	5
Compliance	6
Control Activities:	11
References	19

Executive Summary

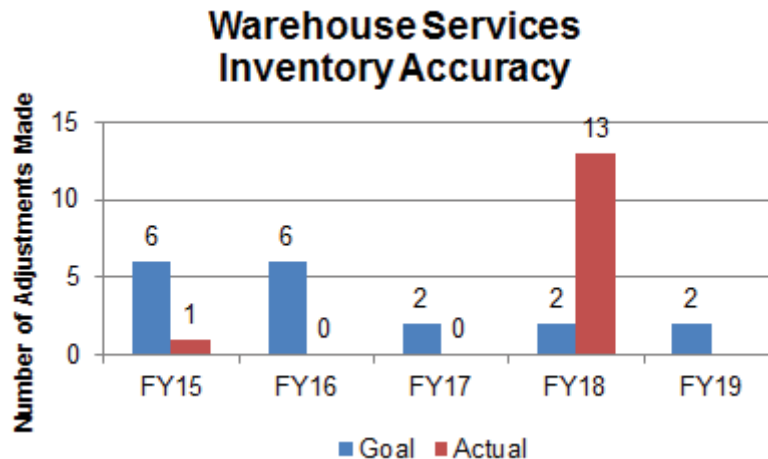
Background Information

As part of the Department of Inspector General (IG) annual audit plan for fiscal year 2018, the IG conducted an audit of the Public Infrastructure inventory year- end counting process. The mission of Warehouse Services was to provide support for Public Infrastructure operations and maintenance personnel. They accomplished this by acquiring, stocking, and issuing the materials, supplies, and tools in a cost effective manner. Those materials, supplies, and tools allowed field service personnel to perform increased performance of maintenance and operations of the infrastructure for the customers of Pasco County. Public Infrastructure strived to allow field service staff to focus solely on work efforts to provide excellent customer service.

The Administrative Services Manager (ASM) was responsible for all warehouses that maintained Utilities' inventory; the ASM reported directly to the Utilities Fiscal and Business Services Director. Utilities inventory was physically maintained at three warehouse locations: Embassy Warehouse, Wesley Center Warehouse, and Shady Hills Warehouse. The inventory records were maintained in the Enterprise Asset Management (EAM) system. EAM was an asset management system with a warehouse module that fit the needs of warehouse services. Inventory was not maintained in Munis, the County's financial system as Munis was used to enter requisitions for blanket POs and submit final counts for adjustment journal entries.

According to management, verification of inventory was conducted quarterly and annually. When inventory was verified annually, all warehouse locations were closed at fiscal year-end to allow for an accurate and secure count of the inventory. During this time, teams of two would physically count the items and record their counts on pre-printed count sheets. After the physical counts were completed, the count sheets would be compared to the EAM system. All discrepancies were to be investigated immediately and those discrepancies would be documented in EAM via an adjustment if needed.

The County's adopted budget discussed the goal was to have no more than two inventory adjustments for the entire 2018 fiscal year as the official inventory records should match the physical inventory count. A goal of Warehouse Services was to purchase a minimum of 90% of all Utilities credit card transactions of items not stocked in the warehouse. According to the FY18 and FY19 budgets, no adjustments were necessary for FY16 or FY17 and 13 adjustments were required for FY18:



By bringing an independent, systematic, and disciplined approach, the IG team was able to evaluate the adequacy of internal controls over the year-end inventory count process. This audit added value to the Board of County Commissioners (BCC) by providing objective and relevant assurance that Utilities warehouse personnel were operating in compliance with the year-end inventory standard operating procedure. In addition, the IG team had the opportunity to add value and improve the County's operations to better uphold its values, mission, and vision. This was accomplished by offering to management recommendations, advice, and insight to improve internal controls, policies, procedures, operations, etc.

Scope and Objectives

The scope of this audit was to determine that Utilities Inventory records were accurate, physical inventory was in existence, and that the internal controls over the year-end inventory process were adequate to prevent fraud, waste, or abuse. The audit period was from October 1, 2017 through September 30, 2018.

Although the IG team exercised due professional care in the performance of this audit, this did not mean that unreported noncompliance or irregularities did not exist. The deterrence of fraud, waste, and/or abuse was the responsibility of management. Audit procedures alone, even when carried out with professional care, did not guarantee that fraud, waste, or abuse was detected. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction.

The nature and scope of the audit was intended to provide objective and relevant assurance, and to contribute to the effectiveness and efficiency of governance, risk management, and control processes of the area under review. The overall objective of the audit was to evaluate the adequacy of the internal controls over the Utilities Inventory and verify the accuracy of the physical counts. Specifically the objectives were to:

1. Confirm and verify the year-end inventory standard operating procedure (SOP) was effective, and county teammates operated in compliance with the SOP.
2. Confirm and verify that tested inventory items existed, were stored in an orderly manner, clearly labeled, and were properly safeguarded (physical access controls and system controls over inventory records).
3. Verify the accuracy of the physical counts performed by county staff. Confirm the inventory counts agreed with the EAM system, and that Munis accurately reflected the inventory counts.

Methodology

The audit was planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. The Department of Inspector General believes the evidence obtained provided this reasonable basis.

The year-end inventory count took place simultaneously at all three warehouse locations on September 27, 2018 and September 28, 2018:

- Embassy Warehouse, Port Richey
- Wesley Center Warehouse, Wesley Chapel

- Shady Hills Warehouse, Spring Hill.

To achieve our objectives, the procedures performed included, but were not limited to, the following:

- Reviewed internal policies and procedures related to Utilities Inventory.
- Interviewed key personnel involved with the Utilities year-end inventory process.
- Conducted a walk-through of the year-end inventory process at each warehouse location prior to the physical counts.
- Selected a 10% random sample for each warehouse, and an additional five to ten items at each warehouse were judgmentally selected.
- Conducted physical counts of a sample of the inventory for each warehouse.
- Observed inventory to determine if items were stored in an orderly manner, were clearly labeled, and were properly safeguarded.
- Observed the recounting of items.
- Reviewed documentation from the EAM system.
- Reviewed the accuracy of the physical counts conducted by warehouse staff.
- Determined if the physical counts agreed with the EAM system, and that the EAM system agreed with Munis.
- Identified opportunities for improvement.

Statutory Authority and County Guidelines

To conduct this audit, the IG team relied on the following authoritative guidelines to serve as criteria:

- Inventory Cycle Counts SOP, revised 9/6/2016
- Issuance of Inventory SOP, revised 8/24/2015
- Purchasing Inventory SOP, revised 9/6/2006
- Receiving Inventory SOP, revised 9/2/2016
- Year-End Inventory Procedures, revised 9/15/2016
- IXP Key Access Policy, revised 8/21/2015
- United States General Accounting Office Executive Guide: Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property, revised March 2002.

Conclusion

The department of Inspector General commends the Warehouse Services department on their professionalism and cooperation. The IG team determined the internal controls over Utilities Inventory required some improvement. The SOPs were not always effective and county teammates were not always in compliance with those SOPs. There were concerns regarding the existence of inventory items and the storage of those items. There were also concerns regarding the counting of the inventory conducted by the Warehouse team.

An observation was noted during the audit process that was outside the scope of the audit, but the issue was important enough to bring to management's attention. The IG team informed management of the concern that none of the warehouses and/or cages had interior security cameras. For improved internal control over inventory, it was recommended to install security cameras in all warehouses to help monitor inventory items. Although management was appreciative of the recommendation, management felt that if cameras were installed the trust

and morale of the warehouse team could be negatively impacted. No action was taken regarding the issue.

Pursuant to the standards of the International Professional Practices Framework written by the Institute of Internal Auditors, "The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement." All recommendations made in this report were offered to strengthen the control environment. The comments and recommendations noted below were discussed with Warehouse Services management, and their responses were included in this report.

Audit Comments and Recommendations

Based on the documentation reviewed and audit procedures performed the IG identified the following opportunities for improvement:

No.	Description	Page Reference
Comments (Compliance):		
1.	Emergency Issuances During Inventory	6
2.	Organization and Labeling of Inventory	6
3.	Safeguarding Assets	8
4.	Store to Store Transfers (STSTs)	8
5.	Overages Caused by Pending STSTs	10
6.	Adjustment Not Made	10
Comments (Control)		
7.	Non-Inventory Items	11
8.	Year-End SOP Unclear	12
9.	Pre-Mature Access to EAM Inventory Totals	13
10.	Bins Were Not Properly Sorted	14
11.	Proper Storage of Items	15
12.	Bin Location Not Consistent With EAM	15
13.	Identifying Adjustments	16
14.	Blind Counts	16
15.	Items Not Recounted	17

Audit Findings & Recommendations

Compliance: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, recommendations were not provided.

1. Emergency Issuances During Inventory

Emergency issuances during inventory were not always executed in full compliance with the SOP's.

- At the Embassy Hills Warehouse, two emergency items were issued while the warehouse was closed for YE inventory. A Store to Store Transfer form was not completed. Instead, item numbers and the quantity of the item were handwritten on a piece of paper and taped to the office printer.

The warehouse staff was not operating in compliance with policies and procedures. For these two emergencies, the customers did not fill out an STST, nor did warehouse staff require them to at the time of the emergency issuance. The warehouse staff did not attach the STSTs to the final count sheets. The piece of paper with handwritten information could have been misplaced. The issuance may not have been inputted into EAM.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *There are situations when the SOP cannot be followed to the letter. In this case, there was an emergency break that the warehouse customer had to address immediately. He did not have the time to complete a Store to Store transfer under the circumstances. That is why a handwritten piece of paper was utilized until the customer had the chance to complete the STST.*

Management agrees that the SOP was not fully followed for the two emergency requests. STST #540C03 was processed after the Administrative Services Manager issued the final Beginning/End Inventory report dated 10/1/2018 to the IG team.

Corrective Action Plan:

The year- end SOP will be reviewed and be signed by the warehouse team as acknowledgement for having the SOP reviewed to them and understood fully. This will be implemented by 1/3/2019.

Target Implementation Date: 1/3/2019

2. Organization and Labeling of Inventory

At the Embassy Hills warehouse, 11 items (6.5% of the test sample) were not organized, maintained in an orderly manner, and/or clearly labeled. The following was noted:

- The location of the overstock was not labeled at the bin location for the following items:
 - For item #20006 and #05011, there was unlabeled overstock maintained on the end of the shelf.
 - For item #20024 (stored in bin A1-D-3-A), there was 500 feet of unlabeled overstock on a pallet on the top shelf of A1-D-4.
 - For item #31250 (stored in bin A1-D-4-A), there was one whole pallet stored outside of cage A1.

- The item was not clearly labeled:
 - When counting #22016, the IG team and warehouse staff was unable to determine the difference between two very similar items on the same shelf. The IG team was required to count each item separately and make note of both.
 - For item numbers 677130 & 677150, the items were stored right next to each other on the same shelf and were almost identical. One bolt was 4" and the other was 5". The items were mixed up and the auditors counted incorrectly because the items were unorganized and not clearly labeled.
 - Additionally, according to the warehouse staff, they do not use these items anymore, and were for emergencies only. 10 of these items were NI items, but were not clearly labeled.
 - For item numbers 80114, 82013, 88007 & 565641, the item was not clearly labeled with the item number.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *Please find the following:*

Concerning item #'s 2006, 05011, and 31250 overstocking, the overstocking was as a result of circumstances beyond the control of the warehouse. Acquisition of inventory items through the County system was delayed as a result of items encountered. Armed with knowledge that this was going to occur, the warehouse obtained additional materials so as not to impact Field Services and their ability to provide service to our customers. This is a temporary situation as the overstock was for high demand items. It is agreed that the overstock items should have had the proper labeling.

Concerning item #22016, warehouse staff has stated they do know the difference between the two very similar items on the shelf. These are valve covers labeled in large metal letters – one states water and the other states sewer.

Concerning item # 677130 and item # 677150, the two different sized bolts, the 4" and 5" have been properly segregated and labeled.

Concerning items 80114, 82013, 88007, and 565641 not being correctly labeled with the proper #'s identified. It is believed that these bins were properly labeled and identified by warehouse employees.

Corrective Action Plan: *Warehouse SOP's are not immutable and are not always followed to the letter. Depending on varying circumstances and situations that frequently occur, the staff will make decisions that are both practical and favorable to our warehouse customers and to the overall operation of the warehouse. Every year, SOP's are revisited, discussed, and revised accordingly to improve operational efficiency.*

Target Implementation Date: *Approximately every January each year SOP's are revisited, discussed, and revised accordingly to improve operational efficiency.*

3. Safeguarding of Assets

Items were not always properly safeguarded.

- Item #565641 was in the test sample for the Embassy Hills Warehouse. This item was maintained on the bottom shelf in a cage that was not locked. The gate of the cage was open, and the lock on the gate was a pad lock rather than an IXP lock.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *The cage was unlocked to accommodate the audit team that was on site to conduct their audit. The intent was to make their job as easy as possible. Under normal circumstances, the cage would be locked. All of the items that are in the identified cage are NI items with the exception of item #565641. We do not use an IXP lock for NI items. We instead use a unique padlock that only warehouse staff has the key for. Item #565641 was recently entered into inventory to accommodate customer demands for upcoming jobs. Staff was planning to move that item into an IXP secured locked cage but the item in question is a 16" Gate Valve that weighs 400 Lbs.*

4. Store to Store Transfers (STSTs)

Staff did not comply with policies and procedures and the internal control over the inventory was weakened. At the Embassy Hills warehouse, the following was noted:

- For item #580002, an overage was counted. When the warehouse staff investigated the discrepancy, they stated the order should have been collected by an employee using STST #68018. However, the employee was no longer employed with the county. This order was cancelled on 9/28/2018 while the auditors were present.
 - The STST number was requested of the Embassy Hills lead inventory specialist on 10/5/2018. According to the lead inventory specialist, STST would have to be requested from the Shady Hills. The STST provided was for a different store than where the discrepancy was found. Additionally, the STST date was 05/22/2018, four months prior to the year-end inventory counts. As a result of this condition, it

appeared that quarterly counts were not being conducted and that STST's were not monitored.

- For item #16026, a shortage was counted (one pipe or 20 feet on the shelf, EAM had two pipes or 40ft on record). When the warehouse staff investigated the discrepancy, they stated a county employee took a pipe without putting the order in. There was one pipe at the warehouse instead of two. An STST was provided after the Lead Inventory Specialist called the employee who took the pipe and requested he enter the STST. The pair conducting the inventory counts counted 40ft, however, the IG team counted 20ft. The IG team was unable to determine when the pipe was taken from the warehouse.
- For item #70001, there was an overage counted (eight pipes or 160 feet on the shelf; EAM had six pipes or 120 feet on record). When the warehouse staff investigated the discrepancy, they stated an STST was completed, but the item had not been picked up at time of the audit.. Two STST were provided to the IG team as supporting documentation. One STST (#70728) was for 20'. Another STST (#70204) was for 20'.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *Concerning item #580002, warehouse staff tries to provide a high level of customer service and develop positive relationships with customers. We allow a week for customers to pick up parts as a result of changing field priorities. In this instance, it went over a week. This is being addressed and the one week rule will be enforced. We are not sure why STST 68018 is identified in this report. This document is in regards to a different warehouse – Shady Hills.*

Concerning item #16026, this was an emergency order and the employee had not completed a STST due to time constraints. The lead Inventory Specialist keeps records of owed STST's for emergency issues and follow up to ensure completion.

Concerning item #580002, the pipe overage was as a result of the employee not collecting his order at the time of the audit counts. We allow for one week for field personnel to collect their orders as a result of changing priorities in the field. Placement of sticks of pipe (20 feet long) do not fit in the blue totes and stay on the pipe racks until pick up and is marked for customer pick up.

Concerning item #70001, it is the same situation as with item #580002. The overage was caused by a warehouse customer not picking up their order within the one week allotment.

Corrective Action Plan: *In the goal of providing excellent customer service and striking a balance with following warehouse SOP's, policies and procedures, the warehouse staff, depending on the circumstances, does not always follow for the SOP to the letter. The leads have the autonomy to make these judgement calls when necessary. The one week rule for picking up orders within the one week allotted time will be strictly enforced. SOP's will be followed fully and completely going forward and signed by the employee.*

Target Implementation Date: *The implementation date was 12/3/2018, thereby addressing "To the Letter"*

5. Overages Caused by Pending STST's

The Issuance of Inventory SOP was not always followed:

- At the Wesley Center warehouse, four items had more on hand than what the inventory system reflected (#580SM12, #580SMI, #580SM34, #681228). According to Warehouse staff, on 9/24/18, these items were issued in the system, but were not pulled from inventory. These items partially issued in the system on 9/18/18 and 9/24/18. After the recounts were conducted, the items were pulled from inventory. No adjustment was required.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *Management agrees with the comments.*

Corrective Action Plan: *The SOP in this instance was not followed. Will review the Issuance of Inventory SOP with the warehouse team. Will have the team sign the SOP as acknowledgement that the SOP was reviewed and fully understood. Will use Utilities Staff Development Days to review all SOP's and updates with any changes and signatures.*

Target Implementation Date: *The target implementation date is 1/3/2019.*

6. Adjustment Not Made

An adjustment that was required for the Embassy Hills warehouse was not made.

- For item #16026, after review of the ending inventory report provided by the Administrative Services Manager, it was determined the on-hand quantity for the item was misstated on the ending inventory report and in Munis.

Recommendation: Since compliance with agreements, contracts, laws, rules, regulation, policies and procedures is expected, a recommendation was not provided.

Management Response: *Management believes that an adjustment was made. The STST was entered by the County employee with item #16026 on it and subsequently processed in EAM immediately at the direction of the audit team on the same day. The STST for item #16026 was processed on 10/1/18 after the final ending inventory report was sent to the IG team.*

Corrective Action Plan: *The year-end inventory SOP will be reviewed by the warehouse team. The SOP will be signed as acknowledgement that the SOP was reviewed and full understood*

Target Implementation date: *The implementation date will be by 1/3/2019*

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

7. Non-Inventory Items

All warehouses maintained a large amount of items that were either obsolete or belonged to another department.

According to warehouse staff, these items were brought to the inventory warehouses for storage by other departments, old warehouses, etc. The policies and procedures did not include language of how warehouse staff was to handle the non-inventory items, what types of non-inventory items are allowed to be stored in the warehouses, how long the items may remain in "storage" at the warehouses, nor were there forms to document the transfer of items to and from storage. The following was said mentioned to the IG team:

- According to the Embassy Hills warehouse Lead Inventory Specialist, cage B3 maintained excess items in inventory. Additionally, the Lead Inventory Specialist stated there were non-inventory items at the warehouse and these items were old, junk items from an old warehouse.
- According to the Shady Hills warehouse Lead Inventory Specialist, there were items on the top shelf of section A that belonged to another department (computer monitors, etc.). Additionally, there were old uniforms stored in the warehouse on the floor in large, black garbage bags.
- According to the Lead Inventory Specialist at the Wesley Center warehouse, there were non-inventory items stored down the road from the warehouse. These items were used/old and would not be used in the future. The Lead Inventory Specialist stated she would be happy to see the items go and make room for potential new inventory items.

Recommendation: Determine if there is any use for the non-inventory items, or if they are no longer useable. Move non-inventory items to surplus and/or require other departments to remove their items from the warehouse to decrease the amount of obsolete and stagnant inventory. Items returned after extensive usage may be able to be disposed of. If there are non-inventory items that are useable or can be re-purposed, consider a request to the BCC to donate or auction the items, as opposed to disposing of them in the landfills. Revise policies and procedures to provide direction and guidance to warehouse personnel for how to properly manage, non-inventory items properly.

Management Response: *Please note our responses:*

Concerning the non-inventory items at the Embassy Hills Warehouse, these are not old junk items that were received from another warehouse. All non-inventory items were excess items from capital projects that were in excellent condition when received. We stored the items in the warehouse in the event the items were needed for future capital projects or if needed by our customer base for breaks and repair needs. Field Services routinely reviews the non-inventory items to determine if the items become old or obsolete over time in which they will be scrapped and surplus.

Concerning the computer monitors at the Shady Hill Warehouse, these are monitors left over from a capital project. We have issued many of these monitors out to other departments who were in need of them. The rest of the monitors are slated for capital projects in the near future. The used uniforms in the garbage bags are still usable and in decent condition to be handed out to new hire employees. Field Services requested that we store the old uniforms and issue them out when a request was made.

Concerning the non-inventory items at the Wesley Center warehouse, the section down the road from the warehouse was created for storing non-inventory items. It was never designed with the intent of stocking inventory items in that section.

Corrective Action Plan: *Management will revise the SOP and update all items including the language on the process to manage non inventory items. The non inventory items exist as a result of items coming back into the warehouses from oddball jobs or from past practices. Field Services has reviewed non inventory items in the past and made a determination to retain materials or to be removed. Many of these items are unique parts that may be used as a result of old Utilities that we acquired in the early years and cannot at this time be standardized. Most of the materials are scrapped with the BCC approved vendor. Non inventory items are tracked in NI bins in the EAM system but have a zero dollar value. We will again employ Field Services to review, assess, and identify non-inventory items that are old, obsolete, and unusable within 30 days. Such NI items will be scrapped and surplus.*

Target Implementation Date: 1/3/2019

8. Year-End SOP Unclear

The Year End SOP did not always provide clear guidance and directions.

- The Year End SOP did not clearly explain the process of comparing physical counts to the EAM system. Each warehouse determined recounts differently:
 - The Embassy Warehouse counting teams compared the physical counts to the printed Store Inventory Pre-Count Sheet by dividing the documentation up and writing the physical count next to the system count. The auditor assisted County staff in this process.
 - The Wesley Center Lead Inventory Specialist compared the physical counts to the Store Inventory Pre-Count Sheet in PDF form on the computer prior to the auditor's arrival.
 - The Shady Hills Lead Inventory Specialist compared the physical counts to the printed Store Inventory Pre-Count Sheet prior to the auditor's arrival.

Recommendation: Revise SOPs to:

- Provide detailed instructions for comparing physical counts to the system counts.
- Provide detailed instructions for performing and documenting re-counts.
- Ensure all proper internal controls were in place.

Management Response: *Management concurs with the comments.*

Corrective Action Plan: *The Year End SOP was revised to provide more detail instructions for comparing physical counts to the system counts and for performing and documenting recounts. Each warehouse will follow the SOP in the same manner to provide consistency.*

Target Implementation Date: 12/3/2018

9. Pre-Mature Access to EAM Inventory Totals

Two warehouse counting teams had access to system totals during the Year End Inventory process.

- At the Embassy Hills Warehouse, the “Store Inventory Pre-Count Sheet,” which obtained the EAM item quantity, was printed on 9/26/2018 at 11:51AM. The system totals were available to the counting teams throughout the count process.
- At the Shady Hills Warehouse, the “Store Inventory Pre-Count Sheet,” which obtained the EAM item quantity, was printed on 9/27/2018 at 06:45AM. The system totals were available to the counting teams throughout the count process.
 - According to the lead inventory specialist, he was trained by the lead inventory specialist at the Embassy Hills Warehouse.

Recommendation: Inactivate EAM access to warehouse staff, except for the Administrative Services Manager (ASM) and/or Utilities Fiscal and Business Administrative Services Director while the physical counts were taking place. The ASM should provide appropriate reports to the warehouse teams prior to counting. Require each warehouse manager to email all completed count sheets to the ASM. Staff responsible for control of inventory should not have access to the pre-count sheets until after the physical count sheets are sent to the manager and/or auditors. After count sheets are received, the pre-count sheet should be sent to the lead inventory specialist for reconciliation and recounts as necessary. Count sheets should be completed in pen and any corrections should be initialed. For independence and increased internal control over inventory, it is also recommended that the lead inventory specialists are not included in the pairs that count inventory, rather that they are present to manage the process and ensure the details of the policy and procedure are followed.

Management Response: *Management concurs with the recommendation that the counting teams should not have access to the EAM inventory totals until all blind counts are performed. For clarification of management’s response, the Lead Inventory Specialists will not be included in the pairs that count the inventory. Rather they will manage the process and ensure the details of the policy and procedure are followed.*

Corrective Action Plan: *The Pre Count Sheet will not be available to any of the warehouse staff until after all physical counts are completed. The year-end SOP will be revised to reflect this and to state that all count sheets should be completed in pen and any corrections initialed. The Year End Inventory SOP is edited and will be reviewed and signed off by the warehouse team.*

Target Implementation Date: 1/3/2019

10. Bins Were Not Properly Sorted

Bins were not always sorted properly. At the Embassy Hills warehouse the following was noted:

- For item #07001, one box of gloves was stored under the shelf where the inventory was maintained. There were seven boxes of size small latex rubber gloves counted by the IG team. This count included the box stored under the shelf,. According to the Lead Inventory Specialist, the small gloves were no longer used.
- For item #33113XL, the bin for the XXXL orange safety vests was on top of a box of the item. Inside the bin, there were two headbands for hardhats instead of the appropriate item.
- For item #Q11112, the part description said “DO NOT USE EVER.”
- For item #230123, the item was kept in a shed that did not belong to warehouse services. According to warehouse staff, the item was not an inventory item.

Recommendation: Compliance with agreements, contracts, laws, rules, regulations, policies and procedures was expected. However, SOPs did not provide detailed guidance to warehouse staff regarding the issues mentioned above, or issues similar. Therefore, the IG team recommends an update to the SOPs to provide warehouse staff with detailed instructions regarding sorting bins both physically and in EAM.

Management Response: *Please find the following:*

Concerning item #07001, the one box of gloves stored under the shelf was not in inventory. They are expendables. It is used by warehouse staff to handle items that are greasy or dirty and therefore not stored in the bins.

Concerning item #33113XL, it is agreed that the bin was in the wrong area with items in it that should not have been placed there. It has been corrected.

Concerning item #Q11112, the item is on the count sheets due to a glitch in the EAM system. Our EAM support team has been working on this error for months.

Concerning item #230123, this was erroneously assigned to an inventory bin. It is an as needed item and should have been assigned to an AS Need bin. This has been corrected. Management agrees with the IG comments. The gloves that are no longer used will be removed from inventory items and segregated to a non inventory bin.

Corrective Action Plan: *The year-end inventory SOP will be reviewed with the warehouse team, signed, and acknowledged as fully understanding the SOP by 1/3/2019.*

Target Implementation Date: *1/3/2019*

11. Proper Storage of Items

Some items were not properly stored to conserve and preserve original condition of the inventory items. The following was noted:

- At the Embassy Hills warehouse, the IG team observed that some items (pipe, man-hole lids, valves, plugs, etc.) were not properly stored to prevent damages as they were stored outside, without protection from the weather.
- At the Shady Hills warehouse, the IG team observed that some items (pipes, sleeves, etc.) were not properly stored to prevent damage as they were stored outside in the weather.
- At the Wesley Center warehouse, the IG team observed that some items were not properly stored to prevent damages as they were stored outside in the weather. The lead inventory specialist stated she has requested an overhang to help prevent the deterioration of these inventory items.

Recommendation: Provide each warehouse with proper structures, equipment, space, etc. to better safeguard the inventory currently stored in the weather to prevent damage, deterioration, and unnecessary storage and maintenance costs or purchases of assets already on hand. Additionally, assess the usability of the items that were improperly stored to determine if any items were no longer useable and therefore taking up space in the warehouse. If these conditions exist, coordinate with the Clerk & Comptroller's Financial Services team for guidance of the proper accounting for these items.

Management Response: *Management agrees with the comments.*

Corrective Action Plan: *Management has budgeted overhangs in FY19 to protect the entire outside inventory in all three warehouses.*

Target Implementation Date: *Sometime in FY19*

12. Bin Location Non Consistent with EAM

An item's physical bin location was not consistent with the bin location that EAM had assigned. At the Wesley Center warehouse, the following was noted:

- One item (#07003XL) had two bin locations reflected in the system with separate quantities (A1-E-1-D and A1-E-2-DPR). However, the inventory was located in one bin (A1-E-1-D). According to the lead inventory specialist, this issue would be remedied immediately. No adjustment was necessary.

Recommendation: If physically possible, place this item in one location to reduce the opportunity for confusion and make appropriate updates to item information in EAM.

Management Response: *Management agrees with the recommendation.*

Corrective Action Plan: *The situation was immediately corrected*

Target Implementation Date: 10/1/2018

13. Identifying Adjustments

Of the nine adjustments required at the Embassy Hills warehouse, eight were identified by the IG team as they were in the random sample of 169 items. See table below:

Item #	Bin #	Warehouse Team Count	IG Team Count	System Count	Recount	Adjustment Quantity
05011*	A1-C-3-C	636	639	636	639	3
20006*	A1-C-3-C	579	580	579	580	1
33127*	A1-E-1-B	288	311	288	312	24
80SC01*	A1-E-3-E	20	22	20	22	2
82503*	A1-E-3-F	4	0	4	5	2
03122*	CON-MIX-SHED	472	477	472	477	5
16026*	E1-A-2-A	40	20	40	20	-20ft
580002*	E1-B-4-A	160	200	160	200	40ft
80114*	E1-G-4-A	9	10	9	10	1
03087	A1-C-2-B	49	-	50	-	-1

* Identified by the IG team

Recommendation: Amending policies and procedures to require a person independent of the Utilities Warehouse Services to reconcile the physical counts to the system counts.

Management Response: *It is believed blind counts have been performed appropriately. Counting teams have been trained and additional training will be scheduled. It is agreed that segregation of duties were not performed but the SOP will be amended to ensure that segregation of duties will be done.*

Corrective Action Plan: *Will amend the policies and procedures to require a person independent of the Utilities Warehouse Services to reconcile the physical counts to the system.*

Target Implementation Date: FY19

14. Blind Counts

It appeared that blind counts were not performed.

- After review of the original count sheets, it appeared that for the Embassy Hills warehouse 59 counts were erased and/or written over with the exact number as the system count. Of the 59 items, 15 item counts had initials next to the correction; the remaining 44 had no initials. Additionally, the IG team could not determine when the physical counts were updated on the original sheets, or by whom.

Recommendation: Maintain segregation of duties and perform blind counts by restricting access to on-hand balances prior to and during the performance of the counts.

Management Response: *Please find the following:*

For clarification, the 59 counts that were changed were out of approximately 1,600 items in inventory that are counted. It is agreed that all count changes need to be initialed. The count teams used blind count sheets at all times for the physical counts and did not have access to the Pre Count Sheets as the Lead Inventory Specialist kept it in a secure place. The SOP will be amended and reviewed to ensure that all count changes have to be initialed and segregation of duties will be performed.

Management agrees that the Pre Count sheets should not be available to any of the warehouse inventory counting teams when blind counts are being performed and to maintain segregation of duties during the counting process.

Corrective Action Plan: *The SOP will be amended for count changes and segregation of duties. The Pre Count Sheets will not be allowed to be accessed by the warehouse team. Permissions will be entered into EAM to deny access to the report until all blind counts are completed.*

Target Implementation Date: 1/3/2019

15. Items Not Recounted

After review of the Store Inventory Pre-Count Sheet for the Embassy Hills warehouse, and the comparison with the original count sheets, the IG team determined that 4 items that were not from the test sample required a recount were not recounted. See explanations and table below:

For two items (#500677 & #500504), there were discrepancies between the physical count and the system count, were not recounted. It appeared these items were marked to be recounted. However, these items were not recounted as the IG team was present for the recounts, and signed off on the recounts.

- For two items (#300481 & #300561), it appeared the wrong number was transferred from the physical count sheet to the Pre-Count Sheet.

Not Recounted - Missed				
Item	Bin #	Pre-Count Sheet System Count	Physical Count on Original Count Sheets	Handwritten Physical Count on Pre-Count Sheet
500677	C4-E-1-C	8	18	18
500504	C4-F-1-D	205	204	204
Not Recounted – Wrong Count on Pre-Count Sheet				
Item	Bin #	Pre-Count Sheet System Count	Physical Count on Original Count Sheets	Handwritten Physical Count on Pre-Count Sheet
300481	A1-B-4-C	50	15	50
300561	A1-F-1-Y	71	70	71

Recommendation: The segregation of duties should be implemented regarding the summarization of the physical counts and comparison to the system records should be executed by an independent person rather than warehouse staff and the counting teams.

Management Response: *Please find the following:*

Concerning item #500677 and item # 50054, the Lead Inventory Specialist believes that both items were recounted but a notation was not made.

Concerning item #500677, 10 of the 18 physically counted items were erroneously in a non-inventory bin. That is why only eight showed on the Pre Count Sheet. The 10 items were moved to the correct bin and the EAM system count is correct.

Concerning both item #500504 and item #300561, the Lead Inventory Specialist had one extra of each item in his office from previous overages in sealed boxes which were put back into inventory to match the EAM system counts.

Concerning item #300481, there was a mixed box of 35 on the bottom shelf that was not included in the physical count which made the correct physical count of 50.

Corrective Action Plan: *Segregation of duties will be implemented regarding summation of physical counts and comparison to the system records will be executed by an independent person rather than the warehouse staff. The year-end inventory SOP will be reviewed with the warehouse team to ensure that these issues will not occur in the future. The SOP will be signed off by the warehouse team as acknowledgement that the SOP was reviewed and fully understood. The will be implemented by 1/3/2019*

Target Implementation Date: *1/3/2019*

References

- Pasco County's Fiscal Year 2018 Adopted Annual Budget, Departmental Information, pg. 242
- Pasco County's Fiscal Year 2019 Adopted Annual Budget, Departmental Information, pg. 189
- International Professional Practices Framework (IPPF) 2017 Edition, pg. 55