

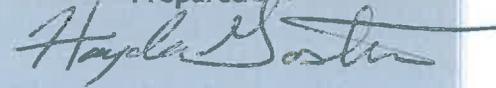
Audit #16-01:

# Fiscal Year-End 2015 Citywide Inventory

## Executive Summary Report

Office of the City Auditor and Clerk  
Internal Audit

Prepared by:

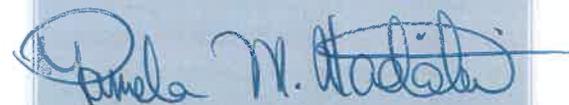


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# EXECUTIVE SUMMARY

## AUDIT 16-01: FISCAL YEAR-END 2015 CITYWIDE INVENTORY

### AUDIT SCOPE

The scope of this audit included a review of departmental inventory activities, including physical inventory counts, compliance with inventory policies and procedures, and physical and information system security regarding City assets for the fiscal year ending September 30, 2015. The time period for the audit was October 1, 2014 - September 30, 2015.

The following table summarizes inventory information by Department or Division:

Department or Location	Inventory Costing Method In Use (Exhibit B)	Inventory Count Method	Automated Inventory System In Use?	Ending Inventory Balance as of 9/30/15	Percent of 2015 Inventory Balance Tested by Internal Audit
Municipal Auditorium and Payne Park Auditorium	Last Invoice <sup>1</sup>	Periodic	No	\$340.75	0.08%
Utilities-Utility Stores	First-In-First-Out (FIFO)	Perpetual	Yes	\$219,479.20	51.01%
Public Works-Fuel Inventory	Last Invoice	Perpetual	Yes	\$63,911.44	14.85%
Bobby Jones Golf Club Pro Shop	Weighted Average	Perpetual	Yes	\$35,724.11	8.30%
Van Wezel Performing Arts Hall	Last Invoice	Periodic	No	\$2,480.75	0.58%
Sarasota Police Department	Last Invoice	Perpetual	No <sup>2</sup>	\$108,360.20	25.18%
<b>Grand Total Inventory Valuation/ Percent Tested by Internal Audit</b>				<b>\$430,296.45</b>	<b>100%</b>

### REPORT CONTENT AND LIMITATION OF USE

This executive summary report is limited in detail. In order to obtain the full background on a particular item, please review the Detailed Audit Report prior to drawing conclusions based on the limited information contained in this report.

<sup>1</sup> The use of last invoice costing is a non-standard costing method.

<sup>2</sup> SPD does have inventory software; however the software is not being utilized effectively.

## AUDIT OBJECTIVES AND CONCLUSIONS

Audit Objective	Objective Rating					
	Bobby Jones Golf Club Pro Shop	Public Utilities-Utility Stores	Public Works – Fuel Operations	Municipal Auditorium and Payne Park Auditorium	Van Wezel Performing Arts Hall	Sarasota Police Department
This audit focused on determining whether:						
1) Departmental inventory procedures were adhered to during counts of inventory;	X	X	X	X	X	X
2) Physical access to inventory was appropriately restricted to safeguard City assets;	X	X	X	X	X	X
3) Access to inventory information systems was appropriately restricted to necessary personnel;	X	X	X	X	X	X
4) Reported inventory included usable or saleable items;	X	X	X	X	X	X
5) Inventory cut-off procedures were adequate to ensure that inventory transactions are reported in the correct fiscal year;	X	X	X	X	X	X
6) Inventory amounts were properly recorded; and	X	X	X	X	X	X
7) Management oversight of the physical inventory count and reconciliation process was adequate to ensure adjustments were properly reviewed and authorized.	X	X	X	X	X	X

Objective ratings indicate the levels at which the objectives were met; rating definitions are included in **Exhibit A** in the Detailed Audit Report.

The results of our review indicate:

- Physical inventory counts were generally performed in compliance with each department’s respective inventory instructions.
  - Public Works Fuel Operations does not have documented inventory procedures.
- Adequate physical access controls observed to be in place for the departments.
- Inventory information systems were generally restricted to necessary users.
- Reported inventory values appropriately included usable/saleable items; obsolete items were properly identified and segregated from other inventory.
- Departments were in compliance with inventory cut-off procedures.
- Generally, inventory amounts were properly recorded.

- SPD has not been utilizing the inventory software to record additions or issues of inventory during the year. Additionally, inventory prices are not always updated to properly reflect changes in inventory costing.
- SPD's current inventory location code does not provide a format for searching or reporting inventory items based on item description or by inventory location.
- Generally, management was appropriately present at several of the physical counts and audit adjustments were properly reviewed and approved prior to submission to Finance.
  - Public Works Fuel Operations does not currently have a process in place that has management playing an active role in year-end fuel measurement and fuel adjustment approval.

**A complete list of audit recommendations begins on page 5 of this report.**

**AUDIT 16-01: FISCAL YEAR-END 2015 CITYWIDE INVENTORY  
OBSERVATIONS AND RECOMMENDATIONS**

Management Action Plans					
Audit Recommendation	Priority	Concur	Do not Concur	Proposed Management Action	Action Item Due Date
<p>1. Sarasota Police Department –  <b>Implement the inventory software by:</b></p> <ul style="list-style-type: none"> <li>• posting stock purchases and issues,</li> <li>• utilizing an acceptable costing system (LIFO),</li> <li>• assigning locations for stock items,</li> <li>• set reorder levels</li> <li>• identify slow-moving or obsolete stock</li> <li>• utilize reporting system for inventory worksheets</li> <li>• identify and separate used inventory from new inventory</li> <li>• determine if used inventory should have a zero value</li> </ul>	High	X		<ul style="list-style-type: none"> <li>• Inventory software (New World) implementation to be completed by 30May16.</li> <li>• Stock prices to be posted utilizing issuing invoices or comparative match from like vendor.</li> <li>• Locations to be posted to software program after completion of stockroom reset.</li> <li>• A default reorder level of 5 will be utilized unless movement supports other.</li> <li>• Identification of Slow moving and obsolete stock – Complete</li> <li>• Inventory reports will be generated from New World once implementation is complete.</li> <li>• Stockroom Reset to be implemented to support separation of new stock items from used recycled items. Only new stock items to be posted and tracked by New World system. This will allow for a true realtime cost analysis of the SPD stockroom. *Note 1, possible requirement for a one time financial adjustment on balance sheet for SPD once reset and implementation is complete.</li> </ul>	3/30/2016
<p>2. Public Works – Fuel Operations –                      We recommend that inventory procedures are documented, maintained and updated as is necessary.</p>	Medium	X		<ul style="list-style-type: none"> <li>• Prepare standard operating procedure for monthly and annual inventory of fuel maintained for PW 12th Street Fuel Island.</li> </ul>	2/29/2016
<p>3. Public Works – Fuel Operations –                      We recommend that fuel inventory variances and adjustments be reconciled on a monthly basis and thoroughly reviewed and approved by management.</p>	Medium	X		<ul style="list-style-type: none"> <li>• SOP will include review and approval by management.</li> </ul>	2/29/2016

## EXHIBIT A: INTERNAL AUDIT RECOMMENDATION PRIORITIES

Internal Audit utilizes the following classification scheme applicable to internal audit recommendations and the appropriate corrective actions:

Priority Level <sup>1</sup>	Description	Implementation Action <sup>3</sup>
<b>High</b>	Fraud or serious violations are being committed or have the potential to occur, security issues, significant financial or non-financial losses are occurring or have the potential to occur. <sup>2</sup>	Immediate
<b>Medium</b>	A potential for incurring moderate financial or equivalent non-financial losses exists. <sup>2</sup>	Within 60 days
<b>Routine</b>	A low priority observation indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control however operation or administrative process may be improved if certain additional changes are implemented.	60 days to 6 months

- 1 The City Auditor and Clerk is responsible for assigning internal audit recommendation priority level categories. A recommendation that clearly fits the description for more than one priority level will be assigned the higher priority level.
- 2 For an audit recommendation to be considered related to a significant financial loss, it will usually be necessary for an actual loss of \$25,000 or more to be involved, or for a potential loss (including unrealized revenue increases) of \$50,000 to be involved. Equivalent non-financial losses would include, but not be limited to, omission or commission of acts on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.
- 3 The implementation time frame indicated for each priority level is intended as a guideline for establishing target dates. Determining proposed action dates is the responsibility of the Charter Official(s) over the area(s) or function(s) audited.

*NOTE: Please note that this exhibit is a standard form which appears in every audit and is meant to be utilized to aid management in understanding the seriousness or potential seriousness of an audit observation. A "High" or "Medium" priority rating assigned to an audit observation should not be construed to mean that fraud or wrongdoing is, in fact, occurring but rather fraud or wrongdoing has the potential to occur in the absence of adequate internal controls.*