

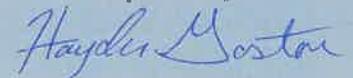
Audit #15-01:

# Fiscal Year-End 2014 Citywide Inventory

Executive Summary Report

Office of the City Auditor and Clerk  
Internal Audit

Prepared by:

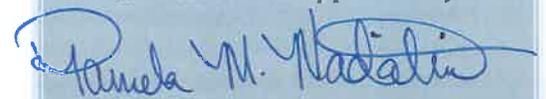


Hayden Gaston  
Senior Internal Auditor



D. Edward Daugherty, CPA  
Manager, Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini, MBA, CMC  
City Auditor and Clerk

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**Office of the City Auditor and Clerk**  
1565 1<sup>st</sup> Street  
Sarasota, FL 34236  
(941) 954-4135

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# EXECUTIVE SUMMARY

## AUDIT 15-01: FISCAL YEAR-END 2014 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, 2014. The time period for the audit was October 1, 2013 - September 30, 2014.

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 9/30/14	Percent of 2014 Inventory Balance Tested by Internal Audit
Municipal Auditorium and Payne Park Auditorium	Last Invoice <sup>1</sup>	Periodic	No	\$310.58	27.00%
Public Utilities-Utility Stores	First-In-First-Out (FIFO)	Perpetual	Yes	\$137,380.67	14.72%
Bobby Jones Golf Club Pro Shop	Weighted Average	Perpetual	Yes	\$31,807.28	15.71%
Van Wezel Performing Arts Hall	Last Invoice	Periodic	No	\$1,756.45	95.72%
Sarasota Police Department	Last Invoice	Perpetual	No <sup>2</sup>	\$112,798.42	7.73%
<b>Grand Total Inventory Valuation/ Percent Tested by Internal Audit</b>				<b>\$284,053.40</b>	<b>12.19%</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	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
2) Physical access to inventory was appropriately restricted to safeguard City assets;	X	X	X	X	X
3) Access to inventory information systems was appropriately restricted to necessary personnel;	X	X	X	X	X
4) Reported inventory included usable or saleable items;	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
6) Inventory amounts were properly recorded; and	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

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.
  - There was one instance of inventory stock not being counted as a result of not counting from left to right and top to bottom.
- Adequate physical access controls observed to be in place for the majority of the departments.
  - It was noted that SPD does have a locked inventory storeroom with 22 employees having access to the room via the employee’s key fob, however it does not appear that all of those employees have an active function in the inventory process or need to access the inventory.
- Inventory information systems were generally restricted to necessary users.
  - It was noted that SPD’s inventory software user rights were not updated based on personnel changes within the department.
- 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.
- Management was appropriately present at some of the physical counts and audit adjustments were approved by the department heads prior to submission to Finance.

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

**AUDIT 15-01: FISCAL YEAR-END 2014 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 – Departmental inventory instructions should be provided and reviewed by members of the count teams prior to the physical inventory. Having a department manager that is familiar with current inventory activities observing the physical counts can help to provide guidance and clarity for any count issues that may arise. Additionally, once the department begins to utilize the inventory software and updates physical counts real time a variance report should be printed to help identify errors made during the counts.</p>	High	X		<ul style="list-style-type: none"> <li>Keep a departmental inventory instruction manual in the Quartermaster's office at all times. The day prior to the inventory count, the Quartermaster will go over the manual and instructions with anyone assisting to brush up on inventory activities prior to conducting the physical counts. Utilize the department inventory computer software to prepare variance reports to identify errors and make the process efficient and accurate on a regular basis once the program is being utilized again to make inventory and audit process less cumbersome.</li> </ul>	2/15/2015
<p>2. Sarasota Police Department Inventory Software <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 (FIFO – First In, First Out),</li> <li>assigning locations for stock items,</li> <li>setting reorder levels</li> <li>identifying slow-moving or obsolete stock</li> <li>utilizing reporting system for inventory worksheets</li> <li>Consider having the inventory storeroom staffed by someone to oversee, organize and maintain the inventory storeroom along with performing the functions listed above. A policy should also be implemented for releasing inventory items during unstaffed hours. (We did note that a posting for the Quartermaster position is currently open and a potential candidate has been identified.)</li> </ul>	High	X		<ul style="list-style-type: none"> <li>A Quartermaster for the Sarasota Police Department has been hired; targeted start date is January 7, 2015. This person has experience in military stockrooms. The current Cribmaster program is military based. The new Quartermaster can evaluate whether it is feasible to update and start utilizing the Cribmaster program or if the inventory program with New World (the agencies new Report Writing System) would be better. Once that decision is made, implement training on the software and begin utilizing the computer based program to track and order inventory. The SPD is no longer going to utilize their inventory room to keep large amounts of equipment/clothing etc. on hand. Only critical items will be stocked with identified levels of items to keep on hand. With current ease of online ordering, the majority of items can be ordered on an as needed basis.</li> </ul>	7/31/2015
<p>3. Sarasota Police Department – <b>Stockroom access should be reviewed on a regular basis to determine that only individuals who truly need access to the stockroom have been approved.</b> Although the inventory stockroom is locked, the inventory items are in the open in the stockroom. Individuals who are not responsible for inventory should not have access to unsecured inventory.</p>	High	X		<ul style="list-style-type: none"> <li>After 2013 Audit, four SPD cleaning crew members were taken off the list to have access to the Quartermaster's office. They were allowed to utilize the area to store their personal belongings while working, to include their paperwork, department cell phones charging stations, etc. Arrangements were made for these things to be stored in the common maintenance office. Quarterly, the SSD Commander should review the access list to the Quartermaster's Office.</li> </ul>	12/16/2014

## APPENDIX A

### AUDIT RATING SYSTEM

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives were met.

**Red** – A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

**Yellow** – A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient, assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

**Green** – A green control rating indicated that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.

