

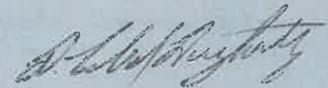
Audit #14-01:

Fiscal Year-End 2013 Citywide Inventory

Executive Summary Report

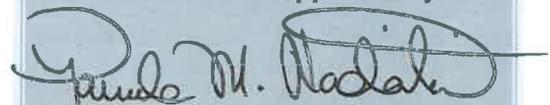
Office of the City Auditor and Clerk
Internal Audit

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EXECUTIVE SUMMARY

AUDIT 14-01: FISCAL YEAR-END 2013 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, 2013. The time period for the audit was October 1, 2012 - September 30, 2013.

The following table summarizes inventory information by Department or Division:

Department or Location	Inventory Costing Method In Use (Appendix B)	Inventory Count Method	Automated Inventory System In Use?	Ending Inventory Balance as of 9/30/13	Percent of 2013 Inventory Balance Tested by Internal Audit
Municipal Auditorium and Payne Park	Last Invoice	Periodic	No	\$489.33	31.07%
Public Utilities-Utility Stores	First-In-First-Out (FIFO)	Perpetual	Yes	\$74,594.39	9.43%
Public Works-12 th Street Equipment Maintenance and Fuel/Oil	First-In-First-Out (FIFO)	Perpetual	Yes	\$157,119.46	5.35%
Bobby Jones Golf Club Pro Shop	Weighted Average	Perpetual	Yes	\$40,943.59	15.66%
Van Wezel Performing Arts Hall	Last Invoice	Periodic	No	\$876.84	65.98%
Sarasota Police Department	Last Invoice	Perpetual	Yes	\$116,535.38	3.94%
Grand Total Inventory Valuation/ Percent Tested by Internal Audit				\$390,558.98	7.89%

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.

AUDIT OBJECTIVES AND CONCLUSIONS

This audit focused on determining whether:

Audit Objective	Objective Rating		
1) Departmental inventory procedures were adhered to during counts of inventory;	X		
2) Physical access to inventory was appropriately restricted to safeguard City assets;	X		
3) Access to inventory information systems was appropriately restricted to necessary personnel;		X	
4) Reported inventory included usable or saleable items;	X		
5) Inventory cut-off procedures were adequate to ensure that inventory transactions are reported in the correct fiscal year;	X		
6) Inventory amounts were properly recorded; and		X	
7) Management oversight of the physical inventory count and reconciliation process was adequate to ensure adjustments were properly reviewed and authorized.	X		
8) Inventory systems are operating as designed, with adequate controls and safeguards.		X	

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

The results of our review indicate:

- Physical inventory counts were generally performed in compliance with inventory instructions.
- Adequate physical access controls were observed for the majority of the departments with regards to secure, lockable storage areas. *(See Detailed Audit Report for relevant exception.)* With regards to segregation of duties concerns, opportunities exist for all departments to realign job tasks to better reduce theft/ fraud risk.
- Inventory information systems were better restricted to necessary users when compared with prior Audit #10-01; however, there were some concerns specifically regarding the Cartegraph system where the number of users with capabilities to modify records was excessive, considering job responsibilities.
- Reported inventory values appropriately included usable, or saleable, items.
- Departments were in compliance with inventory cut-off procedures.
- Generally, inventory amounts were accurately reported to the Financial Administration Department. *(See Detailed Audit Report for two relevant exceptions.)*
- Management was appropriately present at some of the physical counts; as recommended in the prior audit, audit adjustments were approved by the department heads prior to submission to Finance.
- Inventory systems were operating as designed with adequate controls and safeguards. *(See Detailed Audit Report for three relevant exceptions.)*

A complete list of audit recommendations begins on page 4 of this report.

**AUDIT 14-01: FISCAL YEAR-END 2013 CITYWIDE INVENTORY
OBSERVATIONS AND RECOMMENDATIONS**

Management Action Plans					
Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>1. All Departments: Separate inventory duties, or implement compensating controls for duties, so that:</p> <ol style="list-style-type: none"> 1) The person who receives/ signs off on inventory is not involved in the purchasing process (particularly, cash disbursement), 2) The person who has custody of the merchandise (Custodian) does not modify the inventory system or reconcile inventory counts to the inventory system/ general ledger, 3) The person who modifies the inventory system (adds/ edits/ deletes items) does not reconcile inventory counts to the inventory system/ general ledger. <p><i>(See Exhibit B in the Detailed Audit Report for additional information on Segregation of Duties and Potential Compensating Controls.)</i></p> <p>Bobby Jones Golf Club, Public Utilities, Public Works, SPD: Modify access rights in departmental inventory systems so that they are commensurate with job responsibilities and reflect an appropriate segregation of duties (ie, Custodian should not be able to modify records).</p> <p>Public Utilities, Public Works: Review user groups in Cartegraph and explore the possibility of reducing the number of users with the capability to modify/ delete records.</p>	High	X		<p>Bobby Jones Golf Club: 1) a) Currently being done for general merchandise. On occasion, pre-paid special orders are received by the manager in order to get product to customer. b & c) Currently being done</p> <p>2) The EZ Links POS system software does not have the ability to segregate access rights within the "Inventory & Sales Items" module. Assigned staff has either full access or no access. For example, the merchandise custodian must be able to monitor stock levels and sales. That data is found in the "Inventory & Sales Items" module which in turn gives him full access to all inventory aspects (add/edit/delete items).</p> <p>Limited staffing levels, does not provided for complete separation of all duties, so to compensate, staff with access to inventory maintenance have been instructed not to make adjustments outside his/her assigned duties. The Golf Course Manager is the only person adjusting inventory after merchandise is received into the system. A report is generated when such an adjustment is made and the reason why documented. This report is reviewed by the Director.</p> <p>POS system provider was contacted last year about modifying access rights within this module for individual users. It's not possible now, but will be considered for future software updates. To date, no changes have been made.</p> <p>Public Works: Currently negotiating an Agreement for Parts Room Integrated Management to handle all inventory responsibility. Agreement approved by City Commission on 02/18/14. Estimate 90 days Implementation.</p> <p>Public Utilities- Utility Stores: 1. A. Currently individual who orders materials only checks in materials, invoice processing is handled by Accounting Specialist. B. All adjustments to inventory are performed by Public Works Finance and Administration Manager. C. Once Supervisor of Utility Stores is hired, additional segregation of duties will be put in place to address this issue. 2. Work with IT Department to ensure segregation of duties.</p> <p>Management will advertise the current vacant position of Utility Stores Supervisor. Once individual is in place, additional segregation of duties will be enacted. This process will take approximately 180 days to hire and train and ensure all groundwork is set to enact the new procedures.</p>	<p style="text-align: center;">Software Upgrade Date Unknown</p> <p style="text-align: center;">5/31/14</p> <p style="text-align: center;">6/30/14</p>

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
				a. See #1, above, for detailed receiving process	
<p>3. Public Works Facility Enter into a contract for parts supply on an as needed basis.</p> <p>In the event that the City is unable to negotiate a contract for parts supply, and the budget precludes a remodel of the garage and storeroom, we recommend the Department review the existing facility to determine how to reduce the inventory on hand and how to better secure the inventory on hand.</p>	Medium	X		<p><i>Public Works: Auditor's Note – This recommendation was conditional upon the City failing to reach an agreement with a vendor to provide parts supply. The City executed a contract on February 18, 2014 with Genuine Parts Company (DBA NAPA Auto Parts) to provide a turn-key, full service and integrated parts room solely managed by NAPA. As part of the contract any alterations to the current facility are the responsibility of the vendor.</i></p>	

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.