

Hernando County Clerk of Circuit Court
Audit Services Department
MEMORANDUM

TO: Charles Mixson, P.E., DPW Director, County Engineer
Terry Yeager, Fleet Director

COPY: Larry Jennings, Interim County Administrator
Amy Gillis, CPA, Finance Director

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

SUBJECT: Fleet Parts Inventory, Management Assistance Project

DATE: December 21, 2005

As requested, the Clerk of Circuit Court's Audit Services Department (ASD) provided some assurance that the Fleet Department's parts inventory control structure is adequate. To do so, the ASD assisted management in assessing the parts inventory control environment and participated in the 2005 fiscal year end inventory count and reconciliation process. This project is now complete.

The scope of work was limited to the period of October 1, 2004, through September 30, 2005. Some historical financial records were also utilized for a global perspective. The ASD interviewed key Fleet and Finance personnel; observed fleet parts inventory activities; appraised the effectiveness of the internal control structure; participated in the 2005 fiscal year-end parts inventory count; compared the physical count results to the Finance Department's general ledger; and provided ideas for enhancing the internal control structure.

Based upon the above, the ASD offers the following opinion:

- 1) The ASD found no material individual line item discrepancies when comparing the 2005 physical year-end inventory count results to the Fleet Department's electronic inventory record. However, when comparing inventory on hand to the Finance Department's general ledger balance, the actual inventory was \$10,515 less than the general ledger. Since the general ledger is adjusted at the end of each fiscal year to ensure that the next year's beginning general ledger balance agrees with the inventory on hand, this non-reconciliation indicates that there may have been either an inventory control or a recordkeeping weakness during fiscal year 2005.

Enhancement Idea: Consideration should be given to conducting semi-annual inventory counts (March 31st and September 30th) and reconciling the result to the general ledger. Corrective action should be taken for any material non-reconciling difference. In addition, an inventory count and reconciliation to the general ledger should be performed whenever an employee who has inventory responsibilities resigns or takes an extended leave of absence.

The ASD will assist the Fleet Department with the March 31, 2006, mid-year inventory count and reconciliation to the general ledger.

- 2) Based upon communications with Fleet personnel, it appears that the 2005 fiscal year-end non-reconciling difference may have been affected by the manner in which the cost of parts utilized to repair insured vehicles is booked. The Fleet Department reduces their inventory record for any part utilized but since insurance proceeds pay for the part (the user department is not invoiced), the general ledger is not reduced by the cost of that part. It also appears that if an inventoried part is broken (or similar scenario), the Fleet Department reduces their inventory record by the cost of the item but the general ledger is not adjusted. These scenarios could cause non-reconciling differences. During fieldwork, Fleet personnel communicated with Finance personnel to address how these parts should be booked.

Enhancement Idea: Consideration should be given to reviewing current procedures to ensure that any part placed in or taken from inventory is booked in the Fleet Department's inventory record and the Finance Department's general ledger. In addition, to ensure that the fiscal year 2006 records are accurate and complete, consideration should be given to researching back to October 1, 2005, to make any necessary adjustments to these records.

- 3) Current inventory recordkeeping and segregation of duties appear to be adequate with the exception of what was described above. There is segregation of incompatible duties throughout the parts inventory work flow. For example, the individual who receives parts is not the same individual who posts the parts into inventory or the individual who creates the work order. There are several data input monitoring controls built into the process. The inventory items placed in stock are bar coded for easy identification and for recordkeeping practices. The storeroom door has a locking mechanism and only those employees in a management position or who are responsible for securing the inventory are key custodians. Based upon observations during the inventory count, the stock room is clean and well organized.
- 4) There are no written policies and procedures for the parts inventory cycle.

Enhancement Idea: Consideration should be given to writing policies and procedures that reflect key inventory controls, decision points, and authorizations. These policies and procedures should include examples (exhibits) of forms, reports, and indices that assist the user in carrying out their assigned task(s). Development of policies and procedures is an ongoing opportunity for management to clarify desired goals and objectives.

- 5) It appears that some general inventory controls are applied which limit unauthorized access to the inventory storeroom however, in some rare instances, unsupervised access is allowed by personnel who are not responsible for securing the inventory.

Enhancement Idea: Consideration should be given to restricting unsupervised access to the parts storeroom by anyone not responsible for inventory security.