

*Hernando County Clerk of Circuit Court*  
*Audit Services Department*  
**MEMORANDUM**

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

**VIA:** Karen Nicolai, CPA, Clerk of Circuit Court

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

**SUBJECT:** Fleet Parts Inventory

**DATE:** October 10, 2006

As requested, the Clerk of Circuit Court's Audit Services Department (ASD) performed a mid-year (April 29, 2006) parts inventory count for the Fleet Department. To do so, the ASD attempted to reconcile the actual inventory on hand to the general ledger and to the Fleet Department's inventory record. The ASD utilized Fleet and Finance Department records and personnel during this process. This project is now complete.

The scope of work was limited to the period of October 1, 2005, through April 29, 2006. Some historical financial records were also utilized for a global perspective. The ASD interviewed key Fleet and Finance personnel; observed Fleet parts inventory activities; participated in the April 29, 2006, parts inventory count; and compared the physical count results to the Finance Department's general ledger.

Based upon the above, the ASD offers the following:

- 1) The ASD found no material individual line item non-reconciling differences when comparing the April 29, 2006, physical inventory count results to the Fleet Department's electronic inventory record.
- 2) This was the first ASD mid-year reconciliation of inventory. Neither the ASD nor Fleet recognized the need to prepare for defining parts inventory records of transactions in-process prior to the count. Because these transactions were not clearly marked "first half of year" or "second half of year" the ASD was not able to determine which transactions went with which time period. Therefore, the ASD was not able to perform a reconciliation of the parts inventory on hand to the Finance Department's general ledger balance. In the future, the ASD will request that Fleet clearly define inventory transactions in-process for the 30 day period prior to any inventory count.
- 3) During the ASD's April 29, 2006, reconciliation of the physical inventory on hand to the Finance Department's general ledger balance, the ASD discovered, and the Assistant Finance Director confirmed, a 2004/05 fiscal year end (FYE 2004/05) inventory adjustment error of

\$11,813.78. This error was created by the ASD when it inaccurately calculated transactions in process on September 30, 2005 (*see exhibit A for details*).

**Recommendation:** The Finance Department should consider adjusting the general ledger's parts inventory account by \$11,813.78 to correct the error.

- 4) The ASD sample tested the Fleet Department's second quarter inventory adjustment in the amount of \$7,954.37. The ASD selected line item adjustments and corresponding back-up materials for any inventory sent to surplus, and sampled all other inventory adjustment line items. The inventory sent to surplus appeared to have adequate support documentation. However, the Fleet Department was unable to provide adequate support for the inventory adjustments listed below:

I. Actual Inventory Items On Hand Less Than Fleet Inventory Records

- a) Tribos tubes of grease – The Fleet Department recommends reducing the Fleet parts inventory balance and general ledger by \$155.20 for eighteen (18) tubes of grease at \$8.64 each. Fleet personnel cited that the adjustment to inventory is due to not billing user departments for materials used during repairs/maintenance.
- b) Menzi Skid Shoe – The Fleet Department recommends reducing the Fleet parts inventory balance and general ledger by \$147.96 for four (4) skid shoes at \$36.99 each. Fleet personnel stated that the adjustment to inventory is due to not billing user departments for the skid shoes used during repairs/maintenance.

II. Actual Inventory Items On Hand Greater Than Fleet Inventory Records

- a) Valve – The Fleet Department recommends increasing the Fleet parts inventory balance and general ledger by \$106.42 for two (2) valves at \$53.21 each. Fleet personnel stated that the adjustment might be due to a recording error.
- b) Goodyear Tires - Fleet Department recommends increasing the Fleet parts inventory balance and general ledger by \$506.88 for four (4) tires at \$126.72 each. Fleet personnel stated that the adjustment to inventory was due to billing a user department for the tires, without actually installing the tires on a vehicle.
- c) Menzi Switch Assembly - Fleet Department recommends increasing the Fleet parts inventory balance and general ledger by \$219.06 for one (1) switch assembly. Fleet did not provide an explanation for this adjustment to inventory.
- d) Goodyear Tire - Fleet Department recommends increasing the Fleet parts inventory balance and general ledger by \$284.54 for one (1) tire at \$284.54. Fleet personnel stated that the adjustment to inventory was due to billing a user department for the tire, without actually installing the tire on a vehicle.

- e) Vermeer Tightener - Fleet Department recommends increasing the Fleet inventory balance and general ledger by \$151.65 for one (1) tightener. Fleet did not provide an explanation for this adjustment to inventory.

Billing user departments for parts not installed, failing to bill user departments for parts installed, and not being able to explain or provide support for inventory adjustments are indicators that the Fleet Department may have internal control weaknesses in the receiving, usage, recordkeeping, and/or physical maintenance of inventory.

**Recommendation:** Consideration should be given to a departmental self appraisal of the parts inventory control structure (policies and procedures, accuracy and completeness of data, segregation of incompatible duties, recordkeeping, physical safeguards, etc.) to identify any control weaknesses or employee lack of attentiveness to detail. Corrective action should be taken, as applicable. Departments that were charged for parts not actually installed should receive a credit equal to the amount of improper billing.