

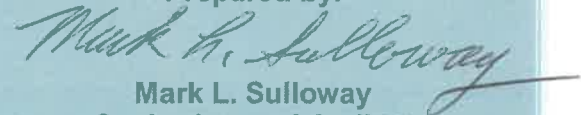
Audit #17-01:

# Fiscal Year-End 2016 Citywide Inventory

Executive Summary Report

Office of the City Auditor and Clerk  
Internal Audit

Prepared by:



Mark L. Sulloway  
Senior Internal Auditor



D. Edward Daugherty, CPA  
Manager Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini, MBA, BBA, CMC  
City Auditor and Clerk /  
Chief Audit Executive

You can obtain copies of this report by contacting us at:  
**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 #17-01 FISCAL YEAR-END 2016 CITYWIDE INVENTORY

#### AUDIT PURPOSE AND SCOPE

This audit was performed to assess the FYE 2016 physical inventory process, including compliance with inventory instructions and related controls over inventory. This audit was included on the 2015-2017 Audit Schedule.

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, 2016. The time period for the audit was October 1, 2015 - September 30, 2016.

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 9/30/16	Percent of 2016 Inventory Balance
Bobby Jones Golf Club	Weighted Average	Perpetual	Yes	\$56,229.90	12.44%
Public Works-Fuel Operations	Last Invoice <sup>2</sup>	Perpetual	Yes	\$49,341.59	10.92%
Utilities - Utilities Stores	First-In-First-Out (FIFO)	Perpetual	Yes	\$286,410.35	63.37%
Sarasota Police Department	Last Invoice <sup>2</sup>	Perpetual	No <sup>1</sup>	\$58,963.33	13.04%
Municipal Auditorium and Payne Park	Last Invoice <sup>2</sup>	Periodic	No	\$300.10	.07%
Robert L. Taylor Community Complex	Last Invoice <sup>2</sup>	Periodic	No	\$49.12	.01%
Van Wezel Performing Arts Hall	Last Invoice <sup>2</sup>	Periodic	No	\$697.08	.15%
<b>Grand Total Inventory Valuation/ Percent Tested by Internal Audit</b>				<b>\$451,991.47</b>	<b>100%</b>

<sup>1</sup> SPD does have inventory software; however, the software is not being utilized.

<sup>2</sup> The use of last invoice costing is a non-standard costing method.

## 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 upon the limited information contained in this report.

## AUDIT OBJECTIVES AND CONCLUSIONS

A complete list of Internal Audit's observations and recommendations begins on page 5 of this report. For information on priority levels assigned to audit recommendations, please see [Exhibit A](#).

- 1) Physical inventory counts were generally performed in compliance with each department's respective inventory instructions. The one exception to this observation: Fuel Operations - Inventory on hand is provided by an automated fuel monitoring system (Veeder-Root) installed directly in the fuel tanks.
- 2) Adequate physical access controls were observed to be in place for the departments.
- 3) Inventory information systems were restricted to necessary users.
- 4) Reported inventory values appropriately included usable, or saleable, items; obsolete items were segregated from other inventory.
- 5) Departments were in compliance with inventory cut-off procedures.
- 6) Generally, inventory amounts were properly recorded with three exceptions noted:
  - SPD was not utilizing available inventory software to track inventory, receipt or dispersal of equipment during the fiscal year.
  - SPD is not adding freight charges to the cost of certain inventory items.
  - Utilities Material Stores inventory consolidation added unidentified payee inventory items at zero cost to the inventory reducing the apparent average cost of these items.
- 7) Management was appropriately present at several of the physical counts and audit adjustments were reviewed and approved by the department heads prior to submission to Finance.

Audit Objectives	Objective Ratings							
Determine whether:	Bobby Jones Golf Club Pro Shop	Public Works Fuel Operations	Utilities Stores	Sarasota Police Department	Municipal Auditorium & Payne Park	Robert L. Taylor Community Complex	Van Wezel Performing Arts Hall	
1. Departmental inventory procedures are adhered to during counts of inventory;	X	X	X	X	X	X	X	
2. Physical access to inventory is appropriately restricted to safeguard City assets;	X	X	X	X	X	X	X	
3. Access to inventory information systems is appropriately restricted to necessary personnel;	X	X	X	X	X	X	X	
4. Reported inventory includes usable or saleable items;	X	X	X	X	X	X	X	
5. Inventory cut-off procedures are adequate to ensure that inventory transactions are reported in the correct fiscal year;	X	X	X	X	X	X	X	
6. Inventory amounts are properly recorded; and	X	X	X	X	X	X	X	
7. Management oversight of the physical inventory count and reconciliation process is adequate to ensure adjustments are properly reviewed and authorized.	X	X	X	X	X	X	X	

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

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

#	Subject	Priority	Observation	Recommendation	Concur	Do Not Concur	Management Response	Committed Action Item Due Date
1	SPD Inventory Software	Medium	Available inventory software (Crib Master or New World Systems) was not being used to track receipt and issuance of inventory items. This has been a recommendation in the past three audit reports.	Implement the use of inventory software for all items in inventory, new purchases, and equipment issuance.  Use of inventory software should provide up to date inventory stock levels and cost information and provide better tracking of stock items.	Yes		Current implementation of CribMaster is taking place including items on hand, new purchases, equipment issuance, and item location. CribMaster has an acceptable costing system.	6/30/17
2	Utilities Zero Cost Items	Medium	Utilities consolidated inventory items received from other cost centers within Utilities into their inventory at zero cost as exact prices were not available. This artificially lowers the apparent cost of these items. This issue was a one-time occurrence as all inventory has been transferred to Utilities Materials Stores.	Request cost information from the departments that provided inventory to Utilities (if available) and update item costs to more accurately reflect the cost of goods on hand.  Exact cost-of-goods provides a more accurate inventory valuation.	Yes		Utilities will obtain the cost for all of the inventory items received from other departments and update the software (Cartegraph) to reflect such prices in our inventory.	4/1/2017
3	SPD Freight Charges	Routine	Freight charges were not being added to item costs. Freight charges occurred with only certain vendors.	Freight charges (when applicable) should be added to item cost to provide exact cost-of-goods information.  Exact cost-of-goods provides a more accurate inventory valuation.	Yes		This will occur with the implementation of CribMaster.	6/30/17

## EXHIBIT A: AUDIT PRIORITY CLASSIFICATION SYSTEM

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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The implementation timeframe 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.*