



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

FACILITIES SERVICES' INVENTORY AND SUPPLIES CONTROL
ENVIRONMENT

REPORT # 260

APRIL 23, 2014



April 23, 2014

The Honorable Mark Sharpe, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Sandra L. Murman

Dear Chairman Sharpe and Commissioners:

The Audit Team performed an audit of the Facilities Inventory and Supplies Control Environment, Audit Report # 260, dated April 23, 2014. Responses to the Audit Team's recommendations were received from the Interim Director of Real Estate and Facilities Services and have been included in the report after each audit comment and recommendation.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Real Estate and Facilities Services during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Tom Fass, Assistant County Administrator
Josh Bellotti, Interim Director of Real Estate and Facilities Services
Bruce Dangremond, Manager, Performance Mgmt, Business and Support Services

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

Department Description

The Real Estate and Facilities Services Department manages facilities by providing planning, design, construction, operation, maintenance, and energy management of Hillsborough County-owned facilities as well as lease administration of facilities. The Department also manages the County's real property by providing land acquisition services, surveys, plat reviews, right-of-way mapping, data collection, and map making for County departments and agencies. Further, the Department manages the County's Public Art Program and County parking facilities.

Department Mission

The Real Estate and Facilities Services Department's mission is to provide comprehensive County government real estate and facilities services in a professional and cost effective manner for the benefit of the citizens of Hillsborough County.

Warehouse Operations

Facilities Maintenance has one warehouse located at 2432 Falkenburg Road in Tampa. Inventory items include main operating supplies to help effectively and efficiently operate and maintain the County's facilities. As of March 6, 2014, the inventory value for Facilities Services was \$258,349.00.

OBJECTIVE

The objective was to determine whether or not inventory controls provide an acceptable level of assurance that the perpetual inventory records are accurate, inventory is safeguarded, and inventory storerooms are orderly.

SCOPE

The scope of the audit was to assess Facilities Services' inventory and supplies control environment.

The Audit Team identified and flow charted the current inventory and supplies life cycles, performed site visits at storage areas and supply store, and evaluated the control environments.

OVERALL EVALUATION

Real Estate and Facilities Services' personnel were responsive to the Audit Team's inquiries and provided data and other information in a prompt and courteous manner. The Audit Team found knowledgeable and dedicated employees who were receptive to the Audit Team's suggestions for improvement.

The audit results indicate that: the Real Estate and Facilities Services' inventory controls do not provide an acceptable level of assurance that the perpetual inventory records are accurate; inventory controls provide an acceptable level of assurance that the inventory is physically safeguarded; and the storeroom is kept neat and orderly.

The following table summarizes the audit comment contained within this report.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE REFERENCE
1	Opportunities exists to improve internal control.	page 3

OPINION

Based on the audit test results, except as noted in the audit comment, Real Estate and Facilities Services appears to have an adequate internal control process over its inventory process.

The recommendations made in this report represent opportunities to enhance these controls through the use of additional monitoring of the Facilities Services' inventory activities.

The exit conference was held on March 20, 2014.

AUDITED BY

Mark Kolman – Manager
 Brenda Tyler – Internal Auditor II
 Peggy Caskey, Director of County Audit

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1.

Opportunities exists to improve internal control.

The objective was to determine whether or not inventory controls provide an acceptable level of assurance that the perpetual inventory records are accurate, inventory is safeguarded, and inventory storerooms are orderly.

The Audit Team conducted interviews. The inventory process was documented (flowchart and narrative). The control environment was identified. The Audit Team performed an internal control and fraud risk conversation with management.

From a population of 1,771 storeroom inventory line items (skew/product numbers) listed in the MP2 inventory record on March 6, 2014, the Audit Team selected and physically tested a sample of 33 (or 23% of the inventory population's corrected total value).

Inventory Records

The inventory controls do not provide an acceptable level of assurance that the perpetual inventory records are accurate.

The standard operating procedures provide for a well designed inventory control environment. The workflow follows good business practices. The good design and workflow should help to mitigate the risks in the inventory life cycle but due to a small staffing level of 1.5 full-time equivalents, it is difficult to segregate the control related job duties. This non segregation of duties control weakness is working against the well designed control environment.

- The Storeroom Supervisor is responsible for ordering, receiving, recording, stocking, and issuing inventory as well as maintaining the perpetual inventory records and reconciling physical inventory counts.
- The part-time Storekeeper III assists with storeroom operations.

To monitor the accuracy of the inventory records, personnel perform daily inventory cycle counts. They manually select 10 inventory items from the MP2

inventory population and compare their physical inventory count results to the MP2 records.

Except for recounting inventory to make sure the count is accurate, storeroom personnel do not investigate non reconciling differences. The Facilities' standard operating procedures do not address how non reconciling differences are to be investigated.

Per management, Facilities has performed preliminary (informal) reviews to identify obsolete inventory items and has created an obsolete inventory standard operating procedure. There are adequate controls in the design of the procedure. The Storeroom Supervisor anticipates establishing a routine to follow the procedure. Management estimates that there are about 25 skew/product numbers with obsolete inventory and that the total dollar value is low. Due to the low risk of a negative material impact to the financial statements, the Audit Team did not specifically test for obsolete inventory items during its March 6, 2014, physical inventory count. This inventory count did not identify any material inventory record concerns.

Earlier this calendar year, management hired a consultant to help Facilities personnel expand their knowledge and use of the MP2 capabilities. The anticipated result is enhancement of the storeroom's efficiency and effectiveness.

Physical Controls

Inventory controls provide an acceptable level of assurance that inventory is physically safeguarded.

The storeroom's entry door access is secured by a lock. Per management, it is normal practice to lock the storeroom's entry door at all times and the window when the room is vacated. Per management, only those persons whose job duties require them to have access to the storeroom have an entry door key to gain access.

Storeroom Organization

During site visits and on the day of the inventory count, the Audit Team observed that the storeroom was neat and orderly. The items were bar coded and placed on the shelves by craft. Each shelf is labeled by a unique placement code identifier. The storeroom has an overstock area. No material concerns were identified.

RECOMMENDATION 1

To mitigate segregation of duties risks, consideration should be given to assigning the MP2 system's continuous monitoring and reporting capabilities to a non storeroom employee. For example, the MP2 system is capable of reporting data entry errors (unusual inventory amounts or values), inventory overages and shortages, changes in perpetual inventory records, comparing materials checked out of inventory on a work order to materials installed, and identifying inventory write-offs and adjustments.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Quality Control Checking — *Understanding that this recommendation is made up of two (2) components:*

- a. Assigning of a non-storeroom person to carry out verification and double-checking of data integrity and,*
- b. Codifying and establishing error checking reports and processes to provide quality assurance and control.*

A resource has been included in the FY15 budget request to hire a person to serve in a larger capacity for work management and reporting. It is intended that a percentage of that person's time will be devoted to conducting non-storeroom data verification. Facilities recognizes the importance of putting into place several of the suggested error reporting processes, and includes these in the Corrective Action Plan below. Detailed procedures will be developed to periodically (either daily or weekly) generate various "double check" reports and validate the report contents against source documents (procurement/invoice documents), Work Orders (WO's), or inventory transaction data. Daily Cycle counts will be considered part of this QA/QC process, though discussed separately in #2 below.

TARGET COMPLETION DATE

January 1, 2015

RECOMMENDATION 2

To mitigate segregation of duties risks, consideration should be given to assigning the MP2 system's continuous monitoring and reporting capabilities to a non storeroom employee. For example, the MP2 system is capable of reporting data entry errors (unusual inventory amounts or values), inventory overages and shortages, changes in perpetual inventory records, comparing materials checked out of inventory on a work order to materials installed, and identifying inventory write-offs and adjustments.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Cycle Counts — At the time of the audit, management was "made aware of" the capabilities mentioned. However, upon further investigation, the reported capability may not exist in the current implementation of MP2. The software provider, Infor has offered to explore this need and internally confer on the possibility of such a capability being provided as a customized modification. Pending a positive and cost-effective response from Infor, Facilities will implement other means to meet this objective (see Corrective Action Plan). Processes for auto-generating random selections outside of MP2 will be implemented and used to generate regular lists of items (part numbers) for daily cycle counts. Facilities anticipates that the use of Excel[®] or Access[®] will make this possible, allowing both the categorization and cycle count sheets for the randomly selected items.

TARGET COMPLETION DATE

September 30, 2014

RECOMMENDATION 3

Consideration should be given to updating standard operating procedures to provide guidance on how to investigate and handle inventory count non reconciling differences.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Updating SOP's — The need to update Standard Operating Procedures (SOP's) for storeroom activities was previously identified by management and begun prior to the Audit. Facilities will codify all of the processes addressed in the Finding and add them to the Storeroom SOP, including investigation of non reconciling differences in inventory counts.

TARGET COMPLETION DATE

September 30, 2014

RECOMMENDATION 4

Consideration should be given to conducting a formal review to identify and dispose of obsolete inventory.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Obsolete Inventory — The current SOP addresses the process for formally approving obsolete items for removal from the inventory. The methodology for regularly identifying such items and actually removing from the inventory is not addressed within the SOP. Facilities will develop one, or more, procedures and to add them to the updated SOP (3., above).

TARGET COMPLETION DATE

September 30, 2014