



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

**PARKS, RECREATION, AND CONSERVATION DEPARTMENT
MAINTENANCE INVENTORY & SUPPLIES CONTROL ENVIRONMENT**

REPORT # 265

SEPTEMBER 18, 2014



September 18, 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 Parks, Recreation, and Conservation Department (PRCD) Maintenance Inventory & Supplies Control Environment (Audit Report # 265), dated September 18, 2014. Responses to the Audit Team's recommendations were received from the Director of Parks, Recreation and Conservation Services - Maintenance Division 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 the PRCD Maintenance Division during this audit.

Sincerely,

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

CC: Mike Merrill, County Administrator
Dexter Barge, Assistant County Administrator
John (Forest) Turbiville, Interim, Director of Parks, Recreation and Conservation Services
Bruce Dangremond, Performance Mgmt, Business and Support Services

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Parks, Recreation, and Conservation Department (PRCD) provides programs, events, and activities to Hillsborough County residents on a year-round basis.

PRCD operates more than 176 neighborhood parks and playgrounds countywide, 265 athletic fields, 40 recreation centers, 10 regional parks, more than 727 miles of trails, as well, as 61,000 acres of preserved lands acquired through the Environmental Lands Acquisition and Protection Program (ELAPP).

The PRCD's Maintenance section stores inventory at two locations: Maintenance Unit 1, 1111 E. 139th Ave., Tampa and Maintenance Unit II, 1626 Natures Way Blvd. in Valrico. Inventory items include maintenance supplies.

OBJECTIVE

To determine whether or not controls over inventory provide assurance that the perpetual inventory records are accurate, inventory is properly safeguarded, and inventory storerooms are kept orderly.

SCOPE

The County Audit Department (CAD) conducts audits in accordance with the *Generally Accepted Government Auditing Standards*, as issued by the U.S. Government Accountability Office, and the *International Standards for the Professional Practice of Internal Auditing*, as issued by The Institute of Internal Auditors. These Standards require that the CAD plan and perform each audit to obtain sufficient, appropriate evidence that provides a reasonable basis for the audit comments and conclusions drawn related to the audit objectives.

The Audit Team assessed the PRCD's Maintenance inventory and supplies control environment. The scope period for the audit was May through June of 2014.

The Audit Team identified then flow charted the current inventory and supplies life cycles. The Audit Team performed site visits at storage areas and supply

stores and conducted physical inventory counts. The Audit Team evaluated the control environments.

OVERALL EVALUATION

The PRCD's Maintenance 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 PRCD's Maintenance inventory controls:

- Do not provide an acceptable level of assurance that the perpetual inventory records are accurate;
- Do not provide an acceptable level of assurance that the inventory is physically safeguarded; and
- Do provide an acceptable level of assurance that the PRCD's Maintenance storerooms are kept neat and orderly.

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

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE REFERENCE
1	Opportunities exist to improve the accuracy and reliability of the inventory records.	4
2	Opportunities exist to improve the physical safeguarding of the inventory storeroom.	8
3	Storerooms are neat and orderly.	10

OPINION

Based on the audit test results, PRCD's Maintenance inventory function does not appear to have an adequate internal control structure.

The recommendations in this report represent opportunities to improve overall inventory operations by enhancing controls through the use of additional monitoring.

The exit conference was held on August 11, 2014.

AUDITED BY

Peggy Caskey - Director of County Audit

Mark Kolman - Manager

Brenda Tyler - Internal Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1.

Opportunities exist to improve the accuracy and reliability of the inventory records.

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

The Audit Team conducted interviews with employees from both of the PRCD inventory storeroom locations. The inventory process was documented (by flowchart and narrative). The control environment was identified. The Audit Team performed an internal control and fraud risk conversation with management.

The Audit Team conducted a physical count of the storeroom inventory. A sample of 30 items was selected for each storeroom location. The sample was chosen to include 15 items with a high unit dollar value and 15 items with a high total dollar value. The following table shows the results of that testing.

Results of the Audit Team's physical count:

Storeroom	Number of line items counted out of the total line items in inventory.	Dollar value tested to total value of the items in inventory.	The accuracy rate of the Audit Team's physical count.
Unit 1	30 out of 916 (3%)	\$36,619.41 out of \$105,679.65 (35%)	10 out of 30 (33%)
Unit 2	15 out of 1,195 (1%)	\$42,308.22 out of \$103,596.48 (41%)	5 out of 15 (33%)

Unit 2's physical count was discontinued at 15 of the intended 30 due to the high inaccuracy rate.

On June 11 and 12, 2014, after the Audit Team performed its physical inventory counts, storeroom management performed a 100% inventory count at both of

the PRCD storeroom locations. The following table shows the results of that testing.

Results of the Storeroom management’s inventory count:

Store-room	Number of line items adjusted out of the total line items counted.	Number of line items and inventory dollar value when the physical count was less than the perpetual inventory record	Number of line items and inventory dollar value when the physical count was greater than the perpetual inventory record
Unit 1	607 out of 941 (65%)	324/\$16,108	283/\$13,858
Unit 2	546 out of 1,192 (46%)	231/\$15,649	315/\$12,525

The total dollar adjustment for the above inventory count was \$5,374 or about 3% of the gross inventory value.

The Audit Team reviewed the process flows and inventory controls for both storeroom locations. The Audit Team discussed these processes and controls with storeroom management.

RECOMMENDATIONS

Management at both storeroom locations have the following opportunities to improve overall inventory operations. Consideration should be given to:

1. **Developing written procedures.** In the procedures, define the inventory management process and steps to be performed to help ensure that physical inventory and perpetual inventory records are managed properly including procedures to address identification and disposal of obsolete inventory.
2. **Segregating incompatible duties or adding additional monitoring controls to provide assurance that work is being properly performed.** Currently, the storekeepers are responsible for ordering, receiving, recording, stocking, and issuing inventory as well as maintaining the perpetual inventory records and reconciling physical inventory counts.

3. **Improving the storerooms' procedures for tracking inventory usage.** Manual forms are used to record items taken from inventory. The current process does not provide assurance that all removed items are recorded or that the information is timely and completely entered into the perpetual inventory system's records.
4. **Improving recordkeeping procedures for items added to inventory or used on a project.** The current process requires a worker or storekeeper to manually record the addition of inventory items and the use of items on a project. The current process does not provide assurance that this information is recorded accurately, completely, and timely.

The Unit 1 Storekeeper purchases inventory items on his purchasing card. He is responsible for entering these items into the perpetual inventory system records. The Audit Team and storeroom management reviewed a sample of 157 purchasing card transactions and found that 50 of the 157 items (or 32%) had not been entered into the perpetual inventory system records.

The Unit 2 Storekeeper's purchasing card usage was not tested because the control weakness had already been identified. Additional testing was not necessary.

5. **Improving the use of technology.** Storeroom personnel rely on manual forms and manual inventory counts to monitor the inventory usage and the perpetual inventory amounts.

To improve the efficiency and accuracy of the inventory records and inventory counts, storeroom management could make use of electronic bar code scanners. Per Storeroom management, the Department's MP2 system has a module available for using scanners. This may require the module to be activated. Consideration should be given to the cost benefit of incurring the cost of purchasing scanners and the costs related to implementing this tool.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

(Note: Corrective Action Plans 1 and 2 address Recommendations 1-4. Corrective Action Plan 3 addresses Recommendation 5.)

1. *Written policies and procedures shall be implemented to ensure compliance with segregated duties and shall include weekly cycle counts, supervisor's responsibilities, store keeper's responsibilities, purchasing guidelines, inventory adds, moves and changes guidelines, and annual inventory guidelines.*
2. *Training on the new procedures and guidelines shall be conducted with store keepers and supervisors, after the policies and procedures have been written, to ensure everyone is aware and onboard with the changes.*
3. *Quotes have been received for handheld computer scanners to create a more efficient process of receiving and decrementing parts inventory. Fiscal and Support Services has been contacted to secure the funding for FY15.*

TARGET COMPLETION DATE

1. 12/1/2014
2. 1/1/2015
3. 12/1/2014

AUDIT COMMENT 2.**Opportunities exist to improve the physical safeguarding of the inventory storerooms.**

The objective was to determine whether or not inventory controls provide an acceptable level of assurance that the inventory and supplies are safeguarded.

To determine the physical safeguarding controls of the inventory and supplies, the Audit Team conducted site visits at Maintenance Units I and II.

Based upon the site visits, it appears that entry door access is secured. Per management, it is normal practice to lock the entry door and window when the room is vacated.

Per management, keys to the entry doors are held by storekeepers, crew leaders, workers, the Senior Secretary, the Administrative Services Coordinator, and the Park Maintenance Manager. Key access by non-storeroom personnel could be a factor in the perpetual inventory system record non-reconciling differences. (See Audit Comment 1.) Access by persons who do not have storeroom duties, may allow an opportunity to add or remove items from the physical inventory without properly recording the transaction in the perpetual inventory system records.

The inventory controls do not provide an acceptable level of assurance that the inventory is physically safeguarded.

RECOMMENDATION

Consideration should be given to limiting storeroom key access or adding additional monitoring controls to help ensure that inventory transactions are properly recorded and inventory is physically secured.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

1. *Keys have been removed from all non-supervisors and placed in a lock box to be signed out for emergencies.*
2. *Supervisors will continue to keep their keys due to afterhours and weekend calls for emergency service.*
3. *Alternative solutions to enhance security are being researched. Solutions may include swipe card entry locks, security cameras inside the store room, or biometric entry solutions.*

TARGET COMPLETION DATE

1. 8/20/2014
2. 8/20/2014
3. 3/1/2015

AUDIT COMMENT 3.**Storerooms are neat and orderly.**

The objective was to determine whether or not inventory controls provide an acceptable level of assurance that the inventory storerooms are kept neat and orderly.

During site visits and on the day of the physical inventory count, the Audit Team observed that the storerooms were orderly. The items were neatly placed in bins and on shelves.

RECOMMENDATION

Audit test results did not identify any material concerns that require management's corrective action.