



PAT FRANK
Clerk of the Circuit Court
13th Judicial Circuit

COUNTY AUDIT

HILLSBOROUGH COUNTY, FLORIDA

**PUBLIC UTILITIES MAINTENANCE OPERATING PARTS SUPPLIES
INVENTORY CONTROL ENVIRONMENT**

REPORT # 278

MARCH 18, 2015



March 18, 2015

The Honorable Sandra L. Murman, 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 Stacy R. White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the public utilities maintenance operating parts supplies inventory control environment (Audit Report # 278, dated March 18, 2015). Responses to the Audit Team's recommendations were received from the Director of Public Utilities and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of Public Utilities during this audit.

Sincerely,

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

CC: Mike Merrill, County Administrator
Lucia Garsys, Chief Development & Infrastructure Services Administrator
George Cassady, Director of Public Utilities
Bruce Dangremond, Performance Mgmt., Management and Budget
Rick VanArsdall, Chief Deputy-Finance

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND INFORMATION	1
OBJECTIVE.....	1
SCOPE.....	1
OVERALL EVALUATION	2
OPINION.....	2
AUDITED BY.....	2
AUDIT COMMENTS & RECOMMENDATIONS	3

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Public Utilities Department (Department) provides drinking water, wastewater treatment and disposal, reclaimed water, in service areas that are primarily in unincorporated Hillsborough County.

The Department has warehouses located at: N. Falkenburg Road in Tampa, Sheldon Road in Tampa, and Rhodine Road in Riverview.

Items stored in the warehouse storerooms are main operating supplies to help effectively and efficiently operate and maintain the utilities operations. As of June 23, 2014, total supply value was \$2.2 million.

OBJECTIVE

The objective of the audit was to determine whether or not controls over inventory provide a reasonable level of assurance that the perpetual inventory records are accurate and reliable, inventory is properly safeguarded, and inventory storerooms are kept orderly.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The Audit Team assessed the Department's maintenance operating parts supplies inventory control environment. The scope period was for the last week of July of 2014.

The Audit Team performed a site visit of the storeroom located at the Department's Central Warehouse located at N. Falkenburg Road, identified then flow charted the current supplies life cycle, and evaluated the control environment. The Audit Team selected the Central Warehouse because this location usually carries the highest total inventory dollar value.

OVERALL EVALUATION

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

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	Public Utilities' Central Warehouse supplies inventory records are reasonably accurate and reliable.	3
2	Public Utilities' Central Warehouse supplies inventory storeroom is adequately safeguarded.	5
3	Public Utilities' Central Warehouse supplies inventory storeroom is neat and orderly.	6

OPINION

The Public Utilities Department appears to have adequate controls over its maintenance operating parts supplies inventory process. An opportunity exists to enhance controls by developing written operating procedures for the storeroom operations.

The exit conference was held February 3, 2015.

Other minor concerns not included in this report have been communicated to management and/or corrected during fieldwork.

AUDITED BY

Peggy Caskey, CIA, CISA, CFE, Director of County Audit
Mark Kolman, CIA, CISA, CPA, CFE, Audit Manager
Brenda Tyler, CGAP, Auditor II
Marc Hogan, Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1

Public Utilities' Central Warehouse supplies inventory records are reasonably accurate and reliable.

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 management and employees from the Central Warehouse. The inventory process was documented (by flowchart, narrative, and questionnaire). The control environment was identified. The Central Warehouse storeroom's maintenance operating parts supplies inventory control process appears to provide a reasonable level of assurance that purchases are properly ordered, received, checked-in to inventory, paid for, and distributed.

The Department documents its inventory controls using process flowcharts to define management's directives. The Department does not have written operating procedures to document its inventory operations.

The Audit Team conducted a physical count of the Central Warehouse's storeroom. The following table shows the results of that testing.

Storeroom	Number of line items counted out of the total line items in inventory.	Dollar value tested to total of the items in inventory.	The accuracy rate of the Audit Team's physical count.
Central Warehouse's storeroom	30 out of 1,391 (2%)	\$234,508 out of \$774,182 (30%)	30 out of 30 (100%) inventory records were accurate

Based on the Audit Team's review of the warehouse workflow processes, the inventory test counts, and discussions with management, the inventory controls

appear to provide a reasonable level of assurance that the perpetual inventory records are accurate and reliable.

RECOMMENDATION

Consideration should be given to developing written standard operating procedures to complement the Department's existing control environment. Written operating procedures provide assurance that operations are performed consistently, and they provide a tool for employee training and performance measurement.

The written operating procedures should address;

- The inventory purchasing process and receipt of goods;
- Conducting periodic inventory counts;
- Determining and handling obsolete inventory;
- Adjusting the perpetual inventory system records due to inventory counts or obsolete items; and
- Section Manager or Division Director inventory adjustment review.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

Management will develop written Standard Operating Procedures as outlined in the Recommendations area of this corrective action section.

TARGET COMPLETION DATE

June 30, 2015

AUDIT COMMENT 2**Public Utilities' Central Warehouse supplies inventory storeroom is adequately safeguarded.**

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

The Audit Team conducted a site visit of the Central Warehouse storeroom to review the physical safeguarding of the inventory and supplies.

The storeroom entry door access is secured by locks. Per management, the side doors are locked at all times. Visitors can access the front door to the customer service desk. All visitors must be escorted by a storeroom employee.

Per storeroom management, keys to the storeroom are held by storekeepers, supervisors, section managers and on-call supervisors. The key for on-call supervisors is rotated among them every week. The on-call supervisor will access the necessary warehouse in the event of an emergency. Supporting documentation is created to record items removed from inventory after hours. The warehouse has four cameras that record storeroom entrance and exit activities.

Based on test results, inventory controls appear to provide a reasonable level of assurance that supplies are physically safeguarded. There are adequate security measures in place.

RECOMMENDATION - None

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

AUDIT COMMENT 3

Public Utilities' Central Warehouse supplies inventory storeroom is neat and orderly.

The objective was to determine whether or not the Central Warehouse supplies storeroom inventory controls provide an acceptable level of assurance that the storeroom is orderly.

During site visits and on the day of the supplies inventory count, the Audit Team observed that the Central Warehouse storeroom was neat and orderly. The items were neatly stacked or placed on shelves or in bins. No material concerns were identified.

RECOMMENDATION - None

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