



Neil Kelly  
Clerk of the Circuit and County Courts  
Lake County, Florida

Year-End Inventory  
Observations  
Fiscal Year Ending September 30, 2012

**Internal Audit Division**  
**Audit Report**

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**BCC-104**  
**January 30, 2013**



**Internal Audit Division**

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January 30, 2013

Board of County Commissioners

We have conducted our year-end observations of inventories for the Lake County Clerk of Courts, Supervisor of Elections, Lake EMS, and BCC Fleet Management as scheduled per our Annual Internal Audit Plan.

We appreciate the cooperation and assistance provided by the entities contacted during the course of these observations.

Sincerely,

Bob Melton  
Director of Internal Audit

BM/cm

cc: Honorable Neil Kelly, Clerk of Circuit & County Courts  
Barbara Lehman, Chief Deputy Clerk, Finance Department  
David Heath, County Manager  
Kristian Swenson, Director, Department of Facilities & Fleet Management  
Jerry Smith, Interim Executive Director, Lake EMS  
Marilyn Sonn, Finance Manager, Lake EMS

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# INTRODUCTION

## Scope and Methodology

As scheduled per our Annual Internal Audit Plan for FY 2011-2012, the Internal Audit division has conducted observations of the year-end inventory process over the significant inventories of Lake County.

The objective of our observations was to determine whether the value of ending inventories is fairly stated in the County's accounting system.

The scope of our procedures specifically included the following inventories we observed during the period of September 27, 2012 through October 17, 2012.

Lake Emergency Medical Services (Lake EMS) – Fleet Parts – September 27, 2012

Lake EMS – Medical Supplies – September 27, 2012

Lake EMS – Pharmacy Supplies – September 27, 2012

Clerk of Courts Postage – September 28, 2012

Supervisor of Elections Postage – October 1, 2012

BCC Fleet Fuel – October 1, 2012

BCC Fleet Parts - Leesburg – October 1, 2012

BCC Fleet Parts - Astatula – October 17, 2012

We observed and documented the inventory-taking process and selected a random sample of items from the inventory records and verified the amounts recorded. In some cases we verified 100% of the items recorded. We also agreed the final inventory amounts recorded to the County's accounting system (MUNIS). Our specific methodology is described below.

### Lake EMS

The inventory observation for Lake EMS Medical Supplies, Fleet Parts, and Pharmacy Supplies took place on September 28, 2012. Inventory listings were provided the previous day. Due to the organization of the Lake EMS staff, we were able to observe the count of 100% of the inventory items listed for each location. We verified the totals and extensions on the final inventory listings and agreed them to the amounts recorded in the general ledger without exception.

### Clerk of Courts Postage

The inventory observation for the Clerk of Courts Postage took place at the end of work on September 28, 2012. The postage inventory consists of pre-paid postage stored on two Pitney Bowes postage

machines located at the Judicial Center and the Mail Receiving Center. We met with Clerk Staff to print the current meter reading tapes from each machine. In addition to postage stored on each meter, the Clerk also maintains a reserve account with Pitney Bowes that can be used to replenish the postage available on the postage machines. We agreed the total postage amounts to the amount recorded in the general ledger without exception.

### **Supervisor of Elections Postage**

The inventory observation for the Supervisor of Elections (SOE) Postage took place at the beginning of work on October 1, 2012. The postage inventory consists of pre-paid postage stored on one Pitney Bowes postage machine located at the SOE office and pre-paid postage in accounts with the United States Postal Service (USPS). We met with SOE staff to print the current meter reading tape from the postage machine and to acquire reports on the USPS account balances.

### **BCC Fleet Fuel**

The inventory observation for BCC Fleet Fuel took place on October 1, 2012 at the beginning of work. The fuel inventory consists of several gasoline and diesel fuel tanks located at four locations across the county: Astatula, Umatilla, Minneola, and Leesburg. We met with county staff and obtained the meter readings from the fuel pumps and measured the level of fuel in each tank. Using tables provided by the tank manufacturer, the measurements were converted into gallons and were used to calculate the ending fuel balance. The price per gallon used in calculating the ending balance was the average price per gallon paid for the month of September. We verified the calculations and agreed the final fuel balance to the amount recorded in the general ledger without exception.

### **BCC Fleet Parts - Leesburg**

The inventory observation for the Leesburg BCC Fleet Parts took place on October 1, 2012. The parts inventory consisted of items from the parts supplies storeroom, PM shop, office, tire room, blade room, oil room and battery room. All rooms are located at the Fleet maintenance garage on Griffin Road in Leesburg. An inventory listing was generated from the parts inventory system called RTA and provided to us prior to the observation. We selected a random sample and observed the counts. We also performed a reverse count by selecting random items from the part supplies and verifying their counts on the inventory listing.

### **BCC Fleet Parts - Astatula**

The inventory observation for the Astatula BCC Fleet Parts took place on October 17, 2012. An inventory listing was generated from the parts inventory system. We selected a random sample and observed the counts. Due to the conditions of the inventory, the observation was then halted.

## **Overall Conclusion**

We conclude that the inventories of Lake EMS, Clerk of Courts postage, Supervisor of Elections postage, and BCC Fleet fuel are fairly presented in the County's accounting system. However, because

of inadequate records and inventory procedures, we could not conclude whether the inventories of BCC Fleet parts in Leesburg and Astatula are fairly presented. Therefore, we cannot express and we do not express a conclusion as to whether these inventory amounts are fairly presented in the County's accounting system. Opportunities for Improvement are included in this report.

## Background

The inventories we observed aid the following departments and entities in the furtherance of their responsibilities.

**Lake Emergency Medical Services (Lake EMS)** – Fleet Parts, Medical Supplies, and Pharmacy Supplies  
Lake EMS is a government-owned, community-based EMS service which provides emergency medical service and transportation of the sick and injured citizens and visitors of Lake County. The fleet parts inventory is used to keep the ambulances and other vehicles in good working order. The medical supplies are used to ensure the ambulances are adequately stocked to serve the sick and injured. In addition to the medical supplies, the pharmacy supplies inventory ensures that the ambulances are equipped with specific pharmaceuticals critical for the care of sick and injured patients.

### **Clerk of Courts** – Postage Inventory

The Clerk of Courts provides centralized postal services for certain county entities. As part of this, the Clerk's Mail Receiving Center meters all outgoing mail for these entities. To accomplish this, two postage machines and a reserve postage account are maintained.

### **Supervisor of Elections (SOE)** – Postage Inventory

The Supervisor of Elections uses postage to mail absentee ballots, voter registration cards, and other voter information. To accomplish this, a postage machine is located at the SOE office and pre-paid postage accounts are maintained with the United States Postal Service.

### **BCC Fleet** - Fuel Inventory and Fleet Parts Inventory

The Fleet Management Division of the Board of County Commissioners is responsible for comprehensive fleet operations, including the provision of fuel and repairs for County vehicles and equipment. To accomplish this, the division maintains inventories of unleaded, diesel, and off-road diesel fuels. The division further maintains an inventory of fleet parts for the repair of the vehicles and equipment.

# OPPORTUNITIES FOR IMPROVEMENT

Our observations disclosed certain practices that could be improved. Our observations were neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

## 1. The Leesburg Fleet Parts Inventory Process Needs Improvement.

Because records are inadequate and, in some cases, do not correlate with actual parts on-hand, we could not determine whether inventory on-hand is the amount that should be on-hand based on actual usage. As a part of our inventory observations, we verified the fleet parts inventory on a test basis. Under the present system, misappropriation of parts could occur without detection. We noted the following specific concerns:

- A. Nearly six percent of the items tested (101 out of 1,734 items sampled) could not be located. This shortage equates to \$8,744, or 20 percent, of the sample's value. If this shortage is representative of the population, a shortage of \$47,241 in inventory could exist as of October 1, 2012.
- B. The inventory listing for the battery population was not reliable. Many of the part numbers were incorrectly identified, both in the system and on the battery itself. We noted the following additional issues regarding batteries:
  - 1) Batteries on the inventory listing but not on hand (16 out of 46 items, 35% of the total).
  - 2) Batteries on-hand that were not on the inventory listing (10 additional batteries).
  - 3) A small inventory of used, but certified, batteries was found that was not included on the inventory listing.

The unreliability of the battery inventory, the number of errors found and the fact that items are purposefully excluded from the inventory prevented us from verifying the inventory and increases the potential for further misappropriation.

- C. Adjustments to inventory items for oil products were made prior to our observations and again in our presence during observations; there was not adequate support for the adjustments. As an example, for one type of oil, the quantity of quarts was adjusted from 945 down to 680 and back to 920 on October 1, 2012 to reflect the amount of our observation. This reflected a 28 percent write-off of the actual inventory without proper substantiation.

- D. Some items on the inventory listing were in the possession of another department even though they were still identified as part of the Fleet inventory. Some examples are:

Part Description	Quantity	Total Value
TIRE: LT265/70R17 BFG A/T T/Z KO LRE	4	\$878.44
BRAKE ROTOR ONLY FRONT PREMIUM	2	\$84.38
TIRE: 12R22.5 MICHELIN XZE LRH	<u>4</u>	<u>\$2,547.28</u>
TOTAL	<u>10</u>	<u>\$3,510.10</u>

- E. Parts that have been physically moved to work-in-process are not removed from inventory until they are billed to the customer. To maintain reliable inventory records, parts must be removed from the inventory records as they are used. As a result, the value of the inventory is overstated for these items and the record of parts on hand is not accurate.
- F. Staff is not consistent in the entry of part numbers into the system; some parts are entered using the vendor assigned number and others are entered using the manufacturer assigned number. Additionally, some of the physical parts in the inventory contain the vendor assigned number and no longer have the manufacturer number affixed to them. Therefore, immediate identification of the parts is sometimes precluded.
- G. Many of the items in the inventory listing did not have information related to the location of the item and, therefore, could not be found. In fact, the inventory population contains 390 different part numbers, or 2,265 items, that do not have an assigned location in the system. Our sample contained 225 out of 1,734 items without a location; 56 of these items could not be found.
- H. Some quantities in the physical inventory were higher than the quantity in the inventory listing. Over two percent of the items tested (255 out of 1,734 items) were not in the inventory system. This situation creates the opportunity for those items not in the system to be misappropriated without detection.
- I. The Fleet Maintenance Division does not have any written procedures in place for its inventory maintenance staff to follow. A detailed procedure manual is necessary to ensure that staffs perform their responsibilities in a consistent manner.

It is essential that adequate records be maintained over parts inventories. This includes ensuring all receipt of parts being entered into inventory records accurately, with appropriate numbers and locations. It is also important that all parts issued be timely and accurately entered into the records.

**We recommend Management:**

- Enter all inventory items into the system immediately upon receipt.
- Enter all batteries, new and certified, into the system upon receipt; ensure that the part number on the battery matches the part number entered in the system.
- Verify all adjustments to inventory, ensure they are sufficiently documented and obtain supervisory approval.



- D. Ensure that items not in the possession of Fleet are removed from the system inventory.
- E. Ensure that Items moved to work-in-process are also removed from the system inventory.
- F. Enter part numbers into the system in a consistent manner, for example, by using only the part number assigned by the manufacturer; ensure that the part number on the item matches the part number in the system.
- G. Assign a location to every item upon system entry.
- H. Enter all inventory items into the system immediately upon receipt.
- I. Prepare a detailed procedure manual for inventory maintenance staff to reference; place a copy at each working station.

## **2. The Astatula Fleet Parts Inventory Process Needs Improvement.**

Because records are inadequate and, in some cases, do not correlate with actual parts on-hand, we could not determine whether inventory on-hand is the amount that should be on-hand based on actual usage. As a part of our inventory observations, we verified the fleet parts inventory on a test basis. Under the present system, misappropriation of parts could occur without detection. We noted the following specific concerns:

- A. Nearly five percent of the items tested (29 out of 139 items sampled) could not be located. This shortage equates to \$1,507.84, or 38 percent, of the sample's value. If this shortage is representative of the population, a shortage of \$24,600.92 in inventory could exist as of October 1, 2012.
- B. Parts that have been physically moved to work-in-process are not removed from inventory until they are billed to the customer. Parts are also picked up from Astatula and taken to Leesburg and not put on a work order until after that point. To maintain reliable inventory records, parts must be removed from the inventory records as they are used. As a result, the value of the inventory is overstated for these items and the record of parts on hand is not accurate.
- C. Many of the items in the inventory listing did not have information related to the location of the item and, therefore, could not be found. In fact, the inventory population contains 546 different part numbers, or 3425 items, that do not have an assigned location in the system. Our sample contained 134 out of 139 items without a location; 29 of these items could not be found.
- D. Some quantities in the physical inventory were higher than the quantity in the inventory listing. Nearly five percent of the items tested (30 out of 139 items) were not in the inventory system. This situation creates the opportunity for those items not in the system to be misappropriated without detection.
- E. The Fleet Maintenance Division does not have any written procedures in place for its inventory maintenance staff to follow. A detailed procedure manual is necessary to ensure that staffs perform their responsibilities in a consistent manner.

It is essential that adequate records be maintained over parts inventories. This includes ensuring all receipt of parts being entered into inventory records accurately, with appropriate numbers and locations. It is also important that all parts issued be timely and accurately entered into the records.

**We recommend Management:**

- A. Enter all inventory items into the system immediately upon receipt.
- B. Ensure that Items moved to work-in-process are also removed from the system inventory.
- C. Assign a location to every item upon system entry.
- D. Enter all inventory items into the system immediately upon receipt.
- E. Prepare a detailed procedure manual for inventory maintenance staff to reference; place a copy at each working station.

### **3. Adjustments to the Year-end Inventory Amounts Should Be Documented.**

Differences between the inventory listing at year-end and a subsequent listing used to record the inventory amount in the General Ledger were not explained or documented. In association with our inventory observations, we were provided inventory listings which we used to select our samples. These listings contained the total inventory value at year-end. A review of the year-end balance as recorded in the accounting system showed that these ending balances differed from the inventory observation balances. The balance recorded in the General Ledger used a listing that was generated at a later date. When recording the ending balance in the accounting system, the year-end inventory balance should provide a reconciliation of any adjustments made to the original inventory listing that was used during the year-end physical inventory observation.

**We recommend** Management ensure that differences between the ending inventory as observed and the ending balance posted are documented.

**Management's General Response:**

Staff has reviewed the report prepared by your office for the end of fiscal year 2012 inventory review (fleet portion). In this report, your staff made mention of several opportunities for improvement as well as other specific recommendations. These notations outlined the need for an overall process improvement/creation of the certain inventory controls.

The County and the department concur with your findings and take the aforementioned controls and processes seriously. As a result, organizational changes have and are being made to improve this system to ensure better results. As new processes are being developed and proposed, we look forward to your participation and comments prior to implementation.

Your assistance bringing these issues to our attention is greatly appreciated and we look forward to your participation in the process improvement.