



#### Mailing Addresses

Dade City  
38053 Live Oak Avenue  
Dade City FL 33523 3894

New Port Richey  
P O Box 338  
New Port Richey FL 34656 0338

#### Office Locations

Pasco County Courthouse  
38053 Live Oak Avenue Suite 205  
Dade City FL 33523 3894

West Pasco Judicial Center  
7530 Little Road Suite 106  
New Port Richey FL 34654

East Pasco Government Center  
14236 Sixth Street Suite 201  
Dade City FL 33523

West Pasco Government Center  
7530 Little Road Suite 220  
New Port Richey FL 34654

East Pasco Records Center  
38319 McDonald Street  
Dade City FL 33525

West Pasco Records Center  
Jack Albert Records Retention Center  
8901 Government Drive  
New Port Richey FL 34654

Phone (727) 847 8031  
Fax (727) 847-8121

[www.pascoclerk.com](http://www.pascoclerk.com)  
[poneil@pascoclerk.com](mailto:poneil@pascoclerk.com)

*Excellence Always*

*Paula S. O'Neil, Ph.D.  
Clerk & Comptroller  
Pasco County, Florida*

June 8, 2011

The Honorable Ann Hildebrand, Chairman  
Board of County Commissioners  
Pasco County Courthouse  
37918 Meridian Avenue  
Dade City, Florida 33525

Dear Chairman Hildebrand

On your behalf, the Internal Audit Department has completed an examination of the year-end Utilities Inventory as of September 30, 2010. The purpose of our review was to determine that the inventory reported exists and is recorded accurately, and that controls over inventory are adequate.

Except as noted in our report, we conclude that the inventory reported exists and is properly recorded, and controls over the inventory are adequate.

We appreciate the cooperation and assistance received from the county staff during this review. Please let us know if you wish to further discuss our comments and recommendations.

I am requesting that the Board receive and file this report, and also direct the County Administrator to implement the recommendations made by the Clerk.

Sincerely,

*Paula S. O'Neil, Ph.D.  
Clerk & Comptroller*

*Michelle Bishop  
Director of Internal Audit*

PSO/mb

Phone (727) 847 8031  
Fax (727) 847-8121

[www.pascoclerk.com](http://www.pascoclerk.com)  
[poneil@pascoclerk.com](mailto:poneil@pascoclerk.com)

*Excellence Always*

### **Background**

Utilities inventories are maintained at warehouses in Port Richey and Wesley Chapel. Computerized perpetual inventory records are maintained for the inventory. Control accounts in the General Ledger are adjusted once a year as a result of the physical inventory. Inventory expenditure accounts are maintained for Utilities inventory and charge-backs to user departments are posted on a monthly basis from the Issue Register generated from the inventory system.

Physical inventories are performed by Utilities staff on an annual basis, all inventory items are counted. Internal Audit observed the physical count of inventory items on hand on 9/30/10 at each location. We judgmentally selected a sample of items in inventory to test the physical counts and inventory values. Statistics related to the test count on 9/30/10 are as follows:

	<b>Port Richey</b>	<b>Wesley Chapel</b>	<b>Total</b>
Total items in inventory	560	640	1,200
Number of items tested	62	72	134
Percent of inventory tested	11 07%	11 25%	11 17%
Total value of inventory	\$392,372.29	\$215,208.18	\$607,580.47
Value of items tested	\$27,476.96	\$30,748.37	\$58,225.33
Percent of value tested	7.00%	14.29%	9.58%

The results of our review are presented below

### **Comments**

#### **Observation and Test Count**

- 1 Of the 560 inventory items at Embassy Hills, a total of 97 (17.32%) required adjustments to the inventory system. According to the recount spreadsheet for

Embassy Hills, the physical counts did not agree to the quantity in the inventory system for 107 items. The following was noted

- Of the 107 items, 88 were recounted on the day of inventory. Of the 88 items, the recount amount for 74 items did not agree to the inventory system and required adjustments.
- It appears the remaining 19 items were not recounted/adjusted until Internal Audit notified management of the discrepancies. Of these 19 items, 18 required adjustments and were adjusted after the final inventory reports were run. One item was counted after it was issued during inventory for emergency, no adjustment was necessary.
- There were five additional items that required adjustments, these items were included in our test sample. The physical count on the count sheets did not agree to Internal Audit's count. The recounts agreed to our count and required adjustments.
- Also, it appears one item (A20019) was adjusted in error. The amount per count sheet and recount sheet agreed to the inventory system. This item has since been corrected.

Recommendation

Management should investigate the reasons for the high number of discrepancies in the inventory system. Interim counts should be performed during the year, which may help disclose problems earlier.

County Response

*"Staff finds the high discrepancy rate unacceptable. The following events contributed to the high rate, 1) the warehouse is going through an expansion. The amount of inventory items and dollar value of the said items have nearly doubled and is continuing to expand. 2) the warehouse was undergoing an inventory system transition from the HI01 Mainframe system to the Enterprise Asset Management (EAM) inventory system. In addition to the learning curve involved, the warehouse staff had to invest four hours of training, four days a week, for six weeks to learn the new EAM system. Finally, the Embassy Warehouse requires a Storekeeper II and a Material Handler/Storekeeper I to run the warehouse efficiently, especially due to the fact of the aforementioned expansion. During the vast majority of Fiscal Year 2010, just the Storekeeper II ran the warehouse. Moreover, the Storekeeper II was a new hire who started in the warehouse in May 2010. Due to the learning curve, the increased activity, and the implementation of the new inventory system, inventory controls and procedures were not consistently followed or properly executed. In November 2010 a material handler was added to the warehouse staff. The results of the past two quarterly internal inventories for Fiscal Year 2011 have been excellent. The first quarter had seven adjustments and the second quarter only had two adjustments. Inventory controls and procedures are being adhered to and executed consistently."*

*Management believes that the causes for the high discrepancy rate have been addressed and resolved "*

### **Unit Price Testing**

- 2 For three items, the quantity and/or unit price per invoice was entered into the inventory system incorrectly
  - o For item A31125, 12 were received at \$1 417, totaling \$17 00 per the requisition. However, 17 were received into the inventory system at \$1 00. A return to vendor was done to correct the quantity, but the unit price was not adjusted. Based on our calculations, it appears the unit price should be \$1 406, not \$1 27
  - o For item A61040, six were received per the invoice. This item was listed on the invoice twice (2 at \$51 00 and 4 at \$50 90). However, one was received into the inventory system at \$68 60. It appears the previous storekeeper added this item to the inventory system, it was ordered for a special project. This is a non-inventory item and should not have been entered into the system, however, it was entered in error and entered incorrectly
  - o For item E16027, 30 were received at \$0 46 per the invoice. However, \$5 49 was entered into the inventory system for the unit price. Internal Audit notified management of discrepancy, a return to vendor was done and the item was re-entered into the inventory system with the correct unit price

#### Recommendation

To ensure the accuracy of the inventory records, all information entered into the system should be doubled-checked for accuracy. Storekeepers should be reminded of the importance of entering data accurately into the inventory system

#### County Response

*"Staff is working with the storekeepers to improve the accuracy of the inventory records. Inventory records will be reviewed on a consistent basis, training will be increased, and better controls will be implemented "*

#### Audit Performed By

Erika Hendricks, CIA, CFE, Senior Internal Auditor

#### Audit Supervised/Reviewed By

Michelle Bishop, CIA, CFE, Director of Internal Audit