



Office of Nikki Alvarez-Sowles, Esq. Pasco County Clerk & Comptroller

December 13, 2022

Michael Carballa
County Administrator
8731 Citizens Drive
New Port Richey, FL 34654

Re: #2022-06 BCC Utilities Warehouse Inventories Follow-up Review

Dear Mr. Carballa:

As part of the 2022 Annual Audit Plan, the Department of Inspector General (IG) conducted a follow-up review of audit project #2021-07 Utilities Warehouse Fiscal Year-End Inventories (report dated December 20, 2021). The purpose and scope of this review was to determine the status of corrective action plans created by management in response to findings identified during the audit.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and accordingly, included such tests of records and other auditing procedures as considered necessary in the circumstances. The IG planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion. The evidence and documentation obtained during the audit process provided this reasonable basis. According to Standard 2500 – Monitoring Progress of the International Professional Practices Framework, the IG must establish a follow-up process to monitor and ensure that management actions have been effectively implemented.

To determine the status of each corrective action, the IG sent a spreadsheet to management requesting responses and supporting documentation to verify the implementation of their plans. There were six opportunities for improvements and recommendations identified in the original audit report.

The Public Infrastructure Fiscal and Business Administration Department provided documentation to identify that the corrective action plans were implemented. Based on the results of this follow-up review, the IG determined that all six corrective action plans were implemented.

A summary of all corrective action plans, due dates, and status is detailed below:

Department	Corrective Action Plan	Due Date	Completion Status	2021-07 Comment #
Public Infrastructure Fiscal and Business Administration	<i>The Cycle Count SOP will be updated to include clear guidance for performing extended cycle counts, which will include person or persons responsible for generating the turnover report, when and how often the report must be generated, and how the extended cycle counts will be documented.</i>	January 2022	Complete	#1
Public Infrastructure Fiscal and Business Administration	<i>Management and staff reached out to the vendor and detailed the issue and they have deployed a corrective solution to remedy the issue. Since this solution was deployed by the vendor there have not been any reported instances of the issue repeating itself. Management will continue to ensure that going forward bin locations will be monitored on a regular basis to identify items that are assigned to an incorrect location, warehouse, or other atypical occurrences.</i>	January 2022	Complete	#2
Public Infrastructure Fiscal and Business Administration	<i>SOP's and training materials will be reviewed to ensure that count procedures are adequately detailed in the documentation and sufficient information is detailed. Warehouse management will ensure that training takes place for count teams and that blind count teams are still utilized to maintain accuracy and accountability.</i>	January 2022	Complete	#3
Public Infrastructure Fiscal and Business Administration	<i>Management will establish an SOP that details the policy and procedure that requires secondary review, management's approval, and monitoring of changes to bin locations.</i>	January 2022	Complete	#4
Public Infrastructure Fiscal and Business Administration	<i>Management will establish a documented policy that provides clear guidance for requesting, reviewing, approving, and monitoring of all inventory adjustments. This policy will outline the information required in the request and will utilize email as a submission method to ensure date/time stamps are provided and verification that a management has provided written approval. This policy will require this documentation to be stored on record as a demonstration of the control policy.</i>	January 2022	Complete	#5

Department	Corrective Action Plan	Due Date	Completion Status	2021-07 Comment #
Public Infrastructure Fiscal and Business Administration	<i>Management will ensure that the inventory system is monitored and updated to reflect correct bin locations. In addition, the Cycle Count SOP will be updated to include verifying correct bin locations.</i>	January 2022	Complete	#6

The IG team appreciates the cooperation, professionalism, and responsiveness received from management during this review.

Respectfully submitted on behalf of Patrice Monaco-McBride, Inspector General/Chief Audit Executive,



Christine Calianno, CFE, CGAP
Inspector General Manager

Cc: Nikki Alvarez-Sowles, Pasco County Clerk & Comptroller
Jack Mariano, County Commissioner, District 5 – Chair
Ron Oakley, County Commissioner, District 1– Vice Chair
Seth Weightman, County Commissioner, District 2
Kathryn Starkey, County Commissioner, District 3
Gary Bradford, County Commissioner, District 4
Jeffrey Steinsnyder, County Attorney
Branford Adumuah, Public Infrastructure Fiscal & Business Administration, Interim Assistant County Administrator
Justin Grant, Public Infrastructure Fiscal & Business Administration, Director

Encl: Utilities Warehouse Fiscal Year-End Inventories, Report No. 2021-07



Office of
Nikki Alvarez-Sowles, Esq.
Pasco County Clerk & Comptroller

Utilities Warehouse
Fiscal Year-End Inventories
Report No. 2021-07

Department of
Inspector General
12/20/2021

Patrice Monaco-McBride, CIG, CIGA, CGFO
Inspector General

Erika Hendricks, CIA, CIGA, CFE
Auditor III

Andrew Henson
Auditor I

#ServeAndConnect



Office of Nikki Alvarez-Sowles, Esq. Pasco County Clerk & Comptroller

December 20, 2021

Dan Biles
County Administrator
8731 Citizens Drive
New Port Richey, FL 34654

Dear Mr. Biles,

The Clerk & Comptroller's Department of Inspector General conducted an audit of the Utilities Warehouse fiscal year-end inventories. This audit evaluated the internal controls over the Utilities fiscal year-end physical inventories performed by County staff.

The audit background, objectives, scope, methodology, conclusion, and opportunities for improvement are presented in this report. We appreciate the cooperation, professional courtesy, and responsiveness received from management during this audit.

Respectfully Submitted,

Patrice Monaco-McBride, CIG, CIGA, CGFO, CPM
Inspector General/Chief Audit Executive

Cc: Nikki Alvarez- Sowles, Pasco County Clerk & Comptroller
Chairman Kathryn Starkey, Board of County Commissioners, District 3
Ron Oakley, Board of County Commissioners, District 1
Mike Moore, Board of County Commissioners, District 2
Christina Fitzpatrick, Board of County Commissioners, District 4
Jack Mariano, Board of County Commissioners, District 5
Jeffery Steinsnyder, Pasco County Attorney
Michael Carballa, Assistant County Administrator, Public Infrastructure
Justin Grant, Public Infrastructure Fiscal and Business Administration Director

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EXECUTIVE SUMMARY

Background Information

As part of the Department of Inspector General (IG) annual audit plan, the IG conducted an audit of the Utilities Warehouse Services fiscal year-end inventories. The purpose of this audit was to evaluate the adequacy and effectiveness of internal controls over the Utilities inventories, verify the existence of the inventories, and verify the physical inventory counts performed by staff. The audit period was October 1, 2020 through September 30, 2021.

The mission of Warehouse Services was to provide support for Public Infrastructure operations and maintenance personnel. They accomplished this by acquiring, stocking, and issuing the materials, supplies, and tools in a cost effective manner. Those materials, supplies, and tools allowed field service personnel to increase the performance of their infrastructure maintenance and operations for Pasco County customers. Public Infrastructure strived to allow field service staff to focus solely on work efforts to provide excellent customer service.

The Utilities inventory was physically maintained at three warehouse locations: Embassy Warehouse (Port Richey), Wesley Center Warehouse (Wesley Chapel), and Shady Hills Warehouse (Shady Hills). The inventory records were maintained in the Enterprise Asset Management (EAM) system. EAM was an asset management system with a warehouse module that fit the needs of warehouse services. Inventory was not electronically maintained in Munis, the County's financial system. The Warehouse Services Department used Munis to enter requisitions for blanket POs and submit final counts for adjustment journal entries.

According to management, verification of inventory by physical count was conducted on a daily and annual basis. Daily inventory verifications were conducted as spot checks when an item was pulled for a work order. When inventory was verified annually, all warehouse locations were closed at fiscal year-end to allow for an accurate and secure count of the inventory.

During the year-end inventory, teams of two physically counted all inventory items and recorded their counts on pre-printed count sheets. After the physical counts were completed, the count sheets were to be compared to the EAM system. Discrepancies were to be investigated immediately and documented in EAM via an adjustment if needed.

The Administrative Services Manager was responsible for the warehouses that maintained the inventory and oversaw the year-end inventory counts. At each warehouse location, the lead inventory specialist supervised the inventory performed and compared physical counts to the EAM system. The fiscal year-end inventories were conducted between September 27, 2021 and September 30, 2021. The number of inventory items and value at each warehouse location as of September 30, 2021 were as follows:

	Embassy	Shady Hills	Wesley Center	Totals
Total items in inventory	1,571	1,170	979	3,720
Total value of inventory	\$804,682.25	\$449,361.47	\$609,967.73	\$1,864,011.45

Objectives

The audit objectives were to:

- Document and verify that the controls over inventories were effective and warehouse staff operated in compliance with internal policies and procedures.
- Verify that the inventory items existed and the physical counts agreed to the amount reflected in the inventory system.

Scope and Methodology

The scope of this audit was to verify that Utilities inventory records were accurate, physical inventory was in existence, and that the internal controls over the year-end inventory process were adequate to prevent fraud, waste, or abuse. The audit period was from October 1, 2020 through September 30, 2021. Physical counts were conducted by the IG on September 30, 2021.

The number of items verified was summarized below:

	Embassy	Shady Hills	Wesley Center	Totals
Total items in inventory	1,571	1,170	979	3,720
Total items tested	103	95	93	291

Although the IG exercised due professional care in the performance of this audit, this does not mean unreported noncompliance and/or irregularities did not exist. The deterrence of fraud and employee abuse was the responsibility of management. The audit procedures alone, even when carried out with professional care, could not guarantee that fraud, waste, or abuse were detected.

The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. The purpose of this report was to provide an independent, objective analysis, recommendations, and information concerning the activities reviewed. It was not an appraisal or rating of management.

This audit was conducted in accordance with the *Internal Standards for the Professional Practice of Internal Auditing*, and accordingly, included such tests of records and other auditing procedures as considered necessary in the circumstances. The IG planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the conclusion based on the audit objectives. The evidence and documentation obtained during the audit process provided this reasonable basis.

To achieve the objectives, the procedures performed included, but were not limited to, the following:

- Developed an understanding of the procedures and controls related to the Utilities inventories. Information obtained and reviewed included internal policies and procedures and Florida Statutes.

- Interviewed key personnel involved in the Utilities year-end inventory process.
- Conducted a walk-through of the year-end inventory process at each warehouse location prior to the physical counts.
- Obtained, reviewed, and analyzed inventory reports and pre-count sheets.
- Observed inventory to determine if items were stored in an orderly manner, were clearly labeled, and were properly safeguarded.
- Verified a statistical random sample based on a 95% confidence level and 10% margin of error, and a judgmental sample of items maintained at each warehouse. For each item, verified the item number, description, bin location, and physical count (quantity) on hand.
- Verified the accuracy of the physical counts conducted by warehouse staff. Compared the warehouse team count to the system count and then to the IG's count.
- Reconciled the physical counts to the EAM system and to Munis and documented discrepancies.
- Observed the recounts conducted for items with differences between the physical count and inventory records.

Statutory Requirements and Pasco County Guidelines

To conduct this audit, the IG relied on the following authoritative guideline to serve as criteria:

- Chapter 218.33(3), Florida Statutes – Local governmental entities; establishment of uniform fiscal years and accounting practices and procedures.
- Year End Inventory Procedures, revised February 1, 2019
- Receiving Inventory Procedures, revised September 2, 2018
- Purchasing Inventory Procedures, revised October 5, 2018
- IXP Key Access Policy, revised August 21, 2018
- Issuance of Inventory Procedures, revised October 5, 2018
- Inventory Cycle Counts Procedures, revised September 6, 2019

Conclusion

The IG concluded the Utilities inventories existed and the majority of the physical counts agreed to the amount reflected in the inventory system. Management implemented appropriate

practices to ensure compliance was maintained with inventory procedures. The following was noted:

- Warehouse staff was knowledgeable, well-versed on internal policies and procedures and demonstrated proficiency. Lead inventory specialists were required to acknowledge that they read and understood the year-end inventory procedures prior to conducting inventory.
- Warehouses were well maintained, organized, and items were clearly labeled for efficient counting and handling. Daily cycle counts were also performed to verify the quantity on hand and compared the amount to the inventory system.
- Inventory was safeguarded from unauthorized access and the weather. The warehouses used the IXP system, which required a keycard to access the cages that housed inventory. Items that were stored outside were protected from the elements by placing coverings over them, or storing them under overhangs.

The audit disclosed some practices related to inventory adjustments, reviewing and monitoring changes to inventory records, and documenting policies and procedures that could be improved to ensure compliance with Chapter 218.33(3) of the Florida Statutes. This statute required each local government entity to establish and maintain internal controls designed to prevent and detect fraud, waste, and abuse, support economical and efficient operations, ensure reliability of financial records and reports, and safeguard assets.

Recommendations made in this report were offered to strengthen the internal control environment. Opportunities for improvement and recommendations were discussed with management and their verbatim responses were included below.

The IG commends the Warehouse Services department on their professionalism, cooperation, and responsiveness during this audit.

Based on documentation reviewed and audit procedures performed, the IG identified six opportunities for improvement:

No.	Description	Page Reference
Control:		
1.	The extended cycle count process was not documented.	8
2.	System glitch caused items to be added to inventory in error.	8
3.	Two of the three year-end adjustments for the Embassy Warehouse were identified by IG.	9
4.	Items purchased for inventory could be easily moved out of inventory, be misappropriated, and go undetected.	10
5.	Inventory adjustments were not required to be formally requested and approved.	11
6.	The inventory system and reports reflected incorrect information for some items.	12

OPPORTUNITIES FOR IMPROVEMENT AND RECOMMENDATIONS

Control Activities: Listed below were comments that represented opportunities to strengthen the internal controls. For each comment, a recommendation was included.

1. The extended cycle count process was not documented.

The existing policies and procedures related to inventory cycle counts did not reflect all key steps that were performed throughout the year. According to management, daily cycle counts were performed when an item was ordered and pulled from inventory. For items with no usage, a turnover report was generated towards the end of the fiscal year (around August) to ensure all items in inventory were counted throughout the year. These were considered extended cycle counts and were also counted by warehouse staff. However, this process was not documented.

Documented policies and procedures are part of an internal control system to ensure consistently, clarity, compliance, provide criteria for training, and also facilitate future transfer of responsibility to another person.

Recommendation:

Update the Cycle Count Procedure to include clear guidance for performing extended cycle counts. Include in the procedure the person responsible for generating the turnover report, when and how often the report must be generated, and how the extended cycle counts will be documented.

Management Response:

Management recognizes the need to ensure that additional control procedures that are conducted to ensure compliant and efficient operations are documented. While the procedures in place are added controls, the documentation surrounding them was not sufficient and management will address as outlined below in the corrective action plan. Therefore, management concurs with the audit recommendations.

Corrective Action Plan:

The Cycle Count SOP will be updated to include clear guidance for performing extended cycle counts, which will include person or persons responsible for generating the turnover report, when and how often the report must be generated, and how the extended cycle counts will be documented.

Target Implementation Date:

January 2022

2. System glitch caused items to be added to inventory in error.

Pursuant to Chapter 218.33(3), Florida Statute, each local government entity shall establish and maintain internal controls designed to ensure reliability of financial record and reports. During the audit at the Shady Hills Warehouse, there was one item (#2083Y) included on the count sheets that did not have a specific bin location assigned and did not exist. Management explained that the item was included in the inventory due to a glitch. The item

had recently been added to the Embassy Warehouse’s inventory. However, when the item was added, the system also added this item to Shady Hills with ‘*’ as the bin location (included in inventory) and to Wesley Center with ‘PR’ as the bin location (excluded from inventory).

Recommendation:

Consult with the EAM vendor to determine why the system adds items to other warehouses that do not stock those items. Make the necessary corrections in the EAM inventory system. Review and monitor bin locations on a regular basis to identify items that are assigned to an incorrect location, warehouse, or appear unusual. This will help identify and correct errors in a timely manner.

Management Response:

Management recently became aware of this issue that would automatically class items as inventory in other warehouses that didn’t add the item to the system (it should be classed as a PR item for them). Management recognizes that this issue would then cause inaccurate count sheets for inventory items in those warehouses that did not add this to their () bins purposefully. With this knowledge, management concurs with the above recommendation and has reached out to the software vendor as outlined in the action plan below.*

Corrective Action Plan:

Management and staff has reached out to the vendor and detailed the issue and they have deployed a corrective solution to remedy the issue. Since this solution was deployed by the vendor there have not been any reported instances of the issue repeating itself. Management will continue to ensure that going forward bin locations will be monitored on a regular basis to identify items that are assigned to an incorrect location, warehouse, or other atypical occurrences.

Target Implementation Date:

January 2022

3. Two of the three year-end adjustments for the Embassy Warehouse were identified by IG.

According to the Year End Inventory Procedures, both members of the counting team were required to count or verify the count. Blind counts were also required to be performed. For two items included in the test sample at the Embassy Warehouse, the IG’s physical count did not agree to the system or the warehouse team’s count. The warehouse team’s count agreed to the system count. These items were recounted with the lead inventory specialist. It was determined that the IG’s count was correct and adjustments were necessary. See items below:

Item #	Description	IG’s Count	Warehouse Team’s Count	System Count	Recount
19038	Clear plastic safety glasses	79	78	78	79
400057	Valve tapping cast iron 6”	4	3	3	4

Although the two discrepancies represented a small error rate of 2%, this issue was brought to management's attention in the prior audit (FYE 2018). The concern was the control system over warehouse inventories, not just amount of discrepancies or their dollar amount. However, it was important to note there was a significant reduction in the number of discrepancies identified from the prior audit.

Recommendation:

Review the training material and instructions provided to warehouse count teams to determine additional guidance to be included that would improve the physical count process and ensure blind counts are conducted. Require items to be counted carefully and include all items even if there is a known problem or error.

Management Response:

Warehouse management continues to be vigilant on this issue and places high priority on ensuring that inventory counts are both timely and accurate. We concur with the recommendation and will continue to ensure that policies and procedures accurately depict the way that counts are to be performed and staff are appropriately trained on how to execute said counts. We are proud of our significant improvement on this item since the last audit and will continue to strive for 100% accuracy in the future.

Corrective Action Plan:

SOP's and training materials will be reviewed to ensure that count procedures are adequately detailed in the documentation and sufficient information is detailed. Warehouse management will ensure that training takes place for count teams and that blind count teams are still utilized to maintain accuracy and accountability.

Target Implementation Date:

January 2022

4. Items purchased for inventory could be easily moved out of inventory, be misappropriated, and go undetected.

For two items (#31251 and #2424C) at the Embassy Warehouse (as of September 24, 2021), the bin locations were changed to 'as needed' prior to year-end inventories. This caused them to be excluded from the inventory count sheets. Management stated that moving items between inventory and the 'as needed' bin was a regular occurrence due to customer demand and supply chains. The decisions to change bin locations were made by each warehouse's lead inventory specialist. However, management approval was not required, nor the changes were tracked or monitored. This increased the risk of County assets being mismanaged and misused without being detected.

Pursuant to Chapter 218.33(3), Florida Statute, each local government entity shall establish and maintain internals designed to prevent and detect fraud, waste, and abuse, safeguard assets, and ensure reliability of financial records and reports.

Recommendation:

Establish a detailed and documented policy and procedure that requires secondary review, management's approval, and monitoring of changes to bin locations. Require management's approval prior to moving items in and out of inventory. Require the request, review, approval/denial, and monitoring of changes to bin locations to be documented.

Management Response:

During the preliminary review of audit findings with the Clerk's office, management recognized this opportunity for improvement and offered to formalize a policy that details out the requirement for items moving in and out of inventory classifications and provide for a more strict control process. Therefore, management is in agreement with the above recommendation.

Corrective Action Plan:

Management will establish an SOP that details the policy and procedure that requires secondary review, management's approval, and monitoring of changes to bin locations.

Target Implementation Date:

January 2022

5. Inventory adjustments were not required to be formally requested and approved.

Inventory adjustments, made by the lead inventory specialists, were verbally approved by management prior to being entered in the inventory system. As a result, the IG team could not verify the combined 16 adjustments, totaling \$651.09, for the audit period were properly reviewed and approved by management because supporting documentation did not exist.

Documentation of inventory adjustment reviews and approvals is an internal control that increases the overall control and oversight of the Utilities inventories. This would decrease the risks of unauthorized adjustments being entered into the inventory system.

Recommendation:

Establish a documented policy and procedure that provides clear guidance for requesting, reviewing, approval, and monitoring of inventory adjustments. Require the request, review, and approval/denial of inventory adjustments to be documented or in writing (via email).

Management Response:

While there is an informal procedure in place where leads are required to obtain verbal approval from the warehouse manager on such items, management recognizes the need to formalize a written approval process to document these actions. Therefore, management concurs with the above recommendation.

Corrective Action Plan:

Management will establish a documented policy that provides clear guidance for requesting, reviewing, approving, and monitoring of all inventory adjustments. This policy will outline the information required in the request and will utilize email as a submission method to ensure date/time stamps are provided and verification that a management has provided written approval. This policy will require this documentation to be stored on record as a demonstration of the control policy.

Target Implementation Date:

January 2022

6. The inventory system and reports reflected incorrect information for some items.

Of the 103 items tested at Embassy Warehouse, five items (5%) were located in a different area than what was reflected in the inventory system or could not be identified (items: #22003, #07007M, #82048, #500586, and #230112).

Management stated the inventory was reorganized and some items were placed in new bin locations due to spacing issues at the Embassy Warehouse. The inventory system was not updated at time of audit.

Recommendation:

Update the inventory system to reflect the correct bin location. Update policies and procedures to require the bin location to be verified and updated as necessary when cycle counts are conducted, or could not be identified.

Management Response:

Management recognizes the importance of ensuring that items are well organized and placed in their assigned locations to ensure effective and efficient operations. As such, management concurs with the outlined recommendation.

Corrective Action Plan:

Management will ensure that the inventory system is monitored and updated to reflect correct bin locations. In addition, the Cycle Count SOP will be updated to include verifying correct bin locations.

Target Implementation Date:

January 2022



For additional information contact the Communications Office.

Tom Jackson, Communications Officer

tjackson@pascoclerk.com

(727) 815-7182

www.pascoclerk.com



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