



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

Year-End Inventory Observations

Fiscal Year Ending September 30, 2013

Internal Audit Division Audit Report

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BCC-114
January 10, 2014



Internal Audit Division

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January 10, 2014

Honorable Members of the 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

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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, Executive Director, Lake EMS
Marilyn Sonn, Finance Manager, Lake EMS
Moore Stephens Lovelace, P.A., External Auditors

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INTRODUCTION

Scope and Methodology

As scheduled per our Annual Internal Audit Plan for FY 2012-2013, 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 21, 2013 through October 1, 2013.

BCC Fleet Parts– September 21, 2013

Lake Emergency Medical Services (Lake EMS) – Fleet Parts – September 30, 2013

Lake EMS – Medical Supplies – September 30, 2013

Lake EMS – Pharmacy Supplies – September 30, 2013

Clerk of Courts Postage – October 1, 2013

Supervisor of Elections Postage – October 1, 2013

BCC Fleet Fuel – October 1, 2013

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.

BCC Fleet Parts

The inventory observation for the BCC Fleet Parts took place on September 21, 2013. The parts inventory consisted of items from the storeroom, tire area, and oil area. All parts are located at the Fleet maintenance facility in Groveland. We observed teams inventorying the parts at the facility. As we observed the counts, we selected a random sample, recorded the amount on hand, and agreed the amounts to the year-end inventory listing.

Lake EMS

The inventory observation for Lake EMS Medical Supplies, Fleet Parts, and Pharmacy Supplies took place on September 30, 2013. Inventory listings were provided the previous workday. 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 30, 2013. 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, 2013. 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, 2013 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.

Overall Conclusion

We conclude that the inventories of BCC Fleet parts, Clerk of Courts postage, Supervisor of Elections postage, and BCC Fleet fuel are fairly presented in the County's accounting system. Management has deemed the inventory of Lake EMS to be immaterial as Lake EMS is now a blended component unit of the County.

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 & 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 - Fleet Parts Inventory and Fuel 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 an inventory of fleet parts for the repair of the vehicles and equipment. The division further maintains inventories of unleaded, diesel, and off-road diesel fuels.

OPPORTUNITIES FOR IMPROVEMENT

Our observations were neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, any opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

The BCC Fleet Parts Inventory Process Has Significantly Improved.

In our Year-End Inventory Observations Audit Report for the Fiscal Year Ending September 30, 2012, we could not conclude whether the BCC Fleet Parts inventory was fairly presented due to inadequate records and inventory procedures. Additionally, we could not determine whether the inventory on-hand was the amount that should have been on-hand. As a result, we could not express and did not express a conclusion as to whether the inventory amounts were fairly presented in the County's accounting system. Under the prior process, misappropriation of parts could have occurred without detection.

During the fiscal year, Fleet Management made several changes in their operation. The operation was moved to Groveland and the inventories from Leesburg and Astatula were consolidated at the one location. The division was re-organized to provide a separate supervisor position directly over the inventory area. Physical controls over the inventory were increased with surveillance cameras and a restricted-access secured enclosure. The photographs show the security measures and physical controls over the inventory area.



Restricted-access Entry



Secured Inventory Area Entrance



Surveillance Camera Covering Inventory Area



Enclosed and Secured Inventory Area

Because of the significant differences between the actual parts on hand as compared to the amount shown on hand in the inventory system and the inability to reasonably account for the differences, a management decision was made to revise the system and start the inventory balance with the actual inventory on hand. We observed the new inventory actual physical count, and nothing came to our attention that would indicate possible inaccuracies in the actual physical quantities counted. After the correct physical count of parts on hand was established, the inventory records were adjusted accordingly. The following chart shows the reduction in the number of items and inventory value as a result of the new physical count and implementation of the corrective action plan.

	Number of Items	Inventory Value
Inventory Under Prior Process (9/21/2013)	3,963	\$458,171
Inventory Under Current Process (9/31/2013)	2,066	\$270,125
Change Shown by Amount	(1,897)	(\$188,046)
Change Shown by Percentage	(47.87%)	(41.04%)

Because of inadequacies in the previous system and the related procedures and controls, we could not determine the reasons for the reductions in actual quantity on hand compared with the amount that the previous system indicated should be on hand.

In addition to the physical controls, management has also taken corrective action in reducing the amount of obsolete inventory. Parts existed for vehicles and equipment which were no longer used or owned by the County. A portion of this obsolete inventory has been disposed.

We Commend Management for the significant steps taken to develop and implement a corrective action plan during the fiscal year.