



AUDIT REPORT



DATE February 14, 2019

NO. 2019-002

PUBLIC WORKS

TRAFFIC, SIGNS AND MARKING INVENTORY

FISCAL YEAR END

SEPTEMBER 30, 2018

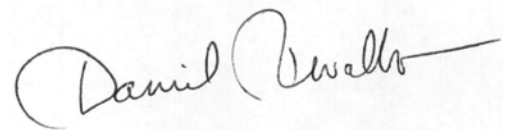
INTERNAL AUDIT DIVISION
ROGER D. EATON
CLERK OF THE CIRCUIT COURT AND COUNTY COMPTROLLER
CHARLOTTE COUNTY FLORIDA

Honorable Roger D. Eaton
Charlotte County Clerk of the Circuit Court and Comptroller
350 East Marion Avenue
Punta Gorda, Florida 33950

We have completed an audit of the Public Works - Traffic, Signs, and Marking inventory for the fiscal year ending September 30, 2018. The purpose of this audit was to ensure adequate controls exist and are operating effectively over the inventory process.

The report details the current control environment and includes our comments and recommendations. Management responses have been included and immediately follow the audit report.

Respectfully submitted,

A handwritten signature in black ink that reads "Daniel Revallo". The signature is written in a cursive style with a long horizontal line extending to the right.

Daniel Revallo
Internal Audit Director

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EXECUTIVE SUMMARY

Internal Audit has completed a review of the year-end inventory process at the Traffic, Signs, and Markings section of Charlotte County Public Works. Our review determined that inventory is adequately safeguarded and duties are segregated. There were no material differences between the results of the physical inventory count and the end balance in the inventory general ledger account. Our review also disclosed the following:

1. Items are not separated by location and or/Part Class in the Enterprise Asset Management System (EAMS).
2. Lack of formal written procedures to guide warehouse personnel on the activities that need to be performed in preparation for a Physical Inventory Count (PIC).
3. Missing inventory tags/labels and scattered inventory items.
4. Physical Inventory Count performed using the wrong Inventory Sheets.
5. Difficulty differentiating counted from uncounted items.

Based upon the finding of our review, we offer a summary of the recommendations. We discussed the recommendations in detail later in this report:

1. **We recommend** Public Works explore the possibility of reorganizing the inventory items within EAMS by creating separate locations in the system for each place where items are stored, including the nine field trucks and one paint truck.
2. **We recommend** Traffic, Signs, and Markings evaluate its procedures relating to PIC and write an instruction manual covering these procedures for future guidance.
3. **We recommend** the Traffic, Signs and Markings section of Public Works organize and clearly identify its inventory with tags/labels indicating the part number and a brief description of the item prior to the physical inventory count.
4. **We recommend** Fiscal follow written "Physical Inventory Procedures" by making sure that the "Parts Inventory by Store/Bin" report from infoview (with the quantity) is given only to the person supervising the process and the "Print Physical Inventory List" report from EAMS (without the quantity) to the person performing the actual counting.
5. **We recommend** the use of colored tags as a standard practice in physical inventory counts to help reduce confusion in identifying counted from uncounted items, thereby making the process more efficient and less subject to errors.

BACKGROUND

The Public Works Department builds and maintains roadways, bridges, navigable waterways, stormwater infrastructure, traffic lights and signs, rights-of-ways and landscaping in unincorporated areas of Charlotte County while protecting and preserving the environment. The Department further provides solid waste management including curbside service and operation of the landfill, manages mosquito and aquatic weed control programs, and operates the Indian Spring and Lieutenant Carl Bailey Cemeteries.

The Traffic, Signs, and Markings section of Public Works is part of the Transportation Engineering Division in charge of signs, roadway markings, and marine aids to navigation.

Inventory parts are maintained at the facility's parts room, a warehouse, and nine field trucks. Fiscal Services under the County Budget & Administrative Services Department performs mid-year and year-end inventory counts. The results of the physical counts are compared to the inventory balances carried on the financial system EDEN. Fiscal Services investigate any differences, explains significant discrepancies, and prepares a journal entry to adjust the balance of the inventory account in the general ledger to the results of the physical inventory count. The entry and supporting documentation is forwarded to the Clerk Comptroller's Office for posting in the general ledger.

AUDIT OBJECTIVES

Our review was based on the following objectives:

1. Observe the year-end inventory count process and evaluate the adequacy and effectiveness of internal controls and procedures over the inventory counting process.
2. Determine that adequate segregation of duties exists in daily operations and the year-end inventory process.
3. Ensure that inventory assets are properly safeguarded
4. Ascertain that the final inventory reconciliation is accurate and the general ledger is properly updated.

SCOPE AND METHODOLOGY

We focused on the year-end inventory process for the fiscal year ending September 30, 2018. We observed personnel from the Fiscal Division and the Traffic, Signs, and Markings section of Public Works conducting the inventory counts. We performed counts of 38 randomly selected inventory items and compared the outcome with their results. The sample enabled us to observe that, in general, proper procedures and controls were being followed in the final inventory count. We reviewed the final inventory reconciliations, along with the necessary adjustments and supporting documentation, and concluded that the results of the physical inventory count materially agreed with the ending balance of the inventory account in the Clerk's Financial System EDEN.

COMMENTS AND RECOMMENDATIONS

- 1. Items not separated by location and or/Part Class in the Enterprise Asset Management System (EAMS).**

Inventory items are physically grouped by part class and stored in three separate locations: inventory room, warehouse, and various trucks. However, items are not separated by location within the Enterprise Asset Management System (EAMS).

EAMS provides Public Works with inventory control tools to allow for a very detailed organization of the inventory items within the system. It can be programmed to generate reports by location, thereby facilitating a more efficient way to both identify and observe inventory items while providing for a more accurate count. Reports generated by location will help eliminate unwarranted and unnecessary delays during and after counts due to difficulties locating items stored in more than one location and later reconciling the items found in different locations prior to entering the results in EAMS.

We recommend Public Works explore the possibility of reorganizing the inventory items within EAMS by creating separate locations in the system for each place where items are stored, including the nine field trucks and one paint truck.

2. Lack of formal written procedures to guide warehouse personnel on the activities that need to be performed in preparation for the Physical Inventory Count (PIC).

There are not formal written procedures for the activities that warehouse personnel needs to perform prior, during, and after a PIC.

Written procedures provide the guidance necessary to carry out the activities at a required level of quality, ensure consistency in the performance of duties, minimize the occurrence of errors, facilitate cross training and back-up of key staff functions, and ensure that appropriate internal controls have been established.

Best practices suggest that duties and responsibilities should be in writing in the form of a PIC instruction manual. They need to be clear and known by warehouse employees to minimize errors likely to occur and avoid spending excessive time during counts due to lack of preparation, thereby ensuring a successful inventory count.

We recommend Traffic, Signs, and Markings evaluate its procedures relating to PIC and write an instruction manual covering these procedures for future guidance.

3. Missing inventory tags/labels and scattered inventory items.

Some sections and Items did not have a tag/label indicating at least the part number and description of the item. Some of the labels were difficult to read and some items were found to be stored in more than one location in addition to and apart from their assigned labeled area. The counting team had to rely heavily on the person in charge of the warehouse, who has been in the position for many years and knows the ins and outs and where everything is.

Tagging/labeling inventory helps to streamline workflow by making items and sections easier to identify for inventory control, storing, and inventory count purposes. Pre-count preparation and proper labeling is of high importance to avoid spending excessive time during counts and to minimize errors, especially when items are alike. The idea is that any person not familiar with the lay out of the warehouse and exact location of the items can identify them easily.

Based on what was observed, Internal Audit concluded that warehouse personnel failed to perform many of the activities necessary to prepare the storage areas for the inventory count. This lack of preparation caused errors during counting (miscounts) and created excessive delays when recounting and reconciling those errors.

We recommend the Traffic, Signs and Markings section of Public Works organize and clearly identify its inventory with tags/labels indicating the part number and a brief description of the item prior to the physical inventory count. Items with the same part number should be organized in a single area prior to the inventory count, to avoid any delays and confusion during the actual count.

4. Physical Inventory Count performed using the wrong Inventory Sheets.

At some point during counting, the person from the Fiscal Division doing the actual counting had access to the inventory report from Infoview and used the report during the count. The infoview report contains the parts' quantity.

Fiscal has written "Physical Inventory Procedures" covering part of the processes involved in physical inventory counts. The procedures state in part: "Once the reports have been printed, the EAMS report can be given to whomever is doing the actual counting. The Infoview report (with the quantity) can be given to whomever is supervising the process and the Physical Count can begin".

Fiscal services did not follow Standard Operating Procedures as written and intended. Written procedures provide the guidance necessary to carry out the activities at a required level of quality and minimize the occurrence of errors. The Integrity of the process may be compromised by allowing the person doing the actual counting to know beforehand the expected quantity because Items could be counted to match Infoview, overriding the purpose of the physical count.

We recommend Fiscal follow written "Physical Inventory Procedures" by making sure that the "Parts Inventory by Store/Bin" report from infoview (with the quantity) is given only to the person supervising the process and the "Print Physical Inventory List" report from EAMS (without the quantity) to the person performing the actual counting.

5. Colored tags should be used to mark items as they are counted.

Internal Audit observed that about half through the inventory count the process slowed down considerably because the counting team had difficulty differentiating and identifying the items that had been already counted from the uncounted items.

The use of colored tags is a common practice in physical inventory counting. They are used to mark items as they are counted to avoid two common pitfalls:

- Accidental omission of goods from the count, and
- Double counting of goods.

Adopting a simple common practice such as this reduces the danger that inaccuracies occur during the counting of inventory, especially when dealing with signs and other items that look very much alike. It also saves the additional time and effort spent on reconciling and correcting discrepancies.

We recommend the use of colored tags as a standard practice in physical inventory counts to help reduce confusion in identifying counted from uncounted items, thereby making the process more efficient and less subject to errors.

CONCLUSION

Our review determined opportunities to improve and enhance the County's Physical Inventory process.

ACKNOWLEDGEMENT

We would like to thank Charlotte County Maintenance and Operations Traffic, Signs, and Markings, Fiscal Services, and the Clerk Comptroller's Office for their assistance in the completion of this audit.

Audit performed by:

Orlando Solarte, Senior Internal Auditor and

Misti Payette, Internal Auditor

Charlotte County Clerk of Court & County Comptroller



MEMORANDUM

Date: January 28, 2019
To: Dan Revallo, Internal Audit Director
From: Richard Arthur, Division Manager, Fiscal Services
CC: Gordon Burger, Director of Budget and Administrative Services
Subject: Responses to the Internal Audit on Year End Inventory Audit – TSM Public Works

Please find below the list of recommendations from your department, and the response from the Board.

1. Recommend that Public Works explore the possibility of reorganizing the inventory items within EAMS by creating separate locations in the system for each place where items are stored, including the nine field trucks and one paint truck.

[Response: Fiscal Services will meet with Public Works Traffic, Signs and Markings to identify the tools available within the EAMS system to add inventory locations.](#)

2. Recommend Traffic, Signs, and Markings evaluate its procedures relating to Physical Inventory Count and write an instruction manual covering these procedures for future guidance.

[Response: Fiscal Services will meet with Traffic, Signs and Markings to devise written instructions for a physical inventory count.](#)

3. Recommend the Traffic, Signs and Markings section of Public Works organize and clearly identify its inventory with tags/labels indicating the part number and a brief description of the item prior to the physical inventory count.

[Response: Fiscal Services staff will meet with the Traffic Signs and Markings department to address organization of inventory by location and proper labeling to include part number and description of item.](#)



4. Recommended Fiscal follow written “Physical Inventory Procedures” by making sure that the “Parts Inventory by Store/Bin” report from Infoview (with the quantity) is given only to the person supervising the process and the “Print Physical Inventory List” report from EAMS (without the quantity) to the person performing the actual counting.

Response: Fiscal Services will have adequate staffing available to ensure that the quantity list is not visible to staff performing the counting. This will be documented in the Physical Inventory Standard Operating Procedure.

5. Recommended the use of colored tags as a standard practice in physical inventory counts to help reduce confusion in identifying counted from uncounted items, thereby making the process more efficient and less subject to errors.

Response: Fiscal Services will use colored tags to identify the inventory items counted. This will be documented in the Physical Inventory Standard Operating Procedure.

