

DOUGLAS COUNTY INTERNAL AUDIT DIVISION



**YEAR-END PURCHASING DEPARTMENT INVENTORY
REPORT ON INTERNAL ACONTROLS FOR
HAYES & ASSOCIATES
FY 2009/2010 #02**



DOUGLAS COUNTY INTERNAL AUDIT DIVISION

To: John LeMay, Purchasing Agent
Douglas County Purchasing Department

From: Carmen Harmon, Internal Audit Administrator
Douglas County Internal Audit Division

Date: October 2, 2009

RE: Year End Purchasing Department Inventory

As part of the fiscal year audit plan, Douglas County Internal Audit Division (DCIAD) staff performs compliance and internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by DCIAD to formulate a professional opinion, issued in the Comprehensive Annual Financial Report (CAFR), concerning financial reporting in Douglas County.

This special report describes the results of the compliance and audit testing of the Douglas County year end purchasing department inventory.

Objective:

The objectives of the review were to:

- Conduct a physical examination of Douglas County Garage inventory, and determine whether the inventory is accurately recorded in current computer applications and systems and;
- If a variance is determined, correcting adjustments should be entered in to Douglas County financial records and,
- DCIAD will review entries for accuracy.
- Verify the final inventory count for fiscal year 2008/2009

Scope and Methodology

The Douglas County Purchasing Department (DCPD) maintains an inventory of parts, materials, fuel and other equipment. The two locations where inventory is stored are the storage warehouse, located at 1225 South 40th Street, and the Douglas County Garage, located at 15445 West Maple Road.

The physical inventory inspection was conducted at the Douglas County Garage on June 11, 2009, and at the Douglas County Storage Warehouse on June 12, 2009. Follow-up inventory inspections were conducted at the Garage on June 16, 2009, and June 19, 2009, and at the Storage Warehouse on June 17, 2009. DCIAD assisted the Douglas County Purchasing Department on-site staff perform a physical inventory of parts, and materials. Detailed procedures are performed to verify the location and existence of the inventory stored on these sites.

Purchasing Department inventory records are located in the Oracle Inventory module for the Douglas County Warehouse; and the FASTER and GasBoy computerized information systems for the Douglas County Garage.

In determining the dollar value of the parts and materials inventoried, DCIAD utilized the current unit cost based on the actual prices at the time of inventory.

Inventory Steps

Garage Inventory Attributes:

- Step 1: Coordinate the day and time of the physical count with the Garage Supervisor and Purchasing Agent.
- Step 2: Verify how many garage/purchasing staff will be available to count physical inventory with DCIAD staff. The ratio should be one garage/purchasing staff per DCIAD staff.
- Step 3: Notify the Finance Division Administrator of the day and time of the physical count.
- Step 4: The purchasing staff will retrieve two current copies of the Inventory Count Sheets in location order Report from Faster, the morning of the inventory.
- Step 5: One copy will be maintained as a clean copy for the file. The second copy will be utilized for the manual count
- Step 6: A garage staff member should be assigned to each member of the DCIAD staff for the count.
- Step 7: Divide up the manual count copy amongst the DCIAD staff. Each DCIAD staff member must record their initials on each page given and the name of the garage staff member assigned to.
- Step 8: Complete the physical inventory. The garage staff manually counts each item on the list, while the DCIAD staff member observes and records the count. Circle the quantity if the actual count agrees with the Inventory Count Sheet Report from Faster. If the count differs, record the count. A count should only be recorded if the DCIAD staff member witnesses the actual counting of the item.
- Step 9: Provide a copy of the manually updated report to the garage of all inventory differences. The garage staff will review the count and provide feedback on items garage staff is disputing, along with suggested changes. If garage staff is disputing count due to utilization or a vendor/recording error, the garage staff is required to supply DCIAD staff with documentation to support the difference. The DCIAD will review all suggested changes.
- Step 10: Garage staff will then enter all adjustments in the CCG Faster system.
- Step 11: The following day all adjustments are listed in the CCG Faster system. Compare adjustments from the report to the adjustment report to reasonably assure adjustments are properly made.
- Step 12: If there are any discrepancies between amounts to be entered and entered amounts, follow-up with Garage Supervisor and Purchasing Agent.
- Step 13: Review the Finance Division's documentation of the financial transactions both pre and post entry of the inventory adjustments for consistency between reconciled and entered amounts.
- Step 14: Review any data available to DCIAD staff such as Gas Raw Transaction Data.
- Step 15: Determine and define any tests to be run on data to comply with annual testing.
- Step 16: Conduct and document tests.
- Step 17: Provide DCIAD administration, audit committee, and the external audit group with results of testing.

Warehouse Inventory Attributes:

- Step 1: Coordinate the day and time of the physical count with the Warehouse Supervisor and Purchasing Agent.
- Step 2: Verify how many warehouse/purchasing staff will be available to count physical inventory with DCIAD staff. The ratio should be one warehouse/purchasing staff per DCIAD staff.
- Step 3: Notify the Finance Division Administrator of the day and time of the physical count.
- Step 4: The purchasing staff will provide a copy of the Inventory Quantity Summary Report from Oracle, the morning of the inventory. The copy will be utilized for the physical count.
- Step 5: A warehouse staff member should be assigned to each member of the DCIAD staff for the count.
- Step 6: Divide up the manual count copy among the DCIAD staff. Each DCIAD staff member must record their initials on each page and the staff member assigned to work with them.
- Step 7: Complete the physical inventory. The warehouse staff manually counts each item on the list, while the DCIAD staff member observes and records the count. Circle the quantity if the actual count agrees with the Inventory Quantity Summary Report. If the count differs, record the count. A count should only be recorded if the DCIAD staff member witnesses the actual counting of the item.
- Step 8: Provide a copy of the manually updated report to the warehouse of all inventory differences. The warehouse staff will review the count and provide feedback on items warehouse staff is disputing, along with suggested changes. If warehouse staff is disputing count due to utilization or a vendor/recording error, the warehouse staff is required to supply DCIAD staff with documentation to support the difference. The DCIAD will review all suggested changes.
- Step 9: Purchasing staff then enter all adjustments, while DCIAD staff observes.
- Step 10: After the adjustments have been entered, the purchasing staff will provide a copy of the Physical Inventory Tag Listing and Physical Inventory Accuracy Analysis reports.
- Step 11: If there are any discrepancies between amounts to be entered and entered amounts, follow-up with Warehouse Supervisor and Purchasing Agent.
- Step 12: Review the Finance Division's documentation of the financial transactions both pre and post entry of the inventory adjustments for consistency between reconciled and entered amounts.
- Step 13: Review any data available to DCIAD staff.
- Step 14: Determine and define any tests to be run on data to comply with annual testing.
- Step 15: Conduct and document tests.
- Step 16: Provide DCIAD administration, audit committee, and external auditors with results of testing.

Garage Inventory Process

An interlocal agreement with the City of Omaha was approved by the Douglas County Board on February 28, 2006, that established financial responsibilities for the implementation and maintenance of a Fleet Management Information System (FASTER). Testing of the FASTER system was completed at the 2007/2008 fiscal year end. Official implementation and utilization of the FASTER system began July 1, 2008. The physical inventory conducted by DCIAD in June 2008, was meant to validate the preliminary inventory information in the FASTER system. Due to unforeseen issues with the conversion of data from the previously utilized systems, the Garage verified some of the initial information in the FASTER system was not accurate. The Garage conducted a reconciliation of the physical inventory and the FASTER system that concluded on September 26, 2008. All items identified as inaccurate were adjusted in the FASTER system on this date.

It was verified; the garage conducted a midyear inventory in February 2009. On February 13, 2009, adjustments were entered into the FASTER system with a total inventory cost change of \$-46,139.28. The following is a breakdown of the categories that correspond with notes documented by the Garage in the FASTER system explaining the reason for the adjustment:

Audit Type Summary	Note Summary	Total Cost Change Per Category
Quantity Adjustment	V	-7.830
Quantity Adjustment	Wrong Number used	24.000
Quantity Adjustment	Duplicate Inventory, part charged out in previous budget year, confirmed in Legacy System Feb 2009	-40,752.023
Quantity Adjustment	Mid Year Inventory Feb 2009	-5,403.423

Total Inventory Cost Change	-46,139.276
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Purchasing verified the “Duplicate Inventory, part charged out in previous budget year, confirmed in Legacy System Feb 2009” note was attributed to the conversion issues prior to September 26, 2009. Specifically, the conversion carried over many parts (both temporary and non-stock) that were previously charged out through the legacy system. In FASTER, parts can be categorized as stock or non-stock. Therefore, the Garage can have a physical inventory of a non-stock or temporary item. The conversion process flagged the items as non-stock. The reports utilized by the Garage during the original reconciliation of inventory items, included stock items only. As a result, the September

adjustments represented the identification of the conversion issues and adjusted out the doubled inventory. The non-stock issue was not identified and adjusted until February 13, 2009. DCIAD was not able to validate this information during the inventory process.

Purchasing verified "Mid Year Inventory Feb 2009" note was due to the Garage noticing a number of discrepancies in the inventory levels. Adjustments were made based on the current inventory levels and the FASTER in stock quantities.

DCIAD only conducted verification of totals documented in the FASTER system for the February 13, 2009, adjustments. No further review of the February 13, 2009, inventory process or adjustments was conducted at this time. A high level review of parts adjustments between September 1, 2008, and June 16, 2009, and no other mass inventory adjustments were noted. No other review was conducted by DCIAD to identify any other individual adjustments to stock during the fiscal year.

The physical inventory conducted by DCIAD on June 11, 2009, initially identified a variance of \$1,417.06.

Parts adjustments were made by the Garage on June 15, 2009. A review of the Garage adjustments identified:

- The Garage proactively identified eight items through comments stating that the Garage adjusted to an amount other than what was verified by DCIAD on June 11, 2009. DCIAD returned to the Garage on June 16, 2009, to verify the in stock quantity of the items. In addition, DCIAD reviewed the transaction history in FASTER for the items as well. DCIAD found:
 - Three items matched the updated Garage count.
 - Two items were adjusted due to work orders that processed after the DCIAD count and before the GARAGE follow-up count.
 - One item (a tire) was verified by the garage to have been counted incorrectly. The Garage stores parts that are "non-stock" items and are not recorded in the FASTER system. Therefore, in this situation, the term "non-stock" is different than the "non-stock" category in the FASTER system. The tires found onsite were "non-stock" tires, being stored for a department that had directly purchased the tires, but was unable to use or return the tires. DCIAD and Garage staff believed the tires were an item (a tire) found on the inventory sheet and where counted accordingly. It was verified the Garage does not track these non-stock items.
 - Two items counted on June 16, 2009, did not match the adjusted Garage count. Each had a variance of one.
- 14 items had been adjusted to a quantity other than what was noted during the inventory. These items were not proactively identified by the Garage. It was verified the adjustments were entered into the system four days after the inventory was conducted. As the adjustment did not occur on the day of the inventory, parts

- were issued and/or received thereby affecting the inventory level for the item in FASTER on the day of the adjustment. For some of the items, the adjustment set the inventory level on June 15, 2009, to the inventory level on June 11, 2009, instead of adjusting the inventory level on June 15, 2009, to include any overage or underage of items identified on June 11, 2009. For example, if the FASTER inventory report showed 191 units in stock for an item, but the physical inventory count on June 11, 2009, found the inventory was 161 units, then the variance would have been an overage of 30 units (191-161). On June 15, 2009, the FASTER system showed an in stock value of 189 due to issuance of the item. The item's in stock quantity was adjusted to 161 units which accounted for a variance of 28 units (189-161). This overstated the true in stock quantity by 2 units (30-28). A list of the 14 items was provided to the Garage. The Garage adjusted the items to match the DCIAD inventory count.
- There were 41 items listed in location 999 that were not included on the physical count sheets for June 11, 2009. There were 13 items that have an in stock amount greater than 0. Four items had an adjusted value. It was verified these items were not counted by DCIAD. Rather, they were counted and adjusted by Garage staff. DCIAD returned to the Garage on June 19, 2009, to verify the in stock amount of each item. At this time, the garage staff verified these items did not appear on the report utilized for the physical inventory on June 11, 2009, because their status was set to non-stock and the report utilized only identified the in stock items. When the stock status was reviewed with Garage staff in the FASTER system, the stock status for the items tested did not show as non-stock. Garage staff stated the status had already been adjusted to move the item from non-stock to stock. At this time, DCIAD can not validate this is the reason the items did not appear on the report.

After the follow-up inventory verifications, the final variance identified by DCIAD is \$1,545.12.

The physical inventory of fuel, verified adjustments were necessary. The adjustments were completed in the GASBOY system but were not adjusted in the FASTER system, on either the day of the inventory or on June 15, 2009, when the parts adjustments were completed. As a result, the Garage stated the adjustment would occur in the FASTER system on June 30, 2009, to coordinate with the fiscal year end. DCIAD was not informed the Garage would conduct another physical inventory of the gas on this day. In addition, the adjusting numbers were not consistent with the numbers verified by DCIAD on June 11, 2009. The gas utilization for the pumps between June 11, 2009, and June 30, 2009, was processed in FASTER, prior to the Garage inventory. Therefore, all GASBOY transactions were accounted for in FASTER, at the time of the June 30, 2009, Garage inventory. As a result of the second inventory and an unaccounted for discrepancy in FASTER, DCIAD could not validate the numbers utilized for the fuel adjustments on June 30, 2009.

Date	Description	Fuel Type	Amount
June 11, 2009	DCIAD inventory process- FASTER difference from the monitor	Unleaded	120.40 gallons
June 11, 2009	DCIAD inventory process- FASTER difference from the monitor	Diesel	-319.80 gallons
June 30, 2009	Garage inventory process- Adjustment entered into FASTER	Unleaded	-167.90 gallons
June 30, 2009	Garage inventory process- Adjustment entered into FASTER	Diesel	273.80 gallons

The variance between the amounts entered by the Garage for adjustments and the amounts verified by DCIAD:

- Unleaded 47.50 gallons
- Diesel -46.00 gallons

During the review process, it was noted on the garage reconciliation documentation there is a discrepancy between the GASBOY and FASTER systems for inventory of current gallons. All transactions in the FASTER system rely solely on the interfaces directly from the GASBOY system. As a result, the gallons represented in each system should be consistent.

The following represents this variance as represented by the inventory conducted on June

11, 2009:

Fuel Type	Monitor Gallons (Actual Gallons June 11, 2009)	GASBOY Gallons June 11, 2009	Final FASTER Tank Inventory Reading June 11, 2009	GASBOY difference from Monitor June 11, 2009	FASTER difference from Monitor	FASTER difference from GASBOY
Unleaded	6659	6539	6779.4	(6539-6659) -120	(6779.4-6659) 120.4	(6779.4-6539) 240.4
Diesel	3732	3486	3412.2	(3486-3732) -246	(3412.2-3732) -319.8	(3412.2-3486) -73.8

DCIAD could not validate the source of the discrepancy during the inventory process. This variance was reported to the Garage Staff and Purchasing Agent for further review.

A high level of review was conducted in the FASTER system regarding user permissions. The following were noted:

- Some individuals had more than one login. Each login had a different number of user permissions.
- Some individuals that were noted as City users had access to County information and appeared to have update capabilities.
- Deletion capability was allowed for all County users in some capacity.

Garage Exceptions

Exception # 1 – Parts inventory variance can be partially attributed to the physical access of the storage room.

Criteria: All repair parts and supplies should be stored in facilities which ensure the security of the inventory.

Condition: Physical access to the storage room is open to the entire staff at the garage; mechanics, administration and vehicle operators.

Cause: If authorized personnel are not present at the parts counter, or if parts are needed by highway department employees after hours, parts can be removed that are not accurately recorded and can be removed by unauthorized personnel.

Effect: If security of the inventory is not maintained, unauthorized utilization of parts can occur affecting availability and cost of maintenance of the equipment fleet.

Recommendation: Garage staff verified the garage will undergo construction to alter

the physical accessibility of the inventory. In addition, the garage staff offices will be moved and constructed to directly observe the inventory and monitor personnel in the storage area, during normal business hours. Internal controls should continue to be monitored and updated as necessary to ensure proper inventory management during normal and after business hours.

Management's Response: *With the construction completed as of Sept 2009 we now have a controlled environment.*

Exception # 2 - There are several items on the current inventory that garage personnel explained are obsolete.

Criteria: Obsolete parts should be removed from inventories on a regular basis.

Condition: Items were identified as obsolete during the current inventory count.

Cause: The items had not seen any usage for an extended period of time

Effect: Obsolete inventory can take up storage space, inflate the value of the inventory and increase record keeping requirements.

Recommendation: Obsolete inventory necessitates the item be removed, surplus or discarded. Policies and procedures should include criteria to identify when an appropriate period of time has elapsed for an item to be identified as obsolete. The procedures should also include instructions for accurately and completely documenting the handling of the item.

Management's Response: *We are in the process of identifying which items are to be classified obsolete and will be moving them off the active inventory to the obsolete inventory. We will continue monitoring inventory for removal and determine proper disposal through returns for credit or surplus to auction.*

Exception # 3 – Imputing information into the system is the responsibility of the individuals charged with system oversight and is necessary to maintain accurate records.

Criteria: All receipt, maintenance, and utilization of inventory should be accurately recorded.

Condition: Parts were inaccurately classified/recorded in the system thereby creating variance in the inventory shown on the DCIAD count sheets and the actual inventory.

Cause: Items were not on the DCIAD inventory count sheet, but were counted by garage staff on a different date.

Effect: Inaccurately recorded inventory in addition to undocumented follow-up created variances during the yearly garage inventory. Integrity of the garage inventory is compromised.

Recommendation: Implementation of the FASTER system has provided the garage with additional oversight and management of inventory. A periodic verification count should be conducted on items routinely identified as having inconsistencies and any issues identified can be addressed and corrected. Documentation of these corrections should be maintained by Garage staff. Segregation of duties should be utilized for the counting and adjusting of entries, in relation to those who routinely maintain the items. Procedures for properly recording the receipting and utilizing of inventory should be written for ensuring consistent and continuous utilization of the FASTER system.

The Garage did conduct a midyear inventory that resulted in significant changes to the inventory within the FASTER system. A high level review did show that garage staff utilized the FASTER system's notation capabilities to document adjusting entries in the system. Documentation supporting the adjustments should be maintained.

Management's Response: *Parts room staff will be conducting quarterly cycle counts. Counts will be reviewed by the Garage supervisor and adjustments made in and noted in the Faster inventory.*

Exception # 4 – The Garage currently stores parts that are not maintained in the FASTER inventory system.

Criteria: Inventory of the County's assets should be adequately maintained.

Condition: Items stored for another department were counted as Garage inventory.

Cause: Currently, the Garage has parts stored on location that are not documented or maintained in the FASTER system

Effect: Proper management of inventory is necessary for adequacy of controls. Undocumented parts can result in shrinkage of assets, inappropriate utilization, and sustaining obsolete inventory.

Recommendation: Keep an accurate record of all parts stored. Stored parts should be physically kept separate from garage inventory and clearly labeled. Periodic counts of the stored inventory should be conducted as well.

Exception # 5 – One garage employee manages the entire GASBOY process

Criteria: No single individual should have control over two, or more, phases of a transaction or operation.

Condition: Currently, one garage employee manages the entire GASBOY process.

Cause: One garage staff is currently trained in utilization of the GASBOY system.

Effect: Having one employee assigned to multiple phases represents insufficient segregation of duties. It can contribute to increased errors or irregularities that are not detected in a timely basis.

Recommendation: Garage staff did verify an additional employee is being trained on the GASBOY system. In addition to training another individual in the GASBOY system, duties and processes should be clearly written to ensure proper segregation of duties between the assigned staff. Periodic review and documentation of the review should be conducted by someone other than the garage staff responsible for the routine functions of the system. The review should be monitored for any variation or fluctuation. The documentation should be maintained.

Management's Response: *The garage clerk and the Inventory control clerk are responsible for the Gasboy process and duties are being adjusted and overseen by the Garage Supervisor.*

Exception # 6 – FASTER and GASBOY readings are inconsistent.

Criteria: Systems utilized should be sufficient to properly record the County's fuel inventory.

Condition: GASBOY and FASTER have inconsistent fuel levels.

Cause: At this time, the cause of the discrepancy cannot be identified.

Effect: This creates inaccurate documentation of fuel inventory within the two systems. As this anomaly occurs, but the cause cannot be identified, there is the potential for increased irregularities in fuel recording.

Recommendation: Management should validate the cause of the inconsistency and mitigate the affect on the fuel inventory.

Management's Response: *The Garage Supervisor will work with the Inventory control clerk and garage clerk on reports that will help to identify the inconsistencies and document the process.*

Exception # 7 – Inventory adjustments that were not immediately entered into the system lead to errors in adjusting entries.

Criteria: Adjusting entries made in the inventory system, while the garage has shut down operations, validates the inventory without the inventory levels being affected by

utilization and receipt of parts.

Condition: Follow-up review and adjustments were necessary as adjusting entries were made to inventory levels that had changed during normal operations. In addition, inventory adjusting entries were inconsistent with DCIAD counts.

Cause: Adjusting entries were not made on the day of inventory. Receipt and utilization of parts changed the in stock inventory between the date of the inventory counts and the adjusting entries. In addition, garage staff had recounted some items and counted additional items without DCIAD staff present.

Effect: In stock levels were adjusted incorrectly. Additional follow-up was required by garage and DCIAD staff.

Recommendation: Inventory adjusting entries should be made the day of the physical count. Any inconsistencies in counts should be addressed before adjusting entries are made, while the garage is shut down. If correcting entries are required due to circumstances such as; a work order dated prior to the inventory, not processed until after the inventory count, then documentation of the adjusting entries should be provided to DCIAD to assist in reconciling final inventory count. The number of situations requiring adjusting entries should be insignificant as processing and resolution of these situations, should take place prior to inventory counts.

The process of adjusting inventory immediately following the inventory count, already occurs at the warehouse location as part of the routine yearly inventory. It has been effective in minimizing errors to adjusting entries and increased efficiency and timeliness of the inventory process.

***Management's Response:** We have indentified that making adjustments on the same day as the inventory was completed will be the new process. This will minimize errors when using Faster inventory.*

Exception # 8 – FASTER and GASBOY security is not consistently utilized.

Criteria: The FASTER and GASBOY systems should be securely maintained.

Condition: When employees are not present, workstations are not locked through utilization of a password. Employees are not required to uniquely login into the system each time they access it. All users appear to have the capability to delete information in the FASTER system in some capacity. Some users have multiple logins with different permissions. Some individuals that were noted as City users had access to County information and appeared to have update capabilities

Cause: System security features are not being utilized to the full potential. User permissions appear to be inconsistent with position requirements. Limited segregation of

duties within the system is allowed.

Effect: Increased errors can occur in parts management. Unauthorized updates, additions and deletions can take place.

Recommendation: Review user permissions within the systems. Update permissions to include only what are applicable to the position. Limit deletion and update permissions. Create policies and procedures to document processes. Restrict access to systems by requiring unique login utilization and lock down computer stations when they are not being directly utilized by staff.

***Management's Response:** The Garage Supervisor will be reviewing the system and indentifying each user and their responsibilities and correct if necessary. The city users will be identified and will need to be corrected with the City Garage supervisor.*

Warehouse Inventory Process

Immediately following the physical inventory of the Warehouse, Warehouse staff and DCIAD staff reviewed any inventory count in question. Follow-up counts were made for each of these items. Once the information was validated, the adjustments were entered into the Oracle system.

Following the Warehouse inventory, Purchasing proactively identified an adjustment for an item that was incorrectly entered into the Oracle system. The inventory count had verified there were 40 of the items in stock while the inventory sheet listed 30. DCIAD staff had written the notation of the inventory as 40lb. This entry was interpreted by purchasing staff entering the adjustments into the system as 4016. As a result, Oracle showed an adjustment in quantity of 3986.00 and \$7,742.04 instead of 10 and \$19.28. An adjustment was made to Oracle to adjust the stock by -3976, leaving an in stock value of 40.

A review of the Purchasing adjustments, Physical Inventory Adjustments Report (PIAR), and a follow-up physical inventory of the items as having a discrepancy by DCIAD found the following:

- One item had an adjustment of 3 when the adjusted value should have been 4.
- One item was not located during the initial inventory count. However, the inventory sheet showed a count of 29 had been verified. During the follow-up inventory, this item was located and it was verified the amount in stock for this item was 38.
- One item had a market price of \$0.00 on the PIAR. However, the market price listed in Oracle for this item was listed at \$4.66. Follow-up with Purchasing verified they had not sold any of this item since it was entered into Oracle. Purchasing will have the item removed from inventory.

The final warehouse variance was \$2,603.49.

Warehouse Exceptions

Exception # 1 – The warehouse had an item on the current inventory that did not have complete and accurate information in the Oracle system.

Criteria: Effective and efficient inventory control depends upon the accuracy in which the items are documented.

Condition: An item was identified as having a market price of \$0.00 on the PIAR, however the appropriate cost for the item was \$4.66.

Cause: The Oracle System did not have the corresponding cost field correctly updated.

Effect: The cost recording for transactions or adjustments involving this item would have been improperly recorded.

Recommendation: Periodically review inventory items to validate all fields are correctly recorded. Changes in the fields should be adequately documented.

Management's Response: *Buyer will continue to monitor items periodically for incorrect information.*

Exception # 2 – The warehouse had an obsolete item on the current inventory.

Criteria: Obsolete parts should be removed from inventories on a regular basis.

Condition: An item was identified as obsolete during the current inventory count.

Cause: The item had not seen any usage for an extended period of time.

Effect: Obsolete inventory can take up storage space, inflate the value of the inventory and increase record keeping requirements.

Recommendation: Obsolete inventory necessitates the item be removed, surplus or discarded. Policies and procedures should include criteria to identify when an appropriate period of time has elapsed for an item to be identified as obsolete. The procedures should also include instructions for accurately and completely documenting the handling of the item.

Management's Response: *Buyer and Warehouse supervisor will coordinate efforts to monitor items usage and make recommendations for removal.*

Cc: Honorable Thomas F. Cavanaugh, Douglas County Clerk/Comptroller

Kathleen Hall, Chief Deputy, Douglas County Clerk/Comptroller
Audit Committee Members¹
Brad Yoder, Manager, Hayes and Associates, LLC

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¹ The audit committee members are: Honorable Chris Rodgers, Douglas County Commissioner; Mr. Ronald Bucher, Metropolitan Utilities District, Dr. Jack Armitage, Professor University of Nebraska at Omaha; Mr. T. Paul Tomoser, Creighton University; and Ms. Joanie Davis, Omaha Public Power District.

DCIAD Staff participants in Report on Internal Controls for Hayes & Associates
FY 2009/10 #02:

Laurel Tague, Internal Audit Analyst
Primary Auditor (signed)

Brandon Clark, Internal Audit Analyst (signed)

Carmen Harmon, Internal Audit Administrator (signed)

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