

# OKALOOSA COUNTY CLERK OF CIRCUIT COURT



**DEPARTMENT OF INSPECTOR GENERAL**



## **REPORT ON THE EXAMINATION OF INVENTORY ADJUSTMENTS**

**REPORT NO. BCC 20-01**

**REPORT ISSUED APRIL 5, 2021**

**ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL**

## Background

Based on our 2020-2021 Countywide risk assessment, the Department of Inspector General's work plan for fiscal year 2020 included an examination of inventory adjustment processes and controls.

## Objective

The objective of our examination was to determine the effectiveness of the inventory adjustment processes and verify that internal controls over inventory adjustments are appropriate.

## Scope & Methodology

The scope of our examination included all inventory adjustments by Okaloosa County Board of County Commissioners (BCC) departments during fiscal year 2019-2020. Examination methodology included interviews with department staff, identifying staff, process walkthroughs, substantive tests of controls.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to these objectives. This review was conducted in compliance with Standards for Offices of Inspector General issued by the Association of Inspectors General and the International Professional Practice Framework issued by the Institute of Internal Auditors.

## Inventory Specifics and Adjustment Process

Four departments under the BCC maintain supply inventory: Public Works, Fleet, Transit, and Water & Sewer. Each department has their own process for adjustments.

### Public Works

#### ➤ Process

When the Supply Supervisor determines that an inventory adjustment is necessary, either due to inventory item being damaged/destroyed or a cycle count being off from recorded inventory, he writes an email to the Asset Management Coordinator (AMC) describing the items that must be adjusted and the correct quantity.

The AMC makes the adjustment in the Cartegraph OMS system. The AMC will not make an adjustment unless he receives an email from the Supply Supervisor.

#### ➤ Controls

- Regular counts and reconciliations
- Supply personnel cannot adjust records
- Record keepers do not have access to supply inventory
- IT controls in Cartegraph system are utilized effectively
- Work order system tracks inventory usage

## Fleet

### ➤ Process

When the Parts & Service Coordinator, Shop Supervisor, or Shop Foreman determines that an adjustment to inventory is necessary, they send an email to the Fleet Manager. The Fleet Manager checks the supporting documentation and makes the adjustment in Fleet Focus, documenting the reason with a comment.

The Fleet Manager is the only person with the ability to make inventory adjustments, and also serves as the de facto system administrator for Fleet Focus. He has the ability to create new user accounts and to assign permissions to users.

The Parts & Service Coordinator conducts pre-checks and monitors inventory items to determine if any items have become obsolete and should be removed from inventory. These changes can only be made in the system by the Fleet Manager.

### ➤ Controls

- Regular counts and reconciliations
- Fleet Manager does not have a key to the parts room
- Supply personnel cannot adjust Fleet Focus records
- Parts & service coordinator monitors inventory for obsolescence
- Work order system tracks inventory usage

Note: As of 1/1/2021, Fleet Department's inventory is maintained under the Public Works Department system. The process and controls pertaining to Public Works' inventory process now encompass Fleet. Adjustment requests will be sent to the AMC.

## Transit

### ➤ Process

Transit Department inventory is maintained in the Fleet Focus system and inventory adjustments are conducted in the same way, except that adjustment requests are sent by the Transit Shop Supervisor. Transit is transitioning to maintaining their own inventory records, but no formal plan is in effect and no effective date has been established.

### ➤ Controls

- Fleet manager does not have access to the Transit supply room
- Transit personnel cannot adjust Fleet Focus records
- Work order system tracks inventory usage

Note: As mentioned above, Fleet's inventory is now maintained within the Public Works system. The Transit Department is included in this new arrangement and is also now maintained within the Public Works system.

## Water & Sewer

### ➤ Process

When the Utilities Infrastructure Security & Logistics Supervisor (ULS) or the Lead Logistics Specialist (LLS) determines that an adjustment to inventory is necessary, they send an email to the Utilities Financial Services Specialist (UFFS) and the Program Tech II. The UFFS or the

Program Tech II checks the supporting documentation and makes the adjustment in Naviline, documenting the reason for the adjustment.

The UFFS, the Program Technician II, and the Chief Financial Officer are the only individuals authorized to make inventory adjustments, and they will only do so when emailed by the ULS or LLS. Water & Sewer's IT department serves as the system administration for Naviline and has the ability to create accounts and assign user permissions; BCC IT has no access to or control over Naviline. The ULS and LLS conduct limited cycle counts every week, and larger counts periodically.

➤ **Controls**

- Regular counts and reconciliations
- Supply personnel cannot adjust records
- Record keepers do not have access to supply inventory
- IT controls in Naviline are utilized effectively and administration is maintained separately from operational functions
- Work order system tracks inventory usage

Note: As of January 2021, there is a new Chief Financial Officer at Water & Sewer. In their response [see below], the Water & Sewer department stated that no procedures or controls have changed as a result of the new leadership.

## Testing

We conducted interviews with personnel involved in the adjustments across all the departments. We examined controls and diagrammed the adjustment processes. We also examined randomly selected adjustment requests to ensure that all controls were operating effectively.

We found all processes and internal controls to be adequate and found no instances of noncompliance with County policy or industry best practices.

## Conclusion

Our examination determined that all county departments maintaining supply inventory have effective processes for making inventory adjustments and have adequate controls over these processes.

## Management Response

The Water & Sewer department provided a response to our report:

“Management agrees with the Department of Inspector General’s conclusion. The processes and controls have not changed under the new Utilities Chief Financial Officer. We will continue to ensure our processes over inventory remain effective and have adequate controls by regularly communicating policies and procedures to staff, as well as periodically assess the risks and the level of internal control required to protect the County’s assets and records related to those risks.”

No other departmental responses were received.