



Date: September 22, 2004
 To: Mitchell Johnson, Ben Brown, Bob Morgan
 From: Internal Audit
 Subject: Year End Inventories

Internal Audit has conducted inventory test counts and reconciled inventories to the June 30, 2004 balance sheets. The total of all inventories is \$2,219,331. The results of the inventory reconciliations are as follows:

<u>Name of Inventory</u>	<u>Physical Inventory</u> <u>At 6/30/2004</u>	<u>Increase (Decrease)</u> <u>To G/L</u> <u>2003-04</u>	<u>Increase (Decrease)</u> <u>To G/L</u> <u>2002-03</u>
Transportation	\$453,791	(4,278)	1,300
Supply Room	(a)	(a)	(14,514)
Parks and Recreation	\$31,566	80,731	59,606
Mechanical Maintenance	\$13,869	(382)	(3,178)
Fire Garage	\$72,386	(4,268)	(3,465)
Structural and Custodial	\$30,908	(1,866)	(7,394)
Water Resources Chemical	\$159,196	(9,105)	(42,253)
Water Resources Yard	\$816,849	(30,798)	(3,371)
Coliseum Housekeeping Inventory	\$30,941(b)	714(b)	(3,437)
Environmental Service-Landfill Parts	\$85,286	(21,286)	(30,292)
Environmental Service-Outside Commercial	0	(86,689)	(51,317)
Equipment Services-Parts	\$272,288	10,611	20,972
Equipment Services-Outside Commercial	0	(28,206)	(14,833)
Equipment Services-Fuel	\$114,071	54,247	(2,319)
Equipment Services-Tire	\$72,031	9,601	(4,656)
Telecommunications-Parts	\$26,976	(169,241)	2,356
Telecommunications-Cell Phone Parts	\$3,389	(51)	(22)
Graphic Services	\$35,784	3,125	2,601
TOTAL	\$2,219,331		

- (a) This inventory was supposed to be closed out on June 30, 2004, and Internal Audit did not perform any test counts or reconcile the inventory. All journal entries were made through Finance.
- (b) This inventory in prior years included largely concessions, which were sold to Centerplate an outside vendor on 12/23/2003.

Two of the inventories are only an adjustment to the respective expense account: Water Meter Shop \$60,333 (2002-03, \$61,531), and GTA-Parts Inventory \$107,294 (2002-03, \$114,407) and are not on the schedule above. When parts are purchased they are charged to the expense account. At year-end, we adjust the expense to reflect the true operating cost for the fiscal year and transfer the difference to the inventories on the balance sheet. The total of the two inventories is \$167,627.

FINDINGS:

During our year-end testing of the inventories, we noted the following:

Equipment Services Outside Commercial and Tire Inventories: A portion of the outside commercial charges for commercial tire repairs were charged to the tire inventory in error, and the tires inventory as originally reported by the department did not include a storage area, leaving the values off the inventory. Additionally, some confusion existed as to what encumbrances should be reported as adjustments to the inventory.

Water Resources Yard: Internal Audit performed test counts on the Water Resources Yard Inventory on June 27, 2004 based on a printed computer report indicating that it was the physical inventory, provided through the department. There were no written instructions as to inventory procedures, and a complete inventory count was not conducted until the weekend of August 14/15, 2004. The results were provided to Internal Audit on August 18, 2004, and test counts were made of the newly counted inventory on that date. It was then necessary to trace changes recorded by the daily usage and additions reports to reconcile the balance to June 30, 2004 figures.

Parks and Recreation: Inventory items placed directly on the equipment when serviced were charged as an expense, rather than as inventory. The entries made using the FASTER system then charged the same items to expense and credited the inventory account. As a result the inventory account had a negative balance at year-end, and expenses were overstated. Finance requested department staff provide details as to the amounts, and accounts charged in error, in order to make adjusting entries. There were no written procedures for charging items to inventory when purchased.

Environmental Services-Parts and Outside Commercial: The outside commercial inventory for this branch is a misnomer. Charges for travel expenses and service work on equipment performed by outside vendors, is accumulated in the Outside Commercial Inventory account, and then transferred to the Parts Inventory at year-end, causing the losses on both the Parts (\$21,286) and Outside Commercial Inventories, (\$86,689). Inventory items placed directly on the equipment serviced were charged as expense, lowering the loss in Parts to \$21,286, instead of the identical amount for Outside Commercial in much the same way as indicated for Parks and Recreation above. There were no written procedures for charging items to inventory when purchased.

Telecommunications-Parts: Internal Audit performed test counts on the Parts Inventory on July 1, 2004, based on an inventory listing provided by the division. However, this listing did not include a significant amount of parts stored at Monticello school. Following numerous requests, this listing was provided to Internal Audit on August 17, 2004. The units stored at Monticello were determined "obsolete" by the division (and Finance); with intentions of placing them on City Auction. A \$169,241 loss was booked to the inventory to adjust it to actual at June 30, 2004.

RECOMMENDATIONS:

- A. All departments need to develop written instructions for:
- (1) Taking inventory, including instructions to do a 100% count every year *prior* to internal audit test counts.
 - (2) Responsible staff should have written instructions as to what encumbrances outstanding at year-end for inventory purposes should consist of.
 - (3) Additionally, Departments using the FASTER system should have written instructions for charging items to inventory.
 - (4) Departments, which maintain an inventory tracking system, should develop a process for "cyclical" test counts of items with explanations and adjustment to the General Ledger on a periodic basis. By the end of the fiscal year, all items should have been counted and the tracking system reports deemed reliable.
- B. We recommend the Environmental Services Outside Commercial charges be accumulated in an expense account monthly, not charged to an asset account to be expensed at year-end. Interim financial statements must be adjusted for accumulated expenses in inventory, as records are now constituted.

We request a written response with appropriate signatures to our findings and recommendations from the responsible departments by October 6, 2004.

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We wish to thank all of the affected departments for their cooperation and courtesy. If you have questions or comments concerning the details of the inventory counts and reconciliations, please call us at 373-2823.



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