



# CITY OF ORLANDO

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## MEMORANDUM

To: Deborah D. Girard, Management, Budget and Accounting Director  
Kevin Edmonds, General Administration Department Director  
Alan Oyler, Interim Public Works Director

From: Beryl H. Davis, CPA, CGFM, Audit and Evaluation Director

Date: November 22, 2004

Subject: Inventory Observation – FY 2004 (Report No. 05-04)

**The Office of Audit and Evaluation has observed the physical inventory counts of Vehicle Parts, City Stores, Sign Shop, and Iron Bridge inventories for the fiscal year ended September 30, 2004.** Our objective was to obtain reasonable assurance as to the accuracy of the inventory count and value. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included those audit procedures we considered necessary in the circumstances. These procedures included observing the count of the selected inventories, performing tests of the counts and prices, and comparing the physical inventory count to the perpetual inventory report if applicable. However, the inventory count and valuation reports that were audited made use of computer-processed data. We considered whether these data were valid and reliable, but, because of time frame and budget restrictions, we did not test the computer processes to determine the accuracy of the resulting data.

**In our opinion, the following inventory amounts are correct in all material respects effective on the observation dates indicated:**

Sept. 25, 2004	Vehicle Parts	\$ 428,038
Sept. 30, 2004	City Stores	402,904
Oct. 6, 2004	Sign Shop	293,053
Sept. 29, 2004	Iron Bridge	171,559

The foregoing inventories were selected pursuant to discussions with the Management, Budget and Accounting Director. It is important to note that our review was not designed to determine the adequacy of internal controls over inventory. For example, there is no perpetual inventory system for the Sign Shop and Iron Bridge inventories. As we have noted in the past, without such records it is difficult to determine whether misappropriation has occurred or controls are adequate. Management can determine what the count is, but not what it should be. Management is responsible for assessing the benefits relative to the costs of preparing and keeping perpetual inventory records.

**We have additional comments and recommendations specific to the Sign Shop below.**

### **Sign Shop Inventory**

The Sign Shop has for two years effectively used an electronic spreadsheet on which the inventory count items are entered. However, we have concerns about the Sign Shop procedures for maintaining its invoices to price the inventory. The Sign Shop Manager/Traffic Operations Engineer provided us with copies of invoices for items paid using Sign Shop's procurement card. These invoices are limited to relatively small dollar amounts. However, Sign Shop staff did not provide us with copies of requested invoices for the inventory items of larger value, as they considered invoices located in the City Hall offices of the Transportation Engineering Division or Management, Budget & Accounting Department to be inaccessible. Therefore, for a number of valuable items the Sign Shop staff informed us that they did not use actual invoices to verify prices; they stated they instead contacted the vendors to determine the prices. We found that inadequate descriptions and lack of many stock numbers on the inventory sheets made it difficult to look up or verify prices of some inventory items.

To assist us in gaining confidence in the value of the current year inventory reported by the Sign Shop, we compared some prices from vendor invoices in our FY 03 files to prices on the Sign Shop's FY 04 inventory. In some cases it appeared that prices from one or more years ago were used. In other cases the unit prices on the FY 04 inventory were different from the older invoices by small amounts. However, for three items we found that the unit prices were substantially different by percentage and by total dollar amount. For these three items, if prices found on prior year invoices had been used, the FY 04 inventory above would be \$20,060 higher.

The lack of invoice files kept by the Sign Shop staff indicates that staff may not compare invoices to receiving reports when inventory items are delivered. We question whether staff can ensure that proper quantities and types of materials are received, and that invoices correctly reflect items received before being approved for payment without the invoice copies. Management, Budget & Accounting staff indicated to us that they forward scanned replicas of the invoices to Transportation Engineering staff. We were informed that during early FY 04 the Sign Shop was acquiring inventory items and payments were approved through the City's purchasing system by the Traffic Operations Engineer, without approval by the Transportation Engineering Division Manager. This procedure was changed in FY 04 to require the Division Manager's approval of these acquisitions.

**We recommend that the Sign Shop further improve and document in writing its inventory procedures as well as its purchasing and payment approval procedures.** We suggest that these procedures provide for staff to: (1) have access to all invoices needed to price the inventory as well as to ensure items received and related invoices are in agreement; (2) locate like items of inventory together to aid in the counting and recording processes; and (3) include more complete item descriptions and the identification numbers on the electronic spreadsheet utilized for inventory, in order to allow all items counted to be accurately matched with invoices.

**Response from Interim Public Works Director:**

Concur without reservation.

We wish to thank the officials and personnel of the City departments that maintain the inventories referenced in this report for their cooperation during this examination.

BHD/am

- c: Honorable Buddy Dyer, Mayor
- Jose I. Fernandez, Jr., Chief of Staff
- Joseph Robinson, Deputy Chief of Staff
- Richard L. Levey, AICP, Chief Administrative Officer
- Jon Mead, Purchasing and Materials Management Director
- Vernon Whitehurst, Fleet Management Division Manager
- Charles Ramdatt, Transportation Engineering Division Manager
- David Sloan, Environmental Services Division Director
- KPMG, LLP