



# AUDIT REPORT



*To preserve the public trust as guardians of the people's records and assets*

**DATE** November 8, 2023

**NO.** 2023-005

**UTILITIES WAREHOUSE INVENTORY  
MID-YEAR JANUARY 17-19, 2023**

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



**ROGER D. EATON**  
Clerk of the Circuit Court and County Comptroller

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To: The Honorable Roger D. Eaton, Charlotte County Clerk of the Circuit Court and County Comptroller

From: Dan Revallo, Internal Audit Director

Date: November 8, 2023

Subject: Charlotte County Utilities Warehouse Mid-Year Inventory January 17-19, 2023

Honorable Clerk Eaton,

The Internal Audit Division has completed an audit of the Charlotte County Utilities Warehouse Mid-Year Inventory for 2023. Misti Payette Internal Auditor II conducted this review.

The audit clients' responses are attached to this report. We would like to thank client management and staff for their cooperation and assistance in the completion of this audit.

The report will be posted to the Clerk of Courts website, [charlotteclerk.com](http://charlotteclerk.com), under Internal Audit, Audit Reports. A link to this report has been sent to the appropriate parties.

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Dan Revallo, CIA, CFE  
Internal Audit Director  
Charlotte County Clerk of the Circuit Court and County Comptroller

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## EXECUTIVE SUMMARY

The Internal Audit Division completed an audit of the Charlotte County Utilities Department's physical inventory procedures. Specifically, Internal Audit observed the procedures performed at the Charlotte County Utilities (CCU) – Warehouse. The Utilities Department provides potable water, wastewater treatment and disposal and reclaimed water for irrigation, serving over 60,000 homes and businesses throughout the unincorporated Charlotte County.



The CCU Department's physical inventory procedures are generally performed on or near the County's fiscal year end, September 30<sup>th</sup>, each year. However, due to the impacts of Hurricane Ian on Charlotte County, the procedures were postponed. The CCU Department's physical inventory procedures were performed on January 17-19, 2023.

The procedures performed and observations made by Internal Audit Division determined:

- the physical inventory procedures, including the weekly cycle counts performed, appear both adequate and effective;
- the parts and materials maintained appear well-organized and properly safeguarded from unauthorized persons; and
- the warehouse staff observed appear knowledgeable and professional in their duties.

Control weaknesses were identified; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

Based upon the results of our audit, we offer a summary of recommendations. These recommendations are discussed in detail later in this report:

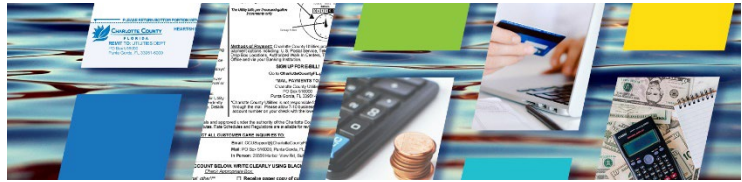
1. **We recommend** CCU management increase controls over the segregation of duties to guard against potential fraud, waste and/or abuse.
2. **We recommend** Fiscal Services increase controls over the quarterly reconciliation process and ensure the capitalization of meters is correct.

## BACKGROUND

The Charlotte County Utilities Department's mission is to provide safe, reliable drinking water, reclaimed water and wastewater service for the enrichment of the community. The Department provides potable water, wastewater treatment and disposal and reclaimed water for irrigation, serving over 60,000 homes and businesses throughout unincorporated Charlotte County.

The Utilities Department includes: i) administration, ii) business services, iii) engineering, and iv) operations. The Department is led by the Charlotte County Utilities Director, who works under the direction of the Charlotte County Administrator and Deputy County Administrator. The Department's policies and rates are established and reviewed by the Board of County Commissioners.

The Utility is a separate, government-owned enterprise that is fully funded by customer rates, fees and charges, not by ad-valorem tax dollars.



The Utilities Department's inventory is maintained at the Charlotte County Utilities warehouse in Port Charlotte. Enterprise Asset Management System (EAMS) software is used for the Department's parts and materials inventory and control. EAMS is a computerized maintenance and asset management system.

The Department's inventory is accounted for within the *Charlotte County Utility System Fund* within the Eden general ledger, and valued at cost using the average cost method. Eden is a government financial software program. The County uses the consumption method of accounting for the utility inventory.

The Fiscal Services Division performs physical inventory test count procedures and reconciles inventory, between EAMS and the Eden general ledger, on a quarterly basis.

Below are the inventory levels maintained for the Charlotte County Utilities – Warehouse:

- September 30, 2020 \$936,806
- September 30, 2021 \$1,155,035
- September 30, 2022 \$1,643,828
- January 17-19, 2023 \$2,105,512

### AUDIT OBJECTIVES

1. Observe the physical inventory counts and evaluate the adequacy and effectiveness of internal controls over the inventory process.
2. Determine that adequate segregation of duties exists in the physical 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

Internal Audit observed the Charlotte County Utilities (CCU) Department physical inventory procedures performed at the CCU Warehouse on January 17-19, 2023.

Our observations enabled us to determine a) if procedures performed and controls in place are both adequate and consistent with those documented, b) if the inventory is properly safeguarded from unauthorized persons, and c) if proper segregation of duties are practiced throughout the physical inventory count procedures as well as the Department's general day-to-day operations.

Internal Audit also performed independent test counts. Test counts were selected, at random, from the count sheets prepared as well as from the inventory found onsite at the CCU – Warehouse.

Internal Audit obtained the Utilities Inventory Reconciliation (Q1 through January 17, 2023) from the County's Fiscal Services Division to determine if the Eden general ledger was properly adjusted for the inventory discrepancies of \$1,677.98 identified during the physical inventory count procedures. An adjustment was recorded on March 1, 2023.

### COMMENTS AND RECOMMENDATIONS

#### 1. A Lack of Segregation of Duties amongst CCU-Warehouse Staff

The CCU Department is responsible for both the custody function over the CCU – Warehouse inventory as well as maintains the ability to record transactions and adjust inventory levels. Specifically; each CCU-Warehouse employee has the capability to (1) enter parts received, (2) enter parts issued, and (3) adjust inventory levels (corrections) within the Enterprise Asset Management System (EAMS) software.

A lack of segregation of duties increases the risk of fraud, waste and/or abuse. For example, an employee has the ability to perform two of these capabilities to cover a discrepancy. CCU Warehouse employees are in charge of separate functional areas within the CCU – Warehouse; however, are able to perform weekly cycle counts, record transactions and adjustments that are not independent of their function within the Department.

**We recommend** CCU management increase controls over the segregation of duties to guard against potential fraud, waste and/or abuse.

## **2. Overcapitalization of Meters Inventory**

Meters inventory is overcapitalized (written down) in the amount of \$332,030.98 due to an Excel spreadsheet error. The beginning dollar amount in the Meters spreadsheet was not updated each quarter to the ending balance from the prior quarter for half of fiscal year 2021 and all of fiscal year 2022.

A correcting entry has not yet been made to the Eden general ledger. The EAMS software maintains the correct inventory.

**We recommend** Fiscal Services increase controls over the quarterly reconciliation process and ensure the capitalization of meters is correct.

### **CONCLUSION**

Control weaknesses were identified; generally however, controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.

### **ACKNOWLEDGEMENT**

We would like to thank the Charlotte County Utilities Department and the Fiscal Services Division, as well as the Comptroller's Finance Division for their assistance in the completion of this audit.

Audit performed by:

Misti Payette, CIA, CRMA, CGAP

Internal Auditor II

Charlotte County Clerk of Court and Comptroller



**MEMORANDUM**

Date: 09-12-23

To: Dan Revallo, Internal Audit Director, Charlotte County Clerk of Court and Comptroller

From: Mary Jane Sykes, Financial Manager, Charlotte County Board of County Commissioners

CC: Richard Arthur, Division Manager, Charlotte County Board of County Commissioners  
Gordon Burger, Director of Budget and Administrative Services, Charlotte County Board of County Commissioners

Subject: Responses to the Internal Audit on Year End Inventory Audit – CCU Warehouse

- 1.) Recommendation- Fiscal Services increase controls over the quarterly reconciliation process and ensure the capitalization of meters is correct.

Fiscal has made modifications to the current meter reconciliation spreadsheet by ensuring the spreadsheet columns from EAMS (now Cityworks) beginning and ending balances reconcile to the calculated spreadsheet column.







## MEMORANDUM

Date: 10-16-2023

To: Dan Revallo, Director Internal Audit, Charlotte County Clerk of Court and Comptroller  
Misti Payette, Internal Auditor II, Charlotte County Clerk of Court and Comptroller

Through: Dave Watson, Utilities Director 

From: Denise Caruthers, Operations Supervisor-Administration 

Subject: Updated Response to Utilities CIP Follow-up Audit Report Recommendations

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Below is CCU's updated response to the #1 recommendation to the follow-up audit of Utilities' physical inventory procedures (warehouse). CCU does not require a formal exit conference.

**1. Recommend CCU Management increase controls over the segregation of duties to guard against potential fraud, waste and/or abuse.**

- CCU understands the concept of the recommendation, and we respectfully conclude with confidence that the warehouse inventory controls in place protect the county and guard against potential fraud, waste, and/or abuse. Currently, each inventory specialist can make inventory adjustments with the approval of the warehouse supervisor. Every inventory adjustment is approved by the warehouse supervisor and sent to the Senior Financial Analyst in Fiscal Operations, with the appropriate staff being copied. To implement stronger controls for the warehouse inventory in City Works, CCU will submit a request to the IT Department and the County Asset Manager to set up the parameters so that only the Warehouse Supervisor and the Senior Financial Analyst can manually change the inventory in City Works. For the truck inventory, the supervisors can audit the trucks.

**2. Recommend Fiscal Services increase controls over the quarterly reconciliation process and ensure the capitalization of meters is correct.**

- Fiscal Services addressing this recommendation under a separate memo.

cc: Peter Selberg, Warehouse Supervisor  
Rick Arthur, Fiscal Services



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