



To: The Honorable Jay Musleh, President of the Council
The Honorable James Hilty, President Pro Tem
The Honorable Brent Malever
The Honorable John McLeod
The Honorable Mary Sue Rich
The Honorable Kent Guinn, Mayor
John Zobler, Interim City Manager

Date: January 6, 2015

Re: External Audit Assistance - Inventory

Internal Audit assists the external financial auditors, Purvis Gray and Company, LLP, with specific audit procedures for the Financial Statement Audit for the Fiscal Year Ending September 30, 2014. We have completed procedures for Inventory. The objective of our procedures was to validate the physical inventory count and valuation of inventory as of September 30, 2014 through observation, perform recounts on a sample testing basis, recalculate extended costs, and assure final inventory values are properly reflected in the City's general ledger.

Internal Audit observed the physical inventories at the Ocala Utilities Services Warehouse (Electric, Telecommunication, and Water & Sewer) and Ocala Municipal Golf Course, which were completed September 26 - 30, 2014. Inventory counting procedures were followed appropriately. Based upon a sample recount of 130 items, no errors were found.

Based upon our procedures, we conclude that the physical inventory count was accurately performed and the inventory is properly valued in the City's general ledger at \$ 6,097,475.01 as of September 30, 2014.

Through observing the inventory process for FY 2014 and discussions with everyone involved in the inventory process, we identified opportunities to improve the efficiency and effectiveness of the inventory process for FY 2015. This collaborative proactive effort should continue to allow for immediate identification of count and system variances for research and resolution prior to the end of the physical inventory count and facilitate efficient reconciliation to the general ledger. These opportunities include ensuring that:

- all invoices for items in the warehouse at the time of the physical count are input and approved by Utility Services and that the invoices are processed by Accounts Payable before the inventory system is locked down prior to the physical count. All subsequent invoices received should be processed in the next fiscal year. Finance will appropriately adjust the inventory values for such items through the year end journal entry process.
- written instructions are provided to each count team member with a detail review of each step prior to the start of the count to ensure effective counts occur during the physical count process.

- all discrepancies between the first and second count are resolved through collaborated efforts of the Fiscal Manager-Utility Services, Warehouse Manager, Finance and Audit immediately following the completion of the second count to eliminate the need for repeated recounts.
- the inventory count process is finalized and the inventory system is unlocked within three business days following the end of the fiscal year.
- all journal entries to adjust the general ledger inventory balances are processed no later than October 31 to allow effective and efficient evaluation of the process and completion of audit procedures.

In addition, we recommend that Water and Sewer Management, Fiscal Manager-Utility Services, and the Warehouse Manager organize and analyze items at the Perry waste water reclamation site. The analysis should include evaluating if these items should be considered maintenance supplies and be expensed rather than held in inventory.

We appreciate the assistance of all personnel involved in the physical inventory process, especially Karen White and Mary St. Laurent, Utility Services; Johnna Agin, Raymond Bachik, and Anthony Webber, Finance; and Betty Gossett, Information Technology.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our observations and conclusions.



S. KaRhonda Leslie, Assistant Internal Auditor



Jeann Covington, Internal City Auditor

c: Sandra Wilson, Deputy City Manager
Diane Reichard, Chief Financial Officer, Assistant City Manager
Mary Ann Davis, Finance Director
Karen White, Fiscal Manager, Utility Services

Mike Poucher, Director, Utility Services – Electric
Jeff Halcomb, Director, Utility Services – Water & Sewer
Winsome Jacobs, Director, Information Technology