



## Douglas County Internal Audit

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July 6, 2016

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Mary Ann Borgeson, Mike Boyle, Jim Cavanaugh, Clare Duda, Marc Kraft,  
PJ Morgan, and Chris Rodgers

Eric Carlson, Douglas County Purchasing Agent  
1819 Farnam St.  
Omaha, NE 68183

Dear Commissioners and Mr. Carlson:

I have completed an audit of Douglas County controls that were in place to conduct year-end physical inventories. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to conduct physical inventories at the County Garage and Warehouse. The audit revealed that, overall, controls were adequately designed and worked effectively. Details related to the testing appear below.

### **Background**

As part of the fiscal year audit plan, Douglas County Internal Audit (IA) performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by IA to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls in place for conducting the cycle counts and year-end physical inventory at the County Warehouse and Garage.

### **Objectives**

The objectives of the audit were to determine that controls were in place to ensure:

- The completeness and accuracy of inventory records
- Accurate treatment of inventory movement during the physical count
- Slow or obsolete items are properly identified and priced at net realizable value

**Scope and Methodology**

The audit included a review of the written procedures used to conduct the inventory as well as observation of the completion of the counts at the County Garage and the Warehouse. The audit at the Garage was conducted 6/9/2016 and the Warehouse 6/10/2016. The inventory observation included steps to ensure:

- Proper segregation of duties were maintained by the count teams
- Complete counting of all items and locations
- Proper treatment of any receipts or issuances of stock
- Proper identification and treatment of slow-moving or obsolete inventory

Additionally, 80 judgmentally selected inventory items (40 from the warehouse and 40 from the garage) were test-counted. The test-counts were traced to the adjusted inventory reports. The Garage ending inventory was \$270, 205 after being adjusted down \$1,159 (a -0.43% adjustment).

The Warehouse began conducting cycle counts of inventory in December 2015 with the intent to count all inventory items twice in a fiscal year. This fiscal year they will have been counted once. The count observed on June 10, 2016 was part of a cycle count that included medical supplies and food-serving items. There were 178 items (not quantities) counted. Adjustments were made to 40 of the 178 items counted. IA also reviewed the cycle count results from counts conducted previously. The prior counts also resulted in numerous adjustments. It was noted that the Oracle system had not been fulfilling orders properly during the year. A solution was instituted in March of 2016 per documentation provided to IA. Due to the numerous adjustments made during the observed and previous counts, IA conducted a spot-check count of 25 representative items on June 24, 2016. Adjustments were made to 3 of the 25 items after inputting a receipt for one of the items. The total on-hand quantity of the counted items was adjusted to 465 from 450. This is an acceptable error rate of 2.3%.

**Findings**

There were no issues identified.

**Audit Standards**

Internal Audit conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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Internal Audit has reviewed this information with the Douglas Count Purchasing Agent. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.

Sincerely,

Mike Dwornicki  
Internal Audit Director

cc: Mark Rhine  
Jude Lui  
Richard File  
Lenny Swanger  
Patrick Bloomingdale  
Joe Lorenz  
Diane Carlson  
Daniel Esch  
Sheri Larsen  
Frank Hayes  
Tumi Oluyole  
Lynette Allen