



Internal Audit Department

Audit Report 2016-2

Bureau of Emergency Services:

**2015 Fiscal Year-End
Inventory of Helicopter Parts**

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The files and draft versions of audit reports are confidential and exempt from public records requests during an active audit under *Nicolai v. Baldwin (Aug. 28, 1998 DCA of FL, 5th District)* and §119.0713, Florida Statutes. Workpapers supporting the observations noted within this report become public record and will be made available upon request once the final audit report has been issued.

Internal Audit provided a draft of this report to the Emergency Medical Services Chief for management response on March 4, 2016. County management provided that response on April 19, 2016.

Summary

This review generated the following observations regarding Emergency Medical Services' 2015 fiscal year-end inventory of helicopter parts:

- Physical inventory testing validated quantities reported with no unexplained exceptions.
- All line item unit costs tested were misstated.

Objectives

The objectives of the review were to validate the count of inventory items reported and to confirm the respective costs assigned to those items.

Scope

The audit engagement consisted of, but was not limited to, the following tasks:

- Reviewing Accounting Memorandum for Fiscal Year 2015 completed by Emergency Medical Services (EMS);
- Reviewing Helicopter Operations' Organizational Chart;
- Reviewing Helicopter Operations' General Operations Manual sections related to maintenance and parts;
- Reviewing documentation relating to EMS' helicopter parts supplier(s);
- Reviewing the summary records generated from EMS' Helicopter Operations physical inventory counts;
- Inquiring of management as to the inventory and record-keeping processes;
- Reviewing CMA 5809, MANAGING PERSONAL PROPERTY AND CONSUMABLE SUPPLIES;
- Testing 100% of parts with reported costs per unit exceeding \$50.00;
- Testing a sample of parts with lesser unit costs; and
- Validating reported values on inventory count provided by EMS to historical cost documentation.

Background

On September 15, 2015 the Clerk of the Circuit Court and Comptroller's ("Clerk") Finance Department issued an Accounting Memorandum to each Board of Collier County (BCC) Division as part of its fiscal year-end procedures. Among other inquiries, the Accounting Memorandum asked if the BCC Divisions had any inventory at year-end. At fiscal year-end 2015, and at every other year end before it, the BCC Emergency Medical Services' (EMS) Supervisor of Accounting did not report any inventory for helicopter parts. Based upon Finance inquiry, the EMS Director of Operations acknowledged that there was a substantial quantity of helicopter parts on hand.

The Director of Maintenance performed a physical inventory of helicopter parts on hand. The Finance Director directed Internal Audit to test that inventory count, and to reconstruct the resulting reported amounts, so that Finance could rely on the inventory value for inclusion in Collier County's financial statements.

On November 17, 2015, the Clerk's Internal Audit staff sent a Memorandum of Engagement to County staff requesting an organizational meeting to discuss the timetable of the audit of the EMS Helicopter Operations parts inventory. The result of that meeting was the scheduling of an audit start date of November 30, 2015. Internal Audit staff followed up the meeting with a Data Request Letter on November 23, 2015 seeking documentation regarding internal controls and policies and any reports that pertained to parts inventory that would assist in the audit.

Observations

1) Physical Inventory Testing Validated Quantities Reported.

Helicopter Operations provided a worksheet of FY 2015 inventoried parts and their corresponding reported values. Finance staff stratified that inventory schedule by cost per unit to identify individual parts costing greater than \$50.00. Helicopter Operations and Internal Audit staff re-counted 100% of parts with reported costs per unit exceeding \$50.00, as well as a 40 item sample of parts costing \$50.00 or less per unit. These tests revealed few exceptions; all of which were reasonably explained and appear to be valid.

Inventory quantities that are reported on financial statements need to be reasonably accurate, as these are.

Recommendations:

- Helicopter Operations should continue following its physical inventory procedures in order to maintain reliable counts of parts.

County Management Response:

Helicopter Operations staff and management have reviewed the Helicopter Operations Inventory Report and concurs with the findings.

2) All Line Item Unit Costs Were Misstated.

Generally accepted accounting principles mandate that inventories should be recorded and reported at their acquisition costs. Helicopter Operations reported its inventory of parts to be \$904,380.64. However, Helicopter staff valued those parts using a combination of historical and replacement costs rather than acquisition costs. Since this was the first occasion of reporting the year-end cost of parts inventory, the Director of Maintenance was not aware, nor trained on, the proper accounting method of inventory valuation.

Internal Audit reviewed 263 paid invoices from fiscal years 2014 and 2015 to reconstruct acquisition costs and found that all line item unit costs were misstated. Internal Audit provided this information to the BCC's external auditors who then performed a statistical analysis on the data to determine a reasonable amount to record for the EMS Helicopter Operations parts inventory on the BCC's financial statements.

Assets recorded in financial statements must reflect reasonably accurate inventory costs. If historical inventory cost is not recorded at the time of acquisition, then the opportunity to capture costs accurately may be lost. Throughout the year, periodic random inventory checks should be completed to validate the inventory to the current listing. All discrepancies are to be reviewed and adjustments completed as necessary and per FAA and BCC policy. Parts should be reviewed and evaluated to minimize stale or obsolete parts in stock. Once research is completed, stale or obsolete parts are identified and should be disposed of in accordance with FAA and BCC policy. "No charge" items may be used and maintained in the inventory system for tracking purposes but not priced as part of inventory. These items have been expensed and are typically remaining items from kits.

Recommendations:

- Helicopter Maintenance and Operations should capture and record acquisition costs of parts and inventory as they are received in order to state the value of inventory properly.
- Helicopter Maintenance and Operations should add a column to their parts inventory worksheet labeled "Invoice Number/Date" to aid in future audits.
- Helicopter Maintenance and Operations must rebuild the parts inventory worksheets' "Price ea." and "Total \$" columns to reflect historical cost.

PARTS INVENTORY

DESCRIPTION	PART NUMBER	SERIAL NUMBER	QTY	CHP	LOCATION	EXPIRATION	Price ea.	Total \$
SUPPORT	117-86693		2		U1 S4 B9		\$458.09	\$916.18
ENG/XMSM OIL T/P INDICAT	L316M20C1003	0071	1		U1 S5		\$26,078.00	\$26,078.00
LEVER ASSY	L635M1010101		1		U1 S5		\$4,548.00	\$4,548.00

County Management Response:

Helicopter Operations staff and management have reviewed the Helicopter Operations Inventory Report and concurs with the findings. The following steps are being put into place to remedy the parts inventory file:

Columns have been added to the Parts Inventory Program for the invoice number, date and supplier.

- 1. Parts are ordered and received by the Director of Maintenance.*
- 2. A copy of the invoice will be transmitted from the Chief Pilot to the Director of Maintenance.*
- 3. The Director of Maintenance will enter the part in the Parts Inventory Program to include the invoice number, date, supplier and actual cost.*

Conclusion

EMS Helicopter Maintenance and Operations maintain an ongoing, up to date perpetual inventory count. However, inaccurate inventory valuations can result in over or under valuing their inventory for financial statement purposes. Audits do not relieve BCC management of its responsibility to ensure inventory is properly counted and valued. The County should implement proper procedural controls for all County inventories in order to reduce and limit the risk of fraud, error, and misappropriation of County assets. Internal Audit may recommend improvements, but ultimately it is the duty and decision of County management to formulate processes and controls that ensure compliance with applicable rules and regulations.

Internal Audit acknowledges the cooperation of EMS' Helicopter Maintenance and Operations for their assistance in this audit.