

MANATEE COUNTY CLERK OF THE CIRCUIT COURT

INTERNAL AUDIT DEPARTMENT

CONVENTION CENTER

EVENT SERVICES INVENTORY AUDIT

AUDIT REPORT

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A U D I T R E P O R T

The Internal Audit Department conducted an audit of in-house food and liquor inventory under the Convention and Visitors Department Event Services Division (referred to thereafter as the Convention Center) for the audit period June 1, 1999 through May 31, 2000. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND:

The Convention Center's Event Services Division provides food services for events held at either the Convention Center or the Crosley Museum through in-house staff or outside catering companies. The Convention Center in-house staff can provide concession, banquets, short menu or snack items, and all liquor beverage services. The Convention Center maintains both food and liquor inventory. The Crosley Museum maintains liquor inventory only.

PURPOSE/OBJECTIVE:

The audit purpose / objectives included, but were not limited to, the following:

- Determine whether food and liquor inventory counts are performed and whether the inventories are adequately controlled.
- Determine whether controls have been implemented and are adequate to monitor food and liquor costs.

SCOPE:

The scope of the audit included examining on a test basis evidence supporting the controls implemented by the Convention Center in managing the in-house food and liquor inventories at both the Convention Center and the Crosley Museum for the twelve month period ending May 31, 2000.

METHODOLOGY:

Internal control evaluations were accomplished by flow charting the key operations of this specified area, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered for the period ending May 31, 2000 in the inventory audit of the Convention Center Event Services.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested.

Except as noted in our audit report, tested items were in compliance with resolutions and other policies established by the Convention Center Event Services Division.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the inventory audit under the Convention Center Event Services Division for the period ending May 31, 2000, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters

involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be used for each Area of Improvement reported. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Department's Management Team and the Internal Audit Department. The Management Team includes the Director of the Convention and Visitors Department and his top managers.

MANAGEMENT SUMMARY:

The Convention Center is staffed by dedicated individuals who are enthusiastic and pride themselves on customer service. Through the years, the utilization of both the Convention Center and the Crosley Museum has increased, along with a significant improvement in customer service on events held. With the stabilization of facility utilization and customer service, Management is now in the position to concentrate on increasing fiscal accountability. Beginning with inventory accountability, Management will have the ability to ensure event purchases are reasonable, inventory used is being charged to an event, the possibility of theft is minimized and inventory waste is controlled. With these controls, management will be able to measure profitability goals, and isolate and reevaluate those areas not meeting management's expectations.

The following are areas identified for improvement and addressed by our Management Action Plans:

- The Convention Center and the Crosley Museum maintain inventory for events. Periodic inventory counts and reconciliation of both food and liquor have neither been performed completely nor regularly. The Management Team through its Management Action Plan will develop procedures requiring inventory counts to be conducted and reconciled monthly. **(See Area for Improvement #1 on page 6.)**
- The Convention Center could strengthen their control over inventory access by maintaining and reviewing a formal list of employees who have been issued keys. The Management Team through its Management Action Plan has established a formal list of employees who have been issued keys and will develop procedures on the issuance and return of keys. **(See Area for Improvement #2 on page 6.)**

- The Convention Center management has agreed to set prices based on actual cost plus a targeted 40% contribution to overhead as stated in Resolution 96-222. While management continues to believe that this goal is reasonable, documentation was not available to determine whether they are meeting this goal. The Management Team through its Management Action Plan will develop and implement forms that in conjunction with the Finance System's job ledger program will begin tracking purchases, labor and other expenses associated with an event to ensure the targeted overhead contribution has been realized. **(See Area for Improvement #3 on page 7.)**
- Procedures are currently in place to determine consumption of alcohol for events with hosted bars. With cash bar events, however, consumption is not reconciled to event sales. The Management Team through its Management Action Plan is in the process of revising current liquor inventory forms and developing procedures for their completion. This information will be used to reconcile liquor consumption to revenue received. **(See Area for Improvement #4 on page 7.)**

We appreciate the efforts of Convention Center's management in timely addressing the issues raised during the audit and aggressively seeking solutions to these matters. We believe through the implementation of the Management Action Plan included in this report, controls will be strengthened, improving accountability. We commend the Convention Center for providing a valuable service to Manatee County.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Richard J. Orienti, CIA, CFE

Director of Internal Audit

R. B. "Chips" Shore

Clerk of the Circuit Court and Comptroller

AREA FOR IMPROVEMENT #1

Subject: Periodic Inventory Counts and Reconciliation on Food and Liquor

The Convention Center maintains both food and liquor inventory on hand. The Crosley Museum maintains liquor inventory only. While limited inventory counts have been taken, managers have relied on these counts primarily for reorder points. Liquor inventory as of September 30, 1999 was conservatively estimated at \$20,000. A food inventory listing has not been compiled. By performing periodic inventory counts, the Convention Center could better ensure that inventory quantities are controlled, inventory purchases are used and properly charged to an event, inventory waste is accounted for, and the possibility of theft is deterred.

Management Action Plan:

- Management is in the process of developing procedures that would require inventory counts to be taken monthly on both food and liquor. These counts will be reconciled to the monthly sales and purchasing figures to ensure reasonableness. A limited food inventory will be maintained on food items selected by management. Implementation of the physical inventory count will be conducted prior to October 1, 2000. Procedures for the reconciliation process will be developed by the end of the year.

AREA FOR IMPROVEMENT #2

Subject: Control over Inventory Access

The Convention Center and the Crosley Museum keep inventory items kept under lock and key. The Convention Center could strengthen their control over inventory access by maintaining and reviewing a formal list of employees who have been issued keys.

Management Action Plan:

- Management has already established a formal list of employees who have been issued keys. This list will be analyzed periodically and updated accordingly. Procedures will be established to document the issuance and the return of keys. Management anticipates procedures will be developed by October 31, 2000.
- Management is in the process of analyzing the possibility of changing exiting locks on high dollar inventory items to locks whose keys can not be duplicated. A decision will be made by October 31, 2000.

AREA FOR IMPROVEMENT #3

Subject: Liquor and Food Cost Controls

Management has agreed to set prices based on actual cost plus a targeted 40% contribution to overhead as stated in Resolution 96-222. While the Convention Center management continues to believe that this goal is reasonable, documentation was not available to determine whether they are meeting this goal.

Management Action Plan:

- Management is in the process of developing and implementing forms that in conjunction with the Finance System's job ledger program will begin tracking purchases, labor and other expenses associated with an event. Procedures will be established to ensure implementation of a control cycle that will include:
 - Periodic competitive shopping of vendors and vendor pricing
 - Developing price standards for food and liquor
 - Obtaining written purchase approvals prior to ordering
 - Comparing event purchases to event menus
 - Agreeing shipping documentation to purchase approval documentation
 - Agreeing invoices to approved purchases and receiving reports
 - Reconciling prepared food and excess food to the number of attendees
 - Periodic reviewing of menu prices
 - Reconciling food, liquor, and labor costs to events for revenues received to determine whether the targeted overhead contribution has been met.

Management intends to develop and implement these procedures by October 1, 2000.

AREA FOR IMPROVEMENT #4

Subject: Liquor Consumption Related to Sales

Procedures are currently in place that requires the weighing of liquor bottles before and after an event. This information is used to determine the billing for hosted bar events. However, when an event has a cash bar, the information is not used to ensure liquor consumption in relation to cash sales is reasonable. Reconciling consumption by events will provide management with better control and accountability over liquor inventory.

Management Action Plan:

- Management is in the process of revising their current liquor inventory forms and plans to establish procedures for their completion. This will provide management the tools to reconcile liquor consumption to revenue received. Forms and procedures will be developed by October 1, 2000.