

MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION

**Montgomery County Department of Parks
Brookside Gardens-Retail Inventory
Report Number: MC-005-2017**

June 6, 2017

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Brookside Gardens-Retail Inventory

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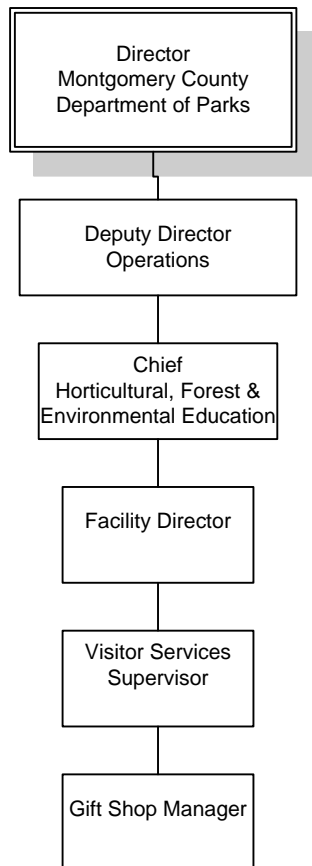
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I. EXECUTIVE SUMMARY

A. Background

Brookside Gardens is Montgomery County's award winning 50 acre public display garden located in Wheaton Regional Park. The gardens include the following distinct areas: Aquatic Garden, Azalea Garden, Butterfly Garden, Children's Garden, Rose Garden, Japanese Style Garden, Rain Garden and the Woodland Walk. The Formal Gardens area include a Perennial Garden, Yew Garden, the Maple Terrace and Fragrance Garden. Brookside Gardens also features two year round conservatories, a horticultural reference library located in the Visitors Center and two gift shops.

Brookside Gardens is managed under the aegis of the Horticulture, Forestry & Environmental Education (HFEE) Division within the Commission's Montgomery County Department of Parks.



B. Scope, Objective, and Methodology of the Audit

Objective: The purpose of the audit was to perform a review and evaluation of Brookside Garden's retail inventory system of internal controls, including petty cash and change fund accounts.

Scope: The scope of the audit included, but was not limited to, the following audit procedures:

- Reviewed applicable Commission practices and procedures;
- Interviewed staff to obtain an understanding of the operational procedures for retail inventory;
- Reviewed for adequate segregation of duties related to placing retail inventory orders, confirming order receipts and system entry into ActiveMONTGOMERY;
- Reviewed policies and procedures for managing obsolete or damaged retail inventory;
- Performed a limited review of retail inventory, including a physical count of jewelry inventory in both gift shops;
- Performed a count of the petty cash and change funds, and reviewed for adequate security;
- Reviewed petty cash receipts and reimbursements; and
- Reviewed for adequate security over retail inventory.

The audit was conducted in accordance with the *U.S. Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit covered the period from 01/01/16 through 01/31/17.

C. Major Audit Concerns

The results of our evaluation and testing procedures indicated no major audit concerns.

D. Overall Conclusions

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for Brookside Gardens retail inventory procedures. On an overall basis, we consider the controls to be satisfactory.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to Brookside Gardens' management and staff for their cooperation and courtesies extended during the course of our review.



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Senior Auditor



Renee M. Kenney, CPA, CIA, CISA
Chief Internal Auditor

June 6, 2017

Conclusion Definitions

Satisfactory	No major weaknesses were identified in the design or operation of internal control procedures.
Deficiency	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
Significant Deficiency	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
Material Weakness	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

II. DETAILED COMMENTARY AND RECOMMENDATIONS

1. Update Retail Inventory to Adjust On Hand Item Counts and Costs

Issue: The Office of Internal Audit (OIA) performed a complete physical inventory count of jewelry in both gift shops on March 16, 2017. To assist in the inventory process, the facility provided the OIA with a real-time inventory report from ActiveMONTGOMERY, the point-of-sale system used within Montgomery County Department of Parks. At the completion of the review, the OIA identified some discrepancies in item counts. Note these do not apply to every inventory item:

- Data in the on hand count column for some items display negative numbers.
- Some items show on hand counts, but they show zero dollar cost values, which may understate the inventory's total value.
- Some items show zero on hand counts, but they show dollar cost values. Management explained that some of these items remain on the report because they will be reordered in the future, but the facility will not reorder all of them.
- For one jewelry product, Alchemy Flower Necklace, UPC 2016211, the inventory report showed an on hand count of six, but OIA counted eight necklaces on hand.

In addition, during the physical inventory count of jewelry, OIA was unable to locate three necklaces that were listed on the inventory report. Staff researched the difference, which may have reflected an administrative error, but was unable to provide OIA with a conclusive explanation. See the below table:

Item/UPC	Last Cost	Retail Price
Amber Butterfly Pendant/90909	\$6.50	\$29.95
Square Pendant/2016029	\$9.30	\$26.95
Amber Oval Pendant/2016124	\$15.25	\$32.95

Management explained that some of the inventory data require updates due to the transition to ActiveMONTGOMERY. However, the facility has been unable to complete the needed updates because of staffing shortages.

Criteria/Risk: The Commission requires all facilities that carry inventory for resale to perform physical inventory counts to ensure accurate inventory data, including on hand item counts and costs. Failure to maintain a complete and accurate inventory database may affect fiscal year-end journal entries posted to

Accounting's general ledger, which may have a negative impact on the Commission's financial statements.

Recommendation: Inventory for gift shop products should be updated to ensure an accurate count of items on hand and replacement costs, both of which may ultimately affect the inventory's value. Items that will not be reordered should be removed from the inventory report.

Risk: Medium

Management Response: In response to the noted recommendation in the Gift Shop audit, the following actions have been completed or are planned:

Filled the full time gift shop manger position on May 8, 2017. The position was vacant since Oct. 31, 2016. This position is responsible for oversight of inventory tracking and management.

The inventory for gift shop products will be updated to ensure an accurate count of items on hand and replacement costs. Items with zero inventory will be addressed by disabling (archive) items that are no longer carried or not planned for immediate reorder. This will reduce the overall size of the inventory list and reduce the number of items listed when sales staff conduct an "item search." This action will also reduce the possibility of errors when selling merchandise that occasionally result in negative inventory items.

Address inventory items in stock with 0 value assigned. This was a result of data not transferred during the conversion from ParkPASS to ActiveMONTGOMERY. Staff will research original invoices and enter wholesale costs into inventory database. Replacement cost reports will then accurately reflect actual replacement cost value of inventory.

Expected Completion Date: June 2017

Follow-Up Date: August 2017

2. Strengthen Controls over Petty Cash Reimbursement

Issue: On March 20, 2017, the OIA performed a count of the petty cash fund, with no exceptions (i.e. cash on hand plus receipts equaled the total amount of the fund).

The OIA also reviewed documentation for past check requests submitted to the Department of Finance for petty cash reimbursement. Brookside Gardens' authorized petty cash fund is [REDACTED]. The OIA identified two instances where the depletion of the petty cash fund exceeded the recommended threshold of 50%. See the following table:

Check Request Date	Check Request Amount	Depletion %
06/01/16	[REDACTED]	92.5%
10/14/16	[REDACTED]	67.2%

The OIA reviewed petty cash documentation for 22 transactions submitted to the Department of Finance on October 14, 2016 for reimbursement. Five of 22 samples tested disclosed that the Maryland sales tax exemption was not obtained, with no attached explanation. Furthermore, the petty cash custodian reimbursed requestors for the paid sales taxes. See the following table:

Vendor	Received of Petty Cash Form Date	Tax Amount Paid
Target	06/14/16	\$2.28
Shoppers	08/31/16	\$0.12
Wheaton Beauty Supply	09/02/16	\$0.15
Domino's Pizza	10/06/16	\$3.10
RuanThai Restaurant	10/11/16	\$1.49

Note that both of the above are repeat findings from the final internal audit report issued in February 2015, Petty Cash Audit, MC-008-2015.

Criteria/Risk: Commission Practice 3-11, *Administration of Cash Funds*, indicates that one of the duties of custodians is to "Replenish the fund at appropriate intervals for efficient administration." Failure to replenish funds at timely intervals may hamper the facility's operational efficiency.

In addition, the Commission has the State of Maryland Sales and Use Tax Exemption Certificate. Failure to use the certificate may result in monetary losses to the Commission.

Recommendation:

- Management should ensure that petty cash funds are replenished at regular intervals. The OIA recommends replenishment when the cash balance on hand equals approximately 50% of the total authorized fund.
- Management should ensure that employees make reasonable efforts to obtain the sales tax exemption and document their attempts if the vendor refuses. Furthermore, the petty cash custodian should not reimburse employees for taxes paid if they do not document their efforts to obtain the exemption.

Issue Risk: Medium

Management Response:

In response to the noted recommendations related to petty cash, the following actions have been taken:

Reviewed Commission Practice 3-11, *Administration of Cash Funds with Petty Cash Custodian*.

Established that in regard to the noted recommendations, the following will be implemented:

1. Replenish the fund when it reaches the recommended threshold of 50%.
2. Ensure employees make a reasonable effort to obtain sales tax exemption. In the future, the petty cash custodian will document on the receipt why sales tax exemption was not obtained. If the employee did not make a reasonable effort to obtain the exemption, they will not be reimbursed for the taxes paid.

Expected Completion Date: Completed

Follow-Up Date: August 2017