

*The County of Chester  
Office of the Controller  
Internal Audit Department*



*Management Letter  
Chester County Auto Supply  
For the year ended December 31, 2009*

*Valentino F. DiGiorgio III*

---

Valentino F. DiGiorgio, III, Controller

**To: Steve Fromnick, Director of Facilities Management**

**Executive Summary**

Pursuant to the Controller's directive, Internal Audit performed an annual physical inventory count, as well as an inquiry as to physical safeguards at the GSC Auto Supply Center on January 5, 2010.

Generally accepted auditing standards (GAAS) require that auditors obtain an understanding of the internal control process for audits performed. Internal control is defined as a process which is designed to provide reasonable assurance that objectives regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and the compliance with applicable laws and regulations are achieved. The internal control process consists of five components. They are the *control environment*, *risk assessment*, *information and communication*, *monitoring*, and *control activities*.

The *control environment* sets the tone of the organization and is the foundation for all other components of internal control. The collective effect of various important factors defines the *control environment*, which in turn establishes, enhances, or mitigates the effectiveness of policies and procedures. These important factors include the entity's organizational structure and methods of assigning authority and responsibility.

The *risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives, and forms a basis for determining how the risks should be managed.

*Information and communication* are the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.

*Monitoring* is a process that assesses the quality of internal control performance over time.

*Control activities* are the policies and procedures that help ensure management directives are carried out. These policies and procedures may be classified as:

- Authorization
- Segregation of duties
- Documentation
- Physical safeguards
- Independent checks and balances.

Our audit disclosed significant improvement with regard to the inventory balances for gasoline and auto supply for the year ending 12/31/09. The department should be acknowledged for their efforts in correcting weaknesses identified during the previous inventories.

Internal Audit would like to thank the management and staff of the GSC Auto Supply Center for their cooperation and assistance during the course of this audit. We have provided herein a copy of our “Audit Findings” and “Recommendations” for your review and comment.

Please feel free to contact our office at (610) 344-5913 should you have any questions or concerns.

**COUNTY OF CHESTER**

**GSC AUTO SUPPLY CENTER**

**FOR THE YEAR ENDED DECEMBER 31, 2009**

**I. INTERNAL CONTROL FINDING AND RECOMMENDATION**

**RECONCILIATION**

Finding 1: Reconciliation of Gasoline and Auto Supply Inventory to the County General Ledger

Internal Audit's physical measurement and reading of the gas tank showed that there was 6,346.30 gallons of gasoline in inventory on 12/31/09. The dollar amount of the gasoline inventory is valued at \$12,641.83. In comparison, the general ledger inventory account for gasoline at 12/31/09 was valued at \$14,497.06. The difference between the two values shows that the general ledger account is overstated by \$1,855.23. In addition, the physical inventory balance for auto supplies amounted to \$10,962.06. In comparison, the general ledger auto supply balance at 12/31/09 was \$10,520.76; an understatement of \$441.30.

Recommendation

Internal audit has provided the Accounting Department with journal entries which will equate the general ledger balances with the physical inventory balances for the year ended 12/31/09.

It is suggested that Facilities Management continue to maintain both the gasoline and auto supply inventory accounts in the same manner in accordance with Internal Audit recommendations made during the 2008 inventory.

Auditee Response

*Management has accepted the recommendation as presented.*

**COUNTY OF CHESTER**  
**GSC AUTO SUPPLY CENTER**  
**INVENTORY COUNT**  
**DECEMBER 31, 2009**

<u>Category</u>	<u>Physical Count</u>	<u>G/L</u>	<u>Variance</u>
Auto Supplies	10,962.06	10,520.76	441.30
Gasoline	<u>12,641.83</u>	<u>14,497.06</u>	<u>(1,855.23)</u>
Total Inventory	<u>\$ 23,603.89</u>	<u>\$ 25,017.82</u>	<u>\$(1,413.93)</u>