



DALLAS COUNTY COUNTY AUDITOR

Memorandum

To: Donna Billman
Director of Consolidated Services / Records Management Officer

From: Darryl D. Thomas *Darryl D. Thomas*
County Auditor

Subject: Fiscal Year 2016 ASC Inventory Report

Date: Issued: May 19, 2017
Released: June 7, 2017

Scope

A physical inventory of the Automotive Service Center (ASC) locations at 715 Rowlett Road was performed on August 24, 2016.

Background

ASC is a division of Consolidated Services. Principal areas of responsibility include preventative maintenance and repair of approximately 1,062 vehicles. Inventory records include auto parts, fuel sales from (Fuelman) credit card purchases, and fuel drops at the ASC locations. Jet Fleet is the parts inventory control system used by ASC.

Procedures

Review procedures included, but were not limited to the following:

- ◆ Obtaining an annual inventory list and count form from the Jet Fleet system (JF)
- ◆ Physically counting items and recording any discovery items
- ◆ Comparing the physical count to JF records and resolving any discrepancies
- ◆ Listing any items issued that had not been posted to the JF including items issued during the inventory count
- ◆ Listing items received that had not been posted to the JF
- ◆ Requesting parts usage and adjustment information
- ◆ Reviewing the storekeepers Vehicle Inspection report for discrepancies
- ◆ Verifying the mathematical accuracy of the Master Parts Listing report
- ◆ Tracing items from work orders to equipment
- ◆ Examining pick-up purchase orders (POs) and emergency POs
- ◆ Reviewing Request for Material Received (RMR) for timely preparation
- ◆ Tracing invoices from the general ledger to JF for proper recording
- ◆ Reviewing a sample of battery and tire work orders to determine controls and procedures

Review Findings

1. The physical inventory values and the adjusted pre-inventory Jet Fleet (JF) balances for parts and fuel are shown below:
 - Parts, oil, and lube (all locations):
 - \$97,740.31 physical count
 - \$113,816.30 adjusted JF value (pre-inventory JF value adjusted for timing differences in posting items issued/received)
 - Fuel (all locations):
 - \$6,486.28 (3,884 gallons) physical count
 - \$6,431.17 (3,851 gallons) adjusted JF value (pre-inventory PCS value adjusted for timing differences in posting items issued/received).
2. Variances of the JF inventory system compared to physical quantities increased from approximately 3% in FY15 to approximately 14% in FY16. Differences greater than \$200 (physical count over /under JF) for this fiscal year's inventory included: tires; decals, letters and numbers; flashers; batteries; wiper blades; window motors; wheel band sensors; bulk oil; and CV shocks.
3. Internal control weaknesses noted over the recording and handling of inventory records and postings to the JF system include:

Tires

The JF system Parts Usage History report for the period of August 26, 2015 to August 25, 2016 showed a total of 1,615 tires charged out at a total cost of \$171,370.36. In addition, the Detailed Vehicle History Report reflects 52 tires totaling \$6,346.67 directly charged out to vehicles. The following details were noted:

- 381 tires totaling \$40,800.56 charged to Sheriff Patrol code (FD000) labeled as a work order (WR) in the HRON column without allocation to a specific vehicle.
- 1,286 tires totaling \$136,916.47 charged to various departments for approximately 400 vehicles. An 8.7% increase in tires charged to specific vehicles from the 2015 review period.
- 41 (excluding FD000) vehicles with six or more tires charged-out to the same vehicle during the twelve month period including CP074, FA394, and FA401 with 10 new tires, and FD399 and FD409 with 15 new tires.
- 17 (excluding FD000) vehicles with two different types of tires reportedly charged-out on the same vehicle over a twelve month period.
- Pursuit vehicle tires are generally changed when tread is 4/32" due to safety concerns. Tread patterns are generally matched for all four tires on all vehicles due to safety concerns.

Comparison of the Oracle General Ledger, Oracle Accounts Payable, JF system Parts Received History report, and JF system Parts Usage History report for tires revealed:

- Four invoices for 54 tires totaling \$5,671 were posted to the JF system under the wrong vender name.
- Multiple instances (bid cut-backs) of amount posted to the JF system did not reflect the actual amount paid to the vendor.

A total of 1,603 scrap tires were removed and invoiced for \$4,961 from September 1, 2015 through August 31, 2016.

Batteries

The JF system's Parts Usage History report for the period of August 26, 2015 to August 28, 2016 showed a total of 334 batteries charged out at a total cost of \$23,310.78. In addition, the Detailed Vehicle History Report reflects 5 batteries totaling \$503.38 directly charged out to five vehicles. The following details were noted:

- 63 vehicles with more than one battery charged-out.

- Seven (CB956, FD370, FD406, FD458, FE419, FE434, & FE602) of the 63 vehicles with three batteries charged-out.
 - Three (HN019, EO424 & FD349) of the 63 vehicles with four batteries charged-out.
4. The Veeder Root reading is printed with the changes in fuel volume levels prior to and after each fuel delivery. A monthly adjustment is posted to JF system by the parts inventory clerk to reconcile the available fuel to volume amount on Veeder Root reading slip.
5. Cost control process includes the use of inventory accounts for vendor payment and allocation to department budgeted line items per work orders. Sample review of invoices compared to Oracle GL, Oracle AP Expense Distribution Detail reports, and JF system Monthly Detailed Vehicle History vehicle cost allocation reports revealed:
- Different GL accounts are used to record vendor payments and allocation to departments.
 - Instances of coding errors for invoices/amounts to the JF system and GL including approximately \$5,561 for non-inventory items that should have been paid from ASC's General Fund budget or direct charged to user departments.
 - Instances of over (under) allocation on the JF system due to duplicate allocations and invoice amounts cut-back per bid price by AP not reflected on the JF system.
 - Approximately 200 invoices (includes towing vendor invoices) totaling **over \$78,677 not charged out to vehicles** through the JF system.
 - Various issues with billings by towing vendor including:
 - Billings for non-Dallas County vehicles. One invoice net \$75 for Dallas County Community College vehicle paid in error.
 - Inadequate information on various invoices including: unreadable data, lack of VIN, County vehicle number, and or license plate. Additional staff time required to research in order to identify the appropriate General Fund department, Grant, or law enforcement forfeiture account to be charged.
 - Invoices lack authorized signature for acceptance of vehicle at delivered location
 - Instances of requisitions for open purchase orders for external labor/repairs and inspections submitted to Purchasing as account 15420 (parts) rather than account 15410 (labor) or vice versa resulting in invoices recorded to the wrong asset account.

Recommendations

1. Jet Fleet system inventory balances should be adjusted to the physical inventory count after posting quantities received / issued in the appropriate audit period including fuel delivery and usage. A periodic (monthly) reconciliation of fuel purchased, used, and on-hand should be performed by ASC staff. Continue monitoring the pump controls that measure fuel usage and examine the fuel storage tanks for possible leakage or water contamination. Prior to and after fuel has been delivered, ASC staff should measure the fuel tank level and note any variances on the delivery tickets.

Response: Adjustments were recorded to the JF system based on August 2016 audit inventory counts. ASC has updated the fleet and fuel management system.

2. ASC staff should perform periodic inventory counts and reconcile to the JF report with any adjustments or corrections properly documented and referenced. Any errors or material variances should be investigated and corrected as appropriate. Reconciliation and documentation (including invoices and work orders not yet updated) should evidence supervisory review and be retained for audit.

Re-emphasize procedures previously recommended including:

- ◆ All inventory items properly charged-out as issued.
- ◆ Any stock adjustments identified during periodic counts should be researched by ASC staff to determine the cause.
- ◆ Gas tickets fully, legibly, and properly completed.

- ◆ Plate numbers, assigned drivers, and/or department numbers should be updated to assigned vehicles.
- ◆ Fuelman personal identification numbers should be deactivated for all terminated employees.

Response: Recommendation will be followed by a periodic inventory and recommendation will be addressed.

3. Tires should be charged out as issued to a specific vehicle (**no charge outs to FD000**) requiring the replacement part(s) with reason for replacement noted on the Work Order. Tire quality and minimum life expectancy issues should be communicated to the Purchasing Department. Other departments including the Sheriff Department with after-hour replacement requirements should establish proper internal control procedures that:
 - a. Limit access to the inventory items, and
 - b. Require completion of part requisition documentation that lists at a minimum:
 - i. Date,
 - ii. Driver name,
 - iii. Vehicle number,
 - iv. Part number and description,
 - v. Quantity,
 - vi. Driver signature as acknowledgement of receipt of inventory issuance, and
 - vii. Designated inventory control officer signature.
 - c. Document reason(s) for tire replacement on the Work Order.

Response: FD000 is used to charge out bulk and/or non-specific items to the Sheriff's department. The ASC automotive parts area is open 50 hours per week. However, the parts clerk is only there for 40 hours. This procedure meets the operational needs of the Sheriff.

4. ASC staff should reconcile and account for tires issued/replaced as compared to the number of tires picked up by the scrap tire vendor.

Response: ASC will follow recommendation and be addressed.

5. Reason(s) for battery replacement should be properly documented on the Work Order.

Response: This will be addressed for correct documentation.

6. The use of fuel cards at the ASC locations may alleviate current problems with incomplete gas tickets and fuel inventory variances. Fuel cards would aid in preventing unauthorized pumping of gasoline from the manually operated pumps and improve quality and efficiency to the monthly fuel charge allocations.

Response: Fuel card readers were installed at both locations this year and will have better records.

7. Continue to reconcile pump readings monthly to fuel tickets issued and consumption reports. A clear cut-off date and time should be established for inputting fuel tickets into the JF system and generating the monthly consumption reports. Once consumption reports are generated and forwarded to Financial Audit for booking departmental expenditure allocations, offsite fuel consumption through Fuelman purchases can be downloaded into the JF system. Weekly Fuelman reports that crossover two months should not be downloaded into the JF system until both months have been closed out and monthly consumption reports generated.

Response: Fuel card purchases will be imported to our new Fleet system and will have better recordings.

8. Departments are responsible for the accuracy of requisitions they complete. Requisitions should be submitted with the correct account code combination for outside labor (#15410) charged directly to a specific vehicle with corresponding entries to the JF system completely and accurately. Separate requisitions should be prepared for vendors that provide both parts placed into inventory (#15420) and perform repairs / labor (#15410) as needed. Departmental charges should be allocated clearing the appropriate account and easily identifiable on the monthly detailed vehicle history reports.

Response: ASC will follow recommendation for accuracy on requisitions.

9. All invoices (including those from the towing vendor) that are submitted for payment should include ASC authorizing signature; date, ASC stock number or County vehicle number, license plate number and VIN. Invoices for seized/forfeited vehicles should be charged directly (not charged to either #15410 or #15420) to the appropriate departmental or forfeiture asset account.

Response: This will be addressed and corrected.

10. All inventory purchases should be accurately, properly and timely entered to the JF system. Cut-backs to invoices based on bid prices should be appropriately captured in the JF system. Non-inventory items should be directly charged to the ASC general fund departmental budget number 1027. Purchases of non-automotive part assets should be in accordance with Dallas County budgetary policy and not requisitioned through inventory accounts #15410 or #15420.

Response: This will be addressed and corrected with our new fleet management system.

Summary

This review is intended to provide management with an evaluation of internal controls over the financial aspects of the inventory at the Auto Service Center. While improvement has been noted, additional procedural changes regarding inventory control are needed.

Priority risks include: incomplete inventory controls over tires; no reconciliation between the Jet Fleet control totals and the General Ledger; and, incorrect inventory asset balances on the General Ledger.

Development of and implementation of a corrective action plan addressing the recommendations should provide for improved internal control over departmental processes. Consideration of all issues and weakness should be incorporated by the ASC as a self-assessment tool in testing processing functionality of the automated card reader fuel system.

cc: Darryl Martin, Commissioners Court Administrator
Ryan Brown, OBE Director