



**DALLAS COUNTY
COUNTY AUDITOR**

VP: PG file
2009

Memorandum

TO: Chris Thompson, Director
Communications and Central Services

FROM: Virginia Porter *Virginia Porter*
Dallas County Auditor

SUBJECT: ASC Inventory Report

DATE: Issued January 20, 2012
Released February 27, 2012

On August 23rd thru 24th, 2011 our internal audit staff performed the annual physical inventory at the various Automotive Service Center (ASC) locations (Rowlett Road, Kovar and Joe Field Road).

Our specific procedures, findings and recommendations are listed in the attached report which is intended for information and the use of management. Several items from the prior audit have been re-emphasized.

We appreciate the level of courtesy and cooperation extended during our review.

Attachments

cc: Commissioners Court
Honorable Judge Martin Lowy, LADJ

Dallas County, Texas
Automotive Service Center Inventory Report
January 20, 2012

Scope

A physical inventory of the various Automotive Service Center (ASC) locations (Rowlett Road and Joe Field Road) and Kovar was performed on August 23th and 24th, 2011.

Background

The ASC is a division of Communications and Central Services. Principal areas of responsibility include preventative maintenance and repair of approximately 1,088 vehicles. Inventory records include auto parts, fuel sales from county-wide credit card purchases (Fuelman), and fuel drops at each ASC location.

Procedures

Review procedures included but were not limited to:

- ◆ Obtaining an annual inventory list and count form through the Parts Controller System (PCS)
- ◆ Physically counting items and recording any discovery items
- ◆ Comparing the physical count to PCS records and resolving any discrepancies
- ◆ Listing any items issued that had not been posted to the PCS including items issued during the inventory count
- ◆ Listing items received that had not been posted to the PCS
- ◆ 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 and emergency purchase orders
- ◆ Reviewing RMR's for timely preparation
- ◆ Tracing invoices from general ledger to PCS for proper recording

Review Findings

1. The physical inventory values and the adjusted pre-inventory PCS balances for parts and fuel are shown below:
 - Parts, oil, and lube (all locations):
 - \$99,927.65 physical count
 - \$102,790.77 adjusted PCS value (pre-inventory PCS value adjusted for timing differences in posting received/issued items)
 - Fuel (all locations):
 - \$43,145.43 physical count
 - \$35,412.71 adjusted PCS value (pre-inventory PCS value adjusted for timing differences in posting received/issued items). 207 gallons of fuel from the previous location on Ft. Worth Avenue remains as part of the PCS value.
2. Variances of the PCS inventory system compared to physical quantities on hand improved from last year's count. Significant differences greater than \$200 (physical count over / under PCS) for this fiscal year include: automatic transmission fluid, bulk oil, decals and letters, battery terminal connectors, automotive wire, tires, and unleaded fuel.

3. Internal control weakness noted over the recording and handling of inventory records and postings to the PCS system include:

Tires

Per the PCS Parts Usage History report, a total of 3,768 tires, rims and wheels were charged out for a total cost of \$319,425.53 for the period of August 24, 2009 through August 22, 2011 including:

- 1,216 tires and wheels totaling \$104,906 charged to Sheriff Patrol (FD000) and not allocated to any specific vehicle. Inadequate controls exist at the Sheriff Langdon Road location where tires are stored for Patrol.
- 50 tires totaling \$6,408.59 charged to Courtesy Patrol (CP99E) and not allocated to any specific vehicle.
- 23 vehicles with two different types of tires reportedly installed on the vehicle over a two year period. Nine out of the 23 were for different tire sizes (for example 15 inches versus 16 inches).
- Five tires were reportedly installed on the same vehicle during one service visit for forty-seven (excludes FD000) vehicles, six tires were reportedly installed on the same vehicle during one service visit for three (excludes FD000) vehicles, and seven tires were reportedly installed on the same vehicle during one service visit for one (excludes FD000) vehicle.
- 214 (excluding FD000) vehicles with five or more tires installed on the same vehicle during the two year period including Community Service trailer RP027 with 19 new tires installed.
- No history was available for seven tires counted at ASC Main at R&B #1 to add back to the inventory record

Other

- Limited instances of work order forms completed with the wrong PartCode
 - Parts inventoried as 'Shop Supplies' not charged out timely and reflected as 'on hand' in the PCS inventory system
 - Instances of vehicle plate numbers and/or driver assignments not updated on the master list of vehicles.
4. Reasons for variance noted on gallons of fuel per invoice and gallons of fuel per stick reading for each month were not determined.
 5. Small variances (over and under) between net fuel received per Veeder Root printouts after fuel dumped into the fuel tanks and fuel received per invoices (variances impacted by the temperature inside the fuel tanks resulting in contraction or expansion of the fuel). Amounts posted to the PCS inventory system agreed to the invoiced amount.
 6. Accuracy of fuel delivered/invoiced is not independently validated through observation or County employee measurement prior to and after the fuel is dumped.
 7. Comparison of pump meter readings for gasoline extracted from the fuel tanks and the corresponding dollar value to fuel expenditures charged out to the various County departments from September 2010 through July 2011 revealed a marked improvement over prior years with approximately \$7,100 more in fuel value charged out than metered at ASC fuel pumps. Review of GL account postings revealed several supply purchases (including off bid tire purchases) on Pick-up Purchase Orders were coded to inventory asset account number 15430 fuel.

8. Cost control process includes use of inventory accounts for vendor payment and allocation to department budgeted line items per work orders.
 - Different GL accounts are used to record vendor payment and allocation to department
 - One invoice was allocated twice for \$1,814 to department (F)
 - Instances of coding errors for invoices/amounts to the PCS
 - Incomplete reporting ('Detailed Vehicle History') of outside labor charges through the PCS

Recommendations

1. PCS 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. Independently verify an existing fuel tank level prior to and after the fuel is dumped into the fuel tanks with variances noted on the delivery tickets.

Response: Most PCS part balances have been adjusted to the physical inventory count. PCS fuel balances adjusted to reflect Audit readings, removing the 207 gallons from the former ASC location on Fort Worth Avenue. Per TCEQ requirements, starting October 1, 2011 daily inventories are being performed at both locations using Veeder root readings. Last year a complete inventory of Fuel Man cards and pins was conducted and our database was changed to reflect user name as listed in County Payroll records with employee number. ASC agrees an automated system instead of relying on each individuals writing down of fuel usage would be more accurate; however, budget consideration have precluded this from happening. We will look at the possibility of verifying fuel drops by dipping tank and recording readings both before and after; pending sticks at both locations.

2. ASC staff should perform periodic inventory counts and reconcile to the PCS 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 unposted invoices and work orders) should evidence supervisory review and be retained for audit.

Re-emphasize procedures previously recommended including:

- ◆ All inventory items should be properly charged-out as issued.
 - ◆ Any stock adjustments identified during periodic counts be researched by ASC staff to determine the cause
 - ◆ Gas tickets filled out properly and legibly
 - ◆ 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
3. Tires, wheels, and rims should be charged out as issued to the specific vehicle requiring the replacement parts. Other departments including the Sheriff Department with after-hour replacement requirements should establish proper internal control procedures that limit access to inventoried items and require completion of inventory requisition documentation listing at

a minimum: the date, the assigned driver, vehicle number, part number, part description, quantity, signature of the driver as acknowledgement of receipt of inventory issuance, and signature of the designated inventory control officer.

Response: FD000 and CP99E are for spare tires. FD000 as noted is stored at the Kovar location and will soon be stored at the Joe Field road location for after hour use by the Sheriff's department pending Sheriff's traffic move.

On the recommendation of assigning a Sheriff's deputy to monitor and record where each tire used as spares are placed on vehicles and when, this would required that the tires being mounted for use as spares not being taken out of inventory until the tire is used. This would create inventory being stored at Kovar requiring daily inventory and relying totally on the officers writing down the correct information of what is being used, and what it is being used on. Since the Sheriff's department runs three (3) shifts this would require three (3) officers being made responsible for keeping up the inventory for their assigned shift. Based upon our experience with fuel tickets, this simply would not be done correctly.

Until new Fleet management software can be implemented and bar code readers used, the possibility of recording or typing in the wrong tire information is a constant. We will implement procedures to follow-up to insure the correct information is entered into the database and work orders. Those showing 6 or 7 tires are vehicles being used are vehicles going to the drive track and are carrying extra tires for use at the track. Last year, a department was created to account for fuel on the drive track cars, spares for this use will also be recorded as drive track and not charged to an individual vehicle.

Vehicles using more than five (5) tires are the result of bids that change vendors. When vendors are changed, brands change. Miss-matching tire's is not a recommended practice and we do not do it. When brands change and the vehicle needs one (1) or two (2) tires, all five (5) are changed.

Concerning RP027 and the use of 19 tires in two (2) years, this trailer is used in daily operations by Community Services whose duties have expanded greatly in the past few years. The trailer is used for various needs including mowing, clean-up, hedge and tree trimming, etc., and carries equipment and tools to accomplish these tasks. ASC agrees, this vehicle damages a lot of tires, but we have no control over that.

4. Document control weaknesses and proposed modifications to the existing PCS inventory system and incorporate in technology assessments for a replacement system including use as a self assessment tool in testing functionality of a new inventory system.
5. Pump readings should be reconciled monthly to fuel tickets issued and consumption reports. A clear cut-off date and time should be established for inputting fuel tickets into the PCS 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 PCS.
6. The use of fuel cards at the ASC location 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.

7. Requisitions should be submitted with the correct account code combination for outside labor (#15410) charged directly to a specific vehicle. 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 appropriate inventory account and distinguishable on the monthly detailed vehicle history reports. Invoices should be accurately and completely entered to the PCS. The duplicate allocation should be corrected.

Summary

This review is intended to support management of this office in evaluating internal controls over financial issues and inventory. While improvement has been noted, procedural changes regarding inventory control are needed.

Most significant risks include: incomplete inventory controls over tires; lack of reconciliation between the PCS control totals and the General Ledger; and, manual gas tickets used to capture fuel dispensed.

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

cc. Commissioners Court
Honorable Judge Martin Lowy, LADJ

ASC Combined Inventory Reconciliation for FY2011

		Units	Unit Price	Value	
Balance Per PCS Main on 8/12/2011	Unleaded Fuel	10,476.0	\$ 3.26	34,151.76	#35000-1
Balance Per PCS Main on 8/12/2011	Unleaded Fuel	207.0	\$ 2.29	474.03	#35000
Balance Per PCS East on 8/05/2011	Unleaded Fuel	10,232.0	\$ 3.19	32,640.08	
(Unit Price is the Average Price Listed on Pre-Inventory Report)					
Items to be posted:					
ASC Main Usage 8/12/2011 thru 8/23/2011 morning prior to count		(4,526.0)	\$ 3.26	(14,754.76)	posting pending
ASC East Usage 8/5/2011 thru end of day 8/22/2011		(5,360.0)	\$ 3.19	(17,098.40)	posting pending
		Subtotal		11,029.0	\$ 3.21
				35,412.71	
Adjustment to PCS Main on 8/24/2011 (relates to prior yr correction)		776.0	\$ 3.26	2,529.76	completed
ASC Main Old Location Remove Old Account #35000		(207.0)	\$ 2.29	(474.03)	#35000 Not Adj
ASC Main Additional Increase Adjustment Needed to PCS		803.0	\$ 3.26	2,617.78	#35000-1 Not Adj
ASC East Unidentified PCS to Veeder Root reading variances		959.0	\$ 3.19	3,059.21	Not adjusted
Combined Veeder Root Inventory Balance as of 8/24/10		13,360.0	\$ 3.23	43,145.43	

			Value
Adjusted PCS Report Dated 8/23/2011	Parts Only - ASC Main @ R&B#1 Location		54,672.27
Adjusted PCS Report Dated 8/23/2011	Parts Only - East Location		44,244.58
Adjusted PCS Report Dated 8/23/2011	Parts Only- Kovar Location		3,873.92
(Kovar adjusted for work orders not recorded to the PCS as of 8/23/2011 including K96120)			
ASC Main Initial Parts Adjustments Based on Inventory Updated to PCS on 08/24/2011			(2,596.25)
ASC East Initial Parts Adjustments Based on Inventory Updated to PCS on 08/24/2011			(281.23)
Kovar Initial Parts Adjustments Based on Inventory Updated to PCS on 8/24/2011			2.68
Adjustment for Rounding			0.00
Adjusted Combined Parts Inventory Value			99,915.97
ASC Main Bulbs Part #35113 Email Indicates Count s/b less than reflected			58.31
ASC Main Additional Adjustments Needed to R&B #1 PCS Parts Value			(376.84)
ASC East Over Adjustment to PCS for E35001A			172.26
ASC East Parts Per PCS (Over) Under Count on 8/23/2011 Not Adjusted			50.92
Kovar Additional Adjustments Needed to ASC Kovar PCS Parts Value			107.03
Adjusted Combined ASC Parts Inventory Total as of August 23-24, 2011			99,927.65

ASC Combined Inventory as of 8/23/2011

120.0000.15420 Parts	99,927.65
120.0000.15430 Fuel	<u>43,145.43</u>
Adjusted ASC Combined Inventory Totals	<u>143,073.08</u>

ASC East Inventory Reconciliation for FY2011

				Units	Unit Price	Value	
Balance Per PCS on 8/05/2011		Unleaded Fuel		10,232.0	\$ 3.19	32,640.08	
(Unit Price is the Average Price Listed on Pre-Inventory Report)							
Items to be posted:							
Delivery				0.0		0.00	
Usage 8/5/2011 thru end of day 8/22/2011				(5,360.0)	\$ 3.19	(17,098.40)	pending
				Subtotal		4,872.0	15,541.68
Unidentified PCS to Veeder Root reading variances				959.0	\$ 3.19	3,059.21	Not adjusted
Total Adjustments Posted to PCS by Sue				0.0		0.00	
Veeder Root Reading Inventory Balance start of 8/23/2011				5,831.0	\$ 3.19	18,600.89	

				Value	
PCS Report Dated 8/23/2011		Parts Only - East Location		44,244.58	
Initial Parts Adjustments Based on Inventory Updated to PCS on 08/24/2011				(281.23)	corrected
Adjustment for PCS Rounding					
Adjusted East Location Inventory Value				43,963.35	
Over Adjustment to PCS for E35001A				172.26	
Parts Per PCS (Over) Under Count on 8/23/2011 Not Adjusted				50.92	
Adjusted ASC East Parts Inventory Total as of 08/23/2011 Per Count				44,186.53	

ASC East Inventory as of 8/23/2011

120.0000.15420 Parts	44,186.53
120.0000.15430 Fuel	<u>18,600.89</u>
Adjusted ASC East Inventory Totals	<u><u>62,787.42</u></u>

ASC KOVAR Inventory Reconciliation for FY2011 as of 08/23/2011

				Units	Unit Price	Value
Balance Per PCS on 8/23/2011		Unleaded Fuel		0.0	0.00	0.00
Items to be posted:						
				0.0	-	0.00
				<u>0.0</u>	0.000	<u>0.00</u>
				Subtotal		0.00
Adjustments Needed:						
				0.0	0.00	0.00
				0.0	0.00	0.00
Additional PCS adjustment				0.0	0.00	0.00
Veeder Root Inventory Balance as of 8/23/2011				0	0.00	0.00

PCS Report Dated 8/23/2011	Parts Only - KOVAR Location	3,873.92
(adjusted for work orders not recorded to the PCS as of 8/23/2011 including K96120)		
Initial Parts Adjustments Based on Inventory Updated to PCS on 8/24/2011		2.68
Adjustment for Rounding/Unidentified		<u>0.00</u>
Adjusted PCS KOVAR Inventory Value on 8/23/2011 End of Period Report		3,876.60
Additional Adjustments Needed to ASC Kovar PCS Parts Value		<u>107.03</u>
Adjusted ASC KOVAR Parts Inventory Total Per Audit as of 08/23/2011		3,983.63

ASC KOVAR Inventory as of 8/23/2011 & 8/24/2011

120.0000.15420 Parts	3,983.63
120.0000.15430 Fuel	<u>0.00</u>
Adjusted Kovar Inventory Totals	<u><u>3,983.63</u></u>

ASC Main at R&B #1 Inventory Reconciliation for FY2011

				Units	Unit Price	Value	
Balance Per PCS on 8/12/2011	Unleaded Fuel			10476	3.26	34,151.76	#35000-1
Balance Per PCS on 8/12/2011	Unleaded Fuel			207	2.29	474.03	#35000
(Unit Price is the Average Price Listed on Pre-Inventory Report)							
Items to be posted:							
Delivery				0	0.00	0.00	
8/12/2011 thru 8/23/2011 Usage morning prior to count				(4526)	3.26	(14,754.76)	posting pending
Readings morning 8/23/2011	139558	105304					
Readings 8/12/2011 at delivery	136829	103507					
				Subtotal		19,871.03	
Adjustment to PCS on 8/24/2011				776	3.26	2,529.76	completed
Adjustments Needed:							
Remove Old Account #35000				(207)	2.29	(474.03)	#35000 pending
Additional Increase Adjustment Needed to PCS				803	3.26	2,617.78	#35000-1 pending
Veeder Root Inventory Balance Morning of 8/23/2011				7529	3.26	24,544.54	

		Value
PCS Report Dated 8/23/2011	Parts Only - ASC Main @ R&B#1 Location	54,672.27
Initial Parts Adjustments Based on Inventory Updated to PCS on 08/24/2011		(2,596.25)
Adjustment for Rounding/Unidentified		0.00
Adjusted Main Location Inventory Value		52,076.02
Bulbs Part #35113 Email Indicates Count s/b less than reflected		58.31
Additional Adjustments Needed to R&B #1 PCS Parts Value		(376.84)
Adjusted ASC Main @ R&B #1 Parts Inventory Total as of 8/23/2011		51,757.49