



**DALLAS COUNTY**  
**COUNTY AUDITOR**

**Memorandum**

**TO:** Chris Thompson, Director  
Communications and Central Services

**FROM:** Virginia Porter  
Dallas County Auditor

A handwritten signature in blue ink that reads "Virginia Porter".

**SUBJECT:** ASC Inventory Report

**DATE:** Issued March 4, 2013  
Released April 22, 2013

On August 28<sup>th</sup> and 31<sup>st</sup>, 2012 internal audit staff performed the annual physical inventory at the Automotive Service Center (ASC) locations – 715 Rowlett Road in Garland and 2311 Joe Field Road in Dallas. The ASC – “Kovar” location at 1506 East Langdon Road in Dallas was closed in July 2012.

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

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

Attachments

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

**Dallas County, Texas**  
**Automotive Service Center Inventory Report**  
**March 4, 2013**

### **Scope**

A physical inventory of the Automotive Service Center (ASC) locations at 715 Rowlett Road and 2311 Joe Field Road was performed on August 28<sup>th</sup> and 31<sup>st</sup>, 2012. The ASC – “Kovar” location at 1506 East Langdon Road in Dallas was closed in July 2012.

### **Background**

ASC is a division of Communications and Central Services. Principal areas of responsibility include preventative maintenance and repair of approximately 1,073 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 PCS 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):
    - \$97,248.84 physical count
    - \$100,540.84 adjusted JF value (pre-inventory JF value adjusted for timing differences in posting items issued/received)
  - Fuel (all locations):
    - \$38,274.00 physical count
    - \$32,650.88 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 were consistent with last year’s count. Differences greater than \$200 (physical count over /under JF) for this fiscal year’s inventory include: automatic transmission fluid, automotive wire, bulk oil, decals and letters, tires, O-rings and gaskets, A/C Line, and unleaded fuel.

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 23, 2011 to August 27, 2012 showed a total of 2,318 tires charged out at a total cost of \$218,322.69. The following details were noted:

- 666 tires totaling \$61,815.34 charged to Sheriff Patrol code (FD000) labeled as a work order (WR) in the HRON column without allocation to a specific vehicle. Inadequate inventory controls exist at two Sheriff's offsite storage locations (Polk Street and Sunnyvale substations) and when tires are replaced by Sheriff's deputies after hours at the Joe Field Road location.
  - Deputies do **not** record information to inventory control documents when replacing tires.
  - Tires mounted on rims placed under large covered shed at Joe Field Road.
  - Tires mounted on rims inside storage unit/container at Polk Street.
  - Tires mounted on rims secured inside building at Sunnyvale.
- 1652 tires totaling \$156,507.35 were charged to various departments for approximately 483 vehicles.
- 67 net tire adjustments totaling \$4,752.28 were posted to the JF system increasing various tire inventory balances without reference to a specific vehicle.
- 20 (excludes FD000) vehicles with two different types of tires reportedly charged-out on the same vehicle over a one year period. Nine out of the 20 were for different tire sizes (for example 16 inches versus 17 inches).
- 54 (excluding FD000) vehicles with six (may include a spare tire) or more tires charged-out to the same vehicle during the twelve month period including FE140 with 16 new tires, FD454 with 14 new tires, and FD637 with 11 new tires.
- 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:

- Five invoices totaling \$4,814.45 for 57 tires **not** entered into the JF system.
- Two credit invoices and two replacement order invoices (totaling \$853.70 net) issued by the vendor **not** entered into the JF system.
- Two invoices were directly charged via work orders to vehicles for the wrong amounts.
- Approximately 30 invoices were posted to JF system with the incorrect invoice number, date, and/or amount.

A total of 117 tire Work Orders selected for review revealed:

- Two ASC East Work Orders (1.7%) missing.
- 71 Work Orders (61%) without a reason for tire replacement documented.
- 41 ASC East Work Orders (35%) without the name of the mechanic who performed the service.

A review of scrap tires removed by vendors from October 6, 2011 through September 6, 2012 revealed:

- 1,226 scrap tires removed and invoiced for amounts totaling \$3,755.25. First (new vendor) pickup date was April 8, 2012.
- 929 scrap tires removed but not invoiced by the prior vendor. Last pickup date was February 1, 2012.

### **Batteries**

The JF system's Parts Usage History report for the period of August 26, 2011 to August 24, 2012 showed a total of 500 batteries charged out at a total cost of \$29,600.63. The following details were noted:

- 108 vehicles with more than one battery charged-out.
  - Five of the 108 vehicles with four batteries each charged-out to departments.

A total of 53 battery Work Orders selected for review revealed:

- Three Work Orders (5.7%) missing.
- Seven Work Orders (13.2%) without the name of the mechanic who performed the service.

Comparison of the Oracle General Ledger (GL), Oracle Accounts Payable (AP), JF system Parts Received History report, and JF system Parts Usage History report for batteries revealed:

- A large order of defective batteries received from the vendor in November 2011 replaced. Total invoice credits were less than the original invoice amounts.
  - Instances of invoice dollar values posted to the JF system exceeding or less than actual value.
4. One "emergency roadside assistance" service was performed by a non-contracted vendor for \$549.73.
  5. Two pick-up Purchase Orders (PO's) used for tire purchases totaling \$657.85.

***Response:** State contract had expired.*

6. Accuracy of fuel delivered / invoiced is not independently validated through observation or County employee physical measurement prior to and / or after the fuel is dumped. However, a Veeder Root reading is printed with the changes in fuel volume levels.

***Response:** Yes, this is correct. A veeder root reading is printed with the changes in fuel volume. ASC staff will verify fuel measurements.*

7. Fuelman card purchases were imported into the JF system prior to the generation of the monthly ASC fuel ticket consumption report by department / vehicle resulting in duplicate fuel expenditures charged out to the various County departments exceeding \$120,000.

**Status:** Corrections totaling \$85,610 were processed to the General Ledger effective September 30, 2012.

8. 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 payment and allocation to department
- Instances of coding errors for invoices/amounts to the JF system and GL including approximately \$6,700 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.
- Incomplete reporting ('Detailed Vehicle History') of outside labor charges through the JF system.

- One outside labor work order charged to a county vehicle on the JF system with bill address listed as 1500 Marilla.
9. Instances of parts warehoused at the Joe Field location not labeled, inaccurately labeled, and / or disorganized.
  10. Eleven State inspection stickers and four 'Safety Only' State inspection stickers were not posted to the JF system. Log book for inspection stickers issued prior to August 16, 2011 was not presented for review.
  11. ASC staff stated the current engine transmission vendor does not timely complete transmission repairs (repair times on average are one and one half (1 ½) months).

*Response: This issue is being addressed through Purchasing.*

### 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 have been made. Recommendation will be followed. Authorized staff member reviews fuel receipts/reports monthly for discrepancies. Departments are contacted for clarification. ASC will verify fuel tank level measurements as stated in the recommendation.*

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 ASC staff and re-emphasized. Gas tickets are completed by departmental drivers making the completion out of the control of the ASC department.*

3. Tires and rims 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 Department.*

- *Tires: Yes, 666 tires were charged to the Sheriff's Department using vehicle number FD000. That vehicle number was created to charge bulk and or non-specific items to the department, such as de-icer, spare tires, or anything else requested by Sheriff's Fleet.*
- *Pursuit Tires: specifically for Sheriff's Patrol and Freeway Management CANNOT be patched, they MUST be replaced on pursuit vehicles. We do not want an officer experiencing a blowout in a high speed pursuit situation.*
- *Different size tires: on the same vehicle – we initiated a process to eliminate this from happening. Mechanics are required to fill out a tire request slip with the vehicle number, mileage, date, tire size, and quantity, and place a sticker off the tire to the back side, insuring the correct tire is charge out.*
- *Excessive tire usage: FE140 is a 2010 Tahoe, FD454 is a 2009 Crown Vic, and FD637 is a 2008 F-150. ALL of these vehicles are in Patrol/Freeway Management. As stated above, we cannot patch these tires.*

*Comparing Oracle General Ledger / Accounts Payable to Jet Fleet will never match. Audit cuts back invoices and takes credits the department never sees. ASC does not see most credit invoices sent directly to audit, and this report is the first I have heard about "replacement invoices."*

- *JF only has a predetermined number of characters for the invoice number; so long numbers are shorted with a -XXXX*
- *Late invoices are entered on a date that will allow them to be charged back and not missed on the current month's reports. Core charges are not charged on JF so invoice totals may differ.*
- *Will consult with ASC East staff on work orders.*
- *Large order of defective batteries received from vendor.*
- *Will review work orders once a week.*

**Audit Comment:** General Ledger transactions are entered based on department authorizations and comparison to bid pricing. The use of Oracle queries for account analysis is encouraged to test for exceptions.

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:** *Sheriff's deputy called the previous vendor to pick up scrap tires. Sheriff's department was notified to use contracted vendor for future needs.*

5. Tire purchases and emergency roadside service should be procured from awarded vendors through County/State contracts or interlocal agreements. Reason(s) for using a non-awarded vendor should be properly documented and approved. Documentation and approval should be included with the invoice when submitted to Accounts Payable (AP) for payment.

*Response: State Contract had expired. Pick-up POs were necessary.*

6. Reason(s) for battery replacement should be properly documented on the Work Order.
7. 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.
8. 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: Fuelman card purchases are not imported into JF prior to the generation of the monthly consumption report. There may be duplicate billing and corrections made. Fuel card readers have been requested for the ASC locations. Funding is not available for converting from manual fuel ticketing to card readers. ASC has a clear cut date as the 7<sup>th</sup> of each month.*

9. 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: Audit is responsible for GL accounting. All parts dispersals should be paid from ASC's general fund or direct charged to the departments.*

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.

*Response: Cut backs are done by accounts payable after the fact. We order parts, receive them in JF, and charge out on work orders a lot of the time same day, or at least same week. Invoices are RMR'd and sent to AP weekly, and the department is never advised of cut backs to invoices.*

11. All inventory items should be properly organized and labeled to ensure efficiency in receiving and issuing inventory.

*Response: ASC will follow recommendations. This will be addressed and corrected.*

12. Inspection sticker log books should be retained the **greater of** records retention requirements or audit complete date. Inspections should be properly documented and accounted for in the JF system.

*Response: Eleven were not posted correctly – they were researched and corrected. An added level of procedure has been initiated to insure that does not happen again. Log books are not destroyed.*

### **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 Centers. While minimal improvement has been noted, additional procedural changes regarding inventory control are needed.

Significant risks include: incomplete inventory controls over tires; no reconciliation between the Jet Fleet control totals and the General Ledger; duplicate Fuelman expenditure allocations to departments; and, incomplete outside labor expenditure allocations to departments.

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 proposed automated card reader fuel system.

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