



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 2015 ASC Inventory Report

Date: Issued: May 31, 2016
Released: June 29, 2016

Scope

A physical inventory of the Automotive Service Center (ASC) locations at 715 Rowlett Road was performed on August 25, 2015.

Background

ASC is a division of Consolidated Services. Principal areas of responsibility include preventative maintenance and repair of over 1,000 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):
 - \$110,907.40 physical count
 - \$114,470.72 adjusted JF value (pre-inventory JF value adjusted for timing differences in posting items issued/received)
 - Fuel (all locations):
 - \$14,904.89 (7,433 gallons) physical count
 - \$14,608.11 (7,285 gallons) adjusted JF value (pre-inventory PCS value adjusted for timing differences in posting items issued/received) {Not including \$1,200.96 (417 gallons) which remained in the tank when the Joe Field location was closed on 10/24/2014}
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: tires, unleaded fuel, bulk oil, decals, wiper blades, and ignition coils.
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 29, 2014 to August 26, 2015 showed a total of 1,437 tires charged out at a total cost of \$156,024.17. In addition, the Detailed Vehicle History Report reflects 30 tires totaling \$3,461.88 directly charged out to vehicles. The following details were noted:

- 284 tires totaling \$30,070.38 charged to Sheriff Patrol code (FD000) labeled as a work order (WR) in the HRON column without allocation to a specific vehicle.
- 1,183 tires totaling \$129,415.67 charged to various departments for approximately 373 vehicles. A 1% decrease in tires charged to specific vehicles from the 2014 review period.
- 50 (excluding FD000) vehicles with six or more tires charged-out to the same vehicle during the twelve month period including FD409 with 13 new tires, FE356 with 13 new tires, and FD399 with ten (10) new tires.
- Fifteen (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:

- Instances (bid cut-backs) of amount posted to the JF system did not reflect the actual amount paid to the vendor.

A total of 1,711 scrap tires were removed and invoiced for \$6,036.00 from September 12, 2014 through August 28, 2015.

Batteries

The JF system's Parts Usage History report for the period of August 26, 2014 to August 28, 2015 showed a total of 335 batteries charged out at a total cost of \$23,012.92. In addition, the Detailed Vehicle History Report reflects 22 batteries totaling \$2,206.90 directly charged out to ten vehicles. The following details were noted:

- 60 vehicles with more than one battery charged-out.
 - Four (FD122, FE378, HC001, RL99E) of the 60 vehicles with four batteries charged-out.
 - Three (EK169, FE411 & FE429) of the 60 vehicles with three batteries charged-out.

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

- One battery totaling \$64.31 for direct charge-out to ATF18 was not posted to the JF system.
4. The Veeder Root reading is printed with the changes in fuel volume levels prior to and after each fuel delivery.
 5. 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 \$96,000. **Status:** Corrected by Financial Audit.
 6. 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 \$852 for non-inventory items that should have been paid from ASC's General Fund budget or direct charged to user departments.
 - Sheriff Fleet Manager used two ASC Pick-Up Purchase Orders to obtain \$506.28 in liquid rapid adhesive and peel remover without allocation of costs to the Sheriff Department.
 - Parts Asset Inventory Account 15420 was improperly used to purchase software for the diagnostic scan tool costing \$3,299.89.
 - 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.
 - Over 200 invoices totaling over \$84,000 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 for City of Dallas vehicle paid in error.
 - Duplicate billings for the same vehicle on the same day.
 - Inadequate information on various invoices including lack of VIN, County vehicle number, and or license plate. Seventeen paid items totaling \$1,188 were not charged-out to a: General Fund department, Grant, or law enforcement forfeiture account.
 - Invoices lack authorized signature for acceptance of vehicle at delivered location.
 - Multiple 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 totaling approximately \$32,300 net to be recorded to the wrong inventory 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 2015 audit inventory counts. ASC is in the process to update 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: ASC will complete a periodic inventory.

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. ASC will also keep monitoring for a better procedure to charge out tires to the Sheriff office.

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 complete 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 have been requested for the ASC locations. ASC has purchased a new Fuel management system and is in the implementation phase.

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: Fuelman card purchases are not imported into JF prior to the generation of the monthly consumption report. ASC has a clear cut date as of the 7th of each month. ASC is in a process to purchase a new Fuel management system.

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.
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 software or other 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.

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 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, 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 proposed automated card reader fuel system.

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

ASC East Inventory and Fuel Reconciliation for FY2015

				Units	Unit Price	Value		
ASC East Balance on 8/25/2015				Unleaded Fuel	10,713	2.18	23,354.34	
Items to be Posted:								
Unposted Fuel Delivery on 8/17/2015					8,326	2.01	16,695.56	
Unposted Usage 7/23/2015 thru 8/25/2015 (7 AM) ASC East					10,713	2.18	(23,354.34)	Posting Pending
819612	426801			1,041	2.01	(2,087.45)	Posting Pending	
814288	420371							
5324	6430							
				Subtotal	7,285	2.01	14,608.11	
ASC East - Variances to Veeder Root Reading					148	2.01	296.77	Adjustment Needed
Veeder Root Reading Inventory Balance start of 08/25/2015 at 6:59 AM					7,433	2.01	14,904.89	

				Value		
PCS Report Dated 8/25/2015				Parts Only - ASC East Location	114,470.72	Adjusted for pending work orders
Parts Adjustments Based on Inventory Updated to PCS on 8/25/2015 - ASC East (on 8/26/15 and 10/2/15)					(3,513.58)	
Adjustment for Rounding Variances					(0.66)	
Adjusted Combined Inventory Value					110,956.48	
E1	Uncorrected variances and/or errors in posting adjustments - ASC East				(49.08)	
Adjusted ASC East Parts Inventory Total as of 8/25/2015					110,907.40	

ASC Inventory as of 8/25/2015

120.0000.15420 Parts	\$110,907.40
120.0000.15430 Fuel	<u>\$14,904.89</u>
Adjusted ASC Combined Inventory Totals	<u>\$125,812.29</u>