



DALLAS COUNTY
COUNTY AUDITOR

To: Luis A. Castro
Director – Facilities Management

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

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Subject: Facilities Inventory Report

Date: Issued: October 4, 2017
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During the period of September 5-11, 2017, our Internal Audit staff performed a complete (except as noted otherwise) physical count of the annual physical inventory of electrical, hardware, fasteners, plumbing, pipe, paint, refrigerant, tile, filters, chemicals, keys, lumber, belts, and janitorial supplies at the Facilities Management sections of the North Tower-Lew Sterrett Jail, Frank Crowley Carpenter Shop and Basement, South Tower Jail, George Allen Courts Building, Health and Human Services Building, Records Building Parking Garage, Administration Building, Quality Assurance, and Electrician's Workshop. The scope of the inventory count was increased due to continued procedural deficiencies regarding controls and lack of inventory review by Facilities.

Our specific procedures, findings and recommendations are discussed in the attached report. The report is intended for management's use. Inventory purchases have historically exceeded needs and an estimate of obsolete cost is \$144,805.32 (estimate limited by the lack of unit pricing for 1,669 out of 6,951 unique items). No formula or process exists to determine obsolescence. Existing documentation indicates that distribution controls require improvement. We recommend Facilities use the WASP (barcode inventory system) at all locations, tracking the inventory value for both inventory received and issued. We also recommend movement toward 'just-in-time' inventory and the improvement of controls related to the issuance and processing of inventory items and maintaining a per unit cost and total costs for each inventory item.

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

cc: Darryl Martin, Commissioners Court Administrator
Jonathon Bazan, Assistant Commissioners Court Administrator
Daniel Garza, Purchasing Agent

Scope

A count of the annual physical inventory of the janitorial, hardware, plumbing, paint, pipe, refrigerant, tile, filters, chemicals, keys, lumber, belts, and electrical supplies of the Facilities Management Department was performed during the period of September 5-11, 2017. The count was expanded to most inventory items due to Facilities not performing physical counts at least annually for some locations and not providing physical counts for others, timely. The supplies inventoried are located at the North Tower-Lew Sterrett Jail, Frank Crowley Carpenter Shop and Basement, South Tower Jail, George Allen Courts Building, Health and Human Services Building, Records Building Parking Garage, Administration Building, Quality Assurance, and Electrician's Workshop.

Background

All department heads and elected officials are responsible for maintaining property assigned to their department, proper inventory records, and making appropriate reports as required. They are further charged with the responsibility of following the provisions of Dallas County Code Sec. 90-373 as the situation demands. Facilities Management is responsible for purchase, control, and use of products necessary for ongoing maintenance of Dallas County's buildings. Principal areas of responsibility include construction, engineering, and building maintenance. Inventory is valued at cost with most county wide usage charges absorbed by Facilities Department No. 1022. Exceptions include: janitorial supplies charged-out to each user County department. North Tower supply storeroom has transitioned to the WASP system using the bar code inventory scan reader. Other locations such Frank Crowley Carpenter Shop and Basement, and South Tower Jail use Excel spreadsheets. Most items in the Frank Crowley Carpenter Shop inventory count were not purchased by the County, but are leftovers from construction projects or new building "attic stock" and supplies received from Facilities Supply Department.

Procedures

Review procedures, conducted using sampling methodologies, included but were not limited to:

- Updating unit cost by having facilities provide item costs
- Physically counting most inventory items
- Requesting control documentation relevant to purchase, storage, and use of inventory products
- Conducting interviews and observing procedures used to order and issue inventory

Findings

1. Key controls do not exist to prevent or detect risks affecting the accuracy, completeness, existence, valuation and presentation of inventory for financial reporting purposes. The risk of operating a poorly controlled process creates an unpredictable and reactive environment that fails to achieve the County's inventory goals and objectives.
2. The inventory consists of approximately 6,951 different items with an estimated pre-obsolete value of \$965,368.79 based on audit count. A comprehensive summary of inventory counts and values is not being updated and reviewed by Facilities management. A summary of inventory counts and values is attached as Exhibit A. (An electronic summary is available listing comparisons of the items counted.)

3. Accurate inventory descriptions, quantities on hand, and item costs were not supplied by Facilities as required by Dallas County Code Sec. 90-373. Approximately, 1,669 unique items (quantity of 30,094.00) were missing unit prices with the electrical and hardware categories accounting for the majority of the missing prices (quantity of 8,870 and 7,639, respectively) for 926 unique items. Not periodically counting inventory or performing accurate counts increases the risk of (1) undetected theft and loss, (2) unexpected shortages of critical items, and (3) unnecessary purchases of items already on hand.
4. Audit staff performed a 100% count of all inventory locations except North Tower as a result of HHS providing only partial inventory counts and George Allen (except for keys), Records, Administration, Quality Assurance and Electrician's Workshop providing no inventory count. In addition, Frank Crowley Carpenter Shop and Basement, and South Tower provided no prices for the majority of the inventory items counted. There is no formal process for maintaining the receipt and usage of inventory items, as well as updating prices for inventory items.
5. Inventory items were not maintained in such a way as to allow ease in identifying, tracking, and determining item costs. Items in stock are not labeled by name, item number, and lack accurate descriptions. The associated risk is that maintenance or repair items already in stock are repurchased unnecessarily. This results in inconsistent, inefficient, and inaccurate physical counts.

Recommendations:

1. Inventory records should be established and recorded timely and accurately for all locations. Management should consider implementing the use of procurement cards and order items only as needed to effectively utilize county resources. Personnel obtaining supplies should be required to sign a pre-numbered Record of Material Issued Form. All photocopy forms received by email or fax from departments should be recorded on a pre-numbered Record of Material Issued Form.

Management Response: *Inventory functions have been removed from Facilities Operations to be integrated with Quality Assurance functions and Fiscal Services. This change gives direct governance of the Facilities Inventory Department by the Fiscal Services Manager and the Assistant Director of Facility Management to this function.*

2. Inventory should be maintained at an adequately safeguarded centralized location under the control of a supply inventory clerk. Remote sites should have limited quantities of inventory items on hand, be adequately safeguarded with limited access, and require supporting documentation to justify replenishment from the centralized location. Written procedures for proper inventory controls should be developed (updated annually) and implemented for use by properly trained staff at all locations.

Management Response: *All remote inventory locations are now under the direct responsibility of Facilities Inventory personnel instead of Facilities Operations.*

3. Migration of inventory tracking to the WASP barcode system should be completed and expanded to include inventories for all locations to capture all inventory items, including special orders, received and requisitioned on a real time basis. An inventory count should be performed when migrating to a new system to ensure new system reflects an accurate inventory count. The WASP barcode system should assign issued receipt numbers sequentially and missing receipt numbers should be identified monthly noting the reason for unused receipt numbers. The WASP barcode system should include unit price of inventory items.

Management Response: *We are exploring options to expand the use of software (WASP) from our central location to all remote locations and establish regular inventory counts and controls to be monitored on monthly basis.*

4. Facilities Management should perform periodic inventory counts during the fiscal year, updating inventory records for all locations with **current unit prices** and **quantities** on hand. Inventory items at all locations should be examined periodically to identify obsolete items. Obsolete items should be transferred to surplus and sold at County auction.

Management Response: *We are in the process of implementing a coding system for all the items in inventory by part name and by location.*

5. Inventory items should be maintained at the lowest quantities needed to efficiently support County operations. Supervisors approving requisitions should be aware of current inventories on hand for all locations. An electronic inventory file should be periodically updated to a network drive accessible by each supervisor.

Management Response: *Complete inventory will be available to all facilities personnel including cost, amount and location of the item to avoid duplicate orders. All personnel ordering/ receiving materials will fill and sign a pre-numbered Record of Material Issued Form.*

6. A formal process should be used to identify and remove obsolete products.

Management Response: *Formal process will be established to identify obsolete items. These will be identified and transferred to surplus and sold at County auction or disposed according to County procedures.*

Summary

This review is intended to support management of this office in evaluating internal controls over inventory records. A corrective action plan reflecting enhanced controls should be implemented. The WASP inventory system should be fully implemented at all locations and the barcode scan activated in order to more accurately account for inventory items and aid in the physical count.

Priority areas of risk which need to be addressed include: lack of complete and accurate perpetual inventory control records; excessive inventory quantities/values including obsolete items; and limited management review and oversight over inventory stock.

Dallas County, Texas
Facilities Management Department and Public Service Program Inventory Report
October 20, 2017

Emphasis on outlined procedures should provide for improved inventory control processes. Consideration of all issues and weaknesses should be incorporated as a self-assessment tool in testing functionality of inventory and barcode systems. Adherence to and follow-through with the recommendations should improve internal control and compliance with Dallas County policies and procedures.