

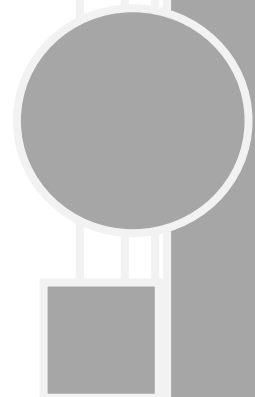


AUDIT REPORT

DALLAS COUNTY

2019 ASC INVENTORY

Darryl D. Thomas
Dallas County Auditor
ISSUED: November 04, 2019
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2019 ASC INVENTORY

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This report is intended for the information and use of the agency/department. While we have reviewed internal controls and financial reports, this review will not necessarily disclose all matters of a material weakness. It is the responsibility of the department to establish and maintain effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to the department



DALLAS COUNTY
COUNTY AUDITOR

MANAGEMENT LETTER

Mr. Christopher Hooper
Director of Consolidated Services
Dallas, Texas

Attached is the County Auditor's final report entitled "**2019 ASC Inventory**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

If you prefer that released reports be emailed to a different (or additional) recipient, please inform me of the name and the change will be made.

Respectfully,

A handwritten signature in blue ink, appearing to read "Darryl D. Thomas".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

As a part of our ongoing reviews of county departments and testing of year-end financial activity, we performed a physical inventory on August 22 & 23, 2019 of the Dallas County Automotive Service Center (ASC) located at 321 Northgate in Desoto. ASC is a division of Consolidated Services and currently provides preventative maintenance and repair of approximately 1,443 County vehicles. **We also reviewed the ASC's Fuel activities and the FuelMaster Report and noticed several inconsistencies with the different reports generated and provided to Internal Audit staff. On October 23, 2019, the ASC's staff notified internal audit to improve the FuelMaster reporting capability they received updated software and developed a spreadsheet to track fuel purchase and entries. However, the effectiveness of this change will be evaluated during the next review period.** Priority areas of risk which need consideration by management are:

Summary of Significant Observations

- Inconsistency of Fuel activities report generated and provided to Audit staff and report provided to State Comptroller office.
- The prior year Fuel adjustments were not posted until 10/23/2019.
- Six or more tires are issued for the same vehicle for 69 vehicles during the review period.
- 13 vehicles were issued three or more batteries during the audit period, including one vehicle that received five batteries.

Repeat observations from Previous Audits:

- The beginning FuelMaster total was not adjusted timely.
- The current year fuel usage was not reconciled timely.
- Justification for usage of tires six or more for the same vehicle is not documented.
- Justification for usage of batteries more than three or more for the same vehicle is not documented

INTRODUCTION

Dallas County Auditor's Office mission is to provide responsible, progressive leadership by accomplishing the following:

- Comply with applicable laws and regulations
- Safeguard and monitor the assets of the County utilizing sound fiscal policies
- Assess risk and establish and administer adequate internal controls
- Accurately record and report financial transactions of the County
- Ensure accurate and timely processing of amounts due to County employees and vendors
- Set an example of honesty, fairness and professionalism for Dallas County government
- Provide services with integrity
- Work in partnership with all departments to resolve all issues of the County
- Strive to utilize the latest efficient and effective technology in the performance of tasks
- Provide technical support and training in the development, implementation, and maintenance of information systems
- Hold ourselves accountable to the citizens of the County at all times
- Be responsive to the elected officials and department heads of Dallas County

The objectives of this audit are to:

1. Ensure compliance with statutory requirements
2. Evaluate internal controls
3. Verification of accuracy and completeness of reporting
4. Review controls over safeguarding of assets

This audit covered the period of October 1, 2018 through August 31, 2019.

The audit procedures will include interviews with key process owners, observation of transactions processing, data analysis and sample testing of transactions. The main system used will also be reviewed and incorporated as part of the testing of transactions.

DETAILS

Physical Count

We reviewed the Automotive Service Center's (ASC) inventory on 08/22/19 and identified a (\$469.15) difference between the Auditor's inventory valuation and the FASTER Inventory System (FASTER). **Status: A post inventory adjustment for \$484.22 was made on 08/22/19.** An adjustment for (\$15.07) is needed for FASTER to agree to the auditor's valuation of \$131,836.09. According to Dallas County policy Section 90-313(6), "It is the sole responsibility of the elected official/department head to which property is assigned to maintain a proper accounting of all property through proper inventory records." This occurred because items were not recorded to work orders and resulted in the understatement of ASC inventory.

Recommendation

Physical Count

Management should implement policies and procedures that include:

- Performing periodic inventory counts and reconciling inventory to the FASTER Inventory System with any adjustments or corrections properly documented and referenced.
- Investigating and correcting errors or material variances.
- Evidencing supervisory review of reconciliations and supporting documentation (including invoices and work orders not yet updated).
- Ensuring all inventory items are properly charged-out as issued through routine review of ASC shop activities.

Management Action Plan

The ASC Team utilizes the Faster Management System (FMS) to track multi-level checks on all work orders. The following steps will be incorporated in ASC's current processes:

- A lead technician generates work orders in FMS
- Shop management validates each work order and verifies completion in FMS
- Shop management closes out each work order in FMS
- ASC staff perform spot checks monthly on inventory and runs quarterly reports using FMS

In an effort to improve accuracy of inventory, the ASC proposes to complete the following additional steps:

- ASC staff will increase the number of inventory spot checks to every two weeks
- ASC staff will provide a report or list to ASC management for review and sign-off
- ASC management will investigate any discrepancies or material variances
- ASC management will determine a method for correcting errors, and ensure that all adjustments and corrections be properly documented for future reference
- ASC management will conduct random inventory audits to verify accuracy on a monthly basis
- ASC management will incorporate all inventory processes and procedures into the ISO 9001 System

Auditors Response

None

Battery Usage

We reviewed the FASTER System Parts Received Report between 8/24/18 to 8/22/19 and identified 13 vehicles were issued three or more batteries during the period (six vehicles received three batteries each, six vehicles received four batteries each, and one vehicle received five batteries). Management is responsible for designing, implementing and conducting internal control, and in assessing its effectiveness is emphasized in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. As a best practice, management should periodically review inventory reports to enhance quality control, pin point shop and vehicle issues, and identify cost saving opportunities. Management does not review, investigate, and document anomalies from FASTER inventory reports. Assets may be misappropriated without sufficient review over the inventory usage.

Recommendation

Battery Usage

Management should implement policies and procedures that include:

- Routinely evaluating inventory usage on assets to detect and investigate excess use.
- Documenting an explanation for excessive part replacement (parts placed on vehicles over an established threshold during a 12 month period) in FASTER.
- Investigating cost effective remedies to control excessive part replacement.

Management Action Plan

ASC Team utilizes the Faster Management System (FMS) to track the replacement, installation, and disposal of all vehicle batteries once checked into ASC Inventory. Some vehicles the ASC services require two or more batteries due to the vehicle equipment needs of that specific department. For example, some Chevrolet Tahoe’s carry additional emergency equipment as opposed to others with Dallas County. We also service heavy duty vehicles which may require the use of four or five batteries at a time. In an effort to further enhance the quality assurance and accuracy of our inventory, the ASC Team proposes to take the following additional steps:

- ASC staff will increase the frequency of periodic inventory spot checks to monthly
- ASC staff will provide a report or list to ASC management for review and sign-off
- ASC management will investigate any discrepancies or instances of excessive parts replacement
- ASC management will determine the method for correcting errors, and ensure that all adjustments and corrections be properly documented for future reference
- ASC management will conduct random inventory audits to verify accuracy (six times per year)
- ASC management will incorporate all inventory processes and procedures into the ISO 9001 system.

Auditors Response

None

Tires Issued

We reviewed the FASTER Items Issued Report for the period of 8/24/18 to 8/22/19 and identified a total of 1,442 tires were replaced during the period, but only 1,343 tires were scrapped and disposed; and 69 vehicles had six or more tires issued to the same vehicle during the twelve-month period:

Comparison of Tire Usage for 2018 and 2019				
2018			2019	
TIRES	NUMBER OF VEHICLES	NUMBER OF TIRES USED	NUMBER OF VEHICLES	NUMBER OF TIRES USED

1	106	106
2	126	252
3	63	189
4	51	204
5	30	150
6	19	114
7	5	35
8	10	80
9	8	72
10	7	70
11	7	77
12	6	72
13	1	13
14	5	70
15	1	15
16	2	32
17	0	0
18	0	0
19	1	19
20	0	0
22	1	22
56	unknown	56
TOTAL	449	1648

81	81
107	214
45	135
51	204
23	115
16	96
7	49
9	72
9	81
4	40
4	44
3	36
2	26
2	28
4	60
3	48
1	17
1	18
2	38
2	40
0	0
0	0
376	1442

Per Dallas County Code Sec. 90-373, "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 this article's provisions as the situation demands." ASC does not reconcile tires replaced on vehicles to scrap tires. Tire usage and replacement reports are not analyzed. Management does not review postings made to FASTER. The County may miss opportunities to identify vehicles with excessive tire replacements and pin-point the root cause. Tire counts and valuation in the FASTER Inventory System may be understated when tires are not appropriately added. Tires ordered may be misappropriated when tires ordered do not agree to scrap tires disposed and picked up by the approved tire vendor.

Recommendation

Tires Issued

Management should implement policies and procedures that include:

- Periodically reviewing FASTER inventory reports to detect anomalies and excessive use of inventory.
- Reconciling tires issued on vehicles to the number of tires picked up by the scrap tire vendor.
- Documenting a reason for each tire replacement in FASTER.
- Reviewing inventory activities and postings performed by staff.

Management Action Plan

ASC Team utilizes the Faster Management System (FMS) to track the replacement, installation, and disposal of all tires once checked into the ASC inventory. In order to ensure the safety of our law enforcement personnel and the citizens they serve, the ASC follows tire manufacturer recommendations regarding the replacement of all fleet. For example, pursuit vehicles with tread less than 4/32's are considered unsafe and will be replaced. Whether only one of the tires is in need of being replaced, the ASC replaces both tires within the same axle. This is a best practice within the industry to ensure that these high speed vehicles perform at a safe and satisfactory level on the highways. Traffic control vehicles experience much more wear and tear on tires much more quickly than other use vehicles. Pursuit vehicle tires cannot be patched, repaired, or modified in any form. As a result, two tires would be replaced in the event of a flat, puncture, etc. It is because of the tire manufacturer's recommendations as well as our best practices for the safety of our law enforcement personnel that some instances exist where multiple vehicles have seemingly high numbers of tire replacement. In an effort to be more transparent in our tire inventory process, the ASC Team proposes to take the following additional steps:

- ASC staff will increase the frequency of periodic inventory spot checks (monthly)
- ASC staff will provide a report or list to ASC management for review and sign-off

- ASC management will investigate any discrepancies or instances of excessive parts replacement
- ASC management will determine method for correcting errors, and ensure that all adjustments and corrections be properly documented for future reference
- ASC management will conduct random inventory audits to verify accuracy (six times per year)
- ASC management will incorporate all inventory processes and procedures into the ISO 901 system

Auditors Response

None

Fuel Volumes

We reviewed the FuelMaster Ledger Report and VeederRoot readings for three fuel tanks on August 22, 2019 and identified that the ASC East unleaded fuel balance was overstated by 14,504.99 gallons, totaling \$24,167; the ASC Desoto diesel fuel balance was overstated by 1,521.45 gallons, totaling \$3,225; and the ASC Desoto unleaded fuel balance was understated by 12,522.82 gallons, totaling \$23,525 (including three fuel deliveries totaling \$29,373 for 17,517 gallons that were not posted to FUELMASTER). The ASC Desoto unleaded ending fuel balance was -5,611.02 gallons. **Status: On 10/23/19 an adjusting entry for ASC Desoto unleaded and diesel gas was posted to FuelMaster.** According to Dallas County policy Section 90-313(6), "It is the sole responsibility of the elected official/department head to which property is assigned to maintain a proper accounting of all property through proper inventory records." Management did not post the prior year adjusting entries to FuelMaster Ledger and resolve differences identified between fuel reports and actual fuel tank readings. A periodic (monthly) reconciliation of fuel deliveries, fuel consumption, and fuel tank volume readings is not performed by ASC staff. ASC staff can manually override fuel transactions posted to FuelMaster. Management does not review Fuel Ledger Reports to ensure the accurate reporting of tank volumes in FuelMaster. As a result, Fuel Master ending inventory balances at each location do not agree to volumes reported in each fuel tank.

Recommendation

Fuel Volumes

Management should implement policies and procedures that include:

- Fuel deliveries and consumption are accurately posted to FuelMaster and are periodically (monthly) reconciled to fuel tank volume readings (VeederRoot readings).
- Pump controls that measure fuel usage and examine the fuel storage tanks for possible leakage or water contamination should also be routinely examined.
- ASC staff should measure the fuel tank level and note any variances on the delivery

tickets before and after fuel deliveries.

- Management should review and sign off on all adjustments to fuel volumes posted to FuelMaster and monthly fuel reconciliations.

Management Action Plan

The ASC Team utilizes the Site ledger vs. the Fuel Master to track fuel usage once delivered to the ASC Center. The ASC Team provides monthly reports via the Site ledger to the State of Texas as required for fuel reporting. During the audit of FY2019, we found the Site ledger to have some missing entries of fuel consumption, and that Fuel Master experienced a glitch. The Auditor selected Fuel Master as the primary source of information. It was explained during the audit by the ASC Team staff that there was a glitch in Fuel Master resulting in an inaccurate reading. The ASC Team has been in constant contact with the Fuel Master vendor to resolve the issue.

Auditors Response

For the last two years, ASC provided Internal Audit with the FuelMaster Ledger Report and Internal audit reported that the tank balances differed from their VeederRoot readings (actual readings from the tank). This year, after the fieldwork was completed, ASC informed Internal Audit that they were utilizing the Fuel Inventory Reconciliation Report from FuelMaster to report fuel data to the State of Texas. ASC also provided documentation to Internal Audit where a technician with Syntech, the service organization for the FuelMaster software, stated that, "there seems to be an issue with our ledger reports in how they are calculating data".

Internal Audit's findings of the Fuel Master Ledger Report led to an examination of the report's accuracy, which would not otherwise been investigated. Since both the Fuel Master Ledger Report and the Fuel Inventory Reconciliation Report originate from the FuelMaster system and report data on the same tanks, they should both report accurate and complete data.

cc: Darryl Martin, Commissioners Court Administrator