



DALLAS COUNTY
COUNTY AUDITOR

To: Steve Mize, Public Service Program Coordinator

From: Darryl D. Thomas
Dallas County Auditor

A handwritten signature in blue ink that reads "Darryl D. Thomas".

Subject: Public Service Inventory Report

Date: Issued: September 30, 2016
Released: December 14, 2016

On August 22, 2016, our Internal Audit staff performed a complete (except as noted otherwise) physical count of the annual physical inventory of hardware, paint, chemicals and lumber at the Public Service Program located at 2121 Panoramic Circle. The scope of the inventory count was increased because inventory is not organized in a manner to perform an accurate sample count.

Our specific procedures, findings and recommendations are discussed in the attached report. The report is intended for management's informational use. Inventory purchases have historically exceeded needs and an estimate of obsolete cost is \$2,747.13 (estimate limited by the lack of unit pricing for 240 unique items). We recommend the implementation of the WASP (barcode inventory system) at the Public Service location, 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 including the use of pre-numbered Record of Materials issued forms and pre-numbered Pick-up Purchase Order forms 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

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2016

Scope

A count of the annual physical inventory of the hardware, paint, chemicals, and lumber of the Public Service Program was performed on August 22, 2016. The Public Service Department provided a physical inventory count as requested by the Auditor's office. The department walkthrough was completed by Public Service painters.

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. The Public Service Program was placed under the supervision of the District 3 Commissioner by order of Commissioners Court Order No. 2001-2148. The Public Service Program's principal area of responsibility includes painting. Most painting supplies are charged to Public Service Program Department No. 3330, and specific construction / remodeling projects charges to building improvements.

Procedures

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

- Requesting review of walkthrough by department
- Updating unit cost by having Public Service provide item costs
- Physically counting all 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
- Reviewing procedures related to Pick-up Purchase Orders

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 479 different items with an estimated pre-obsolete value of \$27,471.32 based on audit count. A comprehensive summary of inventory counts and values is not being updated and reviewed by Public Service. 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 the Public Service Program as required by Dallas County Code Sec. 90-373. Approximately, 240 unique items (quantity of 270,127) were missing unit prices with the hardware category accounting for the majority of the missing prices (quantity of 269,851) for 187 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 Public Service inventory due to the department providing only partial inventory counts and the lack of systematic organization of inventory items in a specific bin/shelf

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location. There is no formal process for maintaining the receipt and usage of inventory items, as well as updating prices for inventory items.

Response: Scanned copies are maintained of all purchase orders and receipts.

5. The majority of inventory items were maintained in such a way to allow ease in identifying, tracking, and determining item costs by manufacturer's label. Some hardware, fasteners, and lumber items in stock are not labeled by name, item number, and lack accurate descriptions, however, Public Service staff were available to assist with questions.
6. Risks identified during walkthrough of department's procedures revealed:
 - No written procedures exist for the following processes: ordering/purchasing of inventory items, storing of inventory, performing physical count, and issuing and usage of inventory. The risk of not having documented inventory procedures is theft, shrinkage, misappropriation of inventory, inaccurate inventory data for financial reporting, stockpiling of inventory items in locations privy to few personnel, and the loss of institutional knowledge when employees retire or separate from Dallas County.
 - Public Service management does not perform periodic physical inventory counts to determine the quantity of inventory in storerooms.
 - Public Service does not utilize an inventory system to track incoming/outgoing inventory, because staff have limited access to computers and county e-mail to exchange information.
 - Public Service personnel are not trained on supporting and maintaining inventory.
 - Accurate inventory descriptions, quantities on hand, and item costs were not supplied in compliance with Dallas County Code Sec. 90-373
 - Public Services cannot rely on key controls to prevent or detect risks affecting the accuracy, completeness, existence, and presentation of inventory for financial reporting purposes.

Recommendations

1. Inventory records should be established and recorded timely and accurately. 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.
2. Inventory should be maintained in an adequately safeguarded centralized location under the control of a supply inventory clerk. Public Service should maintain limited quantities of inventory items on hand, safeguarded with limited access, and require supporting documentation to justify replenishment. Written procedures for proper inventory controls should be developed (updated annually) and implemented for use by properly trained staff.
3. Migration of inventory tracking to the WASP barcode system should be initiated to include inventory for Public Service. System should 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

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noting the reason for unused receipt numbers. The WASP barcode system should include unit price of inventory items.

4. Public Service Program should perform periodic inventory counts during the fiscal year, updating inventory records with **current unit prices** and **quantities** on hand. Inventory items should be examined periodically to identify obsolete items. Obsolete items should be transferred to surplus and sold at County auction.
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. Use of Pick-up POs should be limited, authorized only after verification that supplies are not on hand, and reviewed periodically to determine if specific supplies on hand should be increased slightly to reduce the number of Pick-Up POs and to obtain the lowest price for Dallas County. Random spot checks for proper supply usage should be performed.
6. A copy of Pick-Up POs, including voided or canceled ones, should be maintained by Public Service. All unused Pick-Up PO forms should be accounted for annually.
7. A formal process should be used to identify and remove obsolete products.
8. Public Service should enforce a policy where storeroom access is physically secured by locking access points to inventory, inventory is restricted to authorized personnel, and management monitors access to reduce instances of theft and shrinkage.

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; and limited management review and oversight over inventory stock.

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.