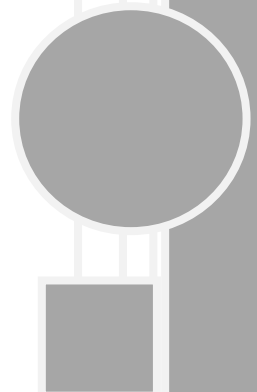




AUDIT REPORT

DALLAS COUNTY
FY2023 FACILITIES INVENTORY

Timothy J. Hicks, CPA
County Auditor
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FY2023 Facilities 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

Greg Gray
Facilities Director
Dallas, Texas

Attached is the County Auditor's final report entitled "**FY2023 Facilities Inventory**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail.

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,

Timothy J. Hicks

Timothy J. Hicks, CPA
County Auditor

EXECUTIVE SUMMARY

Facilities maintains inventory at the following location: 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, Administration Building, and West Tower (Quality Assurance and Electrician's Workshop).

During the period of September 5 - 11, 2023, Internal Audit performed a sample count of the Facilities Department physical inventory of electrical, hardware, fasteners, plumbing, pipe, paint, refrigerant, tile, filters, chemicals, keys, lumber, belts, and janitorial supplies.

Summary of Significant Observations:

- The North Tower Supply Warehouse is the only one of the 10 Facilities inventory locations with an inventory tracking system (WASP) installed. As a result, there is no systematic process for maintaining inventory received and disbursed as well as updating prices for inventory items.
- The sample inventory count of approximately 676 items with an estimated value of \$711,289 for 10 locations revealed that all 10 locations provided incomplete inventory counts. This resulted in a 2,415-item variance between Facilities' count and the audit count. The estimated cost variance was \$95,466.
- Facilities spent \$3,216,951 on inventory in fiscal year 2023. However, there were no internal controls to detect or prevent risks that may impact the accuracy, completeness, existence, valuation, and presentation of inventory for financial reporting.
- Inventory is accessible to staff without verification of need or an audit trail. Unauthorized access may result in misuse of inventory.

Repeat Observations from Previous Audits

- All observations are repeated from previous audits.

Only those weaknesses which have come to our attention as a result of the audit have been reported. It is the responsibility of the department management to establish and maintain effective internal control over compliance with the requirement of laws, regulations, and contracts applicable to the department.

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 September 3, 2022 through September 2, 2023.

The audit procedures may have included interviews with key process owners, observation of transactions processing, data analysis and sample testing of transactions. The main system used may have been reviewed and incorporated as part of the testing of transactions.

**DETAILS****Janitorial Supply Distribution****Criteria**

Per the commercial janitorial cleaning services agreement with UBM Enterprise, RFP Number 2022-001-6916, Dallas County Facilities Management staff are responsible for managing the janitorial contract and ensuring requirements are being met. The agreement includes a non-exhaustive list of supplies and materials that are to be furnished by the contractor at its own expense.

Additionally, there are six supply and material items that are to be furnished by Dallas County and must be picked up by the contractor from the Maintenance Supply Room (North Tower). The contractor is required to deliver all items picked up along with a signed receipt to the exact building for which they were ordered. No partial delivery will be accepted.

The contractor is required to submit itemized usage reports with the monthly billing invoices to the Dallas County Auditor's Office. The usage report shall be broken down by building and include a description of the items: i) quantity furnished, ii) description of the products picked up, and iii) date of pick-up. Invoices received without all the required supporting documentation and information shall not be processed and will be returned to the Contractor unpaid.

Review

A comparison and review of the Supply Usage UBM Rev. 1 reports (contractor usage report), Facilities Janitorial Reports, and September Janitorial Supplies Order Forms revealed:

- In FY2023, Facilities provided 1,273 supply items, with an estimated cost of \$62,878, to the contractor that were not specified by the contract to be furnished by Dallas County.
- The September quantities furnished to the contractor on the Facilities' Janitorial Report did not completely agree with the Janitorial Supplies Order forms. There were 19 variances identified between the Facilities' Janitorial Report and the Janitorial Supplies Order forms.
 - Nine instances in which the Facilities' Janitorial Report was overstated when compared to the Janitorial Order forms.
 - Total quantity was overstated by 53 items with an estimated cost of \$2,152.
 - 10 instances in which the Facilities' Janitorial Report was understated when compared to the Janitorial Order forms.
 - Total quantity was understated by 48 items with an estimated cost of \$2,149.



- All 32 September Janitorial Supplies Order Forms were not signed and dated by the person who received the order. Quantities requested on these forms were overwritten depending on availability.
- The contractor's usage reports of the material and supply items furnished by Dallas County were not maintained per the contracted standards.
 - The contractor's usage reports appear to be created using inventory quantities requested from Facilities instead of what the contractor received per the Janitorial Supplies Order forms resulting in differences between the contractor's amount and Facilities reported amount.
 - The contractor's usage reports reflected no annual usage of supplies for five out of the 44 buildings serviced under the contract. However, the County was invoiced for janitorial services worked at those locations.
 - The contractor's usage reports do not itemize usage by building for county facilities that are part of Group 7 on the contracted service price matrix. One amount is merged for supply usage of all six buildings.
 - The contractor's usage reports did not separate trash bags by size making the usage value difficult to determine.
- The contractor's usage reports were not submitted with monthly invoices as required by the contract.

A review of the DC GL Actuals report identified purchases for janitorial supplies that were not charged to the Facilities' janitorial supplies account. The total fiscal year 2023 general ledger payables for janitorial supplies was \$197,133. However, the accuracy and completeness of purchases charged to this account is questioned due to the following:

- 47 janitorial supply-related purchases for \$1,003,454 were incorrectly coded to the Facilities' Inventory account.
- Four non-janitorial supply purchases for \$7,658 were incorrectly coded to the Facilities' Janitorial Supplies account.
- One janitorial supply-related purchase for \$2,660 was incorrectly coded to the Facilities' Hardware and Electrical Supplies account.

Cause/Effect

The department did not review inventory reports for accuracy. Additionally, department management did not ensure only items required to be furnished by Dallas County were provided to the contractor in the quantities requested.

Insufficient managerial oversight to ensure contract requirements are met can result in the potential for inaccurate and incomplete records, revenue loss from excess inventory purchases, and the misappropriation of inventory.



Recommendation

Janitorial Supply Distribution

Management should take the following corrective action:

- Ensure supplies provided to UBM are accurately recorded by Facilities personnel.
- Develop a unique Janitorial Supplies Order Form for contractor requests to include only the items Dallas County is required to provide to UBM.
- Emphasize that Facilities personnel only provide the contractor with the supplies and materials Dallas County is required to provide per the contract.
- Ensure Janitorial Supplies Order forms are signed and dated by the person who received the order.
- Require the contractor to submit usage reports with the monthly invoices as required in the contract. Usage reports should accurately reflect Dallas County inventory received.

Management Action Plan

- None provided

Auditor's Response

- None

Facilities Inventory

Criteria

Dallas County Code Sec. 90-373 states that all department heads and elected officials are responsible for maintaining property assigned to their departments and ensuring that the property inventory records are up to date and accurate in all respects.

Standard internal control procedures require separation of duties, documented procedures, and immediate reconciliation and updates for transactions. Inventory control procedures should include periodic inventory counts and timely verification and follow-up on all variances. Inventory should be properly safeguarded, easily identified, and the department should store minimal inventory levels.

Review

A sample physical inventory count of approximately 676 items with an estimated value of \$711,289 for 10 Facilities inventory locations was performed. The following were identified:



A comprehensive summary of inventory counts and values was not properly updated and reviewed by Facilities management.

- All 10 locations provided incomplete inventory counts, resulting in a 2,415-count variance between the Facilities' count and the audit count, totaling \$95,466.
- 872 unique items (totaling 31,072 in quantity) have not been used or changed for at least three to five years.
- Item variances greater than \$200 were not acknowledged as miscounts by the department. Instead, these variances were explained as inventory usage between the time of the Facilities count and the audit count.
 - The department could not provide documentation to support inventory usage.
 - Facilities was unable to provide a complete and accurate inventory count.

The department did not provide unit prices for approximately 175 unique items listed (quantity of 6,804) across five locations.

- Inventory items were not organized in a manner such that items could be tracked, identified, or costs easily determined.

A review and comparison of unit prices for fiscal years 2022 and 2023 revealed:

- Only 42 out of 4,949 unique items reported in both fiscal year 2022 and 2023 by location had updated prices.
- The unit prices provided by the department could not be traced back to purchase invoices due to inadequate item descriptions.

A review of the DC GL Actuals report for fiscal year 2023 revealed:

- Facilities spent \$3,216,951 on inventory. However, there were no controls to detect or prevent risks that may impact the accuracy, completeness, existence, valuation, and presentation of inventory for financial reporting.

A review of the annual renewal of the WASP Inventory Cloud Enterprise system revealed:

- Capabilities for additional users were purchased. However, the North Tower Supply Warehouse is the only one of 10 Facilities inventory locations with an inventory tracking system (WASP) installed. As a result:
- The department does not have a real-time inventory count on hand and cannot provide one at any given time without allocating staff resources to manually count all inventory items.
- There was no systematic process for maintaining inventory received and disbursed, as well as updating prices for inventory items.



- North Tower manually documented inventory disbursed but did not enter it into the WASP system.

Inquiries and observations made during the audit revealed weaknesses in inventory safeguarding and constraints to business continuity due to the possible loss of institutional knowledge:

- Inventory is accessible to staff without verification of need or an audit trail.
- Inventory items are stacked in hallways and other open areas not readily visible to management.
- Cameras are available but with a limited view of inventory.
- High-value inventory items do not require written approval from the supervisor for usage.
- Stock items lack clear identification and detailed descriptions.
- Multiple instances of the same type of inventory item stored in different locations.
- Loss or theft of inventory is not reported to the Auditor's Office.
- The department lacks formal standard operating procedures for inventory management.
- The department lacks proper training on the WASP system implementation and utilization.

Cause/Effect

The department had various inventory related issues, including the absence of an inventory tracking system, untrained inventory staff, no formal inventory procedures, and inconsistent management oversight. Furthermore, the department lacked effective controls to prevent or detect risks that could impact the accuracy, completeness, existence, valuation, and presentation of inventory for financial reporting purposes.

A lack of inventory tracking system, trained inventory staff, formal inventory procedures, and inconsistent management oversight may increase the risk of theft, loss, or unexpected shortages of critical items. This may also lead to unnecessary purchases of items that are already in stock.

Recommendation**Facilities Inventory**

Management should take the following corrective action:

- Fully implement the WASP electronic inventory tracking system for all locations to capture all inventory items, including special orders, received and requisitioned on a real time basis.



- Assign staff to manage inventory on a full-time basis.
- Maintain inventory 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.
- Develop and implement written procedures for inventory which are updated annually for use at all locations.
- 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.
- 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 Materials Issued form. All photocopy forms received by email or fax from departments should be recorded on a pre-numbered Record of Materials Issued form.

Management Action Plan

- Wasp will be implemented at our local storage locations by the end of FY24 to ensure control of materials.
- Facilities Management requests assistance from Audit on how to meet your recommendations, to include expected costs for budgeting.
- Audit draft was not received until July 2024, making it difficult to implement changes before the next audit

Auditor's Response

- None

cc: Darryl Martin, Commissioners Court Administrator