



**DALLAS COUNTY**  
**COUNTY AUDITOR**

**To:** Dale Lilley  
Director – Facilities Management

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

*Wesley Steffens*

**Subject:** Facilities Inventory Report

**Date:** Issued: October 21, 2016  
Released: January 6, 2017

During the period of September 6-16, 2016, 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, 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 \$448,695.44 (estimate limited by the lack of unit pricing for 2,550 out of 9,001 unique items). During the 2016 inventory count, auditors observed that a number of items had been transferred to surplus and several obsolete supply items were stacked in preparation to surplus. This helped identify current items to include in the inventory count. 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 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

## **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 6-16, 2016. 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, Administration Building, Quality Assurance, and Electrician's Workshop. The requested Internal Control Questionnaire (ICQ) was completed by Facilities.

## **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:

- Requesting completion of Internal Control Questionnaire by department
- 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
- Testing inventory cost allocation to departments
- 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 9,001 different items with an estimated pre-obsolete value of \$1,281,986.97 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

Dallas County, Texas  
Facilities Management Department and Public Service Program Inventory Report  
October 21, 2016

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, 2,550 unique items (quantity of 43,871.2) were missing unit prices with the electrical and fasteners categories accounting for the majority of the missing prices (quantity of 10,639.2 and 11,064, respectively) for 991 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. Inventory Storerooms at HHS and Administration locations lack physical security (considered “open” sites) where the “honor system” is in effect to retrieve products, access is unrestricted, and access is unsupervised. The risk associated with operating open and unsecure storerooms is that anyone can take an item(s); leading to a misappropriation of assets, shrinkage, and the expensive replacement for parts (some of which may be in stock, but placed in the wrong location).
5. Records Building inventory was moved to three locations: Administration building, George Allen, and Founders parking garage. Audit staff was not made aware of the inventory in Founders parking garage until after the physical count was completed. There were inventory items left in the Records building during the audit inventory and there are no plans to move the remaining items.
6. Audit staff performed a 100% count of all inventory locations except North Tower as a result of HHS and South Tower 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.
7. 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.
8. Departmental responses to the Internal Control Questionnaire (ICQ) and the 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.
  - All locations except North Tower are using a manual process to maintain inventory because staff have limited access to computers and county e-mail to exchange information. The cost of inventory is not recorded and maintained for these items. Inventory is at risk of misappropriation



Dallas County, Texas  
Facilities Management Department and Public Service Program Inventory Report  
October 21, 2016

and loss if the personnel charged with its maintenance do not track or have the capability to track and communicate changes in inventory.

- No formal process for maintaining or issuing of supplies, keys, or locks at Frank Crowley Carpenter Workshop & Locksmith, Basement and South Tower Jail.
- WASP inventory system passwords are shared.
- North Tower is the only location with controlled access limited to authorized personnel. The supply room is closed an hour for lunch.
- The WASP system used by North Tower does not include all supplies. Additionally, several supply items reflect a negative amount on hand.
- Cost of inventory items are not recorded and maintained in the WASP application.
- Some areas are not labeled by item name and/or part number for easy identification.
- Items at several locations are used by any Facilities employee as needed with no formal check out procedures.
- Obsolete inventory is not periodically assessed for transfer to surplus, removed and segregated from useable inventory, or labeled as obsolete for later removal. The risk of maintaining obsolete inventory is reduced space for useful inventory, lost time locating useable inventory among obsolete inventory, and lost revenue from the sale of obsolete items to scrap dealers and resellers.
- The elevator at Administration allows anyone to access the basement level without an access key. Filters and belts are not in a secured/locked area. Additional electrical and plumbing supplies are stored in an unlocked office.

9. Facilities Management issued 611 Pick-up Purchase Orders (PUPO) in FY2016 as of July 31, 2016 totaling \$124,495.83. This is a decrease of 20.28% from the prior fiscal year at the same point. The following issues were noted:

- Pickup Purchase Orders were not issued to Supervisors in sequential order by Facilities Administration.
- Four voided items did not have an explanation noted on the voided purchase requisition.
- The Pickup Purchase orders per the FY16 Issuance Report, maintained by Purchasing, did not reconcile to the Pickup Purchase order logged into Oracle.
- One PUPO used to procure items totaling \$579.16.

***Response:** Employee did not know the cost would exceed \$500 until he returned to the shop since the total price was not calculated on the PUPO at the time of purchase.*

10. Monthly janitorial supply distribution summary reports for October 2015 and January 2016 (generated by Facilities to allocate janitorial expense amount to various departments) were reviewed on a test basis. The janitorial reports were traced to Excel sheets and to issue documents (pre-numbered requisition on Storekeeper for janitorial supply forms or order form if requisition form was unavailable) maintained by Facilities.

- There are no controls to ensure all issued requisitions are accounted for in accordance with County policies. In addition, verification of expense amounts against requisition quantities and amounts is nonexistent.
- October 2015 total has a variance overage of \$117.91 due to various unrecorded requisition distributions, quantity changes, and supply items errors.
- January 2016 total has a variance shortage of \$320.53 due to various unrecorded requisition distributions, quantity changes, and supply items errors.

### **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.
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.
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.
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.
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 on hand does not currently exist, 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 Facilities. Annually, Facilities should account for all unused Pick-Up PO forms that have been issued to the various locations.
7. A formal process should be used to identify and remove obsolete products.
8. Facilities 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. Lunch schedules for North Tower Supply Room staff should be staggered to ensure personnel are available to issue supply items.

## **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.

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.