

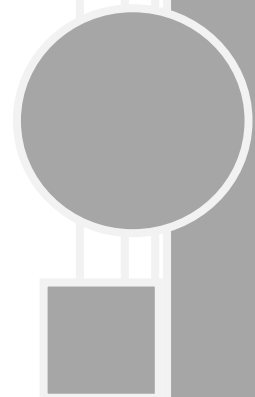


AUDIT REPORT

DALLAS COUNTY

ASC INVENTORY - FY2018

Darryl D. Thomas
Dallas County Auditor
ISSUED: October 15, 2018
RELEASED: October 30, 2018



ASC INVENTORY - FY2018

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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

Donna Billman
Director of Consolidated Services
Dallas, Texas

Attached is the County Auditor's final report entitled "**ASC Inventory - FY2018**" 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, reading "Darryl D. Thomas", with a stylized flourish at the end.

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

As a part of our ongoing reviews of county departments and testing year- end financial activity, we performed a physical inventory on August 23, 2018 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 1,056 County vehicles. ASC uses the FuelMaster fuel management system, to monitor gasoline in tanks at ASC Desoto and ASC East (715 Rowlett Road in Garland), since October 1, 2016. The process for issuing tires to the Sheriff's Office Traffic Division in bulk and stored at 7201 S. Polk Street has improved tremendously and last time tires were issued to the Sheriff's Department code FD000 was October 18, 2017.

Summary of Significant Observations

- The beginning FuelMaster total was overstated by 17,537.75 gallons, totaling \$29,617.11
- The current year fuel usage was understated by 832.60 gallons, totaling \$1,581.38 for all the three tanks
- A total of \$896.70 invoices paid for tires were not recorded in FASTER.
- ASC replaced a total of 1,648 tires during the period, but only 1,662 tires were scrapped and disposed.

Repeat observations from Previous Audits:

- 56 tires totaling \$5,855.85 charged to Sheriff Patrol code (FD000) last issued on October 18, 2017.
- 73 vehicles, excluding the Sheriff Patrol code FD000, had six or more tires issued to the same vehicle during the twelve month period including:
- 17 vehicles were issued three or more batteries during the period.

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 August 24, 2017 through August 23, 2018

Review procedures included but were not limited to:

- Perform physical count
- Compare unit prices per inventory spreadsheet to price lists and invoices
- Review revenue and expense amounts per GL
- Document inventory control and billing/receivable procedures

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DETAILS

Physical Count

We reviewed the Automotive Service Center's (ASC) inventory on 08/23/18 and identified a \$1,797.20 difference between the Auditor's inventory valuation and the FASTER Inventory System (FASTER). **Status: A post inventory adjustment for \$1,380.63 was made on 08/23/18.** An adjustment for \$416.57 is needed for FASTER to agree to the auditor's valuation of \$120,595.46. 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 overstatement of ASC's inventory.

Recommendation

Physical Count

ASC staff should perform periodic inventory counts and reconciliation to the FASTER Inventory System with any adjustments or corrections properly documented and referenced. Any errors or material variances should be investigated and corrected as appropriate. Reconciliations and documentation (including invoices and work orders not yet updated) should evidence supervisory review and be retained. Management should ensure all inventory items are properly charged-out as issued through routine review of ASC shop activities.

Management Action Plan

- The new FASTER management system gives monthly spot inventory checks and will update invoices and work orders.
- The Shop Assistant/Safety Coordinator will follow by monthly periodic inventory and the recommendation will be addressed.
- ASC management will follow the recommendation and it will be addressed.

Auditors Response

We understand that ASC has made strides to improve the Department by implementing the FASTER Inventory system, but it's important for Management to also routinely review: reconciliations, FASTER Reports, shop activities, adjustments to inventory, etc. to better control inventory.

Tires

We reviewed the FASTER Items Issued Report for the period of 8/24/17 to 8/23/18 and identified: 56 tires totaling \$5,855.85 charged to Sheriff Patrol code (FD000) without allocation to a specific vehicle. **Status: This amount decreased from the previous year's count of 348 tires issued to FD000. Tires are no longer issued to FD000, and the last issue date was 10/18/17.** 73 vehicles, excluding the Sheriff Patrol code FD000, had six or more tires issued to the same vehicle during the twelve month period; a total of \$896.70 invoices paid for tires were not recorded in FASTER; and a total of 1,648 tires were replaced during the period but only 1,662 tires were scrapped and disposed. 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

Management should ensure:

- FASTER Inventory reports are periodically reviewed to detect anomalies and excessive use of inventory.
- ASC staff reconciles and accounts for tires issued and replaced as compared to the number of tires picked up by the scrap tire vendor.
- A reason is documented for each tire replacement on the Work Order.
- All inventory purchases should be accurately, completely, and timely entered to FASTER. Cut-backs to invoices based on bid prices should be appropriately captured in the FASTER system.
- Inventory activities and postings performed by staff are adequately reviewed.

Management Action Plan

- The Shop Assistant/Safety Coordinator will follow by periodic inventory and the recommendation will be addressed.
- The ASC automotive parts area is open 50-hours per week; however, the parts clerk is only there for 40-hours. This procedure meets the operational needs to the Sheriff.
- ASC management will follow the recommendation and it will be addressed.
- A direct charge will be implemented to the vehicle the tires came off to have a proper charge out in the FASTER system.

Auditors Response

We encourage management to review FASTER reports, such as the W201 Inventory Items

Issue Report, to investigate specific vehicles that received excess parts, tires, and batteries than the norm. The Faster reports can be used to scan for anomalies, enables management to resolve them, and track for re-occurrence.

Battery Usage

We reviewed the FASTER System Parts Received Report between 8/24/17 to 8/23/18 and identified 17 vehicles were issued three or more batteries during the period. 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 routinely evaluate inventory usage on assets to detect and investigate excess use. Reason(s) for battery replacement should be accurately documented in FASTER. Management should also investigate cost effective remedies to control excessive inventory replacement.

Management Action Plan

- The Shop Assistant/Safety Coordinator will follow by monthly periodic inventory and the recommendation will be addressed.
- ASC management will follow the recommendation and it will be addressed.

Auditors Response

We appreciate your response to the audit. However, we have repeatedly identified cases of excessive battery replacement and would encourage Management to review this issue to determine if there is an underlying problem with the vehicle or parts involved.

Fuel Master Totals

We reviewed the FuelMaster Ledger Report, VeederRoot readings on August 23, 2018, and fuel delivery invoices between August 24, 2017 and August 23, 2018, and identified that the beginning balance was overstated by 17,537.75 gallons, totaling \$29,617.11 and the current year was understated by 832.60 gallons, totaling \$1,581.38 for all the three tanks. 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." A periodic (monthly) reconciliation of fuel deliveries, fuel consumption, and fuel tank volume readings is not performed by ASC staff. As a result, Fuel Master ending inventory balances at each location do not agree to volumes reported in each location fuel tank. ASC staff does not utilize the full capabilities of FuelMaster, including use of fuel reports to improve the

accuracy of tracking fuel volumes. Management is not actively involved in ensuring the accurate reporting of tank volumes in FuelMaster. The ending book values in FuelMaster are overstated.

Recommendation

Fuel Master Totals

Management should ensure:

- Fuel deliveries and consumption are accurately posted to FuelMaster and are periodic (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.
- Prior to and after fuel has been delivered, ASC staff should measure the fuel tank level and note any variances on the delivery tickets.
- Management should review and sign off on all adjustments to fuel volumes posted to FuelMaster.

Management Action Plan

- The Data Analyst and Shop Assistant/Safety Coordinator will follow by monthly periodic fuel readings and the recommendation will be addressed.
- ASC management will follow the recommendation and it will be addressed.

Auditors Response

We encourage management to review a periodic reconciliation of the Fuel Master Ledger Report and Veeder Root Reading. We further encourage management to actively review Fuel levels and Fuel Master Reports for anomalies.

cc: Darryl Martin, Commissioners Court Administrator