

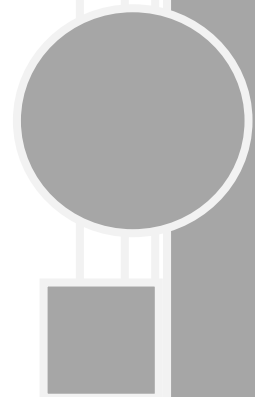


AUDIT REPORT

DALLAS COUNTY

PUBLIC SERVICE INVENTORY - FY2018

Darryl D. Thomas
Dallas County Auditor
ISSUED: October 04, 2018
RELEASED: November 10, 2018



PUBLIC SERVICE INVENTORY - FY2018

TABLE OF CONTENTS

MANAGEMENT LETTER.....	3
EXECUTIVE SUMMARY	4
INTRODUCTION	5
DETAILS.....	6
Overall Inventory	6
Pick-Up Purchase Orders.....	7

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

Anthony Jackson
Supervisor - Public Service Program
Dallas, Texas

Attached is the County Auditor's final report entitled "**Public Service 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".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

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.

Summary of Significant Observations

- Accurate inventory descriptions, quantities on hand, and item costs were not supplied by Public Service.
- Public Service does not utilize an inventory system to track incoming/outgoing inventory.
- Public Service management did not perform periodic physical inventory counts
- Public Services is using other departments funding source codes on pick-up purchase orders without written or electronic authorization.

Repeat observations from Previous Audits:

- All observations related to inventory are repeated.

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

On August 21-23, 2018, our Internal Audit staff performed a complete (except as noted otherwise) physical count of the annual physical inventory of hardware, paint, chemicals, electrical and lumber at the Public Service Program located at 2121 Panoramic Circle. Our specific procedures, findings and recommendations are discussed in the attached report. This report is intended for management's informational use. The scope of the inventory count was increased because inventory is not organized in a manner to perform an accurate sample count. This audit covered the period of August 22, 2017 through August 23, 2018.

The audit procedures will include interviews with key process owners, a walk-through of inventory procedures, and a physical count of inventory.

DETAILS

Overall Inventory

Inquiry of Public Service staff, a walk-through of inventory control procedures, and a full physical count of inventory on August 21-23, 2018 revealed inventory consisted of approximately 814 different items with an estimated pre-obsolete value of \$52,857.72 based on audit count; approximately 840 unique items (quantity of 23,739) were missing unit prices including 178 unique hardware items (quantity of 16,563); Public Service management did not perform periodic physical inventory counts to determine the quantity of inventory in storerooms; and there were no written inventory management policies and procedures.

Audit staff performed a 100% count of Public Service inventory due to the department only providing a partial inventory count. Sampling of inventory was further inhibited due to inventory not being systematically organized: inventory is not in specific bins or shelf locations; the department does not utilize an inventory system to track incoming/outgoing inventory; accurate inventory descriptions, quantities on hand, and item costs were not supplied by Public Service; items in stock were not labeled; and Public Service personnel would take many of the same item(s) for a specific job and then return unused items to different bins or locations other than where the item originated.

County Code section 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." Specific controls related to inventory require items should be properly labeled with accurate descriptions, additions to and deductions from inventory should be recorded to the inventory records, and periodic physical inventory counts should be performed

Due to limited computer access, a lack of an inventory management system, and limited employee training financial records related to inventory were inaccurate/incomplete and may result in undetected losses or misappropriation of inventory, over-purchasing of inventory, or unanticipated shortages of critical items.

Recommendation

Overall Inventory

Management should:

- Establish written inventory policies and procedures to help ensure consistent and accurate inventory records.
- Acquire an inventory system to assist with handling and maintaining inventory items and records. Inventory records should include item name, item number, item description, unit measurement and unit cost.
- Perform periodic inventory counts to ensure that items are categorized and labeled and inventory records are up to date.
- Examine inventory periodically to identify obsolete items to which, obsolete items should be disposed of properly and or transferred to surplus.

- Organize inventory into specific locations.
- Provide training to current and new employees.

Management Action Plan

None provided

Auditors Response

N/A

Pick-Up Purchase Orders

Inquiry of Public Service staff, a walk-through of pick-up purchase order (PUPO) control procedures, and a sample review of the pick-up purchase orders for use in compliance with Dallas County codes revealed Public Services is using other departments funding source codes on pick-up purchase orders without written or electronic authorization; 12 of 15 (80%) pick-up purchase orders sampled were within \$28.65 of the maximum PUPO amount allowance of \$500; and eight pick-up purchase orders used out of sequence.

Per the Dallas County 2016 Purchasing Manual, Pick-up Purchase Orders also known as Blanket Purchase Orders, is a funded Purchase Order to a vendor on contract or on a cooperative agreement. The Pick-up Purchase Order will reflect a specific period of time, list of commodities and/or services, budget/funding information, department, location. The Contract Number or Cooperative Contract Number is required to be referenced on the Pick-up Purchase Order. The maximum threshold allowed for a Pick-up Purchase Order is five-hundred dollars (\$500). Any department foreseeing a definite and regular need for items that are not available routinely should discuss with the Purchasing Department whether to obtain a Blanket Purchase Order for such items. Best practices related to the pick-up purchase order procedures indicate pick-up purchase orders should be issued in sequential order; departments should only use the funding source authorized for their department; and departments should only use funding codes authorized for their departments or with the written authorization from the responsible department.

The administration of the Public Service department is under Road & Bridge No. 3. As part of this arrangement Public Service is not recognized as a separate department and receives an allotment of pick-up purchase orders directly from Road and Bridge No. 3. This periodic distribution of pick-up purchase orders combined with incomplete controls related to the use of pick-up purchase orders has resulted an incomplete audit trail and increased the potential that departments may incur unauthorized charges, inventory may be misappropriated, and the competitive bid process may be circumvented.

Recommendation

Pick-Up Purchase Orders

Management should:

- Establish departmental written pick-up purchase orders procedures.
- Periodically review pick-up purchase orders for compliance with department developed pick-up purchase orders procedures and Dallas County Purchasing pick-

up PO procedures.

- Ensure pick-up purchase orders are obtained and used in order.
- Discontinue using other departments funding source codes on pick-up purchase orders. Instead a system should be established to track materials purchased for projects requested by other departments and charge these amounts back to the requesting department.

Management Action Plan

The Public Service Program has always received other department funding codes in writing, from the authorized person in that department. The Public Service Program does not go over \$499.99 on Pickup Purchase Orders (PUPO's). Correction, there were nine PUPO's out of sequence. That's not a recurring issue. This happened on one set of PUPO's that were picked up from Road and Bridge #3 (C24501, C24502, C24503, C24504, C24505, C24506, C24507, C24508, and C24509). This will be corrected by making sure when PUPO's are picked up that they are in sequence. Also, the Public Service Program has in writing a list of every PUPO issued to staff., with the reason needed and signature and date of staff who's picking up the PUPO.

Auditors Response

The Public Service Program indicated that they have always received other departments funding codes. However, written approval documentation was not kept in a file by the department.

cc: Darryl Martin, Commissioners Court Administrator