

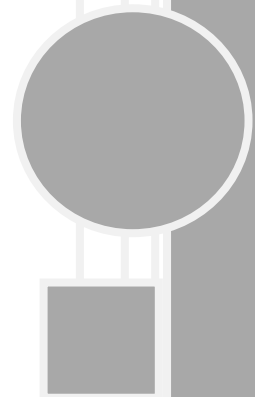


AUDIT REPORT

DALLAS COUNTY

ROAD & BRIDGE DISTRICT #3 INVENTORY - FY2019

Darryl D. Thomas
Dallas County Auditor
ISSUED: September 09, 2019
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ROAD & BRIDGE DISTRICT #3 INVENTORY - FY2019

TABLE OF CONTENTS

MANAGEMENT LETTER.....	3
EXECUTIVE SUMMARY	4
INTRODUCTION	5
DETAILS	6
Inventory Summary Variances	6
Diesel Inventory	7
Battery and Tire Inventory	8

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

Honorable Commissioner John Wiley Price
Dallas County Commissioner, District 3
Dallas, Texas

Attached is the County Auditor's final report entitled "**Road & Bridge District #3 Inventory - FY2019**" 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 that reads "Darryl D. Thomas".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

On August 13, 2019, a physical inventory of Dallas County Road and Bridge District No. 3's storeroom supplies, fuel and lube, and road materials was performed. The purpose of the review was limited to reconciliation of precinct records to the auditor's physical count and the Oracle general ledger. This report is intended for the information and use of management. A summary of significant observations is listed below:

Summary of Significant Observations

- Invoices recorded to stock cards for a lesser dollar amount than invoiced.
- Erroneous stock card entries resulting in inventory overstatements.

Repeat observations from Previous Audits:

- Variances between physical inventory count and department stock cards.
- Recording errors between invoice amounts and stock card amounts related to battery and tire purchases.
- Skipped and duplicate diesel ticket numbers

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 August 16, 2018 through August 15, 2019. The purpose of the review was limited to reconciliation of precinct records to a physical inventory count and the official general ledger. Other procedures for testing internal control and any findings are reported separately.

The audit procedures will include interviews with key process owners and a physical inventory count.

DETAILS

Inventory Summary Variances

The District 3 Road & Bridge Service Center is located at 1506 E Langdon Rd, Dallas, Texas 75241. Principal areas of responsibility include maintenance and repair of Dallas County's roads and bridges. During fiscal year 2018, District 3 was responsible for 101.787 road miles in addition to 5.398 road miles maintained on behalf of District 2, excluding the miles maintained under contract with other municipalities. Management of Road and Bridge 3 is overseen by Commissioner John Wiley Price. Staff consists of two administrative assistants, a road superintendent, and an office manager.

On August 13, 2019, a physical inventory of Dallas County Road and Bridge District No. 3's storeroom supplies, fuel and lube, and road materials. The physical inventory count balance of \$140,950.73 had a difference of \$1,421.46 as compared to the recorded inventory value on the district's stock cards of \$139,529.27 including seven items which accounted for a net total of \$1,419.41 of the variance.

Best practices require separation of duties, documented procedures, and immediate reconciliation and updates for transactions. Inventory records should be updated timely and accurately. Operational practices and review steps relevant to inventory should include procedural controls that provide reasonable assurance of accurate record-keeping for inventory purchases and usage. Periodic inventory counts should be performed during the fiscal year to update inventory records for all stock card items with current unit prices and quantities on hand. A formal process should be used to periodically identify and remove obsolete products. Obsolete inventory items such as tires, filters, and other inventoried supplies should be transferred to surplus and removed from the stock cards. The technique used to measure and report inventory should be consistent. A lack of controls and supervisory review or oversight, as well as, clerical errors in maintaining stock cards has resulted in inaccurate inventory records and potential financial losses to Dallas County.

Recommendation

Inventory Summary Variances

Management should:

- Establish written inventory procedures that include:
- Performing periodic inventory reviews to identify variances between inventory records and inventory on hand with supervisory review evidenced by initials or signature.
- Making inventory adjustments or corrections that are properly documented and referenced.
- Pursue a computerized inventory system.

Management Action Plan

Pursue a computerized inventory system.

Auditors Response

None

Diesel Inventory

Review of the diesel stock card activity, daily and monthly fuel reports, and fuel tickets issued August 14, 2018 through August 12, 2019 revealed six clerical errors related to the diesel fuel ticket numbers listed on the daily fuel report resulted in skips in the numerical sequence; five clerical errors related to the diesel fuel ticket numbers listed on the daily fuel report resulted in the recording duplicate ticket number; and the dollar value of diesel received on one invoice was recorded to the stock cards for only the \$12,712.61 cost associated with the UL Clear TXLed fee instead of the fuel diesel cost of \$13, 920.65 **Status: After notification from Internal Audit, the diesel stock card was corrected on September 5, 2019.**

Best practices require separation of duties, documented procedures, and immediate reconciliation and updates for transactions. Operational practices and review steps relevant to inventory should include procedural controls that provide reasonable assurance of accurate record-keeping for diesel fuel purchases and usage. Manual fuel tickets should be issued in numerical order and usage reports should completely account for all tickets used. A lack of supervisory review, inconsistent record keeping, and clerical errors has resulted in inaccurate/incomplete diesel fuel usage reports. These inaccuracies include skipped and duplicated fuel tickets which increased the potential that the misappropriation of diesel fuel could go undetected.

Recommendation

Diesel Inventory

Management should:

- Establish written inventory procedures and train staff on issuing manual fuel tickets.
- Periodically review manual fuel tickets to ensure all tickets are accounted for and issued in numerical sequence.
- Performed a review of the daily fuel sheets to minimize and/or eliminate ticket number errors recorded.
- Pursue implementation a computerized ticket system to replace manual fuel tickets. Meanwhile, consider developing a systemic process of issuing diesel tickets in sequential order and proper maintenance of fuel ticket issuance books so that all tickets will be accounted for and properly listed.

Management Action Plan

Monthly and periodic review of all clerical entries by Shop Foreman. Pursue automated pumps with cards to replace manual fuel tickets.

Auditors Response

None

Battery and Tire Inventory

A review of the battery stock card inventory purchases and issuances revealed recording errors between the invoice amounts and the amounts entered on the stock cards: three stock card entries include battery fees that were not charged on the invoice; battery fees were duplicated on four stock card entries; and The job costs associated with two battery work orders were understated by a total of \$49.86.

A review of all tire stock card inventory purchases and issuances revealed the job costs associated with two tire work orders were understated by \$140.24 and three stock card entries were recorded with dates that differ from the work order dates.

Best practices require separation of duties, documented procedures, and immediate reconciliation and updates for transactions. Operational practices and review steps relevant to inventory should include procedural controls that provide reasonable assurance of accurate record-keeping for inventory purchases and usage. Periodic inventory counts should be performed during the fiscal year to update inventory records for all stock card items with current unit prices and quantities on hand. Similar inventory possessing characteristics that distinguish the items as having differing functions (i.e. straight, left-sided) and costs should be recorded on separate stock cards.

Inconsistent supervisory review, inadequate employee training and clerical errors related to the manual job costing and stock card processes have resulted in inaccurate financial records, which increase the likelihood for inventory overstocks/shortages and increased the potential that the misappropriation of inventory could occur without detection.

Recommendation

Battery and Tire Inventory

Management should establish written inventory procedures that include:

- Performing periodic inventory reviews to identify variances between inventory records and inventory on hand with supervisory review evidenced by initials or signature.
- Timely updating stock card issuances based on the checkout logs.
- Making inventory adjustments or corrections that are properly documented and referenced.
- Train staff on established inventory procedures and on how to properly identify amounts that should be included in the inventory item's cost.

Management Action Plan

Monthly and periodic review of all inventory entries.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator