

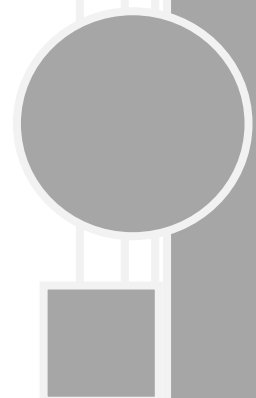


AUDIT REPORT

DALLAS COUNTY

ROAD & BRIDGE NO. 3 INVENTORY - FY2018

Darryl D. Thomas
Dallas County Auditor
ISSUED: October 04, 2018
RELEASED: January 09, 2019



ROAD & BRIDGE NO. 3 INVENTORY - FY2018

TABLE OF CONTENTS

MANAGEMENT LETTER.....	3
EXECUTIVE SUMMARY	4
INTRODUCTION	5
DETAILS.....	6
Inventory Summary	6
Diesel Tickets Continuity.....	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 No. 3 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 that reads "Darryl D. Thomas". The signature is fluid and cursive.

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

On August 14, 2018, 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

- **Diesel:** The diesel inventory physical count of 3,607 is 355 gallons less than the 3,962 gallons recorded to the diesel stock card. The total cost of the variance is \$852.
- **Diesel:** Twelve diesel fuel ticket numbers were duplicated and 345 ticket numbers were skipped on the monthly fuel usage report submitted to Financial Audit.
- **Battery:** The cancelations of three work orders were not recorded to the inventory stock under-stating inventory by four batteries valued at \$201.92.

Repeat Observations

- Variances between physical inventory count and department stock cards.
- Diesel ticket skipped in numerical sequence.
- Diesel ticket numbers duplicated.

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 14, 2017 through August 15, 2018. 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

The District No. 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, as well as, those of other municipalities that have maintenance contracts with Dallas County. During fiscal year 2018, District No. 3 was responsible for 101.787 road miles in addition to 5.398 road miles maintained on behalf of District No. 2, excluding the miles maintained under contract with other municipalities. Management of Road and Bridge 3 is overseen by Commissioner John Wiley Price. Office staff consists of a road superintendent, an office manager, and two administrative assistants.

On August 14, 2018, a physical inventory of Dallas County Road and Bridge District No. 3's storeroom supplies, fuel and lube, and road materials. The count of inventory on hand compared to the district's stock cards revealed a variance of \$849.61 with majority of the variance was due to diesel fuel. The diesel inventory physical count of 3,607 was 355 gallons less than the count recorded to the diesel stock card resulting in an overstatement of \$852 of diesel inventory. Inquiry of Road and Bridge staff revealed that the department was inconsistent in its measurement technique for diesel fuel inventory, switching between the Veeder reading and a diesel fuel conversion chart; these different measurement techniques produce different results.

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 timely stock card reviews and reconciliation resulting in inconsistencies in measuring diesel fuel have caused inaccurate and incomplete inventory records increasing potential financial losses to Dallas County.

Recommendation

Inventory Summary

Management should:

- Establish written inventory procedures and train staff that include:
- Performing periodic inventory reviews to identify variances between inventory records and inventory on hand with supervisory review evidenced by initials or signature.
- Adjust stock card balances to reflect accurate inventory counts.
- Reconciling diesel fuel stock cards monthly evidence by supervisory review.

- Measuring diesel fuel tank levels frequently against the daily Diesel Veeder Meter Reading Report and note any variances.
- Continue monitoring diesel pump controls that measure fuel usage and examine the fuel storage tanks for possible leakage prior to and after fuel has been delivered with adjustments or corrections properly documented and referenced. All errors or material variances should be investigated and corrected as appropriate.
- Pursue a computerized inventory system.

Management Action Plan

We will formally request an electronic inventory system, comparable to the Fleet Management System like the one being used by the ASC so that we can add inventory as it arrives and maintain a better accounting. Our present system of reconciling invoices with the records of our staff creates too many opportunities for errors.

Auditors Response

None

Diesel Tickets Continuity

Review of the monthly fuel tickets report for diesel fuel tickets issued August 18, 2017 through August 13, 2018 revealed 345 skipped ticket numbers and 12 duplicated diesel ticket numbers.

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 ticket used.

A lack of consistent records and regular diesel ticket reviews has resulted in inaccurate and incomplete diesel fuel usage reports and increases the potential that the misappropriation of diesel fuel could go undetected.

Recommendation

Diesel Tickets Continuity

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 of the Fuelman Card 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

We will conduct a monthly and random in-house audit of our diesel tickets to ensure that we reduce and eliminate the number of duplicate and missed tickets. When any deviations are made, they will be promptly noted before our annual audit.

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: the total costs for two different types of batteries were combined and recorded as a single transaction on an inventory stock card; one invoice was recorded to two stock cards, overstating battery inventory by \$233.46; a "non-stock battery" purchased for immediate installation was erroneously recorded to an inventory stock card overstating battery inventory for that stock item by \$96.60; and the cancelations of three work orders were not recorded to inventory stock card 32568, understating battery inventory by four batteries valued at \$201.92.

A review of tire purchases recorded to the inventory stock cards for the period revealed one invoice was over-recorded in the amount of \$41.02 due to the inclusion of the Federal Excise Tax (FET); the amount was credited on the vendor work order.

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.

A lack of regular monthly reviews and inadequate employee training has resulted in inaccurate financial records due to inventory items being recorded for incorrect amounts which could result in inventory overstock or shortages and increases the potential that the misappropriation of assets could persist undetected.

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

We will conduct a monthly and random in-house audit of our batteries and tires to ensure that we are reporting their usage properly. We will design a new system to be used by the mechanics to detect errors.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator