

**Douglas County Internal Audit Division
(DCIAD)**



**Special Report of
Year-end Purchasing Department Inventory
FY 2010/2011 - #02**

August 30, 2010

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DOUGLAS COUNTY INTERNAL AUDIT DIVISION

To: John LeMay, Purchasing Agent
Douglas County Purchasing Department

From: Carmen Harmon, Internal Audit Administrator
Douglas County Internal Audit Division

Date: August 30, 2010

RE: Fiscal Year End Purchasing Department Inventory

The Douglas County Internal Audit Division (DCIAD) conducted the following inventory counts:

- Garage: June 10, 2010, Parts and Fuel
- Garage: June 16, 2010, Follow-up Fuel
- Warehouse: June 11, 2010, Materials

As part of the fiscal year audit plan, DCIAD staff performs compliance and internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by DCIAD to formulate a professional opinion, issued in the Comprehensive Annual Financial Report (CAFR), concerning financial reporting in Douglas County.

The year-end Douglas County Purchasing Department inventory was conducted in accordance with Standards for the International Professional Practice Framework (IPPF) of the Institute of Internal Auditing. Such standards require we plan and perform our work to adequately assess those operations which are included in our scope. The inventory included verifying the inventory count of parts, fuel and materials and performing procedures we considered necessary to support report findings and recommendations.

This special report describes the results of the compliance and audit testing of the Douglas County year end purchasing department inventory.

We would like to thank you and your staff for your cooperation and assistance during this activity.

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Executive Summary

The Douglas County Internal Audit Division verifies the counts of parts, fuel and materials at the Douglas County Garage and Warehouse facilities. This physical examination determines whether inventory is accurately recorded in all computerized systems. As part of the year-end Douglas County Purchasing Department inventory the following findings were noted:

GARAGE

FINDING #1: The garage is inconsistently utilizing multiple “storerooms” and inventory status flags on parts within the FASTER fleet and asset management software system.

FINDING #2: Parts were issued in the FASTER fleet and asset system during the inventory process.

FINDING #3: The storeroom door was not locking properly.

FINDING #4: The FASTER fleet and asset system and GASBOY petroleum dispensing system security is not securely maintained.

FINDING #5: The FASTER fleet and asset management software system has incorrect information listed on the system reports and systems utilized should be sufficient to properly record the County’s fuel inventory.

WAREHOUSE

FINDING #1: There were obsolete items in the warehouse inventory. Some items had inaccurate descriptions within the Oracle inventory module.

FINDING #2:

There was a significant increase in inventory variance from the prior year.

Objective:

The objectives of the review were to:

- Conduct a physical examination of Douglas County Garage and Warehouse inventory and determine whether the inventory is accurately recorded in current computer applications and systems and;
- If a variance is determined, correcting adjustments should be entered in to Douglas County financial records
- DCIAD examined entries for accuracy.
- Verify the final inventory count for fiscal year 2009/2010

Scope and Methodology

The Douglas County Purchasing Department (DCPD) maintains an inventory of parts, materials, fuel and other equipment. The two locations where inventory is stored are the storage warehouse, located at 1225 South 40th Street, and the Douglas County Garage, located at 15445 West Maple Road.

The physical inventory inspection was conducted at the Douglas County Garage on June 10, 2010, and at the Douglas County Storage Warehouse on June 11, 2010. Follow-up fuel inventory was conducted at the Garage on June 16, 2010. DCIAD assisted the Douglas County Purchasing Department on-site staff perform a physical inventory of parts, and materials. Detailed procedures are performed to verify the location and existence of the inventory stored on these sites.

Purchasing Department inventory records are located in the Oracle Inventory module for the Douglas County Warehouse; and the FASTER, Matrix Fluid Management System and GasBoy computerized information systems for the Douglas County Garage.

In determining the dollar value of the parts and materials inventoried, DCIAD utilized the current unit cost based on the actual prices at the time of inventory.

Background

The Douglas County Purchasing Department buys supplies and services to be used by Douglas County, the City of Omaha and the Douglas-Omaha Technology Commission (DOT.Comm).

Some of the services and goods purchased by the Douglas County Purchasing Department are:

Office supplies and furniture, gravel, sand or rock, construction work, architectural services, janitorial services, cars and trucks, mowers and mower parts, computers and computer software, heating and cooling equipment, lighting fixtures, lighting and electrical installation, communication equipment, carpeting and floor covering, street improvements, grounds maintenance and landscaping, building demolition, rubbish container service, as well as a host of other services and supplies.¹

The Douglas County Purchasing Department (DCPD) maintains an inventory of parts, materials, fuel, and other equipment at two locations. The Garage, located at 15445 West Maple Road and the Warehouse, located at 1225 South 40th Street is the second location where inventory is stored.

¹[Douglas County Purchasing website, "Doing Business With Us"](#)

GARAGE INVENTORY

In the last year the garage has implemented the following to improve inventory control:

- Using Bar Code scanners at the parts counter
- Using Palm Pilot for Inventory counts during annual inventory
- Parts Room is locked 24/7 with pass code entry only
- Segregation of responsibilities for GasBoy system
- Matrix Fluid Management System installed to assist in monitoring bulk oils

An interlocal agreement with the City of Omaha was approved by the Douglas County Board on February 28, 2006, to establish and maintain the Fleet Management Information System (FASTER). Testing of the FASTER system was completed at the 2007/2008 fiscal year end. Official implementation and utilization of the FASTER system began July 1, 2008. The garage had previously applied the utilization of barcodes that are documented in FASTER and placed with the inventory. During the inventory process this year, the garage implemented the utilization of handheld “palm pilots” with scanning capability. The palm pilots were used by Purchasing/Garage staff to scan the barcode, manually input the count, and upload the count into FASTER for each item. Douglas County Internal Audit Division staff verified and manually recorded the count on the Parts Inventory Report, as the adequacy and efficiency of the palm pilot process had not been previously evaluated.

The parts and fluid (excluding fuel) inventory itself was conducted in location specific order. However, the location of the parts in the storeroom had not been accurately updated within the FASTER system. As a result, the Parts Inventory Report which listed parts by location was not accurate. The report could not be divided up amongst staff, rather multiple copies of the same report were provided to the DCIAD staff recording the inventory. This increased the recording time for the staff; additional time was required to locate each item on the report. Some items listed on the report as being in the section inventoried, were in a section being inventoried by another recording staff.

As the process was taking longer than expected, the garage started utilizing parts during the inventory counting process. The garage staff marked the parts’ location with tape, signifying a part had been removed. Garage staff processed work orders utilizing the FASTER system during the inventory count.

After the initial inventory process, a reconciliation of the recording sheets was conducted and items that had not been recorded by either recording staff were identified. The palm pilots’ inventory counts were uploaded into the FASTER system, while a DCIAD staff observed the manual process. Garage staff ran a follow-up report that showed inventory parts not counted. DCIAD staff and garage staff conducted a follow up count of those items. DCIAD staff observed the upload of these items as well. After uploads were

complete, DCIAD was provided with the FASTER Parts Audit Reports which documented the parts and fluids that had an adjustment in quantity.

On June 10, 2010, Douglas County Garage staff conducted the first GasBoy/Tank reconciliation procedure, without DCIAD staff. The procedure was repeated with DCIAD staff present. Afterward, garage staff identified the process should be conducted again, as a step was missed. DCIAD staff observed while the third GasBoy/Tank reconciliation procedure was conducted. The information was uploaded into FASTER. Garage staff verified there was an issue with the multiple reconciliations and the upload into the FASTER system and that the reconciliation would have to be performed again. The DCIAD returned to the garage on June 16, 2010, for an additional GasBoy/Tank reconciliation. The GasBoy/Tank reconciliation and FASTER upload were performed with DCIAD staff. Garage staff provided a copy of a fuel transaction report for fuel transactions posting on June 10, 2010.

After the inventory process, DCIAD reconciled the Parts Audit Reports against the manual count sheets. There were nine items that had been adjusted inaccurately due to work orders processed in the FASTER system during the inventory count. These nine items totaled \$173.28.

Prior to the inventory count, the garage utilized storeroom 700 for items that are considered “non-stock” and storeroom 900 for items that are considered obsolete. The “non-stock” flag is checked on parts that are no longer considered active inventory by the garage. When inventory reports are ran, these items are excluded from the reports parameters so that only stock parts in active storerooms 777, 888, and 999 would be included in the fiscal year end Parts Audit Report. However, there still may be parts located in storeroom 700 and 900 that are not sold during the yearly auction and are not accounted for during inventory. Storerooms 700 and 900 were not included as part of this year’s inventory process. As a result, the existence of parts within these storerooms was not verified.

After the inventory count, the garage stated storeroom 700 had been removed and would not be utilized. Items previously located there will be sent to auction in August 2010. On July 1, 2010, a Parts Inventory Summary Report was run and listed storeroom 700 with 50 distinct parts, a quantity in stock of 61, and cost of \$0.06. The report was run on July 19, 2010, and contained the same information.

The final garage variance was \$914.10. However, the following issues are outstanding as of the date of this report and are not included in the garage variance total:

- \$173.28 of inaccurately adjusted items that were utilized during inventory.
- \$286.58 of inventory not adjusted as of the date of this report.

The following represents the fuel adjustments:

Unleaded

- On June 10, 2010, a fuel adjustment of 131.1 gallons was processed within FASTER. Upon review, it appears as if the fuel adjustment for this date should have been 80.7 gallons.
- On June 16, 2010, a fuel adjustment of -9.3 gallons should have been uploaded. However, the process was incomplete and no follow up adjustment was conducted.
- DCIAD is unsure as to why the follow up variance was -9.3 gallons instead of -50.4 gallons (80.7-131.1).

Diesel

- On June 10, 2010, a fuel adjustment of 597.4 gallons was processed within FASTER.
- On June 16, 2010, a fuel adjustment of -8.9 gallons was processed within FASTER.

FINDING #1:

The garage is utilizing multiple “storerooms” and inventory status flags on parts within FASTER. These storerooms and flags may represent inventory still located at the garage, but are not included in the inventory count. There were obsolete parts identified during the inventory process. Parts were not listed in the updated storeroom location within FASTER. Some parts did not have barcodes and/or were not accurately labeled.

CONDITION: The garage has been removing obsolete items from the storeroom. However, some obsolete parts were identified in the active storeroom during the inventory count. There are parts within the garage that were in the FASTER system, but were not located in the storerooms during the inventory count. Parts are not consistently and accurately labeled.

CRITERIA: Inventory of the County’s assets should be adequately maintained. All receipt, maintenance, and utilizations of inventory should be accurately recorded. Obsolete parts should be removed from inventories on a regular basis.

EFFECT: Proper management of inventory is necessary for adequacy of controls. Undocumented parts can result in shrinkage of assets, inappropriate utilization, and sustaining obsolete inventory. Obsolete inventory can take up storage space, inflate the value of the inventory, and increase record keeping requirements.

CAUSE: Currently, the Garage has parts stored on location that are not documented or maintained in the FASTER system. Some items located in the storerooms had not been utilized for an extended period of time. Some parts were identified as obsolete and transferred physically to another storeroom, but were not updated in the FASTER system. Some parts were transferred to other storerooms but were still physically located in the originating storeroom. Some labels and FASTER reports contained outdated information.

RECOMMENDATION: The County Garage staff should keep an accurate record of all parts stored. Stored parts should be physically kept separate from garage inventory and clearly labeled. Periodic counts of the stored inventory should be conducted and documented during the fiscal year.

Obsolete inventory necessitates the item be removed, surplused or discarded. Policies and procedures should include criteria to identify when an appropriate period of time has elapsed for an item to be identified as obsolete. The procedures should also include instructions for accurately and completely documenting the handling of the item.

The garage has implemented; 1) practices to reduce the number of obsolete parts, and 2) technology and structural changes to assist in assuring the tracking of parts received and utilized. The garage should continue to improve upon practices and periodically evaluate

the internal controls to assure they are functioning adequately. Written policies and procedures, periodic documented verification counts, and utilization of the FASTER system's notation capability can all be utilized to assist in this process.

RESPONSE: The Garage continues to make improvements and has alerted staff to find and adopt better record keeping practices and monitor the process to ensure parts are being stored and recorded properly. Periodic counts will be made throughout the year.

Final

FINDING #2:

Parts were issued in the FASTER fleet and asset system during the inventory process.

CONDITION: The garage had informed DCIAD staff that no parts would be issued out during the inventory process.

CRITERIA: Parts should not be removed from inventory during an inventory count or a process should be in place to assure that the removal and processing of parts is accounted for accurately during the inventory process.

EFFECT: The distribution of parts and recording of parts within the FASTER system during the inventory can create erroneous adjustments within the system when the inventory is uploaded from the scanners. The dissemination of parts through work orders decreased the in stock status of the part by the number disseminated. When the upload of the inventory occurred, the in stock number was adjusted within the system to the number counted at the time of inventory. This created an overage of nine items representing \$173.28.

CAUSE: Due to time constraints, the garage staff decided to start utilizing in stock parts and process work orders during the inventory manual counts. A process had not been established as to how to account for the removal of parts from their stored location and recording of parts within the FASTER system.

RECOMMENDATION: Either no parts are disseminated during the inventory or a procedure is created to identify the parts being utilized and how to appropriately account for the utilization during the inventory.

RESPONSE: The Garage has the capability to electronically perform the annual inventory process in a clean and seamless process. Adopting this inventory process will reduce staffing needed, improve accuracy and speed up the process to eliminate the need to issue parts during the inventory.

FINDING #3:

The storeroom door was not locking properly.

CONDITION: During the inventory process, the parts storeroom door was pushed on and opened without the code for the lock being entered. As garage staff routinely enters the pass code to unlock the door, the amount of time the locking mechanism of the door was not engaging was unknown.

CRITERIA: The garage had structural changes made to the storeroom location to assure the security of parts stored within. Part of the physical security that was implemented was locked doors requiring a pass code to access the storeroom.

EFFECT: A door not locking properly decreases the integrity of the physical security by potentially allowing unauthorized individuals access to the parts.

CAUSE: The door appeared to have settled out of place blocking the locking mechanism.

RECOMMENDATION: DCIAD staff verified the garage staff had corrected the issue by the end of the inventory process. Garage staff should continue to periodically check the doors to validate they are locking appropriately.

RESPONSE: Physical adjustments to the door frame were made by Public Property staff.

FINDING #4:

The FASTER fleet / asset and GASBOY petroleum dispensing systems security is not securely maintained.

CONDITION: The FASTER and GASBOY systems should be securely maintained.

CRITERIA: When employees are not present, workstations are not locked through utilization of a password.

EFFECT: Increased errors can occur in parts management. Unauthorized updates, additions and deletions can take place.

CAUSE: System security features are not being utilized to the full potential.

RECOMMENDATION: Create policies and procedures to document processes. Restrict access to systems by requiring unique login utilization and lock down computer stations when they are not being directly utilized by staff.

RESPONSE: The Garage has segregated the responsibilities and duties of the fuel system recording process and feels it has sufficiently secured the operation. The computers used for the system are under constant supervision during working hours and the programs have a series of passwords and protocol to prevent unfamiliar users from accessing the system. These pc's are locked down during after hour operations.

FINDING #5:

The FASTER fleet and asset management software system has incorrect information listed on the system reports and systems utilized should be sufficient to properly record the County's fuel inventory.

CONDITION: During a review of the raw trans files and the transaction report provided on June 16, 2010, a transaction was noted as having a different quantity between the two sources. Follow up with garage staff verified a discrepancy in the reporting system had been identified on a different report, but no followed up on as verification of the information was possible on other reports. However, in this circumstance, follow up would be necessary.

GASBOY and FASTER have inconsistent fuel levels. This condition was identified during last year's inventory process².

CRITERIA: Systems utilized should be sufficient to properly record the County's fuel inventory. Reports generated by a system should be accurate.

EFFECT: Assurance that the information contained within the FASTER system is accurate is diminished when the reporting tools are not functioning appropriately. Reconciliation of transactions may be inadequately conducted by reviewing a single report thereby increasing the necessity for additional review of system's reports or data. This creates inaccurate documentation of fuel inventory within the two systems. As this anomaly occurs, but the cause cannot be identified, there is the potential for increased irregularities in fuel recording.

The difference between FASTER and GasBoy creates inaccurate documentation of fuel inventory within the two systems. As this anomaly occurs, but the cause cannot be identified, there is the potential for increased irregularities in fuel recording.

CAUSE: The specific cause of the discrepancies cannot be identified.

RECOMMENDATION: When an issue is identified in the FASTER fleet management system, the garage management should follow up with the vendor to correct the problem when it occurs. Garage management stated in the 2008/09 year-end inventory report, "the Garage Supervisor should continue to work with the Inventory control clerk and garage clerk on reports that will help to identify the inconsistencies and document the process." Management should validate the cause of the inconsistency and mitigate the affect on the fuel inventory.

² [YEAR-END PURCHASING DEPARTMENT INVENTORY REPORT ON INTERNAL CONTROLS](#)¹⁴
[FY 2009/2010 #02](#)

RESPONSE: The Garage has corrected the information that contributed to the variation on the fuel reports. GasBoy and Faster do not associate together regarding fuel levels. The fuel inventory levels are compared between the Tank Monitoring System and Faster. GasBoy is a transaction recording function only and is interfaced with Faster to ensure all transactions were appropriately billed.

AUDIT COMMENT: The GasBoy system records transactions that are interfaced into FASTER. As these two systems record transactions, other fluctuations such as temperature that affect the Tank Monitoring System do not affect the FASTER and GasBoy systems. Therefore, transactions recorded in both systems should be identical unless adjustments are made within the FASTER system after the interface occurs. FASTER allows for the documentation of adjustments conducted within the system. As a result, fuel levels within the systems should remain consistent as well, unless adjustments occur within the FASTER system. This issue was verified and listed in last year's inventory special report as exception number six. The management response was "*The Garage Supervisor will work with the Inventory control clerk and garage clerk on reports that will help to identify the inconsistencies and document the process*"³. Management should be aware of and continue to review systems for undocumented discrepancies within these systems. DCIAD did not verify the correction of the variations on the fuel reports as they occurred after the inventory process.

³ [YEAR-END PURCHASING DEPARTMENT INVENTORY REPORT ON INTERNAL CONTROLS
FY 2009/2010 #02](#)

WAREHOUSE INVENTORY

The Douglas County Purchasing Department (DCPD) maintains an inventory of parts, materials, fuel, and other equipment. The Warehouse, located at 1225 South 40th Street is the second location where inventory is stored.

Immediately following the physical inventory of the Warehouse, Warehouse staff and DCIAD staff reviewed any inventory count in question. Follow-up counts were made for each of these items. Once the information was validated, the adjustments were entered into the Oracle system.

The final warehouse variance was \$16,891.82. However, the following issues are outstanding as of the date of this report and are not included in the garage variance total:

- The counted value for an item was 322.8 and the item was entered as 332.8. The value for this item was overstated by \$34.38. The adjustment for the quantity correction has not yet been entered into Oracle and is not reflected in the inventory variance total stated previously.

The warehouse variance for last fiscal year was \$2,603⁴. Compared to the current variance of \$16,892, there is a significant increase in variance from the prior year.

⁴ [YEAR-END PURCHASING DEPARTMENT INVENTORY REPORT ON INTERNAL CONTROLS](#)16
[FY 2009/2010 #02](#)

FINDING #1:

There were obsolete items in the warehouse inventory. Some items had inaccurate descriptions within the Oracle financial system, inventory module.

CONDITION: There were obsolete items identified during the inventory process. Items were not clearly labeled. The Inventory Quantity Summary Report had some items with inaccurate item descriptions.

CRITERIA: All receipt, maintenance, and utilizations of inventory should be accurately recorded. Obsolete parts should be removed from inventories on a regular basis.

EFFECT: Proper management of inventory is necessary for adequacy of controls. Undocumented parts can result in shrinkage of assets, inappropriate utilization, and sustaining obsolete inventory. Obsolete inventory can take up storage space, inflate the value of the inventory, and increase record keeping requirements.

CAUSE: The Purchasing Department updates the pricing information within the Oracle system as necessary. However, if the description has changed, it may not be updated in Oracle. Some items had not been utilized for an extended period of time.

RECOMMENDATION: Keep an accurate record of all items stored. Obsolete inventory necessitates the item be removed, surplus or discarded. Policies and procedures should include criteria to identify when an appropriate period of time has elapsed for an item to be identified as obsolete. The procedures should also include instructions for accurately and completely documenting the handling of the item.

RESPONSE: The Buyer monitors items as they are ordered and will make corrections to descriptions and identifying any items that have been deemed obsolete. The Warehouse supervisor will verify to the buyer if any item needs correcting throughout the year.

FINDING #2:

There was a significant increase in inventory variance from the prior year.

CONDITION: The final warehouse variance was \$16,892. The warehouse variance for last fiscal year was \$2,603.49. Prior to the inventory, it was identified that there were Oracle issues with the Warehouse inventory during the 2009/2010 fiscal year. After the inventory, Warehouse staff verified the Oracle issues have been solved per DOT.Comm. The issue was items were not deducted out of inventory when the departments received the product. At the time of the inventory, it was believed the situation had been corrected.

CRITERIA: Inventory of the County's assets should be adequately maintained. All receipt, maintenance, and utilizations of inventory should be accurately recorded.

EFFECT: Incorrect financial transactions may be recorded within the system. Departments may have been charged for inventory they did not receive. The receiving of inventory may not have been recorded within the system. The Oracle issue may not be resolved.

CAUSE: There was a significant increase to the inventory variance between the last fiscal year and the current.

RECOMMENDATION: This issue should be reviewed by management and DOT.Comm to ensure that the overage was not due to issues such as; system issues, inappropriate charges to departments, incorrect adjustments.

RESPONSE: The Purchasing Department will spot check the inventory throughout the year and with special attention to all items when the system has a ticket logged with DOT.Comm on an Oracle inventory issue. We will continue to monitor with DOT.Comm any open tickets when system is not functioning correctly.