

**DOUGLAS COUNTY INTERNAL AUDIT DIVISION**

**Final Report**

**Year End Purchasing Department Inventory**

**Fiscal Year 2008/2009 Special Report # 02**

**Douglas County Garage and Warehouse**

**September 8, 2008**

## DOUGLAS COUNTY INTERNAL AUDIT DIVISION (DCIAD)

### **Year End Purchasing Department Inventory Fiscal Year 2008 / 2009 Special Report # 02 Douglas County Garage and Warehouse**

#### **INTRODUCTION**

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 40<sup>th</sup> Street, and the Douglas County Garage, located at 15445 West Maple Road.

Each year the Douglas County Internal Audit Division (DCIAD) conducts detailed procedures verifying the location, and existence, of the inventory stored at these sites.

Purchasing Department inventory records are located in the Oracle Inventory module for the Douglas County Warehouse; and the LGFS, GINP, and Gas-Boy computerized information systems for the Douglas County Garage.

The inventory procedures conducted by Douglas County Internal Audit Division are an established part of the annual test work performed by the DCIAD for the County's external auditors, and an effort to help the Purchasing Department maintain accurate records.

#### **OBJECTIVES AND SCOPE**

The objectives of the review were to;

- conduct a physical examination of Douglas County Garage 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 and,
- DCIAD will review entries for accuracy.
- verify the final inventory count for the fiscal year 2007/2008

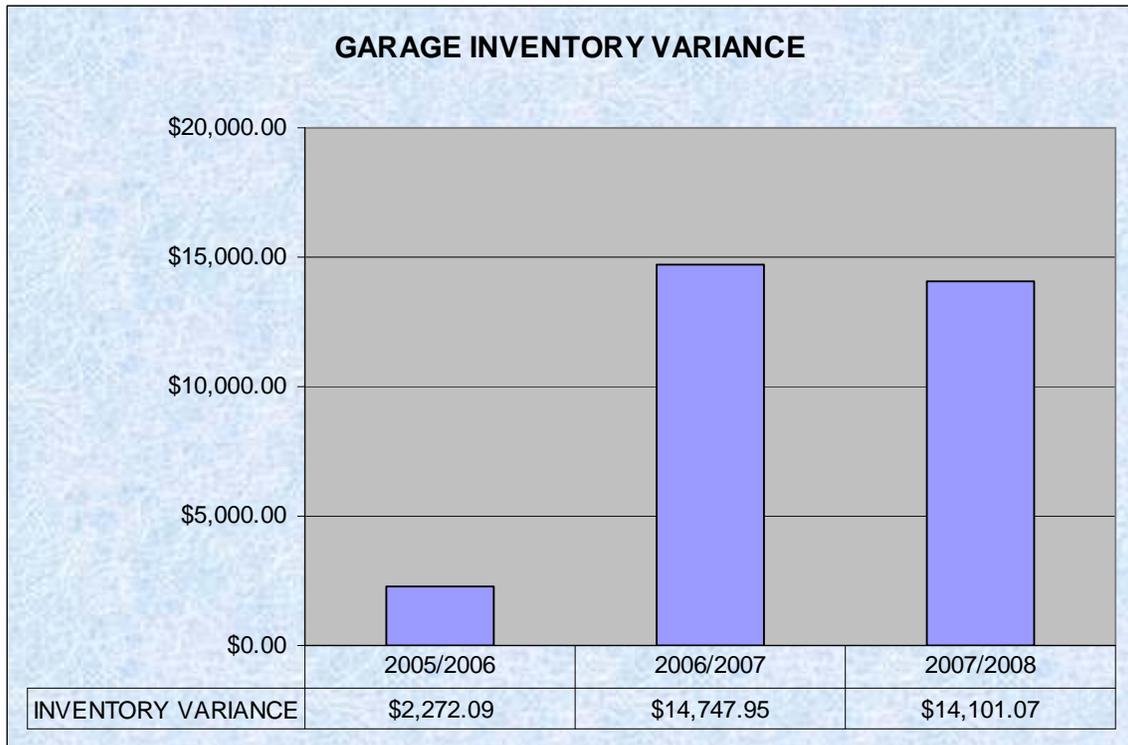
**OVERALL EVALUATION**

Douglas County Purchasing Department on-site staff helped DCIAD staff perform a physical inventory of parts, and materials. Initially, DCIAD scheduled the inspection at the Douglas County Garage on June 9, 2008. Once onsite, DCIAD found the Garage utilizing generator power due to a power outage initiated by a storm. As a result of the power outage, the Garage computer systems were not functioning appropriately. The inventory inspection for the Garage was rescheduled and conducted on June 11, 2008. The inventory inspection was conducted at the storage warehouse on June 13, 2008,

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.

At the Douglas County Warehouse, DCIAD calculated a variance on 914 items, for a total of \$1083.27.

According to the accounting records of the Douglas County Purchasing Department, and the DCIAD physical Count of inventory (not including gas), a variance of \$14,101.07 was revealed at the County Garage.



After analyzing the results of the inventory count, and reviewing adjustments, DCIAD would like to report the following observations and recommendations;

### ***Fleet Management System***

As referenced in DCIAD's Year End Purchasing Department Inventory Fiscal Year 2006 / 2007 Special Report # 07 (fiscal year 2006/2007), the Douglas County Garage and Warehouse, an interlocal agreement with the City of Omaha, was approved by the Douglas County Board on February 28, 2006 that established financial responsibilities for the implementation and maintenance of a Fleet Management Information System. During the 2006/2007 inventory, purchasing verified a new Fleet Management System (FASTER) was anticipated to replace the existing system. The expected start date of FASTER was October, 2007. However, the expected start date had been revised to July 1, 2008. Ongoing testing had been conducted on the FASTER system while the old systems were being maintained. As a result, garage inventory entries were required to be inputted into multiple systems (FASTER, LGFS, GINP, and Gas-Boy). In addition, garage staff verified the bar code system was not yet functioning.

The numbers verified during the inventory of parts, materials, fuel and other equipment will be utilized as the starting numbers for the FASTER system on July 1, 2008.

### **Finding # 1**

The garage inventory revealed a variance of \$14,101.07.

### **Recommendation**

Implementation of the FASTER system is anticipated to allow for increased accountability of the Garage inventory. The Garage conducted a follow-up count of all discrepancies identified in the inventory process to reconcile numbers utilized as starting inventory in the FASTER system. A periodic verification count should be conducted on items routinely identified as having inconsistencies and any issues identified can be addressed and corrected. Documentation of these corrections should be maintained by Garage staff.

### **Finding # 2**

There are several items on the current inventory that garage personnel explained are obsolete.

### **Recommendation**

According to *The Free Dictionary by Farlex*, : "obsolete inventory is a term that refers to inventory that is at the end of its product life cycle and has not seen any sales or usage for a set period of time usually determined by the industry". This type of inventory has to be written down and can cause large losses for a company. Obsolete inventory necessitates the item be removed, surplused or discarded.

### ***Inventory Management***

In the 2005/2006 audit, DCIAD mentioned that physical access to the storage room was open to the entire staff at the Garage; mechanics, administration and vehicle operators. In the Fiscal Year 2006/2007 Special Report # 07, it was verified the condition continued to exist and:

- If authorized personnel are not present at the parts counter, or if parts are needed by highway department employees after hours, parts can be removed that are not accurately recorded.
- After discussion with Garage management it was determined that a lack of proper internal control has contributed to the documented inventory variance.

During the current inventory, it was verified this situation continued through the current period reviewed. Discussion with Garage staff verified inventory discrepancies were still being caused by individuals utilizing parts without accurately recording the inventory change. In addition, some errors were attributed to the dual entering of information in multiple systems.

### **Finding # 3**

Removal, and return, of stock by employees, without accurately recording removal, or return, of stock has contributed to increased inventory variances.

### **Recommendation**

Inputting information into the system is the responsibility of the individuals charged with system oversight and is necessary to maintain accurate records.

Also, to avoid the possibility of parts being removed, or replaced, without properly recording the transaction, consideration should be given to improving controls over physical access to inventory areas, possibly by installing a lockable roll gate at the parts counter.

### ***Fuel Costs***

DCIAD requested data to review the gas usage for the last fiscal year. The Douglas County Garage supplied a GASBOY and GINP report. As there will be a change in the inventory system between the year currently being reviewed and the next fiscal year, a more in depth analysis of the gas data was planned. The GASBOY and the GINP reports lacked the detail necessary to complete this review. Specifically, these reports did not include the unique key identifiers for the employee and the car for each corresponding entry of utilization of the County pumps. DCIAD was told by garage staff that the raw data for these transactions was maintained by garage staff for verification purposes. The raw data was provided to DCIAD by the garage for review.

Gas variance for the current review is as follows: -80.3 gallons (\$197.54) of diesel and -142.6 gallons (\$362.20) of unleaded.

For key inventory purposes, a high-level review was conducted of the vehicle and employee keys compared to the raw data. In addition, the garage provided three key assignment lists: an incomplete electronic version received June 24, 2008, one included with the GASBOY Fleet Key Encoding Manual received on July 31, 2008, and an updated hardcopy list received on August 1, 2008. The electronic version and the updated version lists contained the keys assigned to specific departments with the corresponding car descriptions and employee names. It was noted the lists were not consistent in all circumstances. The GASBOY Fleet Key Encoding Manual contained a listing of the range of keys assigned to the corresponding department. The following were noted (as the inventory process was not an in-depth audit, the following does not represent all inconsistencies):

- Inconsistencies in the assignment of keys.
  - There were gaps in the garage assigned number. In some instances, the County Alpha and the assigned key number are sequentially not the first assigned to that department.
  - There was an instance of a key being assigned to two different departments, depending on which assignment list was reviewed.
  - There were departments identified as having key ranges “not in use” in the GASBOY Fleet Encoding Manual. However, there were instances where department did have cars assigned to it and gas utilization during the year. Only one of the keys was noted as being deleted.
  - An employee of one department being assigned to a key that appears to show a different department when utilized.
  - There were car keys assigned that had county vehicle numbers assigned but no description was available.
  - There were vehicle keys assigned with “miscellaneous” for the description
- Gas utilization after the County auction with keys corresponding to cars noted as being sold in the auction.
- Gas utilization with employee keys not assigned to a specific employee.
- A vehicle keys utilizing both unleaded and diesel gas.
- Gas utilization by employee and vehicle keys that are not consistent.
- An attempt to utilize a car key that had been cancelled.

These issues were reviewed with Garage staff. Some of the discrepancies were explained by:

- The specific details of key assignment were not complete on the assignment list
- Incomplete key termination history on key assignment list
- Surrogate garage keys utilized when employees of other departments forgot their keys
- DOTCOMM employees utilizing a County key to fuel a City maintained vehicle. There was a transition between DOTCOMM cars being serviced by the County to the City. The County fuel keys had not been invalidated and returned to the garage. As of August 29, 2008, the Garage reported the keys invalidated and a process to return the DOTCOMM employee and car keys to the Garage has been initiated.

- County employee allowing a city employee to utilize their gas key to fuel a city car.
- The County Engineer has a “master key” not documented on the key listing. This key is utilized for acquiring gas when a vehicle key is not available. This key is physically kept at the County Engineer’s dispatch office.

Garage staff verified there were procedures in place for the GASBOY system. DCIAD requested the garage staff provide a copy of the GASBOY procedures. Garage staff complied and provided the requested procedures called “GASBOY Fleet Key Encoding Manual”. As a result, DCIAD verified the existence and application of the GASBOY procedures.

Garage staff verified during emergency situations the pumps can be placed on manual override allowing transactions that are not recorded by the GASBOY system. A garage staff member must be present to execute and maintain the manual override. After normal garage hours of operation, if a garage staff member is not present; other arrangements have been made with designated gas providers to supply gas to authorized vehicles. In addition, if an authorized individual forgets their key during normal garage hours of operation, a garage staff key is utilized to access the pump. Garage staff members do not utilize a standard recording form to document the usage of gas during the time of a manual override or situations where a key is not present.

It was verified with Garage Management that currently all garage staff have the same level of authorization in the FASTER system. Thus allowing all individuals to enter and delete information in the system at their discretion. Management verified that, during the testing of the FASTER system, the appropriate level of usage and authorization in the system was being reviewed. This review would determine the appropriate level of authorization required by the various garage staff to complete their job requirements. The final authorization of staff responsibilities would be updated for the July 1, 2008, implementation date of FASTER.

The following information is based upon the GASBOY report provided to DCIAD for dates July 2007 - June 6, 2008.

Employee Department	Total Gallons	Fuel Amount
8	133,250.9	\$320,971.26
19	93,274.4	\$222,160.64
OPPD Pump	69,729.3	\$176,350.57
13	8,642.3	\$20,067.16
999	6,067.8	\$15,252.50
2	4,440.9	\$10,598.96
7	4,123.7	\$10,146.67
1	3,307.0	\$7,948.64
22	2,428.4	\$5,791.06
26	1,579.8	\$3,833.58
16	1,140.2	\$2,725.87
18	1,091.0	\$2,633.23
15	1,047.1	\$2,539.99
24	651.2	\$1,555.41
3	645.0	\$1,519.17
20	334.0	\$670.17
23	307.0	\$744.39
12	136.6	\$340.44
17	6.1	\$15.46
<b>Total</b>	<b>332,202.7</b>	<b>\$805,865.17</b>

The garage verified the “emp” employee number on the GASBOY report should be consistent with the “dept” department number listed on the report. Both the “emp” number and the “dept” number should represent a County Department Code. The miscellaneous 999 account code represented 6,067.8 gallons of fuel at a cost of \$15,252.50. In addition, DCIAD verified there were 69,729.3 gallons of gas valued at \$176,350.57 that did not have a corresponding “emp” number listed. The garage explained this represents usage at an Omaha Public Power District (OPPD) gas pump. This category ranked as the third highest in gas utilization.

**Finding # 4**

Garage management personnel are not adequately utilizing the systems to provide records for monitoring purposes.

**Recommendation**

Transaction information is essential in verification of usage and proper billing for the authorized personnel, including the Douglas County Departments, City of Omaha, OPPD, and any other government entity authorized to access the Gas Boy fuel system. The data should be maintained by Garage management and made available to authorized personnel for verification purposes. In addition, the same level of reporting and review should be maintained on the FASTER system when implemented.

**Finding # 5**

Garage management is permitting improperly recorded fuel usage.

**Recommendation**

In the Fiscal Year 2006/2007 Special Report # 07, it was recommended Garage management should:

- Promulgate written policies and procedures for use of the Gas Boy system explaining that no employee will receive fuel without the proper keys. Policies and procedures for appropriate Gas Boy System key usage should be sent to all authorized personnel, including the City of Omaha, OPPD, and any other government entity authorized to access the Gas Boy fuel system.
- Only emergency exceptions should be allowed and only if those transaction are individually recorded by department and documented, using an approved form, requiring a signature of the recipient and the authorizing party.
- If order to accurately report all fuel usage, Gas Boy account data should be aggregated by individual usage, department usage, and vehicle usage. Reports should be periodically reviewed by management, for inconsistencies and discrepancies, and responsible personnel should complete a regular reconciliation process.

In addition, DCIAD recommends a standardized exceptions log be created and each time there is a transaction that includes not only the authorized user but the following as well: garage staff key number utilized, date, time, vehicle key number, vehicle make, vehicle model, license plate, odometer reading, fuel type, gallons used and department. There should be periodic review of this transaction log and a process in place for follow-up if there are situations identified where consistent deviation of the gas processes are identified. Time invested in documenting a transaction in this manner will be minimal.

(sample exception log)

Authorized User	Garage Staff Key #	Date	Time	Vehicle Key #	Vehicle Make	Vehicle Model	License Plate	Department	Fuel Type	Gallons Used	Odometer Reading
John Doe	0000	083008	1200	0000	Ford	Explorer	ABC123	Sheriff	UNL	25	123456

**Finding # 6**

One garage employee manages the entire Gas Boy process. This is not an adequate segregation of duties.

**Recommendation**

In the Fiscal Year 2006/2007 Special Report #07, it was noted that proper segregation of duties requires that no single individual have control over two, or more, phases of a transaction or operation. Segregation of duties is a basic key control used to ensure that errors, or irregularities, are prevented, or detected, on a timely basis by employees in the normal course of business. Garage management should comprehensively train at least one other employee on the GASBOY system.

In addition, DCIAD recommends processes are developed for a periodic review of the fuel processing system. This review should be conducted by someone other than the garage staff responsible for the routine functions of the system. In addition, the review should be monitored for any variation or fluctuation. The review should be documented and the documentation should be maintained.

**Finding # 7**

Garage staff members have the same level of authorization and can update the FASTER system without supervision.

**Recommendation**

It is recommended FASTER is updated to limit unauthorized transactions. Garage staff currently have unlimited access to the system. The DCIAD recommends assigning the appropriate responsibilities to the mechanics, clerks and administration staff relevant to work group. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The basic idea underlying segregation of duties is that no one employee or group of employees should be in a position both to perpetrate and conceal errors or irregularities in the normal course of their duties. In general, the principal incompatible duties to be segregated are: authorization, custody of assets, and recording or reporting of transactions. In addition, a control over the processing of a transaction generally should not be performed by the same individual responsible for recording or reporting the transaction. Adequate segregation of duties must be taken into consideration when transferring the various roles in FASTER.

**Finding # 8**

Currently, the garage does not have a procedure in place for verifying when an employee key assignment should be terminated.

**Recommendation**

Verifying authorized employees and corresponding keys is essential to the accuracy of gas utilization. Examples include an employee terminates from employment, an employee changes departments, or an employee's position no longer requires a gas key. It is recommended a process be put in place allowing the garage to receive routine updates from departments regarding termination of employee keys. If the garage does not receive the information in a timely manner, unauthorized or inappropriate gas utilization is possible. In addition, each vehicle and employee key represents a cost to the County. The key termination process should include accountability for the return of the keys to the garage for reassignment.

For efficient review and accountability purposes, key reassignment should be documented and maintained by the garage. Inappropriate documentation can allow for the appearance of improper utilization and ineffective and tracking of gas.

**Finding # 9**

There were unexplained inconsistencies in the lists of key assignments provided to DCIAD.

**Recommendation**

Proper accountability for gas utilization depends on properly documenting vehicle and employee keys. The garage recently implemented the GASBOY Fleet Key Encoding Manual as a process for assigning employee and vehicle keys. The process implemented a form documenting newly assigned keys. As there were unexplained inconsistencies found in the documentation of keys already assigned, DCIAD recommends the garage require current key holders to complete and return the forms to the garage. This allows the garage to verify and document the existing assigned keys.

**Finding # 10**

Employees were inappropriately utilizing other employees' keys to obtain gas present an opportunity for gas costs to be applied incorrectly.

**Recommendation**

If an employee incorrectly utilizes another employee's key to obtain gas, this has an effect on accuracy of reporting of gas utilization. When the employee is from a different department, the cost of the gas is incorrectly applied. The garage does not have a policy in place for consistently documenting and following-up on inappropriate usage of employee and keys. It is recommended the garage develop and implement a formalized policy and review process for employee accountability.

**Finding # 11**

Key maintenance by garage employees is not applied consistently to all County departments.

**Recommendation**

There are instances where a miscellaneous key is necessary to County departments. These instances should be limited to things such as mowers, gas cans, etc... As this type of gas utilization should be infrequent and utilize a low volume of gas for each transaction, a periodic review should be conducted to identify any abnormalities.

Each County vehicle authorized to have a gas key associated with it, should have a specific key assigned to that vehicle that is only utilized for that vehicle. For the instances identified as requiring a surrogate key (when an employee forgets a key), DCIAD recommends the garage maintain a key specifically assigned to each department. The keys should be clearly labeled and secured in a separate lockbox with limited access to the key of the lockbox. This allows for the garage to provide gas to employees without the necessity of manipulating the rawtrans files in GASBOY and decreasing the instances where gas usage may be charged to the wrong department. This process will decrease the amount of time required to reconcile gas usage in these instances. In addition, it will eliminate the necessity for any department to have a master key to the County pumps. The garage has stated there have been arrangements made with other fuel providers to supply County vehicles with gas after normal garage hours. These transactions at the

other fuel providers should have sufficient information to document gas purchase. If each authorized County vehicle is required to have a uniquely assigned key, the instances where this is necessary would be greatly reduced.

**Finding # 12**

Key assignment lists did not show the complete history of keys utilized by the County.

**Recommendation**

The key lists provided to DCIAD were incomplete and inaccurate. DCIAD recommends the garage implement updated form recording additional information necessary for reconciling the history of each key. Comments should contain adequate information to sufficiently explain the history of the key. The following is an example of an updated form:

GASBOY Key	County Alpha Number	County Vehicle Number	Vehicle Description	License Plate	Vehicle Identification Number	Tag Number	Beginning Odometer	Ending Odometer	Date Issued	Date Invalidated	Comments
1234	A-00	12345	Sample	1234	12345	12345	11	111	1/1/01	1/1/02	Car Tag Number 12354 sold at auction. Key reassigned to Alpha B-00 Tag 12346
1234	B-00	123456	Sample	1235	12346	12346	1		1/3/02		

DCIAD provided a draft copy of the Year End Purchasing Department Inventory Special Report to the Purchasing Agent for review and management comments. The response received from the Purchasing Agent related to the draft report was “no comment”.<sup>1</sup>

<sup>1</sup> GAO-07-162G Government Auditing Standards §5.38...In such a cases, the auditors should indicate in the report that the audited entity did not provide comments. <http://www.gao.gov/govaud/d07162g.pdf>

DCIAD Staff participants in Fiscal Year 2008/2009 Special Report # 02, Year-end Purchasing Department Physical Inventory for the Douglas County Garage and Warehouse:

\_\_\_\_\_ (sign)  
Brandon Clark, Internal Audit Analyst

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Primary Auditor

\_\_\_\_\_ (sign)  
Carmen Harmon, Internal Audit Supervisor

**Fiscal; Year 2008/2009 Special Report #02, Douglas County Warehouse and Garage Physical Inventory was released on September 26, 2008.**