

Audit Report

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**Motor Vehicle and Equipment  
Parts Inventories**

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Office of the County Auditor  
Baltimore County, Maryland  
March 2000



**BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR**

**BRIAN J. ROWE, CPA**  
COUNTY AUDITOR

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**March 17, 2000**

**Honorable Members of the County Council  
Honorable C.A. Dutch Ruppertsberger, III, County Executive  
Baltimore County, Maryland**

**Gentlemen:**

**We audited the motor vehicle and equipment parts inventories maintained by the Office of Budget and Finance - Vehicle Operations and Maintenance and by the Department of Public Works - Equipment Operations and Maintenance for the period beginning July 1, 1997 and ending September 17, 1998.**

**Motor vehicle and equipment parts inventories were maintained at three main repair shops (including the Glenarm Fire Maintenance shop) and four satellite locations. As of July 31, 1998, the motor vehicle and equipment parts inventories totaled \$813,500. During the period July 1, 1997 through July 31, 1998, purchases of motor vehicle and equipment parts totaled approximately \$1,325,250.**

**Our audit disclosed that internal control over motor vehicle and equipment parts inventories was inadequate. Specifically, we noted that the year-end physical inventory procedures did not comply with the County's procedures for taking physical inventories; employees had unrestricted access to the physical inventories; and, the perpetual inventory records were not properly maintained. Finally, our test counts of certain motor vehicle parts (e.g., batteries, tires, master cylinders) disclosed numerous items which could not be accounted for. The value of the missing parts totaled approximately \$800.**

**Responses to our findings from the Office of Budget and Finance and the Department of Public Works are included as Appendixes A and B, respectively, to this report.**

Our audit reports and responses thereto are available to the public and may be obtained by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the Office of Budget and Finance - Vehicle Operations and Maintenance; the Department of Public Works - Equipment Operations and Maintenance and, the Office of Information Technology for the cooperation and assistance extended to us during our audit.

Respectfully submitted,



Brian J. Rowe, CPA  
County Auditor



Bob E. Crouse, CPA  
Audit Manager

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## **Background Information**

As of July 31, 1998, the County's motor vehicle and equipment parts inventory totaled \$813,500. During the period July 1, 1997 through July 31, 1998, purchases of motor vehicles and equipment parts totaled approximately \$1,325,250. Inventories of motor vehicle and equipment parts are maintained by the Office of Budget and Finance - Vehicle Operations and Maintenance (VOM) and by the Department of Public Works - Equipment Operations and Maintenance (EOM).

The Office of Budget and Finance - Vehicle Operations and Maintenance is responsible for maintaining, repairing and servicing all County automobiles, vans and light trucks (maximum one-ton capacity), including all police and fire department vehicles (except fire trucks). The motor vehicle parts inventory is maintained at three locations: the Towson repair shop and two satellite locations - Essex and Randallstown. As of July 31, 1998, the motor vehicle parts inventory maintained at these locations totaled approximately \$158,500. During the period July 1, 1997 through July 31, 1998, purchases of motor vehicle parts by these locations totaled \$710,650.

The Department of Public Works - Equipment Operations and Maintenance is responsible for the maintenance and repair of all heavy construction, highway and utility equipment; trucks (over one-ton capacity), including fire trucks, ambulances and rescue vehicles; and, light equipment (e.g., lawn tractors). The equipment parts inventory is maintained at four locations: the Texas repair shop, the Glenarm Fire Maintenance shop and two satellite locations - Middle River and Inwood. As of July 31, 1998, equipment parts inventory maintained at all four locations totaled approximately \$655,000. During the period July 1, 1997 through July 31, 1998, purchases of equipment parts totaled approximately \$614,600.

Automated perpetual inventory records were controlled centrally for all locations by the Office of Budget and Finance - Purchasing Bureau.

## Findings and Recommendations

### Physical Inventories

- 1. Documentation of the annual physical inventory counts for VOM's Towson repair facility was not maintained on file.**

Perpetual inventory records are maintained to record inventory received, issued and on hand. Additionally, annual physical inventory counts are conducted to verify the accuracy of the perpetual inventory records. Our audit disclosed that documentation of the annual physical inventory for VOM's Towson repair facility was not maintained on file. Consequently, we were unable to verify that motor vehicle parts maintained by VOM's Towson facility were properly inventoried and reconciled to the related perpetual inventory records. As of July 31, 1998, the motor vehicle parts inventory at the Towson facility totaled approximately \$118,900.

**We recommend that documentation of the year-end physical inventory counts be maintained on file for future audit verification.**

- 2. Year-end physical inventory counts at VOM's satellite locations were not verified by an employee independent of the storekeeping function.**

In accordance with proper internal control procedures, the County's Purchasing Manual, Section 21.4 requires that annual physical inventory counts be verified by an employee independent of the storekeeping function. However, our audit disclosed that physical inventory counts which were conducted by the storekeepers at VOM's satellite locations were not independently verified. Consequently, there was a lack of assurance that motor vehicle parts were properly accounted for at these locations. As of July 31, 1998, the motor vehicle parts inventory at these locations totaled approximately \$39,600.

**We recommend that physical inventory counts be verified by an employee independent of the storekeeping function in compliance with the County's Purchasing Manual.**

- 3. Differences between the year-end physical inventory and the related perpetual inventory records for all locations were not investigated and resolved and adjustments to the automated perpetual inventory records were not reviewed and approved by supervisory personnel.**

Although the annual physical inventory counts disclosed differences between the physical inventories and related perpetual inventory records totaling \$64,318 (\$39,600 and \$24,718

for VOM and EOM, respectively), our audit disclosed that these differences were not investigated and resolved. Furthermore, adjustments to the perpetual inventory records were not reviewed and approved by supervisory personnel. Proper internal control procedures for safeguarding assets requires that differences between the physical inventory counts and related perpetual inventory records be promptly investigated and resolved and adjustments to the perpetual records be reviewed and approved by supervisory personnel.

**To improve internal control, we recommend that differences between physical inventory counts and the related perpetual inventory records be promptly investigated and resolved. We further recommend that all adjustments to the perpetual inventory records be properly reviewed and approved by supervisory personnel.**

**4. Access to the motor vehicle and equipment parts inventories was not properly controlled.**

Motor vehicle and equipment parts were stored in several unsecured locations. Further, employees (e.g., mechanics, truck drivers) had unrestricted access to the parts inventory. For example, although access to the VOM inventory at the Towson repair facility was restricted to the storekeepers during normal work hours, other County employees (i.e., tow truck operators) had unrestricted access to the parts inventory during non-work hours (e.g., weekends) when inventory personnel were not on duty. These conditions precluded effective internal control for the proper safeguarding of assets since employees could withdraw items from inventory without proper authorization.

**To improve internal control, we recommend that motor vehicle and equipment parts inventories be stored in properly secured areas. We further recommend that access to the parts inventories be restricted to authorized personnel.**

**5. Detailed written procedures for taking year-end physical inventories had not been established by EOM.**

Although the County Purchasing Manual provides general guidelines for conducting annual physical inventory counts, EOM had not developed detailed written procedures for conducting physical inventories. Detailed written inventory procedures help insure that physical inventory counts are properly conducted on a consistent basis.

**To improve internal control, we recommend that detailed written inventory procedures be developed by EOM. These procedures should address proper use and accounting for inventory count sheets (cards), proper cutoff of inventory purchases and issuances, identification of obsolete or damaged goods, performing test counts, etc.**

## Segregation of Duties

- 6. Employees responsible for maintaining the perpetual inventory records also had unrestricted access to the related inventory. Additionally, employees who had custody of special order parts inventory also approved the related invoices. Further, purchase orders were not prepared to authorize special orders.**

Employees (i.e., parts managers) who were responsible for maintaining the perpetual inventory records also had unrestricted access to the related parts inventory. For example, parts managers who had custody of the parts inventory also processed the inventory requisitions (i.e., work orders) to adjust the related perpetual inventory records. Additionally, these employees were responsible for receiving special order parts (uninventoried) and approving the related invoice for payment. Further, purchase orders were not prepared to authorize special orders. These conditions precluded effective internal control over the parts inventory.

**To improve internal control, we recommend that the employee responsible for maintaining the perpetual inventory records not have access to the related physical inventory. We further recommend that purchase orders for special order parts be prepared (based upon the related work order) and that they be reviewed and approved by supervisory personnel. We further recommend that the receiving copy of the purchase order be forwarded to the Office of Budget and Finance, Disbursements Division, to authorize payment of the related invoice.**

## Automated Perpetual Inventory Records

- 7. The automated perpetual inventory records were not utilized to establish optimum inventory levels.**

The County's automated perpetual inventory records system generated material requisition reports in order to maintain materials and supplies inventories at optimum levels. These material requisition reports were based on pre-established reorder points and reorder quantities. However, our audit disclosed that these reports were discarded and were not utilized to purchase additional inventory. This condition could result in inventory being over or understocked. Overstocked inventory precludes optimum usage of resources and increases the potential for obsolescence; understocked inventory results in unnecessary delays in vehicle repairs while awaiting the purchase of needed parts. We were advised that the automated material requisition reports were not used because the perpetual inventory records were not maintained on a current basis. In this regard, our test of 15 inventory withdrawals disclosed that the perpetual inventory records were not updated for periods ranging from 3 to 16 business days.

**In order to maintain inventory at optimum levels, we recommend that the automated material requisition reports be utilized as the basis for ordering materials and supplies. We further recommend that the automated perpetual inventory records be maintained on a current basis.**

**8. The automated perpetual inventory records did not record the motor vehicle and equipment parts inventories by location.**

As previously mentioned, the motor vehicle and equipment parts inventories were maintained at three main repair shops (including the Glenarm Fire Maintenance shop) and several satellite locations. However, our review disclosed that the automated perpetual inventory records did not record the location of motor vehicle and equipment parts inventories on hand. This condition precluded effective internal control over the parts inventories since accountability over missing inventory could not be established.

**To improve internal control, we recommend that the perpetual inventory records be maintained by location.**

**9. Numerous motor vehicle and equipment parts included in EOM's perpetual inventory records did not have a dollar value recorded.**

Our review of the perpetual inventory records as of July 31, 1998, disclosed that certain inventory items (e.g., alternators, carburetors, motors, water pumps, starters, tires) did not have a corresponding unit value. Specifically, of the 5,327 commodity items included in the perpetual inventory records, 351 items (6.6%) consisting of 1,853 units of inventory did not have a unit value. Consequently, the perpetual inventory records, as well as EOM's repair and maintenance costs, were understated. Additionally, this condition precludes effective management of the County's fleet operations. For example, decisions to repair or trade in vehicles based on historical costs could be impaired.

**To ensure that the motor vehicle and equipment parts inventories are properly valued and that repair and maintenance costs are accurately identified, we recommend that unit values be assigned to each item recorded in the perpetual inventory records.**

**10. Numerous motor vehicle parts recorded in VOM's automated perpetual inventory records could not be accounted for.**

Our test of VOM's perpetual inventory records as of September 17, 1998, disclosed numerous motor vehicle parts which could not be accounted for. Specifically, our test of 610 inventory items disclosed 58 items totaling approximately \$800 which could not be accounted for. For

example, we could not account for 7 tires and 5 car batteries valued at \$348 and \$225, respectively.

**To ensure that perpetual inventory records accurately reflect motor vehicle parts on hand, we recommend that periodic test counts be taken and that any discrepancies between the physical count and the perpetual inventory records be promptly investigated and resolved.**

## **Audit Scope, Objectives and Methodology**

We audited the procedures and controls for parts inventories maintained by Baltimore County's Vehicle Operations and Maintenance (VOM) and Equipment Operations and Maintenance (EOM, including Fire Maintenance) Programs for the period beginning July 1, 1997 and ending September 17, 1998. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the Baltimore County Charter, Section 311, the objectives of our audit were to evaluate the Programs' fiscal activities, including the internal accounting control, administrative and operating practices and procedures, and other pertinent financial and compliance matters. In planning and conducting our audit, we primarily focused on the County's parts inventories based on assessments of materiality and risk.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, observation of the Programs' operations, and testing of actual inventory on hand.

We also tested transactions and performed other auditing procedures as we considered necessary in the circumstances to achieve our objectives.

The Programs' management is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed and properly recorded in accordance with management's authorization. Because of inherent limitations in any internal control structure, errors or fraud may nevertheless occur and not be detected. Compliance with applicable laws, rules, regulations, policies, and procedures is also the responsibility of the Programs' management.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to conditions that we consider to be significant deficiencies in the design or operation of the internal control structure that could adversely affect the Programs' ability to safeguard assets or properly record authorized transactions. This report also includes findings and recommendations relating to instances of noncompliance with applicable laws, rules, regulations, policies, or procedures.

**BALTIMORE COUNTY, MARYLAND  
OFFICE OF BUDGET & FINANCE**



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**MEMORANDUM**

**TO:** Brian J. Rowe, County Auditor

**FROM:** Fred Homan, Director   
Office of Budget and Finance

**DATE:** February 28, 2000

**SUBJECT:** Vehicle Operations and Maintenance (VOM)  
Audit of Motor Vehicle Parts Inventory Verification Process  
And Inventory Control Methods

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**Finding and Recommendation of the County Auditor**

1. Documentation of the annual physical inventory counts for VOM's Towson repair facility was not maintained on file. We recommend that documentation of the year-end physical inventory counts be maintained on file for future audit verification.

**Response of the Office of Budget and Finance**

- Documentation of the physical inventory consists of the "inventory cards" and "Physical Inventory Distribution Sheets." with a hand written quantity indicated on each card or sheet. Upon completion of the physical inventory this documentation is forwarded to Purchasing and Disbursements. At the time of the audit, the audit staff were advised that this information could be viewed there.
- We concur with the recommendation of the County Auditor. Documentation of the physical count will be retained at VOM's administrative offices until such time as the next physical count is performed.

**Finding and Recommendation of the County Auditor**

2. Year-end physical inventory counts at VOM's satellite locations were not verified by an employee independent of the storekeeper function. We recommend that physical inventory counts be verified by an employee independent of the storekeeper function in compliance with the County's Purchasing Manual.

### **Response of the Office of Budget and Finance**

- The individual who conducted the inventory was not aware that the satellite repair shops were treated as separate locations for inventory control purposes and therefore did not conduct an inventory verification count at these locations. Although the normal procedure is that the individual who conducts the inventory verification at the Towson location also verifies counts at the satellite locations, this verification was not conducted during this particular physical count. This however was an oversight and has been corrected.
- We concur with the recommendation of the County Auditor.

### **Finding and Recommendation of the County Auditor**

3. Differences between the year-end physical inventory and the related perpetual inventory records for all locations were not investigated and resolved and adjustments to the automated perpetual inventory records were not reviewed and approved by supervisory personnel. To improve internal control, we recommend that differences between physical inventory counts and the related perpetual inventory records be promptly investigated and resolved. We further recommend that all adjustments to the perpetual inventory records be properly reviewed and approved by supervisory personnel.

### **Response of the Office of Budget and Finance**

- We dispute the finding that these differences were not investigated and resolved. Immediately upon receipt of the results of the physical inventory, the Parts Manager reviewed the records and advised Purchasing and Disbursements that there appeared to be an undercount. He was informed that the satellite's inventory records were not included in the documentation that produced the report. Audit staff were made aware at the time of their audit that the reason for the difference between the results of the physical counts and the perpetual inventory record was that inventory stored at the satellite locations was not counted.
- Immediately upon discovering that the inventory stored at the satellite locations was not counted, the same individual who had conducted the count at the Towson location conducted a count at the satellite locations. This physical inventory, when combined with the count at the Towson location, revealed a comprehensive inventory overage totaling \$1,196.62. This is approximately 0.17% of the inventory purchased for the period in question.
- A physical count of the inventory was conducted in March 1999 covering the period from July 1997 through March 1999. This count revealed an overage of \$8,583.99 or approximately 0.7% of the inventory purchased (purchases estimated during this period were \$1,173,000).
- At the time of the audit, we were already in concurrence with this recommendation of the County Auditor.

**Finding and Recommendation of the County Auditor**

- 4. Access to the motor vehicle and equipment parts inventories was not properly controlled. To improve internal control, we recommend that motor vehicle parts inventories be stored in properly secured areas. We further recommend that access to the parts inventories be restricted to authorized personnel.**

**Response of the Office of Budget and Finance**

- VOM's tow truck operators had been permitted access to the parts room so that field repairs could be made where possible, thereby eliminating vehicle downtime and keeping the operator productive. Upon investigation, it was determined that because the overall condition of the fleet had improved and because vehicles have become more complex, field repairs were made infrequently. Because the impact on customer service appeared to be minimal, we eliminated access to the parts inventory by tow truck operators as of November 1998.
- Control of access to the Towson parts inventory has been reviewed. All locks have been changed and keys have been issued to Parts personnel, the Chief of Repair and the Chief of Administration.
- The degree to which access to the parts inventory is controlled must be weighed against the effect such control has on customer service and overall operational efficiency. Inventory at the satellite locations is controlled by the Automotive Team Leader.
- We concur with the recommendation of the County Auditor that access to the parts inventory be restricted to authorized personnel.

**Finding and Recommendation of the County Auditor**

- 5. Finding and Recommendation number 5 does not apply to VOM.**

**Finding and Recommendation of the County Auditor**

- 6. Employees responsible for maintaining the physical inventory also had unrestricted access to the related inventory. Additionally, employees who had custody of special order parts inventory also approved the related invoices. Further, purchase orders were not prepared to authorize special orders.**

**To improve internal control, we recommend that the employee responsible for maintaining the perpetual inventory record not have access to the related physical inventory. We further recommend that purchase orders for special order parts be prepared (based upon the related work order) and that they be reviewed and approved by supervisory personnel. We further recommend that the receiving copy of the purchase order be forwarded to the Office of Budget and Finance, Disbursements Division, to authorize payment of the related invoice.**

### **Response of the Office of Budget and Finance**

- The Automotive Parts Manager Class Specification established by the Office of Human Resources, calls for the individual in this position to, among other things, control the operation and inventory of the storeroom using a computer system, update the perpetual inventory records daily, supervise storeroom employees, and oversee the issuance of all parts.
- In order to perform daily updates using the computer system, a password must be entered. This password is known only to the Parts Manager. In his absence, another employee, (a Storekeeper II) using a different password, updates the perpetual inventory records. While parts are occasionally issued by the Parts Manager, usually they are issued by one of four other storekeepers in the organization. This segregation of duties is in accordance with Baltimore County Purchasing Manual, Section 21.5 which states "Each location is responsible for its own requisitioning and distribution process within the Agency. Receipts and issues are entered into the computer by storekeepers."
- The Parts Manager spends one to two hours per day updating the perpetual inventory records. Operationally, in order to assign this function to others in the organization, a significant restructuring of the duties and responsibilities of the VOM's managers would have to be implemented. Before implementing any such reassignment, given VOM's overall favorable performance and lack of inventory control problems, a trend indicating inventory control and shrinkage of a material nature should be indicated. No such trend is indicated at this time.
- The procedures now in place severely limit the opportunity for theft. The procedure is as follows:
  1. After the customer advises the VOM Service Writer that a vehicle requires service, an appointment is made and the vehicle is subsequently delivered to one of the three repair locations. When the vehicle is presented for repair, the Service Writer accesses the Work Order System to generate a work order. The Service Writer then assigns the vehicle to a repair team.
  2. Once the repairs commence and the required parts are determined, such parts are requested by the mechanic or another team member in consultation with the storekeeper based on the vehicle year, make, model and type of repair. Parts issued are noted directly on the work order. Work orders are assigned sequential numbers as they are generated.
  3. After the repair is complete, the work order is returned to the Service Writer whereupon the customer is notified. The work order is then forwarded to the Parts Manager who enters the issued parts into the perpetual inventory directly from the work order. During this process, the work order is reviewed to ascertain that the parts issued coincide properly with the repair performed. The employee number of the mechanic who performed the repair is also noted on the work order.

4. Each day, the Parts Manager receives a report indicating parts that were issued for each work order. This report provides a second opportunity to verify that the parts issued coincide with the type of repair.
  5. After issued parts are entered into the work order system, the work order is forwarded to the Chief of Administration. Labor transactions are then entered into the system from the work order and the work order is closed. During this process, the work order is again reviewed to verify that the labor transaction and the parts issued coincide.
  6. If a special order part is required, the Parts Manager notes this on the work order and places the work order in designated bins located in the parts room until the part is delivered. The mechanic or Team Leader informs the Service Writer that the vehicle requires a special order part. When the part arrives, the Parts Manager informs the Service Writer who advises the Team Leader or mechanic. The part is then issued to the mechanic. At this time, the mechanic also takes the work order. The invoice for the part is noted with the equipment number and the work order number.
  7. After the part is installed and the repair completed, the work order is returned to the Service Writer. The work order is returned to the Parts Manager for update of perpetual inventory and then is forwarded to the Chief of Administration for input of labor transaction and closing.
  8. After the work order is closed, it is filed according to vehicle number to provide an easily retrievable written vehicle repair history. A report which lists all open work orders is generated daily. All open work orders are investigated to determine whether they should be closed.
- The above-described interaction of the customer, Service Writer, Team Leader, Parts Manager, Chief of Administration, storekeeper, mechanic and data entry operator severely limits the opportunity for theft of parts.
  - In order for a part to be obtained from the parts room, a valid work order must be presented. In order to generate a work order, the Service Writer must be notified by a customer and a valid equipment identification number and odometer reading must be entered into the Work Order System. In order for the work order to be assigned to a mechanic, the Team Leader must be notified. Once the work order is complete, it must be submitted to the Service Writer (to notify the customer), the Parts Manager (for verification of parts and update of the perpetual inventory system) and the Chief of Administration (for entry of labor codes and closeout). All open work orders are checked daily. This procedure nearly eliminates the opportunity to generate an invalid or fraudulent work order for the purpose of stealing parts.
  - Because of the knowledge and experience of the current Parts Manager and parts staff, the verification process described in item 3 above has proven to be effective in terms of identifying various errors and discrepancies in labor codes and part numbers as the parts inventory is updated from the work orders. Management feels that it follows that discrepancies arising out of an effort to steal parts could be detected.

- Because of the layout of the repair area and its proximity to the parts room, and because of the VOM policy that no used parts may be taken from the premises, it would be extremely difficult for an employee to exit VOM undetected with a stolen part.
- Theft of automotive parts is also limited because of the specificity of most parts to year, make and model of vehicle and the limited types of vehicles in the Baltimore County fleet. I.e., the part must fit the vehicle on which the employee stealing such part intends to install it.
- It should be noted that VOM is about to solicit proposals for a new work order and fleet management computer system. When proposals are evaluated, improvements in the efficiency and effectiveness of inventory control offered by such proposed systems will be given due consideration in the selection process.
- We agree that the ideal inventory control system would include the components in the recommendation. However, because of the methods, procedures and circumstances described above, and because there is no indication of theft or other inventory control problems of a material nature within VOM, management will not change its procedures at this time. However, it will constantly monitor operations and cost and should inventory shrinkage problems be indicated, the recommendation of the County Auditor, as well as other remedies, will be evaluated and implemented if deemed necessary.

**Finding and Recommendation of the County Auditor**

7. The automated perpetual inventory records were not utilized to establish optimum inventory levels. In order to maintain inventory at optimum levels, we recommend that the automated material requisition reports be utilized as the basis for ordering materials and supplies. We further recommend that the automated perpetual inventory records be maintained on a current basis.

**Response of the Office of Budget and Finance**

- We agree that the automated reorder point system has limitations. However, we do not believe that these limitations cause any material overstock or understock situations. As stated above, VOM is in the process of replacing its work order and fleet management system.

**Finding and Recommendation of the County Auditor**

8. The automated perpetual inventory records did not record the motor vehicle and equipment parts inventories by location. To improve internal control, we recommend that the perpetual inventory record be maintained by location.

### **Response of the Office of Budget and Finance**

- Minimal inventories are maintained at each of the satellite shops consistent with operational requirements. These levels are monitored via periodic reviews of completed work orders, physical checks and discussions with the respective Team Leaders.
- The automated perpetual inventory system has limitations in terms of providing for multiple locations. We agree that maintaining inventory records by location would improve internal control. However, we consider the methods and procedures currently used to control inventory at VOM's satellite locations to be adequate given such limitations. As stated above, VOM is in the process of purchasing a new work order and fleet management computer system.

### **Finding and Recommendation of the County Auditor**

9. Finding and Recommendation number 9 does not apply to VOM.
10. Numerous motor vehicle parts recorded in VOM's automated perpetual inventory records could not be accounted for. To ensure that perpetual inventory records accurately reflect motor vehicle parts on hand, we recommend that periodic test counts be taken and that any discrepancies between the physical count and the perpetual inventory records be promptly investigated and resolved.

### **Response of the Office of Budget and Finance**

- We dispute the accuracy of the test count conducted by the County Auditor. Because the first test count, conducted July 31, 1998 was shown to be inaccurate, a second reconciling test count was conducted September 17, 1998. However, the sheer volume of inventory received and issued over the 48-day intervening time period meant that an exceedingly high number of adjustments had to be made in order to accurately restate the July 31 count. VOM conducted a random check of a small sample of these adjustments. This check revealed that parts issued on work orders 80507 and 80889 were not accounted for in these adjustments. Because several hundred work orders are opened, closed and in various stages of progress over a 48 day period, such test count can easily produce unreliable results. VOM's random check of a small sample appears to bear this out.

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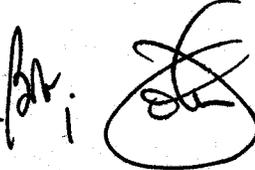
**Inter-Office Memo  
Baltimore County, Maryland**

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**DATE:** February 24, 2000

**TO:** Brian J. Rowe  
County Auditor

**THRU:** John M. Wasilisin  
Administrative Officer



**FROM:** Charles R. Olsen, Director  
Department of Public Works

**SUBJECT:** Audit Report – Equipment Maintenance – Parts Inventories

Attached is our point-by-point response to the recent draft audit report of our parts inventory at Equipment Maintenance. We are requesting that our comments and resolutions be considered as part of the final report.

CRO:js  
Enc.

cc: Fred Homan

**Department of Public Works**  
**Bureau of Highways and Equipment Maintenance**  
**Equipment Maintenance Division**  
February 22, 2000

**Response to Recommendations:**

**Physical Inventories**

1. We are maintaining two previous years' records for year-end physical inventories. The Stores Manager keeps these records in his office.
2. Purchasing Bureau personnel, per the County's Purchasing Manual, have verified all physical inventories made at Equipment Maintenance. Storeroom personnel conduct a physical count of all existing inventories. The count is marked on cards placed in each inventory bin. Personnel from the Purchasing Bureau verify the count. The physical inventory count is then matched against the perpetual inventory record.
3. Equipment Maintenance has been using the new (designed in house) Fleet Maintenance Program which includes a new perpetual inventory system. The new system provides the Parts Manager with a weekly report of all adjustments made to the perpetual inventory for review/resolution/approval. [REDACTED] Office of Budget and [REDACTED] Purchasing Bureau, are reviewing issues of security and/or year-end physical audit of inventory. We will provide them with copies of the adjustments made due to year-end audits and any supporting documents they may require. This report will also be reviewed, resolved and approved by the Parts Manager.

4. Mechanics having access to stock is essential to our operation, especially at our satellite locations. All stock is kept in secure locations. Storerooms are kept locked. A storekeeper or supervisor monitors all access into the storeroom. Only authorized Equipment Maintenance mechanics may remove stock by protocol. The mechanic must give the stock item number to a storekeeper and the mechanic must then record the stock item on the work order. The mechanic's crew chief reviews and closes the work order after approving the work and verifying the parts used.
5. The Stores Manager at Equipment Maintenance is in the process of amending the detailed procedures for taking the year-end physical inventory. Since we started a new inventory system and moved to our location at Glen Arm, review of our SOP for the partsroom operations and other inventory functions is necessary. We will be meeting with OIT and Purchasing to in order to arrive at an acceptable procedure for all agencies involved in counting the inventory.

#### Segregation of Duties

6. The Storekeeper II at Equipment Maintenance does additions to the perpetual inventory. His access to the physical inventory is very limited. The only time he may access the storeroom is during weather related emergencies when the shop and storeroom must remain open 24 hours a day, which requires additional manpower behind the storeroom counter to distribute parts. His place of regular duty is physically removed from the partsroom and he has no regularly assigned duties, which would require him to have access to the inventory. The Stores Manager or Parts Manager, on the authorized County Purchase Requisition, does all special order parts with a value in excess of \$1,000.00. Payment for these parts is authorized via the Goods Received Document per the County's Purchasing Manual.

## **Automated Perpetual Inventory Records**

- 7. The automated material requisition report is not usable in our Microsoft Access based inventory system. However, our new system provides automatic reporting of inventory at the prescribed reorder count.**
- 8. The new inventory system does identify inventories by separate inventory locations for each stockroom maintained.**
- 9. All parts in Equipment Maintenance's inventory now have proper values assigned and listed on the perpetual inventory.**
- 10. The new Fleet Maintenance Program now being used allows a real time check of inventory at any given time. Whenever a part is issued and entered on a work order, it is automatically removed from the perpetual inventory record. Likewise, when we receive parts that have been ordered, they are entered into the perpetual inventory record.**