



COLLIN COUNTY

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Date: May 23, 2012
To: Jon Kleinheksel, Director of Public Works
From: Jeff May, County Auditor 
Subject: Annual Culvert and Stockpile Inventory FY11 – Final

The annual stockpile inventory conducted by Halff Associates, Inc., a third party surveyor, was observed on September 29th and 30th. The stockpile inventory was measured at the Westminster, the Justice Center, Copeville, and Farmersville locations.

An inventory of the culverts stored at the Justice Center was also conducted.

During the inventory count, certain practices and procedures were identified that could be enhanced to strengthen internal controls and increase efficiencies. The inventory count and review were not intended to be a comprehensive examination of every procedure or activity. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

Please feel free to contact this office with any questions.

Stockpiles

The annual physical inventory of the stockpiles was observed on September 29 and 30, 2011. Stockpiles are maintained at four (4) separate locations: Justice Center in McKinney, Farmersville, Weston, and Copeville. The inventory measurements were taken by Halff Associates, Inc., a surveying and mapping company. Inventory measurements were taken with a global positioning system (GPS). The calculations and report creation was done by Geopak using Coordinate Geometry software.

The information on the stockpile survey vendor reports were compared with inventory data on the general ledger and the purchasing/inventory system.

Finding:

There is a difference between the stockpile inventory balance in the inventory system and the amount of inventory on hand measured by Halff Associates, Inc. This is mainly due to the timing difference between the recording of inventory purchases and the recording of stock issues of inventory in the system.

Increases to inventory are recorded when payment is made to the vendor and not when inventory is delivered. This creates a timing difference between inventories on hand and inventory recorded in the system. Public Works may have inventory in the stockyards that will not be recorded in the system until the vendor is paid.

Inventory usage is recorded a few days after the transfer of inventory to the jobsite. This creates a timing difference between inventories on hand and inventory recorded in the system. There could be inventory removed from stockyards yet it is still recorded in the system as inventory on hand until the following week.

There is also an issue of when the physical inventory adjustments, if any, are recorded. Since this is usually several days after year-end, care must be taken to include this adjustment in the end-of- year balances.

Note: This was a finding in the 2010 end of year audit of the stockpile and culvert inventory.

Recommendation:

During the physical inventory taken at the end of each quarter or year-end material receiving documents should be provided and the system inventory reconciled to the material on hand using the vendor report adjusted for withdrawals or additions to inventory. The physical inventory would be updated with items received and used on a consistent basis and documented in the quarterly reports. The stockpile count should reflect a running balance of what the system shows plus any purchases delivered to the Justice Center, or other stockpile locations (even if the purchases have not been paid), minus any material removed from the Justice Center, or other stockpile locations (even if the material has not been used).

Response:

Public Works will continue to record daily tasks of inventory (asset accounts) removed and received into the AS400, ITS database, and excel spreadsheet. At the end of each quarter, Public Works will make the necessary adjustments to the AS400 based upon the physical inventory documents provided.

Due to several variables, the stockpile counts will continue to have discrepancies. Stockpile differences are due in large part to delivery units vs. inventory units. Delivery units are measured in tons opposed to the cubic yards measurement by our Inventory Surveyor. Additionally, we do not weight materials coming in or going out to road projects.

Although a "weigh scale" would allow us a more accurate representation of our actual inventory, weighing most materials can produce other challenges. Most materials become wet at some time or another changing the weight dynamic.

Given all of these challenges, Public Works will continue to be vigilant with all stockpile inventories. We will continue to work with Purchasing and the Auditors' office to make the necessary corrections as needed.

Public Works will be working with new software in the future that should track inventory in a more efficient "real time" manner.

Culverts

The inventory of culverts at the Justice Center in McKinney was counted on September 29, 2011. The count taken was compared with inventory data on the general ledger and purchasing/inventory system.

Finding:

As with the stockpile inventory, there is a difference between the inventory balance in the system and amount of inventory on hand. This is mainly due to the timing difference between the purchase and use of inventory and the recording of the use and purchase of inventory in the system.

Increases to inventory are recorded when payment is made to the vendor and not when inventory is delivered. This creates a timing difference between inventories on hand and inventory recorded in the system. Public Works may have culvert inventory that will not be recorded in the system until the vendor is paid.

Inventory usage is recorded a few days after the transfer of inventory to the jobsite. This creates a timing difference between inventories on hand and inventory recorded in the system. There could be inventory removed from stockyard yet it is still recorded in the system as inventory on hand until the following week.

There is also an issue of when the physical inventory adjustments, if any, are recorded. Since this is usually several days after year-end, care must be taken to include this adjustment in the end-of- year balances.

Note: This was a finding in the 2010 end of year audit of the stockpile and culvert inventory.

Recommendation:

The physical inventory should be updated with items received on a consistent basis, and documented in the quarterly reports. The culvert count on the spreadsheet needs to reflect a running balance of what the system shows plus any material delivered to the Justice Center (even if the purchases have not been paid), minus any material removed from the Justice Center (even if the material is in route to the jobsite). This ensures that there are no variances between the inventory system and the physical count.

Response:

Public Works will continue to record daily activity of culverts into the ITS database, Excel Spreadsheets, and AS400 inventory. At the end of each quarter, Public Works will conduct a physical count of culverts and bands at the Justice Center. Upon completion of the physical inventory count at the Justice Center, the AS400 inventory will then be checked for accuracy.

Any discrepancies will be corrected and proper adjustments made. The culverts and bands will be counted and adjusted on a quarterly basis.

Public Works will be working with new software in the future that should track inventory in a more efficient "real time" manner.