

SAVANNAH-CHATHAM COUNTY BOARD OF EDUCATION
Internal Audit Department



TO: Board of Education

THROUGH: S. Denise Watts, Ed.D., Superintendent of Schools
Larry Jackson, Chief Financial Officer
Megan Davidson, Chief Operations Officer

FROM: Leah Underwood, Senior Director, Internal Audit

DATE: November 21, 2024

SUBJECT: Inventory Audit of Transportation Parts

We have completed our Inventory Audit of Transportation Parts. Our audit report is presented in the sections listed below:

- I. AUDIT RATINGS**
- II. AUDIT OBJECTIVES**
- III. AUDIT SCOPE & METHODOLOGY**
- IV. BACKGROUND**
- V. AUDIT OBSERVATIONS**

Management's response to our report is attached in its entirety. In addition, the specific action that management has agreed to take in response to each recommendation is included in the Management Action Plan response section of the report, along with who is responsible for the action and when it will be completed.

I. AUDIT RATINGS

We performed the Inventory Audit of Transportation Parts to evaluate the risks associated with physical inventory management and compliance. Based on the information reviewed over the course of this audit, the Internal Audit Department has determined an overall rating of the audit as Unsatisfactory, with risks identified in the following areas:

- Procedures
- Financial controls
- Inventory controls

Unsatisfactory

II. AUDIT OBJECTIVES

Our audit was designed to meet specific objectives. Within those objectives, we focused on areas where we identified opportunities for improvement in the inventory area of the Transportation Department. The objectives of our audit were as follows:

1. Determine procedures for transportation inventory parts.
2. Conduct a physical inventory count to determine if inventory records reflect the inventory on hand.
3. Evaluate the effectiveness of inventory tracking and safeguarding of inventory.

III. AUDIT SCOPE & METHODOLOGY

The Board's Audit Committee approved the Inventory Audit of Transportation Parts at the beginning of FY23. We conducted this audit by observing departmental practices and interviewing Transportation District staff to understand day-to-day operations.

Our fieldwork was conducted from September to November 2024, focusing on compliance with the Transportation Departments Inventory parts process. During this period, we reviewed the current Inventory on Hand Report, which is comprised of 70 pages. We selected a sample and conducted a physical inventory of 121 items. In addition to sampling, we observed the access controls to the inventory room. Before fieldwork, we interviewed management from the Transportation Department. Following the site visit, we interviewed the

Purchasing Department to gain insights into the ordering process. We utilized Munis to identify vendors and expenditures.

Internal Audit conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

We assessed the reliability of the data from the datasets we used by discussing them with the management staff of the Transportation Department. We also interviewed the buyer within the Purchasing Department. We conducted a control test of the inventory on hand and reviewed Munis for information relevant to our audit. We determined that the data were sufficiently reliable for our purposes.

Details of each area tested and recommendations for strengthening the internal controls in that area are listed below. At the end of each observation, we have identified the priority goals that are most likely affected by the observations identified. Internal Audit has made recommendations to help support the achievement of these goals.

The Way Forward 2026

- I. Students: Student Growth and Achievement for Choice-filled Futures
- 11. Stakeholders: Quality Family and Community Engagement Experiences
- III. Employees: Talent Management for Optimal Employee Performance
- IV. Stewardship: Efficient, Effective, and Equitable Resource Stewardship

IV. BACKGROUND

The Inventory Audit of Transportation Parts was initiated at the request of the Finance Department in FY23. For this purpose, we looked at the compliance and procedures to account for transportation inventory parts. This department is led by the Chief Operations Officer, including management staff, the Executive Director of Transportation, the Lead Transportation & Fleet Operations Director, and the Operations Inventory Manager.

The Transportation Inventory Parts Department within the District is responsible for managing and overseeing inventory parts needed for the maintenance and operations of the transportation fleet. The Finance Department supports the Transportation Department by handling approval and payment functions. The Finance Department approves contracts, reviews/approves requisitions, assigns purchase orders, and processes payments to vendors. The Finance Department does not have a ledger or account for the transportation parts inventory.

V. AUDIT OBSERVATIONS

Observation 1. Procedures

Goal IV: Stewardship: Efficient, Effective, Equitable Resources Stewardship

The Transportation Inventory Parts Department does not have written procedures, which is critical for effective operations. Best business practices state that departments maintain updated procedures to guide tasks and ensure consistency.

Procedures are essential for establishing clear processes for tracking, ordering, receiving, storing, and issuing parts. During our interviews, management provided inconsistent answers regarding the purchasing procedures related to purchase orders and responses varied concerning physical and electronic access controls to inventory counts and access to the inventory room. When we asked about the production of written procedures, some management staff were unaware that they were needed and that procedures were communicated verbally. Other management staff indicated that written procedures were in development.

The absence of procedures to cover such crucial areas negatively impacts inventory management, increasing the risk of misuse or theft. By establishing procedures, the department can enhance efficiency, reduce risks, and improve overall accountability.

Recommendations

Office of Operations and Facilities

- Develop written procedures to define the department's processes and guidelines. This should include guidelines for operational, reporting, and communications processes.
- Training should be conducted for all staff on the new standardized procedures. Staff meetings should be held to provide updates or changes to the procedures.

Management's Corrective Action, Responsible Person(s) and Anticipated Completion Date

Establish Standard Operating Procedures (SOPs):

- Objective: Develop detailed SOPs for transportation inventory management.
- Action: Collaborate with key stakeholders in the Transportation Department to draft and implement comprehensive SOPs outlining each process involved in inventory management.
- Responsible: Operations Inventory Manager

- Timeline: First draft by February 2025 and Final Procedure by April 2025

Training and Development:

- Objective: Build staff capacity in inventory management practices.
- Action: Organize training sessions for all staff involved in handling inventory, focusing on the best practices, compliance measures, and the importance of accurate record-keeping.
- Responsible: Chief Operations Officer
- Timeline: Training sessions scheduled on or before March of 2025

Observation 2. Insufficient Financial Controls

Goal IV: Stewardship: Efficient, Effective, Equitable Resources Stewardship

The Transportation Department has insufficient financial controls over the ordering process of parts and the monitoring of costs. The Transportation Department utilizes eight vendors under blanket purchase orders, five of which do not have a contract with the District. In addition, the department is using blanket purchase orders without clear justification for their use. We could not validate the total cost of transportation inventory parts, because these parts do not have a separate accounting line from other items purchased within the department.

Ordering Process

In Internal Audit's review of vendors, we found that the Transportation Department utilizes eight vendors, including Yancey, Fleet Pride, Rush Trucks, AutoZone, Peach State, Cummins, Robert Truck Center, and Thermo King. The District does not have contracts with Fleet Pride, AutoZone, Cummins, Robert Truck Center, and Thermo King. After verifying this information, we spoke to the department's management staff, who expressed uncertainty regarding any contracts with these vendors. They referred us back to the Purchasing Department, noting that purchases are made using blanket purchase orders but were unsure about the details of the contracts. According to District policy DJE, under section B the Transportation Department qualifies as a Buyer Agent Department, which allows greater purchase discretion. This policy outlines the competitive processes required based on the dollar amount. Both the Purchasing Manual and policy DJE indicate that if the desired goods or services are not available under existing contracts, the District employee requesting the purchase should contact the Purchasing Department to determine how to proceed with the purchase according to these guidelines. The Transportation Department has used all eight of these vendors on a blanket purchase order.

The blanket purchase orders we reviewed between FY 21-23 range from \$1,844.82 to \$50,000. The Transportation Department and Purchasing Department cannot explain how the dollar amounts for each blanket purchase order were determined.

Monitoring Costs

Internal Audit attempted to determine the exact dollar amount spent on transportation inventory parts, including those purchased through blanket purchase orders. However, the accounting line used to track expenditures for transportation inventory parts is also used for other items within the Transportation Department. These additional items include towing fees, tire fees, oils and lubricants, batteries for fleet vehicles, vehicle washes, and shop tools. This overlapping use of a single accounting line made it difficult to isolate and accurately track costs only associated with transportation inventory parts. In our review of blanket purchase orders, we identified the blanket purchase order amount for the following fiscal years; FY24- \$795,000, FY23-\$526,845, FY22-\$295,000, FY21- \$330,000.

Weak financial monitoring controls can lead to overspending and financial mismanagement. A lack of contract management and failure to monitor blanket purchase orders can lead to unverified purchases, often outside of approved contracts or without competitive bidding. This puts the District at risk of overpaying for goods and services. If purchases are made outside of established contracts, pricing and terms may not be competitive, leading to unnecessary costs. Weak financial controls can also create opportunities for fraud. When spending is not properly tracked or monitored, there is an increased risk of misuse of funds.

Recommendations

Office of Finance

- Conduct a review of all transportation part vendors used by the Transportation Department to ensure there is a formal contract in place.
- Review the blanket order process to determine if this process is the best practice for the department. Establish procedures to support the process.
- Develop accounting controls that allow for monitoring of costs and inventories.

Management's Corrective Action, Responsible Person(s) and Anticipated Completion Date

- Action: We will work with Operations team to re-establish purchasing and purchase order protocol to support once Transportation procurement process and procedures are updated.
- Responsible: Senior Purchasing Director & team
- Timeline: March 2025

Observation 3. Inventory Controls

Goal IV: Stewardship: Efficient, Effective, Equitable Resources Stewardship

Significant deficiencies exist in the inventory control practices, including unauthorized modification to inventory counts and pricing, and access protocols to the inventory room.

Inventory and Pricing

Internal Audit conducted an internal control test of inventory items. We used the Inventory on Hand Report that was printed on the day of the audit. From our judgmental sample of 121 items, 45 of the 121 items on the Inventory on Hand Report did not match our physical count (36%). In addition, we found items listed with average prices of \$0.00 or \$1.00 on the Inventory on Hand Report. A management staff member indicated that the dollar amount was incorrect because they needed verification from the vendor. We witnessed them contacting the vendor to update the prices in the system at the time of the audit. Best practices require prices to be updated based on the invoice price when received to ensure accuracy. Out of the 3,011 items listed on the inventory on Hand Report, a total of 1,251 items were found to have incomplete pricing (42%).

During our interview with management they stated that an inventory count is done once a month of a sample of items and a wall-to-wall is done once a year but there was no documentation of an audit performed. Industry best practices require controls over inventory modifications and regular audits for monitoring inventory.

The Transportation Department utilizes a software system called Verstrans Fleet Vision, designed to manage, and track inventory. This system supports inventory tracking, ordering, asset management, and reporting. During our onsite visit, we observed staff members changing inventory numbers in the system. These changes were made to reflect the on-hand count at the time of the audit, with some items being updated without physical verification. This action occurred after discussing our findings with management. There are no established controls over who can modify inventory numbers. We found no documentation of changes made or any follow-up methods to understand the reason behind the adjustments.

Access Controls

Internal Audit observed that all four entrances to the inventory area were neither locked nor secured, allowing all transportation staff members to move freely within the inventory parts area. We observed one mechanic accessing inventory parts without permission, raising concerns about unauthorized entry. When interviewing management, we received inconsistent responses regarding who has access. There was a lack of clarity about access permissions combined with the observation of multiple individuals entering the inventory room. Best industry

practices for access to an inventory room includes implementing strict access controls and maintaining a clear, documented list of authorized personnel.

The unauthorized modification of inventory records without proper documentation exposes the District to significant risks, as it allows for the items to be altered or theft of physical inventory without detection. Altering inventory counts without physical verification can result in a miscount of actual assets. Price discrepancies can lead to inaccurate financial reporting, which can also affect budgeting and forecasting.

Recommendations

Office of Operations and Facilities

- Establish detailed procedures for access both electronically and physically for inventory modifications.
- Establish cyclical inventory audits to ensure compliance and financial accountability.

Management's Corrective Action, Responsible Person(s) and Anticipated Completion Date

Improve Inventory Tracking Systems:

- Objective: Enhance the effectiveness of inventory tracking and safeguarding measures.
- Action: Evaluate technology solutions or systems to automate inventory tracking, allowing for real-time updates and better accuracy in record-keeping.
- Responsible: Executive Director of Transportation
- Timeline: May of 2025

. Conduct Regular Physical Inventory Counts:

- Objective: Ensure that physical inventory counts are conducted regularly to maintain accuracy in records.
- Action: Establish a schedule for biannual physical inventory counts, with detailed documentation to reconcile inventory records.
- Responsible: Operations Inventory Manager
- Timeline: First count by February of 2025

Strengthen Financial Controls:

- Objective: Improve financial control measures to prevent discrepancies and enhance accountability.
- Action: Partner with the Chief Financial Officer to review and implement robust financial controls specific to inventory purchases and usage.
- Responsible: Chief Operations Officer
- Timeline: By April of 2025

We are committed to implementing these corrective actions promptly to enhance our operations and ensure better compliance moving forward. Regular updates on our progress will be shared via the progress monitoring report.

APPENDIX A - Audit Rating Definitions

Audit Rating	Definition
Unsatisfactory High	<p>Design of controls and/or program: Design of controls is ineffective in addressing key risks.</p> <p>Documentation and communication: Non-existent documentation and/or communication of controls/policies/procedures</p> <p>Operations/implementation: Controls are not in operation or have not yet been implemented.</p> <p>Compliance: Significant breaches of legislative requirements and/or departmental policies and guidelines</p> <p>Risk management: Risks are not being managed.</p> <p>Academics: Neither Staffing patterns nor curriculum/materials are sufficient to implement with fidelity</p>
Needs Improvement Medium	<p>Design of controls and/or program: Design of controls only partially address key risks.</p> <p>Documentation and communication: Documentation and/or communication of controls/policies/procedures is incomplete, unclear, inconsistent, or outdated.</p> <p>Operations/implementation: Controls are not operating consistently and/or effectively or have not been implemented in full.</p> <p>Compliance: Breaches Federal, State, or local policies and guidelines have occurred</p> <p>Risk management: Risks are not effectively managed which could results in failure to ensure school objectives are met.</p> <p>Academics: Either staffing patterns or curriculum/materials are insufficient to implement with fidelity</p>
Satisfactory Low	<p>Design of controls and/or program: Design of controls is largely adequate and effective in addressing key risks.</p> <p>Documentation and communication: Controls/policies/procedures have been formally documented and are up to date but are not proactively communicated to relevant stakeholders.</p> <p>Operations/implementation: Controls are largely operating in a satisfactory manner and are providing some level of assurance.</p> <p>Compliance: No known breaches of legislative requirements and/or departmental policies and guidelines have occurred</p> <p>Risk management: Risks are largely effectively managed.</p> <p>Academics: Both staffing patterns and curriculum/materials are available to implement with fidelity</p>