PERFORMANCE AUDIT
OF

FIXED ASSET AND INVENTORY CONTROLS

MICHIGAN DEPARTMENT OF TRANSPORTATION

November 2004

59-310-02

"...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof."

– Article IV, Section 53 of the Michigan Constitution

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REPORT SUMMARY

Performance Audit

Fixed Asset and Inventory Controls

Michigan Department of Transportation (MDOT)

Report Number:
59-310-02

Released:
November 2004

MDOT's Financial Operations Division coordinates fixed asset reporting of the following inventories: aircraft, airport electronics, building, bus, computer, fleet, tagged equipment, and warehouse and stores control. MDOT maintains these inventories, with assistance from other State departments for the building and computer inventories. The value of the inventories (excluding the computer inventory) at September 30, 2003 was approximately $245.6 million.

Audit Objective:
To determine the effectiveness of MDOT's management control over fixed assets and inventories.

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Audit Conclusion:
We concluded that MDOT's management control was generally effective over fixed assets and inventories.

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Reportable Conditions:
MDOT did not establish effective control over its computer inventory (Finding 1).

MDOT did not document its procedures for all types of equipment inventory. Also, MDOT did not effectively train staff involved in the equipment inventory process. (Finding 2)

MDOT did not include equipment purchases with an acquisition cost of less than $500 when determining high-risk items to include in the tagged equipment inventory (Finding 3).

MDOT did not have sufficient control over its tagged equipment inventory (Finding 4).

MDOT did not capitalize its tagged equipment, fleet, bus, and computer inventories in compliance with Department of Management and Budget policy (Finding 5).

MDOT did not maintain current and complete written procedures for its warehouse and stores control inventory systems (Finding 6).

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Agency Response:
Our audit report contains 6 findings and 7 corresponding recommendations. MDOT's preliminary response indicated that it concurs with all of the recommendations and that it has begun implementing or will implement corrective action.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at:
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AUDITOR GENERAL

November 18, 2004

Mr. Ted B. Wahby, Chairperson
State Transportation Commission
and
Ms. Gloria J. Jeff, Director
Michigan Department of Transportation
Murray Van Wagoner Transportation Building
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

This is our report on the performance audit of Fixed Asset and Inventory Controls, Michigan Department of Transportation.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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MICHIGAN DEPARTMENT OF TRANSPORTATION

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Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Sections 16.450 - 16.458 of the *Michigan Compiled Laws* (sections of the Executive Organization Act of 1965). MDOT is governed by the State Transportation Commission, which is made up of six members who are appointed by the Governor with the advice and consent of the Senate. The Commission is responsible for establishing policies. MDOT is managed by a director, appointed by the Governor, who is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission* is to provide the highest quality transportation for economic benefit and improved quality of life.

The Financial Operations Division provides financial data to MDOT's management obtained through the departmentwide recording of fiscal transactions. Within the Division, the Fixed Assets and Accounts Receivable Unit coordinates the reporting of fixed assets from the various fixed asset automated inventory systems maintained throughout MDOT. These inventory systems include the following:

a. The aircraft inventory consists of the seven airplanes used to transport State officials and employees. The airplanes are available for use by departments and branches of government throughout the State as necessary. The Aviation Services Division is responsible for maintaining the aircraft inventory. The value of this inventory at September 30, 2003 was approximately $6.4 million.

b. The airport electronics inventory accounts for various systems used to track and accumulate weather and navigation data. The Aviation Services Division is responsible for maintaining the airport electronics inventory. The value of this inventory at September 30, 2003 was approximately $2.7 million.

c. The building inventory identifies MDOT-owned buildings. This inventory is maintained by the Department of Management and Budget and periodically updated by MDOT. The value of this inventory at September 30, 2003 was approximately $126.4 million.

** See glossary at end of report for definition.*

d. The bus inventory tracks buses owned by MDOT that are on loan to various municipalities throughout the State. The Passenger Transportation Division is responsible for maintaining the bus inventory. The value of this inventory at September 30, 2003 was approximately $10.8 million.

e. The computer inventory accounts for desktop and laptop computers, servers, printers, scanners, and other computer hardware used in MDOT operations. During our audit fieldwork, the Department of Information Technology (DIT) assumed primary responsibility for the Statewide computer inventory. DIT technicians, who were previously MDOT staff in the Office of Information Management, are assigned to each MDOT region. MDOT reported the value of the computer inventory to the Department of Management and Budget at September 30, 2002 as approximately $19.5 million. Neither DIT nor MDOT could provide us with the value of this inventory at September 30, 2003.

f. The fleet inventory consists of service vehicles and accompanying apparatuses, including pickup trucks, dump trucks, salt spreaders, snowplow blades, trailers, portable signs, and other equipment associated with construction projects and road maintenance. A&E Fleet Administration in Operations Administrative Services is primarily responsible for maintaining the fleet inventory. The value of this inventory at September 30, 2003 was approximately $75.9 million.

g. The tagged equipment inventory accounts for equipment such as furniture; office machines; power tools; and items with a high risk of theft, such as cameras, projectors, metal detectors, surveyor equipment, and fax machines. The Fixed Assets and Accounts Receivable Unit within the Financial Operations Division is responsible for maintaining the tagged equipment inventory. The value of this inventory at September 30, 2003 was approximately $17.9 million.

h. The warehouse and stores control inventories account for supplies and materials such as guard rails and guard rail posts, signs and sign posts, clothing, cleaning supplies, tools, construction materials, and bulk road salt. The Warehouse Unit, in the Projects and Receipts Section, maintains these supplies and materials centrally for distribution to MDOT stores locations. The Stores Control Unit, also in the Projects and Receipts Section, maintains the stores inventory system for the supplies and materials at over 100 stores locations Statewide. The Stores Control

Unit also provides guidance for MDOT inventory control policies and procedures. The value of these inventories at September 30, 2003 was approximately $5.5 million.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective for our performance audit* of Fixed Asset and Inventory Controls, Michigan Department of Transportation (MDOT), was to determine the effectiveness* of MDOT's management control* over fixed assets and inventories.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Department of Transportation. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed during the periods March through December 2002 and May 2003 through January 2004, included examining MDOT's records and activities principally for the period October 1, 1999 through December 31, 2003.

To accomplish our audit objective, we reviewed MDOT guidance documents, policies, and procedures to gain an understanding of requirements applicable to the aircraft, airport electronics, building, bus, computer, fleet, tagged equipment, and warehouse and stores control inventories. We also reviewed Department of Management and Budget policies and procedures to identify requirements applicable to fixed assets and inventories.

We interviewed MDOT staff responsible for maintaining and reporting on MDOT's various inventories. We documented the key processes and associated controls for each of the inventories and examined a random sample of inventory items to assess the effectiveness of the identified controls. We determined MDOT's compliance with annual physical inventory requirements.

** See glossary at end of report for definition.*

We examined a random sample of computer, fleet, and tagged equipment inventory items at 13 MDOT field sites (Alpena Transportation Service Center, Bay Region, Brighton Garage, Cadillac Special Crews, Grand Ledge Garage, Hastings Garage, Kalamazoo Garage, Mount Pleasant Garage, Mount Pleasant Transportation Service Center, North Region Cadillac, Saginaw Eastside Garage, Saginaw Special Crews, and Williamston Garage) and 2 MDOT organizational units (Transportation Planning and Design Survey) to verify their existence. We also identified other computer, fleet, and tagged equipment inventory items not sampled during our visits and traced them back to the appropriate inventory to verify completeness.

We analyzed the warehouse and stores control inventories to identify significant trends in purchase, usage, and turnover. We evaluated these trends and verified their reasonableness. We observed the annual physical inventory count at the MDOT central warehouse and at three MDOT stores (Charlotte, Grand Ledge, and Williamston).

Agency Responses

Our audit report contains 6 findings and 7 corresponding recommendations. MDOT's preliminary response indicated that it concurs with all of the recommendations and that it has begun implementing or will implement corrective action.

The agency preliminary response that follows each recommendation in our report was taken from MDOT's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MDOT to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF MANAGEMENT CONTROL OVER FIXED ASSETS AND INVENTORIES

COMMENT

Audit Objective: To determine the effectiveness of the Michigan Department of Transportation's (MDOT's) management control over fixed assets and inventories.

Conclusion: We concluded that MDOT's management control was generally effective over fixed assets and inventories. However, our assessment disclosed reportable conditions* regarding control over computer inventory; documented procedures and staff training; determination of high-risk tagged equipment items; control over tagged equipment inventory; tagged equipment, fleet, bus, and computer inventory capitalization; and warehouse and stores written procedures (Findings 1 through 6).

FINDING

1. Control Over Computer Inventory

MDOT did not establish effective control over its computer inventory. As a result, MDOT could not ensure the completeness and overall accuracy of the inventory.

Chapter 21 of the Department of Management and Budget's (DMB's) Financial Reporting and Accounting Manual (FRAM) requires agencies to complete a physical inventory of equipment annually to ensure the accuracy of the inventory listings. This chapter also requires agencies to identify the equipment's location in their records to expedite the inventory-taking process. Further, MDOT Guidance Document 10101 outlines MDOT's process to conduct a physical inventory of computer equipment.

During our review, we noted:

a. MDOT had not conducted an annual physical inventory of all computer equipment since August 2000. In fiscal years 2000-01 through 2002-03, MDOT purchased approximately $6.8 million in new computer equipment.

** See glossary at end of report for definition.*

b. MDOT's centralized inventory could not identify computer equipment by field location. MDOT had more than 80 field locations throughout the State, including regional offices, transportation service centers, and transportation garages.

c. Neither MDOT nor the Department of Information Technology (DIT) could provide us with the current acquisition cost of the computer inventory. MDOT last reported the acquisition cost of the computer inventory as $19.5 million at September 30, 2002.

Effective October 14, 2001, Executive Order No. 2001-03 established DIT and transferred to it all authority and responsibility for the provision of all information technology services within any executive branch department. The service level agreement executed between MDOT and DIT stipulates that DIT will maintain an MDOT information technology asset inventory to standards that will satisfy audits. In addition, the service level agreement states that DIT microtech support has, as a primary duty, the taking of hardware inventory and also the maintenance and updating of the MDOT information technology equipment inventory.

Although Statewide responsibility now resides with DIT, MDOT is still responsible for control and accountability over computer equipment because federal and/or restricted funds purchased much of the computer equipment. MDOT and DIT need to work together to ensure the completeness of the computer inventory and the continued availability of reporting necessary to effectively manage MDOT activities.

RECOMMENDATION

We recommend that MDOT, in conjunction with DIT, establish effective control over its computer inventory.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation that effective controls be established over computer equipment. MDOT informed us that the controls would be outlined when MDOT and DIT create their fiscal year 2004-05 memorandum of understanding.

FINDING

2. Documented Procedures and Staff Training

MDOT did not document its procedures for all types of equipment inventory. Also, MDOT did not effectively train staff involved in the equipment inventory process. As a result, MDOT's equipment inventories contained a number of inaccuracies and capitalization misstatements.

MDOT has documented limited procedures for the computer and tagged equipment inventories. Chapter 21 of DMB's FRAM provides general guidance to departments regarding the inventorying and capitalization of equipment. MDOT's instructions to staff involved in the year-end financial reporting of equipment inventories refer to this guidance. However, MDOT did not train its staff on the applicability of DMB's generic guidance to specific MDOT circumstances.

Tailored guidance, including examples specific to MDOT activities, would enhance the completeness and accuracy of the equipment inventories.

During our audit fieldwork, we noted:

a. MDOT omitted four navigation systems that were valued at $763,984 from its airport electronics inventory. MDOT believed that it had included these navigation systems in the tagged equipment inventory. When we brought this to MDOT's attention, it added these navigation systems to its airport electronics inventory reporting for September 30, 2002.

b. MDOT did not include message boards in its fleet inventory at fair market value. We identified one message board, with an acquisition cost of $30,000, recorded in the inventory at $1. The message boards are included in the construction costs of certain projects. Title to the message board is passed to MDOT at the completion of the project. We identified 13 other message boards in the fleet inventory also valued at $1.

c. MDOT included a salt storage building in its building inventory twice, overstating its building inventory by $140,585.

d. MDOT included the total acquisition cost of $167,070 for 23 satellite systems in its airport electronics inventory even though a major component of these systems is no longer used.

e. MDOT included the $30,670 cost of renovating a building with the cost of a new salt storage building. MDOT completed these projects as part of the same construction contract. Chapter 21 of DMB's FRAM does not allow the capitalization of renovation costs unless those costs exceed $100,000.

RECOMMENDATIONS

We recommend that MDOT document its procedures for all types of equipment inventory.

We also recommend that MDOT effectively train staff involved in the equipment inventory process.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendations.

MDOT will update or write inventory procedures for aeronautics, computer equipment (in conjunction with DIT), fleet, tagged equipment, and Multi Modal Transportation Services Bureau (MMTSB) inventories. These procedures will be completed by March 31, 2005.

With the implementation of a new fixed asset inventory system, MDOT will train the equipment coordinators in the use of the new system. MDOT will also use this opportunity to train the equipment coordinators in all aspects of the tagged equipment inventory. MDOT will include the inventory process in the year-end reporting instructions. MDOT will establish a plan to train the staff involved in the aeronautics, fleet, and MMTSB inventories. This training will be conducted by March 31, 2005.

FINDING

3. Determination of High-Risk Tagged Equipment Items

MDOT did not include equipment purchases with an acquisition cost of less than $500 when determining high-risk items to include in the tagged equipment inventory. As a result, MDOT's policy may result in the failure to control items with a high risk of theft.

Equipment is inventoried for two primary reasons: (1) to provide a method of control by recording and tracking the equipment and (2) to enable MDOT to report the value of equipment on its financial statements.

Chapter 21 of DMB's FRAM states that departments may choose to inventory some items, such as those susceptible to theft, with values less than $5,000. Items that have a value of less than $5,000 should be included in the inventory at a nominal cost. This allows the items to be tracked but does not misstate the value of the fixed assets. However, MDOT Guidance Document 10068 specifically excludes equipment with an acquisition cost of less than $500 from the tagged equipment inventory with no regard to risk of theft or loss.

For example, MDOT had 248 digital cameras in its tagged inventory at an average cost of $850 each. Most of these digital cameras were purchased in 1995 or earlier. These digital cameras were included in the tagged equipment inventory due to their high-risk of theft and their acquisition cost exceeded $500 each. However, today these digital cameras would still be considered a high risk for theft but would not be inventoried and tracked because most digital cameras now cost below $500. Other tagged inventory equipment items whose current cost may fall below $500 include video cameras, televisions (TVs), videocassette recorders (VCRs), TV/VCR combinations, and fax machines.

RECOMMENDATION

We recommend that MDOT include equipment purchases with an acquisition cost of less than $500 when determining high-risk items to include in the tagged equipment inventory.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT will include high-risk equipment acquisitions in the tagged equipment inventory beginning in fiscal year 2004-05.

FINDING

4. Control Over Tagged Equipment Inventory

MDOT did not have sufficient control over its tagged equipment inventory. Consequently, MDOT could not ensure that its inventory was complete, properly valued, and controlled.

Chapter 21 of DMB's FRAM requires agencies to complete a physical inventory of equipment annually to ensure the accuracy of the inventory listings. This chapter also requires departments to assign all equipment recorded in the inventory with a unique, sequentially issued tag number upon receipt of the equipment item. This chapter further recommends the immediate removal of equipment deemed missing from the inventory records. MDOT Guidance Document 10068 makes reference to an annual physical check of equipment and the tagging of equipment but provides no guidance in completing these tasks. This guidance also requires spot checks of the tagged equipment inventory at random locations.

During our audit, we visited nine MDOT field locations, in part, to verify the existence of 260 tagged inventory items (155 radios and 105 other items) as reported in MDOT's tagged equipment inventory. During our review, we noted:

a. MDOT did not conduct periodic visits to random field locations to verify the accuracy of the tagged equipment inventory. Periodic verifications of selected locations' tagged equipment inventory would provide MDOT with the opportunity to verify the accuracy of the inventory and visually inspect the inventory items for condition and usefulness. In addition, periodic verifications would provide the opportunity to identify equipment items subject to inventory that were not previously included.

   During our field visits we could not locate 4 of 105 tagged equipment items (total acquisition cost of approximately $11,000). Also, we noted 2 of 105 tagged equipment items that had been replaced (total acquisition cost of approximately $8,300) yet remained in the inventory. Further, the 2 replacement items had not been added to the tagged equipment inventory.

b. MDOT did not maintain an accurate inventory of its radio equipment. As a result, MDOT could not accurately account for the existence or location of approximately 45% (2,700 radios) of the tagged equipment inventory items.

MDOT assigned these radios, though located throughout the State, to one location unit coordinator for inventory purposes. During our audit fieldwork, the coordinator retired and MDOT did not reassign the coordinator's duties to other staff. Many of these radios travel with MDOT staff or are mounted in MDOT service vehicles, making it difficult to track. MDOT should consider including the individual radios in each field location's tagged equipment inventory or adding the radios mounted in MDOT service vehicles to the fleet inventory.

c. MDOT did not remove missing tagged equipment from the inventory in a timely manner. This resulted in an overstatement of MDOT's equipment inventory.

DMB recommends the immediate removal of equipment items from the inventory once identified as missing. However, Chapter 21 of DMB's FRAM allows that "If the department believes that the equipment is still under its control, the equipment does not have to be removed from the capital asset records during the initial physical inventory." This chapter further states that "If during the subsequent annual physical inventory the equipment still has not been located, the asset should be removed from the inventory listing, regardless of whether the department believes that the equipment is still under their control or not."

MDOT's undocumented practice requires a search for the missing equipment to be conducted prior to reporting the tagged equipment item as missing. Also, MDOT's practice requires all missing tagged equipment items to remain in the inventory for two consecutive inventory counts.

During our field visits, we identified 3 of 105 items (total acquisition cost of approximately $9,500) that remained in MDOT's tagged equipment inventory for two consecutive inventory counts (included in item a. as not located). Also, MDOT could not document its continued control over these equipment items.

d. MDOT did not obtain completed equipment tagging validation reports for all additions to the tagged equipment inventory. As a result, MDOT had no assurance that additions to the inventory were tagged.

MDOT sends an equipment tagging validation report to the location unit coordinator for each new acquisition. Upon receipt of the report, the location unit coordinator is to adhere the tag to the tagged equipment item, sign and date the report, and return the report to MDOT. For 7 (37%) of 19 acquisitions reviewed, the location unit coordinator had not returned the equipment tagging validation report to MDOT. For these 7 acquisitions, the equipment tagging validation report was outstanding from 131 to 554 days.

e. MDOT's annual physical inventory of tagged equipment did not require a usability assessment of the individual inventory items. As a result, MDOT expended additional resources tracking and accounting for equipment no longer used.

For its annual physical inventory, MDOT instructed the location unit coordinators to visually confirm the inventory items and report any variances. While this review would effectively verify the existence of the inventory items, it would not result in the identification of equipment no longer in use. MDOT staff at one field location identified four items (total acquisition cost of approximately $3,300) included in the tagged equipment inventory described as "junk" and no longer used. However, these items remained in the inventory. We also noted similar circumstances for many hand-held radios, still included in the tagged equipment inventory, that MDOT staff no longer used.

RECOMMENDATION

We recommend that MDOT improve control over its tagged equipment inventory.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT informed us that the radio inventory is going to be decentralized and that DIT has assumed responsibility for the inventory. MDOT also informed us that it updated its operating procedures for equipment (F/A#00321) to effectively control the timeliness of missing asset removal and validation that additions are being tagged with the implementation of the new fixed asset inventory system. In addition, MDOT informed us that it changed the missing items reporting from three years to two years in fiscal year 2002-03. Operating procedure F/A#00320 provides instructions for controlling tagged equipment. MDOT will institute a program to conduct random physical

inventories to verify that equipment is on hand, that removals and additions are properly recorded, and that MDOT procedures are being followed. MDOT will establish new procedures to require a usability assessment on individual inventory items. MDOT plans to have these improvements and written procedures in place by March 31, 2005.

FINDING

5. Tagged Equipment, Fleet, Bus, and Computer Inventory Capitalization

MDOT did not capitalize its tagged equipment, fleet, bus, and computer inventories in compliance with DMB policy. As a result, MDOT overstated the capitalized values of its tagged equipment, fleet, bus, and computer inventories by a minimum of $11.5 million.

Fixed assets and equipment are inventoried for two primary reasons: (1) to enable MDOT to report the value of fixed assets and equipment on its financial statements and (2) to provide a method of control by recording and tracking the fixed assets and equipment.

Note 9 (Capital Assets) of the fiscal year 2002-03 *State of Michigan Comprehensive Annual Financial Report* states that "equipment is capitalized when the cost of individual items exceed $5 thousand." In addition, Chapter 21 of DMB's FRAM requires agencies to capitalize all owned equipment having an acquisition cost of $5,000 or more and a useful life of more than one year. This chapter further states that departments may choose to inventory some items, such as those susceptible to theft, with values less than $5,000. Items that have a value of less than $5,000 should be included in the inventory at a nominal cost. This allows the items to be tracked but does not misstate the value of the fixed assets.

During our review, we noted:

a. MDOT capitalized items in its tagged equipment inventory with an acquisition cost of less than $5,000 based on their designation as high-risk items. While we agree that high-risk items should be included in the tagged equipment inventory because they are susceptible to theft, MDOT should record these items at a nominal cost. Capitalizing these items at their acquisition cost

resulted in an overstatement of the tagged equipment inventory by approximately $7.3 million (41%) at September 30, 2003.

b. MDOT capitalized items in its fleet inventory with an acquisition cost of less than $5,000 based on the likelihood that the equipment's useful life could be extended with future repairs as opposed to rendered useless should the equipment break down. While it is acceptable to include these items in the fleet inventory because future repairs would extend the item's useful life, MDOT should record these items at a nominal cost. Capitalizing these items at their acquisition cost resulted in an overstatement of the fleet inventory by approximately $2.7 million (4%) at September 30, 2003.

c. MDOT capitalized four buses that it did not own. These buses were leased by MDOT and did not meet the capitalization criteria as established in generally accepted accounting principles. Capitalizing these items resulted in an overstatement of the bus inventory by approximately $1.5 million (14%) at September 30, 2003.

d. MDOT capitalized all computer equipment with an acquisition cost exceeding $500. Capitalizing this equipment at its acquisition cost resulted in an overstatement of the computer inventory. Neither MDOT nor DIT could determine the overstatement of the computer inventory caused by the capitalization of computer equipment between $500 and $5,000.

RECOMMENDATION

We recommend that MDOT capitalize its tagged equipment, fleet, bus, and computer inventories in compliance with DMB policy.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT believed that it was in compliance with DMB policy by inventorying and capitalizing certain items less than $5,000. DMB has informed MDOT that it will be modifying the FRAM Chapter 21 – Section 1 policy to more clearly state that all departments report only amounts in excess of $5,000. MDOT will continue to track items below $5,000 but will report only the equipment over $5,000 starting with fiscal year 2003-04 reporting.

FINDING

6. Warehouse and Stores Written Procedures

MDOT did not maintain current and complete written procedures for its warehouse and stores control inventory systems. As a result, MDOT's ability to account for and control these inventories was reduced.

Chapter 12 of DMB's FRAM requires agencies to implement and maintain an inventory system that provides control over its inventory. This chapter also requires an annual physical inventory count to verify the accuracy of the inventory. MDOT's warehouse and stores control manuals contain procedures to help safeguard maintenance, repair, and operating supplies used in the construction and maintenance of the State's transportation system. However, during our review we noted:

a. MDOT did not have written procedures for warehouse staff responsibilities to ensure an appropriate separation of duties. For example, all warehouse storekeepers had the ability to receive, ship, and make adjustments to the inventory. Also, the warehouse storekeeper who did the actual counting during the annual physical inventory also had the authority to make adjustments to the inventory.

b. MDOT did not have written procedures for conducting the annual inventory count at the warehouse or individual stores. Written procedures would help ensure the accuracy of the inventory count and the consistency in performing the inventory count from year to year.

c. MDOT did not have written procedures for the timely disposal of outdated or unused inventory. This resulted in the inefficient use of MDOT resources to maintain these items in the inventory with little or no future benefit. During our observation of the annual warehouse inventory count, we noted that some items had remained in the inventory for three years without a request for use.

d. MDOT did not have written procedures for the approval of adjustments to the warehouse inventory. MDOT's practice was to print a summary of the adjustments and document on the summary the reason for each adjustment. The warehouse supervisor was to review and sign off on the printed summary to document his/her approval.

We reviewed the printed summaries for fiscal years 2000-01 and 2001-02 and noted that approximately 25% of the printed summaries contained documentation explaining the adjustments and that the warehouse supervisor had signed none of the printed summaries.

e. MDOT did not have written procedures for the follow-up of inventory adjustments to the stores control inventory. After the completion of the annual physical inventory, MDOT required each region to report the cause of and corrective action taken for inventory adjustments that exceeded 5% (or exceeded $1,000 per item) at individual stores within the region. However, MDOT did not follow up to verify that the corrective action was taken and had not identified consequences for failure to report.

During our review, we identified unresolved net adjustments of $117,153 (shortage) and $30,978 (overage) for two MDOT regions.

RECOMMENDATION

We recommend that MDOT maintain current and complete written procedures for its warehouse and stores control inventory systems.

AGENCY PRELIMINARY RESPONSE

MDOT concurs with the recommendation. MDOT informed us that it implemented a new stores system in June 2004. MDOT also informed us that draft procedures had been written, but the consultant must make modifications to the software and, therefore, the procedures cannot be finalized until the modifications are made. The procedures are expected to be finalized March 1, 2005.

GLOSSARY

Glossary of Acronyms and Terms

DIT	Department of Information Technology.
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
FRAM	Financial Reporting and Accounting Manual.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
MDOT	Michigan Department of Transportation.
mission	The agency's main purpose or the reason that the agency was established.
MMTSB	Multi Modal Transportation Services Bureau.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.