Internal Audit Unit
MONTGOMERY COUNTY BOARD OF EDUCATION
Rockville, Maryland

September 1, 2026

MEMORANDUM

To: Mr. Michael K. Lewis, Deputy Chief, Division of Transportation Services

From: Melvin A. Phillips, Supervisor, Internal Audit Unit

Subject: Audit of Division of Transportation Inventory Management Practices

Executive Summary

The Internal Audit Unit conducted a performance audit of the Division of Transportation Services (DOT) auto parts inventory and procurement operations. The audit covered activity for Fiscal Year (FY) 2026 (through April 30, 2026), and encompassed all storerooms across the Shady Grove, Bethesda, Clarksburg, Randolph, West Farm, and Turkey Thicket depots; the pre-audit and post-audit inventory snapshots surrounding the June 27, 2026, physical inventory count; interviews and site observations at multiple depot locations.

The audit identified six significant findings requiring management action. The underlying cause across all findings is the absence of written policies and procedures governing DOT procurement and inventory operations. In the absence of any documented standard, each depot has developed its own practices; procurement, receiving, issuance, transfer, and adjustment activity varies materially from one location to another; and no baseline exists against which compliance can be tested.

Compounding the procedural gap, the Auto Parts Supervisor holds concentrated authority over every phase of the parts inventory life cycle, ordering, receiving, processing, issuance, transfers, adjustments, procurement contract review of transactions he initiated, and sole custody of shop tools. Four Shady Grove parts staff hold similar procure-to-issue authority. This concentration presents a material risk of undetected errors, misuse, or fraud, and is inconsistent with segregation-of-duties expectations.

The primary recommendation of this audit is that the DOT develop and adopt a written Procurement and Inventory Operations Manual and establish a remediation plan addressing each specific finding, and in respect of the Board of Education contract governance finding, immediate reconciliation of active contracts to their Board-authorized amounts.

The audit did not identify any evidence of fraud, misuse, or wrongdoing by any individual in the parts inventory or procurement functions. The findings presented in this report describe structural control weaknesses that create the potential for undetected errors, misuse, or fraud; they are not allegations of misconduct, and the recommendations should be implemented to strengthen the

control environment regardless of the trustworthiness of the individuals currently in the affected roles.

Background
The Fleet Maintenance & Infrastructure unit of the DOT maintains a parts inventory used to support the operation and maintenance of the MCPS active school bus fleet. Parts operations are organized around a central main storeroom located at the Shady Grove Depot and satellite storerooms at Bethesda, Clarksburg, Randolph, West Farm, and Turkey Thicket.

As of the pre-audit snapshot (approximately June 26, 2026), the perpetual inventory record reported $2,374,814 of parts on hand across 4,896 stock-keeping-unit records (SKU)s. The Shady Grove main storeroom holds the largest concentration ($1,326,344), followed by Randolph ($267,412), West Farm ($253,581), Clarksburg ($241,811), Bethesda ($239,326), and Turkey Thicket ($46,339).

Inventory and work-order activity are recorded in FASTER Asset Solutions, a fleet management information system widely used by municipal government entities. The audit relied on the FASTER standard reports, physical observations, and employee interviews. Based on FASTER transaction reports for FY2026 through the audit period, the Division processed approximately $6.15 million in parts issuances, $5.13 million in inventory receipts from 28 vendors, and $3.26 million in inter-storeroom inventory transfers, reflecting the significant volume and complexity of DOT's inventory operations.

Findings and Recommendations

Finding 1: Absence of Written Policies and Procedures

The Fleet Maintenance & Infrastructure unit does not maintain any written policies or procedures governing the parts inventory or procurement functions. There is no documented process for requisitioning, ordering, approval thresholds, vendor selection, receiving and three-way match, posting to the perpetual record, work order issuance, inter-storeroom transfers, inventory adjustments, write-offs, use of placeholder asset codes such as B99999, treatment of non-stock or direct-issue items, item-master governance, cycle counts, annual physical inventory, segregation of duties, revenue accounting, or coverage of vacant positions. Written purchasing thresholds do not exist. The Fleet Manager and Assistant Fleet Manager invoice review is limited to confirming that sales tax has not been charged. Receipt of items is not verified, invoice amounts are not reconciled to contract prices, and there is no three-way match process.

Without written policies, management cannot enforce consistent practices, train new staff against an established standard, hold individuals accountable for specific actions, or provide assurance to oversight bodies that controls operate as designed. Compliance with management's expectations cannot be tested because no documented expectations exist.

The IAU recommends that the DOT develop and implement a comprehensive Procurement and Inventory Operations Manual to standardize these processes and strengthen internal controls. At a minimum, the manual should establish policies and procedures governing procurement, receiving, inventory issuance, transfers, inventory adjustments, non-stock items, item master maintenance, physical inventories, segregation of duties, use of generic work orders and placeholder assets, succession planning, and depot-specific operating procedures. The manual should clearly define roles, responsibilities, approval authorities, and documentation requirements to promote consistency and accountability across all transportation facilities. Once implemented, the manual should be reviewed and updated annually, or as significant operational or system changes occur, and all employees with inventory or procurement responsibilities should acknowledge their understanding of the procedures.

Finding 2: Concentration of Authority in the Auto Parts Supervisor and Related Segregation-of-Duties Deficiencies

The Auto Parts Supervisor exercises authority and discretion across every phase of the parts inventory life cycle, without independent oversight of any phase. The Supervisor has sole control over the ordering, security, and distribution of DOT shop tools. Two cabinets estimated at more than $25,000 in value are maintained without any perpetual inventory, sign-out log, or accountability record.

Four additional Shady Grove parts staff similarly hold access authority across ordering, receiving, processing, and issuing functions. At the satellite depots, the local parts person at Turkey Thicket places vendor orders directly up to a self-established $1,500 threshold with no documented approval authority for that threshold.

The concentration of authority creates opportunity for unauthorized transactions, errors, or diversion to occur without detection by routine controls. In respect of shop tools specifically, the absence of any accountability record combined with sole-person custody presents a material risk of undetected loss of movable, valuable equipment. The Auto Parts Supervisor's contract review of transactions that he initiated is not, structurally, an independent review.

None of the above constitutes evidence of wrongdoing. The condition is a structural weakness that should be addressed regardless of the trustworthiness of the individuals currently in the affected roles. IAU recommends that DOT adopt a written segregation-of-duties matrix identifying each parts function (ordering, receiving, processing, issuance, transfer initiation, transfer acceptance, adjustment posting, contract review, custody of shop tools, custody of training materials, purchase card authorization) and the prohibited combinations of access. The matrix should identify roles rather than named individuals so that it remains valid as staff change.

The DOT should strengthen internal controls by implementing an appropriate segregation of duties framework over parts inventory operations. Management should develop and implement a written segregation-of-duties matrix that clearly defines responsibilities for key inventory functions, including purchasing, receiving, processing, issuing, transfers, inventory adjustments, contract review, purchase card usage, and custody of shop tools, and identifies incompatible duties that should not be performed by the same individual. Where staffing limitations prevent full segregation, management should establish compensating controls, such as documented supervisory review, periodic independent reconciliations, and system-based access restrictions. Additionally, the Division should implement an inventory accountability process for shop tools, including maintaining a perpetual inventory, documenting assignments or sign-outs, conducting periodic physical inventories, and reconciling results to inventory records. Management should also formalize approval thresholds for decentralized purchasing at satellite facilities and ensure those thresholds are documented, authorized, and subject to independent oversight.

Finding 3: Aftermarket Automotive Parts Contract Overspent Without Board of Education Reauthorization

The Aftermarket Automotive Parts contract was authorized by the Board of Education (Board) at $5,000,000. Contract spending exceeded the authorized amount during the audit period. No additional funds were brought to the Board for reauthorization. Similar patterns of unmonitored spend versus Board-approved amounts were observed with respect to EZ Pass charges and other contracts. The DOT has no clear process for periodic reconciliation of the active contract spent against Board-authorized amounts. The audit could not identify a single canonical list of DOT contracts: one staff member maintains a paper binder, another maintains a spreadsheet. Some contract summaries and bridged-contract terms are not posted to the procurement website as required.

IAU recommends that the DOT, in coordination with the Department of Procurement and the Division of Financial Management, strengthen contract administration and monitoring controls to ensure that expenditures do not exceed the Board-authorized contract amounts. Management should reconcile all active DOT contracts to their Board-approved spending authority, identify any contracts that have exceeded authorized limits, and present those contracts to the Board for reauthorization, as appropriate, with an explanation of the circumstances that led to the over expenditure. To improve accountability, management should designate a single owner responsible for maintaining a complete and accurate inventory of all active DOT contracts, including contract status, authorized amounts, expenditures to date, remaining spending authority, expiration dates, and supporting Board authorization documentation. This contract inventory should be maintained as the official record, published on the procurement website, include bridged contracts, and be updated on a quarterly basis. Additionally, management should implement routine contract expenditure reporting to DOT leadership that compares cumulative spending against authorized amounts and establishes escalation thresholds to provide advance notice when contracts approach their authorized spending limits.

Finding 4: Physical Inventory Accuracy and Absence of a Systematic Cycle Count Program

June 27, 2026, physical inventory identified adjustments to 400 SKUs, representing approximately eight percent of the inventory population. The count resulted in gross variances of $54,511 (2.3 percent of inventory value) and a net adjustment of -$17,281 (-0.73 percent). Although the overall net variance was relatively small, the results included $35,896 in inventory shortages, partially offset by $18,615 in overages. In addition, 38 items valued at $8,434 were written off because they could not be located, while 19 items valued at $8,081 were physically present but not recorded in the perpetual inventory.

The DOT does not maintain a documented cycle count program and relies primarily on an annual physical inventory to identify inventory discrepancies. Additionally, there is no formal policy requiring standardized reason codes or independent approval for inventory adjustments, including 22 adjustments exceeding $1,000 identified during the count. As a result, inventory discrepancies may remain undetected for extended periods, reducing the reliability of inventory records and increasing the risk of undetected loss or error.

The DOT should implement a formal, risk-based cycle count program to monitor inventory accuracy throughout the year and identify discrepancies in a timely manner rather than relying primarily on an annual physical inventory. The program should establish documented count frequencies based on inventory value and criticality, assign responsibility for performing and reviewing cycle counts, and require timely investigation and resolution of all significant variances. Management should also adopt a formal inventory adjustment policy that requires standardized reason codes, documented supervisory approval for material adjustments, and periodic analysis of adjustment activity to identify recurring trends or control weaknesses.

Finding 5: Significant Idle and Obsolete Inventory Without Write-Down Consideration

Analysis of the perpetual inventory record identified multiple layers of confirmed dead and idle stock:

- $596,000 confirmed dead stock. 841 SKUs had identical on-hand quantity in the FY25 closing snapshot (June 30, 2025) and the post-audit snapshot (June 27, 2026). Zero net movement over a 12-month period across a complete fiscal year cycle.
- $360,000 three-year idle stock. 572 SKUs have remained at the same on-hand quantity for three consecutive fiscal years (FY24, FY25, and FY26 YTD).

IAU recommends that the DOT establish a formal policy governing the identification, valuation, and disposal of obsolete inventory. The policy should define objective criteria for identifying obsolete items, establish required approval levels for write-downs and disposals, and specify appropriate disposal methods. Management should perform an initial review of the 870 SKUs identified during this audit as having no inventory movement during the 11-month audit period to determine whether the items should be retained or disposed of. Retention decisions should be supported by documented business justification and be subject to independent review by an operational subject-matter expert rather than relying solely on the Auto Parts Supervisor. The review should also be coordinated with the Department's fleet replacement strategy to identify inventory associated with vehicles scheduled for retirement and adjust future purchasing accordingly, including consideration of vendor buy-back opportunities for high-value parts where appropriate. Finally, management should incorporate a recurring quarterly obsolescence review into its inventory management process and report the results to leadership to ensure obsolete inventory is identified and addressed on an ongoing basis.

Finding 6: Tire Contract Non-Compliance

Testing of tire procurement contracts identified multiple contract compliance deficiencies. IAU identified a documented vendor overcharge of 15.3 percent on a bus tire despite the correct contract price being previously invoiced, indicating an unauthorized price increase. The pricing schedule supporting the Fairfax County bridged contract has not been updated in more than three years, increasing the risk that current prices are not contract-authorized. In addition, the primary bus tire purchased by MCPS is not included on the contract, and the district experienced an approximately 12-month gap between the expiration of one tire contract and the Board approval of its successor, resulting in purchases without valid contract authority. The audit also found purchases from an off-contract vendor, procurement of Michelin tires under a contract awarded for Goodyear products, and invoices containing non-contracted charges for rims, mounting, and balancing services. Labor charges were billed as lump sums without sufficient detail to verify compliance with contract rates. Finally, controls over used tire and rim disposition were inadequate, as no documentation was maintained to support the pickup of used tires or to demonstrate whether MCPS received appropriate value or credit for discarded rims.

The DOT, in coordination with the Department of Procurement, should strengthen controls over tire procurement to ensure all purchases are made in accordance with Board-approved contracts and applicable procurement requirements. Management should verify that all tires, vendors, labor rates, and ancillary services are covered by an active contract prior to purchase; reconcile vendor invoices to contract pricing to identify and recover any overcharges; and ensure contract pricing schedules remain current throughout the contract term. In addition, management should establish procedures to document the disposition of used tires and rims, including any credits or salvage value received, and require sufficient invoice detail to verify that labor charges comply with contracted rates. Finally, management should implement periodic monitoring of tire procurement activity to identify and promptly address contract compliance issues.

No management response is necessary for this report. IAU will follow up on the status of these recommendations during its next annual DOT Inventory Management Practices audit.

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