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AUDIT REPORT

TO: P. L. Lonacker

DATE: 18 March 1977

FROM: E. K. Herndon

BRANCH AUDITED: Nashville

REPORT NUMBER: 144-031-7

The branch audit of Nashville was conducted during the week of February 28 through March 3, 1977, consisting of an operational review and assistance to new personnel.

Areas in which major exceptions were noted are:

- (1) Sales tax exemption certificates require updating.
- (2) A large percentage of Accounts Receivable are past due.
- (3) Several old items open in the cash sales account.
- (4) Several possible O.S.H.A. violations were noted.
- (5) A 4% error rate was noted in listing the proper hazardous warnings on shipping papers.

The majority of the exceptions noted are the result of new personnel in the office. The correct procedures were explained during the audit, and we feel that prompt corrective actions will be accomplished by the office personnel.

We discussed all findings and answered inquiries with branch management.

Detailed findings and recommendations are contained in the attached SUMMARY OF REVIEW.

Based on our review, we recommend that:

- a. Constant review of procedures, policies, and governmental regulations to insure that personnel properly understand and are in compliance with current regulations.
- b. Careful review by branch management of this report to insure that necessary corrective action is taken on all noted exceptions.
- c. The Branch Manager reply in writing to the Director of Internal Audit within thirty days of this report concerning comments of the audit, implementation of recommendations and any other pertinent comments.

EKH:cjb

E. K. Herndon
Director of Internal Audit

cc: Ray Gibbs - Nashville
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SUMMARY OF REVIEW

I. CREDIT AND COLLECTION

We reviewed the Aged Trial Balance (ATB) for January 31, 1977 for past due accounts and accounts over their credit limit. We also reviewed the credit approval procedure at the branch.

One customer had been allowed to considerably exceed his established credit limit. This customer was Mid States Plating with an established limit of \$7,500 and open charges of \$35,300. As of February 28, 1977, the account had an open balance of \$36,102. Four accounts had no credit limits listed and two accounts showed credit limits which differed from the credit authority letter received from the Kansas City Credit Manager.

Recommendation: The Branch Manager should get approval from the Kansas City Credit Manager before granting credit above the established credit limit. The Branch Manager should review the credit limits as posted on the ATB and request changes where required.

Approximately 23% of the open accounts receivable at January 31, 1977 were for amounts in the 91 days and over column. In the February ATB, this figure had grown to approximately 36%. In reviewing the status of some of the larger past due accounts at March 10, 1977, we noted that the branch has made some progress in collecting these past due amounts but others still need attention.

CUSTOMER	2/28/77 91+Over Days	@ 3/10/77 91+Over Days
Metro Govt. Nashville	22,102.70	\$ 6,789.70
Mid States Plating	21,210.27	17,412.19
Schrader Automotive	9,823.94	9,823.94
Briggs Bros.	3,935.50	151.23

The February ATB shows 24 accounts in the 91 and over past due column.

Recommendation: The Branch Manager should work with the Kansas City Credit Manager in a concerted effort to clean up these past due accounts.

II. SALES ORDER PROCEDURES

A review of the sales order processing procedures was performed to determine if sales orders were prepared completely and correctly. We also reviewed tax exemption certificates on customers granted exempt status.

We found that the branch was not matching their branch copies of invoices from the billing branch to the blue copy of the sales order to determine that the invoice was billed properly.

Recommendation: The branch should keep the blue copy of the completed sales order in a suspense file until the branch invoice copy is received. At this point, they should match the invoice to the blue copy of the sales order to determine that the billing operator picked up all the information correctly. Then, the two documents should be filed in the customer file.

We found that of 28 customers granted tax exempt status, 5 had no exemption certificate on file.

We examined all 22 exemption certificates for customers who stated they were taxable and found that 5 of these customers had not been taxed. The taxes not billed on these 5 customers amounted to \$1,810.69 for 1976 and 1977 year to date.

In a test of 74 signed exemption certificates, 1 did not list a reason that they were tax exempt.

Recommendations: The branch had begun an update of their tax exemption certificates prior to our audit. This work should continue till all cards are updated. We also recommended that the 5 customers who stated they were taxable be billed for any taxes due.

III. SAFETY INSPECTION

A safety inspection of the branch facility was performed to determine if there were any O.S.H.A. violations. We noted the following exceptions:

- (1) Propane gas storage should be posted as "flammable - no smoking".
- (2) No face shield was available in the acid filling area.
- (3) The horn on the fork lift was inoperative.
- (4) The canister for the gas mask had expiration dates of October, 1974.
- (5) Twenty paper bags of asbestos with no plastic covers were stored in the warehouse. They did not have the proper hazardous warning signs posted for the material.
- (6) The warm room was not marked with "No Exit" signs. The men's rest-room in the plant area was not marked.
- (7) An electric cord was strung across the floor in a doorway in the office area.
- (8) No one had been officially appointed as safety coordinator and no safety meetings had been held since November, 1976.
- (9) None of the personnel had completed a current first aid course.

Recommendation: These exceptions were discussed with the Branch Manager who took immediate action on some of the points. A face

shield was purchased, replacement gas mask cannisters were ordered, the horn on the fork lift was repaired and the electric cord in the office was covered. We forwarded a copy of the Federal Regulations regarding the handling and marking of asbestos to the Branch Manager. Corrections of the other exceptions should be accomplished as soon as possible.

IV. CASH SALES

A listing of all open cash and C.O.D. sales as of February 24, 1977 was reviewed and the open items traced back to the shipping copy of the sales order. The cash sale procedures were also reviewed for proper control.

We noted that there were 8 open items on the cash sale account dating back to 1976. The remaining 7 items were for sales between January 20 to February 9, 1977. Most of the open invoices were for sales for which cash was not collected at the time the goods were delivered and the customer had not received an invoice copy. We contacted the customers and forwarded an invoice copy to them for payment. These transactions had occurred before the current Office Manager took over at the branch.

Recommendation: The cash sale account should be reviewed each month. Any transactions over a month old should be reconciled.

V. DIRECT SHIPMENTS

We reviewed the direct sale procedures and tested the profitability of 7 products normally handled in direct sales.

It was noted that one direct sale through P.P.G. on purchase order 5312 had resulted in only a 2% profit. In discussions with the Branch Manager, we found that the customer had agreed to bill, on a one time basis, a lesser amount for the product. However, the billing had been at the usual amount. The Branch Manager contacted the supplier who said a credit memo for \$432.50 would be issued which would increase our profit margin on the sale to 8.8%.

No other notable exceptions were found.

VI. TRANSPORTATION

A. Shipping Papers

A block of 100 shipping papers was reviewed to determine if the required hazardous warnings were listed.

We noted a 4% error rate in failing to list the required hazardous warning. Oxidizer and Flammable Liquid warnings were not shown on some shipping papers. It was noted that shipping papers listing hazardous

products were not tabbed to set them off from others. Costly fines could result if shipping papers are not marked properly.

Recommendation: These errors should be pointed out to the office personnel to avoid their reoccurrence.

B. Vehicle Inspections

We performed a safety inspection of the two trucks at the branch.

Unit #411 had a fire extinguisher which was in the recharge zone on the meter. It was replaced immediately after our inspection.

Recommendation: Drivers should include a check of their fire extinguishers in their pre-trip inspection.

VII. CYCLE INVENTORY

In the preparation for our audit, we learned that Inventory Control had not received a cycle inventory from the branch since September, 1976. Upon our arrival at the branch, we found that the Office Manager had taken a physical count of 30 items at January 31, 1977 and had submitted a cycle on February 26, 1977.

Recommendation: Cycle counts should be taken monthly and should cover all products in inventory throughout the year. High movement or high cost material should be counted repeatedly throughout the year to keep inventory records correct.