

Municipality
of
Anchorage



P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4438

Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

February 10, 1995

**Internal Audit Report 95-03
1994 Parts and Fuel Inventory
Anchorage Water and Wastewater Utility**

Introduction. The Municipality of Anchorage maintains an inventory of parts and fuel at the Anchorage Water and Wastewater Utility (AWWU). The inventory was counted in September 1994 and the financial records were adjusted to the physical counts. AWWU uses the Municipal Financial Information System's (FIS) inventory subsystem.

Scope. Our audit objectives were to determine if the physical inventory count of parts and fuel was reasonably accurate and correcting adjustments were properly entered in the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

Overall Evaluation. Total inventory at AWWU was recorded at \$628,215 as of September 1994. This included the value of the warehouse inventory, fuel, gravel and recycled asphalt. The value of the warehouse inventory was based on a weighted average unit cost. Fuel, gravel and recycled asphalt inventories were measured as of the inventory date and

valued at the most recent invoice price. Based on the results of the work performed, we found that some inventory items were not included in the inventory count, maintained on the perpetual inventory records, or recorded in the inventory account. In addition, there was inadequate security over the outside warehouse items.

FINDINGS AND RECOMMENDATIONS

1. Salvaged and Reusable Materials Were Not Entered on Records of Accountability.

- a. **Finding.** Salvaged and reusable materials were not entered on any records of accountability. These represent items capitalized to projects but not used, salvaged materials, and old inventory. Without some method of documentation, the availability of the items may not be known and any loss will not be detected.
- b. **Recommendation.** Salvaged and reusable materials should be entered on records of accountability. These items could be maintained on a separate parts inventory at a zero value. In addition, these items should be counted periodically and compared to the inventory records.

- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendation in this area. By August 30, 1995, AWWU will review the salvaged and reusable materials identified in the audit and implement a procedure to account for these items."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Security of Outside Inventory Items Compromised.**

- a. **Finding.** Outside inventory items were not properly secured. Specifically, the fenced in area directly outside of the warehouse had an open walkway between the carpentry storage and the warehouse storage areas. This allowed open access to the storage area and could result in removal of items stored therein.
- b. **Recommendation.** Access to the outside warehouse items should be limited to warehouse personnel only.
- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendation in this area. The walkway between the carpentry storage area and

the warehouse storage area will be secured by June 1, 1995."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

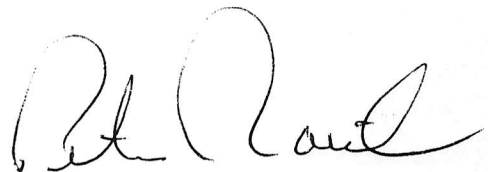
3. **Inventory Account 0540-1541 Was Overstated.**

- a. **Finding.** The account used to record inventory items such as gravel and recycled asphalt was overstated by \$40,000. The overstatement occurred because a 1991 adjustment for chemicals inventory had not been measured and adjusted to 1994 levels.
- b. **Recommendation.** All inventory items should be measured on an annual basis and recorded as inventory on the financial records. Procedures should be implemented to ensure that all inventory is adjusted to reflect current measurements. Such procedures have been implemented for fuel, gravel, and recycled asphalt and should be expanded to include all inventory items (i.e., excess inventory, salvage, and reusable materials).
- c. **Management Comments.** Management concurred and stated, "AWWU agrees with the findings and recommendation in this

area. The accounting adjustments have already been made to the AWWU financial records and procedures have been implemented to account for the identified items in the future."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with the appropriate Municipal personnel on January 9, 1995.



Peter Raiskums, CIA
Director, Internal Audit

Audit Staff:
Amy McCollum