

Municipality
of
Anchorage



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Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

May 6, 1996

Internal Audit Report 96-05
1995 Parts and Fuel Inventory
Public Transportation Department

Introduction. The Municipality of Anchorage maintains an inventory of parts and fuel at the Public Transportation Department. A physical inventory is performed annually and the financial records are adjusted to the physical counts. The Public Transportation Department maintains their own inventory sub-system.

Scope. The objectives of this audit were to determine if the physical inventory counts of parts and fuel at the Public Transportation Department were reasonably accurate and proper adjustments were made to the financial records. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of inventory counts, accounting records and such other auditing procedures as we considered necessary in the circumstances. Specifically, we observed the physical inventory, performed random test counts, and verified adjusting entries.

Overall Evaluation. The parts and fuel inventory was recorded at \$416,349 for the Public Transportation Department as of December 31, 1995. The value of the inventory was based on a weighted average unit cost. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate and proper adjusting entries were made.

FINDINGS AND RECOMMENDATIONS

1. Inventory Items Identified As No Longer Required and Thus Expensed Had Not Been Disposed Of.

- a. **Finding.** Inventory items that had been identified as no longer required and thus expensed in 1995 had not been disposed of. The items, with a total value of \$45,323, were stored in the parts warehouse. These items were no longer on inventory records and thus were subject to possible undetected loss.
- b. **Recommendation.** Inventory items that have been identified as no longer needed and are written off to expense should be removed from the warehouse and properly disposed of.
- c. **Management Comments.** Management concurred and stated, "The Public Transportation Department concurs with the finding and recommendation. The inventory items identified as no longer needed will be compiled into a list submitted to Purchasing for disposal following Title 7 of the Municipal Code. The list will be sent to Purchasing by May 17, 1996."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Inventory Balances for Lubricants Did Not Reflect What Was On Hand.

- a. **Finding.** Inventory record balances for three items in the lubricant category required significant adjustments to bring the balances in agreement with on-hand quantities. The items were antifreeze (11%), motor oil (18%), and gear oil (72%). All three

adjustments were to decrease the record balances to agree with the quantities on hand. According to Public Transportation personnel, the primary reason for the variances was that mechanics did not always document the use of the lubricants. However, this practice can cover up any misappropriation of warehouse stock and will distort maintenance records of Public Transportation vehicles.

- b. **Recommendation.** Procedures should be strengthened to ensure that all use of parts and lubricants is properly documented. Any future significant variances between record balances and actual quantities on hand should be investigated to determine the cause.

- c. **Management Comments.** Management concurred and stated, "The Public Transportation Department concurs with the finding and recommendation. The attached memorandum documents a procedure that ensures that all use of lubricants is properly recorded, i.e., work order intermediate notes, miscellaneous lubricants sheet, or the daily fuel sheets. Appropriate actions will be taken for employees who are negligent in their duties to record lubricants and parts used." (See referenced memorandum at Attachment A.)


- 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 appropriate Municipal officials on March 27, 1996.

Audit Staff:
Jane Harper
Alice Jensen

ATTACHMENT A

Municipality of Anchorage
Public Transportation Department
MEMORANDUM

Date: April 29, 1996
To: All Maintenance Personnel
From: Gary A. Taylor, Superintendent, Operations and Maintenance 
Subject: Recording Use Of Parts, Fuel, and Lubricants

The purpose of this memorandum is to emphasize the importance for the accurate recording of usage of parts, fuel, and lubricants.

The recent inventory revealed that we have not been recording all usage of lubricants and thus, required a substantial adjustment to the inventory figures to correct the recorded amounts in our inventory. The items that required the substantial adjustments were antifreeze (11%), motor oil (18%), and gear oil (72%).

The following procedures must be strictly adhered to under all circumstance:

Fuel and Lubricants (includes engine oil, transmission fluid, antifreeze, gear lube, and hoist oil):

All lubricants used must be recorded. The type and quantities of lubricants used must be recorded on the intermediate notes of the work order for the appropriate vehicle, or, if done as part of nightly servicing, on the daily fuel sheet. Any miscellaneous use of lubricants must be recorded on the miscellaneous lubricants sheet with quantity and reason noted. All miscellaneous fuel use will be noted on the bottom of the daily fuel sheet with the initials of the person using the fuel and reason. Maintenance supervision and parts personnel will review all work orders and indirect time sheets for use of any lubricants and their proper recording.

Parts:

All parts must be recorded when removed from the inventory storage area. Recording of the parts will include description, part number, quantity, vehicle number, work order number, and initial of the person receiving the parts. During the week when parts personnel are on-duty, they will require this information before issuing any parts.

During periods when parts personnel are not present and parts are secured from the small parts room, the same information as above must be recorded on the parts issue sheet located in that room. If supervisors issue parts from the main parts room, they will be required to complete the issue sheet located there with this same information.

Appropriate actions will be taken for employees who are negligent in their duties to record lubricants and parts used.

cc: Bob Kniefel, Dom Floresta, Jim Pennington, Shop Steward, Jeff Wertz
file: 1995 Inventory, gat reading

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ATTACHMENT A