

Municipality of Anchorage



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OFFICE OF THE INTERNAL AUDITOR

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Internal Audit Report 97-02 1996 Parts and Fuel Inventory Anchorage Water and Wastewater Utility

Introduction. The Municipality of Anchorage maintains an inventory of parts and materials, fuel, gravel, recycled asphalt, and chemicals at the Anchorage Water and Wastewater Utility (AWWU). AWWU uses the Municipal Financial Information System's inventory subsystem for the inventory of parts and materials. Fuel, gravel, recycled asphalt and chemicals are expended during the year when purchased and recorded as inventory at year-end through a journal entry to the Municipal Financial Information System.

Scope. The objectives of this audit were to determine if the physical inventory count was reasonably accurate and correcting adjustments were properly entered into the financial records. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, 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 at year-end was recorded at \$835,116. This included the value of the parts and materials, fuel, gravel, recycled asphalt and chemicals. The value of the inventory of parts and materials was based on a weighted average unit cost. A physical inventory of parts and materials was performed in September 1996 and the perpetual inventory records were adjusted to the physical count. Gravel and recycled asphalt inventories were measured in September 1996, fuel was measured in October 1996 and chemical inventories were measured at year end. Fuel, gravel, recycled asphalt, and chemical inventories were recorded at the most recent

invoice prices. Adjusting journal entries were verified in January 1997. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate, and correcting adjustments were properly entered into the financial records. However, we noted that procedures over the chemicals were not adequate to ensure that they were accurately recorded at year-end. Although an adjusting journal entry has been processed to properly record the chemicals, procedures require strengthening to ensure that AWWU inventory is properly recorded at year-end in the future.

FINDINGS AND RECOMMENDATIONS

1. Procedures Over Chemical Inventory Year-End Adjustment Required Strengthening.

- a. **Finding.** Procedures over the chemical inventory required strengthening. Specifically, the year-end balance of chemicals recorded by AWWU Finance Division did not accurately reflect the actual balance on hand at year-end. AWWU Treatment Division personnel measured the chemicals in September 1996 and decreased the inventory balance by their projected usage through December 1996. A journal entry was processed in October 1996 by AWWU Finance adjusting the inventory records to reflect the projected year-end balance of \$103,148.75. Our physical inventory of the chemicals at the Eklutna Water Treatment Plant and the Ship Creek Water Treatment Plant revealed that the chemicals on hand at year-end were valued at \$175,578.10 resulting in an understatement of \$72,429.35.
- b. **Recommendation.** AWWU personnel should strengthen the procedures for reporting and recording the chemical inventory balance at year-end. Year-end information should be based on actual physical measurements rather than estimates. This should result in a more accurate inventory of chemicals at year-end.