

# Municipality of Anchorage



P.O. Box 196650  
Anchorage, Alaska 99519-6650  
Telephone: (907) 343-4438  
Fax: (907) 343-4370  
<http://www.ci.anchorage.ak.us>

*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

March 27, 1997

## **Internal Audit Report 97-09 1996 Parts and Fuel Inventory Public Transportation Department**

**Introduction.** The Municipality of Anchorage maintains an inventory of parts, fuel and lubricants 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, fuel and lubricants 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, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The inventory was observed in January 1997 and adjusting entries were verified in February 1997.

**Overall Evaluation.** The parts and fuel inventory at the Public Transportation Department was recorded at \$494,445 as of December 31, 1996. 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. Perpetual Inventory Records Did Not Reflect Actual Quantities on Hand During 1996.

- a. **Finding.** Perpetual inventory records did not reflect actual lubricant quantities on hand during 1996. This could be the result of receipts and issues not being documented accurately or the loss of the items to unauthorized use. Two adjustments were made for 1996 to adjust the perpetual records to actual quantities on hand. Records were decreased 2,118 quarts for anti-freeze (29.7%); 1,114 quarts for 15W-40 motor oil (6.1%); and 2 gallons for hydraulic oil (100%). These adjustments were made without any investigation of the cause for the discrepancies. A similar finding was noted in the prior year regarding lubricants. Inaccurate perpetual records may disguise any misappropriation of stock and will distort vehicle maintenance records.
- b. **Recommendation.** Procedures should be strengthened to ensure that receipt and issue transactions are accurately recorded to the perpetual inventory records. Large discrepancies between the perpetual records and actual quantities on hand should be investigated.
- c. **Management Comments.** Management stated, "Management concurs with this finding and recommendation. Management will continue its work with shop personnel to ensure all perpetual inventory usage is recorded. Monthly reconciliations by management will be conducted to ensure compliance to our previously established procedure."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Rebuilt Inventory Items Were Not Valued Properly.**

- a. **Finding.** Rebuilt inventory items were not properly valued. A review of inventory values and discussions with Public Transportation employees revealed that rebuilt inventory items were not carried in inventory at the cost of the rebuild. These items were assigned an inventory cost of one penny, while the cost of rebuilding the item was expensed immediately. This practice distorts maintenance records and understates the inventory value.
- b. **Recommendation.** Rebuilt inventory items should be valued in inventory at the total cost of the rebuild.
- c. **Management Comments.** Management stated, "Public Transportation Department staff will continue to work with the Municipal Internal Audit staff to define an acceptable method of valuing rebuilt items. The goal is achievement of GAAP and Federal grant requirements while calculating maintenance costs by vehicle."
- 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 February 25, 1997.

Audit Staff:  
Brenda Applegate