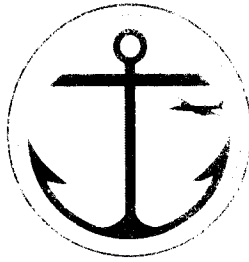


Municipality of Anchorage



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Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

April 6, 2000

Internal Audit Report 2000-4 1999 Parts and Fuel Inventory Anchorage Water and Wastewater Utility

Introduction. The Municipality of Anchorage maintains an inventory of parts, fuel, gravel, recycled asphalt and chemicals at the Anchorage Water and Wastewater Utility (AWWU). 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 PeopleSoft Financial System. The 1999 Parts inventory coincided with the conversion of AWWU's new in-house system (Maximo) which is used for interfacing inventory information to the PeopleSoft Financial system.

Scope. We observed the year-end inventories at AWWU. The objective was to determine if the year-end physical inventories of parts, fuel, gravel, recycled asphalt and chemicals were reasonably accurate. Specifically, we performed random test counts, reviewed receipt and issue procedures, and verified that adjusting entries were processed.

Overall Evaluation. The inventory was recorded at \$948,565.11 as of December 31, 1999. This included the value of parts, fuel, gravel, recycled asphalt and chemicals. The value of the parts inventory was based on a weighted average unit cost. A physical inventory of parts was performed in October 1999. In our opinion, the physical inventory count was reasonably accurate. However, the Maximo subsystem and the PeopleSoft system did not reconcile at December 31, 1999. Research performed by AWWU Finance personnel indicated that items had been entered into the Maximo subsystem that were not entered as inventory to the PeopleSoft system. In addition, there was a \$52,527.12 conversion discrepancy. AWWU personnel continue to reconcile the subsystem to the PeopleSoft system. The PeopleSoft system was used to determine the dollar amount of the

parts inventory (\$621,385.75). Fuel, gravel, recycled asphalt, and chemical inventories were measured in December 1999 and valued at the most recent invoice price.

FINDING AND AUDIT COMMENT

1. Subsystem Did Not Reconcile to PeopleSoft.

a. Finding. The Maximo subsystem and the PeopleSoft system did not reconcile after the physical inventory. There were several items that contributed to this:

- 1) Beginning unit prices converted to the Maximo system were incorrect. We selected items with a unit price greater than \$500 for testing. We found that approximately 28% of the beginning unit prices were incorrect in the Maximo system. Incorrect beginning prices impact the weighted average unit price calculation and the valuation of the parts inventory.
- 2) Meters purchased for a capital work order were entered into the Maximo subsystem as inventory.
- 3) Fuel was entered into the Maximo subsystem as inventory.
- 4) Inventory items with a zero value were given a value in Maximo during conversion.
- 5) Expensed items stored at the warehouse were entered to the Maximo subsystem.

b. Audit Comment. Action was taken by AWWU Finance personnel during the course of the audit to reconcile the Maximo system to the PeopleSoft system.

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Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

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