

INTERNAL AUDIT REPORT

2017-06

2016 Parts, Gravel, Recycled Asphalt, Fuel and
Chemicals Inventory

Anchorage Water and Wastewater Utility

April 6, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

April 6, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-06, 2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory, Anchorage Water and Wastewater Utility**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the 2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory. The objective of this audit was to determine the accuracy of Anchorage Water and Wastewater Utility's inventory records for parts, gravel, recycled asphalt, fuel and chemicals. Specifically, we performed inventory counts based on random and judgmental samples at the King Street Operations and Maintenance Warehouse. We also inventoried chemicals at Anchorage Water and Wastewater Utility's Eklutna and Ship Creek Water Treatment Plants and Anchorage Water and Wastewater Utility's Asplund and Eagle River Wastewater Treatment Plants. In addition, we inventoried fuel stored at Anchorage Water and Wastewater Utility's King Street, Arctic Boulevard, and Eklutna facilities. Moreover, we verified that adjusting entries were processed accurately. Finally, we reviewed Anchorage Water and Wastewater Utility's inventory procedures.

Based on our test counts, our audit revealed that the inventory records for the King Street Operations and Maintenance Warehouse were reasonably accurate. In addition, inventory records for chemicals at Anchorage Water and Wastewater Utility's Eklutna, Ship Creek, Asplund, and Eagle River facilities were reasonably accurate. However, the gravel and recycled asphalt inventory process needs clarification.

There was one finding in connection with this audit. Management was responsive to the finding and recommendation.

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

April 6, 2017

Internal Audit Report 2017-06 2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory Anchorage Water and Wastewater Utility

Introduction. The Anchorage Water and Wastewater Utility (AWWU) maintains an inventory of parts, gravel, recycled asphalt, fuel and chemicals. Gravel, recycled asphalt, fuel, and chemicals are recorded as inventory when purchased and expended during the year. Parts are recorded in inventory records using the Maximo Work Management System (Maximo) which interfaces with the financial system. According to AWWU's Operating Procedure 105-2, *Accounting for Inventory*, AWWU performs cycle counts for the parts stored at the King Street Operations and Maintenance Warehouse (Warehouse), measures fuel each month, counts chemicals at AWWU's treatment facilities each quarter, and reviews the quantity of gravel and recycled asphalt. AWWU maintains their own gasoline and diesel fuel tanks at the Arctic Boulevard and King Street locations and the Eklutna Water Treatment Plant.

Objective and Scope. The objective of this audit was to determine the accuracy of AWWU's inventory records for parts, gravel, recycled asphalt, fuel and chemicals. Specifically, we performed inventory counts based on random and judgmental samples at the Warehouse. We also inventoried chemicals at AWWU's Eklutna and Ship Creek Water Treatment Plants and AWWU's Asplund and Eagle River Wastewater Treatment Plants. In addition, we inventoried fuel stored at AWWU's King Street, Arctic Boulevard, and Eklutna facilities. Moreover, we verified that adjusting entries were processed accurately. Finally, we reviewed AWWU's inventory procedures.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained

provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of December 2016 through January 2017.

Overall Evaluation. Based on our test counts, the inventory records for the Warehouse were reasonably accurate. In addition, inventory records for chemicals at AWWU's Eklutna, Ship Creek, Asplund, and Eagle River facilities were reasonably accurate. However, the gravel and recycled asphalt inventory process needs clarification.

FINDING AND RECOMMENDATION

1. Gravel and Recycled Asphalt Inventory Process Needs Clarification.

- a. Finding.** The gravel and recycled asphalt inventory process needs clarification. Specifically, Operating Procedure 105-2 and a description of the gravel and recycled asphalt inventory process differ. As a result, the process, timing, and reconciling of the gravel and recycled asphalt (rap) inventory was unclear. According to Operating Procedure 105-2, "Operations and Maintenance personnel review the quantity of gravel and recycled asphalt stored at Anchorage, Eagle River, and Girdwood locations and reconciles the amounts in the inventory subsystem." However, a description of the gravel/rap inventory process from AWWU's Finance and Operations and Maintenance Divisions states that, ". . . Operations and Maintenance provides calculations as to the remaining amount of gravel and rap."

According to AWWU staff, purchased gravel and recycled asphalt was received into Maximo by AWWU's warehouse staff and the Operations and Maintenance Division's foremen entered the quantities expended for a job into Maximo. However, the quantities entered by the foremen were based on estimates instead of the actual quantities used for the job. A similar issue was reported in Internal Audit Report 2005-2.

- b. **Recommendation.** The AWWU Operations and Maintenance Director should ensure that Operating Procedure 105-2 is updated to clarify the process, timing, and reconciling of the gravel and recycled asphalt inventory.

- c. **Management Comments.** Management stated, “Management concurs with this finding and will ensure that Operating Procedure 105-2 is updated.”

- 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 14, 2017.

Audit Staff:
Scott Lee