

INTERNAL AUDIT REPORT

2015-11

Work Orders

Solid Waste Services

December 15, 2015

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 15, 2015

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2015-11, Work Orders, Solid Waste Services**. A brief summary of the report is presented below.

In accordance with the 2015 Audit Plan, we have completed an audit of the Work Orders at Solid Waste Services. The objective of this audit was to determine whether the parts, labor, and service charges for vehicle maintenance and repairs were properly reflected in the Solid Waste Services work order system. To accomplish the objective we conducted a parts inventory count, traced charges to the work orders, and reviewed selected work orders.

Based on our review, we found that although Solid Waste Services management recently made some improvements to the work order process, additional improvements are needed. Specifically, the parts supply at year-end was not reported in the financial statements because parts were expensed at the time of purchase rather than recorded as inventory (asset). In addition, parts inventory records in the work order system contained discrepancies and access to the parts inventory was not limited to the personnel in charge of the parts. Moreover, discrepancies between parts inventory records in the work order system and the physical parts inventory were written off without supervisory approval by the individuals in charge of the parts using regular work orders. Finally, monthly charges for guaranteed repair and maintenance contracts were not consistently entered into the work order system, there was a lack of segregation of duties when processing some work orders, and Solid Waste Service had no formal written Policies and Procedures regarding the work order process.

There were seven findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CICA
Acting Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

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Introduction. The Solid Waste Services Department (Department) is made up of two utilities – Refuse Collections (Collections) and Solid Waste Disposal (Disposal). The Collections utility provides residential and commercial trash collection for the Municipality of Anchorage service area. The Disposal utility operates the Anchorage Regional Landfill, located in Eagle River, and two transfer stations: the Central Transfer Station in Anchorage and the Girdwood Transfer Station.

To provide services and perform its operation, the Department utilizes about 170 vehicles. The majority of these vehicles fall into four categories: general government, garbage trucks, tractors, and other heavy duty vehicles such as loaders, bulldozers, graders, excavators, and compactors. All of the maintenance and repairs performed on these vehicles, by either Department employees or contractors, are tracked via work orders in Transman (the work order system). Most vehicles are serviced and repaired by either the Collections shop or the Disposal shop. Until November 2014, one employee was responsible for the parts inventory at both shops. Currently, each shop has an employee responsible for the parts inventory.

Objective and Scope. The objective of this audit was to determine whether the parts, labor, and service charges for vehicle maintenance and repairs were properly reflected in the Department work order system. To accomplish the objective we conducted a parts inventory count, traced charges to the work orders, and reviewed selected work orders.

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 audit was performed during the period of September through October of 2015.

Overall Evaluation. Although Department management recently made some improvements to the work order process, additional improvements are needed. Specifically, the parts supply at year-end was not reported in the financial statements because parts were expensed at the time of purchase rather than recorded as inventory (asset). In addition, parts inventory records in the work order system contained discrepancies and access to the parts inventory was not limited to the personnel in charge of the parts. Moreover, discrepancies between parts inventory records in the work order system and the physical parts inventory were written off without supervisory approval by the individuals in charge of the parts using regular work orders. Finally, monthly charges for guaranteed repair and maintenance contracts were not consistently entered into the work order system, there was a lack of segregation of duties when processing some work orders, and the Department had no formal written Policies and Procedures (P&Ps) regarding the work order process.

FINDINGS AND RECOMMENDATIONS

1. Year-End Parts Inventory Not Reported.

- a. **Finding.** The parts supply at year-end was not reported in the financial statements because parts were expensed at the time of purchase rather than recorded as inventory (asset). While the parts supply was not tracked in PeopleSoft, it was tracked in the work order system. Inventory levels per the work order system in September 2015, were as follows:

- Collections: 527 line items with a total value of \$105,150
- Disposal: 439 line items with a total value of \$48,970

- b. **Recommendation.** The Department Director should evaluate whether inventory should be recorded as an asset in PeopleSoft at year-end to achieve more accurate financial reporting or continue expensing parts at the time of purchase.
- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. An evaluation as to whether the inventory should be recorded as an asset was conducted by the Department Director. Normally, inventories are capitalized when the inventory is used in the process of producing goods or rendering services in the course of business. In this case, the inventory is used to maintain the fixed assets of the department. Not all of the fixed assets are used in the performance of services for SWS customers.

“Additionally, the individual item costs are small in nature and have a quick turn around time for use. These facts led the decision in keeping the inventory as an expense item.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Inaccurate Parts Inventory Records.**

- a. **Finding.** Parts inventory records in the work order system contained discrepancies. The discrepancy rates observed during our inventory count in both locations were as follows:
- Collections: Six of 78 (8%) inventory items selected contained discrepancies.
 - Disposal: Sixteen of 75 (21%) inventory items selected contained discrepancies.

The parts inventory discrepancies were not systematically detected and addressed because the Department did not conduct inventory counts. Failure to reconcile discrepancies in the inventory records hindered the timely restocking of parts and impeded the accountability for parts.

- b. **Recommendation.** The Department Director should ensure that inventory counts are regularly performed to improve the accuracy of inventory records and strengthen accountability for parts.

- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. Over the past two years, Solid Waste Services (SWS) developed a parts department for the maintenance of its fleet. This department is divided into two different sections, one for its collections fleet, and one for its disposal fleet. SWS has only recently hired its second expeditor to help institute policies and procedures as well as maintain control over parts. SWS management realizes that one of its most important issues is to determine a basis for its inventory of parts. Management has instituted a 100% count of its inventory annually. SWS' first annual count is scheduled to occur in December 2015, with annual counts scheduled every year thereafter. Discrepancies will be dealt with upon discovery.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Inadequate Safeguarding of Parts Inventory.**

- a. **Finding.** Access to the parts inventory was not limited to the personnel in charge of the parts. In both Collections and Disposal, in addition to the personnel in charge of the parts, the mechanics and the servicemen (eight additional employees) had keys to the parts rooms. In addition, expensive, heavy-duty parts such as cylinders, wear

plates, and abrasion tips were stored unsecured outside the parts rooms. Inadequate safeguarding of parts inventory may result in using the parts on vehicles but failing to update work orders. It may also create opportunity for loss and misappropriation.

- b. **Recommendation.** The Department Director should ensure that there are no unsecured parts and that access to the parts room is limited to the personnel in charge of the parts.

- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. SWS management has initiated the following changes and policies. All doors are being re-keyed and new keys are being issued. Only the expeditor or a designated working foreman will have keys and access to the parts room when it is open. All items must be secured within the parts room, or secured in some other fashion if unable to be placed in the parts area. This form of security may be by chain and pad locks.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Inventory Shortage Written Off Without Supervisory Approval.**

- a. **Finding.** Discrepancies between parts inventory records in the work order system and the physical parts inventory were written off, without supervisory approval, by the individuals in charge of the parts using regular work orders. Specifically, we noted that some work orders, pertaining to soon-to-be disposed vehicles, had parts but no labor charges. According to Department staff, these work orders were used to write off the parts that were in the inventory records, but were not found in the parts room.

For example, in July 2015 staff wrote off ten parts totaling about \$911 to a work order for a 2006 vehicle that was being prepared for disposal. This work order had no labor charges.

The ability to write off the missing parts using operational work orders “buried” inventory shortages within legitimate work orders. Since there were no notes indicating whether the parts were actually used or written off, the work orders were misleading and distorted the vehicle history records in the work order system. In addition, the ability of the individual in charge of the parts to write off the missing inventory without supervisory approval impedes accountability for parts and creates an opportunity for misappropriation.

- b. **Recommendation.** The Department Director should initiate a process within the organization and in the work order system that requires supervisory approval before spoilage, shrinkage, or obsolete inventory is written off.

- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. The Department Director has determined this is training issue. There has been no intent of deception or intent of hiding inventory theft. As noted in the first comment, each year an annual physical count will be conducted. Any discrepancies noted during the physical count will be recorded in a work order to an over/short account. This work order will then be approved by the appropriate supervisor of the facility where noted.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Charges Inconsistently Entered Into the Work Order System.**

- a. **Finding.** Monthly charges for guaranteed repair and maintenance contracts were not consistently entered into the work order system. Specifically, from January 1, 2014, to September 1, 2015, the charges for two thirds of the invoices, totaling \$451,530, paid under the contracts were not entered into the work orders. In addition, five invoices totaling \$15,360 were entered into the work order system twice. Since the work order system is the only place where Department vehicle information is compiled and aggregated, collecting accurate information for vehicle repair and maintenance costs is needed for accountability purposes and for various management decisions.
- b. **Recommendation.** The Department Director should develop a procedure to ensure the accurate recording of repair and maintenance costs in the work order system.
- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. The Department Director has started a new process for work orders. Work orders will be initiated upon the decision to repair or do maintenance by the working foreman. The working foreman will be responsible for the initiation of the work order as well as recording all labor on the work order. The expeditor will be responsible for recording the use of all parts. All work orders will be reviewed by both the expeditor and the appropriate working foreman prior to approval. This is to insure all labor and parts are correctly stated on each work order.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Lack of Segregation of Duties.**

- a. **Finding.** There was a lack of segregation of duties when processing some work orders. Functions including requisitioning, receiving, and recording of parts as well as sometimes creating new work orders to charge the parts, issue the parts, and close work orders were performed by the same individual. As a result, controls over the parts were weakened and checks and balances were undermined.
- b. **Recommendation.** To strengthen internal controls, the Department Director should assign the functions of handling parts and creating and closing work orders to different individuals.
- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. As noted in comment 5, the Department Director's process has segregated the duties.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **No Formal Written Policies and Procedures.**

- a. **Finding.** The Department had no formal written P&Ps regarding the work order process. Policies and procedures provide guidance, standardize processes, and help lay the foundation for internal controls. Many of the issues identified in the audit could have been prevented with adequate P&Ps. For example, there were no P&Ps specifying when a work order was created, who created a work order, and who closed a work order.

- b. **Recommendation.** The Department Director should ensure that policies and procedures are developed and implemented regarding the work order process.

- c. **Management Comments.** Management stated, “Solid Waste Services concurs with this audit finding and recommendation. As noted in comment 2, the parts department is still currently under development. The Department Director has directed that policies and procedures be developed and implemented using the other guidelines within this document.”

- 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.

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