

INTERNAL AUDIT REPORT

2020-05

2019 Parts Inventory

Public Transportation Department

May 7, 2020

MUNICIPALITY OF ANCHORAGE
Internal Audit Department
632 W 6th Avenue, Suite 710
P.O. Box 196650
Anchorage, Alaska 99519-6650
www.muni.org/departments/internal_audit



INTERNAL AUDIT DEPARTMENT
Michael Chadwick, CIA, CICA
Director
Phone: (907) 343-4438

E-Mail: michael.chadwick@anchorageak.gov



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

May 7, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-05, 2019 Parts Inventory, Public Transportation Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the annual inventory at Public Transportation. The objective of this audit was to determine the accuracy of the Public Transportation Department's inventory records for parts. To accomplish our objective, we reviewed the Public Transportation Department's inventory procedures to determine their adequacy. Moreover, we reviewed to determine whether the Public Transportation Department staff accurately recorded inventory movements in SAP and adjusting entries were processed accurately. Finally, we inventoried randomly selected and judgmentally selected parts in the Public Transportation Department's parts warehouse.

Based on our inventory counts, it is our opinion that the physical inventory was reasonably accurate. It should be noted that our inventory count occurred a few days after the Public Transportation Department had conducted a full inventory count of all parts, following a meeting with Internal Audit staff and the Controller Division, and updated their inventory records. Therefore, one would expect no discrepancies when we conducted our inventory count. Although the inventory count was accurate, we did find that inventory controls need to be improved. Specifically, the Public Transportation Department did not properly record inventory purchases and consumption in SAP. In addition, Public Transportation Department staff did not always perform monthly cycle counts of their parts inventory during 2019.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

May 7, 2020

Internal Audit Report 2020-05 2019 Parts Inventory Public Transportation Department

Introduction. The Public Transportation Department (Department) maintains an inventory of parts to maintain their fleet of People Mover buses. A cycle count of 1/12th of physical inventory should be performed each month, and inventory records should be adjusted to match the cycle count in the Department's inventory management system, FleetFocus M5. Finally, any adjustment should be entered into SAP, the Municipality's financial system.

Objective and Scope. The objective of this audit was to determine the accuracy of the Department's inventory records for parts. Specifically, we reviewed the Department's inventory procedures to determine their adequacy. Moreover, we reviewed to determine whether the Department staff accurately recorded inventory movements in SAP and adjusting entries were processed accurately. Finally, we inventoried randomly selected and judgmentally selected parts in the Department's parts warehouse.

We conducted this performance audit 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 2019 through January 2020.

Overall Evaluation. Based on our inventory counts, it is our opinion that the physical inventory was reasonably accurate. It should be noted that our inventory count occurred a few days after the

Department had conducted a full inventory count of all parts, following a meeting with Internal Audit staff and the Controller Division, and updated their inventory records. Therefore, one would expect no discrepancies when we conducted our inventory count. Although the inventory count was accurate, we did find that inventory controls need to be improved. Specifically, the Department did not properly record inventory purchases and consumption in SAP. In addition, Department staff did not always perform monthly cycle counts of their parts inventory during 2019.

FINDINGS AND RECOMMENDATIONS

1. Inventory Purchases/Consumption Not Properly Recorded in SAP.

- a. Finding.** The Department did not properly record inventory purchases and consumption in SAP. Amounts spent to purchase goods are usually recorded as an expenditure at the time of the purchase. However, government accounting standards allow inventory to be treated differently. These standards allow purchase transactions to be recorded first in an inventory account as an asset, then recorded as an expense when inventory items are used or consumed, instead of when they are purchased. The Department did not record inventory purchases in inventory accounts and inventory consumption as expenses since the implementation of SAP in 2017. Instead, these items were recorded as “expensed” at the time of purchase. As a result, inventory balances shown in SAP have not reflected the true value of the Department’s inventory for several years. For example, as of March 10, 2020, the SAP inventory balance for parts was \$976,623, which is the same balance the Department reported as of December 31, 2018, in a memorandum to the Controller dated February 15, 2019, indicating that no purchases nor expenses were recorded in 2019.

With the implementation of SAP, goods purchased with the Municipality’s procurement card (P-Card) could not be recorded directly to SAP inventory accounts. Since the Department purchased its inventory using a P-Card, these purchases were not recorded to SAP inventory accounts. However, another Department that had the

same problem ran a query each month of all purchases with their P-Card and then made a journal entry to record these purchases to the SAP inventory account. Similarly, this Department also ran a query of all items used from their inventory and made a journal entry to record the expense in the SAP inventory account.

- b. **Recommendation.** The Public Transportation Department Director should work with the Controller Division staff to ensure that inventory purchases and expenditures are properly recorded in SAP.
- c. **Management Comments.** Management stated, “Management concurs with the finding and the recommendation. The Public Transportation Department and Controller Division are working together to develop more efficient methodologies to ensure inventory purchases and expenditures are properly recorded in SAP in accordance with government accounting standards. We expect to have our new methodologies into practice and all inventories up to date by September 30, 2020.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Monthly Cycle Count of Physical Inventory Not Always Performed.**

- a. **Finding.** Department staff did not always perform monthly cycle counts of their parts inventory during 2019. Specifically, Department staff performed the monthly cycle count in only two months (a partial cycle count in April and a full cycle count in May) during 2019. As a result, proper adjustments for the inventory value in FleetFocus M5 had not been made each month. In addition, Municipal assets were not protected from misappropriation, such as theft and waste, since the discrepancies were not discovered in a timely manner. When we brought this to their attention in December 2019, Department staff conducted a 100 percent parts inventory, and it resulted in an adjustment of over \$13,000. The Department’s “PTD [Public Transportation

Department] Physical Inventory Policy” states that “Beginning January 2014, the PTD will implement a cycle counting method of conducting its physical inventory. The store rooms have been divided into 12 distinct sections. One of these sections will be counted each month with the POL [Petroleum, Oil, & Lubricants] inventory conducted in January for the preceding calendar year.”

- b. **Recommendation.** The Public Transportation Department Director should ensure that the monthly inventory cycle counts are performed, and any needed adjustments are made in FleetFocus M5.

- c. **Management Comments.** Management stated, “Management concurs with the finding and the recommendation. The Public Transportation Department is currently updating our inventory management processes to ensure monthly inventory cycles and appropriate adjustments in FleetFocus M5 are performed timely. We expect that the necessary processes will be in place and fully implemented by September 30, 2020.”

- 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 26, 2020.

Audit Staff:
Scott Lee