

April 5, 2004

Internal Audit Report 2004-6
2003 Parts, Tires and Lubricants Inventory
Fleet Maintenance
Facility and Fleet Maintenance
Maintenance and Operations

Introduction. The Fleet Maintenance Section of the Facility and Fleet Maintenance Division, Maintenance and Operations Department, maintains an inventory of parts, tires and lubricants. A physical inventory is performed annually and the PeopleSoft financial records are adjusted to the physical counts. The Fleet Maintenance Section maintains their own inventory subsystem on GEMS 2000.

Objective and Scope. The objective of this audit was to determine if the year-end physical inventory of parts, tires, and lubricants was reasonably accurate and adjustments were properly entered into the financial records. Specifically, we observed the year-end inventory, performed inventory counts based on random and judgmental samples, and verified that adjusting entries were processed accurately.

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 December 2003 through January 2004.

Overall Evaluation. Based on our inventory observation, it is our opinion that the physical inventory was reasonably accurate. However, we did find that controls could be improved for tracking the tire inventory. The physical inventory resulted in a final inventory valuation of \$378,728.77. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$14,875.55 was made to increase the PeopleSoft records to the physical count.

FINDING AND RECOMMENDATION

1. Tire Inventory Needs Improvement.

- a. **Finding.** We found 31 of 64 tire types that were inventoried had discrepancies between the book balance and the inventory count. Specifically, 13 tire types had a total overage of 38 tires, while 18 tire types had a total shortage of 98 tires. These overages and shortages ranged from +5 tires to -20 tires. For example, one tire had a book balance of ten. However, after inventory was taken, this count was adjusted to zero. Discrepancies in physical inventories can be the result of poor record keeping or misappropriation of items for personal use. According to Fleet Maintenance staff, they plan to make a number of procedural changes this year to help better track their tire inventory.
- b. **Recommendation.** The Fleet Maintenance Section should strengthen controls over its tire inventory.
- c. **Management Comments.** Management concurred and stated, “All discrepancies are believed to be due to inaccurate record keeping during the spring & fall tire change over seasons. However, due to the shared facility where our tires are stored; security could have been compromised to some extent.

“Fleet Services has taken several steps prior to this report being issued, those steps are as follows:

- 1. Access to door keys have been placed under lock and must be signed out by the individual(s) that will be entering the facility.

2. The wire fence and gate that encapsulates the tire storage area have been secured to the maximum extent possible without erecting permanent walls inside the main facility that is shared with multiple organizations.
3. A warehouse individual will be assigned to the tire facility at all times during tire change over seasons in the spring & fall.
4. A computer software macro has been developed that will be executed at the end of everyday the tire warehouse is open that compares size and quantity of tires being removed from inventory onto the vehicle versus the size and quantity of tires being placed back into inventory. This macro will immediately identify any discrepancies.

“These enhancements will help ensure the physical inventory is reasonably accurate and proper adjusting entries are made.”

- 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 March 10, 2004.

Audit Staff:
Michael Chadwick