

March 13, 2006

Internal Audit Report 2006-7
2005 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 2005 through January 2006.

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 \$352,962.68. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$9,962.98 was made to decrease the PeopleSoft records to the physical count.

FINDING AND RECOMMENDATION

1. Tire Inventory Needs Improvement.

- a. **Finding.** We found 34 of 89 tire types inventoried had discrepancies between the book balance and the inventory count. Specifically, 17 tire types had a total overage of 88 tires, while 17 tire types had a total shortage of 168 tires. These overages and shortages ranged from +21 tires to -42 tires. For example, one tire had a book balance of 54. However, after inventory was taken, this count was adjusted to 12. Discrepancies in physical inventories can be the result of poor record keeping or misappropriation of items for personal use.
- b. **Recommendation.** Fleet Maintenance Section management should ensure that current tire inventory procedures are followed and should consider installing surveillance cameras to help monitor activity in the tire warehouse.
- c. **Management Comments.** Management stated, “All discrepancies are believed to be due to inaccurate record keeping during the spring & fall tire change over seasons. Many issues contributed to inadequate results in the tire warehouse and those are as follows:
 - 1. One employee short and a new employee of just over eight months.
 - 2. New employee made critical clerical issue/return to inventory errors. The employee not fully understanding how to properly run the software macro developed to cross reference all tire transactions to prevent discrepancies continued to make more errors by trying to correct errors that already existed.

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

1. All employees involved in fall tire season have been counseled about discrepancies that existed after year end inventory results and similar results will not be tolerated in the future.
2. All warehouse employees are having refreshed training on proper clerical input functions when issuing or returning items to inventory.
3. All warehouse employees are having refreshed training on proper use of the software macro that was developed to catch discrepancies.
4. A camera is scheduled to be installed in the tire warehouse prior to spring tire season.

“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 February 10, 2006.

Audit Staff:
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