

March 18, 2008

**Internal Audit Report 2008-3**  
**2007 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 2007 through February 2008.

**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

\$393,479.82. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$178.34 was made to decrease the PeopleSoft records to the physical count.

## **FINDING AND RECOMMENDATION**

### **1. Tire Inventory Needs Improvement.**

- a. Finding.** We found 52 of 140 tire types inventoried had discrepancies between the book balance and the inventory count. Specifically, 25 tire types had a total overage of 165 tires, while 27 tire types had a total shortage of 146 tires. These overages and shortages ranged from +24 tires to -20 tires. For example, one tire had a book balance of 23. However, after inventory was taken, this count was adjusted to 3. 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 monitor activity in the tire warehouse.
- c. Management Comments.** Management stated, “Fleet Maintenance concurs with the finding. We feel the discrepancy was due to the relocation of the tire shop and poor record keeping. We have had a high turnover of employees during this time period. Management has already taken steps to improve physical inventory and record keeping. On March 10, 2008 a new person was hired to run the tire shop. This will provide stability and standardization of the record keeping procedures. In addition, cameras and video surveillance equipment will be installed within the next 60 days on the tire shop. This will allow monitoring of the asset. These steps, along with

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close management oversight, should greatly improve the inventory and record keeping of this asset.”

- 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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