

# ASD INTERNAL AUDIT REPORT

2020-02

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Warehouse Inventory Controls

Maintenance and Operations Department

Anchorage School District

February 14, 2020

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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](http://www.muni.org/departments/internal_audit)



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

E-Mail: [michael.chadwick@anchorageak.gov](mailto:michael.chadwick@anchorageak.gov)



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

February 14, 2020

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2020-02; Warehouse Inventory Controls; Maintenance and Operations Department; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Maintenance and Operations Department's Warehouse Inventory Controls. The objective of this audit was to determine the adequacy of controls over receiving, storing, issuing, and accounting of inventory in the Maintenance and Operations Department's warehouse. To achieve our objective, we interviewed staff to identify internal controls and responsibilities for managing inventory. We also observed the receiving and issuing of inventory, as well as an inventory cycle count. In addition, we conducted our own inventory of randomly and judgmentally selected items and reviewed the year-end inventory totals and adjustments.

Our audit revealed that inventory controls in the Maintenance and Operations Department's warehouse can be improved. Specifically, we found 7 of 36 (19%) items that were inventoried had discrepancies between the book balance and the inventory count. In addition, access to the Maintenance and Operations Department's warehouse and inventory items was unrestricted. Finally, inventory items were not well organized in the warehouse.

There were three 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

February 14, 2020

**ASD Internal Audit Report 2020-02**  
**Warehouse Inventory Controls**  
**Maintenance and Operations Department**  
**Anchorage School District**

**Introduction.** The Maintenance and Operations Department (Department) of the Anchorage School District (District) is responsible for the support and upkeep of approximately 8 million square feet in over 100 facilities, as well as 1,700 acres of land. Some of the services provided by the Department include fire alarm and security systems, glass/window repair, locksmithing, plumbing, roofing, snow removal, custodial, recycling, carpentry, electrical, electronic, and heating, ventilation, and air conditioning systems. While some of the work can be done during normal business hours, other work is performed after hours when students and school staff are out of the buildings. To accomplish this, Department staff work three shifts, and the Department's warehouse stocks a wide variety of items available to employees on all shifts. There is also inventory stocked on trucks, so that items are readily available while at work sites. The reported inventory total for fiscal year 2019 was \$636,161. The Maintenance and Operations Department began using Inventory Direct, a software program, in April 2018 to manage the movement and value of the inventory. Inventory Direct interfaces with Maintenance Direct, a software system used for managing work orders. When a repair is needed at a facility, a work order is entered into Maintenance Direct and Inventory Direct keeps track of items used on each job, removes the items from inventory, and assigns the costs to the work order.

**Objective and Scope.** The objective of this audit was to determine the adequacy of controls over receiving, storing, issuing, and accounting of inventory in the Department's warehouse. To achieve our objective, we interviewed staff to identify internal controls and responsibilities for managing inventory. We also observed the receiving and issuing of inventory, as well as an inventory cycle count. In addition, we conducted our own inventory of randomly and judgmentally selected items and reviewed the year-end inventory totals and adjustments.



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 conclusion based on our audit objectives. The audit was performed during the period of September through November 2019. The audit was requested by Anchorage School Board Finance Committee.

**Overall Evaluation.** Inventory controls in the Department's warehouse can be improved. Specifically, we found 7 of 36 (19%) items that were inventoried had discrepancies between the book balance and the inventory count. In addition, access to the Department's warehouse and inventory items was unrestricted. Finally, inventory items were not well organized in the warehouse.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Inventory Records Did Not Reflect Actual Quantities on Hand.**

- a. **Finding.** We found 7 of 36 (19%) items that were inventoried had discrepancies between the book balance and the inventory count. For example, inventory records showed three 50-foot rolls of copper tubing on hand; however, we could not find any rolls of copper tubing. Similarly, we observed a monthly cycle count conducted by warehouse personnel of 59 inventory items. Of these items, 12 (20%) had count variances that required investigation and adjustment in the inventory system. Finally, a year-end inventory overseen by warehouse personnel of 434 items found that 185 (43%) had variances. In some cases, the dollar impact to adjusted inventory was significant. For example, inventory records showed one item with an on-hand inventory count of 891, but only 48 were found, resulting in a \$10,470 inventory adjustment.

This condition indicated several problems. First, it appears that inventory was not being properly recorded when it was received and issued. Second, despite the Department's operating procedures stating that cycle counts were to occur monthly for some items and quarterly for other items, this did not always happen. For example, according to Inventory Direct, about \$133,375 of inventory was located on service vehicles. This inventory was supposed to be counted each quarter but had not been counted since June 2018. Finally, warehouse inventory may not be adequately secured as discussed in Finding 2.

- b. **Recommendation.** The Maintenance and Operations Director should ensure that inventory counts are performed as scheduled and that inventory is properly recorded when it is received and issued.
- c. **Management Comments.** Management stated, "Management agrees with findings. In response, management has implemented a semi-automatic cycle count process and will set reminders to ensure the cycle counts occur as frequently as outlined in the Standard Operating Procedure. Management will also conduct refresher inventory control trainings to all Material Control staff and Maintenance Technicians."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 2. **Warehouse Security Needs Improvement.**

- a. **Finding.** Access to the Department's warehouse and inventory items was unrestricted. For example, we found the back door to the warehouse unlocked during the day, allowing anyone to enter without detection. In addition, some inventory, such as carpentry and welding stock, as well as surplus items waiting to go to auction, were stored outside in an unsecured area. The reported value of these items in Inventory



Direct was over \$60,000. Finally, we noted that there were no security cameras on the outside of the building to monitor warehouse activity and help deter theft or misappropriation. Anchorage School District Board Policy 3440, *Inventories*, states that “The Superintendent or designee shall provide for the proper control and conservation of district property.”

- b. **Recommendation.** The Director of Maintenance and Operations should consider limiting access to the warehouse to essential warehouse personnel only and consider installing surveillance cameras to help monitor warehouse activity.
- c. **Management Comments.** Management stated, “Management agrees with findings. In response, management has installed an automatic locking key code system on the back door and a second security gate in front of where the inventory is located to be locked up on nights and weekends. Management believes the additional security measures will improve cycle count accuracy.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Warehouse Organization Could Be Improved.**

- a. **Finding.** Inventory items were not well organized in the warehouse. Items in the warehouse were arranged in groupings such as plumbing, electrical, vehicle maintenance, and locksmith. Related inventory was then stored in each grouping and could be found by part number. For example, the order of inventory part numbers on a shelf in one section were: 0003, 0002, 0031, and 0094. In another section, the order of inventory part numbers on a shelf were: 0083, 0053, 0021, and 0022. Because shelf and bin location numbers were not used to store inventory, staff time was spent searching rows of shelves to locate inventory items. Incorrect inventory counts, adjustments, and

unnecessary inventory reorders may occur if inventory cannot be located. According to warehouse staff, several years ago inventory had not been organized in any meaningful fashion and the current groupings of like inventory items are a step towards getting their inventory properly organized.

- b. **Recommendation.** The Director of Maintenance and Operations should consider assigning each inventory item in the warehouse a shelf number and a bin number to assist in locating them and to increase efficiency.
- c. **Management Comments.** Management stated, "Management acknowledges the findings and will consider employing aisle/bin locations."
- 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 District officials on January 23 and 27, 2020.

Audit Staff:  
Dawn Brown