



DATE: October 3, 2022

TO: Larry Davis, Assistant City Manager

FROM: Internal Audit Division

SUBJECT: Water Resources Inventories for the Year-End June 30, 2022
(No Response Required)

The Internal Audit Division has completed our testing for the year-ended June 30, 2022 of the Water Resources Inventories maintained by the Water Resources Department. Attached you will find our review report; the departmental response and our reply to their responses. We feel that sufficient corrective actions have been implemented to our recommendations as we move forward. If you have any questions or need additional information, please let us know. Thanks.

Len Lucas
Internal Audit Director

Cc: Chris Wilson, Deputy City Manager
Mike Borchers, Director of Water Resources



DATE: August 26, 2022

TO: Mike Borchers, Director of Water Resources

FROM: Internal Audit Division

SUBJECT: City Inventories – Fiscal Year Ended June 30, 2022
(Written Response Required by September 9, 2022)

The Internal Audit Division has conducted inventory test counts and reconciled inventories to the June 30, 2022 balance sheets. The total of all inventories is \$8,538,044. The results of the inventory reconciliations are as follows:

<u>Name of Inventory</u>	<u>Physical Inventory at 6/30/22</u>	<u>Physical Inventory at 6/30/21</u>	<u>Increase (Decrease) to G/L 2021-2022</u>	<u>Increase (Decrease) to G/L 2020-2021</u>	<u>% of Variance 2021-2022</u>	<u>% of Variance 2020-2021</u>
<u>Lawson System:</u>						
GDOT - Warehouse	\$ 775,593	\$ 786,748	\$ (2)	\$ (1)	0.000%	0.000%
Field Operations - Warehouse	\$ 243,611	\$ 227,747	\$ 681	\$ (2,054)	0.280%	-0.902%
Water Meter Shop	\$ 31,427	\$ 31,245	\$ 311	\$ -	0.990%	0.000%
Water Resources City Yard	\$ 2,121,777	\$ 1,376,853	\$ (36,920)	\$ (1,923)	-1.740%	-0.140%
Coliseum Housekeeping	\$ 38,780	\$ 28,235	\$ 913	\$ 39	2.354%	0.138%
Osborne Parts	\$ 3,031,398	\$ 2,768,440	\$ (1,619)	\$ 225	-0.053%	0.008%
<u>Faster System:</u>						
Parks and Recreation - Parts	\$ 29,726	\$ 33,920	\$ 258	\$ 399	0.868%	1.176%
Field Operations - Right of Way Parts	\$ 30,900	\$ 26,625	\$ (252)	\$ (133)	-0.816%	-0.500%
Fire Garage	\$ 326,390	\$ 322,304	\$ 4,404	\$ 1,640	1.349%	0.509%
Field Operations - Landfill Parts	\$ 23,367	\$ 16,884	\$ (72)	\$ (1,950)	-0.308%	-11.549%
Equipment Services - Parts	\$ 535,110	\$ 505,067	\$ 737	\$ (55)	0.138%	-0.011%
Equipment Services - Fuel	\$ 438,370	\$ 247,028	\$ -	\$ -	0.000%	0.000%
Equipment Services - Diesel Exhaust Fluid	\$ 2,472	\$ 1,311	\$ -	\$ 1,217	0.000%	92.830%
Equipment Services - Tire	\$ 108,414	\$ 96,966	\$ 1,629	\$ 1,987	1.503%	2.049%
<u>Manual/Other:</u>						
Gillespie Golf Merchandise*	\$ 10,847	\$ 7,167	\$ 3,680	\$ (538)	na	na
Water Resources Chemical*	\$ 697,215	\$ 570,560	\$ 126,656	\$ 37,770	na	na
Information Technology - Telecom	\$ 62,398	\$ 70,701	\$ (2,004)	\$ 461	-3.212%	0.652%
Graphic Services - Print Shop*	\$ 30,249	\$ 26,643	\$ 3,606	\$ (1,962)	na	na
TOTAL	\$ 8,538,044	\$ 7,144,444				

*Purchases are expensed throughout the year. An adjustment is made to the inventory account to reflect the physical balance at year-end.

T. Z. Osborne Parts Inventory (501-000-00.1610):

This year's reconciliation resulted in a decrease of \$1,618.87 being recorded to adjust the inventory account to actual at fiscal year ended June 30, 2022; compared to an increase of \$224.50 at June 30, 2021, and an increase of \$89.13 at June 30, 2020.

Findings: None.

Recommendations: None.

Water Meter Inventory (501-0000-00.1637):

The Department established a maximum acceptable inventory variance of +/-5% for this inventory. This year's reconciliation identified a variance of 1% and resulted in a gain of \$310.90 being recorded to adjust the ending unadjusted inventory balance to actual at fiscal year ended June 30, 2022; compared to no adjustments required at both June 30, 2021 and June 30, 2020.

Findings: None.

Recommendations: None.

Chemicals (501-0000-00.1640):

This year's reconciliation resulted in an increase of \$126,655.73 to the inventory account at fiscal year ended June 30, 2022 to adjust the balance to actual; compared to an increase of \$37,769.72 at June 30, 2021, and an increase of \$47,639.58 at June 30, 2020.

Findings: None.

Recommendations: None.

City Yard (501-0000-00.1645):

The Department established a maximum acceptable inventory variance of +/-5% for this inventory. This year's reconciliation identified a variance of negative 1.74% and resulted in a net loss of \$36,920.321 (\$11,209.11 recorded gain on inventory minus \$48,129.43 loaned to outside contractors) to adjust the ending unadjusted inventory balance to actual at fiscal year ended June 30, 2022; compared to less than negative 1% variance and a loss of \$1,923.49 at June 30, 2021, and less than negative 1% variance and a loss of \$220.94 at June 30, 2020.


Findings:

1. We noted inventory that was loaned to outside contractors. We were informed this was due to supply chain issues and the related delays in the vendor's ability to obtain items to complete projects for the City. Three outside contractors had outstanding items as of June 30, 2022 with a cost that totaled \$48,129.43. It does not appear there was any formal agreement to document these arrangements. Upon further investigation, it was determined these arrangements were approved by the Department Director but not the CMO.
2. The year-end physical inventory adjustment was incorrect for item #11226, causing a discrepancy totaling \$17,561.80. The amount from the count sheet was 645 but the amount entered in the inventory system was 891. In addition to the 645 units, there were 891 units that should have been included in the count. The Department did notify Internal Audit of this issue during the test counts. However, the issue could have been corrected prior to posting the physical inventory adjustment.


Recommendations:

1. We recommend an agreement or Change Order (giving credit back to the City) to document these type of arrangements. Future contract payments could be reduced by the replacement cost of the materials provided to the contractors. Any other details and responsibilities of both parties should also be documented.
2. Physical inventory adjustments should be reviewed and investigated prior to being posted.


We would like to thank the staff at Water Resources for their cooperation and courtesy. We ask that you please make your responses of corrective action to our findings and recommendations no later than September 9, 2022. If you have any questions or concerns, please contact us at 373-2823.




Len Lucas
Internal Audit Director



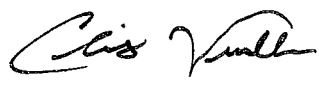
Garland Wells
Internal Auditor



Mickey Kerans
Internal Auditor



Tina McKoy
Internal Auditor



Chris Venable
Internal Auditor

Cc: Chris Wilson, Deputy City Manager
Larry Davis, Assistant City Manager



DATE: September 30, 2022
TO: Tina McKoy, Internal Auditor
FROM: Mr. Michael Borchers, Water Resources Director
DEPARTMENT: Water Resources
SUBJECT: Physical Inventory Findings for Fiscal Year ending June 30, 2022

Thank you for your report on our physical inventory findings for water resources for Fiscal Year ending June 30, 2022.

As noted in your findings, our City Yard locations has a net loss of \$36,920.32. The shortage was primarily due to 180 manhole rings and covers and 60 valve boxes and tops being loaned out to vendors so they could complete their work in a timely manner. The vendors were unable to supply the needed materials due to severe supply chain issues. The items were loaned to the vendors without any type of formal agreement to document replacement arrangements.

As of September 1, 2022, the vendors have returned 90 manhole rings and covers. Our vendors are still experiencing some supply chain issues, but we are confident all items will be returned in a timely manner.

Loaning of materials is not a normal practice and this was an uncommon incident. The following procedures will be implemented to prevent future discrepancies.

1. A formal agreement between the Vendor and the City will be implemented detailing items, quantities and return date of loaned items. Future contract payments will be reduced by the replacement cost of materials if the vendor fails to return all loaned materials. All other responsibilities of both parties will also be documented.
2. Physical inventory adjustments will be reviewed, investigated, and approved prior to being posted.

I would like to thank the Internal Audit team for their diligence and expertise to ensure the City's inventories are accurate and properly maintained.

Michael Borchers
Director, Water Resources

MB/dh



DATE: September 30, 2022
TO: Mike Borchers, Director of Water Resources
FROM: Internal Audit Division
SUBJECT: Reply to Response for City Inventories – FYE June 30, 2022
(No Response Required)

The Internal Audit Division has received your response dated September 30, 2022 to our final report for fiscal year ended June 30, 2022 City Inventories dated August 26, 2022. We are in agreement with your response and the procedures you will implement regarding loaned inventory. There are no further responses required at this time.

We would like to thank your staff for their assistance and cooperation during this review. If there are any questions concerning the details of this review, please call us at 373-2823.

Len Lucas
Internal Audit Director

Tina McKoy
Internal Auditor

Mickey Kerans
Internal Auditor

Garland Wells
Internal Auditor

Cc: Chris Wilson, Deputy City Manager
Larry Davis, Assistant City Manager

Attachment