



OFFICE OF THE COUNTY AUDITOR

MEMORANDUM

Haskell N. Arnold, CPA
County Auditor

August 14, 2008

MEMO TO: Lonnie R. Robbins
Chief Administrative Officer

Sharon F. Greisz
Director, Department of Finance

THRU: Haskell N. Arnold
County Auditor

FROM: Dilawar Lakhani
Assistant County Auditor

SUBJECT: Annual Physical Inventory of Auto Parts and Fuel - Central Fleet Division
Fiscal Year Ending June 30, 2008

We have completed a review of the annual inventory valuation process at the Office of Central Services, Central Fleet Division for the fiscal year ending June 30, 2008. The scope of our review related specifically to an annual physical inventory count of auto parts and the measurement of fuel as of June 30, 2008. As presented in the attached report, the total inventory value of the auto parts amounted to \$647,283 and the total inventory value of the fuel amounted to \$473,321.

As part of our review, we observed and tested the auto parts counts, and observed fuel measurements at various sites. The values of physical counts and measurements at these locations were within acceptable variances from the book balances.

We would like to thank the employees who participated in the inventory process for the assistance they provided to us during this review.

Attachment

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cc: Council Members

Ken Ulman, County Executive
Marc DesMangles, Chief, Office of Central Services
Lois Miller, Administrative Services Officer

**Central Fleet Division
Annual Physical Inventory
For the Year Ended June 30, 2008**

Annual physical inventory counts were taken and verified by the central fleet employees for the fiscal year ending June 30, 2008. We have listed below the valuation of auto parts on various count dates during the month of June. We have also noted the values for the current and previous year for comparison.

<u>Shop</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>Change Amount</u>	<u>Percent %</u>
Alpha Ridge	\$15,667	\$21,329	(\$5,662)	(26.55)
Cooksville	\$74,150	\$68,031	\$6,119	8.99
Dayton	\$227,954	\$236,687	(\$8,733)	(3.69)
Guilford	\$87,576	\$93,610	(\$6,034)	(6.45)
Mayfield	\$211,846	\$183,704	\$28,142	15.32
Utilities	<u>\$30,089</u>	<u>\$29,158</u>	<u>\$931</u>	<u>3.19</u>
Total	\$647,282	\$632,519	\$14,763	2.33

After taking the count at each shop, the counts were entered in the computer to determine the year end values. A summary memo was compiled on July 21, 2008 by the Office of Central Services based on the above valuation memo and the physical inventory dollar value was submitted to the Financial Management in the Department of Finance for the fiscal year 2008. We noted that there is a total inventory value increase in the amount of \$14,763 (2.33%) from last fiscal year. The reason for the increase is due to expansion of regular as well as hybrid vehicle models being added to the central fleet inventory for the year.

The supervisor at each shop reviewed the variances between the perpetual inventory and the physical inventory counts taken on the inventory count sheets. The counts were compared with the units on hand shown in the perpetual records. The variances were reviewed, recounted, investigated and resolved by the supervisor. After each supervisor was satisfied with their investigation of the accuracy of the parts counted and the recorded units on the perpetual records, the stores technician listed these variances on an annual inventory adjustment form which is used to document an explanation for the difference.

We have summarized below the number of variances found in the records from each shop at the time of the parts counting process.

<u>Shop</u>	<u>FY '08</u>	<u>FY'07</u>	<u>Change</u>	<u>FY '08</u>	<u>FY '07</u>	<u>Change in</u>	<u>FY '08</u>	<u>FY'07</u>
	<u>Listed Parts</u>		<u>in Parts</u>	<u>Variances</u>		<u>Variances</u>	<u>% Variances</u>	
Alpha Ridge	134	144	(10)	16	8	8	11.9	5.6
Cooksville	750	717	33	16	17	(1)	2.1	2.4
Dayton	1,509	1,572	(63)	184	108	76	12.2	6.9
Guilford	1,771	2,063	(292)	69	65	4	3.9	3.2
Mayfield	1,440	1,298	142	82	52	30	5.7	4.0
Utilities	274	257	17	14	8	6	5.1	3.1
Total	5,878	6,051	(173)	381	258	123	6.5%	4.3%

After the investigations and adjustments were completed, the inventory valuation reports were run based on the counted units. The variances were set to zero and the inventory dollar value records were produced as of the date of the count. We were informed that no adjustments were necessary at the shops from the date of the count to the end of the fiscal year to value the inventory as of June 30.

The shop supervisors investigated the variances and prepared adjustment forms that corrected the perpetual inventory data in the Fleet Maintenance computer program. We reviewed the recorded changes on the adjustment forms and found that the forms were prepared after the counts were taken by the stores technicians and the variances were investigated and approved by the shop supervisors. We have provided a detailed analysis on each shop in the attached pages.

The shop inventory valuation reports were prepared so that we could compare the total inventory value amount before and after the counts and determine the size of the dollar difference. We found that the two valuation reports were run for each shop and noted a total difference of \$2,881 or 0.45 percent a very insignificant difference for all the shops combined.

The adjustment forms were prepared to correct the report and explain the recorded book inventory differences found while the counts were taken.

We reviewed some of the variances listed on the adjustment forms and did not find any with significant dollar discrepancies. The adjustment forms indicated that most of the discrepancies were due to missing or incorrect data entry. We have listed below the recorded (before count) and counted valuation amounts on each shop for the year ended June 30, 2008.

<u>Shop</u>	<u>Recorded Value</u>	<u>Value on Count Date</u>	<u>Value Difference</u>	<u>Percent %</u>
Alpha Ridge	\$16,248	\$15,667	(\$581)	(3.71)
Cooksville	\$74,202	\$74,150	(\$52)	(0.07)
Dayton	\$229,524	\$227,954	(\$1,570)	(0.69)
Guilford	\$88,619	\$87,576	(\$1,043)	(1.20)
Mayfield	\$211,579	\$211,846	\$267	0.13
Utilities	\$29,990	\$30,089	\$99	0.33
Total	\$650,164	\$647,282	(\$2,880)	(0.45)

Alpha Ridge Shop

We visited the shop on June 27, 2008. The inventory value of the auto parts counted amounted to \$15,667 on the date of the count. The recorded value prior to the count amounted to \$16,248. We took a random sample of 31 items out of 134 parts (23.1%). The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared. We reviewed the records and noted a difference in the amount of \$581 (3.71%). This insignificant difference is due to inventory recording errors during the year.

Cooksville

We visited the shop on June 27, 2008. The total dollar value of the inventory value amounted to \$74,150 on the date of the count. The inventory records amounted to \$74,202 prior to the physical count. We selected 85 items out of the total 750 auto parts (11.3%) for our sample size. The perpetual inventory records were reconciled with the end of the year physical inventory counts and an adjustment form was prepared. We reviewed the records and noted a difference in the amount of \$52 (0.07%). This insignificant difference is due to inventory recording errors during the year.

Dayton

We visited the Dayton shop on June 29, 2008. The inventory value amounted to \$227,954 as of the date of the count. The inventory valuation per the records prior to the date of the count amounted to \$229,524. For our sample we selected 157 parts (10.4%) from various shop locations at random out of 1,509 total parts. The perpetual inventory records were reconciled with the physical counts and the adjustment forms were prepared. We reviewed the records and noted an insignificant difference of \$1,570 (0.69%) difference. This insignificant difference is due to inventory recording errors during the year.

Guilford Shop

We visited the shop on June 28, 2008 to observe the inventory counting process. The total value of the count amounted to \$87,576. The inventory valuation before the count was reported in the amount of \$ 88,619. We took a sample of 107 parts (6.04%) of the 1771 items listed. The perpetual inventory records were reconciled as of the date of the count and the adjustment forms were prepared. We reviewed the records and noted an insignificant difference of \$1,043 (1.19%) difference. This insignificant difference is due to inventory recording errors during the year.

Mayfield Shop

We visited the shop on June 27, 2008. The total dollar value of the inventory of the parts counted amounted to \$211,846. The perpetual inventory records amounted to \$211,579 and were reconciled with the end of the physical inventory counting process by preparing the annual adjustment form. We took a sample count of 124 parts out of 1,440 parts listed (8.6%). We reviewed the records and noted an insignificant difference of \$267 (0.13%) difference. This insignificant difference is due to inventory recording errors during the year.

Utilities Shop

We visited the shop on June 26, 2008 to observe the inventory counting process. The recorded value prior to the count was \$29,991 and after the count amounted to \$30,089. We took a random sample of 72 out of 274 (26.3%) parts listed. We reviewed the records and noted an insignificant difference of \$98 (0.33%) difference. This insignificant difference is due to inventory recording errors during the year.

Fuel Inventory

We met with the Central Fleet administration staff to schedule our fuel inventory (unleaded gasoline and diesel) measurement observation visit on June 30, 2008. The administration office technician manually measures fuel stored in the tanks on a fixed schedule. The perpetual inventory record is kept on the computerized device (Veeder Root) at each shop. The amount of fuel in the tanks is measured by the device on site and printed on the tape. There are no devices at the Banneker Fire Station, and the Howard Building sites. The North Ridge Road location was added and Howard Building location was closed during the fiscal year. The Central Fleet administration office maintains the Fleetmaint program that records the fuel usage and the perpetual inventory. This report is prepared everyday early in the morning.

We visited all the 14 sites on June 30, 2008 to observe the fuel inventory process. The fuel measurements were taken by the technician of the Central Fleet office at the sites (except Guilford site due to the safety issue because the tanks are situated above the ground). He provided us with a copy of the fuel reading tapes of the shops visited except the two locations noted above.

We noted a difference of 2% between the total recorded gallons of 118,091 (includes the fuel deliveries of the day) and the total measured gallons on June 30, 2008 of 115,795 (unleaded gas 53,311 gals. and diesel 62,484 gals.). We inquired about the difference and were informed by the central fleet management staff that the difference of 2,296 gallons is due to the conversion of dip stick measurements to the equivalent number of gallons per tank manufacturers' charts; the measurement level rounded to the nearest ¼ of the inch, the tank temperature at the time of dip stick measurement (cooler temperatures cause the fuel in the tank to contract and warmer temperatures cause the fuel to expand), and the timing difference between the computer recorded gallons at early morning hours by Fleetmaint program and the dip stick measurements taken during our sites visits on June 30, 2008.

The Office of the Central Services prepared a memorandum report for the fuel inventory dated July 21, 2008 for the Department of Finance (Financial Management Division) for the fiscal year 2008. As per their memo, the gasoline inventory value was \$201,516 and the diesel inventory value was \$271,805, resulting in a total fuel value of \$473,321.

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