

# INTERNAL AUDIT REPORT

## CITY OF MANCHESTER

### NEW HAMPSHIRE



### **Highway Department Consumable Inventory** **June 30, 2002**

Prepared by  
City of Manchester, NH – Finance Department  
Internal Audit Division

**INTERNAL AUDIT REPORT  
CITY OF MANCHESTER, NEW HAMPSHIRE  
HIGHWAY DEPARTMENT CONSUMABLE INVENTORY  
JUNE 30, 2002**

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*January 28, 2014*

Committee on Accounts, Enrollment and Revenue Administration  
City of Manchester, New Hampshire  
Honorable Aldermen: Shea, Lopez, Guinta, Thibault, and Smith

Dear Honorable Committee Members:

As part of the year-end closing process Internal Audit (IA) performed tests of the Highway Department's, including the Building Maintenance Division's (BMD), consumable inventory balance reported in the City of Manchester's general ledger at June 30, 2002. This is an annual audit conducted by IA.

The scope of the assignment was to perform an audit of the reported June 30, 2002 consumable inventory balance to express if the balance reported in the general ledger was fairly stated. As part of IA's audit the accounting controls in place during fiscal year 2002 were also evaluated.

The audit procedures began with documentation and evaluation of the internal accounting controls in place at the Highway Department including the BMD during the audit period. No problems in the existing control structure were noted and a standard sample size of 60 items was judgmentally selected for testing. All items were tested for completeness (the correct amounts were recorded) as well as valuation (the correct value was assigned to each item).

### **Conclusion**

While there is one minor observation in the report, IA noted a large improvement over the inventory system at the Highway Department. The Highway Department was the first City agency to use the HTE system to track its consumable inventory and should be commended for the tremendous amount of work involved in this project. IA has been conducting audits of the consumable inventory balance for the last four years and has noted an improvement in internal controls and reporting in each year. This is the first year that the BMD inventory has been audited and IA notes that the personnel at the BMD have done an excellent job of organizing and controlling its inventory.

The draft audit report was sent to the management of the Highway Department and BMD for review and comment. The observation generated is included on page five of this report. The auditee has not included a response to the observation. We appreciate the courtesy and cooperation of the staff and administration of the Highway Department and BMD on this assignment.

Respectfully Submitted,

Kevin Buckley, CPA  
Internal Audit Manager

# INTRODUCTION

## AUDIT BACKGROUND

As part of its year-end audit procedures Internal Audit (IA) conducted an audit of the reported consumable inventory balance reported by the Highway Department, including the Building Maintenance Division (BMD), at June 30, 2002. The Finance Officer of the City of Manchester (the City) has been designated by state law, city charter and local ordinance with the authority to conduct such examinations and audits.

Our audit was conducted in accordance with generally accepted auditing standards, as promulgated by the American Institute of Certified Public Accountants, as well as standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## AUDIT SCOPE AND OBJECTIVES

IA's audit was limited to determining if the HTE general ledger balance for the Highway Department, including BMD, consumable inventory accounts were fairly stated at June 30, 2002. As part of IA's audit the internal control structure in place during fiscal year 2002 was documented and evaluated.

The results of our testing are included in the recommendation and observation section of this report found on page five of this report.

We also determined the status of prior year observations the results of which are noted on page six of the report.

## BACKGROUND OF AUDITEES

The City of Manchester Highway Department is charged with improving and maintaining the City's infrastructure and to provide general basic services such as construction and maintenance of all public roadways and bridges, the collection and treatment of wastewater, the control and collection of storm drainage and the collection and disposal of solid waste. In FY 1999 the department also took over the maintenance of City facilities and the aggregation and purchase of energy services. Aggregation administration has since been returned to the Finance Department.

BMD as a division of the Highway Department is charged with the maintenance of City owned buildings.

In 1997 the City converted its computerized financial system to HTE. The HTE system is a fully integrated system that links several subsidiary modules to the INFISYS general ledger. The Highway Department was the first department to use the Purchase and Inventory module (P&I) to track its consumable inventory. This involved doing a complete physical inventory then posting the beginning balance for more than 1,500 items. The Highway Department inventory is made up of fuel, auto parts and construction material. In FY 2002 the Department issued more than 1.1 million

dollars worth of material from its inventory. The BMD has been using the P&I module to account for its inventory for the past two years. BMD inventory consists of mostly electrical, plumbing and other inventory necessary for the repair and maintenance of the City owned buildings. Activity for the accounts in FY 2002 is shown in the chart below:

**FY 2002 Inventory Activity  
Highway Department**

Beginning Balance	\$ 446,540
Issues	(830,545)
Fleet Charges	(328,244)
Adjustments	21,171
Purchases	1,269,191
Ending Balance	\$ 578,113

**BMD**

Beginning Balance	\$ 17,651
Issues	(17,050)
Adjustments	1,412
Purchases	39,052
Ending Balance	\$ 41,065

The Highway Department’s inventory is located in three distinct areas. The garage area has a locked caged-in-area where the majority of vehicle parts are stored and another secured area where tires are kept. There are inventory personnel on hand at all times to control the flow of material. The highway yard has a fenced in area and a couple of sheds where construction material is kept. Access is limited and inventory personnel control the flow of material in and out of the area. The Manchester Transfer Station is used for large piles of fill and some larger sewer and storm drain parts. At the transfer station all trucks entering to pick up bulk objects are weighed empty and weighed again as they are leaving to determine the amount of material to be charged. Inventory slips are prepared at all locations and forwarded to the business office for entry into the inventory system.

The BMD stores its inventory at the Clay Street office except for a small amount that is kept in the maintenance trucks.

The Highway Department appears to have adequate segregation of duties over inventory control and access to the HTE inventory module. In prior years IA have noted several reportable conditions that required adjustment of the accounting records. In the current year IA has no reportable conditions requiring an adjustment. The prior year observations and the current status are included on page six of this report.

## **FINDINGS AND RECOMMENDATIONS**

### **OBSERVATION NO. 1 - RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY LEDGER:**

*Observation:*

Inventory transactions are posted to the Purchase and Inventory module in HTE and the transactions are linked and posted to the INFISYS general ledger through updates between the module and the general ledger. In order to ensure that transactions are being posted to both accounts correctly and that entries are not being posted to the general ledger accounts in error occasionally a formal reconciliation should be performed between the two accounts. Internal Audit (IA) notes that no such formal reconciliation is being done on a regular basis. IA's own reconciliation noted small variances between the modules. Most of the variance could be explained due to timing differences between postings.

*Recommendation:*

Reconciliation between the general ledger and the Purchase and Inventory module should be done at least annually. It is recommended that the reconciliation be done monthly to make it easier to identify and correct any variances if necessary.

*Auditee Response:*

## **CURRENT STATUS OF PRIOR OBSERVATIONS**

### **INTERNAL CONTROLS OVER CONSUMABLE INVENTORY:**

From a sample of 60 items selected from the 6/30/01 Highway Department consumable inventory in the Purchase and Inventory module of HTE, Internal Audit (IA) detected errors with 12 of the items selected or a 20% error rate. From IA's review of the internal control structure in place at the Highway Department during FY 2001 we noted the several weaknesses that IA believes contributed, at least in part, to the errors noted above.

#### CURRENT STATUS:

##### *SUBSTANTIALLY RESOLVED*

The Department has been working on a policy and procedures manual. The current year audit did not encounter any errors that required adjustment to the inventory records. Beginning balances and obsolete items have been corrected or removed from inventory. The inventory was neat and organized throughout the department although some work can still be done at the transfer station to better organize the inventory.

### **INVENTORY ORGANIZATION:**

In order to help maintain control over inventory the inventory items should be maintained in as orderly a manner as possible. Items should be properly labeled and organized to ensure ease in finding and counting the inventory. IA noticed several instances where inventory items were not well organized.

#### CURRENT STATUS:

##### *SUBSTANTIALLY RESOLVED*

All areas were greatly improved as far as organization of the inventory. The transfer station could still use some better organization but had improved to the point that all items could be easily found and counted.

### **CAPITALIZED ITEMS THAT SHOULD HAVE BEEN EXPENSED:**

Our test work revealed two instances out of 60 items tested (3%) where items that are or should be expensed have been capitalized in the year-end inventory.

#### CURRENT STATUS:

##### *RESOLVED*

During the current year audit no items were noted in the inventory that should have been expensed.