

I. EXECUTIVE SUMMARY

Audit and Review observed the annual physical inventory of the Bureau of Recreation stockroom on January 17, 2007. We noted the following findings during this review:

- ◆ Audit and Review noted variances in 3.6% of our sample selection of stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

Audit and Review routinely observes and participates in annual physical inventories of various City stockrooms. The Bureau of Recreation conducted its third annual physical inventory of the supply stockroom on January 17, 2007. Audit and Review participated in these counts at the request of the Department of Recreation and Youth Services (DRYS).

B. Background

The Administration unit of the Bureau of Recreation stores and manages an inventory of supplies necessary to operate and maintain the equipment, grounds and facilities in the City's parks system, and various recreation programs. As of January 17, 2007, the inventory consisted of 1,564 line items valued at \$291,549.41.

Stockroom personnel utilize an automated inventory system that helps in controlling quantities and providing various management information. A perpetual inventory record is an essential feature of this system.

C. Objective And Scope

The objectives of this review are to assure an accurate and complete physical inventory count and to assess the effectiveness of inventory controls.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected

benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendation presented in this report includes one more significant area of potential improvement that came to our attention during the course of the examination, but does not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

A key element in any inventory control system is the proper maintenance of perpetual inventory records. The Bureau of Recreation maintains an automated perpetual system that provides ongoing recordkeeping for the Bureau's stockroom inventory.

Generally, differences between physical (actual counts) and perpetual records should be important indicators of the operational efficiency of the inventory control system. Analysis of significant differences between the records may indicate weaknesses in data processing, ineffective security measures, theft, posting errors, inadequate physical verification procedures or any combination of these. Management should be interested in explanations of the differences as a basis for taking corrective action in controlling inventories.

A prime objective of taking a physical inventory is to determine variances between actual inventory quantities and booked, perpetual quantities. Analysis of variances provides insight into potential problems and can deter major problems before they occur. When analyzing the causes of inventory variances, it is important to analyze significant line item differences as well as the total variance for the entire inventory. Additionally, management should analyze positive and negative line item variances

separately, rather than combining them to consider a net figure. This is because events causing negative variances may be different from those causing positive variances.

A. Variance Analysis

Audit and Review selected a statistical sample of items included in the stockroom inventory. The sample selection assures proper representation throughout the entire population of inventory items and allows us to project the results against the entire inventory. The range of unit costs included in the sample extends from \$1,900.00 to \$0.04. Audit and Review compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 168 inventory items tested in the sample, variances exist in six items. This represents a sample error rate of 3.6%. The following graph presents the prior and current year error rates for comparison.

Bureau of Recreation
Stockroom Inventory
Sample Error Rate Percentages

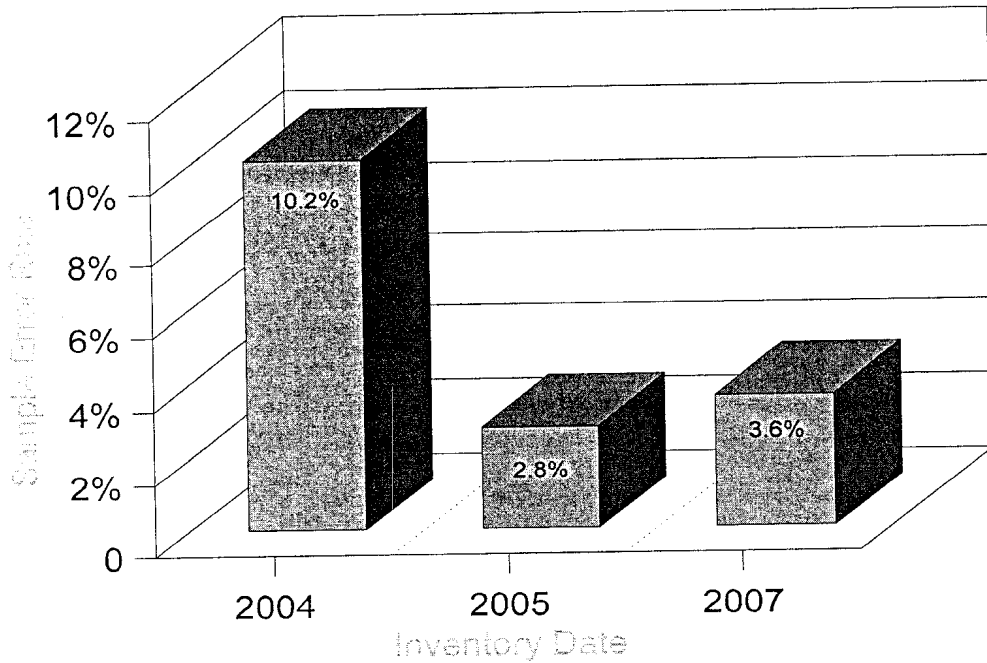


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records and presents positive and negative variances separately. Additionally, the table includes the net variance. To eliminate counting errors, Bureau personnel recounted all items in which a difference existed between the quantities recorded in the perpetual records and the actual quantities on hand during the physical inventory.

When Audit and Review extends the sample error rate of 3.6% to the entire population of 1,564 different stock items, the projection indicates that the actual number of errors in the population is between 30 and 117 stock items. When comparing the current error rate of 3.6% to the prior error

rate of 2.8% in 2005, it appears that, based on the results of the sample selection, DRYS stockroom personnel have continued to maintain control over the stockroom inventory.

◆ Recommendation

Bureau management should continue to make inventory control a priority.

IV. DEPARTMENTAL RESPONSE

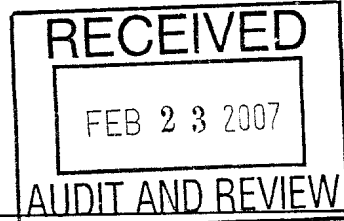
The response of the Department of Recreation and Youth Services follows.

TABLE I: Department of Recreation and Youth Services
Bureau of Recreation
Stockroom Inventory - January 17, 2007
Statistical Sample Selection
Schedule of Inventory Variances Only

<u>Stock Number</u>	<u>Part Description</u>	<u>Booked Quantity On Hand</u>	<u>Actual Quantity Counted</u>	<u>Item Count Variance</u>		<u>Unit Cost</u>	<u>Dollar Variance</u>	
				<u>Over</u>	<u>Short</u>		<u>Over</u>	<u>Short</u>
150065	Pks T-White -XXL	52	64	12	0	\$ 7.25	\$ 87.00	\$ 0.00
310001	Apparatus Insp Form	645	650	5	0	0.74	3.70	0.00
50658	Towels 250/pk	567	583	16	0	0.59	9.44	0.00
50559	Bottle Sprayer Qt.	80	84	4	0	0.36	1.44	0.00
10125	Crepe Paper Blue	24	23	0	1	0.89	0.00	(0.89)
150111	Rink Aid Jacket XL	<u>9</u>	<u>10</u>	<u>1</u>	<u>0</u>	22.33	<u>22.33</u>	<u>0.00</u>
		<u>1,377</u>	<u>1,414</u>	<u>38</u>	<u>1</u>		<u>\$123.91</u>	<u>\$ (0.89)</u>
	Net Variance	-----						<u>\$123.02</u>



City of Rochester



Inter-Departmental Correspondence

To: Daniel Markese
From: Charles Reaves 
Date: February 21, 2007
Subject: Audit Response

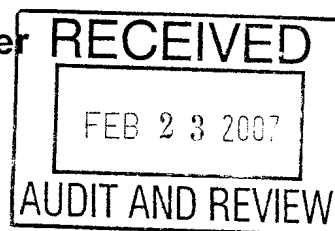
Dan, enclosed is a response to the audit that was conducted by your department on January 17, 2007. I was able to review your findings. The Bureau of Recreation we will continue to work on improvements in our record keeping, and the monitoring of our inventory.

Charles Reaves
Commissioner of
Recreation and Youth Services





City of Rochester



Inter-Departmental Correspondence

To: Daniel Markese, Manager/Internal Audit
From: Charles Reaves, Commissioner/DRYS
Date: February 1, 2007
Subject: Audit Response

Following is our response to the Bureau of Audit & Review's Bureau of Recreation Stockroom Audit of January 17, 2007.

Finding:

Audit and Review noted variances in 3.6% of our sample selection of stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records.

Recommendation:

Bureau management should continue to make inventory control a priority.

Departmental Response:

We are very pleased that our concerted efforts over the past few years has, for the second year in a row, resulted in an audit variance within acceptable limits. We will continue to make inventory control a priority.

CR:pb
xc: L. Burgos

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