

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Bureau of Recreation stockroom on February 8, 2008. We noted the following finding during this review:

The Office of Public Integrity noted variances in 3.7% 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

The Office of Public Integrity routinely observes and participates in annual physical inventories of various City stockrooms. The Bureau of Recreation conducted its annual physical inventory of the supply stockroom on February 8, 2008. OPI 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 and facilities in the City's recreation system. As of February 8, 2008, the inventory consisted of 2,153 line items valued at \$326,471.51. Of the 2,153 line items, 952, or 44% were line items with zero quantities that stockroom personnel do not normally maintain on the inventory system. We excluded these items from the total population when making the sample selection and verified that there was not any stock on-hand associated with these line items at the time of the physical inventory.

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 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

OPI 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 \$1,901.40 to \$0.14. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 162 inventory items tested in the sample, variances exist in six items. This represents a sample error rate of 3.7%. The following graph presents the prior and current year error rates for comparison.

Bureau of Recreation
Stockroom Inventory
Sample Error Rate Percentages

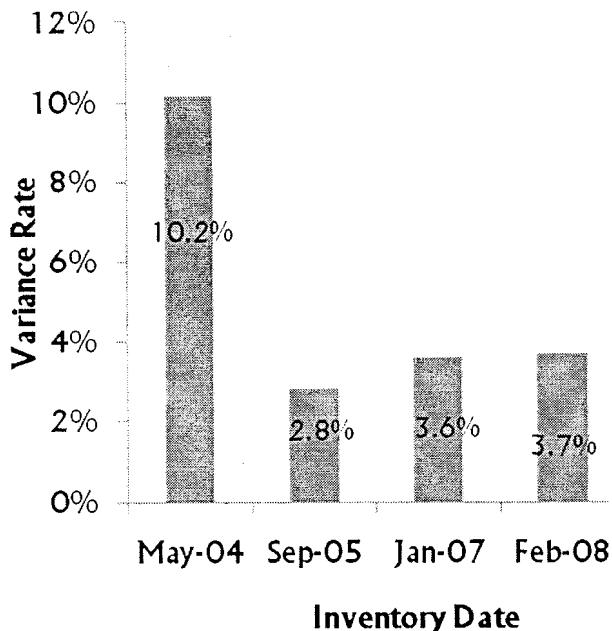


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records and presents positive and negative variances separately. 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 OPI extends the sample error rate of 3.7% to the population of 1,201 different stock items, the projection indicates that the actual number of errors in the population is between 16 and 115 stock items. When comparing the current error rate of 3.7% to the prior error rate of 3.6% in 2007 it appears that, based on the results of the sample selection, DRYS stockroom personnel have continued to maintain control over the inventory

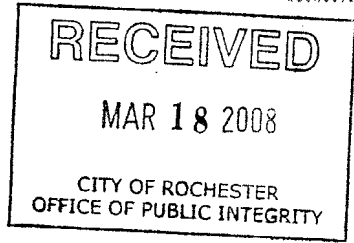
stockroom. However, in comparison to the 2.8% error rate noted in 2005, it appears that, the variance rate has increased slightly.

◆ Recommendation


Bureau management should continue to make inventory control a priority. Additionally, management should identify the causes of the increased variance rate and should take corrective action to reduce it.

IV. DEPARTMENTAL RESPONSE

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



To: Daniel Markese, Manager/Internal Audit

From: Charles Reaves, Commissioner/DRYS 

Date: March 13, 2008

Subject: Audit Response

Following is our response to the Bureau of Audit & Review's Bureau of Recreation Stockroom Audit of February 8, 2008.

Finding:

Audit and Review noted variances in 3.7% 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. Additionally, management should identify the causes of the increased variance rate and should take corrective action to reduce it.

Departmental Response:

We are very pleased that our concerted efforts over the past few years has, for the third year in a row, resulted in an audit variance within acceptable limits. We will continue to make inventory control a priority. We have indentified the cause for the increased variance as key punch error when filling the orders. Therefore, we will pay more attention to details when entering orders.

CR:pb
xc: L. Burgos

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