

I. EXECUTIVE SUMMARY

The Office of Public Integrity observed the annual physical inventory of the Bureau of Operations, Building Services Division stockroom on April 13, 2007. The results of the review indicate that Building Services maintains adequate inventory control.

- ◆ Public Integrity noted variances in .48% of our sample selection 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. Building Services conducted its annual physical inventory on April 13, 2007. Public Integrity participated in this count at the request of the Department of Environmental Services.

B. Background

The Building Services Division maintains City-owned buildings. This includes providing custodial services, repairs and renovations. Typical functions include installing, operating, and maintaining heating, ventilating, and air conditioning systems, and performing carpentry, masonry, electrical, and minor plumbing repairs. Building Services stores and manages an inventory of supplies and materials necessary to perform these maintenance functions. As of April 13, 2007, the inventory was comprised of 5,156 line items valued at approximately \$996,934. Stockroom personnel utilize an automated inventory system that assists in controlling quantities and providing various management information. A perpetual inventory record is an essential feature of this system.

C. Objectives 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 recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

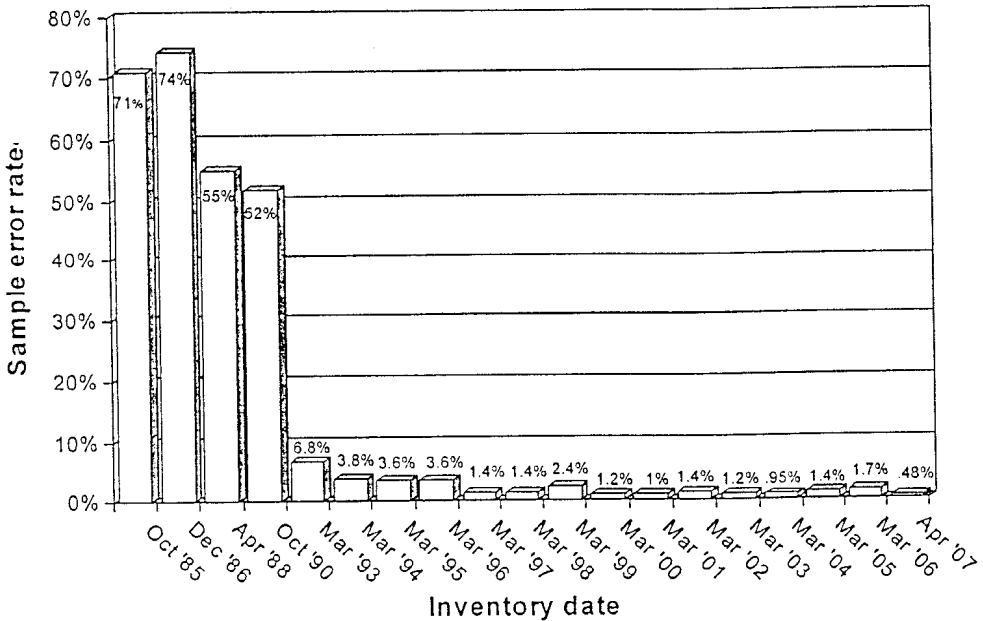
The results of this physical inventory indicate that Building Services personnel have continued to maintain adequate control over the inventory.

A. Variance Analysis

Public Integrity 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 accurately projects the results against the entire inventory. The range of unit costs included in the sample extends from \$4,188.43 to \$.05. Public Integrity compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 421 inventory items tested in the sample, variances exist in two items. This represents a sample error rate of .48%. The following graph presents historical error rates as a reference.

Buildings Services Division
 Stockroom Inventory
Sample Error Rate Percentages



The attached table 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 at the end of the table. To eliminate counting errors, Building Services personnel counted twice all items in which material differences existed between the quantities recorded in the perpetual records and quantities counted at the physical.

When Public Integrity extends the sample error rate of .48% to the entire population of 5,156 different stock items, the projection indicates that the actual number of errors in the population of stock items is in the range of 10 to 150 item types. When comparing the current error rate of .48% to the prior error rates of 1.7% in 2006, 1.4% in 2005, .95% in 2004, 1.2% in

2003, and 1.4% in 2002, it appears that, based on the results of the sample selection, Building Services personnel have continued to maintain adequate control over the stockroom inventory. Additionally, it appears that the implementation of cycle counts throughout the year has assisted in achieving and maintaining these lower variance rates.

Public Integrity observed that the perpetual records include unit costs for 421 of the 421 inventory items selected in the statistical sample. This is a sample rate of 100%. The perpetual records used in the March 1995 inventory included unit prices for 90% of the sample selection and the perpetual records used for the April 1988 physical inventory did not include any unit prices. Inclusion of unit prices in the perpetual records is essential so that management can fully understand the dollar value impact of variances.

◆ RECOMMENDATION

Building Services should continue to make inventory control a priority and should continue to include unit prices for all line items.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

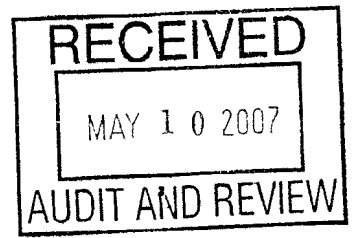
Department of Environmental Services
 Building Services Division
 Stockroom Inventory - April 13, 2007
 Statistical Sample Selection
Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance		Unit Cost	Dollar Variance	
				Over	Short		Over	Short
11930	Hanger Pipe Bl 1 1/2	17	21	4		0.93	3.72	
20917	Wire #12 Thhn Orange	2,500	2,485		15	0.05		-0.75

	<u>2,517</u>	<u>2,506</u>	<u>4</u>	<u>15</u>	<u>\$3.72</u>	<u>-\$0.75</u>
Net Variance						<u>\$2.97</u>



City of Rochester



Inter-Departmental Correspondence

To: Daniel Markese, Office of Public Integrity

From: Paul M. Holahan, Commissioner of Environmental Services *PH*

Date: May 8, 2007

Subject: **Bureau of Operations/Division of Building Services Stockroom Audit**

I have reviewed the draft audit report from the physical inventory count conducted at the Building Services stockroom on April 13, 2007. I concur with your findings that indicate Building Services personnel have adequate control over inventory stock. I would like to acknowledge Norman Jones and his staff for their high standards in maintaining control over the stockroom inventory.

The department will continue to make inventory control a top priority in the management of this unit.

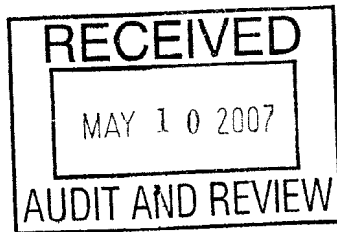
Thank you for your efforts.

xc: Rick Saltrelli, Director of Operations
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Inter-Departmental Correspondence

To: Robert J. Duffy, Mayor
From: Richard C. Vega, Director of the Office of Public Integrity
Prepared by: Daniel J. Markese, Manager of Internal Audit 
Date: May 14, 2007
Subject: DES Building Services Inventory

Attached for your consideration is our report of the inventory observation at the Department of Environmental Services, Building Services Division. We found continued improvements in conditions as compared to observations from prior periods. These results are attributable to inventory control priorities placed on the stockroom by the Division.

The Department of Environmental Services reviewed an earlier version of this report and has indicated its satisfaction with our findings.

We would like to acknowledge the cooperation and support that we received from the Department of Environmental Services. In particular, we appreciate the efforts of Norman Jones and Gerald Lewis.

This project was directed by Principal Field Auditor Daniel Mastrella. We are available if you would like to discuss this report.

DJM:dc
Attachment

xc: P. Malgieri, Deputy Mayor
P. Holahan, Commissioner/DES



DEPARTMENT OF ENVIRONMENTAL SERVICES
BUREAU OF OPERATIONS
BUILDING SERVICES DIVISION
STOCKROOM INVENTORY OBSERVATION

Office of Public Integrity
Date: May 14, 2007
Contact: Daniel T. Mastrella
Phone: 428-6121

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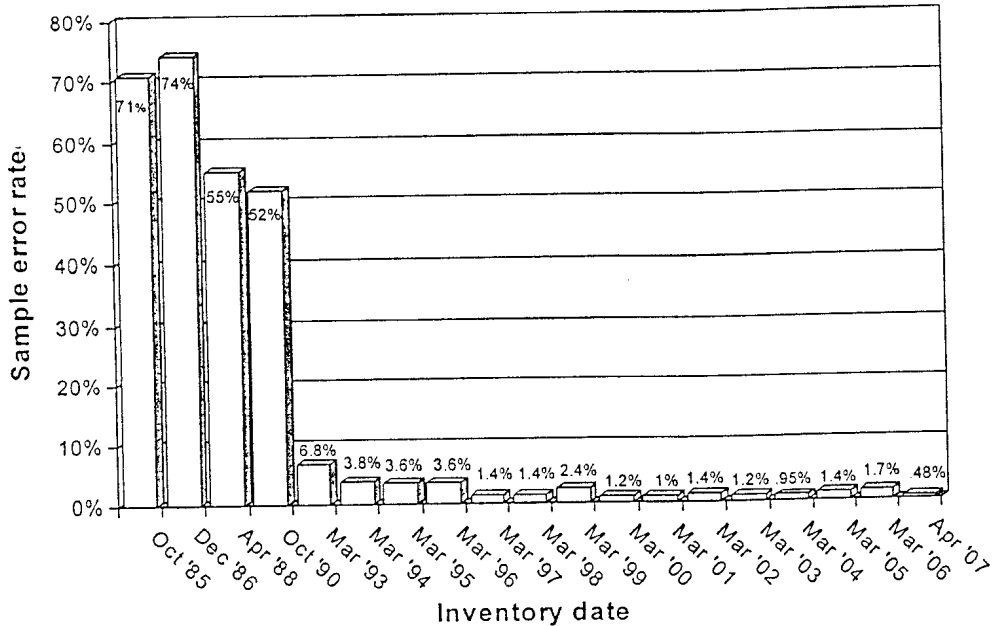
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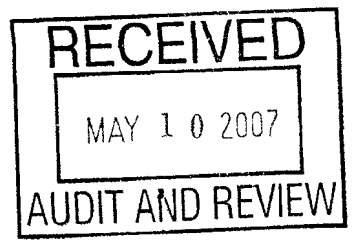
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