

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Bureau of Operations and Parks, Building Services Division stockroom on June 17, 2011. The results of the review indicate that Building Services maintains adequate inventory control.

- ◆ Public Integrity noted variances in 1.9% 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 June 17, 2011. 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 June 17, 2011, the inventory was comprised of 5,303 line items valued at approximately \$950,683. 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

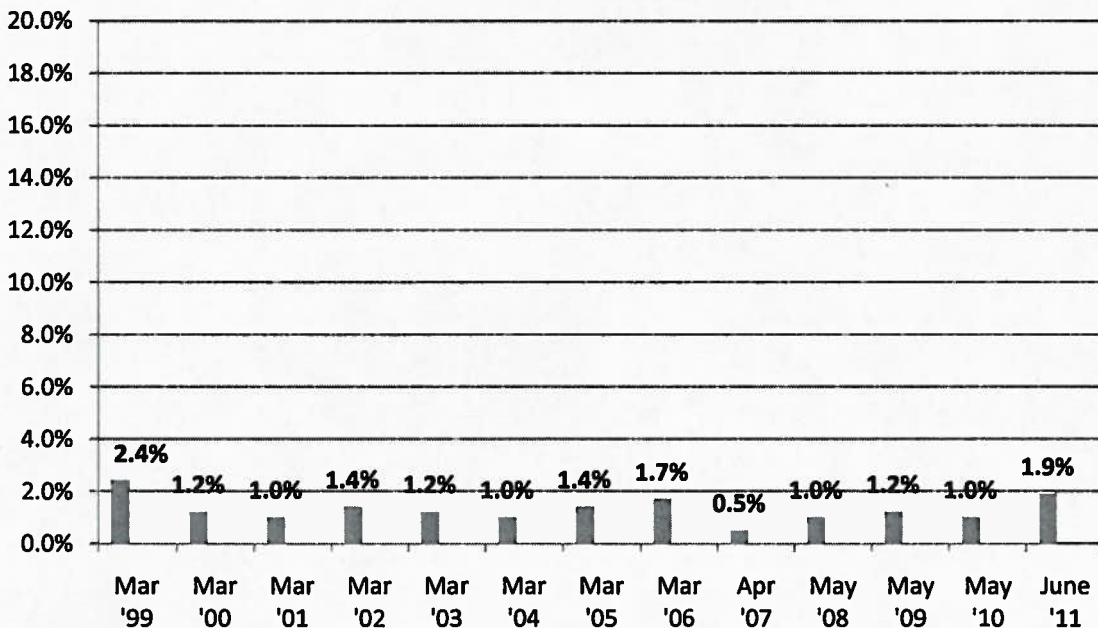
The results of this physical inventory indicate that Building Services personnel have continued to maintain adequate control over the inventory.

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 \$8,720.00 to \$.09. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 265 inventory items tested in the sample, variances exist in five items. This represents a sample error rate of 1.9%. 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 1.9% to the entire population of 5,303 different stock items, the projection indicates that the actual number of errors in the population of stock items is in the range of 47 to 217 item types. When comparing the current error rate of 1.9% to the prior error rates of .95% in 2010, 1.2% in 2009, .95% in 2008, .48% in 2007, 1.7% in 2006, 1.4% in 2005, and .95% in 2004, 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.

◆ **RECOMMENDATION**

Building Services should continue to make inventory control a priority.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

Department of Environmental Services
 Building Services Division
 Stockroom Inventory - June 17, 2011
 Statistical Sample Selection
Schedule of Inventory Variances Only

<u>Stock Number</u>	<u>Part Description</u>	<u>Booked</u>	<u>Actual</u>	<u>Item Count Variance</u>		<u>Unit Cost</u>	<u>Dollar Variance</u>	
		<u>Quantity On Hand</u>	<u>Quantity Counted</u>	<u>Over</u>	<u>Short</u>		<u>Over</u>	<u>Short</u>
29415	Ballast 120v RS 2-32T8	98	97		1	\$14.73		-\$14.73
30425	Filter 20 x 25 x 2 pleated	87	80		7	2.82		-19.74
20164	Nut Lock 3/4	392	393	1		1.76	1.76	
49358	Gutter Elbow Dwnspt	15	13		2	2.15		-4.30
39808	V Belt BX144	<u>3</u>	<u>4</u>	<u>1</u>	<u>—</u>	15.56	<u>15.56</u>	<u>—</u>
		<u>595</u>	<u>587</u>	<u>2</u>	<u>10</u>		<u>\$17.32</u>	<u>-\$38.77</u>
Net Variance								<u>-\$21.45</u>



City of Rochester

Inter-Departmental Correspondence


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CITY OF ROCHESTER
OFFICE OF PUBLIC INTEGRITY



To: Daniel-Mastrella, Office of Public Integrity

From: Paul M. Holahan, Commissioner of Environmental Services 

Date: August 16, 2011

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

I have reviewed the audit report for the Division of Building Services' Stockroom and I would agree with your assessment that Building Services' personnel have maintained adequate inventory control. Of the 265 inventory items tested in the sample, variances existed in only 5 items. The inventory that took place on June 17, 2011 resulted in a variance of 1.9% of the sample selection.

We will continue to make inventory control a priority in this Division.

cc: C. Wagner
M. Quattrone
N. Jones
Department Copy

