

**DEPARTMENT OF ENVIRONMENTAL SERVICES  
BUREAU OF WATER  
HEMLOCK OPERATIONS CENTER STOCKROOM INVENTORY OBSERVATION**

**Office of Public Integrity  
Date: June 20, 2014**

## I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the physical inventory of the Bureau of Water, Hemlock Operations Center stockroom on May 19, 2014. This was the first physical inventory that Bureau of Water personnel have conducted on this stockroom. We noted the following findings during this review:

- ◆ The Office of Public Integrity noted variances in 2.2% of stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records.
- ◆ We noted that Bureau of Water personnel did not include approximately 250 inventory line items in the automated perpetual inventory system.

## 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 Water conducted its first physical inventory of the Hemlock Operations Center stockroom on May 19, 2014. OPI participated in these counts at the request of the Department of Environmental Services.

### B. Background

The Materials and Equipment unit of the Director's Office stores and manages an inventory of supplies and materials necessary to operate and maintain the water distribution system. In addition to the main inventory storage area on Felix Street, the Bureau of Water maintains a stockroom inventory at its Hemlock Operations Center facility. As of May 19, 2014, this inventory consisted of 1,053 line items valued at \$272,162.00.

Bureau of Water personnel have recently added the inventory stockroom at the Hemlock facility to the automated inventory system. The system assists in controlling quantities and providing various management information. A perpetual inventory record is an essential feature of this system. Prior to the installation of this system, a comprehensive, automated inventory management system was not in use at the Hemlock facility.

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 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 Water Bureau personnel maintain adequate control over the inventory. However, not all items stored at the facility are included on the perpetual inventory record. We noted the following findings during this review:

A. Variance Analysis

OPI examined 100% of the inventory and compared the actual count of each of these items to perpetual records and noted any variances. The range of unit costs included in the inventory extends from \$0.03 to \$11,012.25. Of the 1,053 inventory line items in the perpetual inventory system, we noted variances in 23 items. The error rate is therefore 2.2%. This error rate indicates that Bureau personnel maintain adequate control over the inventory.

Table I (attached) presents the variance analysis 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.

◆ Recommendation

Management should continue to make inventory control a priority.

B. Incomplete Perpetual Inventory Records

A perpetual inventory system should include all inventory items physically stored in a stockroom. The total value of the inventory and the dollar impact of positive and negative variances cannot be accurately determined without including all physical inventory on hand in the perpetual inventory records. Additionally, control over the inventory is significantly diminished when all inventory items are not included in the perpetual inventory records.

OPI noted approximately 250 inventory line items located at the Hemlock facility that Bureau of Water personnel have not included in the perpetual inventory records. Bureau personnel indicated that adding this stockroom to the automated inventory system is a work in progress and they intend to add these items to the system.

◆ Recommendation

The Water Bureau should include all physical items on hand in the perpetual inventory records.

IV. DEPARTMENTAL RESPONSE


The response of the Department of Environmental Services follows.

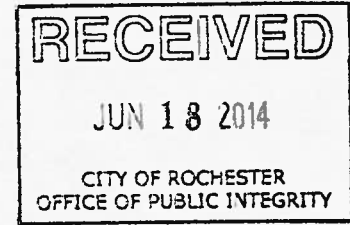
TABLE I: Department of Environmental Services  
 Bureau of Water  
 Hemlock Facility Stock Room Inventory – May 19, 2014  
 Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity On Hand	Item Count Variance		Unit Cost	Dollar Variance	
				Over	Short		Over	Short
404065	Gasket Material, Rubber 1/19"	5	6	1		\$ 15.55	\$ 15.55	
103198	Paint Roller 3"	6	0		6	2.00		\$ -12.00
623366	Hose Suction 1 1/2" gray	4	2		2	2.00		-4.00
73400	Nuts Stainless Course 1/2"	92	90		2	0.27		-0.54
73601	Washer Flat 3/4"	17	26	9		0.98	8.82	
73618	Washer Oversized 3/4"	9	0		9	0.37		-3.33
73611	Bolt Hex HD SS 3/4" 6"	98	99	1		12.68	12.68	
623360	Hose Heater 1/2"	10	14	4		1.00	4.00	
623361	Hose Heater 5/8"	10	17	7		1.00	7.00	
623362	Hose Heater 3/4"	2	22	20		1.00	20.00	
134583	RainBffiSXL	4	5	1		3.90	3.90	
134585	RainBffi2XL	3	4	1		3.90	3.90	
633187	Bulbs 1048 2/pk	1	3	2		1.00	2.00	
123186	Soap Stone 4/pk	19	18		1	5.00		-5.00
624414	Hose – Discharge 3"	11	10		1	50.00		-50.00
104027	Paint Gloss Acorn 520-36 Gal	1	2	1		30.00	30.00	
610567	Grease 11.5 OZ	27	12		15	4.06		-60.90
81190	Fence – Orange 4'x50'	22	20		2	45.86		-91.72
80564	Post, Snow Fence	155	184	29		3.50	101.50	
234429	Bell Joint 39.30"	6	3		3	200.00		-600.00
392195	Annodes 32lb Mag w/10' wire	32	29		3	83.05		-249.15
44405	Blocks from Building 16x12x8	70	104	34		5.00	170.00	
10001	Topsoil, Screened	18	0		18	12.00		-216.00
		<u>622</u>	<u>670</u>	<u>110</u>	<u>62</u>		<u>\$379.35</u>	<u>\$-1,292.64</u>
Net Variance.....								<u>\$ -913.29</u>



Inter-Departmental Correspondence

To: Daniel Mastrella, Internal Audit/OPI  
From: Norman Jones, Commissioner/DES   
Date: June 13, 2014  
Subject: Inventory Audit Results – Hemlock Operations Center



The Water Bureau conducted the first official physical inventory of the Hemlock Operations Center stockroom on May 19, 2014. The Office of Public Integrity observed the inventory. The inventory was comprised of 1,053 different line items valued at \$272,162.00. The line items included were separate from the inventory maintained by the Water Bureau's Materials and Equipment stockroom on Felix Street.

I am very pleased to learn that the OPI results, having examined 100% of the booked inventory, found a variance rate of 2.2% by item. The net variance amounted to \$-913.64. Had it not been for a discrepancy of the unit of measure for one item, the net variance would have been just \$-313.29.

While Water Bureau staff can take satisfaction in reaching this milestone, we fully recognize that their work is not finished until all items have been added to the perpetual inventory system. The OPI staff audit was correct to note that not all items were counted as part of the audit process. Please be assured that the Hemlock staff has been instructed to continue to identify, locate, and add the remaining items to the access database. They will also conduct monthly cycle counts in order to quickly identify and address any inventory related concerns.

I am confident that the Water Bureau's Hemlock Operations Center will continue to make inventory control a top priority. Please contact me as needed.

Attachments: 05/19/14 findings

XC: R. Morrison  
P. Bedard  
L. Cichocki-Lalka