

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

**Office of Public Integrity
Date: December 27, 2016**

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the physical inventory of the Bureau of Water, Hemlock Operations Center stockroom on November 10, 2016. This was the third physical inventory that Bureau of Water personnel have conducted on this stockroom. The results of the inventory indicate that the Bureau of Water maintains adequate inventory control.

- ◆ OPI noted variances in 1.95% of the stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records. In the previous inventory we noted a variance of 1.2%.

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 third physical inventory of the Hemlock Operations Center stockroom on November 10, 2016. 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 November 10, 2016 this inventory consisted of 1,996 line items valued at \$765,136.

Water Bureau personnel have added the inventory stockroom at the Hemlock facility to the automated inventory system. The system assists in controlling quantities and providing information to management. 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.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

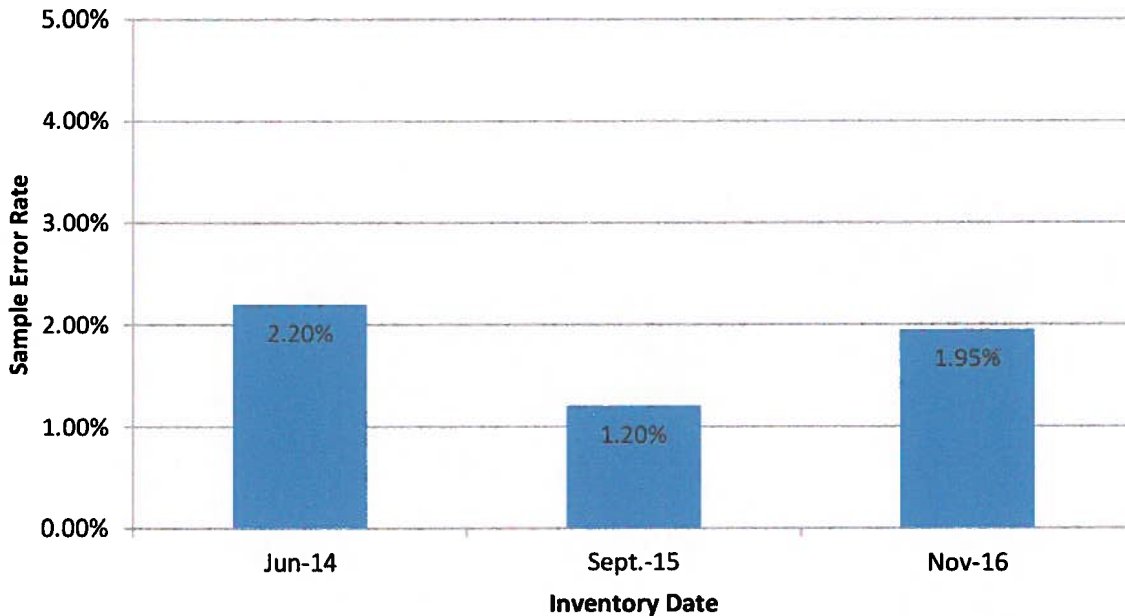
The results of this physical inventory indicate that Water Bureau personnel maintain adequate control over the inventory.

A. Variance Analysis

The Office of Public Integrity tested 100% of the stockroom inventory. This inventory is comprised of 1,996 line items valued at \$765,136. The range of unit costs of these items extends from \$0.03 to \$20,000.00. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 1,996 line items, OPI noted 39 variances. The true error rate is therefore 1.95%. The following graph presents historical error rates as a reference.

**Bureau of Water
Hemlock Operations Center Stockroom Inventory
Sample Error Rate Percentages**



The attached table 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.

When comparing the current error rate of 1.95% to the prior error rates of 1.2% in 2015 and 2.2% in 2014, it appears that, based on the results of the sample selection, Bureau of Water personnel have continued to maintain adequate 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 Environmental Services follows.

Department of Environmental Services
 Bureau of Water Hemlock Operations Center
 Stock Room Inventory – November 10, 2016
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
10009	Silica Quartz 100 lbs/ bag	104	99		5	\$ 10.00		\$ -50.00
20928	Stakes- Wood, Small10/Bundle	19	6		13	7.00		-91.00
32235	Gloves-Latex Vinyl XL,100/Box	5	6	1		13.95	\$ 13.95	
41075	Concrete Mix 80 lb.	42	38		4	5.50		-22.00
41204	Concrete Block 4 x 8 x 16 Solid	94	100	6		1.90	11.40	
44407	Concrete Block 16 x 6 x 8	84	108	24		2.00	48.00	
54213	Disinfectant Spray 16 oz.	18	17		1	5.00		-5.00
64409	Pipe - Drainage 4" x 10' Solid	46	47	1		7.50	7.50	
72124	Bolt Hex HDZinc 3/4x2 1lthr	1	0		1	0.40		-0.40
72159	Blt Hex HDZnc 3/411x611 10thr	52	51		1	0.90		-0.90
72163	Bolt Hex HD 1 1/211x811 6 thr	62	54		8	57.25		-458.00
74633	Cable Clamp - 1/8" U-Bolt	41	42	1		1.00	1.00	
103196	Roller Handle 9"	1	3	2		5.00	10.00	
104618	Blade-Scraper 2" Carbide Hyde	1	2	1		7.75	7.75	
124779	Caulk Gun – Standard	3	2		1	4.13		-4.13
124780	Caulk Gun – Commercial	2	1		1	28.90		-28.90
124807	Duct Tape, Gray	4	5	1		11.81	11.81	
130474	Boots, Yellow 13	2	3	1		10.55	10.55	
131590	Glasses – Clear	21	20		1	7.60		-7.60
133155	Chaps asst sizes	16	15		1	100.00		-100.00
133271	Tyvec Suit - White 2XL	17	16		1	6.60		-6.60
134565	Gloves - TUFF Coat XL	7	8	1		5.00	5.00	
134576	Welding Gloves Lg.	6	5		1	18.37		-18.37
144061	Sign Blanks- White 12 X 18	69	67		2	7.00		-14.00
261001	Clamp- Bell JT.Rep.24	6	8	2		352.52	705.04	
263741	Mega Lug, 6"	2	0		2	39.52		-79.04
281491	Valve- 6" RS Tapp.	20	19		1	706.23		-706.23
348555	Saddle-2411x211 IP Tap Saddle	4	5	1		435.00	435.00	
350007	Nipple- Steel Threaded 4 112"x6	7	8	1		18.90	18.90	
402840	Manhole Guard Rail–Collapsible	2	0		2	299.25		-598.50
404068	Gasket 6"	7	6		1	2.79		-2.79
404072	Gasket 1.5"	21	12		9	1.00		-9.00
521934	Valve - Butterfly, MJ 24"	5	4		1	5,316.30		-5,316.30*
544083	Valve - Air 6"	12	11		1	1,766.00		-1,766.00*
544086	Valve - Gate Air 4"	13	8		5	1,000.00		-5,000.00*
610424	Propane Cylinder,14.1 oz	10	9		1	4.35		-4.35
972114	Wheel Cutting 4.5x045x7/8 mtl	18	17		1	2.84		-2.84
973217	Hook Slip 5/16 T80	8	6		2	5.00		-10.00
973218	Hook Grab 5/16" GR63	9	6		3	10.00		-30.00
		<u>861</u>	<u>834</u>	<u>43</u>	<u>70</u>		<u>\$1,285.90</u>	<u>\$-14,331.95</u>

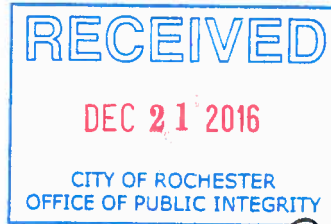
Net Variance..... \$-13,046.05

* Material shortage. Water personnel reviewed documentation and verified that these items were issued for use on valid projects. These variances occurred because these items were not properly signed out of the inventory.



City of Rochester

Inter-Departmental Correspondence



To: Daniel Mastrella, Office of Public Integrity
From: Norman H. Jones, Commissioner of Environmental Services
Date: December 15, 2016
Subject: **Bureau of Water Hemlock Operations Center (HOC) Stockroom Inventory Audit**

I have reviewed the audit report that was prepared by the Office of Public Integrity (OPI).

I concur with OPI's assessment that Bureau of Water HOC stockroom personnel have maintained adequate inventory control, with a variance of 1.95% of the stockroom inventory items.

HOC personnel will strive to continually improve control of its inventory in the coming year. One major initiative will be the addition of vending machines for control and distribution of common items such as personal protective equipment. HOC personnel also plan to work more closely with the contracted medical supplier for the distribution of first aid kit items and are also initiating monthly cycle counts in the stockroom.

Please be assured that the Department of Environmental Services will continue to make inventory control a priority. Thank you for your continued work in ensuring that the Department has appropriate management controls in place.

cc: Patrick O'Connor
Patricia Bedard
Lisa Cichocki-Lalka
Kara Makely