

DEPARTMENT OF ENVIRONMENTAL SERVICES
BUREAU OF WATER
STOCKROOM INVENTORY OBSERVATION

Distribution: Lovely Warren, Mayor
James Smith, Deputy Mayor
Norman Jones, Commissioner
Tim Curtin, Corporation Counsel

Office of Public Integrity
Date: December 31, 2019

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Department of Environmental Services (DES), Bureau of Water on October 25 and 26, 2019. This inventory includes the Water stockroom, the Street Lighting stockroom, the Department of Recreation and Youth Services (DRYS), Bureau of Recreation inventory and the DES Cemeteries inventory maintained by the Bureau of Water. The results of the inventory indicate that the Bureau of Water maintains excellent inventory control.

- ◆ OPI did not note any variances in the Water stockroom inventory items indicative of the differences between the physical counts and the quantities recorded in the perpetual records. The previous inventory resulted in a sample error rate of 0%.
- ◆ OPI did not note any variances in the Street Lighting stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records. In the previous inventory we noted an error rate of 0%.
- ◆ OPI did not note any variances in the DRYS, Bureau of Recreation inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records. In the previous inventory, we noted a sample error rate of 0%.
- ◆ OPI did not note any variances in the DES, Cemeteries inventory items. We also did not note a variance in the previous inventory.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

The Office of Public Integrity routinely observes and participates in annual physical inventories of various City stockrooms to independently ensure the accuracy of the inventory counts and to evaluate internal controls in the inventory maintenance process. The Bureau of Water conducted its annual physical inventory of the Water, Street Lighting, Bureau of Recreation, and Cemeteries stockrooms on October 25 and 26, 2019. 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. As of October 25, 2019, the

inventory consisted of 3,971 line items valued at \$3,977,044. In 2007, City management transferred the Street Lighting unit from the Bureau of Water to the Bureau of Architecture and Engineering. However, the Materials and Equipment unit of the Bureau of Water continues to store and manage the street lighting inventory of supplies and materials. The Street Lighting unit oversees the City's street lighting system. As of October 25, 2019, the inventory consisted of 574 line items valued at \$1,237,372.

In June 2008, City management transferred the DRYS, Bureau of Recreation stockroom to the Materials and Equipment unit of the Bureau of Water. As of October 25, 2019, this inventory consisted of 2,422 line items valued at \$408,973.

In January 2013, the Bureau of Water began storing Cemetery inventory items in their warehouse. As of October 25, 2019, the Cemetery inventory consisted of 269 items valued at \$125,280.

Bureau of Water 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.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards

for the Professional Practice of Internal Auditing. 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 recommendation presented in this report includes the more significant areas 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

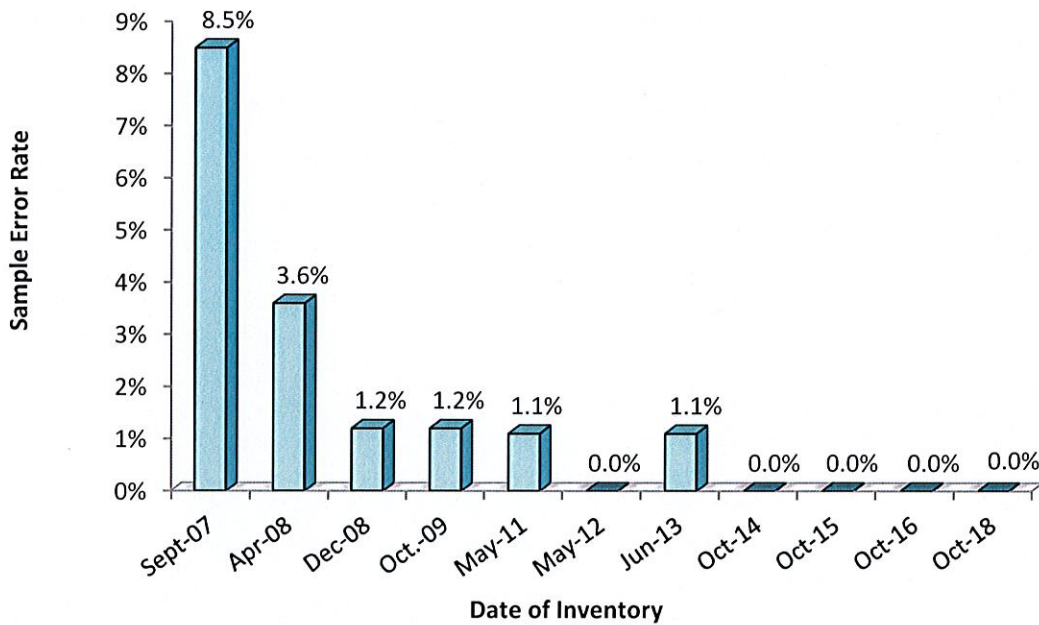
The results of this physical inventory indicate that Water Bureau personnel have continued to maintain strong control over the inventories.

A. Variance Analysis - Water Stockroom

The Office of Public Integrity participated in all recounts of the items included in the stockroom inventory. The range of unit costs included in the inventory extends from \$0.01 to \$55,715. OPI compared the actual count of each of these items to perpetual records.

Of the 3,971 inventory items, OPI did not note any variances. The true error rate is therefore 0%. The following graph presents historical error rates as a reference.

Bureau of Water
Water Stockroom Inventory
Sample Error Rate Percentages



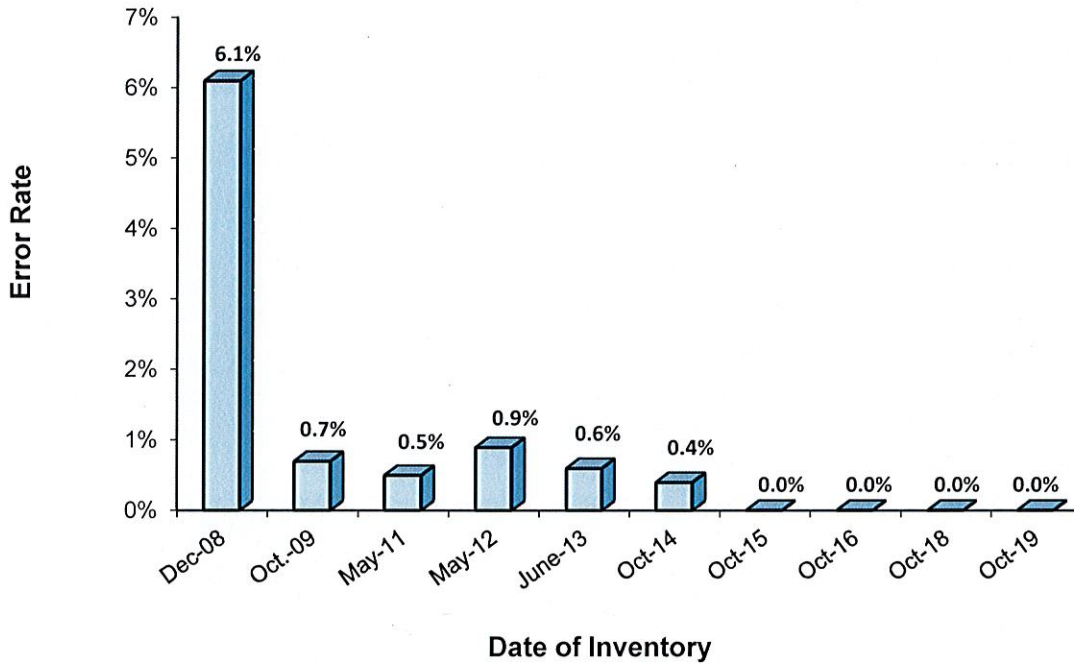
When comparing the current error rate of 0% to the prior error rates of 0% in 2016, 2015 and 2014 and 1.1% in 2013, it appears that, based on the results of the sample selections, Bureau of Water personnel have continued to maintain strong control over the stockroom inventory. Additionally, it appears that conducting cycle counts throughout the year has assisted in achieving and maintaining these lower variance rates.

B. Variance Analysis - Street Lighting Stockroom

Due to the relatively small number of street lighting inventory line items, OPI examined 100% of the inventory rather than selecting a statistical sample. As a result, the error rate noted represents the true error rate in the population of street lighting inventory items. The range of unit costs in the inventory extends from \$0.13 to \$81,028.79. The Office of Public Integrity compared the actual count of each of these items to perpetual records.

Of the 574 line items in the street lighting inventory, OPI did not note any variances. The true error rate is therefore 0%. This variance is consistent with the 0% error rate noted in 2018, 2016 and 2015. This variance represents the continuous effort made by Water personnel. The following graph presents historical error rates as a reference.

Bureau of Water
Street Lighting Stockroom Inventory
Inventory Variance Error Rate Percentages

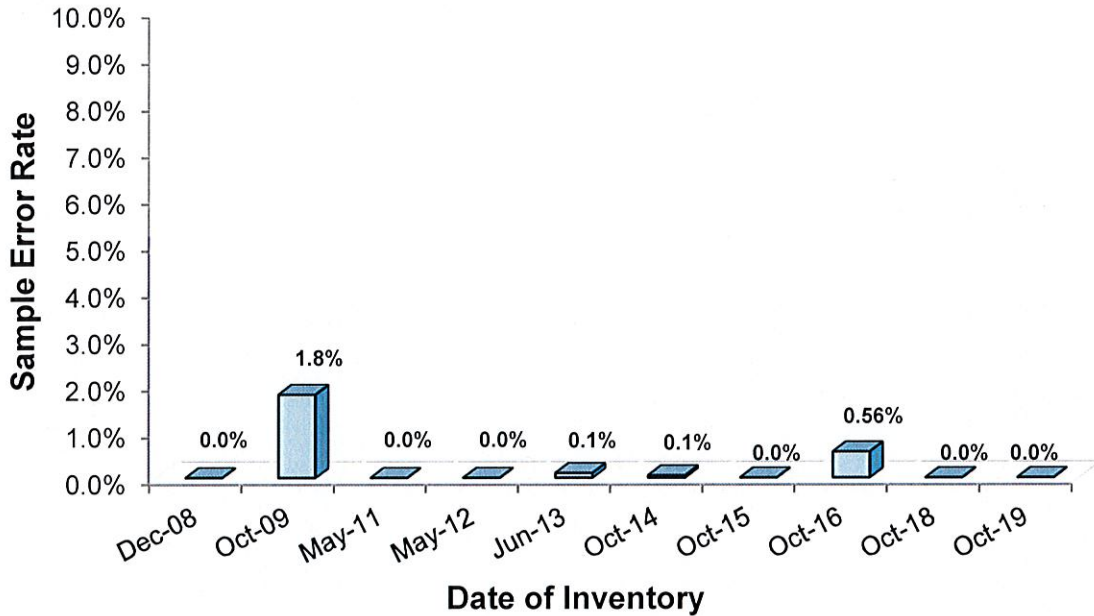


C. Variance Analysis – DRYS Stockroom

The Office of Public Integrity selected all items included in the DRYS Recreation stockroom inventory. The range of unit costs included in the DRYS inventory extends from \$0.01 to \$103,100. OPI compared the actual count of each of these items to perpetual records.

Of the 2,422 inventory items tested in the sample, OPI did not note any variances. The true error rate is therefore 0%. The following graph presents historical error rates as a reference.

Bureau of Water
DRYS Stockroom Inventory
Inventory Variance Error Rate Percentages



D. Variance Analysis - Cemeteries Inventory

Due to the relatively small number of cemetery inventory line items, OPI examined 100% of the inventory rather than selecting a statistical sample. As a result, the error rate noted represents the true error rate in the population of cemetery inventory items. The range of unit costs included in the sample extends from \$0.32 to \$1,974.80. OPI compared the actual count of each item to perpetual records.

Of the 269 line items, OPI did not note any variances. The true error rate is therefore 0%. The Cemetery materials have been inventoried six times since the Water Bureau began storing these items. Each inventory has resulted in a 0% variance.

◆ Recommendation

Bureau management should continue to make inventory control a priority.

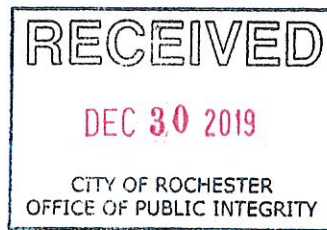
IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services to this report begins on the next page.



City of Rochester

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Norman H. Jones
Commissioner

To: Timothy R. Weir, Director, Office of Public Integrity
From: Norman H. Jones, Commissioner of Environmental Services
Date: December 27, 2019
Subject: Bureau of Water Felix Street Stockroom Inventory Audit

I have reviewed the report that was prepared by the Office of Public Integrity (OPI) for the October 25 and 26, 2019 audit of the Water Bureau's Felix Street stockroom annual physical inventory.

There were zero (0) variances noted in the audit for all of the stockrooms at this location, which consists of Water, Department of Recreation & Youth Services (DRYS), Street Lighting and Cemeteries. Similar results were reported in last year's audit.

I concur with OPI's assessments that ".....the Bureau of Water maintains excellent inventory control" and that "The results of this physical inventory indicate that Water Bureau personnel have continued to maintain strong control over the inventories."

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
Lisa Cichocki-Lalka
Kara Makely

