

DEPARTMENT OF ENVIRONMENTAL SERVICES
BUREAU OF WATER
STOCKROOM INVENTORY OBSERVATION

Distribution: James Smith, Mayor
Tassie Demps, Deputy Mayor
Norman Jones, Commissioner
Patrick Beath, Deputy Corporation Counsel

Office of Public Integrity
Date: December 21, 2021
Contact: Kara Makely
Phone: 428-6061

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 15 and 16, 2021. This inventory includes the Water stockroom, the Street Lighting stockroom, the Department of Recreation and Human Services (DRHS), 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 adequate inventory control.

- ◆ OPI did not note any variances in the sample selection of Water stockroom inventory items indicative of the differences between the physical counts and the quantities recorded in the perpetual records. This represents a sample error rate of 0%. The previous inventory resulted in a sample error rate of 0%.
- ◆ OPI noted six variances in the Street Lighting stockroom inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records. This represents a true error rate of 1.2%. In the previous inventory, we noted an error rate of 0%.
- ◆ OPI noted five variances in the sample selection of DRHS, Bureau of Recreation inventory items indicative of differences between the physical counts and the quantities recorded in the perpetual records. This represents a sample error rate of 2.9%. In the previous inventory, we noted a sample error rate of 0%.
- ◆ OPI did not note any variances in the DES, Cemeteries inventory items. This represents a true error rate of 0%. This stockroom has maintained a 0% variance rate for each inventory since 2013.

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 ensure the accuracy of the inventory counts and to evaluate internal controls in the inventory maintenance process independently. The Bureau of Water conducted its annual physical inventory of the Water, Street Lighting, Bureau of Recreation, and Cemeteries stockrooms on October 15 and 16, 2021. 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 15, 2021, the inventory consisted of 3,898 line items valued at \$3,670,421.

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 15, 2021, the inventory consisted of 518 line items valued at \$2,020,916.

In June 2008, City management transferred the DRHS, Bureau of Recreation stockroom to the Materials and Equipment unit of the Bureau of Water. As of October 15, 2021, this inventory consisted of 1,698 line items valued at \$507,016.

In January 2013, the Bureau of Water began storing Cemetery inventory items in their warehouse. As of October 15, 2021, the Cemetery inventory consisted of 192 items valued at \$115,021.

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

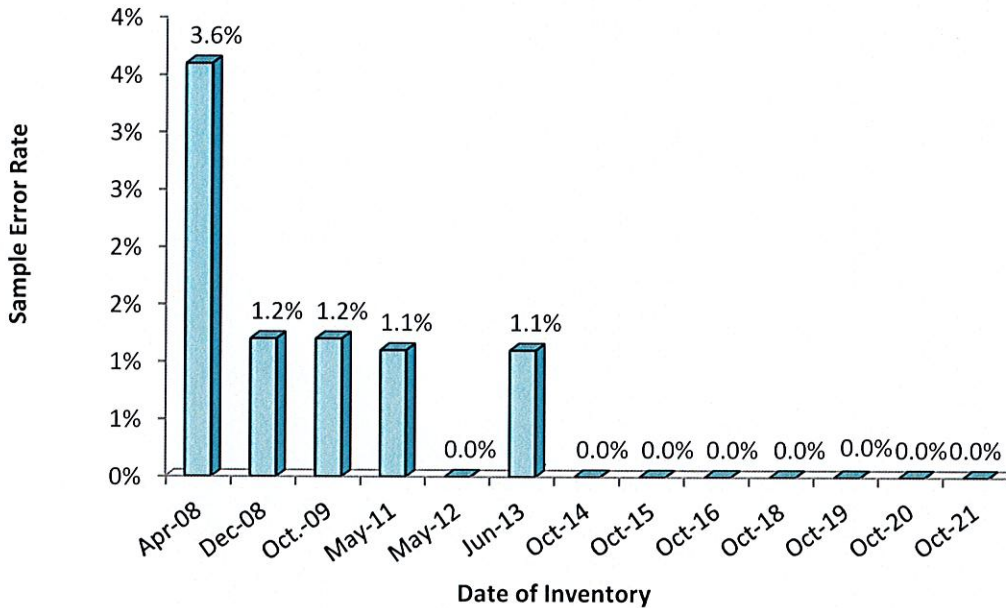
The results of this physical inventory indicate that Water Bureau personnel have continued to maintain adequate control over the inventories.

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 \$22,326. OPI compared the actual count of each of these items to perpetual records.

Of the 189 inventory items selected, OPI did not note any variances. The sample 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 OPI extends the sample error rate of 0% to the entire population of 3,898 different stock items, the projection indicates that the actual number of errors in the population is in the range of 0 and 113 stock items. When comparing the current error rate of 0% to the prior error rates of 0% in the previous six audits, it appears that, based on the results of the sample selections, Bureau of Water personnel have continued to maintain adequate 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 \$81,029. The Office of Public Integrity compared the actual count of each of these items to perpetual records.

Of the 518 line items in the street lighting inventory, OPI noted six variances. The true error rate is therefore 1.2%. This variance is higher than the 0% error rate noted in 2020, 2019, 2018, 2016 and 2015. The following graph presents historical error rates as a reference.

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

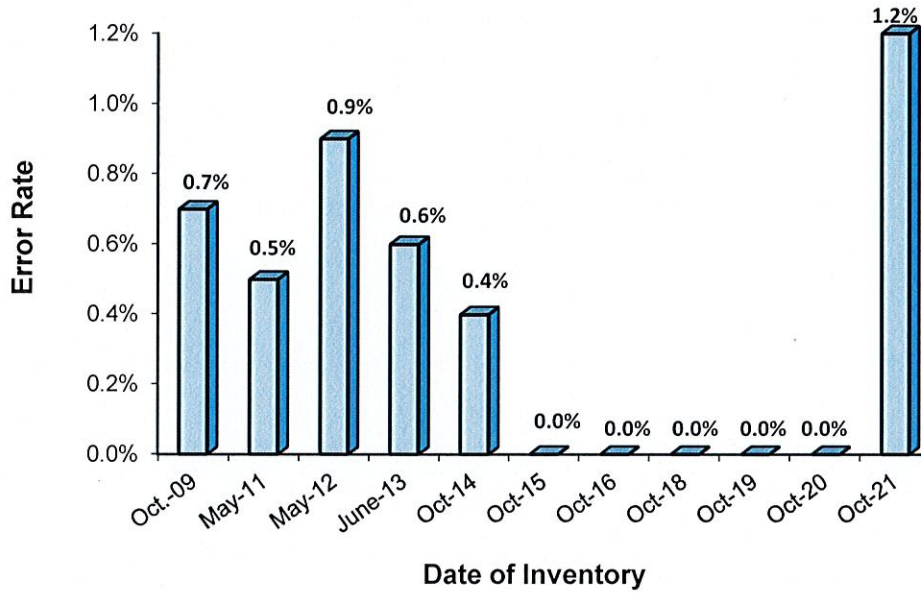


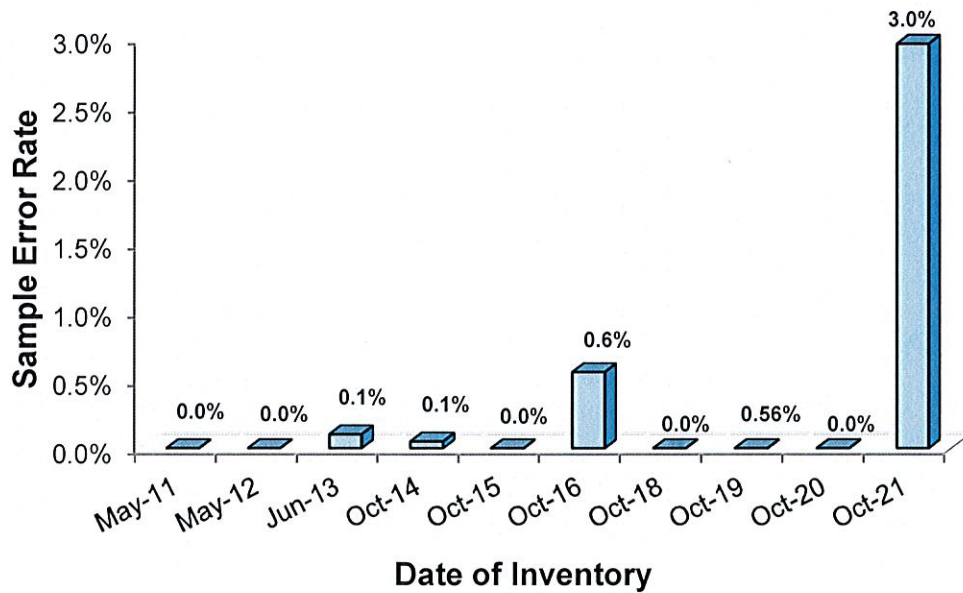
Table I, attached, presents the variance analysis of those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately. Additionally, the table includes the net variance. To eliminate counting errors, Bureau of Water personnel recounted all items in which a difference existed between the quantities recorded in the perpetual record and the actual quantities on hand during the physical inventory.

C. Variance Analysis – DRHS Stockroom

The Office of Public Integrity selected 169 items included in the DRHS Recreation stockroom inventory. The range of unit costs included in the DRHS inventory extends from \$0.08 to \$2,049.00. OPI compared the actual count of each of these items to perpetual records.

Of the 169 inventory items tested in the sample, OPI noted five variances. The sample error rate is therefore 3%. The following graph presents historical error rates as a reference.

Bureau of Water
DRHS Stockroom Inventory
Inventory Variance Error Rate Percentages



When OPI extends the sample error rate of 3% to the entire population of 1,698 different stock items, the projection indicates that the actual number of errors in the population is in the range of 12 and 143 stock items. When comparing the current error rate of 3% to the prior error rates of 0% in 2020, 2019 and 2018 it appears that, based on the results of the sample selections, the variance has increased. Bureau of Water personnel should work to identify the causes and continue to make inventory control a priority.

Table II, attached, 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. To eliminate counting errors, Bureau of Water personnel recounted all items in which a difference existed between the quantities recorded in the perpetual record and the actual quantities on hand during the physical inventory.

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 \$1,758.00. OPI compared the actual count of each item to perpetual records.

Of the 192 line items, OPI did not note any variances. The true error rate is therefore 0%. This stockroom has maintained a 0% variance rate for each inventory conducted since 2013.

◆ Recommendation

Bureau management should continue to make inventory control a priority.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

TABLE I: Department of Environmental Services
 Bureau of Water
 Street Lighting Stock Room Inventory – October 16, 2021
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
0L107S	70H Mogul	920	904		16	\$ 12.08		-\$193.28
1L451	Ballast kit 100H	23	24	1		142.00	\$142.00	
0X035	Lamp LED 35W Post Top	328	327		1	41.56	-	-41.56
0L040S	400H Mogul	62	72	10		15.98	159.80	
7F1ASW	Slipfitter AT50 w/o Nema	22	19		3	198.00		-594.00
7I194LED	See 7A76B	11	15	4		100.00	400.00	
		<u>1,366</u>	<u>1,361</u>	<u>15</u>	<u>20</u>		<u>\$701.80</u>	<u>-\$828.84</u>
Net Variance								<u>\$127.04</u>



City of Rochester

Department of Environmental Services
City Hall Room 300B, 30 Church Street
Rochester, New York 14614-1290
www.cityofrochester.gov

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Norman H. Jones
Commissioner

City of Rochester Office of Public Integrity

To: Timothy R. Weir, Director, Office of Public Integrity
From: Norman H. Jones, Commissioner of Environmental Services
Date: December 7, 2021
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 15 and 16, 2021 audit of the Water Bureau's Felix Street stockroom annual physical inventory.

The inventory on the day of the audit consisted of 6,302 unique items with a combined value of \$6,313,374. There were no variances noted in the audit for the Water Bureau and Cemeteries stockrooms at this location. The audit did identify a 1.2% variance rate for the Street Lighting stockroom and a 3% variance rate for the Department of Recreation & Human Services (DRHS) stockroom which were higher than their 0% variance rates of 2020. Water Bureau personnel are working to identify the causes of the variances and will increase the cycle count frequency of these stockrooms to monitor the effectiveness of corrective measures.

I concur with OPI's assessments that, "Water Bureau personnel have continued to maintain adequate 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: Geoffrey Gugel
Lisa Cichocki-Lalka
Kara Makely

