

## I. EXECUTIVE SUMMARY

The Office of Public Integrity observed the annual physical inventory of the Bureau of Operations, Building Services Division stockroom on May 8, 2009. The results of the review indicate that Building Services maintains adequate inventory control.

- ◆ Public Integrity noted variances in 1.2% 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 May 8, 2009. 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 May 8, 2009, the inventory was comprised of 5,246 line items valued at approximately \$983,530. 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

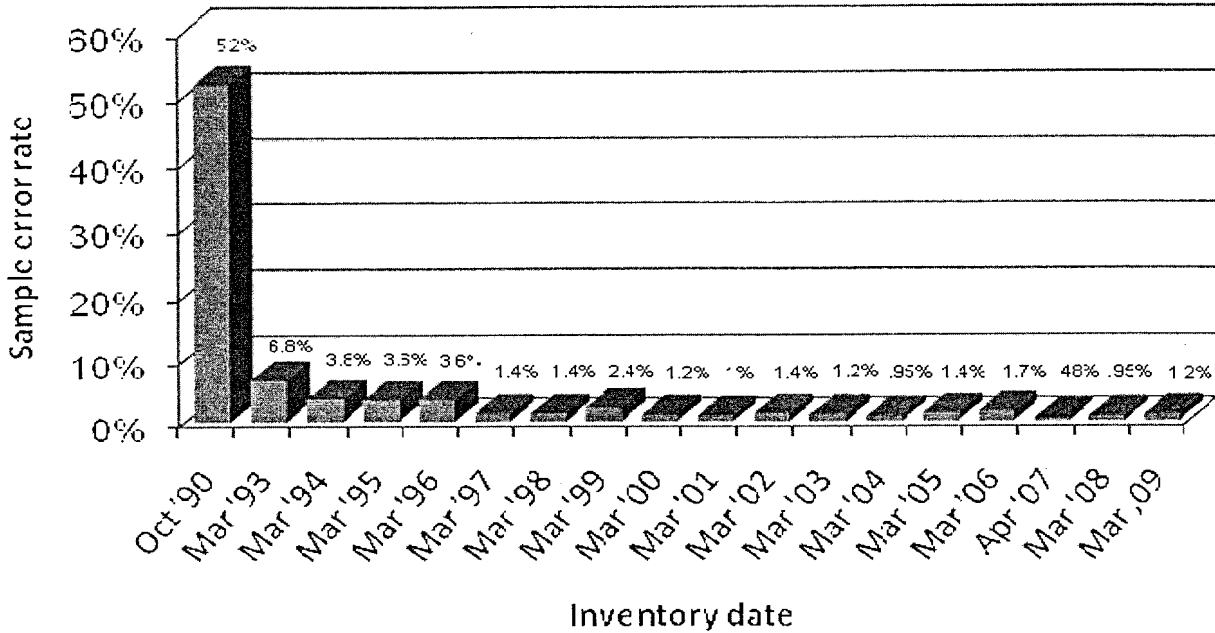
The results of this physical inventory indicate that Building Services personnel have continued to maintain adequate control over the inventory.

#### 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 \$5,212.00 to \$.05. Public Integrity compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 421 inventory items tested in the sample, variances exist in five items. This represents a sample error rate of 1.2%. 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 1.2% to the entire population of 5,246 different stock items, the projection indicates that the actual number of errors in the population of stock items is in the range of 10 to 152 item types. When comparing the current error rate of 1.2% to the prior error rates of .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.

Public Integrity observed that the perpetual records include unit costs for 421 of the 421 inventory items selected in the statistical sample. This is a sample rate of 100%. The perpetual records used in the March 1995 inventory included unit prices for 90% of the sample selection and the perpetual records used for the April 1988 physical inventory did not include any unit prices. Inclusion of unit prices in the perpetual records is essential so that management can fully understand the dollar value impact of variances.

◆ RECOMMENDATION

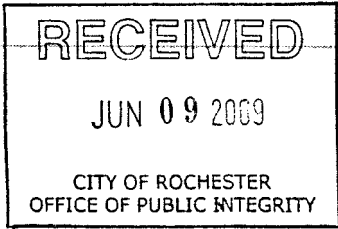
Building Services should continue to make inventory control a priority and should continue to include unit prices for all line items.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.



Inter-Departmental Correspondence



To: Daniel Markese, Office of Public Integrity  
From: Paul M. Holahan, Commissioner of Environmental Services *PH*  
Date: June 3, 2009  
Subject: Bureau of Operations/Division of Building Services Stockroom Audit

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I have reviewed the draft audit report from the physical inventory count conducted at the Building Services stockroom on May 8, 2009. I concur with your findings that indicate Building Services personnel have adequate control over inventory stock. I would like to acknowledge Norman Jones and his staff for their high standards in maintaining control over the stockroom inventory.

The department will continue to make inventory control a top priority in the management of this unit.

Thank you for your efforts.

Xc: Chris Wagner, Director of Operations  
Norman Jones, Building Services Manager  
Mary Gaudioso, Manager of Administrative Services