

THOMAS P. DiNAPOLI
STATE COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 22, 2010

Ms. Martha K. Hirst
Commissioner
New York City Department of Citywide Administrative Services
One Centre Street, 17th Floor
New York, NY 10007

Re: Report 2010-F-17

Dear Ms. Hirst:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law, we have followed up on the actions taken by officials of the New York City Department of Citywide Administrative Services (DCAS) to implement the recommendations contained in our audit report, *Central Storehouse Inventory* (Report 2007-N-1).

Background, Scope and Objective

DCAS was established in 1996 by the merger of the former departments of General Services and Personnel. DCAS' primary responsibility is to ensure that other City agencies have the critical resources and support they need. To assist other City agencies, DCAS purchases, inspects, and distributes supplies; provides overall facilities management, including security, maintenance, and construction services; locates space for City agencies; recruits and hires City employees; and administers civil service and licensing services. DCAS is organized into five main divisions. The Division of Municipal Supply Services (DMSS) is one of these divisions.

DMSS manages the Central Storehouse, a 300,000 square foot facility located in Queens. The Central Storehouse has 49 employees who are responsible for purchasing, stocking, and distributing items that are ordered by City agencies. It maintains an inventory of more than 2,200 products. If it carries a particular item, City agencies are required to purchase that item through the Central Storehouse. For the fiscal year ended June 30, 2009, DCAS reported that the Central Storehouse purchased \$25.4 million of inventory for distribution to City agencies. As of June 30, 2009, DCAS reported that the Central Storehouse ending inventory was valued at \$11.9 million.

Our initial audit report, which was issued on March 4, 2008, examined selected inventory controls at the Central Storehouse for the period July 1, 2005 through April 30, 2007. We found that DMSS did not establish and implement a proper system of control over the inventory maintained at the Central Storehouse. The objective of our follow-up was to assess the extent of implementation, as of May 20, 2010, of the three recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that DCAS officials have made significant progress in implementing the recommendations contained in our initial report. Of the three prior audit recommendations, two recommendations have been implemented and one recommendation has been partially implemented.

Follow-up Observations

Recommendation 1

Provide for the periodic audit of the Central Storehouse by an independent or external group.

Status - Partially Implemented

Agency Action - DCAS officials originally agreed to periodically perform a full audit of the Central Storehouse, subject to identifying the necessary resources. However, they stated that it was not possible to justify the resources required without first performing an analysis of the potential risks and benefits of such an audit. DCAS performed a risk assessment of the periodic physical inventory counts (referred to as “cycle counts”) conducted during 2009 and concluded, based on the discrepancies found, that it would not be cost beneficial to conduct an audit. However, DCAS officials stated that they plan to conduct a “smaller” audit of the Central Storehouse during the upcoming fiscal year.

Recommendation 2

Test newly-instituted policies and procedures periodically to determine compliance.

Status - Implemented

Agency Action - DCAS officials told us that the newly-instituted Central Storehouse policies and procedures were formally tested in 2008 to determine compliance. They explained that, since then, such testing has been incorporated into the cycle counts, which are done three times per year. According to DCAS officials, if matters concerning compliance with the established policies and procedures are identified during the cycle counts, such issues are noted in the cycle count reconciliation reports and follow-up action is taken. We verified that the newly-instituted policies and procedures were formally tested in April and May 2008. We also reviewed the reconciliation report for the cycle count completed in October 2009, and found that no issues of noncompliance had been noted.

Recommendation 3

Strengthen policies and procedures as follows:

- *If cycle counts are not done for 100 percent of the inventory stock, have someone independent of the inventory process select the items to be tested.*
- *Require that reconciliation reports be kept on file for review.*

- *Report all discrepancies greater than \$1,000 (not just those that are unresolved) to the Assistant Commissioner and Deputy Commissioner.*
- *Provide for an independent check to ensure that the Storehouse Directors are investigating and reporting discrepancies properly in accordance with policies and procedures.*
- *Analyze the types of errors that occur, and implement corrective action to prevent them in the future.*

Status - Implemented

Agency Action - DCAS has provided us with the cycle counts and reconciliation reports for calendar year 2009. We verified that DCAS has strengthened its policies and procedures as follows:

- DCAS performs three cycle counts each year, covering 100 percent of the inventory stock, eliminating the need to have someone independent of the process select the items to be tested.
- The Central Storehouse Policy and Procedures Manual requires that reconciliation reports, along with supporting documentation, be kept on file for review.
- All discrepancies greater than \$1,000 are reported to the Deputy Commissioner and Assistant Commissioner by means of the cycle count reconciliation reports.
- DCAS Internal Audit unit receives and reviews the reconciliation reports which show that the Storehouse Directors are investigating and reporting discrepancies in accordance with policies and procedures.
- Errors identified during the three cycle counts conducted each year are analyzed and a plan of corrective action is developed and implemented to prevent the same types of errors from re-occurring. The errors identified, along with the plans to correct them, are outlined in the cycle count reconciliation reports. We reviewed the three reports produced for 2009, and found that the errors identified had been analyzed and an accompanying corrective action plan had been included with each report.

Major contributors to this report were Christine Chu, Diane Gustard and Dana Bitterman.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address the unresolved issues discussed in this report. We also thank DCAS management and staff for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Albert Kee
Audit Manager

cc: Chris Lane, DCAS Internal Audit
George Davis, Mayor's Office of Operations