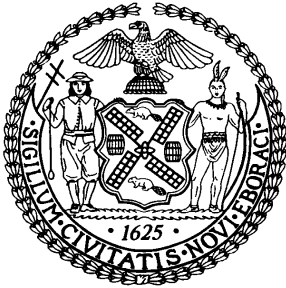


AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Inventory Controls of the Department of Correction over Its Non-Food Items at the Rikers Island Storehouses

MG03-165A

June 30, 2004



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has examined the Department of Correction's internal controls over its non-food inventory at its Rikers Island storehouses.

The results of our audit, which are presented in this report, have been discussed with the Department of Correction officials, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/fh

Report: MG03-165A
Filed: June 30, 2004

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*The City of New York
Office of the Comptroller
Bureau of Management Audit*

**Audit Report on the Inventory Controls of the
Department of Correction over Its Non-Food Items
At the Rikers Island Storehouses**

MG03-165A

AUDIT REPORT IN BRIEF

The Department of Correction (DOC) manages 15 inmate jails (facilities), 10 of which are on Rikers Island. DOC also operates and maintains storehouses on Rikers Island for food and non-food items that support the needs of the facilities and inmates. In Fiscal Year 2003, DOC purchased non-food items totaling \$11,687,539. This audit reviewed the inventory controls of DOC at its Rikers Island non-food storehouse facilities, which are managed by Division I and the Support Services Division (SSD).

This audit was commenced at the request of the Commissioner of the Department of Correction. (The Commissioner's letter is included in the Appendix.)

Audit Findings and Conclusions

DOC has inadequate controls over its non-food inventory. Our review disclosed significant weaknesses in the recording and maintenance of the inventory managed by Division I and SSD. For example, the Fiscal Year 2004 opening inventory balance for Division I had goods worth \$915,000 less than did the ending inventory balance for Fiscal Year 2003; this variance was never reconciled or investigated. In the case of SSD, we found that there was a difference of \$2,481,699 in value between the inventory count results and the value that was reported to the DOC Financial Services Division; this discrepancy also impacted the accuracy of the DOC inventory that is reported in the City's financial statements.

Division I computerized perpetual inventory records (Quickbooks) did not accurately identify inventory items; and SSD had no perpetual inventory records, but instead maintained manual records that reflected only the physical inventory count conducted at the end of each fiscal year. Further, both divisions conducted inventory counts that were deficient and did not investigate discrepancies between inventory records and inventory on hand. The storehouses of both divisions contained overstocked and obsolete inventory. In Division I, inventory had to be disposed of because of damage caused by its being stored in damaged containers or stored outdoors and exposed to the weather. Additional inventory, purchased by Division I through the

Federal Surplus Program, were relinquished (disposed of), raising the question of whether it is cost effective for Division I to participate in this program. In such an environment, there is a high potential that goods may be damaged, lost, or stolen, and that such occurrences not be detected.

It appears that one of the main reasons for the existence of the weaknesses described above is that the staff assigned to the Division I and SSD storehouses have insufficient knowledge of the internal controls required to manage an efficient warehouse operation, to record and maintain accurate computerized perpetual inventory records, and to properly store and account for inventory items. To correct these weaknesses, the staff should be trained in proper record-keeping and in warehousing and inventory controls. The training should be specific and provided as often as needed. However, based on interviews with DOC officials, it appears that DOC staff do not have the expertise to address these training needs. Therefore, DOC should hire a consultant who has specialized knowledge of warehousing, inventory controls, proper inventory record-keeping, and the appropriate computer software required for specific types of inventory, and who has the ability to train staff.

Audit Recommendations

We make 17 recommendations, some of which are listed below. The DOC officials should:

- Seek funding to hire an outside consultant who specializes in or is knowledgeable about warehousing, inventory controls, perpetual inventory record-keeping, and inventory-related computer software programs, and who is capable of providing training in these areas to DOC staff.
- Upgrade the *Inventory Control Policy and Procedure Manual* to address the use of a computerized inventory system for all non-food inventories maintained by DOC.
- Ensure that all variances in the inventory be properly investigated. Thereafter, enforce the requirement that all missing items or unexplained inventory variances be reported to the Inspector General's office.
- Require that SSD maintain computerized perpetual inventory records for all inventory maintained by its shops.
- Assess all non-food inventory stored on Rikers Island to determine whether everything in inventory is needed and whether more items should be relinquished. Also, DOC should not purchase any additional items that are overstocked until reaching the minimum quantity needed to operate.
- Determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program, taking into consideration the cost of salaries, overtime, traveling expenses, usefulness of the types of inventory that the Federal Surplus Program offers, inventory disposal costs, and other related costs.

DOC Response

The matters covered in this report were discussed with DOC officials during and at the conclusion of this audit. A preliminary draft report was sent to DOC officials and discussed at an exit conference held on May 24, 2004. On June 1, 2004, we submitted a draft report to DOC officials with a request for comments. We received a written response from the Commissioner of DOC on June 17, 2004. The Commissioner agreed with the audit findings and stated that DOC plans to implement all 17 recommendations.

The full text of the DOC response is included as an addendum to this report.

INTRODUCTION

Background

The New York City Department of Correction (DOC) provides for the care, custody, and control of persons (inmates) sentenced to less than one year of incarceration, detainees awaiting trial or sentence, newly sentenced felons awaiting transportation to State correctional facilities, alleged parole violators awaiting revocation hearings, and State prisoners awaiting court appearances in New York City. The DOC manages 15 inmate jails (facilities), 10 of which are on Rikers Island. The DOC operates and maintains storehouses for food and non-food items that support the needs of the facilities and inmates; all of these storehouse sites are on Rikers Island.

This audit was commenced at the request of the Commissioner of the Department of Correction. (The Commissioner's letter is included in the Appendix.)

DOC has three major storehouse divisions. Division I and the Support Service Division supply all of the non-food items and are the subjects of this report. Division II supplies all food items for DOC facilities. This division will be discussed in a separate report.

The DOC Division I maintains the Central Storehouse East, which supplies non-food items such as sanitation supplies; minimum standard items for inmates (e.g., personal health care items, clothing, and mattresses); office supplies; security items; disposable items; and equipment. Division I has additional storage areas—the basement of one of the facilities, two tents, and 84 enclosed metal containers and trailers. The tents are used primarily to store cleaning supplies, furniture, and inmate clothing. The containers and trailers are used to store excess inventory not needed for immediate use.

Division I also obtains items from the Federal Surplus Program (items no longer needed by the federal government) such as furniture, clothing, shoes, and equipment for use by the facilities and inmates. The cost for these surplus goods is minimal, at two cents per dollar value. The storehouses used to store both regularly-purchased goods and Federal Surplus goods contain highly desirable items such as lawn mowers, snow blowers, cameras, air conditioners and VCRs. In Fiscal Year 2003, Division I purchased goods, including Federal Surplus items totaling \$7,856,048.

The Support Service Division (SSD) manages storehouses for its maintenance department, which includes carpenters, masons, welders, and other tradespeople, and its trade shops, with separate storage areas maintained for plumbers, electricians and steamfitters. SSD stores an assortment of items such as paint, Sheetrock, plumbing and electrical fixtures. The shops also use additional outdoor storage areas and containers. In Fiscal Year 2003, SSD purchased supplies and materials at a cost of \$3,831,491.

Division I and SSD conduct physical inventory counts each year. Division I has a perpetual inventory system and keeps ongoing inventory records. SSD has a periodic inventory system and records its inventory at the end of each fiscal year.

Objectives

Our audit objective was to review the inventory controls of the Department of Correction at its Rikers Island non-food storehouse facilities.

Scope and Methodology

The scope period of the audit was Fiscal Years 2003 and 2004 through September 2003; our review included storage sites operated by Division I and SSD on Rikers Island. We conducted our audit fieldwork from June 11, 2003 to September 10, 2003.

To assess the adequacy of the internal inventory control procedures, we reviewed the DOC *Inventory Control Policy and Procedure Manual* issued in March 1992. We also reviewed various operations orders, guidelines, and memoranda pertaining to loading-dock security, the ordering and distributing of supplies, inventory controls, and staff responsibilities.

To understand the daily practices at the storehouses, and to determine whether there was adequate segregation of duties, we interviewed the captains, officers, and staff, at Divisions I and SSD who were responsible for purchasing, receiving, storing, and distributing supplies.

To understand the system used to record the inventory at the storehouses, we interviewed the officer responsible for entering the inventory data into QuickBooks, the computer software program used by Division I. (SSD has no perpetual inventory records.)

To understand the process followed by DOC staff when performing the year-end inventory count and whether the process complied with DOC procedures, we observed DOC staff as they performed the inventory count at the two divisions. Division I conducted its inventory count from June 9 through July 2, 2003 while SSD conducted its count from July 1 through July 18, 2003. We observed portions of the inventory count performed by the two divisions. For Division I, we conducted observations on June 11, 12, 16, 17, 18, 19, 23, 24, 25, 26, 30, and July 2nd. For SSD, we conducted observations on July 1, 7, 8, 9, and 10th.

Additionally, for Division I, we obtained the count sheets prepared by the staff and then tried to match the items on the count sheets with the QuickBooks inventory records. We obtained the count sheets from SSD staff but could not compare them to the inventory records since SSD does not maintain perpetual records.

To determine whether the Fiscal Year 2003 inventory figures that were reported to the DOC Financial Services Division were complete, we reviewed the supporting inventory worksheets prepared by Division I and SSD.

To determine the adequacy of the internal controls over the inventories, we observed daily staff procedures in filling orders and receiving and storing goods. We also observed the staff from the facilities as they picked up goods from Division I storehouse.

We did not conduct a separate inventory count of Division I and SSD inventory items because during the course of observing the procedures followed by DOC staff at the beginning and at the conclusion of the inventory counts, we concluded that the inventory records were unreliable and incomplete. In the case of SSD, the records were nonexistent, as SSD did not maintain perpetual inventory records.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. It was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with DOC officials during and at the conclusion of this audit. A preliminary draft report was sent to DOC officials and discussed at an exit conference held on May 24, 2004. On June 1, 2004, we submitted a draft report to DOC officials with a request for comments. We received a written response from DOC on June 17, 2004. In the response, DOC agreed with the audit findings and stated that DOC plans to implement all 17 recommendations.

The full text of the DOC response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

The Department of Correction has inadequate controls over its inventory maintained by Division I and Support Services Division. Our review of DOC inventory practices disclosed significant weaknesses in the recording and maintenance of these inventories. DOC management failed to enforce the controls necessary to ensure the proper safeguarding and accounting of its inventories.

Due to the absence of significant controls, we were unable to determine the true value of DOC's inventory. When we compared the values of Division I ending and opening inventory balances for Fiscal Years 2003 and 2004 respectively, we found that the opening balance had goods worth \$915,000 less in the inventory than the ending balance had. This variance was never reconciled or investigated. In the case of SSD, we found that there was a difference of \$2,481,699 in the value of what was counted and what was reported to the Financial Services Division. This discrepancy in the value of SSD's inventory also has an impact on the accuracy of the DOC inventory that is reported in the City's financial statements. Moreover, these weaknesses indicate that there is a significant risk of fraud and theft of goods.

We found the following areas of concern:

- The Division I computerized inventory system does not include specifications needed to properly account for the inventory.
- Division I inventory records do not accurately identify the items in inventory.
- SSD does not maintain perpetual inventory records.
- Division I and SSD inventory counts were deficient.
- Division I and SSD personnel do not investigate discrepancies between inventory records and inventory on hand.
- Division I and SSD storehouses were overstocked and included obsolete and damaged items.
- Division I and SSD maintained inventory in damaged containers, condemned areas of a storehouse, and outdoor storage areas exposed to the weather.
- Division I purchases made through the Federal Surplus Program lack oversight.

In such an environment, there is a high potential that goods may be damaged, lost, or stolen, and that such occurrences not be detected.

It appears that one of the main reasons for the existence of the weaknesses described above is that the staff assigned to the Division I and SSD storehouses have insufficient

knowledge of the internal controls required to manage an efficient warehouse operation, to record and maintain accurate computerized perpetual inventory records, and to properly store and account for inventory items. To correct these weaknesses, the staff should be trained in proper record-keeping and in warehousing and inventory controls. The training should be specific and provided as often as needed. However, based on interviews with DOC officials, it appears that DOC staff do not have the expertise to address these training needs. Therefore, DOC should hire a consultant who has specialized knowledge of warehousing, inventory controls, proper inventory record-keeping, and the appropriate computer software required for specific types of inventory, and who have the ability to train staff.

DOC Response: In the DOC response, the Commissioner of DOC stated, “While I appreciate much of the information in the audit report, I am also disappointed that the auditors were unable to provide specific recommendations, best practices, or detailed technical advice on how to rectify the deficiencies noted in my original letter requesting the audit.”

Auditor Comment: In conducting this audit, we were mindful that the Commissioner had requested our services and anticipated constructive audit recommendations. Our recommendations are based on our audit objective and findings, and, not least, on generally accepted government auditing standards, GAGAS. GAGAS imposes severe restrictions on the extent of consulting services (i.e., nonaudit services) that an auditor can provide in a particular area while remaining independent and capable of conducting a professional audit of the same area.¹ These GAGAS restrictions, which are intended to ensure auditor independence and objectivity, prevent us from providing the type of consulting services that our findings indicate are needed. Accordingly, we make the general recommendations that DOC obtain funding to hire a knowledgeable outside consultant who can overhaul and redesign the agency’s inventory system and also provide training in inventory control to all appropriate DOC personnel. We also make more specific recommendations to immediately address the most significant weaknesses in the non-food inventory operations. As DOC has generally agreed to implement all of the report’s recommendations, we believe that we have conducted an independent, objective audit and have made recommendations that, if implemented, will lead to significantly improved inventory controls.

Inventory Management Problems

DOC management failed to enforce proper controls over its inventory operations. We found numerous weaknesses such as inadequate record-keeping, deficiencies in the inventory computer system, significant inventory count deficiencies, items not maintained properly, and poor internal controls. As a result, DOC management is unable to ensure that waste and mismanagement of inventory are minimized and that inventory is effectively protected.

¹ In determining whether an audit organization can provide consulting services in an area where it expects to conduct subsequent audits, GAGAS 3.13 states that “the audit organization should apply two overarching principles: (1) audit organizations should not provide nonaudit services that involve performing management functions or making management decisions and (2) audit organizations should not audit their own work or provide nonaudit services in situations where the nonaudit services are significant/material to the subject matter of audits.”

The goal of effective inventory management is to ensure that an adequate amount of goods is on hand to meet operational needs and that inventory costs are appropriate. We believe that the failure of DOC management to properly monitor its inventory operations and to enforce its policies and procedures contributed to DOC's ineffective internal controls over its inventory operations.

The DOC *Inventory Control Policy and Procedure Manual* sets forth the policies, guidelines, procedures, and rules and regulations for agency-wide compliance for inventory control. This manual establishes the minimum acceptable standards for inventory control throughout the agency, including procurement, receipt, storage, distribution, and control over its inventory operations.

Section 0.2 of the manual states:

“The procedures set forth in this Manual are designed to accomplish three major objectives:

- “To develop a system of inventory control which will reduce the incidence of excessive inventory and/or inventory shortages.
- “To provide standard record-keeping Policies and Procedures so that reliable controls can be implemented.
- “To provide a clear audit trail for all inventory transactions.”

By not enforcing its policies and procedures, DOC management failed to accomplish these objectives. DOC did not monitor or provide clear direction to its staff to ensure that the DOC inventory would be properly maintained and requirements followed. The storehouse staff are primarily uniformed Correction officers who have not been trained to perform the tasks of operating a storehouse or maintaining inventory records. In some cases, it appears that staff members were not even aware of the DOC inventory-procedure manual. Further, the DOC manual, which was promulgated in 1992, does not meet the operational needs of the storehouses as it discusses a manual system. It must be updated to reflect a computerized inventory record-keeping system.

We found that the inventory records maintained by Division I do not contain all items in the inventory; descriptions are vague and do not accurately identify the items; discrepancies between the inventory records and items on hand are disregarded; many inventory items are overstocked, damaged, or obsolete. In SSD, neither a perpetual inventory system nor inventory cards are maintained. In fact, two of the shops never performed an inventory count prior to Fiscal Year 2003.

Because of the extent of the discrepancies we found in the inventory records and the deficiencies in DOC inventory counts, we have concluded that the inventory records in both

Division I and SSD cannot be relied upon to provide an accurate account of the availability of the inventories.

Knowing the availability of inventory would benefit DOC by: 1) lowering the amount of overstocked items on hand, which would reduce the risk of losing inventory through damage, theft, or obsolescence; and (2) increasing the amount of understocked items on hand, which would reduce the risk of not having inventory available when it is needed.

Because of inaccurate record-keeping, neither the Division I computer records nor the SSD manual records can be used to establish inventory turnover rates, minimum and maximum stock levels, or reorder points. If DOC improved its record-keeping of stock use, it would be better equipped to supply items when they are needed, at minimal expense to the agency.

Inadequate Inventory Records in Division I

When this audit first began, there were indications from the Division I staff that the inventory records may not be reliable. In November 2002, a new warehouse captain was assigned to Division I, and he requested a complete count of the inventory. Based on this count, a new inventory file was created in the computerized inventory system. However, Division I staff told us that some major items were actually counted, but for many items the quantities were estimated. We were also told that the division did not reconcile variances between amounts on hand and amounts recorded. Further, in April 2003, all the inventory records prior to November 2002 had been accidentally erased from the computer system and could not be retrieved. It appears that the value for many inventory items could not be determined since this information was lost.

After our observations of the Division I inventory count and the subsequent creation of a new inventory file, we concluded that the inventory records maintained by Division I are inadequate, incomplete, and cannot be relied upon to provide an accurate account of the inventory.

Computer Deficiencies in Division I

The inadequacy of the inventory records is due, in large part, to the deficiencies of the computer inventory system, and, even more so, to the limited information recorded in the system. Division I maintains its inventory records on a QuickBooks computer program. However, this QuickBooks program was not set up to include the specifications required to properly account for inventory. Because specific fields are not included, the QuickBooks records do not meet DOC's minimum standards for an acceptable inventory system as required by the DOC *Inventory Control Policy and Procedure Manual* and is not an approved DOC inventory software program. Moreover, the information recorded by Division I staff is too limited to accurately identify the actual items in inventory.

Section 1.2 of the manual states that "the MINIMUM STANDARD that is acceptable for the control of all Department of Correction Inventory is the Inventory Control Card (Form DOC #3R). . . . All alternative inventory control systems MUST include all of the basic information

for each inventory item.” (Emphasis in original.) Table I below summarizes the inventory information required by the DOC.

Table I

Inventory Data Required by DOC Inventory Control Manual

General Information	Captured on QuickBooks
Storehouse Name	YES
Complete Inventory Item Description	NO
Commodity Code or DCAS Item Code Number	NO
Inventory Unit	NO
Location of Inventory Item within Storehouse	NO
Order Lead Time	NO
Minimum Inventory Quantity	NO
Maximum Inventory Quantity	NO
Reorder Quantity	NO
Prospective Vendors	NO
Inventory Activity	
Date of each activity	YES
On Order quantity with Running Balance	NO
Quantity Received	YES
Quantity Disbursed	YES
On-hand Quantities with Running Balances	YES

As seen in Table I, QuickBooks does not capture many essential elements needed to manage an inventory operation properly. Moreover, accurate identification of the inventory items is difficult, if not impossible, because no inventory control numbers or commodity codes are used and the item descriptions recorded in QuickBooks are limited and not specific. Therefore, it is difficult, and in some cases impossible, to trace items from QuickBooks to the physical inventory. This was especially true for the clothing and footwear inventory. Some examples of these items as recorded in QuickBooks are shown in Table II.

Table II

Examples of Clothing and Footwear Items with Inadequate Description

Key Name	Item Description	Quantity	Unit Cost **	Total Inventory Value
Boots for Inmates	Boots for Inmates *	6,341	\$78.15	\$495,549.15
Visit Slippers	Visit Slippers all Sizes	11,080	\$1.55	\$17,174.00
Sneakers/all Sizes	Sneakers all Sizes	50,431	\$2.14	\$107,922.34
Shoes	Shoes *	1,153	\$12.00	\$13,836.00
Shirt	Shirt *	12,790	\$12.00	\$153,480.00
Briefs	Briefs *	1,102	\$2.00	\$2,204.00
Sweater	Sweater *	260	\$25.00	\$6,500.00
Blue Pants	Blue Pants	564	\$9.00	\$5,076.00
Coat	Coat *	1,220	\$50.00	\$61,000.00
Coveralls	Coveralls *	8,063	\$70.00	\$564,410.00

* Items received through the Federal Surplus Program are listed at market value.

** Unit cost can refer to various units of measure since it has not been properly defined.

Because the appropriate descriptive information, such as inventory item description, commodity code, and inventory unit, is not included in the QuickBooks records, it is not possible to determine what exactly is in stock. In many cases, there is no distinction between size, color, or the intended use (e.g., inmate, court visits, officer use). More importantly, because essential information regarding the availability of specific items cannot be ascertained, DOC cannot rely on the inventory records to determine what items are understocked or overstocked, what items have the highest or lowest rate of use, and what items need to be reordered. As shown in Table I, even if the descriptions were more specific, no fields were set up in QuickBooks to capture this information. As a result, Division I storekeepers, procurement officers, and management lack crucial information that would assist them in making informed decisions relating to the status of the inventory and the needs of DOC.

Inventory Count Deficiencies

Division I does not follow the procedures set forth in the DOC *Inventory Control Policy and Procedure Manual* when conducting its annual physical inventory count. This is because of DOC management's failure to implement good controls over its inventory operations. As a result, DOC has no controls to ensure the accuracy of its perpetual inventory records nor can it ensure that theft and misappropriation of goods would be detected.

The DOC *Inventory Control Policy and Procedure Manual* requires that a physical count be performed at least once a year to ensure that the perpetual inventory records are accurate and to report the dollar value of year-end inventory to the Financial Services Division. Regarding the counts, the manual requires that a number of steps be performed, including but not limited to the following:

- Personnel independent of daily storehouse and inventory operations should conduct the count; if necessary, the storekeeper can assist but must be paired with non-storehouse personnel.
- All unissued inventory in all storage locations should be included in the count.
- Teams should be designated to count specific areas within the storehouse.
- Each item counted should be tagged with a complete description, quantity on hand, and inventory unit (e.g., case, each, box).
- Teams should be reversed to verify counts after items are tagged.
- Any variance between the perpetual inventory and physical inventory must be reported and investigated. Missing or unexplained inventory must be treated as stolen property and must be reported to the Inspector General's Office.

DOC conducted its count of Division I storehouses from June 9, 2003, through July 2, 2003. To determine whether DOC follows its requirements when performing its annual inventory, we observed Division I storehouse personnel while they were conducting the count. We saw numerous deficiencies in DOC's administration of the count and in how the results of the count were documented and reported. The extent of these deficiencies brings into question the reliability and accuracy of the inventory records as well as the dollar value of the year-end inventory submitted to Financial Services Division.

In large part, the count was disorganized and not properly supervised. The DOC manual and good inventory practices require that independent personnel conduct the inventory count. In this way, there is some assurance that storekeepers have no opportunity to cover up any misappropriation of items that they oversee in the course of their regular duties. However, in Division I, ten Correction officers who are assigned to the storehouse also conducted the count. Therefore, the count was not conducted by independent personnel.

The ten officers, assisted by inmates, were assigned specific storehouse areas to count. Each officer recorded on blank sheets of paper the description, quantity, and location of each counted item. However, the information was haphazardly and inconsistently recorded. The officers had to make their own determinations about the item description and the units of measure. In addition, the officers did not tag the counted items as required, nor were the teams reversed to verify the count. Therefore, there is no assurance that all items were counted.

When the count was concluded, four of the officers attempted to match the officers' "count sheets" to an inventory listing printed from the QuickBooks perpetual inventory records. Hundreds of items could not be matched to the QuickBooks listing. The matched items and the lists of items that could not be matched were submitted to the data processing Correction officer. Since QuickBooks is not an approved DOC perpetual inventory program, this officer prepared handwritten inventory "worksheets" that detailed the item descriptions, inventory units, actual physical counts, and total values. These worksheets supported the dollar value of the end-of-the-

year inventory that was submitted to Financial Services Division. (The DOC data are then used to compile the City's financial statements.) This officer then created a new "company" in QuickBooks by establishing a new set of inventory records based on the end-of-year inventory count; he then entered the amount of each inventory item in the new "company" records.

We collected and reviewed all 108 officers' inventory count sheets and the consolidated sheets, and attempted to verify the accuracy of the balances reported in QuickBooks. The greatest difficulty we had was identifying numerous items on the count sheets. In large part, it was difficult, and in some cases impossible, to trace the items listed on the officers' count sheets to the QuickBooks perpetual inventory records. The description of the items was inadequate, and catalog numbers (or any other identifying numbers) were not used. We then randomly selected and reviewed three count sheets prepared on June 17, 2003, June 18, 2003, and June 20, 2003, which collectively listed 75 items. Of the 75 items, we could accurately trace only 27 (36%) items to the QuickBooks records. Even for these items there were differences in the recorded quantities. For example, the count sheet indicated that there were 361 cases of toothbrushes, but the QuickBooks records listed only 174 cases. In another example, 600 pieces of dominos were listed on the count sheet, but QuickBooks recorded 31 without giving the unit (e.g., cases, pieces).

Moreover, we found discrepancies and inconsistencies in the various inventory count sheets for items we could identify. First, there were at least 45 items, such as light bulbs, fluorescent lamps, and other electrical supplies, that were counted and listed on the officers' count sheets but not recorded anywhere else. Second, there were at least 295 items counted and listed on the officers' count sheets and other inventory worksheets but not recorded in QuickBooks. According to Division I staff, these items were not recorded in QuickBooks because the prices were unknown. Also, they had no idea where many of these items came from and thought they would be "relinquished" (earmarked for disposal).² Third, the inventory worksheets that support the dollar value reported to the Financial Services Division listed the same items multiple times, very often with a different price each time. Moreover, when we compared these worksheet items to the QuickBooks records, we found that at times the quantities and/or the prices were different. Examples are shown below in Table III.

² The auditors checked the relinquishment forms and logs dated from July 3, 2003, to October 21, 2003, and found that only 14 of the 295 items were listed as relinquished.

Table III

**Examples of Items Listed Two or Three Times on Worksheets
Plus Differences between Worksheets and QuickBooks Numbers and Prices**

Inventory Worksheets – Support for Figures Submitted to Financial Services Division				QuickBooks Inventory Records			
(1) Number of times listed on Worksheet	(2) Item Listed Multiple Times	(3) Worksheet Quantity (Total)	(4) Worksheet Price	(5) QuickBooks Quantity	(6) QuickBooks Price	(7) Same Quantity? (Col. 3 and Col.5)	(8) Same Unit Price? (Col. 4 and Col.6)
2	Socks Orange	19,095	\$4.99	15	\$4.99	NO	YES
2	Liberty 671 Soap	521	\$100.92	458	\$100.92	NO	YES
3	Table	162	\$50, \$100	162	\$100	YES	NO
2	Disposable Aprons	1,334	\$26, \$4.71	1,334	\$26.00	YES	NO
2	White Wash Buckets	4,309	\$0.76	4,129	\$1.55	NO	NO
2	Liquid Hand Soap	42	\$17.10	114	\$17.10	NO	YES
2	Mop Heads	582	\$34.52 \$34.73	502	\$34.52	NO	NO

Another problem with the count was that Division I did not properly implement a cut-off period to ensure that the actual amount on hand on June 30th would be counted as part of the end-of the year inventory. The DOC manual, Section 1.6, states that if the inventory is conducted prior to June 30, then “the quantity to be reported . . . is the actual physical inventory count plus ALL inventory items received less ALL inventory items disbursed between the time the actual physical inventory was taken and the close of business on June 30.” However, Division I did not follow the cut-off procedures. During the period the count took place—June 9 through July 2—Division I issued approximately 175 items, including five cameras, two refrigerators, two air conditioners, a VCR, a TV, and a table and chairs. Division I also received 45 shipments of merchandise, valued at approximately \$1.1 million, plus six Federal Surplus shipments. Though these items should have been recorded as issues and receipts for June, they were not recorded until July. This is additional evidence that the fiscal-year-end dollar value of inventory reported to Financial Services Division was incorrect.

Finally, variances between the perpetual inventory records and the physical inventory are ignored and never investigated. As a result, DOC has no controls in place to determine the reasons for discrepancies so it can take corrective action to minimize these occurrences.

No Investigation of Discrepancies

Division I staff did not investigate discrepancies between the amounts on hand and the amounts recorded in QuickBooks. For Fiscal Year 2004, a new “company” was created in QuickBooks with a new set of inventory records based on the end-of-the-year inventory count. By creating a new company, QuickBooks did not recognize variances from the prior year’s recorded inventory balances. In this way, variances were disregarded and discrepancies were not investigated.

The DOC *Inventory Control Policy and Procedures Manual* states, “Should a discrepancy between an actual physical inventory count quantity and the ‘on-hand’ inventory quantity recorded on the Inventory Control System be discovered, the discrepancy **MUST** be investigated, documented with a reason, and reported to the Division Chief, the facility’s Commanding Officer of the Division Head of storehouse. . . . Missing or unexplained inventory **MUST** be treated as stolen property and **MUST** be reported to the Inspector General’s Office.” (Emphasis in original.) Since these procedures are not enforced by Division I, there is a clear risk that property could be stolen without the knowledge of DOC officials. Further, not investigating variances undermines the benefit of maintaining a perpetual inventory system and represents an internal control system with no accountability or dependability.

We compared the items and dollar value of the Fiscal Year 2003 ending inventory recorded in QuickBooks to the inventory balances recorded on the new set of records for Fiscal Year 2004 and found many discrepancies. The total value of the new set of records was approximately \$915,000 less than the value of the Fiscal Year 2003 ending inventory records. The discrepancies were disregarded and never investigated. Examples of specific items are shown in Table IV below.

Table IV

Examples of Variances between the Two Sets of Inventory Records

(1) Item	(2) Quantity in QuickBooks As of 6/9/03 (Ending Balance)	(3) Dollar Value in QuickBooks As of 6/9/03	(4) Quantity in QuickBooks As of 7/1/03 (Opening Balance)	(5) Dollar Value in QuickBooks As of 7/1/03	(6) Total Quantity Variance (Col.2-Col.4)	(7) Total Dollar Value Variance (Col.3-Col. 5)
VCR	358	\$ 42,513	319	\$ 37,881	(39)	\$ (4,632)
Boots	10,727	\$ 838,315	6,341	\$495,549	(4,386)	\$ (342,766)
Coat	2,107	\$ 105,350	1,220	\$ 61,000	(887)	\$ (44,350)
Sweater	862	\$ 21,550	260	\$ 6,500	(602)	\$ (15,050)
Disposable Diapers	1,830	\$ 47,580	65	\$ 1,690	(1,765)	\$ (45,890)
Mop Handles	2,084	\$ 11,775	1	\$ 6	(2,083)	\$ (11,769)
Stick/Screw	23,277	\$ 572,149	1,189	\$ 29,226	(22,088)	\$ (542,923)
Sticks w/o screw	2,976	\$ 31,248	-3	\$ (32)	(2,979)	\$ (31,280)
Total for these Examples	44,221	\$1,670,480	9,392	\$631,820	(34,829)	\$ (1,038,660)

As discussed in the prior section of the report, we found numerous counted items for which the quantities were inaccurately recorded in Quickbooks. For example, during the inventory count, we observed the count of disposable diapers located in two large containers. On the officers’ count sheets, a total of 1,392 cases of diapers was recorded. The ending balance recorded for Fiscal Year 2003 was 1,830 cases of diapers (as seen in Table IV above). However, only 65 cases of disposable diapers were recorded in Quickbooks for the Fiscal Year 2004

beginning balance. There was no explanation or investigation to determine why there was a discrepancy between the prior year's ending balance of 1,830 cases and the Fiscal Year 2004 beginning balance of 65 cases, nor for the discrepancy between the inventory count of 1,392 cases and the recorded amount of 65 cases.

Moreover, as noted in the prior section, a number of items counted when we accompanied Division I staff during the inventory count, were not recorded in QuickBooks at all. There were at least 295 items that were not recorded; examples include, 101 futon mattresses, 4,381 paint brushes, and 1,157 cases of cat food. Division I staff informed us that these items were not recorded in QuickBooks because the prices were unknown.

We have determined that the Division I inventory records were inadequate, incomplete, and unreliable. Because of the extent of the discrepancies in the inventory records and the deficiencies in DOC inventory count, we have concluded that the inventory records cannot be relied upon to provide an accurate account of the inventory.

Inadequate Inventory Records in Support Services Division

Inadequate Record-keeping

SSD does not maintain a perpetual inventory system; it does not keep perpetual records or even inventory cards as required by *DOC Inventory Control Policy and Procedure Manual*. Therefore, DOC management cannot have an accurate account of the availability of the inventory, nor can it ensure that theft or misappropriation of items would be detected.

SSD has four shops that maintain inventory in multiple storehouses located throughout Rikers Island: maintenance, plumbing, steamfitters, and electricians. The items and quantities are counted and values determined once a year when SSD conducts its physical inventory count. These amounts are maintained as the inventory record until the next physical count the following year. Any items purchased during the year are not added, nor are issued items deducted from the inventory records. Therefore, between one fiscal year-end count to another, DOC management and SSD staff do not know the actual amount of inventory on hand or the value of that inventory.

As discussed previously, the DOC inventory manual requires at a minimum an Inventory Control Card, which would include all the receipts and issuances of the inventory. In Fiscal Year 2003, SSD spent \$3.8 million on materials and supplies. None of these items were recorded as part of inventory. This lack of oversight invites the misappropriation or theft of inventory items. Further, any such action could go undetected because of the lack of perpetual inventory records.

Inventory Count Deficiencies

As discussed previously, the *DOC Inventory Control Policy and Procedure Manual* sets forth procedures for conducting a physical inventory count. SSD did not follow these procedures. As in Division I, DOC management failed to implement good controls over its inventory operations. As a result, DOC cannot ensure the accuracy of its inventory records.

DOC conducted its inventory count at SSD shops from July 1 through July 18, 2003. To determine whether DOC followed its requirements for performing an annual inventory, we observed SSD staff conducting the count. (Unlike Division I, inmates do not assist in the count of the SSD inventory items.) We saw numerous deficiencies in the way the count was conducted. The following are some of the areas that bring into question the reliability and accuracy of the inventory records as well as the dollar value of the year-end inventory submitted to Financial Services Division.

First, the count conducted in Fiscal Year 2003 was the first time the inventories in the electricians' and steamfitters' shops were counted. SSD officials told us that in prior years, only the inventories in the maintenance and plumbing shops were counted and those values reported to Financial Services Division.

Second, none of the shops were closed during the count. It appears that the count was conducted haphazardly, whenever time allowed. Moreover, SSD staff were assigned to count the inventories in their own shops. Each team or individual counted and recorded the counted item on a blank sheet of paper. We observed that some teams counted each item while other teams just estimated the quantity of items. The teams did not tag the items counted, nor did they recount to verify the accuracy of the initial count.

Third, not all items were counted. For example, we saw stainless steel toilet bowls (see photograph No. 1) that were not included in the count. These bowls were in one of the areas of the maintenance shop storehouse that was in hazardous condition (see photographs Nos. 2 and 3). SSD staff told us that they never entered those unsafe areas. Though items are maintained in these areas, they are never counted or included in the values reported to Financial Services Division. A DOC official stated that most of the items are of no use and should be condemned. However, since staff never enter these areas, it appears that no one knows what items are actually stored there. As a result of these and other lapses, SSD's year-end inventory count will always be inaccurate.

Finally, when we compared the inventory value reported to Financial Services Division for Fiscal Year 2003 to the physical inventory count sheets, we found a large discrepancy. SSD reported to Financial Services an inventory value of \$222,031 for Fiscal Year 2003. However, when we totaled the physical inventory worksheets from all of the SSD shops, the total inventory value was \$2,703,730. This is a difference of \$2,481,699 between what was reported to Financial Services Division and what was actually counted by the shops.

We have determined that the SSD inventory records do not accurately account for SSD inventory. Further, the SSD inventory count was deficient and could not be relied upon to accurately represent the items on hand in inventory.

Photograph No. 1



**Stainless steel toilet bowls in a condemned section of the
Support Service Division storehouse**

Photograph No. 2



Cracked wall with missing and loose bricks in a condemned section of the Support Service Division storehouse.

Photograph No. 3



**Cracked and torn partition in a condemned section of
the Support Service Division storehouse.**

Conclusion

DOC inventory operations in Division I and SSD are severely mismanaged and require immediate attention. Based on our observation of DOC inventory operations, it appears that an environment exists in which it would be difficult, if not impossible, to detect misappropriation of inventory. Discrepancies between physical counts and inventory records are not referred for investigation by DOC management. In fact, DOC management assigned to conduct the inventory counts the same people who are responsible for receiving and distributing inventory; and records are adjusted based on the count results, with no subsequent investigation of discrepancies.

We believe that the deficiencies in DOC inventory operations are primarily caused by DOC management's failure to provide storehouse personnel with clear guidelines and direction so that they can properly manage the agency's inventory. For example, although DOC has its *Inventory and Control Policy and Procedure Manual*, very few of its staff are aware of its existence. Further, the manual needs to be updated to include the use of computers to maintain inventory records. Then it should be distributed to all of its storehouse staff, who should receive the appropriate training.

Going forward, DOC should also decide whether it wants to acknowledge and maintain QuickBooks as the computer program for its inventory records in Division I or whether it wants to use another software package. The volume of information required to maintain effective perpetual inventory records indicates that a manual system is not an option that should be considered. Regarding SSD, as mentioned previously, perpetual records should be maintained by all units of SSD, as required by DOC manual. However, the numerous weaknesses in DOC's management of inventory are not primarily caused by the method of record-keeping. Rather, they are the result of the staff's lack of training or knowledge of basic inventory controls and procedures.

Because of the serious issues discussed in this report, we will forward a copy to DOI for further investigation, as warranted. The management and operational problems are so pervasive throughout the agency's inventory system that they cannot be readily addressed by fine-tuning the system. The entire system must be overhauled.

Recommendations

Given the scope of the work that needs to be done, we recommend a complete overhaul of the system. DOC officials should:

1. Seek funding to hire an outside consultant who specializes in or is knowledgeable about warehousing, inventory controls, perpetual inventory record-keeping, and inventory-related computer software programs, and who is capable of providing training in these areas to DOC staff. This consultant should be provided with the resources to overhaul and redesign the agency's inventory system.

DOC Response: DOC agreed with this recommendation and stated, in part, that it would "first hire a Director of Materials Management to oversee the Department storehouses.

The new Director will possess the necessary inventory management expertise to prepare a scope of work for an outside consultant and to ensure that the Department gets value from the consultant study.” DOC stated that the Director would work with a series of key personnel as well as “the consultant and the Department of Citywide Administrative Services to overhaul and redesign the . . . non-food inventory systems. . . Once we have a scope of work for the consultant study, we will work with the Office of Management and Budget to identify funds for the consultant study. As the study progresses, we will continue to work with OMB and the consultant to identify the resources needed for adequate storehouse space, staffing, inventory management systems, and any other requirements.”

2. Create an inventory project team that reports to the Commissioner or a Deputy Commissioner, whose function would be to work with the consultant to overhaul and redesign the agency’s inventory system. In re-engineering the system, this team should incorporate the inventory standards encompassed in the *DOC Inventory Control Policies and Procedures Manual*, the Department of Investigation *Standards for Inventory Control and Management*, and the Comptroller’s Directives.

DOC Response: “The Department will identify a project team to work with the consultant to overhaul and redesign the agency’s inventory system. The *DOC Inventory Control Policy and Procedures Manual* will be examined and amended as appropriate. The inventory system will ultimately comply with Department of Investigation standards and Comptroller’s directives as well as the updated *DOC Inventory Control Policy and Procedures Manual*.”

To immediately address the most significant weaknesses in its non-food inventory operations, DOC officials should also:

3. Determine whether the QuickBooks computer program is the appropriate system to maintain the inventory records for Division I. If so determined, then DOC should upgrade the system to include all the specifications necessary and required by the *DOC Inventory Control Policy and Procedure Manual* to account for Division I inventory properly. If DOC determines that QuickBooks is not appropriate, it should immediately put an approved computerized inventory program in place.

DOC Response: DOC stated, in part, “A consultant will be hired to assist in determining the best-computerized inventory program for the storehouses. In the interim, the Quickbooks program is being upgraded to include the specifications as delineated in the *DOC Inventory Control Policy and Procedure Manual*. In addition, DOC has updated the previous QuickBooks version 2000 to QuickBooks Pro 2002.”

Auditor Comment: The DOC response included a chart of items that should be captured in Quickbooks. (See entire response in the addendum to this report.) For those cases in which features were not previously included in Quickbooks, DOC states: “To be implemented with the start of a new company for the new fiscal year.” Our concern is that a “new company” should not be associated with the maintenance of a perpetual

inventory record system, which should operate continuously without interruption from year to year. In the report, we indicated that when a new company was created in Quickbooks each year, previous variances were automatically eliminated (deleted) without investigation. This practice is a major internal control weakness and should not continue. In addition, concerning the Quickbooks information entitled “On order quantity with running balance,” DOC states, “This is and has always been automatically in the system when a purchase order is input.” Based on our review of the Quickbooks Excel feature, purchase orders were not recorded in the system.

4. Upgrade the *Inventory Control Policy and Procedure Manual* to address the use of a computerized inventory system for all non-food inventories maintained by DOC.

DOC Response: “Upon the selection of a computerized inventory system to be used for non-food inventories, we will upgrade the Inventory Control Policy and Procedure Manual to address the use of a computerized inventory system for all non-food inventories maintained by DOC.”

5. Ensure that the storehouse staff are aware of and are following the *Inventory Control Policy and Procedures Manual*.

DOC Response: “Prior to the issuance of the City Comptroller’s draft audit report, and as part of DOC’s efforts to improve the inventory system, the Storehouse staff were provided copies of the Inventory Control Policy and Procedures Manual and a copy of the Department of Investigation’s Standards for Inventory Control and Management. Storehouse staff has received training on these documents and such training will continue.”

6. Provide training in inventory control techniques to Division I and SSD management and staff. Also, train the staff in the proper use of the DOC-approved computerized inventory system to ensure that all items in inventory can be accounted for in the inventory records.

DOC Response: “The computerized inventory system currently being used has been updated to Quickbooks Pro2002. The staff utilizing the program has been fully trained. Furthermore, management and staff members recently attended a training course at the Correction Academy, conducted by an instructor/consultant on ‘How to Manage Inventories and Cycle Counts.’ Also to enhance inventory controls, the storehouses will be conducting inventory twice a year (January and June) as well as quarterly cycle counts.”

7. Ensure that the inventory records include all items in inventory, including donated and surplus property items. Also, the inventory records should include for every item, at the very least: an accurate and defined description, a commodity code, units of measure, an inventory control number, and the price of the item.

DOC Response: “We will ensure that the inventory records include all items in inventory, including donated and surplus property items. The Department began the use of National Institute of Government Purchasing (NIGP) and commodity codes in September 2003. These codes identify items according to type (i.e. books, machinery, etc.). . . . As recommended too, an accurate and defined description of the item, appropriate units of measure and the price of each item are all included in the inventory records.”

8. Ensure that all variances in the inventory be properly investigated. Thereafter, enforce the requirement that all missing items or unexplained inventory variances be reported to the Inspector General’s office.

DOC Response: DOC stated, in part, “Variance reports will be generated whenever there is a discrepancy between inventory records and inventory on hand. All variances will be fully investigated and all missing items or unexplained inventory variances reported to the Office of the Inspector General.”

9. Require that SSD maintain computerized perpetual inventory records for all inventory maintained by its shops.

DOC Response: “Once a computerized inventory program is implemented for SSD, it will maintain a perpetual inventory for all its shops. . . . SSD storehouse will begin keeping inventory records on Quickbooks Pro 2002 until a more appropriate inventory program can be acquired.”

10. Investigate the \$2,481,699 difference between the SSD inventory value reported to Financial Services Division and the amount counted.

DOC Response: DOC stated, in part, “It must be stated categorically that the difference between the SSD inventory value reported to Financial Services Division and the amount counted involved no shortages in inventory. It was the result of a paper error in which SSD inadvertently under-reported the full inventory on-hand to the Financial Services Division. This information was conveyed to the City Comptroller’s Office shortly after the issuance of the preliminary audit report but was not reflected in the Comptroller’s Office draft audit report that was subsequently issued.”

Auditor Comment: In the report, we stated that there was a difference of \$2,481,699 between the value of count results performed by SSD and the amount SSD reported to the Financial Services Division. We believe that this significant error, which impacted the City’s Fiscal Year 2003 financial statements, requires an investigation by DOC.

Obsolete, Damaged, and Overstocked Inventory

Division I

Division I stores its inventory in many areas, including tents, containers, and trailers. During our observations, including the three weeks that we accompanied Division I staff on their inventory count, we found that there were many items that were overstocked, damaged, and obsolete. (See photographs Nos. 4 and 5.) It appears that many items had not been previously counted though these items had been on hand for well over a year; in some cases, it was apparent that the existence of the items came as a surprise to the Division I staff conducting the inventory count. After the inventory count, many of these items were relinquished and disposed of since they could no longer be used by DOC (see photographs Nos. 6 and 7).

DOC officials told us that many of the damaged and obsolete items had been obtained through the Federal Surplus Program. These items were not stored properly. One tractor-trailer contained boxes of approximately 2,000 green jacket liners that had turned moldy from water and mildew damage caused by a leaky roof in the trailer (see photograph No. 8). Four refrigerators and 13 washing machines were stored in the container yard and therefore exposed to all sorts of weather (see photograph No. 9). Fifty hospital beds had been stored in boxes in the container yard. These beds, stored outdoors, were rusty from exposure to the weather. Further, we were told that none of the 50 beds had rails, which made them unacceptable as hospital beds. After the inventory count, these hospital beds were disposed of.

There were many other items that were relinquished and disposed of because they were either obsolete or damaged, or both (see photograph No. 10). Between July 3 and July 15, 2003, DOC relinquished 68 categories of inventory items valued at \$2,162,058. Table VIII below lists some of those items.

Table V

Examples of Items Relinquished between July 3 and July 15, 2003

Item	Status	Quantity	Total Value
Green Coveralls *	Water Damage	2,727	\$ 190,890
Desert Storm Pants *	Obsolete or Water Damage	5,730	\$ 194,820
Gas Masks *	Obsolete. New boxed	10,000	\$ 650,000
Gas Masks Filters *	Obsolete. New boxed	10,000	\$ 150,000
White Naval slacks *	Obsolete	658	\$ 22,372
Mittens *	Obsolete	5,236	\$ 20,944
Mattress Covers *	Water Damage or Dry Rot	2,025	\$ 42,525
Baby powder	Obsolete	347 cases	\$ 28,149
Colgate and Close-up Toothbrushes	Obsolete	273 cases	\$ 32,214
Total Value of these Examples			\$1,331,914

* These items were obtained through the Federal Surplus Program and cannot be relinquished before two years have passed. However, the dates these items were acquired were not available.

Photographs No. 4 and No. 5



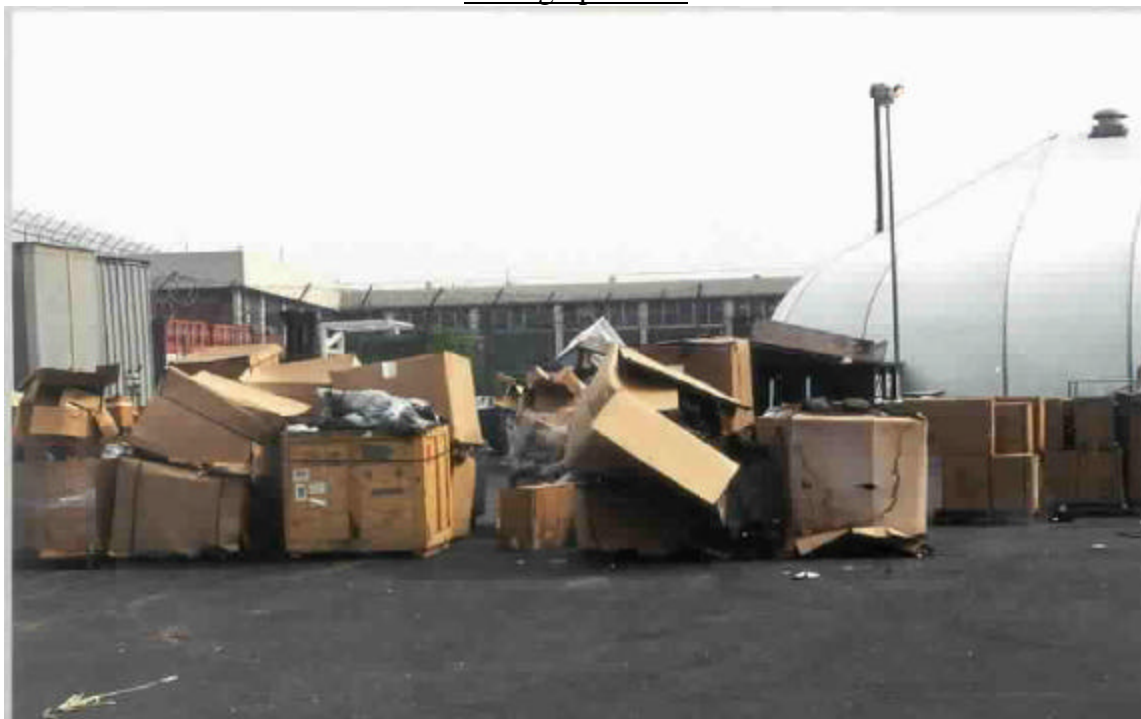
A Division I tent containing regularly used items as well as overstocked and obsolete inventory items.

Photograph No. 6



Damaged inventory items removed from the trailers and relinquished.

Photograph No. 7



Various inventory items that were removed from trailers and relinquished.

Photograph No. 8



Clothing that had water and mildew damage because of a leaky roof in a storage trailer.

Photograph No. 9



Washing machines and refrigerators stored outdoors, damaged by weather conditions.

Photograph No. 10



Some of the inventory items relinquished between July 3 and July 15, 2003.

Other items that had no known value were also disposed of, including 155 computers, 49 computer keyboards, 128 computer monitors, and 72 laser printers. A Division I official stated that these items, which were exposed to bad weather, belonged to the Management Information Systems department but were stored by Division I.

In addition, many items were overstocked and may have been damaged since they were not being used. For example, there were large quantities of baby diapers and donated cat food. Since babies can stay with their imprisoned mothers for up to one year, diapers are kept in inventory. However, there were 1,392 cases of diapers, and each case contained six packages of either 24 large diapers, 30 medium diapers, or 36 small diapers. Therefore the average number of diapers on hand was 250,560.³ This appears to be an excessive number of diapers since the women's facility can accommodate a maximum of only 15 babies and, according to a DOC official, during Fiscal Year 2003, the number of babies in that facility ranged from two to seven. Moreover, a few of these cases were wet from the rain because the storage container had a hole in the roof of about an inch in diameter. There were also 1,157 cases of donated cat food with eight bags in each case, for a total of 9,256 bags (1,157 x 8). The cases of cat food had an expiration date of September 2002.

It is clear from the many items that had to be relinquished that DOC has lost control over the items in its inventory. It appears that, other than the items stored in the main storehouse, the quantity of some items in the trailers and particularly of those in the containers is excessive and that the items are used infrequently or not at all. Also, some storage facilities are inadequate and in need of repair (see photographs Nos. 11 and 12). In fact, having to dispose of items because of their exposure to bad weather is an indication that DOC has run out of adequate and secure storage space. Therefore, DOC needs to assess its procurement practices, as it seems to have more goods than it needs. Storing inventory that is better related to current needs might permit the DOC to discontinue use of unsuitable storage sites.

³ 1,392 cases containing six packages each = 8,352 packages times an average of 30 diapers each package.

Photograph No. 11



Trailer in need of repair because of torn wall, as shown by light coming through.

Photograph No. 12



**Trailer in need of repair because of holes in the ceiling of the trailer,
as shown by light coming through.**

Support Service Division

After its inventory count, SSD relinquished 24 different types of items that were considered obsolete. DOC did not assign a value to these items. Some of the items relinquished were: six oil-fired 75 gallon water heaters, eight shower stalls, 8000 shower heads, and 300 pieces of 1-1/2" x 2-1/2" brass nipples. However, based on our examination of the physical inventory worksheet for Fiscal Year 2002, we determined that the 8,000 showerheads were valued at \$79,840 and the brass nipples at \$3,570. However, in the absence of inventory records, we could not identify a value for all obsolete items.

Recommendations

DOC officials should:

11. Assess all non-food inventory stored on Rikers Island to determine whether everything in inventory is needed and whether more items should be relinquished. Also, DOC should not purchase any additional items that are overstocked until reaching the minimum quantity needed to operate.

DOC Response: "All non-food inventory items are being counted this month as part of the year-end physical inventory. We are assessing which items in inventory should be relinquished to DCAS."

12. Quantify all the items relinquished in Division I and SSD. At the end of each fiscal year, DOC management should generate a report of the total number of relinquished items and their cost to ensure that relinquishment is kept to a minimum.

DOC Response: "DOC took proactive measures by requiring that both a logbook and an excel program, recording the details of all relinquishments, be maintained in the Office of the Chief of Environmental Health and Safety."

13. Discontinue outdoor storage of those inventory items that can be damaged by the weather, unless they are properly protected.

DOC Response: DOC stated, in part, "Currently, the Department lacks sufficient indoor storage space to discontinue outdoor storage; however, damaged storage trailers and containers have been replaced. Thirteen new storage containers were purchased to replace damaged containers. Items that are stored outdoors include chemicals that are not affected by the weather unless the temperatures drops below freezing. These items are stored in closed buildings during the winter months. . . . Although the auditors observed refrigerators and washing machines stored outdoors, it should be noted that four refrigerators and ten of the thirteen washing machines were, in fact, usable and were subsequently distributed to various facilities in DOC."

14. Repair all the damaged storage trailers and containers that are currently being used to store inventory.

DOC Response: “New storage trailers and containers have replaced those that were damaged.”

Deficiencies in the Procurement of Federal Surplus Goods

DOC has no written guidelines for procuring goods from the Federal Surplus Program. We found that the Division I purchases made through this program were not monitored adequately, and the purchase process employed by DOC lacked adequate controls.

Two Correction officers assigned to Division I were responsible for purchasing goods from the Federal Surplus Program. They checked the appropriate Web site to identify the items, which are sold in lots, that are available through the program; they decided on the lots to purchase; then these two officers alternate with other officers to pick up lots from the providers. At times, they made “screening” trips to providers known for carrying “good” items, even though the items were not shown on the Web site. On these screening trips, lots may or may not be obtained. These providers were located in various states including Pennsylvania, New Jersey, Florida, Ohio, and Maryland. After the lots were picked up and brought to Division I storehouses, the items in the lots were supposed to be immediately evaluated, counted, and entered in QuickBooks. However, we found that this was not always the case. Very often, Federal Surplus items were not recorded in QuickBooks at all. For example, miscellaneous surplus clothing was brought to Rikers Island on June 24, 2003. As late as mid September 2003, these items remained in the clothing tent, uncounted, and not entered in QuickBooks.

According to DOC officials, goods purchased through the Federal Surplus Program cost two cents per dollar. However, this cost does not include the cost of travel, the cost of overnight accommodations and meals, and overtime incurred by the officers when on screening trips to pick up the surplus goods. Some of the trips were made within a day, while others required an overnight stay; all trips involved overtime for the staff, as well as traveling expenses.

The documentation for these trips was inadequate. In Fiscal Year 2002, approximately 65 trips were made, and in Fiscal Year 2003 approximately 33 trips were made. We reviewed the travel expenses, overtime records, and the Federal Surplus log, which is a record of trips that are made. We found that overtime was not pre-approved, the log was incomplete, and the log entries could not be matched to the travel expense vouchers and/or overtime records. In addition, some entries were made months after the trips had occurred. When we asked what the procedures were, we were told by a DOC official that there were “no written procedures on Federal Surplus trips.”

After the Division I year-end inventory count, many Federal Surplus items were relinquished and disposed of. According to the Federal Surplus Program, these items must be kept for two years from the date acquired, before they can be disposed of. However, Division I had no records indicating the acquisition dates; therefore, surplus items may be in inventory for many years. In addition to taking up storage space, there is also a disposal cost. For example, after the Fiscal Year 2003 inventory count, DOC paid \$7,150 for the use of 11 dumpsters (\$650 per dumpster) to dispose of goods no longer needed. These costs should also be considered

before purchasing these goods.⁴ We believe it is important for DOC management to provide adequate oversight of the selection and purchase of the Federal Surplus goods to ensure that only items that are necessary and useful to DOC are purchased.

For example, during the relinquishment process, we saw approximately 400 brand new beige jackets (still covered in plastic) being placed into the Dumpsters (see photographs Nos. 13, 14, and 15).

When we asked why these jackets were being thrown out, we were told that DOC no longer wanted the inmates to use jackets with zippers, as the zippers could interfere with DOC metal detectors. We also observed other new clothing that was considered obsolete by DOC being thrown out; very often, the colors of the clothing may be too similar to the officers' uniforms and cannot be used for the inmates. Again, we questioned why items that cannot be used by DOC were purchased. Moreover, City regulations require that agencies should relinquish to The Department of Citywide Administrative Services obsolete goods that can be used by other City agencies. Though DOC cannot use these articles of clothing, it should comply with City regulations and make these items available to other City agencies or not-for-profit organizations.

DOC should have written procedures and guidelines for procuring Federal Surplus items. The expenses related to these purchases, including overtime, travel, and disposal costs, should be taken into account before purchases are made. Documentation should be maintained for the purchases and all related expenses.

Recommendations

DOC officials should:

15. Determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program, taking into consideration the cost of salaries, overtime, traveling expenses, usefulness of the types of inventory that the Federal Surplus Program offers, inventory disposal costs, and other related costs.

DOC Response: DOC stated, in part, "In conjunction with the consultants' assessment of the Storehouses' Inventory Systems, we will determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program. Additionally, to the extent that the Department continues its participation in the Federal Surplus Program, the cost evaluation of Federal surplus items will be separated from the function of picking up Federal surplus. In the future, the Department will require that all Federal Surplus acquisitions be approved in advance by the Assistant Commissioner for Contracts and Financial Services."

If DOC officials decide that it is cost effective to continue to participate in the Federal Surplus Program, then they should:

⁴ We attempted to analyze the costs associated with the procurement of surplus goods, but, as discussed in the preceding paragraph, we were unable to make an accurate assessment because the records were inadequate and incomplete.

16. Establish written procedures relating to the Federal Surplus Program, which would include an adequate oversight and approval process; and require a proper accounting of all items procured through the program, the date procured, and the eventual use or disposal of those items.

DOC Response: “A revised Central Storehouse Command Level Order has been promulgated which addresses oversight and supervisory approval issues as well as the accounting of items procured. . . . All items from the Federal Surplus Program are also now recorded according to size and color if warranted.”

17. Comply with City regulations and make clothes in good condition that are to be relinquished available to other City agencies or not-for-profit organizations. In this way needy New Yorkers can benefit from them.

DOC Response: “The Department will comply with City regulations in regard to relinquishment of clothing.”

Photograph No. 13



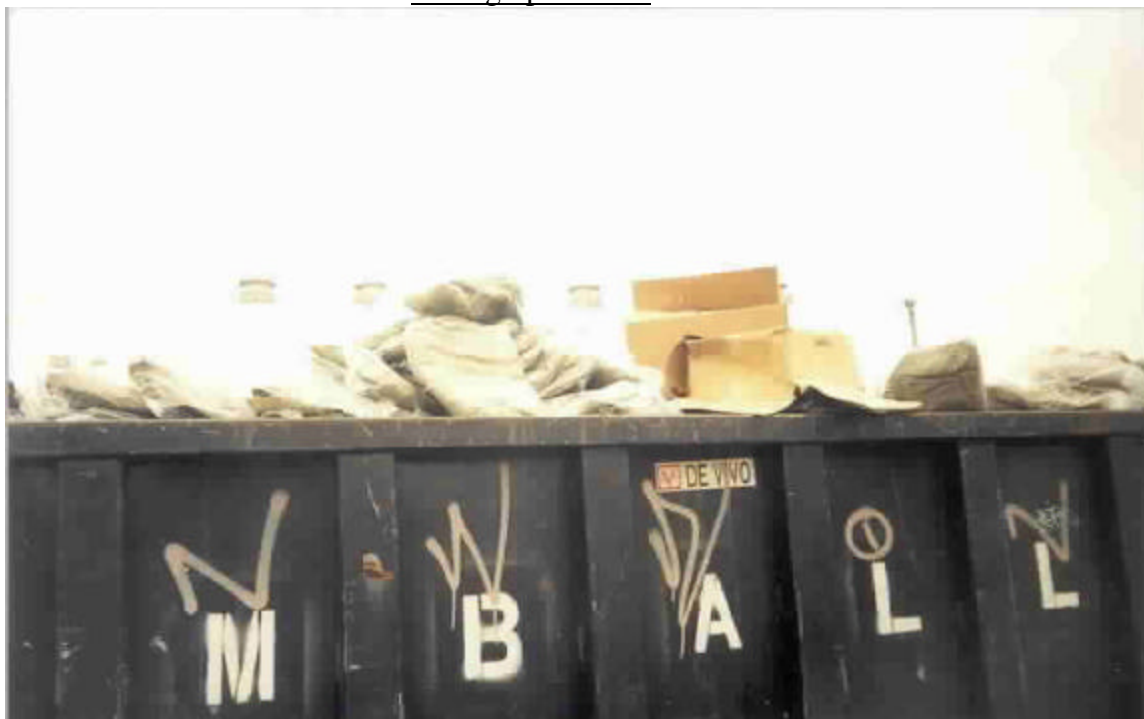
New jackets still enclosed in plastic covering but considered obsolete by DOC because of a change in inmates' clothing.

Photograph No. 14



Close-up view of a new jacket removed from its plastic covering and shown to be in excellent condition.

Photograph No. 15



New jackets relinquished and about to be discarded, seen in dumpster



NEW YORK CITY DEPARTMENT OF CORRECTIONS
Martin F. Horn, Commissioner
Office of the Commissioner
60 Hudson Street
New York, NY 10013
212 • 266 • 1212
Fax 212 • 266 • 1210

April 7, 2003

Hon. William C. Thompson, Jr.
Comptroller
City of New York
One Centre St. Municipal Bldg. Rm 350
New York, NY 10007

NEW YORK CITY
COMPTROLLER'S OFFICE
2003 APR -9 PM 12:00

Dear Comptroller Thompson:

I am writing to request that your office perform an audit of internal controls and management practices relating to the inventory of supplies and equipment in the New York City Department of Correction.

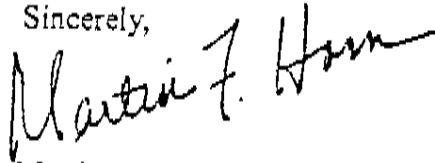
As you know, Mayor Bloomberg appointed me Commissioner effective January 1, 2003. In the time I have been in office I have become concerned that we do not have adequate control of inventory, inventory procedures, and warehouse operations. The Department buys a vast quantity and variety of goods at great cost to the City. We operate 12 jails and many other operations including transportation and court detention pens. We purchase and receive foodstuffs, dry goods, equipment, office supplies, car parts and disposable items. Deliveries are received in several locations and there are several warehouse operations.

I do not personally possess the expertise to determine whether the procedures and controls in place today are sufficient to protect the City's interests. Neither does the Department possess the requisite expertise or personnel to perform such an audit. The Department did engage a management consultant last year to perform a very minimal study of warehouse procedures, which will be made available to you as part of your audit, should you choose to perform it.

I would very much appreciate your assistance in performing an audit of the processes by which goods are received, inventoried, stored and distributed within the Department of Correction. It is my goal to ensure they conform to the appropriate standards, and that adequate controls and protections are in place.

Your support in this effort will be deeply appreciated.

Sincerely,



Martin F. Horn
Commissioner

- cc: Haeda Mihaltzes, Director, Mayor's Office
- Rose Gill Hearn, Commissioner DOI
- Michael Caruso, Inspector General
- Judith Lapook, Special Counsel
- Gary Lanigan, First Deputy Commissioner
- Robert Davoren, Chief of Department
- Jacqueline Andrews, Chief of Environmental Health & Safety



NEW YORK CITY DEPARTMENT OF CORRECTION
Martin F. Horn, Commissioner
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June 17, 2004

Greg Brooks
Deputy Comptroller, Policy, Audits,
Accountancy and Contracts
Office of the City Comptroller
1 Centre Street
New York, N.Y. 10007-2341

Dear Mr. Brooks:

Attached is this agency's response to your Draft Audit Report on the Inventory Controls of the Department of Correction over its Non-Food Items at the Rikers Island Storehouses (MG03-165A). Please include our response and this cover letter in the body of the final report and as an appendix to the final report.

In submitting this response, I first want to express my appreciation to the Comptroller and his staff for this report. However, I am disappointed that the report did not prominently indicate that I specifically requested this audit and that this information was relegated to the end of the background section of the draft report. I request that this information be included in the introduction of your final report.

My request for this audit should be placed in context. Only three months prior to the date of my letter to the Comptroller, I was appointed Commissioner of the Department of Correction. One of my first major initiatives of 2003 was a reorganization of the Department's senior management overseeing all the inventories in the storehouses on Rikers Island. It was apparent to me that I had inherited an antiquated inventory system with inadequate internal controls, and that prompt and decisive action had to be taken. Historically, inventory record keeping in the Department was poor, storage space was limited, fragmented and often defective - the result of rapid growth with insufficient expansion and organization of the infrastructure. These deficiencies led me to reach out to the City Comptroller with the expectation that the expertise of his office could help steer Department reforms. At the same time, the Department began aggressive efforts to enhance and improve the inventory system, including the provision of inventory training to storehouse staff, updating and revising Federal Surplus procedures, purchasing 13 new storage containers to replace damaged containers and implementing a new system to reconcile any variances between the on-hand count and the physical count, etc.

While I appreciate much of the information in the audit report, I am also disappointed that the auditors were unable to provide specific recommendations, best practices, or detailed technical advice on how to rectify the deficiencies noted in my original letter requesting the audit.

Lastly, I want to emphasize that the reported \$2,481,699 difference between the SSD inventory value reported to Financial Services Division and the amount counted involved no shortages in inventory. As stated in our attached response, it was the result of a paper error in which SSD inadvertently under-reported the full inventory on-hand to the Financial Services Division.

If you have any questions regarding this response, please contact Leroy Grant, Bureau Chief, Inspectional Services and Compliance Division at (718) 546-8155.

Sincerely,



MARTIN F. HORN

Cc: Peter Madonia, Chief of Staff
Susan Kupferman, Director, Mayor's Office of Operations

NEW YORK CITY DEPARTMENT OF CORRECTION RESPONSE

INVENTORY CONTROLS OF THE DEPARTMENT OF CORRECTION OVER ITS NON-FOOD ITEMS AT THE RIKERS ISLAND STOREHOUSES

I appreciate this opportunity for review and comment on the City Comptroller's draft report on the Department's Inventory Controls over its Non-Food Items at the Rikers Island Storehouses.

As you are aware, this audit was initiated at my request pursuant to my letter to the City Comptroller dated April 7, 2003. In that letter, I requested that the Comptroller "perform an audit of internal controls and management practices relating to the inventory of supplies and equipment in the New York City Department of Correction...I have become concerned that we do not have adequate control of inventory, inventory procedures and warehouse operations." I further stated, "I would very much appreciate your assistance in performing an audit of the processes by which goods are received, inventoried, stored and distributed within the Department of Correction. It is my goal to ensure they conform to the appropriate standards, and that adequate controls and protections are in place."

I believe that our actions taken thus far and our future plans as described in our response to the recommendations indicated below, reflect our commitment to improve internal controls and accountability over our inventories.

Recommendation # 1

Seek funding to hire outside consultants who specialize in or are knowledgeable about warehousing, inventory controls, perpetual inventory recordkeeping and inventory-related computer software programs and who are capable of providing training in these areas to DOC staff. These consultants should be provided with the resources to overhaul and redesign the agency's inventory system.

Agency Response

The Department will first hire a Director of Materials Management to oversee the Department storehouses. The new Director will possess the necessary inventory management expertise to prepare a scope of work for an outside consultant and to ensure that the Department gets value from the consultant study. The Director will work with the Chief of Environmental Health and Safety, the Assistant Commissioner of Nutritional Services, the Deputy Commissioner for Finance and Budget, and the Assistant Commissioner for Contracts and Financial Services as well as the consultant and the Department of Citywide Administrative Services to overhaul and redesign the Department's food and non-food inventory systems.

The Department will internally fund the Director of Materials Management position. Once we have a scope of work for the consultant study, we will work with the Office of Management and Budget to identify funds for the consultant study. As the study progresses, we will continue to work with OMB and the consultant to identify the resources needed for adequate storehouse space, staffing, inventory management systems, and any other requirements.

Recommendations # 2

Create an inventory project team that reports to the Commissioner or a Deputy Commissioner, whose function would be to work with the consultants to overhaul and redesign the agency's inventory system. In re-engineering the system, this team should incorporate the inventory standards encompassed in the *DOC Inventory Control policies and Procedures Manual*, the Department of Investigation *Standards for Inventory Control and Management*, and the Comptroller's Directives.

Agency Response

The Department will identify a project team to work with the consultant to overhaul and redesign the agency's inventory system. The *DOC Inventory Control Policy and Procedures Manual* will be examined and amended as appropriate. The inventory system will ultimately comply with Department of Investigation standards and Comptroller's directives as well as the updated *DOC Inventory Control Policy and Procedures Manual*.

Recommendation # 3

Determine whether the Quickbooks computer program is the appropriate system to maintain the inventory records for Division I. If so determined, then DOC should upgrade the system to include all the specifications necessary and required by the *DOC Inventory Control Policy and Procedure Manual* to account for Division I inventory properly. If DOC determines that Quickbooks is not appropriate, it should immediately put an approved computerized inventory program in place.

Agency Response

A consultant will be hired to assist in determining the best-computerized inventory program for the storehouses. In the interim, the Quickbooks program is being upgraded to include the specifications as delineated in the *DOC Inventory Control Policy and Procedure Manual*. In addition, DOC has updated the previous QuickBooks version 2000 to QuickBooks Pro 2002. Use of NIGP/Commodity Codes, which identifies items according to type (e.g., books, machinery, etc.) has commenced and continues.

The DOC status regarding implementation of new components is noted in the chart below:

Inventory Data Required by DOC Inventory Control Manual

Comptroller's Findings		
General Information	Captured on Quick books	DOC's Response
Storehouse Name	Yes	
Complete Inventory Item Description	No	Implemented in September 2003
Commodity Code or DCAS Item Code Number	No	Implemented in September 2003
Inventory Unit	No	Implemented in September 2003
Order Lead Time	No	N/A – will be included in the item description
Minimum Inventory Quantity	No	To be implemented with the start of a new company for the new fiscal year.
Maximum Inventory Quantity	No	To be implemented with the start of a new company for the new fiscal year.
Reorder Quantity	No	To be implemented with the start of a new company for the new fiscal year.
Prospective Vendors	No	All vendor information is input into the inventory program
<u>Inventory Activity</u>		
Date of each activity	Yes	
On order quantity with running balance	No	This is and has always been automatically in the system when a purchase order is input
Quantity Received	Yes	
Quantity Disbursed	Yes	
On-hand Quantities with Running Balance	Yes	

Recommendation # 4

Upgrade the *Inventory Control Policy and Procedure Manual* to address the use of a computerized inventory system for all non-food inventories maintained by DOC.

Agency Response

Upon the selection of a computerized inventory system to be used for non-food inventories, we will upgrade the *Inventory Control Policy and Procedure Manual* to address the use of a computerized inventory system for all non-food inventories maintained by DOC.

Recommendation # 5

Ensure that the Storehouse staff are aware of and are following the *Inventory Control Policy and Procedures Manual*.

Agency Response

Prior to the issuance of the City Comptroller's draft audit report, and as part of DOC's efforts to improve the inventory system, the Storehouse staff were provided copies of the Inventory Control Policy and Procedures Manual and a copy of the Department of Investigation's Standards for Inventory Control and Management. Storehouse staff has received training on these documents and such training will continue.

Recommendation # 6

Provide training in inventory control techniques to Division I and SSD management and staff. Also, train the staff in the proper use of the DOC-approved computerized inventory system to ensure that all items in inventory can be accounted for in the inventory records.

Agency Response

The computerized inventory system currently being used has been updated to Quickbooks Pro2002. The staff utilizing the program has been fully trained. Furthermore, management and staff members recently attended a training course at the Correction Academy, conducted by an instructor/consultant on "How to Manage Inventories and Cycle Counts." Also to enhance inventory controls, the storehouses will be conducting inventory twice a year (January and June) as well as quarterly cycle counts.

Recommendation # 7

Ensure the inventory records include all items in inventory, including donated and surplus property items. Also, the inventory records should include for every item, at the very least: an accurate and defined description, a commodity code, units of measure, an inventory control number, and the price of the item.

Agency Response

We will ensure that the inventory records include all items in inventory, including donated and surplus property items. The Department began the use of National Institute of Government Purchasing (NIGP) and commodity codes in September 2003. These codes identify items according to type (i.e. books, machinery, etc). Items purchased through DCAS are given the same commodity codes as utilized by that agency while all other outside purchases are identified with the standard NIGP code and a inventory descriptive number. Also, to further augment controls and to properly identify and describe items in inventory during physical inventory counts, a new physical inventory worksheet has been implemented which will identify items with

the commodity and NIGP codes. As recommended too, an accurate and defined description of the item, appropriate units of measure and the price of each item are all included in the inventory records.

Recommendation # 8

Ensure that all variances in the inventory be properly investigated. Thereafter, enforce the requirement that all missing items or unexplained inventory variances be reported to the Inspector General's office.

Agency Response

Variance reports will be generated whenever there is a discrepancy between inventory records and inventory on hand. All variances will be fully investigated and all missing items or unexplained inventory variances reported to the Office of the Inspector General. To enhance inventory controls, quarterly cycle counts will be instituted. The Storehouses will be conducting a full physical inventory twice a year (January & June). The count procedures have been improved by establishing two-person teams for inventory. One of the two is independent of the daily operation of the storehouse. The Inventory control officer will be required to ensure that inventory transactions are reflected timely in the inventory records. The SSD storehouse will begin keeping inventory records on Quickbooks Pro2002 until a more appropriate inventory program can be acquired.

Recommendation # 9

Require that SSD maintains computerized perpetual inventory records for all inventory maintained by its shops.

Agency Response

Once a computerized inventory program is implemented for SSD, it will maintain a perpetual inventory for all its shops. As noted in the response to the recommendation directly above, SSD storehouse will begin keeping inventory records on Quickbooks Pro 2002 until a more appropriate inventory program can be acquired.

Recommendation # 10

Investigate the \$2,481,699 difference between the SSD inventory value reported to Financial Services Division and the amount counted.

Agency Response

It must be stated categorically that the difference between the SSD inventory value reported to Financial Services Division and the amount counted involved no shortages in inventory. It was the result of a paper error in which SSD inadvertently under-reported the full inventory on-hand

to the Financial Services Division. This information was conveyed to the City Comptroller's Office shortly after the issuance of the preliminary audit report but was not reflected in the Comptroller's Office draft audit report that was subsequently issued.

We have investigated and substantially reconciled the difference between the SSD inventory value reported to DOC's Financial Services Division and the amount counted. Part of the difference is due to the fact that in past years, two shops assigned under the Support Services Division (Electricians' and Steamfitters Shops) had not had their year-end inventory counts conducted nor reported to DOC's Financial Services Division. Since a protocol for this submission for these two shops had not been established until the current year, the inventory values for these two shops and were inadvertently omitted from the year-end 2003 inventory submission to the City Comptroller's Office. In addition, similar inadvertent omissions caused us not report the value of the inventory counts for the Plumbing Shop and a portion of the value of the inventory counts at the Maintenance Shop.

Recommendation # 11

Assess all non-food inventories stored on Rikers Island to determine whether everything in inventory is needed and whether more items should be relinquished. Also, DOC should not purchase any additional items that are overstocked until reaching the minimum quantity needed to operate.

Agency Response

All non-food inventory items are being counted this month as part of the year-end physical inventory. We are assessing which items in inventory should be relinquished to DCAS.

No new orders will be placed for merchandise that is presently overstocked.

Recommendation # 12

Quantify all the items relinquished in Division I and SSD. At the end of each fiscal year, DOC management should generate a report of the total number of relinquished items and their cost to ensure that relinquishment is kept to a minimum.

Agency Response

Prior to the release of the City Comptroller's audit report, DOC took proactive measures by requiring that both a logbook and an excel program, recording the details of all relinquishments, be maintained in the Office of the Chief of Environmental Health and Safety.

It should be pointed out that a number of the items relinquished were not removed from inventory due to obsolescence *per se* as reported in the audit report, and did not involve loss of revenue as these items were donated. For example:

- The eight shower stalls referenced in the audit report were donated to DOC. These shower stalls were discovered to be damaged and thus were unusable.
- The 8000 showerheads referenced in the audit report were also donated. Staff determined that the showerhead mechanism could be easily removed and thus these items could not be used for security reasons.

It should also be noted that the major portion of the \$1.3 million referenced in Chart V was the "fair market value" of the items that were received through the Federal surplus program – not an amount that was ever paid by City taxpayers.

Recommendation # 13

Discontinue outdoor storage of those inventory items that can be damaged by the weather, unless they are properly protected.

Agency Response

Currently, the Department lacks sufficient indoor storage space to discontinue outdoor storage; however, damaged storage trailers and containers have been replaced. Thirteen new storage containers were purchased to replace damaged containers. Items that are stored outdoors include chemicals that are not affected by weather unless the temperatures drops below freezing. These items are stored in closed buildings during the winter months. As mentioned in our response to Recommendation # 1, we will continue to work with OMB and the consultant to identify the resources needed for adequate storehouse space.

Although the auditors observed refrigerators and washing machines stored outdoors, it should be noted that the four refrigerators and ten of the thirteen washing machines were, in fact, usable and were subsequently distributed to various facilities in DOC. Furthermore, the computer equipment noted on page 28 was obsolete and pending relinquishment.

Recommendation # 14

Repair all the damaged storage trailers and containers that are currently being used to store inventory.

Agency Response

As noted in the previous response, new storage trailers and containers have replaced those that were damaged.

Recommendation # 15

Determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program, taking into consideration the cost of salaries, overtime, traveling expenses,

usefulness of the types of inventory that the Federal Surplus Program offers, inventory disposal costs, and other related costs.

Agency Response

In conjunction with the consultants' assessment of the Storehouses' Inventory Systems, we will determine whether it is cost effective for Division I to continue to participate in the Federal Surplus Program. Additionally, to the extent that the Department continues its participation in the Federal Surplus Program, the cost evaluation of Federal surplus items will be separated from the function of picking up Federal surplus. In the future, the Department will require that all Federal Surplus acquisitions be approved in advance by the Assistant Commissioner for Contracts and Financial Services.

It should be noted that a preliminary review conducted by DOC on its participation in the Federal Surplus Program revealed some evidence of cost effectiveness. Six trips conducted between January 5, 2004 and June 4, 2004 to purchase furniture were reviewed. DOC paid \$3,955 for furniture with a market value of \$194,966. Adding the cost of salaries (\$12,826) and travel expenses (\$2,087), the fair market value of these items exceeded the Department's direct costs by \$176,098.

Recommendation # 16

Establish written procedures relating to the Federal Surplus Program, which would include an adequate oversight and approval process and require a proper accounting of all items procured through the program, the date procured, and the eventual use or disposal of those items.

Agency Response

A revised Central Storehouse Command Level Order has been promulgated which addresses oversight and supervisory approval issues as well as the accounting of items procured. In addition, the DOC organizational division, which oversees participation in the Federal Surplus Program, was restructured in April 2003, and since that time DOC staff assigned to this program was replaced. Enhanced supervision and monitoring of the program was also instituted. For example, since January, a supervisor has reviewed and approved all items selected for procurement from the Federal Surplus Program. As stated, the Department will elevate the necessary approval further by requiring Federal surplus acquisitions to be approved by an Assistant Commissioner. All items from the Federal Surplus Program are also now recorded according to size and color if warranted.

Recommendation # 17

Comply with City regulations and make clothes in good condition that are to be relinquished available to other City agencies or not-for-profit organizations. In this way needy New Yorkers can benefit from them.

Agency Response

The Department will comply with City regulations in regard to relinquishment of clothing.