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IGO Publishes Audit of DWM Inventory Process, Recommends Fixes to Prevent Theft & Loss

The City of Chicago Office of Inspector General (IGO) has released an audit of the Chicago Department of Water Management's (DWM) inventory process for parts used by DWM employees to repair the City's water and sewer infrastructure.

The audit concluded that DWM's internal controls were inadequate to ensure that assets were properly accounted for and safeguarded in DWM's inventory tracking systems.

DWM's Bureau of Operations and Distribution parts storage facilities are where the City maintains an inventory of parts, including pipes, valves, clamps, and couplings used by DWM employees to repair water and sewer mains. The total 2011 year-end value of inventory reported by DWM to the City of Chicago Comptroller's Office was \$18,211,031, of which \$16,172,703 was parts while the remainder was tools and consumable supplies such as paper products.

The IGO audit compared physical inventory at DWM storage locations to inventory balances recorded in the inventory software system, and found that physical inventory amounts did not match the records for 43% of the parts sampled. DWM was unable to account for 27% of these inaccuracies, and offered a range of possible reasons for the others including employees moving parts in the warehouse without recording the change in location, incorrectly counting the number of parts in inventory, and adding or removing parts without notifying supervisors. Further, the audit found that DWM did not have written policies and procedures to guide these manual inventory operations, and was not aware of the Comptroller's inventory policies and procedures, which it is required to follow.

"This report constitutes the second IGO audit released in the last month that reflects substandard inventory controls by a major City department involving the absence of written policies and procedures," said Inspector General Joe Ferguson. "That DWM was not even aware of the City Comptroller's baseline inventory policies and procedures is especially troubling. Taken in its entirety, the audit demonstrated serious potential for loss or theft of City property, as well as inaccuracies in the information reported to the Comptroller that were incorporated in the City's year-end financial statements, which unwittingly rendered them inaccurate. We hope this audit highlights clearly needed remedies for DWM."

The audit also found that the inventory balance of parts used to repair fire hydrant heads was overstated because parts were not removed from inventory records as they were used, and the

2011 year-end inventory balance was understated by at least \$152,925 due to an error in the design of the recordkeeping software. As a result of these over/understatements, the year-end amounts reported to the Comptroller's Office are incorrect and therefore incorrectly stated in the annual financial statements.

Finally, there were significant gaps in security measures needed to safeguard inventory at the main warehouse. The primary indoor parts storage location did not have security cameras, functional swipe card access panels, or a security guard.

DWM has taken a number of steps to address the deficiencies discovered during the audit. For example, DWM has installed additional security cameras, including four inside the Inventory Cage at their 39th & Iron facility. DWM leadership is also working to ensure its management adheres to the citywide inventory policies and procedures issued by the Comptroller's office.

The recommendations, as well as the full DWM response, can be found online at the IGO website: www.chicagoinspectorgeneral.org. Follow the IGO on Twitter [@ChicagoIGO](https://twitter.com/ChicagoIGO) for the latest information on how the IGO continues to fight waste, fraud, abuse, and inefficiency in Chicago government.

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