

DEPARTMENT OF ENVIRONMENTAL SERVICES
BUREAU OF EQUIPMENT SERVICES
STOCKROOM INVENTORY OBSERVATION

Distribution: Lovely A. Warren, Mayor
James Smith, Deputy Mayor
Norman Jones, Commissioner/DES
Tim Curtin, Corporation Counsel

Office of Public Integrity
February 13, 2020

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Department of Environmental Services (DES), Bureau of Equipment Services auto parts stockrooms on September 14, 2019. The results of the inventory indicate that Equipment Services maintains adequate inventory control.

- ◆ The Office of Public Integrity noted variances in 1.9% of our sample selection of the main auto parts inventory indicative of differences between the physical counts and the quantities recorded in the perpetual records. In the previous inventory, we noted a 1.5% variance in this stockroom.
- ◆ The Office of Public Integrity did not note any variances in the tire room. In the previous inventory we also did not note any variances in this stockroom.
- ◆ The Office of Public Integrity did not note any variances in the police auto parts stockroom inventory. We did not note any variances in this stockroom during the previous inventory.
- ◆ The Office of Public Integrity did not note any variances in the quick lube service cabinets. This stockroom was counted for the first time. It was recently created in the inventory system with items from the main stockroom to allow quick accessibility for mechanics.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

The Office of Public Integrity routinely observes and participates in annual physical inventories of various City stockrooms. The Bureau of Equipment Services conducted its annual physical inventory on September 14, 2019. The Office of Public Integrity participated in this physical inventory at the request of DES.

B. Background

Equipment Services maintains and repairs City motor vehicles and other motorized equipment, except Fire Department vehicles. Equipment Services stores and manages an inventory of supplies and materials necessary to perform these functions.

As of September 14, 2019, the perpetual inventory is comprised of five stockrooms. The main auto parts inventory is comprised of 4,410 line items valued at \$879,895.52. The tire inventory is comprised of 113 line items valued at \$36,517.95. The machine shop is comprised of 185 line

items valued at \$10,082.94. The police auto parts stockroom is comprised of 28 items valued at \$8,760.55. The quick lube service stockroom is comprised of 48 items valued at \$4,377.33.

During this inventory, the machine shop was not counted. Equipment Services has not had full time staff in the machine shop since a retirement occurred in January 2019. The items are counted by the inch and many are inactive. Equipment Services is currently working to surplus several of the items and reduce the inventory items in this stockroom.

Stockroom personnel use an automated inventory system that assists in controlling quantities and providing various types of information. Equipment Services installed this system in August 2002. A perpetual inventory record is an essential feature of this system.

C. Objective and Scope

The objectives of this review were to assure an accurate and complete physical inventory count and to assess the effectiveness of inventory controls.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

II. RESULTS OF REVIEW

The results of the inventory indicate that Equipment Services maintains adequate inventory control. We noted low variance rates for the main auto parts inventory. Additionally, we did not note any variances in the tire room and police auto parts inventories. Following is a list of all inventory stockrooms and the variances that OPI noted.

Department of Environmental Services
Equipment Services
Inventory by Location

<u>Stockroom</u>	<u>Total Line Items</u>	<u>Total Value</u>	<u>Number of Items Tested</u>	<u>Number of Variances</u>	<u>Error Rate</u>
Main Auto Parts	4,410	\$879,895.52	263	5	1.9%
Machine Shop	185	10,082.94		Not counted	
Tire Stockroom	113	36,517.95	113	0	0.0%
RPD Auto Parts	28	8,760.55	28	0	0.0%
QLS Cabinets	<u>48</u>	<u>4,377.33</u>	<u>48</u>	0	0.0%
Total:	<u>4,784</u>	<u>\$939,634.29</u>	<u>452</u>		

A. Variance Analysis – Main Auto Parts

OPI selected a statistical sample of items included in the main auto parts stockroom inventory. The sample selection assures proper representation throughout the entire population of inventory items and accurately projects the results against the entire inventory. The range of unit costs included in the sample extends from \$0.01 to \$1,485.13. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 263 inventory items tested in the sample, we noted 5 variances. This represents a sample error rate of 1.9%. The following graph presents historical error rates as a reference.

Equipment Services Division
Main Auto Parts Inventory
Sample Error Rate Percentages

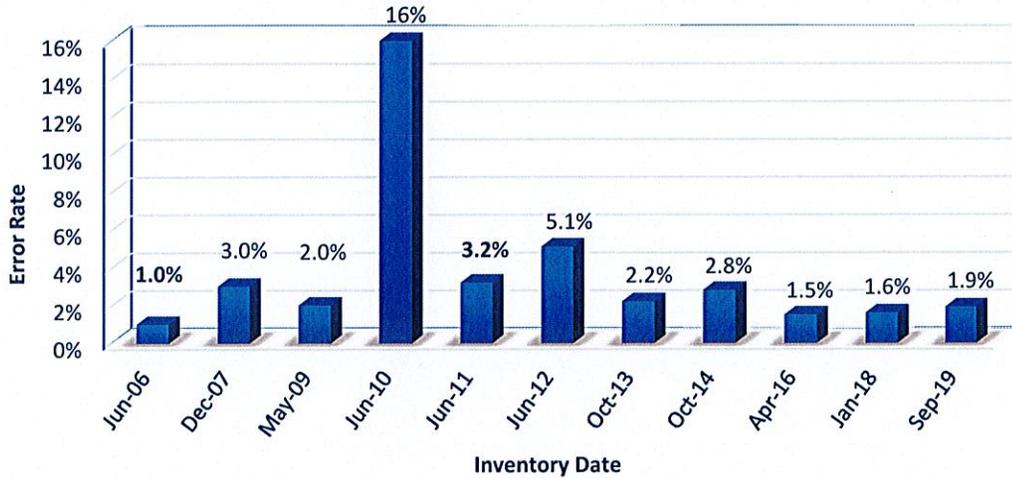


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately. Additionally, the table includes the net variance.

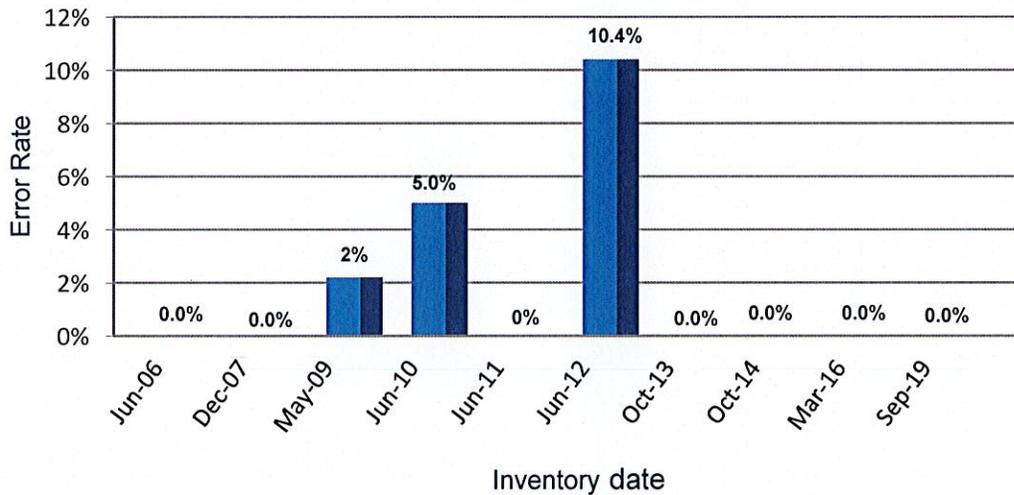
When OPI extends the sample error rate of 1.9% to the entire population of 4,410 different stock items, the projection indicates that the actual number of errors in the population is in the range of 26 to 220 item types. The current error rate of 1.9% is slightly higher than the prior error rates of 1.6% in 2018 and 1.5% in 2016. It appears that, based on the results of the sample selection, Equipment Services personnel have continued to maintain adequate control over the stockroom inventory.

B. Variance Analysis – Tires

Due to the relatively small number of inventory line items in the tire stockroom, OPI counted and compared all tire stockroom quantities to quantities recorded in the perpetual records. This is in contrast to the statistical sample taken of auto parts. As a result, the error rate noted represents the true error rate in the entire population of tire stockroom inventory items. The range of unit costs included in the inventory extends from \$0.00 to \$1,115.00.

Of the 113 inventory line items located in the tire stockroom, we did not note any variances. This is consistent with the results of the 2014 and 2016 inventories and indicates that Equipment Services personnel have continued to maintain adequate control over this stockroom. These items were counted with the main auto parts in 2018. The following graph presents historical error rates as a reference.

Equipment Services Division
Tire Inventory
Error Rate Percentages



C. Variance Analysis – Quick Lube Service Stockroom

Equipment Services added a stockroom for quick lube service supplies housed securely in two cabinets on shop floor. Due to the relatively small number of inventory line items, OPI examined 100% of the inventory rather than selecting a statistical sample. As a result, the error rate noted represents the true error rate in the population of machine shop inventory items. The range of unit costs included in the inventory extends from \$0.19 to \$51.14. The Office of Public Integrity compared the actual count of each of these items to perpetual records and noted any variances.

Of the 48 inventory items, we did not note any variances. This represents an error rate of 0%. These results indicate that Equipment Services personnel maintain adequate control over this stockroom.

D. Variance Analysis – Rochester Police Department Auto Parts

Due to the relatively small number of police inventory line items, OPI examined 100% of the inventory rather than selecting a statistical sample. As a result, the error rate noted represents the true error rate in the population of police inventory items. The range of unit costs included in the inventory extends from \$0.00 to \$87.54. The Office of Public Integrity compared the actual count of each of these items to perpetual records and noted any variances.

Of the 28 inventory line items located in this stockroom, we did not note any variances. The error rate is therefore 0%. The last time that OPI evaluated this area as a separate stockroom was in 2013. At that time we also did not note any variances in this stockroom. These results indicate that Equipment Services personnel have continued to maintain adequate control over this stockroom.

◆ Recommendation

Equipment Services should continue to make inventory control a priority.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

TABLE I: Department of Environmental Services
 Equipment Services Division
 Stock Room Inventory – September 14, 2019
 Variance Analysis – Main Auto Parts Stockrooms
 Schedule of Inventory Variances Only

<u>Stock Number</u>	<u>Part Description</u>	Booked	Actual	<u>Item Count Variance</u>		<u>Unit Cost</u>	<u>Dollar Variance</u>		
		<u>Quantity On Hand</u>	<u>Quantity On Hand</u>	<u>Over</u>	<u>Short</u>		<u>Over</u>	<u>Short</u>	
8017830	Diaphragm	1	2	1		\$ 10.57	\$ 10.57		
F43443	5/16-18x4" Bolt	100	200	100		0.55	55.00		
5010820	Curtain Blast Orifice	1	2	1		99.00	99.00		
20839124	7 th Injector Pressure	2	1		1	397.17	0.00	\$-397.17	
30192	5/8" Silicone Heater Hose	<u>32</u>	<u>46</u>	<u>14</u>	<u>-</u>	6.94	<u>97.16</u>	<u>-</u>	
		<u>136</u>	<u>251</u>	<u>116</u>	<u>1</u>		<u>\$261.73</u>	<u>\$-397.17</u>	
Net Variance									<u>\$-135.44</u>



City of Rochester

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FEB 12 2020

City of Rochester
Office of Public Integrity

Norman H. Jones
Commissioner

Inter-Departmental Correspondence

To: Tim Weir, OPI

From: Norman H. Jones, Commissioner 

Date: February 12, 2020

Subject: **Review – Equipment Services Inventory Audit**

I have reviewed the audit report for Equipment Services Bureau's stockroom. I agree with your assessment that Equipment Service personnel have maintained adequate inventory control.

The inventory that took place on September 14, 2019 resulted in a variance of 1.9% of the sample selection. Out of the 4,599 items total in stock, 452 items were tested in the sample, and variances existed in 5 of those sampled items.

Equipment Services division enhanced its inventory control strategy. This added control levels to the monthly cycle counts completed by our consultant.

Environmental Services will continue to make inventory control a priority in the department.

xc: Joseph LaDelfa
Department Copy

*Tim W
2/12/2020*

