I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Equipment Services Division auto parts stockrooms on May 9, 2009. The results of the inventory indicate that the variance rate for the main auto parts has decreased since the last inventory date and the variance rate for the new tire inventory has increased slightly since the last inventory.

- The Office of Public Integrity noted five variances in our sample selection for main auto parts, indicative of differences between the physical counts and the quantities recorded in the perpetual records. Additionally, we noted two variances in the new tire inventory items.

- This inventory included two additional storerooms, which were counted for the first time during the last inventory in December 2007. We noted variances in both of these areas.

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 Equipment Services Division of the Department of Environmental Services conducted its annual physical inventory on May 9, 2009. The Office of Public Integrity participated in these counts at the request of Equipment Services.

B. Background

Equipment Services maintains and repairs City motor vehicles, except Fire Department vehicles. Equipment Services stores and manages an inventory of supplies and materials necessary to perform these functions. As of May 9, 2009, the total value of the entire inventory was $491,138. The main auto parts inventory comprised 3,819 line items valued at approximately $360,065 and the new tire inventory comprised 91line items valued at approximately $40,790. In addition to these two inventories, there are six smaller storerooms, including two service trucks, with a combined 591 items valued at $90,283. OPI tested two of these smaller storerooms comprised of 119 items and valued at $70,963.

Stockroom personnel use an automated inventory system that assists in controlling quantities and providing various management 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.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of this physical inventory indicate that the variance rate for main auto parts has slightly decreased since the last inventory date and the variance rate for new tires has increased since the last physical inventory that Equipment Services conducted on December 1, 2007. We also determined a variance in each of two additional storerooms. Overall, inventory control of these areas appears adequate.

A. Variance Analysis – Main Auto Parts

OPI selected a statistical sample of items included in the stockroom inventory. The sample selection assures proper representation throughout the entire population of inventory items and accurately projects the results against the entire inventory. The range of unit costs included in the sample extends from $0.00 to $2,000.38. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 272 inventory items tested in the sample, we noted five variances. This represents a sample error rate of 2%. The graph below presents historical error rates as a reference.

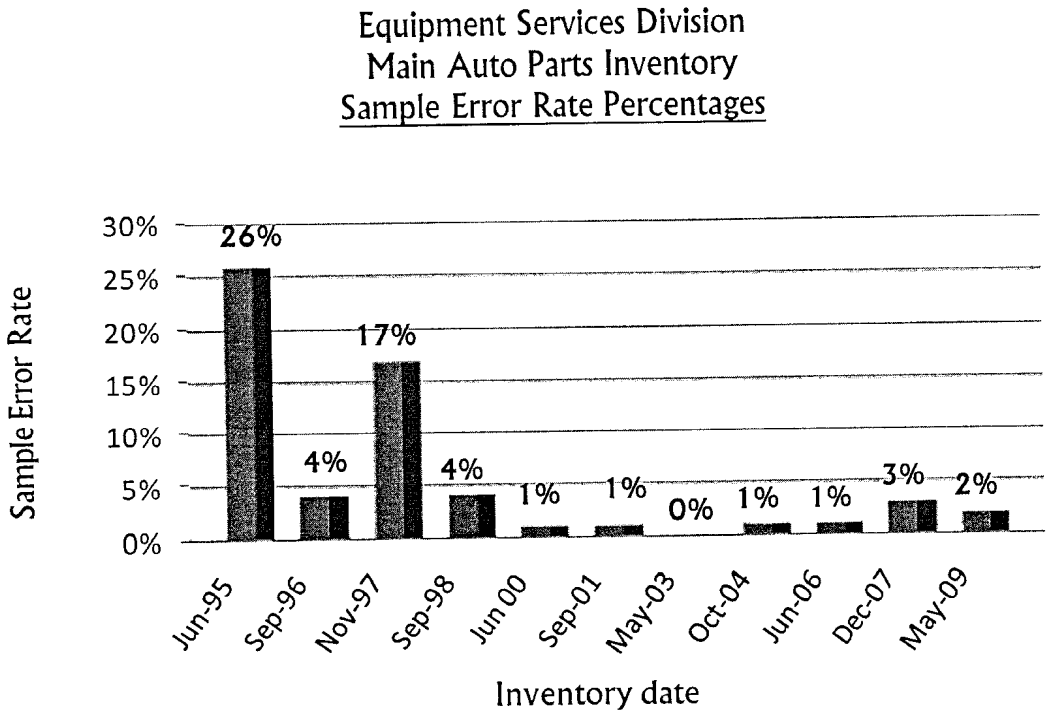


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately.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

When OPI extends the sample error rate of 2% to the entire population of 3,819 different stock items, the projection indicates that the actual number of errors in the population is in the range of 34 to 157 item types. The sample error rate of 2% is lower than the prior error rate of 3% noted in December 2007 and slightly higher than the 1% variance noted in the June 2006 inventory. Equipment Services personnel should continue this on-going effort to maintain inventory control.

- RECOMMENDATION

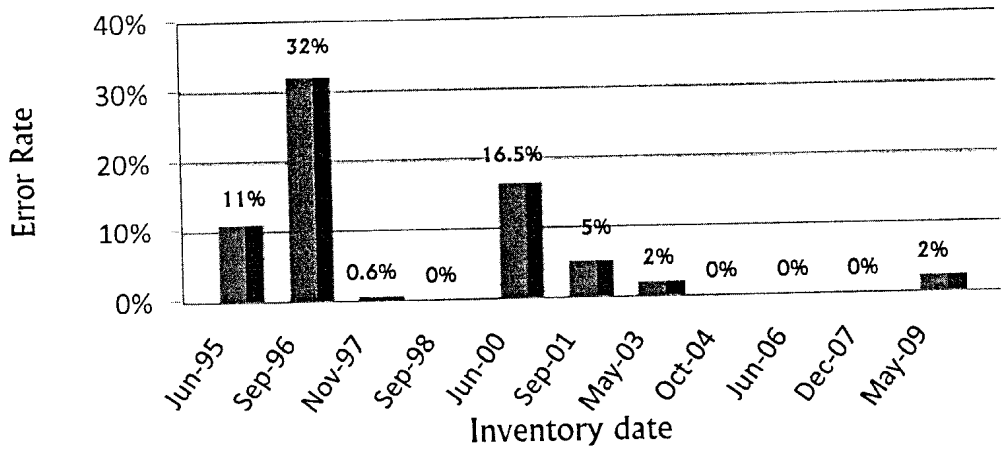
Equipment Services should continue to make inventory control a priority.

B. Variance Analysis - Tires

The Office of Public Integrity counted and compared all new tire quantities to quantities recorded in the perpetual records. This is in contrast to the statistical sample taken of auto parts.

Of the 91 inventory line items located in the new tire stockroom, we noted two variances. This represents an error rate of 2%. The following graph presents historical error rates as a reference.

Equipment Services Division
New Tire Inventory
Error Rate Percentages



The error rate of 2% is reasonably higher than the variances noted in both the 2007 and the 2006 inventories.

♦ RECOMMENDATION

Equipment Services should continue to make inventory control a priority.

C. Additional Storerooms Variances

A key element in any inventory control system is the proper maintenance of perpetual inventory records. Equipment Services maintains an automated perpetual system that provides ongoing recordkeeping for the stockroom inventory.

In addition to the main auto parts and new tire storerooms, Equipment Services perpetual inventory records include six additional storerooms. OPI tested two of these other storerooms, used tires, and the Rochester Police Department vehicle parts. Below is a list of all six storerooms and the variances noted in those tested. OPI did not include the other tire parts storeroom, the machine shop, and the two service trucks in the testing since they contain primarily consumable supplies.

Department of Environmental Services
Equipment Services
Additional Inventory by Location

Location	Storeroom	Total Line Items	Total Value	No. of Items Tested	% of Items Tested	No. of Variances	Error Rate
101	Machine Shop	247	$16,035.49	*			
106	Used Tire Storeroom	60	5,195.04	60	100%	4	6.7%
108	Other Tire Parts Storeroom	19	1,242.10	*			
109	RPD Auto Parts Storeoom	59	65,768.34	59	100%	2	3.4%
ST1	Service Truck	112	1,186.29	*			
SVT	Service Truck	94	855.28	*			
	Total:	591	$90,282.54	119			

* Storeroom Not Tested

These results indicate improvements in the perpetual inventory maintenance of the additional storerooms. Specifically, the variance for the RPD Auto Parts storeroom has decreased significantly from 41% noted in the December 2007 inventory to 3.4% and the variance for the Used Tire Storeroom has decreased from 25% to 6.7%.

Table III and Table IV (attached) present the variance analysis of those items in which a variance exists for the RPD auto parts and the used tire parts storerooms. Each demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately. Additionally, the tables include the net variance.

- RECOMMENDATION

Equipment Services should determine the causes of the variances and make inventory control a priority for these additional inventory storerooms.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

TABLE I: Department of Environmental Services
Equipment Services Division
Stock Room Inventory – May 9, 2009
Variance Analysis of Main Auto Parts
Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance Over	Item Count Variance Short	Unit Cost	Dollar Variance Over	Dollar Variance Short
3028RL	½" Hyd Hose	336	342	6	0	$1.48	$ 8.85	$ 0.00
FLEXFUELDECAL	E85 Ethanol	83	82	0	1	5.00	0.00	(5.00)
TACPLATE	Plate Decal	7	8	1	0	3.16	3.16	0.00
15066	Grease Fitting 1/8" NPT Straight	32	25	0	7	0.10	0.00	(0.70)
CORDS8A	Break Away Cords	13	0	0	13	1.25	0.00	(16.25)
		471	457	7	21		$ 12.01	$(21.95)
	Net Variance							$ (9.94)

TABLE II: Department of Environmental Services
Equipment Services Division
Stock Room Inventory – May 9, 2009
Variance Analysis of New Tire Parts
Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance Over	Item Count Variance Short	Unit Cost	Dollar Variance Over	Dollar Variance Short
12R225RC	Retread 6/10 Wheel Dump	30	31	1	0	$151.39	$151.39	0.00
P22560R16	Eagle RSA 97V #732354500	48	47	0	1	68.74	0.00	(68.74)
		78	78	1	1		$151.39	$ (68.74)
	Net Variance.....							$ 82.65

TABLE III: Department of Environmental Services
Equipment Services Division
Stock Room Inventory – May 9, 2009
Variance Analysis of Used Tire Storeroom
Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance Over	Item Count Variance Short	Unit Cost	Dollar Variance Over	Dollar Variance Short
P22560R16ASU	Used/ Repaired	9	10	1	0	$25.00	$ 25.00	$ 0.00
P22560R16NPASU	Used/ Repaired-Non Pursui	10	9	0	1	25.00	0.00	(25.00)
LT21585R16ASU	Used/ Repaired	2	0	0	2	50.00	0.00	(100.00)
205R25RU	Used Radial Loader Tire	1	3	2	0	0.01	0.02	(0.00)
		22	22	3	3		$ 25.02	$ (125.00)
	Net Variance							$ (99.98)

TABLE IV: Department of Environmental Services
Equipment Services Division
Stock Room Inventory – May 9, 2009
Variance Analysis of RPD Auto Parts
Schedule of Inventory Variances Only

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance Over	Item Count Variance Short	Unit Cost	Dollar Variance Over	Dollar Variance Short
TCB7	Post Mount Bracket	10	11	1	0	$ 67.00	$ 67.00	0.00
XTL2500	Digital Radio	15	21	6	0	2,183.00	13,098.00	0.00
		25	32	7	0		$13,165.00	0.00

Net Variance..... $13,165.00

City of Rochester

Inter-Departmental Correspondence

one city ROCHESTER

To: Daniel Markese, Office of Public Integrity

From: Paul M. Holahan, Commissioner of Environmental Services

Date: July 6, 2009

Subject: **Bureau of Operations & Parks/Division of Equipment Services Stockroom Audit**

I have reviewed the draft audit report from the physical inventory count conducted at the Equipment stockrooms on May 9, 2009. I concur with your findings that indicate Equipment Services personnel have adequate control over inventory stock.

The main automotive parts and tire storerooms experienced 2% variance rates in the audit. The RPD automotive parts and used tire storerooms experienced 3.4% and 6.7% variances, respectively. This is a large improvement from the last audit performed in December 2007. The department will continue to make inventory control a top priority in the management of the fleet operation.

I would like to acknowledge Michael Quattrone and Amanda Smith and her staff for their high standards in maintaining control over the stockroom inventories.

Thank you for your efforts.

Cc: Christopher Wagner, Director of Operations
Michael Quattrone, Fleet Manager
Mary Gaudioso, Manager of Administrative Services