

## I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Department of Environmental Services, Bureau of Operations and Parks, Equipment Services Division auto parts stockrooms on June 25, 2011. The results of the inventory indicate that the variance rates for the main auto parts, the machine shop, the sign shop, police inventory, tire room, used tire room and other tire parts storerooms have all decreased since the last inventory.

- ◆ The Office of Public Integrity noted variances in 3% of our sample selection of the main auto parts, the machine shop, the sign shop and Police Department 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 16% variance in the main auto parts, the machine shop and the sign shop inventories and an 11% variance in the Police Department auto parts inventory.
- ◆ OPI did not note any variances in the new tire room, used tire room and other tire parts inventories. In the previous inventory, we noted a 5% variance in the new tire room and a 4% variance in the used tire room.

## 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 June 25, 2011. 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 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 June 25, 2011, the total value of the entire inventory was \$681,377. The inventory is comprised of nine storerooms. The main auto parts inventory combined with the machine shop, the sign shop and the RPD auto parts storerooms is comprised of 3,640 line items valued at approximately \$624,440. The tire inventory includes the new tire room, used tire room and other tire parts storerooms and is comprised of 122 line items valued at approximately \$56,089. In addition to these two inventories, there are two service trucks with a combined 50 items valued at \$849.

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.

II. RESULTS OF REVIEW

The results of this physical inventory indicate that Equipment Services personnel have improved control over the inventory. The variance rate for main auto parts has significantly decreased since the last inventory date and we found no variances in the new tire room, used tire room and other tire room parts storerooms. Following is a list of all inventory storerooms and the variances that OPI noted.

Department of Environmental Services  
Equipment Services  
Inventory by Location

<u>Location</u>	<u>Storeroom</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>
100	Main Auto Parts	3,226	\$ 543,686.62	406	13	3%
101	Machine Shop	253	14,362.56	**	**	**
104	Sign Shop	119	29,172.42	**	**	**
106	Used Tire	38	3,811.67	38	0	0%
107	New Tire	77	50,717.02	77	0	0%
108	Other Tire Parts	7	1,559.87	7	0	0%
109	RPD Auto Parts	42	37,218.08	**	**	**
ST1	Service Truck	36	698.42	*	*	*
SVT	Service Truck	<u>14</u>	<u>150.36</u>	*	*	*
	<b>Total:</b>	<u><b>3,812</b></u>	<u><b>\$ 681,377.02</b></u>			

\* Storeroom not tested

\*\* Included in Main Auto Parts

**A. Variance Analysis – 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 \$0.01 to \$1,015.42. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 406 inventory items tested in the sample, we noted 13 variances. This represents a sample error rate of 3%. The following graph presents historical error rates as a reference.

**Equipment Services Division  
Auto Parts Inventory  
Sample Error Rate Percentages**

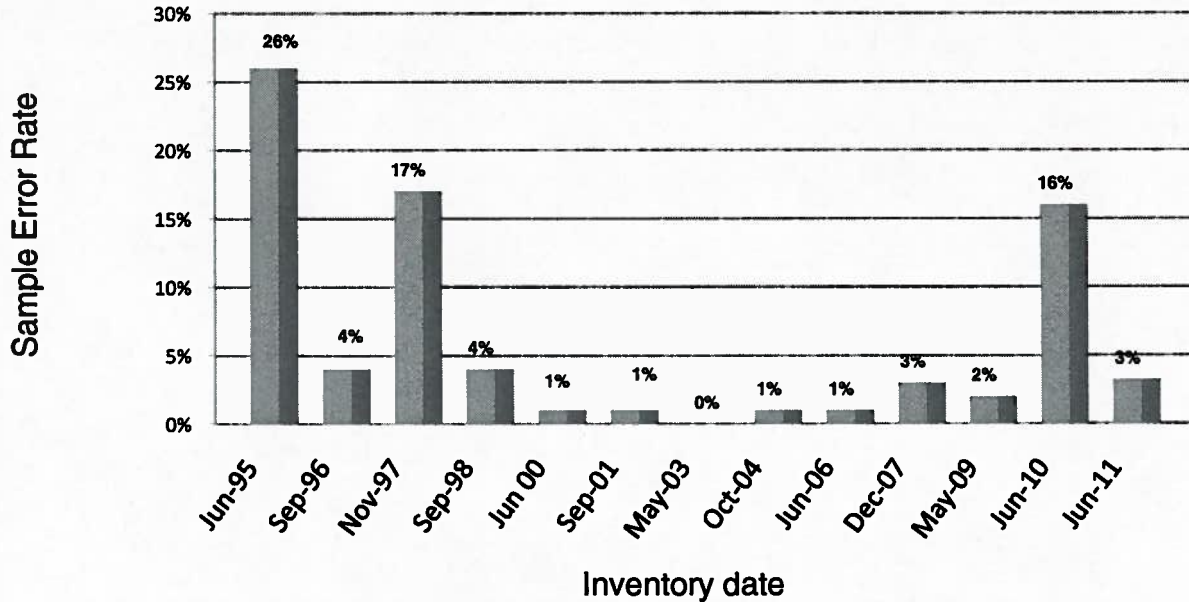


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately.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

When OPI extends the sample error rate of 3% to the entire population of 3,640 different stock items (this number includes 3,226 line items in the main storeroom plus an additional 414 line items from three other storerooms combined with the main storeroom), the projection indicates that the actual number of errors in the population is in the range of 58 to 196 item types. The sample error rate of 3% is significantly lower than the 16% error rate noted in 2010.

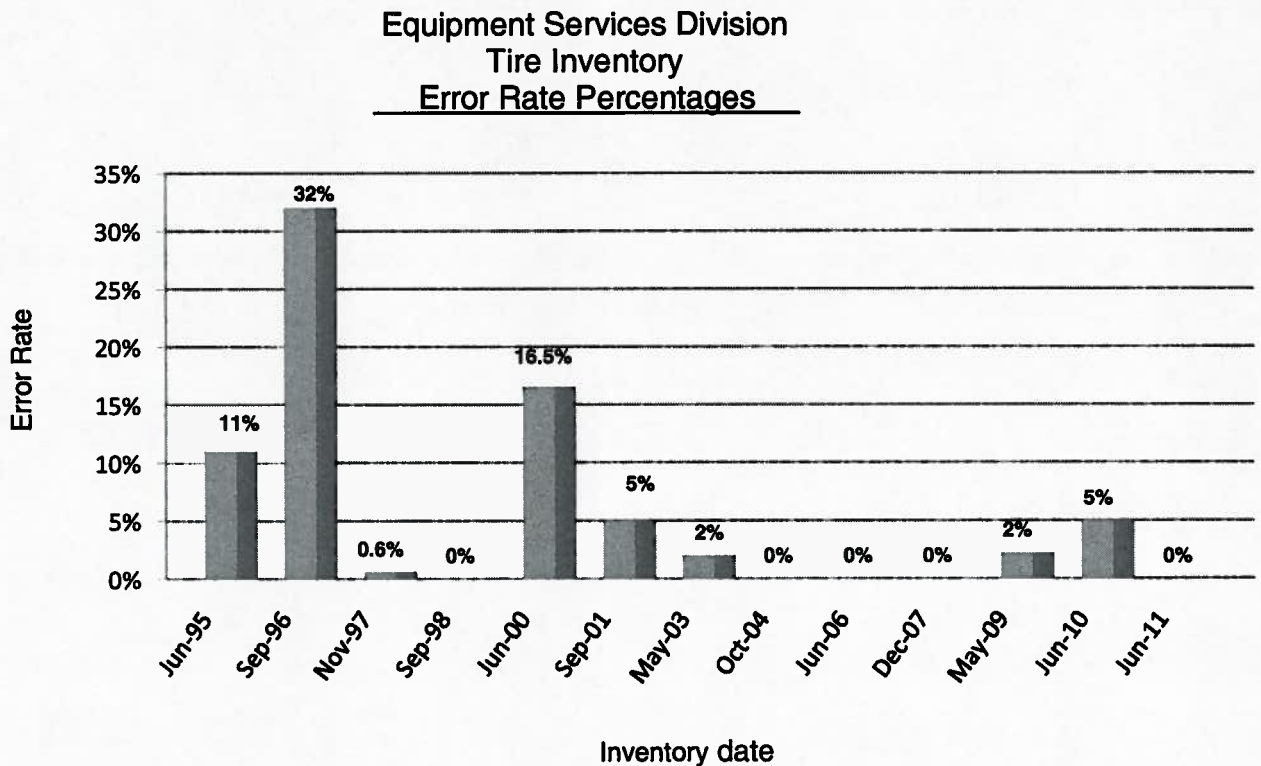
◆ **Recommendation**

Management should continue to make inventory control a priority.

**B. Variance Analysis - Tires**

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

Of the 122 inventory line items located in these stockrooms, we did not note any variances. This 0% error rate is lower than the variances noted in both the 2010 and the 2009 inventories. The following graph presents historical error rates as a reference.



◆ **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 – June 25, 2011  
Variance Analysis – Auto Parts Storerooms 100/101/104/109  
Schedule of Inventory Variances Only

<u>Stock Number</u>	<u>Part Description</u>	<u>Booked Quantity On Hand</u>	<u>Actual Quantity On Hand</u>	<u>Item Count Variance</u>		<u>Unit Cost</u>	<u>Dollar Variance</u>	
				<u>Over</u>	<u>Short</u>		<u>Over</u>	<u>Short</u>
6K703	Belt	2	1		1	\$19.63		-\$19.63
1662	28 Volt Bulb	7	8	1		0.58	\$ 0.58	
92095787	Headlight Bulb H11	5	2		3	12.23		-36.69
3912N	O-Ring #12	6	7	1		0.37	0.37	
1VT67	Protective Goggle	18	19	1		1.45	1.45	
DBF332C	3/32" HSS Drill Bit	2	1		1	2.13		-2.13
Y6	Key Bank	2	10	8		0.65	5.20	
3/8x5/8	C.R.S.	377	359		18	0.05		-0.90
4075RLA-2	2" Tape	968	943		25	0.02		-0.50
BT8840MPG	Hydraulic Filter	1	2	1		14.54	14.54	
F43480	3/8-16x3" Bolt	200	225	25		0.31	7.75	
32007C	#7 Hose Clamp	14	10		4	0.48		-1.92
E31905	Clip Flail	26	20		6	1.88		-11.28
		<u>1,628</u>	<u>1,607</u>	<u>37</u>	<u>58</u>		<u>\$29.89</u>	<u>-\$73.05</u>
Net Variance.....								<u>-\$43.16</u>



City of Rochester

Inter-Departmental Correspondence


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AUG 15 2011

CITY OF ROCHESTER  
OFFICE OF PUBLIC INTEGRITY



To: Daniel Mastrella, Office of Public Integrity

From: Paul M. Holahan, Commissioner of Environmental Services 

Date: August 4, 2011

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

I have reviewed the audit report for the Division of Equipment Services' Stockroom and I would agree with your assessment that Equipment Services' personnel have improved control over the inventory. I am pleased with the significant improvement in variance rates. The report noted a 3% variance in the main auto parts, the machine shop, the sign shop and Police Department auto parts inventory. In the previous inventory, there was a 16% variance in the main auto parts, the machine shop and the sign shop inventories and an 11% variance in the Police Department auto parts inventory.

There is no variance in the tire room, which is an improvement over the previous inventory of 5% variance in the new tire room and 4% variance in the used tire room.

We will continue to make inventory control a priority in this Division.

cc: C. Wagner  
M. Quattrone  
A. Smith  
Department Copy