

**DEPARTMENT OF ENVIRONMENTAL SERVICES
EQUIPMENT SERVICES DIVISION
STOCKROOM INVENTORY OBSERVATION**

**Office of Public Integrity
Date: June 15, 2016**

Confidential
Public

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 March 19, 2016. The results of the inventory indicate that Equipment Services maintains adequate inventory control.

- ◆ The Office of Public Integrity noted variances in 1.5% 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 2.8% 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. 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.
- ◆ The Office of Public Integrity noted variances in 2.7% of the machine shop stockroom inventory indicative of differences between the physical counts and the quantities recorded in the perpetual records. The last time that OPI evaluated this area as a separate stockroom was in 2013. At that time we noted a 1.6% variance rate in this stockroom.

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 March 19, 2016. The Office of Public Integrity participated in this physical inventory 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 March 19, 2016, the total value of the entire perpetual inventory was \$809,423.84. The inventory is comprised of four storerooms. The main auto parts inventory is comprised of 3,889 line items valued at \$730,195.38, the tire inventory is comprised of 114 line items valued at \$55,710.03, the machine shop is comprised of 183 line items valued at \$11,626.64 and the police auto parts stockroom is comprised of 29 items valued at \$11,891.79.

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). 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.

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 the inventory indicate that Equipment Services maintains adequate inventory control. We noted low variance rates for the main auto parts inventory and the machine shop 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 | 3,889 | \$730,195.38 | 272 | 4 | 1.5% |
| Machine Shop | 183 | 11,626.64 | 183 | 5 | 2.7% |
| Tire Storeroom | 114 | 55,710.03 | 114 | 0 | 0.0% |
| RPD Auto Parts | <u>29</u> | <u>11,891.79</u> | 29 | 0 | 0.0% |
| Total: | <u>4,215</u> | <u>\$809,423.84</u> | | | |

A. Variance Analysis – Main Auto Parts

OPI selected a statistical sample of items included in the 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 \$10,000.00. 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 4 variances. This represents a sample error rate of 1.5%. The following graph presents historical error rates as a reference.

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

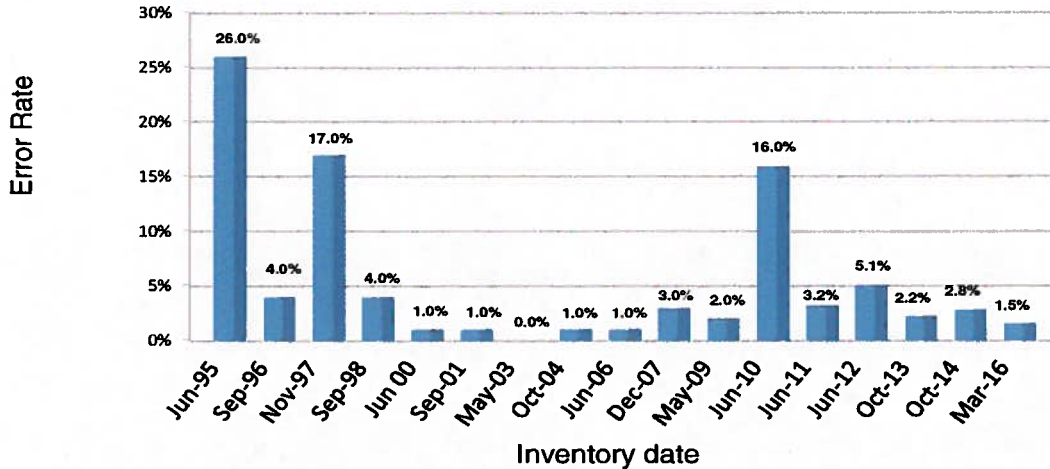


Table I (attached) presents the variance analysis of the statistical sample selection for those items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately.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

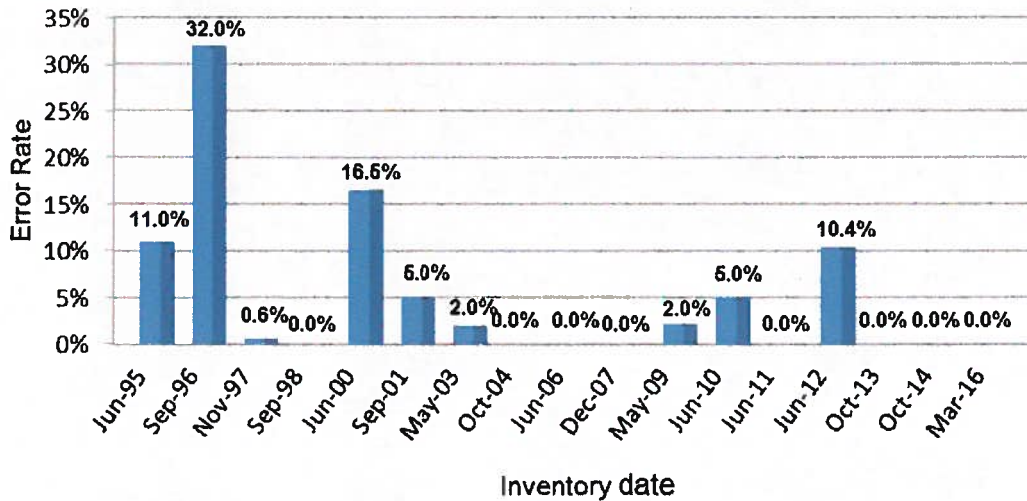
When OPI extends the sample error rate of 1.5% to the entire population of 4,215 different stock items, the projection indicates that the actual number of errors in the population is in the range of 35 to 159 item types. When comparing the current error rate of 1.5% to the prior error rates of 2.2% in 2013 and 5.1% in 2012 and 3.2% in 2011, 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 storeroom, OPI counted and compared all tire storeroom 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 storeroom inventory items. The range of unit costs included in the inventory extends from \$0.01 to \$654.39.

Of the 114 inventory line items located in these stockrooms, we did not note any variances. This is consistent with the results of the 2013 and 2014 inventories and indicates that Equipment Services personnel have continued to maintain adequate control over this stockroom. The following graph presents historical error rates as a reference.

**Equipment Services Division
Tire Inventory
Error Rate Percentages**



C. Variance Analysis – Machine Shop

Due to the relatively small number of machine shop 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 \$0.01 to \$19.62. The Office of Public Integrity compared the actual count of each of these items to perpetual records and noted any variances.

Of the 183 inventory items tested in the sample, we noted 5 variances. This represents a sample error rate of 2.7%. The last time that OPI evaluated this area as a separate stockroom was in 2013. At that time we noted a 1.6% variance rate in this stockroom. These results indicate that Equipment Services personnel have continued to maintain adequate control over this stockroom.

Table II (attached) presents the variance analysis 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.

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 \$556.03. The Office of Public Integrity compared the actual count of each of these items to perpetual records and noted any variances.

Of the 29 inventory line items located in these stockrooms, 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 – March 19, 2016
 Variance Analysis – Main Auto Parts Storerooms
Schedule of Inventory Variances Only

| <u>Stock Number</u> | <u>Part Description</u> | <u>Booked</u> | <u>Actual</u> | <u>Item Count Variance</u> | | <u>Unit Cost</u> | <u>Dollar Variance</u> | |
|-------------------------|-----------------------------|----------------|----------------|----------------------------|--------------|----------------------|------------------------|-----------------|
| | | <u>On Hand</u> | <u>On Hand</u> | <u>Over</u> | <u>Short</u> | | <u>Over</u> | <u>Short</u> |
| 32032C | Hose Clamp #32 | 12 | 11 | | 1 | \$0.93 | | \$ -0.93 |
| 6930 | Chain Pin | 7 | 6 | | 1 | 0.10 | | -0.10 |
| 22865901 | Grill Upper | 1 | 0 | | 1 | 62.92 | | -62.92 |
| PAC425 | Brake Line ¼" | <u>25</u> | <u>1</u> | | <u>24</u> | 0.69 | | <u>-16.56</u> |
| | | <u>45</u> | <u>18</u> | | <u>27</u> | | | <u>\$-80.51</u> |
| Net Variance | | | | | | | | <u>\$-80.51</u> |

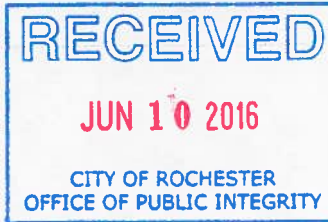
TABLE II: Department of Environmental Services
 Equipment Services Division
 Stock Room Inventory – March 9, 2016
 Variance Analysis – Machine Shop
Schedule of Inventory Variances Only

| <u>Stock Number</u> | <u>Part Description</u> | <u>Booked</u> | <u>Actual</u> | <u>Item Count Variance</u> | | <u>Unit Cost</u> | <u>Dollar Variance</u> | | |
|-------------------------|-----------------------------|----------------|----------------|----------------------------|--------------|----------------------|------------------------|-----------------|-----------------|
| | | <u>On Hand</u> | <u>On Hand</u> | <u>Over</u> | <u>Short</u> | | <u>Over</u> | <u>Short</u> | |
| 1/8 x 6 | C.R.S. | 11 | 0 | | 11 | \$0.26 | | \$ -2.86 | |
| 1/8 x 8 | C.R.S. | 22 | 0 | | 22 | 0.45 | | -9.90 | |
| 5/16 – 18 | Threaded Rod | 196 | 119 | | 77 | 0.07 | | -5.39 | |
| 5/8 – 11 | Threaded Rod | 252 | 125 | | 127 | 0.43 | | -54.61 | |
| 6000b | Key Blank (M25) | <u>2</u> | <u>17</u> | <u>15</u> | | 0.70 | <u>\$10.50</u> | | |
| | | <u>483</u> | <u>261</u> | <u>15</u> | <u>237</u> | | <u>\$10.50</u> | <u>\$-72.76</u> | |
| Net Variance | | | | | | | | | <u>\$-62.26</u> |



City of Rochester

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Norman H. Jones
Commissioner

Inter-Departmental Correspondence

To: Daniel Mastrella, Office of Public Integrity
From: Norman H. Jones, Commissioner of Environmental Services
Date: June 7, 2016
Subject: Equipment Service Inventory Audit

I have reviewed the audit report that was prepared by the Office of Public Integrity (OPI) following the Bureau of Equipment Services' March 19, 2016 inventory control audit. I concur with OPI's assessment that bureau personnel have maintained adequate inventory control. The variance noted in this audit for the main auto parts inventory was 1.5%, a reduction from the last audit which recorded a 2.8% variance. The Department of Environmental Services will continue to make inventory control a priority.

Thank you for your continued work in ensuring that the department has appropriate management controls in place.

Cc: Joseph Ladelfa, Director of Equipment Services

