

DEPARTMENT OF ENVIRONMENTAL SERVICES
EQUIPMENT SERVICES
STOCKROOM INVENTORY OBSERVATION

Office of Public Integrity
Date: June 13, 2023
Contact: Kara Makely
Phone: 428-6061

I. EXECUTIVE SUMMARY

The Office of Public Integrity (OPI) observed the annual physical inventory of the Department of Environmental Services, Equipment Services auto parts stockrooms on May 13, 2023. The results of the review indicate that Equipment Services maintains adequate inventory control.

- ◆ The Office of Public Integrity noted variances in 1.9% of the main auto parts sample selection indicative of differences between the physical counts and the quantities recorded in the perpetual records. In the previous inventory we noted a 1.9% variance.
- ◆ The Office of Public Integrity noted one variance in the tire room for a true error rate of 1%
- ◆ The Office of Public Integrity noted one variance in the machine shop. The true error rate is 1.2%.

II. BACKGROUND, OBJECTIVES, AND SCOPE

A. Assignment

The Office of Public Integrity routinely observes and participates in annual physical inventories of various City stockrooms. Equipment Services conducted its annual physical inventory on May 13, 2023. OPI participated in this count at the request of the Department of Environmental 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 May 13, 2023, the total value of the perpetual inventory was

\$911,018.42. The inventory is comprised of three stockrooms. The main auto parts inventory is comprised of 4,510 line items valued at \$867,061.22, the machine shop is comprised of 84 line items valued at \$7,295.55, and the tire inventory is comprised of 100 line items valued at \$36,661.65.

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

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. The variance rates for main auto parts inventory and the tire inventory have remained consistent since the last inventory conducted on September 14, 2019. Following is a list of all inventory stockrooms and the variances that OPI noted.

Department of Environmental Services
Equipment Services
Inventory by Location

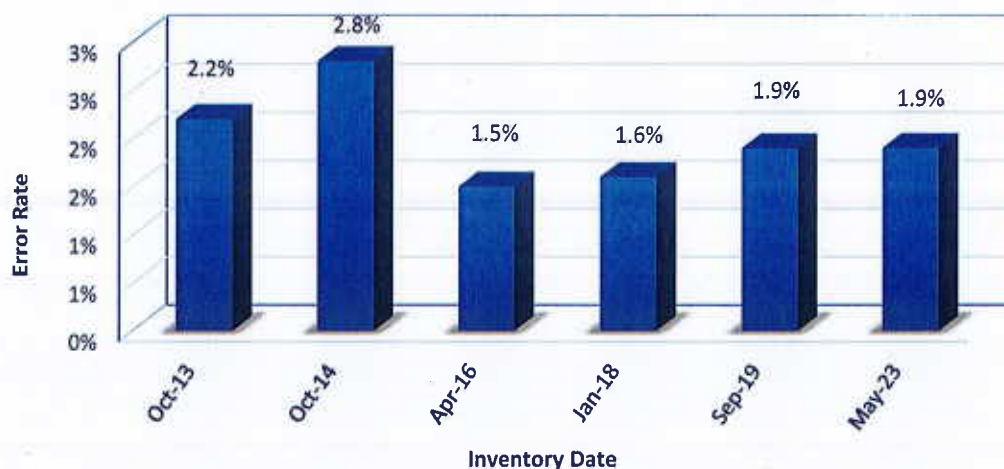
<u>Stockroom</u>	<u>Total Line Items</u>	<u>Total Value</u>	<u>Number of Items Tested</u>	<u>Number of Variances</u>	<u>Error Rate</u>
Main Auto Parts	4,510	\$867,061.22	263	5	1.9%
Machine Shop	84	7,295.55	84	1	1.2%
New/Used Tire	100	36,661.65	100	1	1.0%
Total:	<u>4,694</u>	<u>\$911,018.42</u>	<u>447</u>	<u>7</u>	

A. Variance Analysis – Auto Parts

The Office of Public Integrity 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 population extends from \$0.00 to \$3,495.00. OPI compared the actual count of each of these selected items to perpetual records and noted any variances.

Of the 236 inventory items tested we noted 5 variances. This represents an error rate of 1.9%. The following graph presents historical error rates as a reference.

Equipment Services
Main Auto Parts Inventory
Sample Error Rate Percentages



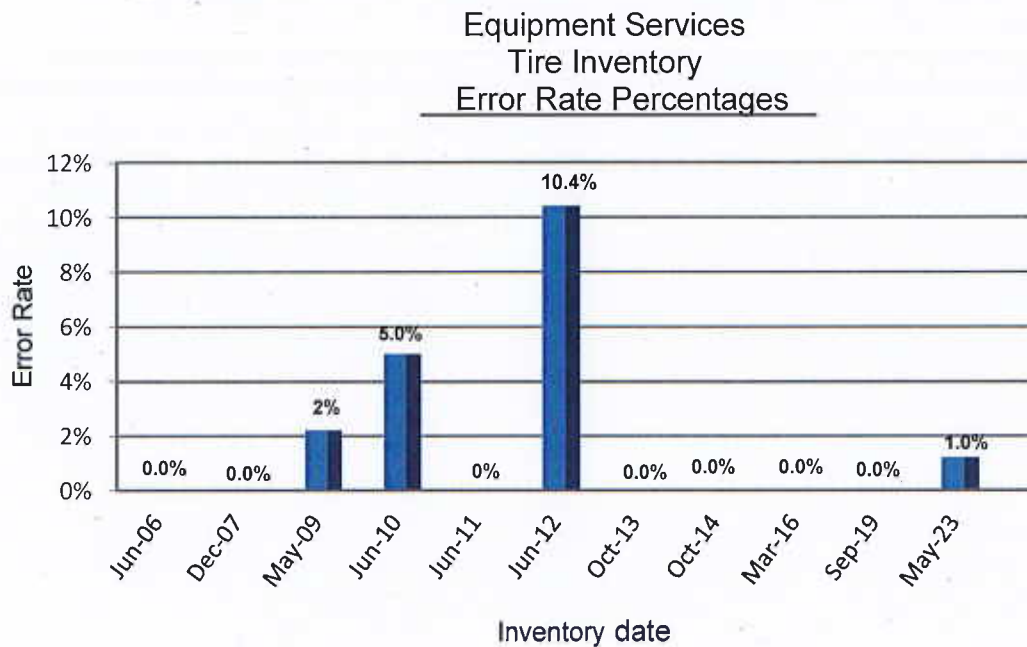
The attached table I presents the variance analysis of all items in which a variance exists. It demonstrates individual variances between actual physical counts and quantities recorded in the perpetual records, and presents positive and negative variances separately. Additionally, the table includes the net variance.

When OPI extends the sample error rate of 1.9% to the entire population of 4,510 different stock items, the projection indicates that the actual number of errors in the population is in the range of 27 to 226 item types. When comparing the current error rate of 1.9% to the prior error rates 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 tire room 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 tire room inventory items. The range of unit costs in the inventory extends from .01 to \$968.24.

The Office of Public Integrity counted and compared all tire quantities to quantities recorded in the perpetual records. Of the 100 inventory line items located in the tire stockroom, we noted one variance. The result is a true error rate of 1%. The following graph presents historical error rates as a reference.



The error rate of 1% is only slightly higher than the 0% noted in the previous four inventories. The error rate of the tire room inventory has continued to be significantly lower than the error rate of 10.4% noted in the June 2012 inventory. Equipment Services personnel should continue this effort to improve overall inventory control

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.

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 \$0.05 to \$25.75.

Of the 84 inventory items in the machine shop, we noted one variance. This represents a true error rate of 1.2%. The last time that OPI evaluated this area as a separate stockroom was in 2016. At that time, we noted a 2.7% variance rate in this stockroom. These results indicate that Equipment Services personnel have continued to maintain adequate control over this stockroom.

Table III (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.

◆ Recommendation

Bureau management should continue to make inventory control a priority.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Environmental Services follows.

Table III
 Department of Environmental Services
 Equipment Services
 Stockroom Inventory – May 13, 2023
Schedule of Tire Stockroom Items With Variances

<u>Stock Number</u>	<u>Part Description</u>	<u>Booked Quantity On Hand</u>	<u>Actual Quantity Counted</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>
11R225RC	Recap Drive Tire XDUS	<u>45</u>	<u>46</u>	<u>1</u>		\$ 238.43	<u>\$ 238.43</u>	<u>\$ 0.00</u>
		<u>45</u>	<u>46</u>	<u>1</u>			<u>\$ 238.43</u>	<u>\$ 0.00</u>
Net Variance								<u>\$238.43</u>

Table III
 Department of Environmental Services
 Equipment Services
 Stockroom Inventory – May 13, 2023
Schedule of Tire Stockroom Items With Variances

Stock Number	Part Description	Booked Quantity On Hand	Actual Quantity Counted	Item Count Variance		Unit Cost	Dollar Variance		
				Over	Short		Over	Short	
1F099	Key Ring	<u>70</u>	<u>69</u>		<u>1</u>	\$ 5.03	<u>\$ 0.00</u>	<u>\$ -5.03</u>	
		<u>70</u>	<u>69</u>		<u>1</u>		<u>\$ 0.00</u>	<u>\$ -5.03</u>	
Net Variance									<u>\$ -5.03</u>



City of Rochester

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Equipment Services

TO: Timothy R. Weir, Director Office of Public Integrity
FROM: Richard J. Perrin, AICP – Commissioner of Environmental Services **RP**
DATE: June 13, 2023
SUBJECT: DES Equipment Services Stockroom Inventory Observation

I have reviewed the report prepared by the Office of Public Integrity (OPI) for the stockroom inventory of the Bureau of Equipment Services that was conducted on May 13, 2023.

As noted in the report, adequate control over the inventory has continued to be maintained by the Bureau of Equipment Services' personnel. This is reflected in the observed variance rate of 1.9% between the physical counts and the quantities recorded in the perpetual records, which is within the generally accepted threshold for an inventory commensurate with that maintained and managed by the Bureau of Equipment Services.

Please be assured that, per the recommendation of OPI, the Department of Environmental Services (DES) will continue to make inventory control a priority in the Bureau of Equipment Services and within the other bureaus of DES. Thank you for your continued work in ensuring that DES is following the proper policies and procedures.

Cc: Scott Corser, Fleet Services Manager
Timothy VanWie, Automotive Parts and Materials Manager

