



# City of New York

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## OFFICE OF THE COMPTROLLER

Scott M. Stringer  
COMPTROLLER



## MANAGEMENT AUDIT

**Marjorie Landa**

Deputy Comptroller for Audit

Audit Report on the New York City  
Department of Sanitation's Controls  
Over Its Inventory of Vehicle Equipment  
and Supplies

MD16-059A

June 29, 2016

<http://comptroller.nyc.gov>



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NEW YORK, NY 10007

SCOTT M. STRINGER  
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June 29, 2016

To the Residents of the City of New York:

My office has audited the New York City Department of Sanitation (DSNY) to determine whether it had adequate controls in place to monitor its inventory of vehicle equipment and supplies. We audit City operations such as this as a means of ensuring that resources are used effectively, efficiently and in the best interest of the public.

The audit found that DSNY needs to strengthen its controls over the monitoring of its inventory. DSNY had insufficient evidence that discrepancies between amounts on hand and amounts recorded were investigated when identified. The audit also found that DSNY does not ensure that staff's inventory management computer system user rights do not exceed their levels of responsibility, nor does DSNY ensure that there is adequate segregation of duties. DSNY also does not perform periodic counts of its entire inventory to ensure the accuracy of its perpetual inventory records. Although the counts of sampled items found minimal differences between the amounts on hand and the amounts recorded for six of the eight locations sampled, we did not have reasonable assurance that the inventory balances recorded in DSNY's inventory management computer system reflect all authorized additions and depletions.

The audit made 14 recommendations, including that DSNY should ensure that count discrepancies are adequately investigated before inventory adjustments are made and that evidence of the investigation is maintained; that the inventory management computer system security profiles are updated for all employees in line with their job responsibilities; that duties are adequately segregated; and that inventory counts for all parts are conducted at least annually.

The results of the audit have been discussed with DSNY officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER MANAGEMENT AUDIT

## Audit Report on the New York City Department of Sanitation's Controls Over Its Inventory of Vehicle Equipment and Supplies

MD16-059A

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### EXECUTIVE SUMMARY

The objective of this audit was to determine whether the Department of Sanitation (DSNY) has adequate controls in place to monitor its inventory of vehicle equipment and supplies. DSNY is responsible for management of New York City's (the City's) solid waste, including the collection of refuse and recyclables, and the cleanliness of City streets. To accomplish this, DSNY has a fleet of 5,388 vehicles. DSNY's Bureau of Motor Equipment (BME) provides a full range of fleet-related functions including procurement, maintenance, repair and disposal.

On April 23, 2012, the Mayor signed Executive Order 161 consolidating the maintenance of motor vehicle fleets for City agencies. DSNY was designated to be the "Center of Excellence" for medium and heavy-duty vehicles.<sup>1</sup> As a result, BME is also responsible for the maintenance of medium and heavy-duty vehicles for four other agencies: the Department of Health and Mental Hygiene, the Department of Education, the Department of Parks and Recreation, and the Department of Environmental Protection.

In each of DSNY's district garages, BME personnel complete repairs and perform routine maintenance of the vehicles assigned to that location. More extensive repairs are performed in DSNY's Central Repair Shop (CRS) and its four borough shops: the Queens Borough Shop (QBS), the Cioffe Borough Shop (Cioffe) in Brooklyn, the 26<sup>th</sup> Street Shop (26<sup>th</sup> Street) in Manhattan and the Richmond Borough Shop (RBS) in Staten Island.

In order to maintain the agencies' fleets, DSNY has a parts inventory and distribution system. BME's Material Management division is responsible for purchasing, inventorying and managing repair parts and distributes more than \$23 million in repair parts each year. Material Management has four storerooms to house supplies: X02 - Common LT Truck Parts; X04 - Automotive Warehouse; X-11 DSNY Heavy Duty Components & Parts; and X23 - Snow Removal Parts.

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<sup>1</sup> According to a DSNY official, BME was named the "Center of Excellence" because they have a very efficient and stringent preventative maintenance program which is aimed at stability of operations.



According to a DSNY Fiscal Year 2015 Inventory Valuation report, as of June 30, 2015, the parts inventory for the four Material Management storerooms and the four borough shops was valued at over \$18.7 million.

## Audit Findings and Conclusion

DSNY needs to strengthen its controls over the monitoring of its inventory of vehicle equipment and supplies. DSNY had insufficient evidence that discrepancies between amounts on hand and amounts recorded were investigated when identified. During the period of January 1, 2016, through February 16, 2016—prior to our inventory counts conducted on February 17, 2016—DSNY made 168 inventory adjustments in M5, of which only 14 (8 percent) were adequately supported in DSNY's records. The audit also found that DSNY does not ensure that staff's M5 user rights do not exceed their levels of responsibility, nor does DSNY ensure that there is adequate segregation of duties. DSNY also does not perform periodic counts of its entire inventory to ensure the accuracy of its perpetual inventory records. Consequently, although our counts of sampled items found minimal differences between the amounts on hand and the amounts recorded for six of the eight locations sampled, we do not have reasonable assurance that the inventory balances recorded in M5 reflect all authorized additions and depletions.

Our review also disclosed that DSNY: (1) has not developed written procedures that detail the steps for processing issuances, transfers, and adjustments; (2) has not enforced a protocol for relinquishing obsolete inventory; and (3) has certain items incorrectly valued at \$0 per unit.

## Audit Recommendations

Based on the audit, we make 14 recommendations, including:

- DSNY should ensure that count discrepancies are adequately investigated before inventory adjustments are made and that evidence of the investigation is maintained.
- DSNY should ensure that adjustments are appropriately documented and approved using *Cycle Count/Supervisory Adjustment Checklist* forms.
- DSNY should ensure that the M5 security profiles are updated for all employees, that they are in line with the employees' job responsibilities, and that duties are adequately segregated.
- DSNY should ensure that inventory counts for all parts are conducted at least annually and that any discrepancies are investigated by individuals independent of the inventory operations.
- DSNY should establish and distribute written procedures for all inventory processes, including authorizing and recording issuances and transfers and conducting physical inventory counts.
- DSNY should conduct a review of all parts that have had no movement for over 13 months to determine whether the parts are obsolete and relinquish the obsolete parts in accordance with its protocol and DCAS requirements.
- DSNY should review all items recorded with a zero value in M5, determine whether the valuation is correct and modify the price of items that were incorrectly valued at zero.

## Agency Response

In its response, DSNY agreed with all of the audit's findings and recommendations.

# AUDIT REPORT

## Background

DSNY is responsible for management of the City's solid waste, including the collection of refuse and recyclables, and the cleanliness of City streets. To accomplish this, DSNY has a fleet of 5,388 vehicles. DSNY's BME provides a full range of fleet-related functions, including procurement, maintenance, repair and disposal. These functions are performed through BME's three main operating divisions, Field Operations, Material Management, and Vehicle Acquisition and Warranty.

On April 23, 2012, the Mayor signed Executive Order 161 consolidating the maintenance of motor vehicle fleets for City agencies. DSNY was designated to be the "Center of Excellence" for medium and heavy-duty vehicles. As a result, BME is also responsible for the maintenance of medium and heavy-duty vehicles for four other agencies: the Department of Health and Mental Hygiene, the Department of Education, the Department of Parks and Recreation and the Department of Environmental Protection.

In each of DSNY's district garages, BME personnel complete repairs and perform routine maintenance of the vehicles assigned to that location. A typical DSNY district has approximately 75 to 100 pieces of DSNY equipment, including collection trucks, dual-bin recycling trucks, salt spreaders, street sweepers and supervisory vehicles. More extensive repairs are performed in DSNY's Central Repair Shop (CRS) and its four borough shops: QBS, Cioffe in Brooklyn, 26<sup>th</sup> Street in Manhattan and RBS in Staten Island.

In order to maintain the agencies' fleets, DSNY has a parts inventory and distribution system. BME's Material Management division is responsible for purchasing, inventorying and managing repair parts and distributes more than \$23 million in repair parts each year. Material Management has four storerooms to house supplies: X02 - Common LT Truck Parts; X04 - Automotive Warehouse; X-11 DSNY Heavy Duty Components & Parts; and X23 - Snow Removal Parts. All parts are delivered directly to Material Management, with the exception of bulk fluids and bulk shipments, which are drop-shipped directly to district garages. Parts are issued to the borough shops, where they are held in inventory or immediately disseminated to the district garages requesting them.<sup>2</sup>

The City, through the Department of Citywide Administrative Services (DCAS), entered into a contract with Genuine Parts Company (GPC) to purchase, stock and manage parts storerooms at various City agencies, including DSNY. At DSNY, GPC assumed exclusive control of the CRS parts room. Repairs performed on the fifth floor of CRS use GPC parts.

According to a DSNY Fiscal Year 2015 Inventory Valuation report, as of June 30, 2015, the parts inventory for the four Material Management storerooms and the four borough shops was valued at over \$18.7 million. The breakdown of the inventory valuation for each location is shown in Table I.

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<sup>2</sup> An issuance is made to borough shops from Material Management and no work order is necessary.

**Table I**

DSNY Inventory Valuation by Location as of June 30, 2015

<b>Inventory Location</b>	Material Management (X02, X04, X11 & X23)	QBS	26 <sup>th</sup> St	Cioffe	RBS
<b>Inventory Valuation (June 30, 2015)</b>	\$11,359,051	\$2,398,544	\$1,899,504	\$1,833,847	\$1,192,731

Prior to October 2013, DSNY's fleet and inventory records were computerized on the Maintenance Control and Management System (MCMS), which was managed by DCAS and contained fleet inventory records for all agencies. As of October 2013, DSNY transitioned to Asset Works – FleetFocus M5 (M5), a computer system managed by DCAS to track fleets, repairs and inventory records for multiple City agencies, including DSNY.

All mayoral agencies are required to use the Department of Investigation's (DOI standards) *Standards for Inventory Control and Management* as a guide in developing their own policies and procedures for the receipt, storage, distribution, and control of their inventories. Agencies are allowed to develop standards that are more stringent than DOI's.

## **Objective**

To determine whether DSNY has adequate controls in place to monitor its inventory of vehicle equipment and supplies.

## **Scope and Methodology Statement**

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was July 1, 2015, through May 3, 2016. Please refer to the Detailed Scope and Methodology at the end of this report for specific procedures and tests that were conducted.

## **Discussion of Audit Results with DSNY**

The matters covered in the audit were discussed with DSNY officials during and at the conclusion of this audit. A preliminary draft report was sent to DSNY and discussed at an exit conference held on May 16, 2016. On May 23, 2016, we submitted a draft report to DSNY with a request for comments. We received a written response from DSNY officials on June 7, 2016. In its response, DSNY agreed with all of the audit's findings and recommendations. The full text of DSNY's



response is included as an addendum to this report, with the exception of certain voluminous attachments that will be made available upon request.<sup>3</sup>

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<sup>3</sup> The attachments consist of copies of certain inventory procedures.

## FINDINGS AND RECOMMENDATIONS

DSNY needs to strengthen its controls over the monitoring of its inventory of vehicle equipment and supplies. DSNY had insufficient evidence that discrepancies between amounts on hand and amounts recorded were investigated when identified. During the period of January 1, 2016, through February 16, 2016—prior to our inventory counts conducted on February 17, 2016—DSNY made 168 inventory adjustments in M5, of which only 14 (8 percent) were adequately supported in DSNY’s records. The audit also found that DSNY does not ensure that staff’s M5 user rights do not exceed their levels of responsibility, nor does DSNY ensure that there is adequate segregation of duties. Our review of the user rights for personnel at Material Management found that a significant number of personnel—some of whom were responsible for receiving and disbursing stock—had the ability to adjust stock levels in M5 with no supervisory approval required, increasing the risk that unauthorized adjustments may occur and go undetected. DSNY also does not perform periodic counts of its entire inventory to ensure the accuracy of its perpetual inventory records. Consequently, although our counts of sampled items found minimal differences between the amounts on hand and the amounts recorded for six of the eight locations sampled, we do not have reasonable assurance that the inventory balances recorded in M5 reflect all authorized additions and depletions.

Our review also disclosed that DSNY: (1) has not developed written procedures that detail the steps for processing issuances, transfers and adjustments; (2) has not enforced a protocol for relinquishing obsolete inventory; and (3) has certain items incorrectly valued at \$0 per unit.

These weaknesses, if left uncorrected, increase the risk that inventory may not be adequately safeguarded against misappropriation and theft.

### Inventory Management Weaknesses

#### Improper Adjustments to Inventory Balances

DSNY had insufficient evidence that discrepancies between amounts on hand and amounts recorded are investigated. When discrepancies are identified, DSNY personnel in many cases adjust the inventory balances in M5 so that the recorded balances reconcile with the amounts on hand. This finding stands in direct contradiction to DOI Standard #8, which requires that

records present a complete picture of the ‘who, what, when and why’ of a transaction from initiation through completion. Records demonstrating less than this are not adequate. All authorized changes to the stock (additions and depletions) have corresponding transaction records that identify the persons who authorize, move and record the data.

By extension, adjustments to inventory balances should be adequately justified and documented.

According to DSNY, when adjustments are made to inventory quantities in M5, a reason for the adjustment and a note should be included in M5. Adjustments in M5 can be done by level I stockroom supervisors; adjustments to “high value” parts (valued at over \$500) have to be authorized by the next level personnel. Adjustments are to be tracked using *Cycle Count/Supervisory Adjustment Checklist* forms, which are filed at the respective shops.

We found that personnel made 168 adjustments to part quantities in Material Management from January 1, 2016, through February 16, 2016. Our review of these adjustments found that 154, totaling \$76,197, did not have adequate justifications and/or documentation; 51 (33 percent) of the 154 adjustments had no notes in M5 explaining why the adjustment was made. In other instances, the notes in M5 did not sufficiently detail the reasons, listing reasons such as “MCMS switch errors,” “cycle count errors,” “cycle count reversals,” and “not found.” In addition, 26 of the 168 adjustments were for what DSNY defines as high value adjustments of more than \$500, of which 21 were not adequately supported. DSNY was only able to provide *Cycle Count/Supervisory Adjustment Checklist* forms for 28 of the 168 adjustments. Of these 28 forms, ten were missing one of the two required signatures verifying the adjusted count figure.

Allowing inventory personnel to make adjustments to the inventory records without adequate review and approval removes a key control and makes loss due to theft or misappropriation more difficult to detect. Adjustments to inventory balances should be made rarely, and only after proper investigation and adequate justification. DSNY’s practice of routinely adjusting inventory balances reveals a serious control weakness in that the ability to determine whether inventory is being stolen or misplaced is significantly hindered.

**DSNY Response:** “In some instances, the Department did not maintain adequate documentation to support adjustments that were entered on the system. The reason and/or the code entered were not always adequately documented, and some transactions did not have the appropriate supervisory approvals and or authorizations. These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly.”

## **Inappropriate M5 System Privileges**

DSNY M5 users in the parts rooms at the four borough shops were all assigned the same security profile/system privileges (the ability to view, add or modify information in M5). The assigned security profiles allowed all borough shop staff with M5 access—including those with access to the physical inventory—to order, receive and issue parts, as well as update and adjust inventory quantities in M5 as needed with no supervisory approval required. In addition, subordinates have some of the same user access privileges as their superiors, such as entering inventory adjustments. This constitutes an inadequate segregation of duties and a significant control weakness, whereby persons who have physical access to the stock also have the ability to modify the inventory records for that stock.

Comptroller’s Directive #18 *Guidelines for the Management, Protection and Control of Agency Information and Information Processing Systems* states

Proper internal controls dictate that agencies adequately segregate duties to insure that individuals with knowledge and technical skills do not have inappropriate access to agency business functions, and adequately separate duties within the data processing technical environment.

According to DSNY officials, prior to the implementation of M5, MCMS had multiple profiles for staff but this capability was disabled in M5. DSNY officials did not provide a reason for why this capability was disabled. DSNY officials stated, “DSNY has been working with the M5 DCAS Consultant to create new profiles for use in the B.M.E. warehouse and satellite Parts

Rooms.” When we met with DSNY officials near the end of the audit fieldwork, they stated that the profiles have been updated both in Material Management and the borough shops.

Allowing staff to have the ability to perform functions outside of their job responsibilities results in some personnel having the ability to both perform unauthorized transactions and modify the inventory records to conceal their occurrence. In such an environment, the risk that goods may be lost due to misappropriation or theft, and that such loss may go undetected, is increased.

**DSNY Response:** “Prior to the fleet consolidation and the implementation of the M5 system, employees’ user rights were stratified in accordance with their roles and responsibilities in the MCMS system. However, after the consolidation and the implementation of the M5 system, proper levels of employees’ user rights were not incorporated in the M5 system. During the course of this audit, it was discovered that everyone was assigned the same user rights in the M5 user profiles which is not in compliance with proper internal controls for adequate segregation of duties.

When this issue was brought to the agency’s attention, DSNY immediately contacted DCAS to resolve the issue. All user profiles have subsequently been adjusted to match each employee’s respective roles and responsibilities.”

## **Periodic Inventory Counts in Accordance with DOI Standards Are Not Performed**

Periodic inventory counts are not performed in accordance with the standards set forth in DOI’s inventory control directive, which requires that a count of all stored goods be conducted at least once a year to ensure the accuracy of the perpetual inventory records. DSNY officials stated that a complete physical count would require a shutdown of operations for more than a week, which is not practical. As an alternative, DSNY instituted cycle counts, in which the computerized inventory system was programmed to randomly select a subset of inventory to be counted each week and all items would be counted over a specified period. However, random inventory cycle counts have not been performed since the implementation of M5 in October 2013. According to DSNY officials, cycle counts were performed when MCMS was in use, however, DSNY officials stated that there are still many issues with the cycle count reports program, worksheets and functions generated in M5.

The DOI standards also state that annual and unannounced audits of the major inventory functions should be conducted by an independent internal or external audit group. Independent audits perform an essential function in identifying internal control deficiencies that create opportunities for dishonest activity. They also supplement ongoing management and supervisory monitoring to detect errors and irregularities that require correction.

Regarding the counts, DOI states that a number of steps be performed, including but not limited to the following:

- All inventory locations are closed and normal operations suspended for the duration of the count.
- Include all stored goods and all inventory locations in the physical inventory.
- Perform a “double, blind count.” That is, all items should be counted twice and the recount should not be conducted by the individuals who made the initial count.

- Personnel responsible for a storage location should not be assigned to that area for the physical count.
- Discrepancies between the perpetual inventory and physical inventory should be investigated. Auditors, or staff independent of the inventory operations, should investigate discrepancies before submitting reconciliation adjustments to management for approval. Reports of significant differences should be forwarded to DOI.

According to DSNY officials, counts are currently only performed when items are issued and received; at that time, shelf quantities are counted and compared to quantities in M5.

While DSNY’s internal audit group has conducted year-end inventory counts, they were not material in nature; only 40 items (the most at any one shop being 19 items at X02) were counted at the end of Fiscal Year 2014 and 34 (the most at any one shop being 12 items at X11) at the end of Fiscal Year 2015. In addition, although the 2015 count was conducted in August 2015, as of October 2015, five of the seven identified discrepancies were still pending resolution. Further, DSNY’s internal audit only conducted counts at the Material Management locations; it did not conduct counts at the four borough shops, although a significant portion of DSNY’s inventory—\$7.3 million or 39 percent of the total inventory valuation as of June 30, 2015—is maintained at these locations.

Even when the cycle counts were conducted, they did not conform to DOI standards in that double, blind counts<sup>4</sup> were not performed; personnel responsible for a storage location were the same ones who conducted the physical count; and discrepancies between the perpetual inventory records and the physical inventory on hand were not investigated by those independent from the inventory operations before making the reconciliation adjustments in the inventory records.

Since inventory counts are not performed, neither we nor DSNY have a reliable point of reference to determine whether the inventory records are an accurate representation of the inventory balances. Furthermore, the absence of periodic inventory counts significantly hinders management’s ability to identify discrepancies in its records, leaving the agency more susceptible to the risk that goods may be lost due to misappropriation or theft.

#### *Results of Auditors’ Count*

Notwithstanding the control weaknesses discussed above, we attempted to determine the degree to which the quantities recorded in M5 reconciled with the quantities on hand at the DSNY locations. Accordingly, we conducted counts at four Material Management storerooms, as well as the four borough shops (QBS, Cioffe, RBS and 26<sup>th</sup> Street), and selected 55 items at each, for a total of 440 items. Those counted consisted of:

- 10 randomly selected items from those with a value between \$50 and \$500;
- 10 items judgmentally selected as desirable items (those more prone to misappropriation or theft);
- 10 items judgmentally selected from “high-transaction” items (items frequently purchased or transferred);

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<sup>4</sup> A blind count refers to the performance of a physical inventory count without the knowledge of, or access to, the on-hand quantity balance in the inventory records. Counters are provided the part number, description, location, and other information necessary to perform the count but not the item quantity information.

- 5 items judgmentally selected based on highest dollar value per unit;
- 5 items judgmentally selected from M5 with a dollar value of zero, but that had significant market value;
- 5 items judgmentally selected from M5 as having no quantities on hand; and
- 10 “blind count” items judgmentally selected from within the storeroom, which were counted and later reconciled with the quantities listed in M5.

We generally found that the inventory records for the sampled items accurately reflected the amounts on hand for six of the eight locations at the time of our counts. Our count of 440 items, valued at \$2,655,215, revealed a gross discrepancy between our count and that reported in DSNY’s inventory records of only 64 items, valued at \$165,988 (6.3%). Results are shown in Table II.

**Table II**  
Results of Inventory Counts

Location	Pre-Count Inventory		Total Shortage		Total Overage		Total Gross Discrepancy		Percent Variance (dollars)
	Value	# of Items	Value	# of items	Value	# of items	Value	# of items	
MM X02	\$256,316	55	\$0*	1	\$0	0	\$0	1	0%
MM X04	\$25,343	55	\$0	0	\$0	0	\$0	0	0%
MM X11	\$68,710	55	\$0	0	\$0	0	\$0	0	0%
MM X23	\$1,895,332	55	\$116,904	1	\$37	1	\$116,941	2	6%
QBS	\$145,154	55	\$2,737	8	\$2,121	8	\$4,858	16	3%
Cioffe	\$113,380	55	\$23,362	14	\$863	4	\$24,225	18	21%
RBS	\$77,445	55	\$17,478	12	\$1,680	8	\$19,158	20	25%
26 <sup>th</sup> St.	\$73,535	55	\$107	3	\$699	4	\$806	7	1%
<b>TOTALS</b>	<b>\$2,655,215</b>	<b>440</b>	<b>\$160,588</b>	<b>39</b>	<b>\$5,400</b>	<b>25</b>	<b>\$165,988</b>	<b>64</b>	<b>6%</b>

\*This item had a zero value in M5, so although there was a discrepancy in the number of items, there was no dollar value discrepancy.

Although we found no material discrepancies overall between amounts on hand and amounts recorded in M5, due to the fact that inventory counts are not performed and inventory balances are adjusted without adequate support, we were unable to determine with reasonable assurance that the amounts recorded in M5 reflected all authorized inventory additions and depletions.

Moreover, for two locations—Cioffe and RBS—the discrepancies were greater than 20 percent. Our count of 110 items at Cioffe and RBS on February 24 and 25, 2016, revealed gross variances of 21 percent and 25 percent, respectively. At Cioffe, the items with discrepancies included a hydraulic pump, a cylinder for a hydraulic lift and an engine, valued at over \$4,400 each. At RBS, the discrepancies included two separate diesel particulate filters valued at over \$4,500 each, and three adjustable vee blocks (equipment used to hold circular work pieces) with a combined value of over \$1,300.



At best, poor record-keeping will produce questionable inventory statistics and can result in unauthorized inventory transactions. At worst, poor record-keeping increases the risk that theft or misappropriation can occur and go undetected.

**DSNY Response:** "...In order to comply with the complete stockroom shutdown required by DOI inventory standards, DSNY is exploring options to determine the most feasible way to conduct a complete physical inventory count of its stored parts at all locations, with the least amount of disruption to its operations. We are investigating the impact to daily operations if we were to "close" our stockrooms for an inventory. We are also reviewing distinct protocols for completing a full inventory count, as well as determining the staffing requirement to adequately perform the counts while meeting DOI standards."

## Recommendations

1. DSNY should ensure that count discrepancies are adequately investigated before inventory adjustments are made and that evidence of the investigation is maintained.

**DSNY Response:** "These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly."

2. DSNY should ensure that adequate justification for inventory adjustments is appropriately included in M5.

**DSNY Response:** "These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly. The policy delineates roles and responsibilities, steps to be taken to investigate and document discrepancies and requires increased levels authority for adjustments above a set value threshold. This policy will require that justifications are included in the comments section of an adjustment entry, along with the proper adjustment code, for all adjustments made in M5."

3. DSNY should ensure that adjustments are appropriately documented and approved using Cycle Count/Supervisory Adjustment Checklist forms.

**DSNY Response:** "These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly. The policy requires the use and approval of the Cycle Count/Supervisory Adjustment Checklist form. The form must be completed and approved by the appropriate level of authority prior to inventory adjustment completion."

4. DSNY should look into the feasibility of requiring an additional supervisory sign off in M5 for inventory adjustments, especially for large quantities and high dollar value items.

**DSNY Response:** "The Cycle Count/Supervisory Adjustment Checklist form was modified to require a dual supervisory sign-off for adjustments to be made. In addition, DSNY is working with DCAS to evaluate the feasibility of implementing a dual approval requirement for adjustments in M5 above a set threshold."

5. DSNY should ensure that the M5 security profiles are updated for all employees, that they are in line with the employees' job responsibilities, and that duties are adequately segregated.

**DSNY Response:** "DSNY coordinated with DCAS to resolve this issue. All user profiles have been adjusted to match each employee's respective roles and responsibilities."

6. DSNY should ensure that inventory counts for all parts are conducted at least annually and that any discrepancies are investigated by individuals independent of the inventory operations.

**DSNY Response:** "DSNY acknowledges the need to periodically conduct complete inventory counts of all its parts and to ensure that discrepancies are investigated independently from inventory operations staff. We are currently exploring our options to determine the best solution to achieve compliance with the DOI Inventory standards, without causing major disruptions in our functions."

7. DSNY should continue to work with DCAS and Fleet Focus to rectify the M5 issues with the cycle counts.

**DSNY Response:** "...the Automated Cycle Count functionality was restored to every Materials Management and Satellite Parts room."

8. DSNY should ensure that annual and unannounced audits of the major inventory functions are conducted by an independent internal or external audit group.

**DSNY Response:** "...DSNY will conduct independent periodic unannounced audits by the Department's Internal Audits Division."

9. DSNY should ensure that inventory audits and counts are conducted at all inventory locations, including the borough shops.

**DSNY Response:** "M5 Cycle Counts are presently being conducted at all Parts Inventory locations. In addition, shelf counts are being verified upon every receipt and issuance. The Support Services Administration Division currently conducts internal inventory audits. DSNY is currently revamping the Parts Audits and PM Audits process. In addition, DSNY will conduct independent periodic unannounced audits conducted by the Department's Internal Audits Division."

10. DSNY should investigate the discrepancies identified in this report at Cioffe and RBS and improve inventory controls at those locations to help ensure adequate recordkeeping and good security.

**DSNY Response:** "DSNY has investigated the discrepancies in inventory counts at both the Cioffe and Richmond Borough shops. At both Cioffe and RBS the majority of the inventory discrepancies were reconciled after investigation by Parts Room staff. Data entry delays and human errors were found to be the main causes. We will begin the rollout of bar code scanners to document parts movement in and out of the B.M.E. stockrooms. The intent is to eliminate the paperwork currently utilized to move parts to field locations and reduce the discrepancies from delays inherent in the paperwork flow.

Until a new system can be developed and implemented to assist in maintaining accurate records, we will increase the use of M5 Cycle Counts and shelf counts of inventory receipts and issuances at these locations.

Upon the completion of investigations related to the inventory count discrepancies at these locations, the Department will initiate disciplinary action against any employees found to have disregarded established Department procedures.”

## Other Weaknesses

### Insufficient Formal Policies and Procedures

Since 2013, DSNY’s BME went through significant changes including the fleet consolidation, addition of the GPC contract, and transition to the M5 inventory management system. However, many of the DSNY policies were not updated to reflect these operational changes, pending the completion of functionality in M5 at all inventory locations. Our review of DSNY’s procedures revealed that while they do identify the lines of responsibilities, they do not detail the steps for processing issuances, transfers, and adjustments nor do they provide information on the scope of an individual’s authority. For example, the policies do not indicate which staff are authorized to make inventory adjustments and do not describe the steps to be performed when investigating inventory discrepancies.

In addition, the DSNY Parts Relinquishment Policy and Procedure originally provided to us in October 2015 was not updated. It refers to MCMS—M5’s predecessor—and references the MCMS report that should be used to identify obsolete parts, although DSNY starting using M5 in October 2013. (DSNY officials later provided an updated Parts Relinquishment Policy and Procedure dated March 2016.)

The DOI standards state that:

- agency management is responsible for ensuring that there are updated policies and procedures that include the requirements of the DOI standards;
- the scope of an individual’s authority for action and decision should be communicated to supervisors and staff through written, policies procedures and directives; and
- policies and procedures that detail the objectives to be achieved, the responsibilities of each, and the methods to be used should be distributed to all staff.

The risks associated with not having clear written guidelines for inventory management are identified by DOI in its standards. Standard #6 states, in part,

The absence of clearly written policies and procedures that define limits of authority can result in staff being allowed excessive discretion that can provide opportunities for undetected thefts and other dishonest activities. Lack of procedures renders it more difficult to hold individuals accountable for their actions or failure to act.

DSNY provided us with a copy of SS15-020 *DSNY Support Services Inventory Control and Management Policy*, dated August 7, 2015 (a month after the commencement of our audit). We noted also that this policy mostly just lists the DOI standards without details on how they should be carried out. For example, the policy requires periodic and unannounced audits by internal and external audit groups, but does not indicate the frequency or scope of the audits.

**DSNY Response:** “The agency acknowledges the need to update and develop detailed procedures which clearly define the roles and responsibilities for the

various inventory functions. We have finalized new Policies and Procedures which clearly define staff responsibility and authority over the processes used to manage inventory.”

## Recommendations

11. DSNY should establish and distribute written procedures for all inventory processes, including authorizing and recording issuances and transfers, processing adjustments and conducting physical inventory counts.

**DSNY Response:** “These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly.”

12. DSNY should revise and update its policies and procedures to reflect current practices and operations whenever significant changes in operations are made.

**DSNY Response:** “These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. . . . the Department will promulgate them and begin training staff shortly.”

## Obsolete Parts Have Not Been Relinquished

We found that 63 (29 percent) of the 219 sampled items in the Material Management storerooms did not have any movement (issuances, transfers or receipts) since the part information (part number, description, quantity, etc.) was transferred from MCMS to M5 in June 2013.<sup>5</sup> An additional 26 (12 percent) of the items did not have any movement for over a year. According to an M5 report listing inactive parts, as of May 3, 2016, there were 5,448 parts (45 percent) of a total of 12,235 parts in inventory at Material Management that had no activity since January 1, 2015.<sup>6</sup> The reported value of this inactive inventory was greater than \$2.5 million.

However, the DOI standards require a relinquishment policy for the evaluation and disposal of obsolete inventory. According to DSNY officials, the relinquishment program was stalled with the transfer to M5 and the Fleet Consolidation of vehicles from four agencies; no parts have been relinquished since the Fleet Consolidation took place in April 2012. In addition, they stated that when it was discovered that items that no longer had any use in DSNY still could be used on the consolidated fleet, it was decided to not move forward.

DSNY’s failure to properly relinquish obsolete parts in a timely manner will likely unnecessarily increase costs to the City and diminish the amount of funds ultimately recovered from sale. Obsolete parts take up space, which adds potential costs for the City. Moreover, delay in relinquishing unneeded inventory could decrease its value and thereby the amount of City funds recouped. Finally, obsolete resources need to be managed and safeguarded, which also costs additional funds.

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<sup>5</sup> The sample size is 219 instead of 220 because we excluded an item at X04 that was identical to another sampled part, but was listed under a different part number (cross-reference number).

<sup>6</sup> The 12,235 parts were calculated based on the number of parts with quantities on-hand (greater than 0) at the Material Management storerooms and consists of 7,575 parts at X02 and 1,692 parts at X04 as of February 16, 2016, and 2,686 parts at X11 and 282 parts at X23 as of March 8, 2016.

## Recommendation

13. DSNY should conduct a review of all parts that have had no movement for over 13 months to determine whether the parts are obsolete and relinquish the obsolete parts in accordance with its protocol and DCAS requirements.

**DSNY Response:** “DSNY has re-issued its relinquishment policy and has completed a review of all items with no movement in 24 months and is currently relinquishing items that are no longer required based on current fleet. DSNY will continue to perform an annual review of inactive parts.”

## Parts Incorrectly Valued at \$0 in M5

Our analysis of the list of 31,267 items on record as maintained in DSNY’s inventory revealed that 561 were listed as having a dollar unit value of \$0 in M5. These items included a transmission assembly, mounting kits, generators, fuel tank filters, and snow tire chains. Some explanations provided by DSNY for the zero value items seemed reasonable. For example, DSNY officials explained that complete assemblies (kits) consisting of multiple parts may later be broken down into individual components as needed and, in other instances, spare parts are received with certain purchases.

For our inventory count, we reviewed a sample of five items for each location listed with a zero value in M5, for a total of 40 items. In at least 15 (38%) of the 40 instances, they were valued at zero in error. For example, we found that two alternators, one at X02 and one at X04, were listed with a zero value. According to DSNY officials, this occurred because the part was listed under an incorrect cross-reference. This same part was listed under another part number with a \$116 value in M5. In addition, in a few instances DSNY did not provide a definitive explanation. (We were unable to determine the appropriate cost of these items.) The main explanation for the items incorrectly recorded with a zero value was due to issues with the transfer of files from MCMS to M5. According to DSNY officials, the files did not transfer correctly.

When parts are incorrectly valued at zero, the total inventory valuation is underreported. There is also an increased risk that items may be incorrectly valued to allow for misappropriation and that inventory discrepancies for zero value items will not be adequately investigated.

## Recommendation

14. DSNY should review all items recorded with a zero value in M5, determine whether the valuation is correct and modify the price of items that were incorrectly valued at zero.

**DSNY Response:** “DSNY has reviewed all zero dollar items and entered valid pricing for these items. In addition, DSNY has worked with DCAS to implement a feature in M5 which now prevents the transfer or receipt of parts at zero dollars.”

## DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The audit scope was July 1, 2015, through May 3, 2016.

To obtain an understanding of DSNY's inventory procedures we reviewed: DOI's *Standards for Inventory Control and Management* (July 1992, Revised), SS15-020 *DSNY Support Services Inventory Control and Management Policy* (August 7, 2015), *AssetWorks Application Training Inventory Management M5 Fleet Focus* (February 2012), *Cycle Count Notification (2002) Cycle Counting in MCMS* (November 13, 2015), *MCMS Parts Relinquishment Policy & Procedure* (September 24, 2004), *Return Policy and Protocol* (October 26, 2004), *Receiving Protocol* (November 13, 2003), *Consumable Parts Audits* (June 28, 2002), SS Memo #16-023 *BME Policy Procedure for Relinquishment* (March 2, 2016), and DSNY's 2014 response to Comptroller's Directive 1.

To obtain an understanding of the inventory operations, we held walkthrough meetings at Material Management and the four borough shops. At the borough shops we interviewed either the Chief or the Deputy Directors. We also interviewed the Director of Fiscal Services to obtain an understanding of the purchasing procedures at Material Management and how purchases are recorded in DSNY's Purchasing Tracking System.

To obtain a better understanding of the inventory processes, we conducted unannounced observations at the Material Management storerooms (X02 and X11) and the four borough shops. We observed receipt of purchases, issuances/transfers, and the inventory storerooms. We documented our understanding of inventory operations in flowcharts which were submitted to DSNY officials for confirmation and/or modification.

To obtain an understanding of the system used to track and manage the inventory of parts, we conducted a walkthrough meeting of the Asset Works M5 system and attended a live demonstration/presentation of the system's functions. In addition, to determine whether personnel had user rights that were compatible with their responsibilities and whether there was adequate segregation of duties, we requested and reviewed the M5 profile list of user privileges/rights, the M5 – Appendix A (definitions of the individual user privileges) and a spreadsheet provided by DSNY of the personnel parts functions.

We requested and reviewed a report on parts purchases made between September 30, 2013, and September 30, 2015, to determine which parts were most frequently purchased. In addition, we generated printouts of the on-hand inventory for each location from M5 (between February 16, 2015 and March 8, 2016) and randomly selected 10 items and judgmentally selected 45 items to count at each of the eight locations, for a total of 440 items. We conducted our counts in the presence of DSNY inventory personnel and in most instances we were accompanied by an auditor from DSNY's internal audit group. When conducting the counts, we requested records for issuances, transfers or receipts of parts that occurred prior to our counts, but that were posted in



M5 after we generated the inventory listings. We then reconciled the inventory balances. We had DSNY personnel review and initial our reconciled count quantities.

We reviewed the transaction history for five sampled desirable and five sampled high transaction items at each of the four Material Management storerooms to determine whether there were any unexplained adjustments made to inventory quantities. To determine why 40 sampled parts were valued at \$0, we requested explanations from DSNY. Further, we looked up the transaction history, beginning July 1, 2013, in M5 for the sampled parts at the Material Management storerooms to determine when the last issuance, transfer or receipt of the part occurred. We also generated reports from M5 for each Material Management storeroom of parts with no activity since January 1, 2015, to determine whether the number of parts that might be obsolete.

We judgmentally selected a sample of 15 purchases (five each from three top vendors) made between April and June 2015 to determine whether the purchases were accurately and timely recorded in M5. In addition, to determine whether part transfers and issuances were accurately and timely posted in M5, we randomly selected 15 transfers/issuances from M5 made between September 25, 2015, and March 25, 2016, from each of the Material Management storerooms and compared the M5 information with the Inventory Transfer Tickets. We also selected a sample of 15 Inventory Transfer Tickets (for April 1<sup>st</sup> and 4<sup>th</sup>, 2016) for each Material Management storeroom and compared the information on the ticket to the information in M5.

To determine whether inventory adjustments were properly supported, we reviewed adjustments that were made at Material Management storerooms for the period of January 1, 2016, through February 16, 2016. We determined whether *Cycle Count/Supervisory Adjustment Checklist* forms were filed for all adjustments and whether M5 indicated the reason and provided an explanation for the adjustment.

We reviewed the results of inventory counts performed by DSNY's internal audit group for Fiscal Years 2013 through 2015 to determine the extent of the counts and to see whether there were material discrepancies. In addition, to determine the dollar value of the inventory on hand as of June 30, 2015, we requested DSNY's inventory valuation for Material Management and the four borough shops.

To determine whether DSNY verified that parts were used as intended, we reviewed parts audits and preventative maintenance audits for a sample of eight Field Supervisors (five day and three night) for the periods of July 6<sup>th</sup> through the 17<sup>th</sup>, 2015, and January 4<sup>th</sup> through 15<sup>th</sup>, 2016.

Although the results of our sampling tests were not statistically projected to their respective populations, these results, together with the results of our other audit procedures and tests, provide a reasonable basis for us to determine whether DSNY has adequate inventory controls in place concerning vehicle equipment and supplies.



# sanitation

Kathryn Garcia Commissioner

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June 7, 2016

The Honorable Marjorie Landa  
Deputy Comptroller for Audit  
Office of the Comptroller  
1 Centre Street, Room #1100  
New York, NY 10007

Re: Audit Report on the NYC Department of Sanitation's Controls over its  
Inventory of Vehicle Equipment and Supplies, MD16-059A, dated May  
23, 2016

Dear Deputy Comptroller Landa,

Thank you for the opportunity to review and comment on the six (6) major findings and fourteen (14) recommendations contained in your recent audit on the Department of Sanitation's Controls over its Inventory of Vehicle Equipment and Supplies. We request that you take our comments into serious consideration and reflect them in the final audit report.

Thank you.

Sincerely,

A handwritten signature in black ink that reads "Kathryn Garcia". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Kathryn Garcia

*The Department of Sanitation (“the Department” or “DSNY”) has reviewed the Draft Report on the New York City Department of Sanitation’s Controls over its Inventory of Vehicle Equipment and Supplies, Audit #MD16-059A, dated May 23, 2016. The report highlighted many of the challenges that the Department encountered when the Department converted from the Maintenance Control and Management System (MCMS) system to the M5 system in September of 2013. M5 is a citywide fleet management system implemented and overseen by the Department of Citywide Administrative Services (DCAS). During the conversion to M5, two data files were transferred from MCMS, and this led to some inventory reappearing or doubling in the new system. DSNY has been working with DCAS over the past three years to mitigate many of the problems which occurred as a result of merging the two systems, while at the same time integrating the repair and maintenance operations of four other city agencies consisting of approximately six thousand vehicles and a parts inventory of over forty thousand different commodities valued at around \$23 million. The Department takes these responsibilities very seriously and safeguarding our inventory against misappropriation and theft is one of our greatest priorities.*

*Although you have identified a few weaknesses that need to be addressed in order to prevent risks of loss to the agency, we appreciate the fact that your audit did not find any major deficiencies in our operations. We will continue to work with DCAS to improve our inventory system and to incorporate your recommendations. Our responses to your specific findings and recommendations are outlined below.*

### **Inventory Management Weaknesses**

#### **Finding #1**

##### **Improper Adjustments to Inventory Balances**

DSNY had insufficient evidence that discrepancies between amounts on hand and amounts recorded are investigated. When discrepancies are identified, DSNY personnel in many cases adjust the inventory balances in M5 so that the recorded balances reconcile with the amounts on hand.

##### **Agency Response**

*When discrepancies are discovered, DSNY makes reasonable efforts to determine the source of the discrepancies. This may include reviewing transaction documentation for any distributions or additions to the inventory items and conducting recounts. After these efforts are exhausted, the M5 system totals are adjusted to reconcile with the on hand balances.*

*In some instances, the Department did not maintain adequate documentation to support adjustments that were entered on the system. The reason and/or the code entered were not always adequately documented, and some transactions did not have the appropriate supervisory approvals and or authorizations. These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly.*

**Finding #2****Inappropriate M5 System Privileges**

DSNY M5 users in the parts rooms at the four borough shops were all assigned the same security profile/system privileges (the ability to view, add or modify information in M5).

**Agency Response**

*Prior to the fleet consolidation and the implementation of the M5 system, employees' user rights were stratified in accordance with their roles and responsibilities in the MCMS system. However, after the consolidation and the implementation of the M5 system, proper levels of employees' user rights were not incorporated in the M5 system. During the course of this audit, it was discovered that everyone was assigned the same user rights in the M5 user profiles which is not in compliance with proper internal controls for adequate segregation of duties.*

*When this issue was brought to the agency's attention, DSNY immediately contacted DCAS to resolve the issue. All user profiles have subsequently been adjusted to match each employee's respective roles and responsibilities.*

**Finding #3****Periodic Inventory Counts in Accordance with DOI Standards are Not Performed**

Periodic inventory counts are not performed in accordance with the standards set forth in DOI's Standards for Inventory Control and Management, which requires that a count of all stored goods be conducted at least once a year to ensure the accuracy of the perpetual inventory records. DSNY officials stated that a complete physical count would require a shutdown of operations for more than a week, which is not practical.

**Agency Response**

*Due to the operational impact of shutting down stockrooms to conduct a full audit, DSNY had for many years used MCMS weekly cycle counts in all stockrooms. Under the cycle count process, all items are randomly selected and counted weekly. In addition, shelf counts are conducted when items are issued or received in order to reconcile perpetual inventory records.*

*The implementation of the M5 system disrupted the Automated Cycle Count function, and as a result, DSNY was unable to perform the automated cycle counts. With the assistance of DCAS's M5 Consultant, the Automated Cycle Count functionality was restored to every Materials Management and Satellite Parts room. DSNY is reviewing these cycle counts to ensure that they are Department of Investigations (DOI) compliant.*

*In order to comply with the complete stockroom shutdown required by DOI inventory standards, DSNY is exploring options to determine the most feasible way to conduct a complete physical inventory count of its stored parts at all locations, with the least amount of disruption to its operations. We are investigating the impact to daily operations if we were to "close" our*

*stockrooms for an inventory. We are also reviewing distinct protocols for completing a full inventory count, as well as determining the staffing requirement to adequately perform the counts while meeting DOI standards.*

## **Other Weaknesses**

### **Finding #4**

#### **Insufficient Formal Policies and Procedures**

Since 2013, DSNY's BME went through significant changes including the fleet consolidation, addition of the GPC contract, and transition to the M5 inventory management system. However, many of the DSNY policies were not updated to reflect these operational changes, pending the completion of functionality in M5 at all inventory locations. Our review of DSNY's procedures revealed that while they do identify the lines of responsibilities, they do not detail the steps for processing issuances, transfers, and adjustments nor do they provide information on the scope of an individual's authority.

#### **Agency Response**

*DSNY has been utilizing the DOI Standards for Inventory Control and Management, the M5 instructional documentation and various internal Policy and Procedures as guidance to perform its daily inventory functions. The agency acknowledges the need to update and develop detailed procedures which clearly define the roles and responsibilities for the various inventory functions. We have finalized new Policies and Procedures which clearly define staff responsibility and authority over the processes used to manage inventory. This will also improve our internal controls in accordance with the DOI inventory standards.*

### **Finding #5**

#### **Obsolete Parts Have not been Relinquished**

We found that 63 (29 percent) of the 219 sampled items in the Material Management storerooms did not have any movement (issuances, transfers or receipts) since the part information (part number, description, quantity, etc.) was transferred from MCMS to M5 in June 2013.<sup>4</sup> An additional 26 (12 percent) of the items did not have any movement for over a year. According to a M5 report listing inactive parts, as of May 3, 2016, there were 5,448 parts (45 percent) of a total of 12,235 parts in inventory at Material Management that had no activity since January 1, 2015.<sup>5</sup> The reported value of this inactive inventory was greater than \$2.5 million.

#### **Agency Response**

*DSNY detailed to the audit team that a relinquishment exercise was performed prior to the implementation of M5; however, this period corresponded with the consolidation of fleet repairs for vehicles belonging to other city agencies (DOH, DOE, DEP and DPAR). DSNY found that parts identified for relinquishment could be utilized for the repair of some of these vehicles. As a*

*result, the decision was made to delay the relinquishment of these parts until sufficient repair history for consolidated vehicles could be used to determine whether the parts were truly obsolete.*

*DSNY also indicated to the audit team the highly seasonal nature of some inventory items, particularly those relating to snow removal and melting equipment. Due to long lead times to acquire these highly specialized parts, inventory is needed even though they might not have had any movement for long periods of time. During some snow seasons, this equipment may not be deployed or only marginally deployed and these parts may not require use for an entire season. These types of parts with no “movement” for a 13 or 14 month period may not be obsolete and are not automatically candidates for relinquishment.*

*DSNY has re-issued its relinquishment policy and is currently conducting a relinquishment review exercise. The Department has identified approximately \$550,000 in inventory that has had no “movement” for 24 months and has transferred those parts to the internal salvage holding shop for relinquishment according to established procedures. DSNY will conduct further relinquishment review exercises in the future.*

#### **Finding #6**

##### **Parts Incorrectly Valued at \$0 in M5**

Our analysis of the list of 31,267 items on record as maintained in DSNY's inventory revealed that 561 were listed as having a dollar unit value of zero dollars in M5. These items included a transmission assembly, mounting kits, generators, fuel tank filters, and snow tire chains.

##### **Agency Response**

*DSNY agrees that parts in inventory should not be valued at zero dollars. Occasionally, DSNY acquires spare parts in conjunction with the acquisition of new vehicles. These parts are frequently valued as a “lot”, rather than individual unit costs. In addition, some of these are complete systems, such as a complete ‘diesel after treatment’ package; DSNY breaks these down into individual parts and some of these components may not be available or priced individually in the manufacturer’s price sheet. Occasionally, the transfer of data fails and pricing does not carry over, or parts are returned from the field without pricing.*

*DSNY has worked with DCAS to implement a feature in M5 which now prevents the transfer or receipt of parts at zero dollars. In addition, DSNY has reviewed all zero dollar items and entered valid pricing for these items.*

#### **Audit Recommendations and Agency Responses**

##### ***The Agency should:***

##### **Recommendation #1**

DSNY should ensure that count discrepancies are adequately investigated before inventory



adjustments are made and that evidence of the investigation is maintained.

**Agency Response**

*These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly.*

**Recommendation #2**

DSNY should ensure that adequate justification for inventory adjustments is appropriately included in M5.

**Agency Response**

*These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly. The policy delineates roles and responsibilities, steps to be taken to investigate and document discrepancies and requires increased levels authority for adjustments above a set value threshold. This policy will require that justifications are included in the comments section of an adjustment entry, along with the proper adjustment code, for all adjustments made in M5.*

**Recommendation #3**

DSNY should ensure that adjustments are appropriately documented and approved using *Cycle Count/Supervisory Adjustment Checklist* forms.

**Agency Response**

*These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly. The policy requires the use and approval of the *Cycle Count/Supervisory Adjustment Checklist* form. The form must be completed and approved by the appropriate level of authority prior to inventory adjustment completion.*

**Recommendation #4**

DSNY should look into the feasibility of requiring an additional supervisory sign off in M5 for inventory adjustments, especially for large quantities and high dollar value items.

**Agency Response**

*The *Cycle Count/Supervisory Adjustment Checklist* form was modified to require a dual supervisory sign-off for adjustments to be made. In addition, DSNY is working with DCAS to evaluate the feasibility of implementing a dual approval requirement for adjustments in M5 above a set threshold.*

**Recommendation #5**

DSNY should ensure that the M5 security profiles are updated for all employees, that they are in line with the employees' job responsibilities, and that duties are adequately segregated.

**Agency Response**

*DSNY coordinated with DCAS to resolve this issue. All user profiles have been adjusted to match each employee's respective roles and responsibilities*

**Recommendation #6**

DSNY should ensure that inventory counts for all parts are conducted at least annually and that any discrepancies are investigated by individuals independent of the inventory operations.

**Agency Response**

*DSNY acknowledges the need to periodically conduct complete inventory counts of all its parts and to ensure that discrepancies are investigated independently from inventory operations staff. We are currently exploring our options to determine the best solution to achieve compliance with the DOI Inventory standards, without causing major disruptions in our functions. (See Page 2.)*

**Recommendation #7**

DSNY should continue to work with DCAS and Fleet Focus to rectify the M5 issues with the cycle counts.

**Agency Response**

*With the assistance of DCAS's M5 Consultant, the Automated Cycle Count functionality was restored to every Materials Management and Satellite Parts room.*

**Recommendation #8**

DSNY should ensure that annual and unannounced audits of the major inventory functions are conducted by an independent internal or external audit group.

**Agency Response**

*In response to your recommendation, DSNY will conduct independent periodic unannounced audits by the Department's Internal Audits Division.*

**Recommendation #9**

DSNY should ensure that inventory audits and counts are conducted at all inventory locations, including the borough shops.

**Agency Response**

*M5 Cycle Counts are presently being conducted at all Parts Inventory locations. In addition, shelf counts are being verified upon every receipt and issuance. The Support Services Administration Division currently conducts internal inventory audits. DSNY is currently revamping the Parts Audits and PM Audits process. In addition, DSNY will conduct independent periodic unannounced audits conducted by the Department's Internal Audits Division.*

**Recommendation #10**

DSNY should investigate the discrepancies identified in this report at Cioffe and RBS and improve inventory controls at those locations to help ensure adequate recordkeeping and good security.

**Agency Response**

*DSNY has investigated the discrepancies in inventory counts at both the Cioffe and Richmond Borough shops. At both Cioffe and RBS the majority of the inventory discrepancies were reconciled after investigation by Parts Room staff. Data entry delays and human errors were found to be the main causes. We will begin the rollout of bar code scanners to document parts movement in and out of the B.M.E. stockrooms. The intent is to eliminate the paperwork currently utilized to move parts to field locations and reduce the discrepancies from delays inherent in the paperwork flow.*

*Until a new system can be developed and implemented to assist in maintaining accurate records, we will increase the use of M5 Cycle Counts and shelf counts of inventory receipts and issuances at these locations.*

*Upon the completion of investigations related to the inventory count discrepancies at these locations, the Department will initiate disciplinary action against any employees found to have disregarded established Department procedures.*

**Recommendation #11**

DSNY should establish and distribute written procedures for all inventory processes, including authorizing and recording issuances and transfers, processing adjustments and conducting physical inventory counts.

**Agency Response**

*These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly.*

**Recommendation #12**

DSNY should revise and update its policies and procedures to reflect current practices and operations whenever significant changes in operations are made.

**Agency Response**

*These issues are addressed in the revised Policies and Procedures memoranda that were recently finalized. Copies of these Policies and Procedures are attached, and the Department will promulgate them and begin training staff shortly.*

**Recommendation #13**

DSNY should conduct a review of all parts that have had no movement for over 13 months to determine whether the parts are obsolete and relinquish the obsolete parts in accordance with its protocol and DCAS requirements.

**Agency Response**

*DSNY has re-issued its relinquishment policy and has completed a review of all items with no movement in 24 months and is currently relinquishing items that are no longer required based on current fleet. DSNY will continue to perform an annual review of inactive parts.*

**Recommendation #14**

DSNY should review all items recorded with a zero value in M5, determine whether the valuation is correct and modify the price of items that were incorrectly valued at zero.

**Agency Response**

*DSNY has reviewed all zero dollar items and entered valid pricing for these items. In addition, DSNY has worked with DCAS to implement a feature in M5 which now prevents the transfer or receipt of parts at zero dollars.*