



THE CITY OF SAN DIEGO

September 8, 2009

Hildred Pepper Jr.  
Director of Purchasing & Contracting  
City of San Diego

Subject: **Central Stores Agreed-Upon Procedures Inventory Count – FY2009**

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We performed the agreed-upon procedures for the FY2009 inventory count as required by San Diego Municipal Code §22.0501. The review consisted of comparing the City's physical inventory in its five storerooms to the inventory stock record. The agreed-upon procedures and the results of our work in the report attached were provided in draft to Central Stores for review and comments. Your response and other attachments that we received on September 8, 2009 can be found after page two of this report.

We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, Purchasing & Contracting is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank Central Stores staff for their assistance and cooperation during the audit. City Audit staff members who participated in the preparation of the report included Tricia Mendenhall, Farhat Popal, and Kyle Elser.

Sincerely,

Eduardo Luna  
City Auditor

cc: Honorable Mayor Jerry Sanders  
Honorable City Councilmembers  
Honorable Audit Committee Members  
Jay M. Goldstone, Chief Operating Officer  
Jeff Jungers, Stores Operations Supervisor  
Steve Fragoso, Supervising Storekeeper  
Andrea Tevlin, Independent Budget Analyst



## Central Stores Agreed-Upon Procedures Inventory Count – FY2009

### Background

#### *Central Stores*

Central Stores is a division of Purchasing & Contracting, which reports to the Assistant Chief Operating Officer. The Division contracts with vendors to supply frequently used materials and to sell these materials to City departments. In addition, Central Stores assesses a 5 percent surcharge on sales to offset its administrative expenses.

Central Stores administers five storerooms, three of which are operated and staffed by the San Diego Police Department, the San Diego Fire Department, and Library Department.

#### *San Diego Municipal Code*

Section 22.0501 (Storerooms—Stock Records—Inventory) of the Municipal Code states,

During the course of, but prior to the end of each fiscal year, the Auditor shall cause an inventory to be taken of all items in the storerooms and warehouses of the City which are then under the supervision of the Purchasing Agent and shall compare such inventory with the stock record to be kept by the Purchasing Agent.

In accordance with §22.0501, the Office of the City Auditor has undertaken a count of the City's inventory at its five storerooms; the results are contained below.

### Procedures

The following were the agreed-upon procedures conducted in the FY2009 inventory count:

- *Obtained electronic version of stock record that is kept by Purchasing Agent*
- *Selected a sample, by storeroom, based on a 99% confidence level and 8% confidence interval*
- *Conducted physical inventory count of the sample at the City's five storerooms*
- *Compared results of physical inventory count to the stock record*
- *Provided results of inventory count, by storeroom, to Purchasing Agent*

## Results

A total of 238 stock items were sampled and counted with a total inventory value of \$313,429.66. Of the stock sampled, we found that the City storerooms are short 35 items with a total value of \$16,577.33. As a percentage of the sample inventory value, this amounts to approximately 5.3 percent.

The table below reflects the results of the count—performed on June 29-30, 2009—by storeroom.

Storeroom	Total Number of Stock Items	Total Inventory Value <sup>1</sup>	Sample Number of Stock Items <sup>2</sup>	Sample Inventory Value	Number of Items Over/Under <sup>3</sup>	Total Value of Items Over/(Under)	Value of Items Over/(Under) as % of Sample Value
1	908	\$494,075.17	73	\$25,673.87	3	(\$5.98)	-0.02%
2	1227	\$1,086,113.23	98	\$236,759.91	16	(\$9,916.24)	-4.19%
42 *	284	\$147,388.76	23	\$20,330.17	0	-	-
75 *	358	\$276,890.90	29	\$17,421.20	16 <sup>4</sup>	(\$6,635.11)	-38.09%
77 *	78	\$26,028.27	15	\$13,244.51	0	-	-
<b>Totals</b>	<b>2855</b>	<b>\$2,030,496.33</b>	<b>238</b>	<b>\$313,429.66</b>	<b>35</b>	<b>(\$16,557.33)</b>	<b>-5.28%</b>

Source: Office of the City Auditor.

### Note:

\* These storerooms are operated and staffed by the San Diego Fire Department (Storeroom 42), San Diego Police Department (Storeroom 75), and Library Department (Storeroom 77).

We made recommendations in our previous Audit of the Central Stores Inventory, dated February 27, 2009, that address the actions that should be taken by management to reduce the risk of inventory shortages.

<sup>1</sup> Inventory value as of June 26, 2009.

<sup>2</sup> “Sample Number of Stock Items” refers to the number of stock item categories that we counted (i.e. Screwdriver, Wrench Pipe, etc.)

<sup>3</sup> “Number of Items Over/Under” refers to total categories of items sampled that had discrepancies when compared to number of items that should be on hand per the inventory system.

<sup>4</sup> This does not include two additional items that had discrepancies. For one item, last year’s requisitions had not been keyed in. The second item’s discrepancy was due to the use of an approximation for the count using the weight of the item.



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: August 3, 2009  
TO: Eduardo Luna, City Auditor  
FROM: Hildred Pepper Jr., Director of Purchasing & Contracting Department  
SUBJECT: Central Stores Inventory Count- FY09

In response to the memo regarding the FY09 Inventory Count, conducted on June 29-30, 2009, our staff at Storeroom 2 has been able to reconcile two of the items that were found to be missing. The first item is stock number 292466, a 16" butterfly valve, which shows two missing from inventory for a value difference of (\$5,123). One of the valves was overlooked in the count and is in our possession in the Pipeyard. The other valve was found on a Stores Requisition that had not yet been processed (attached). The second item is stock number 275620, a 45 degree elbow, MJ x MJ, which shows three missing from inventory with a value difference of (\$520.77). This was a one-time special item purchase for WU, Water Operations Division, on 10-28-08. The items were purchased with a P-card, received into inventory on 10-28-08, but the stores requisition had never been processed. The requisition has been located and will be processed in the SAP system (attached). This changes the table that reflects the results of the physical count for Storeroom 2 and the overall totals as outlined below;

Storeroom	Sample # of Stock Items	Sample Inventory Value	Number of Items Over (Under)	Total Value of Items Over (Under)	Value of Items over (under) as % of Sample Value
2	98	\$236,759.91	14	(\$4,272.31)	-1.80%
<b>Totals</b>	<b>238</b>	<b>\$313,429.66</b>	<b>34</b>	<b>(\$11,434.17)</b>	<b>-3.48%</b>

We received the detail report by storeroom for the physical count conducted in this audit on August 17, 2009. We are still completing a reconciliation of the results. The delay in completing this reconciliation is due to gaining access to the closed FleetFocus data base. There is one additional item still under review and a possibility that another adjustment to the inventory count

may be found. During the discussion we had last fiscal year regarding the annual Central Stores Inventory Audit, it was requested that the results of the physical count be provided to Central Stores as soon as the count was completed. This allows for the reconciliation process for inventory errors to begin right away and properly documented in the Inventory System.

The relationship between P&C/Central Stores and Storerooms 42- Fire Department, 75- PD and 77- Library (referred to as departmental storerooms) is that Central Stores provides the funding for inventory purchases. The departments provide the staffing, supervision and facility. These storerooms are set up to provide materials and supplies exclusively to their own department.

The P&C Department has previously discussed with the PD consolidating Storeroom 75 into Central Stores Storeroom 1. This recommended consolidation would reduce staffing by 1.0 Storekeeper I positions in PD and would improve the operational efficiencies for the PD and tighten internal controls for the distribution of Storeroom 75's inventory. The Police Department has so far not been interested in pursuing this recommendation. The results of the physical count conducted at Storeroom 75 represent 58% of the value of items found to be under as a percentage of the overall sample value of the inventory count. We will use this information to once again recommend to the Police Department that it is in the overall best interest to consolidate Storeroom 75 into Storeroom 1.

FERGUSON WATERWORKS #1083  
 11909 TECH CENTER COURT  
 POWAY, CA 92064

PH: 858-391-3700 FAX: 858-391-5958

**CASH SALES ORDER**  
 \*\*\* C O D \*\*\*

ACCEPT B/O = Y  
 SHOWROOM = N  
 SOURCE = SOE  
 IB FRT = N 0.  
 OB SHP = N 0.  
 28 OCT 2008 12:39:

WRITER: KDB SALESMAN: JRH/JR

DER NO.	REQUIRED DATE	SHIP WHS.	SELL WHS.
024070-1	10/28/08	1083	1083

STOMER NO.	CUSTOMER ALPHA	CONTRACT NO.	BID NO.	ORDER DATE	ORDERED BY
0351	CITYSANDI			10/27/08	CELESTE

INSTRUCTIONS

OML CONTACT  
 Cpu Poway

CITY/SAN DIEGO  
 --COD COD COD COD COD--  
 2773 CAMINITO CHOLLAS  
 SAN DIEGO, CA 92105-5039

SHIP TO

COUNTER PICK UP  
 11909 TECH CENTER COURT  
 POWAY, CA 92064

SHIP VIA  
 CPU COUNTER PICK-UP

VENDOR  
 VENDOR P.O. NO.

PCS	BAGS	BOXES	CRATES	LENGTHS	BUNDLES

ROUTE NO. RUN NO. DEPART

CUST PH: 619-527-7552

STOMER P.O. NO.	JOB NAME	ATTN:
108-5	YARD	

SHIP WT.	SHIP DATE	DELIVERED BY
	10/28/08	KOB

ROUTE DESC.

PACKED BY	CHECKED BY
KOB	KALB

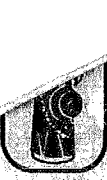
LINE	ORDER QTY	SHIP QTY	ITEM CODE	DESCRIPTION	UNIT PRICE	U/M	TOTAL	P.O. NO.	ISLE LOC
1	1	1	MJ4LA10	10 MJ C153 45 BEND L/A	111.300	EA	111.30		SC14
				DEPOSIT PAID ON INV# CP024070 119.93 BY Visa CC# XXXXXXXX/XXX1237 DN 10/27/08				81.0 1b	
				FF-PO# C1108-5					

RETURNS ALLOWED WITHOUT PROPER AUTHORIZATION. RETURNED MATERIALS SUBJECT TO HANDLING CHARGES.  
 SEE REVERSE SIDE FOR IMPORTANT TERMS AND CONDITIONS OF SALE AND LIMITATIONS WARRANTY.

SUBTOTAL	INBOUND FREIGHT	OUTBOUND SHIPPING	TAX	LESS DEPOSIT	TOTAL DUE
111.30	0.00	0.00	8.63	119.93	0.00

STOMER'S SIGNATURE: *Whit Skat*

DATE: 10/28/08 CUSTOMER COPY TERMS: CASH ON DELIVERY



# Pacific

235 S. Pacific Street  
San Marcos, CA  
92078

**PIPELINE SUPPLY**  
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FAX (760) 471-4650

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## INVOICE 128924

SOLD TO **CITY OF SAN DIEGO**

SHIP TO / JOB NAME <i>W/K</i>	INVOICE DATE
	CUSTOMER ORDER NO.
	JOB NO.
	ORDERED BY / ORDER DATE <i>CELESTE</i>

**J1108-2**

SALESPERSON/NUMBER	WRITTEN BY <i>[Signature]</i>	BACKORDER FROM	BACKORDER TO	DATE SHIPPED <i>10-28-08</i>	SHIP VIA <i>W/K</i>	SCHEDULED SHIP DATE	<input type="checkbox"/> PPD <input type="checkbox"/> COLL.
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PART NUMBER	QUANTITY ORDERED	QUANTITY SHIPPED	BACK ORDERED	DESCRIPTION	UNIT	AMOUNT	#
	2	2		10" MT 45'	275620	186 <sup>00</sup>	372 <sup>00</sup>
	6	6		10" 1500 KITS	335018	99 <sup>00</sup>	594 <sup>00</sup>
				FF PO #	ON J1108-2		

RECEIVED BY *[Signature]*

PRINT LAST NAME *Scates* DATE *10-28-08*

DELIVERED BY *[Signature]* FILLED BY *[Signature]*

TERMS AND CONDITIONS: Net 30 days. LATE CHARGE: 18% per annum, 1.5% per month.  
 ATTORNEY'S FEES: If legal action becomes necessary to collect any monies due, buyer agrees to pay reasonable attorney's fees and costs incurred by PACIFIC PIPELINE SUPPLY.  
 DELIVERY: PACIFIC PIPELINE SUPPLY shall not be liable for any delay caused by fire, strike, acts of God or any other cause beyond the reasonable control of the company.

SUBTOTAL **966<sup>00</sup>**

TAX **74.87**

TOTAL **1040.87**

