
AGREED-UPON PROCEDURES RELATED TO THE CENTRAL STORES PHYSICAL INVENTORY

Office of the
City Auditor

City of San Diego





THE CITY OF SAN DIEGO

DATE: September 16, 2021
TO: Claudia Abarca, Director, Purchasing and Contracting
FROM: Andy Hanau, City Auditor, Office of the City Auditor
SUBJECT: Agreed-Upon Procedures Report on Central Stores Physical Inventory – FY 2021

Enclosed is the Agreed-Upon Procedures Report Related to the Central Stores Physical Inventory for Fiscal Year Ending 2021 conducted by Macias Gini & O'Connell (MGO). This inventory count is required by San Diego Municipal Code §22.0501. The report contains the procedures and results of work completed by the MGO and is provided for informational purposes only. MGO did not find any internal control issues nor did they make any new recommendations. The two recommendations presented in this report are the same from last year since they remain outstanding. These recommendations, once implemented, will strengthen existing controls and your staff will gain efficiencies as they process orders.

You indicated that you agree with the attached report and you are working on implementing the recommendations.

We would like to thank MGO for their work, and the Purchasing & Contracting Central Stores staff for their assistance and cooperation during this review.

Respectfully submitted,

Andy Hanau
City Auditor

cc: Honorable Mayor Todd Gloria
Honorable City Councilmembers
Honorable Audit Committee Members
Honorable City Attorney Mara Elliott
Jay Goldstone, Chief Operating Officer
Matthew Vespi, Chief Financial Offer
Christiana Gauger, Chief Compliance Officer
Rolando Charvel, Department of Finance Director and City Comptroller
Andrea Tevlin, Independent Budget Analyst
Thomas Sawade, Stores Operations Supervisor

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CITY OF SAN DIEGO, CALIFORNIA

Independent Accountant's Report on Applying
Agreed-Upon Procedures Related to the
Central Store Physical Inventory

June 30, 2021



Certified
Public
Accountants

CITY OF SAN DIEGO, CALIFORNIA
Independent Accountant’s Report on Applying
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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Office of the City
Auditor City of San Diego,
California

We have performed the procedures enumerated below, which were agreed to by the Office of the City Auditor (City Auditor) of the City of San Diego, California (the City), related to the City Auditor's compliance with the requirements of Article 2, Division 5, Section 22.0501 of the San Diego Municipal Code regarding the City's Central Store inventory records as of June 30, 2021. The Purchasing and Contracting Department (the Department) management is responsible for the City's Central Store inventory records.

The City Auditor has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of compliance with the San Diego Municipal Code referred to above. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated results are as follows:

- 1) Obtain an electronic version of the Central Store inventory stock records as of June 28, 2021 maintained by the Purchasing and Contracting Department and select a sample based on a 99% confidence level and 8% confidence interval.

Result: We obtained an electronic version of the inventory stock records maintained by the Purchasing and Contracting Department for the Central Store, which contained a total of 1,171 stock items. Per concurrence with the City Auditor at the entrance conference held on June 17, 2021, paper-form stock items were excluded from the sampling population, resulting in a total of 1,089 stock items – the Central Store had 82 paper-form stock items.

- 2) Conduct a physical inventory count at the Department's Central Store location for the randomly selected sample items and compare the results of the physical inventory count to the Department's inventory stock records. The physical count includes judgmentally opening 10 inventory boxes for the sample items selected and recounting the contents within and comparing the recounted items to the quantity of items stated on the inventory box.

Result: Refer to Attachment 1 (which reports the results for both Procedures 2 and 3) for a summary of the results of the physical inventory count and Attachment 2 for a detail listing of the inventory stock item discrepancies.

- 210 stock items were randomly counted at the Central Store with a recorded inventory value of \$216,835. Of the 210 stock items counted, MGO noted discrepancies for 70 stock items. 41 of the stock items resulted in an overstatement of 203 inventory units, or \$3,675, which were included per the inventory record system but not on hand. 29 of the stock items resulted in an understatement of 596 inventory units, or \$2,584, which were on hand, but not included in the inventory record system. The net impact of items counted at the Central Store is an overstatement in the inventory record system of \$1,091.

MGO recommends that the Purchasing and Contracting Department consider procuring handheld devices that are compatible with the SAP inventory record module. These devices can be used to scan the barcodes that already exist on each stock item tag and will allow storekeepers to update inventory records in real-time for their inventory cycle counts and will provide more accurate and timely information regarding inventory record maintenance.

- 3) Judgmentally select 10 items on hand at the Central Store and compare and agree the items to the inventory system stock records and determine if they are accurately recorded in the inventory system.

Result: Refer to Attachment 1 (which reports the results for both Procedures 2 and 3) for a summary of the results of the physical inventory count and Attachment 2 for a detail listing of inventory stock item discrepancies.

- Judgmentally selected and counted 10 stock items on hand at the Central Store with a recorded inventory value of \$12,672. Of the 10 stock items counted, MGO noted discrepancies for 2 stock items. These 2 stock item discrepancies resulted in an overstatement of 3 inventory units, or \$56, which were included in the inventory record system but not on hand.

- 4) Inquire with the Store Manager regarding the Central Store procedures and activities to determine obsolete inventory (inventory with no sales to the City departments during the prior fiscal year) is annually reviewed. Confirm if the Department's justification for retaining obsolete items is maintained on file, or if obsolete inventory is being properly liquidated.

Result: Per inquiry with the Central Store Operations Supervisor, obsolete inventory is reviewed annually by the Purchasing and Contracting Department. Stock items in the inventory records without goods movement within the last 12 months are identified in SAP by Central Store staff. The Purchasing and Contracting Department attaches a listing of items identified from SAP to a memo that is sent to each respective department, requiring their review of the items identified and a response within 30 days. In their response, departments provide justification for retaining obsolete items or disposing of them. Obsolete stock items identified by the departments are removed from the inventory records by Central Store staff and set aside for disposal.

Due to the COVID-19 pandemic that affected the City for the entirety of fiscal year 2020/2021, it was difficult for Central Stores and its customer operating departments to properly identify materials by remote working, which did not move based on lack of consumption from the warehouse, versus the low consumption of items as a result of the full or partial closures of several departments during the fiscal year. Therefore, Central Stores did not conduct the obsolete inventory process for FY 2020/2021. However, per the Central Store Operations Supervisor, the procedures will resume for FY 2021/2022.

- 5) Obtain a listing of the Central Store inventory write offs occurring in FY 2020-2021. Select 5 items from the positive adjustment schedule and 5 items from the negative adjustment schedule written off during the fiscal year ended June 30, 2021, to confirm if the items and explanations provided by the Purchasing and Contracting Department appear reasonable.

Result: We performed an analysis on 10 adjustments (5 positive adjustments and 5 negative adjustments). Per inquiry of the nature of adjustments with the Central Store Operations Supervisor and reviewing supporting documents, we noted that the items and explanations appear reasonable.

- 6) Determine if recommendation(s), if any, from the previous year's Inventory Agreed-Upon Procedures have been adequately implemented to resolve the identified issues. If no recommendations were made in the preceding year's Inventory Agreed-Upon Procedures, then this procedure would not apply.

Result: Per the FY 2019/2020 Inventory Agreed-Upon Procedures, which was consistent with FY 2018/2019 Inventory Agreed-Upon Procedures, MGO recommends the procurement of hand-held devices to aid in the efficiency of inventory counts, which has not yet been implemented as of June 30, 2021. Refer to our recommendation at procedure 2 above.

- 7) Provide the results of the inventory counts, the results of the obsolete inventory review, and the results of the recommendation follow-up in a draft written report with recommendations, as appropriate, to address any identified issues.

Result: The results of the physical inventory count for the Central Store were provided to the Department on August 4, 2021. An exit conference was held with the Department and City Auditor staff on August 5, 2021 to discuss the results of MGO's observations and recommendation.

- 8) Hold an exit conference with Purchasing and Contracting Department staff and City Auditor staff to review and finalize the draft report.

Result: An exit conference was held with Department staff and City Auditor staff on August 5, 2021 to review and finalize the draft report.

We were engaged by the City Auditor to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Central Store inventory records maintained by the Department. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the City Council and Audit Committee of the City of San Diego, the City Auditor and the Purchasing and Contracting Department of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

San Diego, California
August 17, 2021

Attachment 1

Location	Total Number of Stock Items in Inventory Records¹	Total Inventory Value²	Total Number of Sampled Stock Items³	Total Value of Sampled Stock Items	Number of Inventory Units Over / (Under) in the Inventory Records	Total Value of Inventory Units Over / (Under) in the Inventory Records	Percentage Difference Between the Value of Sampled Items Counted and Total Value of Sampled Inventory as Recorded in the Inventory Records	Estimated Difference in the Total Inventory Value per the Department's Stock Records Based on the Sampling Error
Chollas	1,171	\$ 1,688,054.84	220	\$ 216,835.03	206 (596)	\$ 3,730.81 (2,583.85)	1.72% -1.19%	\$ 29,044.26 (20,115.24)
Total	1,171	\$ 1,688,054.84	220	\$ 216,835.03	(390)	\$ 1,146.96	0.53%	\$ 8,929.02

¹The "Total Number of Stock Items" is as of June 28, 2021, based upon the Purchasing and Contracting Department's inventory stock records including the various forms maintained in inventory, which were excluded from our sampling population.

²The "Total Inventory Value" is as of June 28, 2021, based upon the Purchasing and Contracting Department's inventory stock records.

³The "Total Number of Sampled Stock Items" refers to the number of separate stock items physically counted pursuant to Procedures #2 and #3.

Attachment 2 Chollas Store

PROCEDURE 2 (INDIVIDUAL STOCK ITEM EXCEPTIONS):

	Material Number (Stock Item)	Material Description	Inventory Value	Unit Value	Number of Units Recorded in SAP	Inventory Unit of Measure	Number of Units Per Physical Observation Count	Number of Units Overstated/ (Understated) in SAP	Inventory Value Overstated/ (Understated) in SAP
1	22035234	MASKING TAPE BLUE - 1.5 INCH	\$ 485.63	\$ 5.85	83	EA	78	5	\$ 29.25
2	22040343	CUP PAPER DRINKING PLEATED WAXIE 110350	62.84	2.62	24	EA	23	1	2.62
3	22030569	WRENCH COMBO 5/16" STANLEY 86-832	29.75	2.13	14	EA	13	1	2.13
4	22034898	PAINT BRUSH 2-1/2" THROW-AWAY	72.93	0.52	141	EA	130	11	5.69
5	22035224	PAINT TRAY ROLLER 9" METAL FRAZEE #20251	243.42	7.61	32	EA	43	(11)	(83.68)
6	22015054	SIGN SLOW-STOP, REFLECTIVE	396.55	33.05	12	EA	2	10	330.46
7	22035091	PAINT SPRAY KRYLON BEIGE	68.56	3.26	21	EA	43	(22)	(71.82)
8	22018746	PIPE PVC SCH40 1/2" X 20'	33.04	0.24	139	FT	120	19	4.52
9	22041099	SAFETY PROTECTANT POISON IVY & OAK 12BX	265.83	2.77	96	EA	104	(8)	(22.15)
10	22078163	SAFETY FIRST AID KIT PACK UP (FIELD) B	9,428.33	44.68	211	EA	212	(1)	(44.68)
11	22031030	NOZZLE TIP, 3/4"GT X 1/4"ORIFACE;	71.17	14.23	5	EA	6	(1)	(14.23)
12	22077410	GLOVE FLEX TUFF 2 OR = SML 12PK-144 CS	157.22	0.69	228	PR	312	(84)	(57.92)
13	22014987	RAINCOAT PLASTIC YELLOW 5XL	74.99	5.00	15	EA	14	1	5.00
14	22034891	PAINT BRUSH 1-1/2" THROW-AWAY	11.87	0.27	44	EA	56	(12)	(3.24)
15	22030594	WRENCH PIPE 6" RIGID 31000	31.91	15.96	2	EA	3	(1)	(15.96)
16	22014981	RAINCOAT - PLASTIC MEDIUM	28.96	4.83	6	EA	5	1	4.83
17	22031527	CONTROL PHOTO 2400W/240VAC TORK	1,210.55	6.37	190	EA	202	(12)	(76.46)
18	22022932	VALVE GATE 6" FLANGE	1,118.45	559.23	2	EA	1	1	559.23
19	22040290	CLEANER SPEEDBALL 2000 WAXIE 870530	73.30	4.07	18	EA	21	(3)	(12.22)
20	22040406	DOGGIE WASTE BAG WAXIE # 701600	15,099.73	44.67	338	CS	333	5	223.37
21	22040322	DETERGENT LAUNDRY LIQUID HD WAXIE 530994	2,360.61	36.32	65	EA	68	(3)	(108.95)
22	22014996	RAINSUIT PLASTIC YELLOW 5 XL	70.76	6.43	11	EA	12	(1)	(6.43)
23	22030539	TROWEL NURSERY CORONA CT3010	11.74	5.87	2	EA	0	2	11.74
24	22030265	CUTTER DIAGONAL KLEIN #D2000-28	31.94	31.94	1	EA	0	1	31.94
25	22022639	TEE CI STRAIGHT 6" FLANGE CEMENT-LINED	282.05	141.03	2	EA	1	1	141.03
26	22014735	GLOVE RUBBER SLVRS FL/LIN LRG 12PK-144CS	86.90	0.91	96	PR	144	(48)	(43.45)
27	22014982	RAINCOAT - PLASTIC LARGE	56.76	4.73	12	EA	11	1	4.73
28	22031816	TIE CABLE NYLON 30" T&B #TY529M 50/PACK	689.71	26.53	26	PK	25	1	26.53
29	22015085	BACK SUPPORT FLEX SUPPORT TYPE XLG	155.81	10.39	15	EA	14	1	10.39

**Attachment 2
Chollas Store**

Material Number (Stock Item)	Material Description	Inventory Value	Unit Value	Number of Units Recorded in SAP	Inventory Unit of Measure	Number of Units Per Physical Observation Count	Number of Units Overstated/ (Understated) in SAP	Inventory Value Overstated/ (Understated) in SAP
22034909	BUCKET PAINTERS PLASTIC 5GAL	\$ 999.28	\$ 5.84	171	EA	178	(7)	\$ (40.91)
22025679	CLAMP REPAIR SS BAND 10" X 20" W/ 2" IP	332.95	332.95	1	EA	0	1	332.95
22040302	WAXIE CURVE SOLID AIR FRESHNER 160287	607.43	2.21	275	EA	261	14	30.92
22002136	DECAL UNIVERSAL WASTE LABEL	40.08	0.32	124	EA	123	1	0.32
22030387	SCREWDRIVER - KLEIN #605-4 FLAT CAB TIP	37.89	9.47	4	EA	2	2	18.95
22100720	WIPES DISINFECTANT MED SZ TUB CleanCide	3,238.85	53.98	60	EA	53	7	377.87
22078230	SAFETY EYE PAD 2 PK MALLORY 7002	2.12	2.12	1	EA	0	1	2.12
22037790	SERVICE AWARD, PIN 10 YEAR	1,724.54	17.78	97	EA	94	3	53.34
22010871	CAPSCREW NC 5/8" X 3" 25/PACK	86.20	0.34	250	EA	283	(33)	(11.38)
22040222	BROOM STREET 24" W/O HANDLE	215.44	16.57	13	EA	9	4	66.29
22040232	BRUSH DECK 10" W/O HANDLE 2060301	112.76	5.13	22	EA	19	3	15.38
22014522	BUCKET CANVAS TAPERED-WALL KLEIN #5172PS	2,657.76	88.59	30	EA	29	1	88.59
22100172	GLOVE PUNCTURE RES HEX ARMOR 9014 XLG	4,187.85	47.05	89	PR	83	6	282.33
22014805	HARDHAT BLUE FULL BRIM STYLE	682.95	31.04	22	EA	27	(5)	(155.22)
22077632	RAGS WHITE BALBRIGON10LB D-EDWARDSBLBG10	17.11	17.11	1	EA	-	1	17.11
22016012	COUPLING BRASS IPS 125-PSI 3/4" NO LEAD	102.60	5.70	18	EA	20	(2)	(11.40)
22040328	COMPOUND SWEEP OIL-BASE 50# BAG 910040	108.69	18.12	6	EA	5	1	18.12
22040358	DEODORIZER BERRY PATCH WAXIE 164031	743.28	4.92	151	EA	221	(70)	(344.57)
22040230	BRUSH COUNTER (FOX-TAIL) 2060250	189.81	4.22	45	EA	41	4	16.87
22010868	CAPSCREW NC 5/8" X 2-1/2" 25/PACK	98.94	0.30	328	EA	352	(24)	(7.24)
22030591	WRENCH ONE-HAND REED MW3/4 02289	200.33	100.17	2	EA	7	(5)	(500.83)
22035139	PAINT SPRAY KRYLN INVERT-A-CAP BLK 12/CS	491.08	3.19	154	EA	156	(2)	(6.38)
22043857	GAME BOARD MONOPOLY BS-4034XXXX	192.93	32.16	6	EA	5	1	32.16
22040206	URINAL SCREEN, WAXIE 161363	158.33	2.00	79	EA	190	(111)	(222.46)
22030312	RAKE GARDEN 16 TEETH UNION 63131	287.18	23.93	12	EA	11	1	23.93
22012976	CORD SASH #10 5/16" X 100'HANK	261.80	14.54	18	EA	14	4	58.18
22077376	VEST SAFETY 3X CLASS 3 ANSI/ISEA 107	775.73	9.13	85	EA	84	1	9.13
22030516	SOCKET BAR SETS, 1/2" PROTO#2575	12.33	3.08	4	EA	5	(1)	(3.08)
22038772	BADGE PAPER SDPD STICK-ON ADHSV 100/PK	709.73	11.63	61	EA	-	61	709.73
22077923	CLOISONNE LAPEL CITY SEAL - MGNT - BLUE	3,964.51	8.51	466	EA	460	6	51.05

Attachment 2 Chollas Store

Material Number (Stock Item)	Material Description	Inventory Value	Unit Value	Number of Units Recorded in SAP	Inventory Unit of Measure	Number of Units Per Physical Observation Count	Number of Units Overstated/ (Understated) in SAP	Inventory Value Overstated/ (Understated) in SAP
60	22040434	TOWEL TOOL BOX Z400 POPUP BX 440314	\$ 1,109.35	\$ 6.10	182	EA	277	(95) \$ (579.06)
61	22040446	SOAP LAVA 4-OZ BAR 381451	155.16	1.08	144	EA	145	(1) (1.08)
62	22030400	SCREWDRIVER PHILLIPS 4" STANLEY #64-102	54.14	3.38	16	EA	14	2 6.77
63	22015048	SIGN,CONE,HGHWY SFTY ARROW	776.14	15.84	49	EA	55	(6) (95.04)
64	22041116	SAFETY SWAB IODINE 10 AMPL/BX EVR READY	95.42	2.65	36	EA	35	1 2.65
65	22035112	PAINT SPRAY KRYLON RED	722.08	3.52	205	EA	207	(2) (7.04)
66	22040284	SWISH DISINFECTANT LEMON WAXIE 170081	102.95	3.03	34	EA	33	1 3.03
67	22015046	SHIELD FACE CLEAR 8X15X.040THICK	272.01	1.45	187	EA	211	(24) (34.91)
68	22044261	CUP COFFEE 8-OZ CORELLE OR =	43.00	4.78	9	EA	-	9 43.00
69	22035233	MASKING TAPE BLUE - 1INCH	540.28	4.06	133	EA	128	5 20.31
70	22030243	BLADE REPLACEMENT POCKET STANLEY#11-041	18.72	2.08	9	EA	10	(1) (2.08)

Overstatement of Units	203	\$	3,674.50
Count item	41		
Understatement of Units	(596)	\$	(2,583.85)
Count item	29		

PROCEDURE 3 (INDIVIDUAL STOCK ITEM EXCEPTIONS):

Material Number (Stock Item)	Material Description	Inventory Value	Unit Value	Number of Units Recorded in SAP	Inventory Unit of Measure	Number of Units Per Physical Observation Count	Number of Units Overstated/ (Understated) in SAP	Inventory Value Overstated/ (Understated) in SAP
1	22078161	SAFETY FIRST AID KIT PACK UP A (OFFICE)	\$ 557.02	\$ 15.91	35	EA	33	2 \$ 31.83
2	22042703	HOLDER TEAR GAS #92 MARK IV PLAIN	342.73	24.48	14	EA	13	1 24.48

Overstatement of Units	3	\$	56.31
Understatement of Units	-	\$	-