



THE CITY OF SAN DIEGO

July 29, 2010

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

Subject: **Central Stores Agreed-Upon Procedures Inventory Count – FY2010**

We performed the agreed-upon procedures for the FY2010 inventory count as required by San Diego Municipal Code §22.0501. The review consisted of comparing the City's physical inventory in its three 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 can be found after page three 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 Judy Zellers 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
Wally Hill, Assistant Chief Operating Officer
Jeff Jungers, Stores Operations Supervisor
Steve Fragoso, Supervising Storekeeper
Andrea Tevlin, Independent Budget Analyst

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Central Stores Agreed-Upon Procedures Inventory Count – FY2010

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 three storerooms, one of which is operated and staffed by the San Diego Fire 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 three storerooms; the results are contained below.

Procedures

The following were the agreed-upon procedures conducted in the FY2010 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 three storerooms*
- *Compared results of physical inventory count to the stock record*
- *Provided results of inventory count, by storeroom, to Purchasing Agent*

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Results

A total of 294 stock items were sampled and counted with a SAP inventory value of \$175,026.68. Of the stock sampled, we found that the physical count of items on hand did not match the City inventory records in 59 instances. As a result, the actual inventory value of stock items tested is \$2,442.24, or 1.4%, greater than Central Stores' records.

The table below reflects the results of the count—performed on June 15 - 22, 2010—by storeroom.

Storeroom	Total Number of Stock Items	Total Inventory Value ¹	Sample Number of Stock Items ²	Sample Inventory Value	Number of Items Over/Under ³	Total Value of Items Over/(Under)	Value of Items Over/(Under) as % of Sample Value
1	1,189	\$ 868,617.18	130	\$ 66,674.33	25	\$ 4,510.89	6.8%
2	1,238	\$ 1,208,278.53	136	\$ 102,770.63	30	\$ (2,009.88)	-2.0%
42 *	284	\$ 95,774.91	28	\$ 5,581.72	4	\$ (58.77)	-1.1%
Totals	2,711	\$2,172,670.62	294	\$175,026.68	59	\$ 2,442.24	1.4%

Source: Office of the City Auditor.

Note:

* Storeroom 42 is operated and staffed by the San Diego Fire Department.

¹ Inventory value as of June 14, 2010

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

³ “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.

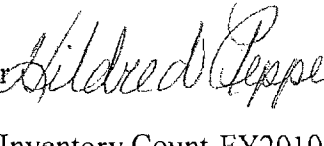


THE CITY OF SAN DIEGO

MEMORANDUM

DATE: July 28, 2010

TO: Eduardo Luna, City Auditor

FROM: Hildred Pepper Jr., Purchasing & Contracting Director 

SUBJECT: Response to Central Stores Agreed-Upon Procedures Inventory Count-FY2010

We have reviewed the stock item discrepancies found from the physical inventory counts performed during this audit. Although the overall value of the item discrepancies was an inventory accuracy of 98.60%, it is our goal that the figure is at or above 99.00%.

In our review of items with inventory discrepancies at Storeroom 1, with a positive value of items with discrepancies of 6.8%, there was one stock item (City metered mail slips) that was over by \$4,197. This one discrepancy represents 93% of the overall value found to be over/short at this location and was found to be an error caused by our staff in the goods receipt process. This item has now been properly received. For Storerooms 2 and 42 (-2.0% and -1.1%) the review also found that errors are being made either at the point of sale or in the goods receipt process.

With the implementation of the SAP Materials Management module, the consolidation of two previous storeroom operations, the Supervising Storekeeper assigned full-time to the OneSD implementation team through February, 2010 and the turnover of two storeroom supervisors, FY10 has been a transitional year for the Central Stores Storeroom Activity. We have been encouraged as to what the SAP system brings to us for managing the operation and have high expectations for continued improvement in overall inventory controls and accuracy.