



THE CITY OF SAN DIEGO

Date: September 26, 2013
To: Dennis Gakunga, Purchasing and Contracting Director
From: Eduardo Luna, City Auditor
Subject: **Agreed-Upon Procedures Related to the Central Stores Physical Inventory**

Enclosed is the Agreed-Upon Procedures Related to the Central Stores Physical Inventory 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 a result of work completed by the MGO, and is provided for informational purposes only. There are no recommendations made by MGO.

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

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Honorable Interim Mayor Todd Gloria
Honorable City Councilmembers
Honorable Audit Committee Members
Walt Ekard, Interim Chief Operating Officer
Scott Chadwick, Assistant Chief Operating Officer
Jeff Jungers, Stores Operations Supervisor
Steve Fragoso, Supervising Storekeeper
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst

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CITY OF SAN DIEGO

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

June 30, 2013

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

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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 (City), solely to assist the City Auditor's compliance with the requirements of Article 2, Division 5, Section 22.0501 of the San Diego Municipal Code regarding the Central Stores inventory records as of June 30, 2013. The Purchasing and Contracting Department (Department) of the City is responsible for the Central Stores inventory records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results are as follows:

- 1) Obtain an electronic version of the Central Stores (Store 1 and Store 2) inventory stock records maintained by the Department and select a sample, by storeroom, based on a 99% confidence level and 8% confidence interval.

Result: We obtained an electronic listing of the inventory stock records maintained by the Department for Store 1 and Store 2, which had an inventory population of 1,158 and 1,428 items, respectively, for a total of population of 2,586 items. Using a 99% confidence level and 8% confidence interval resulted in a total sample size of 236 items. We randomly selected 106 items from Store 1 and 130 items from Store 2.

- 2) Conduct physical inventory counts at the Department's Store 1 and Store 2 locations for the randomly selected sample items and compare the results of the physical inventory counts to the Department's inventory stock records. The physical count includes opening a judgmentally determined portion of the inventory boxes for the sample items selected to verify the contents.

Result: A total of 236 stock items were sampled and counted with a recorded inventory value of \$222,682.16. There were 9 discrepancies and 7 discrepancies noted between the physical inventory count performed at Store 1 and Store 2, respectively, and the Department's inventory stock records. Refer to Attachment 1 for a summary of the results of the physical inventory count.

- 3) Select a judgmental sample of inventory on hand at Store 1 and Store 2 and compare the items to the inventory system stock records to verify if they are accurately recorded in the system.

Result: As a result of the physical inventory counts at Store 1 and Store 2, the Department's inventory stock records underreported the value of inventory items that the Department physically had on hand. The actual value of the inventory stock items tested was \$1,477.30, or 0.66%, more than recorded value per the Department's inventory stock records. Refer to Attachment 1 for a summary of the results of the physical inventory count.

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

Result: Per inquiry with the Store Manager, obsolete inventory is immediately taken out of the inventory records and is set aside for proper disposal. During the physical count at Store 2, of the 7 discrepancies noted, one of the sample items selected and physically counted varied from the Department's inventory stock records. The stock item was identified by the Department as being obsolete, which we subsequently verified that the items were properly removed from the Department's inventory stock record. During the physical inventory observation, we noted that the Department was properly setting aside items for disposal that were determined to be obsolete.

- 5) Provide the results of the inventory counts, by storeroom, and the results of the obsolete inventory review in a draft written report with recommendations, as appropriate, to address any identified issues.

Result: The results of the physical inventory counts for Store 1 and Store 2 were provided to the Department on June 27, 2013 and June 28, 2013, respectively. The results concerning obsolete inventory was noted under Procedure 4.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accuracy and completeness of the Central Stores inventory records maintained by the Department. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 of San Diego and is not intended to be and should not be used by anyone other than those specified parties.

Macias Jini & O'Connell LLP

San Diego, California
September 23, 2013

Attachment 1

Store #	Total Number of Stock Items in Inventory	Total Inventory Value¹	Total Number of Stock Items Sampled²	Value of Inventory Items Sampled and Physically Counted	Difference Between the Number of Sample Items Physically Counted and Number of Items Recorded in the Inventory Records	Difference Between the Total Value of the Sampled Items and the Sampled Items Value as Recorded in the Inventory Records	Estimated Difference in the Total Inventory Value per the Department's Stock Records Based on the Sampling Error	Percentage Difference Between the Actual Value of Sampled Items and Total Value of Sampled Inventory Items as Recorded in the Inventory Records
1	1,158	\$ 865,205.96	106	\$ 78,527.66	9	\$ 709.94	\$ 7,822.01	0.90%
2	1,428	1,524,658.30	130	144,154.50	7	767.36	8,116.03	0.53%
Totals	2,586	\$ 2,389,864.26	236	\$ 222,682.16	16	\$ 1,477.30	\$ 15,867.54	0.66%

¹ The "Total Inventory Value" is as of June 21, 2013, based upon the Department's inventory stock records.

² The "Total Number of Stock Items Sampled" represents the number of separate stock items selected for physical inventory count.