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**Agreed-Upon Procedures  
Related to the Central Stores  
Physical Inventory**

**AUGUST 2014**

**Audit Report  
Office of the City Auditor  
City of San Diego**



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## THE CITY OF SAN DIEGO

August 26, 2014

Dennis Gakunga, Purchasing and Contracting Director  
City of San Diego, California

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 Mayor, City Council, and Audit Committee Members  
Scott Chadwick, Chief Operating Officer  
Stacey LoMedico, 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, 2014

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

To the Office of the City Auditor  
of the City of San Diego  
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 (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, 2014. 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 list of 1,100 and 1,364 items, respectively, for total of 2,464 items. Per concurrence with the Department and City Auditor at the entrance conference held on June 11, 2014, form items are excluded from the sampling population. Using a 99% confidence level and 8% confidence interval resulted in a total sample size of 233. We randomly selected 93 items from Store 1 and 140 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 will include opening a judgmentally determined portion of the inventory boxes for the sample items selected to verify the contents.

Result: A total of 233 stock items were sampled and counted with a recorded inventory value of \$170,699.51. There were 1 discrepancy and 18 discrepancies noted between the physical inventory counts 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 determine if they are accurately recorded in the system.

Result: We judgmentally selected 5 items on hand each from Store 1 and Store 2, with a total recorded inventory value of \$136,861.12. There were 2 discrepancies and 1 discrepancy noted between the physical inventory counts performed at Store 1 and Store 2, respectively, and the Department's inventory stock record. Refer to Attachment 1 for a summary of the results of the physical inventory counts.

- 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 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 Store Manager, obsolete inventory is taken out of the City's inventory records on a timely basis and is set aside for proper disposal. During the physical count at Store 1, 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 item was 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 which 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 result of the physical inventory counts for Store 1 and Store 2 were provided to the Department on July 7, 2014. 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 Tini & O'Connell LLP*

San Diego, California  
August 25, 2014

**Attachment 1**

<b>Store #</b>	<b>Total Number of Stock Items in Inventory<sup>1</sup></b>	<b>Total Inventory Value<sup>2</sup></b>	<b>Total Number of Stock Items Sampled<sup>3</sup></b>	<b>Value of Inventory Items Sampled and Physically Counted</b>	<b>Difference Between the Number of Sample Items Physically Counted and Number of Items Recorded in the Inventory Records<sup>4</sup></b>	<b>Difference Between the Total Value of the Sampled Items and the Sampled Items Value as Recorded in the Inventory Records<sup>4</sup></b>	<b>Percentage Difference Between the Actual Value of Sampled items and Total Value of Sampled Inventory as Recorded in the Inventory Records</b>	<b>Estimated Difference in the Total Inventory Value per the Department's Stock Records Based on the Sampling Error</b>
1	1,100	\$ 946,539.29	98	\$ 102,677.00	3	\$ 11.72	0.011414%	\$ 53.20
2	1,364	1,405,663.48	145	204,883.63	19	2,120.98	1.035212%	14,551.60
<b>Totals</b>	<b>2,464</b>	<b>\$ 2,352,202.77</b>	<b>243</b>	<b>\$ 307,560.63</b>	<b>22</b>	<b>\$ 2,132.70</b>	<b>0.693424%</b>	<b>\$ 14,604.80</b>

<sup>1</sup>The "Total Number of Stock Items" is as of June 17, 2014, based upon the Department's inventory stock records excluding the various forms maintained in inventory which were excluded from our sampling population.

<sup>2</sup>The "Total Inventory Value" is as of June 17, 2014, based upon the Department's inventory stock records.

<sup>3</sup>The "Total Number of Stock Items Sampled" refers to the number of separate stock items physically counted pursuant to Procedure #1 and #3.

<sup>4</sup>The difference between the aggregated number of discrepancies noted pursuant to Procedure #1 and #3.