

City of San Diego

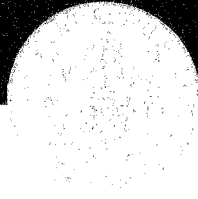
AUDIT REPORT

***AUDIT OF THE
CENTRAL STORES INVENTORY***

February 27, 2009

**Office of the City Auditor
Eduardo Luna, CIA, CGFM, City Auditor**

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THE CITY OF SAN DIEGO

February 27, 2009


**Honorable Mayor and Members of the City Council
City of San Diego, California**

Audit of Central Stores Inventory

Attached is the Audit Report with the results of our testing of the annual Central Stores inventory. Central Stores' response to our audit report can be found after page 12 as Attachment A. City Audit staff members who participated in the preparation of the report are Kyle Elser, Judy Zellers, and Tricia Mendenhall.

We would like to thank the Central Stores, Purchasing Department and Comptroller management and staff for their assistance and cooperation during the audit process.

Respectfully Submitted,


Eduardo Luna
Internal Auditor

cc: Jay M. Goldstone, Chief Operating Officer
Mary Lewis, Chief Financial Officer
Hildred Pepper Jr., Director Purchasing & Contracts
Tracy McCraner, Interim Comptroller
Jeff Jungers, Stores Operations Supervisor
Jan Goldsmith, City Attorney
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EXECUTIVE SUMMARY

The San Diego Municipal Code (SDMC) requires an audit of the storeroom inventory be performed annually. Based on our audit testing, we found the physical inventory count has improved from the prior year. However, write-offs of missing inventory have increased and obsolete inventory has not decreased significantly. We also found that control weaknesses exist over distribution and accounting for inventory. We have made seven recommendations to improve the monitoring and controls over storeroom inventory.

INTRODUCTION AND BACKGROUND

The San Diego Municipal Code (SDMC) requires an annual audit of the Central Stores inventory records. Central Stores is a division of Purchasing and Contracting which reports to the City's Chief Financial Officer. The Purchasing Agent¹ is authorized by the SDMC to operate a warehouse for safekeeping of City supplies. During fiscal year 2008, Central Stores processed 19,536 requisitions and issued 89,858 stock items valued at \$8,896,190.² Central Stores fiscal year 2009 budget, excluding the cost of inventory purchased for sale, is \$1.8 million. This includes the costs of administering other programs in Central Stores such as citywide purchase orders³ and the mail room.

Central Stores administers five storerooms which supply items used regularly by City Departments. This includes storerooms operated and staffed by the San Diego Police Department, the San Diego Fire Department, and Library Department. As shown in Table 1, we provided an example of the type of items issued by each storeroom.

¹ SDMC 22.0501

² Source: The value was taken from the inventory management system, Fleet Focus, report of Central Stores revenue (from departments) as of 6/30/08. The number of requisitions was extracted from the Comptroller's accounting data.

³ Purchase orders (PO) types are citywide PO, itemized PO, and departmental open PO. A citywide purchase order is a contract with a vendor to supply specific items used by many departments.

Table 1: Examples of Stock Items Held in Inventory by Storerooms

Store Title	STOCK DESCRIPTION	Current Unit Price	Number of Items on Hand at 6/5/08	Life to Date Units Issued
Central	MUTT MITTS 9 X13 SINGLE SCOOP 2 PLY BIODEGRADABLE	\$60.07	1	41,725
Central	BAG TRASH LINER 45GAL - LARGE – 40"X46	\$21.34	77	61,877
Central	FORM UW-601 ORIGINAL WATER BILL FORM	\$57.60	380	14,984
Central	RAGS CHOICE COLORED 25LB/BX	\$10.27	9	78,895
Central	TOILET PAPER 2-PLY-SCOT	\$34.96	10	21,055
Chollas	SPHERES GLASS 2400# BAG	\$700.81	14	24,221
Chollas	TUBING COPPER TYPE-K SOFT 1" X	\$324.19	74	3,620
Chollas	FIXTURE LIGHT 150 WATT HIGH PRESSURE SODIUM	\$89.93	177	12,312
Chollas	VALVE PROPERTY SIDE 1" W/HNDL J19	\$48.79	99	16,314
Chollas	RAGS CHOICE COLORED 25LB/BX	\$10.27	44	58,245
Fire	RAGS CHOICE COLORED 25LB/BX	\$11.09	29	78,593
Fire	TOWEL PAPER SINGLEFOLD BLEACHED	\$19.28	61	12,976
Fire	HELMET BLACK CAIRNS 880— FIREFIGHTER	\$159.47	17	1,045
Fire	ANCHOR FOREST-FIRE SHELTER	\$280.75	26	593
Fire	FOAM CONCENTRATE-PHOSCHEK CLASS A	\$72.00	58	2,102
Police	BADGE- PAPER- S.D.P.D.- STICK-	\$90.00	37	516,366
Police	PD-621 OVERTIME AUTHORIZATION FORM	\$11.38	122	229,066
Police	PD-964-FOS INFO FOR VICTIMS FORM	\$34.15	11	68,570
Police	PD-849 SAN DIEGO POLICE FORM	\$26.29	81	77,805
Police	PD-1185 VEHICLE ABATEMENT FORM	\$61.62	19	25,926
Library	BOOK COVER SELF-ADHESIVE 9.5"	\$106.67	2	52,382
Library	BOOK COVER SELF-ADHESIVE 12" X	\$119.54	4	44,327
Library	BOOK COVER SELF ADHESIVE 8.5"X	\$63.16	7	49,378
Library	BOOK COVER SELF-ADHESIVE 13" X	\$176.88	1	14,483
Library	BOOK COVER SELF-ADHESIVE 7" X	\$62.49	1	13,999

Note: Life to date issued is stock issued since the date the system was implemented or the item was added to stock.

Source: Auditor's analysis of Fleet Focus system data.

Also, the top 15 departments purchasing goods from Central Stores incurred 83 percent of the charges at Central Stores in fiscal year 2008, as shown below in Table 2.

Table 2: Requisitions Processed for the Top 15 Departments or Programs Purchasing Goods from Central Storerooms

Department or Program	Number of Requisitions	Amount
Water	4,524	\$2,871,883.89
Street Division - General Fund	2,833	\$2,221,754.52
Police	1,989	\$584,719.01
Fire	2,088	\$498,124.08
Wastewater Collection	1,300	\$488,036.04
Developed Regional Parks	384	\$437,884.30
Community Parks II	867	\$212,974.21
Library	916	\$209,016.16
Wastewater Treatment & Disposal	675	\$203,694.12
Community Parks I	529	\$194,838.49
General Services Facilities	579	\$162,092.58
CPUC Energy Programs	25	\$102,783.53
Fleet Services	546	\$89,632.81
Qualcomm Stadium	44	\$66,713.89
Financial Management - Central Stores	67	\$41,084.78

Source: Auditor analysis of Office of the Comptroller Simpler Financials data.

When Central Stores purchases goods from vendors for sale to departments, the City advances funds to the Stores. When departments make purchases from the storeroom, an expense is charged to the department and Central Stores receives revenues to offset the advances paid to the vendors. Purchases by departments require a paper requisition authorizing the purchases and designating the accounting to be charged. The requisitions are input into Fleet Focus, the Central Stores inventory management system.

Process to Purchase and Issue Supplies

Departments		Central Stores		Vendors
Request Storeroom to stock items	→	Competitively Purchases Supplies	←	Contracts to Sell Supplies to City
		↓		
Authorizes & receives supplies from Storerooms	←	Storeroom stocks supplies & pays vendor	→	Receives payments
↓				
Pays Central Stores	→	Records inventory transactions in Fleet Focus and generates accounting data		

Source: Auditor analysis of requisition process.

The storerooms operate in a way similar to private stores; stocking, tracking and selling goods. However, they sell only to City departments or other government agencies. Central Stores adds a five percent surcharge to the cost of goods charged to departments to recover the costs of administering the storerooms. Most requisitions are for small items. The total number of requisitions classified by dollar value for fiscal year 2008 is shown in Table 3 below.

Table 3: Central Stores Requisitions Processed by Value

Total Amount Equal To or Greater Than	Equal To or Less Than	Number of Requisitions	Amount
0	\$99.99	7,753	\$317,814
\$100	\$999.99	10,343	\$3,407,076
\$1,000	\$25,000	1,423	\$4,026,152
\$25,000 or more		17	\$1,119,861
Total		19,536	\$8,870,903

Source: Auditor analysis of Comptroller Simpler Financials data.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

In accordance with the City Auditor's fiscal year 2009 Work Plan and San Diego Municipal Code Section 22.0501, we have performed an audit of the Central Stores physical inventory count and reviewed the status of prior audit recommendations.

The audit objectives were to assess the accuracy of the inventory records as of June 2008; assess the adequacy of internal controls over the storerooms and evaluate the current status of recommendations made in the prior audit.

The following audit methodology was used to achieve our audit objectives:

- Obtained a listing of stock items at each storeroom as of June 5, 2008.
- Selected a random sample of 186 items for testing.
- Counted items at each storeroom.
- Surveyed Storekeepers on inventory practices.
- Examined store requisitions to determine if requisitions were properly authorized.
- Reviewed financial data related to cost of goods sold.
- Performed an analytical review of adjustments and verified adjustments were reviewed by Storeroom management.
- Tested stock items last issued prior to June 30, 2007 to verify Central Stores and departments complied with obsolete inventory regulations.
- Reviewed corrections of requisitions with incorrect accounting.
- Assessed status of recommendations in the prior audit and the ERP plans to address control weaknesses previously identified.

We evaluated internal controls related to the audit objectives. Our review focused on controls related to inventory. Our conclusions on the effectiveness of these controls we reviewed are detailed in the following audit results.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Our audit work was limited to areas specified in the Objective, Scope and Methodology section of the report.

FINDING I ALTHOUGH THE PHYSICAL INVENTORY COUNT HAS IMPROVED, WRITE-OFFS DUE TO MISSING INVENTORY HAVE INCREASED AND OBSOLETE INVENTORY LEVELS HAVE NOT DECREASED SIGNIFICANTLY FROM THE PRIOR YEAR.

The San Diego Municipal Code requires that we audit the City’s inventory to verify the accuracy of the Central Stores inventory records. We found that the inventory records were generally accurate and that the recorded net value of the inventory was understated by less than one third of one percent (0.003). The accuracy of the inventory improved compared to fiscal year 2007, when we found that the inventory was understated by 1.3 percent. Table 4 shows the results of our inventory counts in fiscal years 2007 and 2008.

Table 4: Comparative Results of Inventory Counts in June 2008 and June 2007

Description	FY 2008	FY 2007	Difference
Number of items counted	186	172	14
Number of items Over and Short (Gross)	22	51	(29)
Percentage of Items Over and Short (Gross)	11.8%	29.7%	(17.9%)
Value of Items Counted	\$600,739.20	\$800,464.74	(\$199,725.54)
Total Inventory Value	2,302,636.73	2,077,425.70	\$225,211.03
Value of Items Over and Short (Gross)	\$4,712.93	\$16,978.80	(\$12,265.87)
Value of Items Over and (Short) – Net	(\$1,930.79)	(\$10,418.46)	\$8,487.67
Percentage of Value Over and (Short) – Net	(0.3%)	(1.3%)	1%

Source: Office of the City Auditor.

Value of Inventory Write-offs and Obsolete Inventory Increased

We should note that in fiscal year 2008, the value of inventory write-offs increased, while obsolete inventory levels did not improve. We found that inventory write-offs⁴ were \$55,366 and obsolete inventory was \$61,813. Inventory write-offs in Central Stores' inventory management system, Fleet Focus, increased from \$23,446.05 in fiscal year 2007 to \$55,366 in fiscal year 2008, a 136 percent increase in losses from the prior year. Write-offs are based on Central Stores’ physical counts of inventory that are different than inventory records in Fleet Focus. Studies have shown median industry losses due to shrinkage are 1.7 percent of inventory; therefore, Central Stores losses are less than the industry average. Write-offs occur when there is a discrepancy between physical counts and inventory records. Generally, the cause of these discrepancies cannot be determined. The result is a write-off of missing inventory not recorded as sold.

⁴ Write-offs are losses due to missing inventory.

Obsolete inventory of \$61,813 (2.9% of ending inventory) has been removed from the storerooms this year. In the prior year, obsolete inventory of \$66,263 was identified. Typically, obsolete inventory is stock not used although departments have requested Central Stores to carry the item. If departments have not used these supplies in a year or more and cannot justify the reason for this, Central Stores either attempts to obtain a trade out with the vendor for credit, ships unused supplies to departments or auctions the items as surplus. Central Stores complied with the policy to identify and reduce unused inventory; however, our review indicates departments are not notifying the storeroom timely to prevent the order of unnecessary supplies. This leads to losses from unnecessary purchases.

Recommendations:

1. Monitor year-to-date write-offs of missing inventory at least quarterly and determine if additional control measures are warranted, such as a change in control procedures or the use of theft detection devices, if write-offs continue to increase.
2. Develop a written policy requiring departments to notify Storerooms immediately when there are changes in inventory needs to minimize obsolete inventory. Work with departments to identify an effective procedure for this process.

FINDING II CONTROL WEAKNESSES EXIST OVER THE DISTRIBUTION AND RECONCILIATION OF INVENTORY.

We found that Purchasing and City Departments have not adequately addressed operational risks associated with the proper authorization of supply requests and reconciliations are not performed to confirm inventory balances at year end. Lack of strong controls increases the risk that losses due to theft, vendor kickbacks or inefficient use of City supplies could occur and not be detected.

Authorization of Requisitions

We found that the City's current authorization process for ordering goods or materials lacks strong controls, resulting in the improper processing of unauthorized requisitions. Unauthorized transactions occur when an employee orders supplies without the appropriate supervisory approval. In our opinion, failure to ensure all transactions are authorized could lead to losses; however, these types of losses cannot be easily measured.

Based on our review of 16 requisitions for supplies valued at \$1.0 million, we found that 10 of the transactions were improperly approved or lacked the appropriate approval signature. Specifically, we found the following:

- The same supervisor signed and received goods;
- The requisitions was not signed by an authorized supervisor and the same employee signed and received goods; and
- The requisition was not signed by an authorized supervisor.

Additionally, we reviewed 46 small dollar requisitions and found that nine small dollar requisitions were authorized and received by the same person. Currently, Central Stores provides reports to some departments, based on their requests, for review of purchases.

City management is responsible for designating individuals for approving purchases and setting appropriate expenditure approval levels. Also, if controls are strong, no one individual should be allowed to control all key aspects of a transaction or event, such as authorizing and receiving City supplies and goods⁵. Currently, it is the responsibility of departments to ensure storeroom purchases are appropriate. To do this, departments have to manually review either copies of requisitions or reports provided by Central Stores. In some cases departments specifically request storeroom personnel to monitor the authorized signature on the requisition.

Central Stores administration expects that the OneSD ERP system will resolve the authorization issues by requiring electronic approval of requisitions; they also have said some manual requisitions will continue due to the practice of field crews requesting items during daily assignments. However, if Central Stores continues to use manual requisitions, the implementation of OneSD will not fully reduce the risk that an unauthorized employee could requisition supplies not required.

⁵ GAO-01-1008G-Internal Control Management and Evaluation Tool, page 40 and 41.

In our opinion, controls could be improved by 1) developing a process whereby departments could issue authorization cards to employees who will requisition and receive supplies on manual requisitions and 2) ensuring all departments receive two reports.

- A detailed report of purchases from Central Stores, including the job title of the person authorizing the purchase, and
- Reports of purchases by stock type and dollar value, summarized by month and year to date so departments can identify trends in types and dollar amounts of purchases from the storeroom.

Recommendations:

3. If manual requisitions are used after the implementation of ERP, use internal authorization cards for those employees using manual requisitions to request and receive supplies. If implemented, ensure controls, such as employee names on cards, an annual card expiration date and reports to departments, are put in place to prevent misuse.
4. Ensure ERP will include reports of Central Stores purchases to all departments. In addition to detailed reports of purchases, design summary reports in ERP for management's use in monitoring types and costs of supplies purchased from the storerooms.

Reconciliations of Inventory

During our review, we found that Central Stores and the Office of the Comptroller do not have procedures to verify the accuracy and completeness of the Storeroom inventory accounting.

- Central Stores does not compare the changes in beginning and ending inventory to net purchases, issues and write-offs because the inventory management system, Fleet Focus, was not programmed to generate a reliable report of total purchases from vendors. The system does generate reports of total issues to departments needed to properly reconcile ending inventory. As shown below, the purchasing information is necessary to verify ending inventory.

Inventory Transactions per Fleet Focus	Amount
Beginning Inventory	\$2,076,562
Add purchases from outside vendors	Unknown
Deduct sales (Issues) to departments	<\$8,896,190>
Deduct write-offs	<55,367>
Ending Inventory	\$2,103,108

Source: Fleet Focus system data.

- Comptroller's has not verified that the accounting records match annual purchases and issues in Fleet Focus because summary general ledger reports to account for storeroom inventory purchases and issues are not easily generated by the accounting system.
- The accounting analysis of ending inventory includes non-storeroom activity, such as city-wide purchase orders which are not recorded in Fleet Focus. The accounting system is not designed to add purchases and deduct issues to departments in the inventory general ledger account. Instead, a manual entry is done annually to adjust the accounting inventory balance to the Central Stores ending inventory value.

FY 2008	Amount
Beginning inventory, 7/1/07	\$ 2,076,562
Purchase of goods [includes non-storeroom purchases]	\$ 30,869,744
Sales to departments [includes non-storeroom sales]	\$ 30,364,555
Calculated Ending Inventory	\$ 2,581,751
Actual Ending inventory, 6/30/08	\$ 2,103,108
Difference ⁶	\$ 478,643

Source: Auditor analysis of Comptroller Simpler Financials data.

Although the City Auditor staff conducts test counts to verify the accuracy of the number of units of stock recorded in Fleet Focus, a test count does not address whether the inventory and accounting records are complete. For instance, an inventory purchase could be recorded in the accounting records and not added to Fleet Focus. This would not be detected by a test count. If reconciliations are not performed by Central Stores management or Comptroller staff, they could be relying on erroneous data for inventory balances and write-offs. It is the responsibility of the Comptroller to ensure there are adequate controls in place to verify the accuracy of general ledger accounts and financial reporting. It is the responsibility of Central Stores administration to design control procedures to prevent or detect errors in inventory records or theft of supplies.

Recommendations:

5. Ensure ERP provides accurate inventory reports so Central Stores is able to reconcile beginning to ending inventory and provide this reconciliation to the Comptroller at year end.

Ensure ERP provides accurate summary reports related to inventory accounting so Comptroller staff is able to reconcile beginning to ending inventory in the general ledger and ensure the general ledger activity matches inventory activity reports from Central Stores. Comptroller staff should review and document the reasons for variances, if any, between the inventory records and the accounting records.

⁶ Central Stores management advised that this amount is most likely due to timing differences in the recording of transactions related to non-inventory items.

6. In conjunction with the Comptroller, revise the accounting for storeroom inventory to segregate storeroom purchases from city-wide purchases and consider establishing a clearance account for city-wide purchase orders.

Central Stores Policies and Procedures

The Central Stores Policy and Procedures manual does not clearly define the City's Storeroom policies related to management objectives and controls. As discussed above, Central Stores policies do not require control procedures such as year end inventory reconciliations or city-wide policies on authorization of requisitions. Instead, the existing policy and procedures manual focuses on user procedures, such as how to complete a requisition.

Without clearly defined policies, there is an increased risk that the ERP Storeroom process will not achieve management's goals or decrease the risks associated with storeroom operations. For example, there is no policy requiring a year end reconciliation of the storeroom inventory. Without this policy in place, ERP may not be designed to generate reports with the data necessary to perform this reconciliation.

Central Stores plans to update their Policy and Procedure manual as the implementation of SAP proceeds. In our opinion, policies should be separate from procedures and clearly defined in writing prior to implementation of the ERP system. Policies are part of the internal control framework to assist management to achieve its goals. As such, policies are the guidelines on objectives to be achieved during system implementation.

Recommendation:

7. Document storeroom policies and controls related to storeroom operational risks. Update storeroom procedures at the implementation of the ERP system.

CONCLUSION

The San Diego Municipal Code requires an annual review of storeroom inventory. During our review, we found the accuracy of the inventory count improved; however, additional steps should be taken to minimize City losses related to write-offs and obsolete inventory and to improve controls over the disbursement and accounting for supplies. We recommended policies be updated, frequent monitoring of write-offs and obsolete inventory levels should be performed and controls considered that might minimize the risks of losses related to storeroom inventory and sales.

The following is the written response to our audit report recommendations provided by Central Stores management on February 27, 2009.

Recommendation 1. Monitor year-to-date write-offs of missing inventory at least quarterly and determine if additional control measures are warranted, such as a change in control procedures or the use of theft detection devices, if write-offs continue to increase.

Central Stores Response:

Central Stores staff will monitor the year-to-date adjustments to inventory on a monthly schedule. An Inventory Adjustment Report will be reviewed with the Storeroom Supervisors Team to discuss the results of the monthly cycle count and the reasons for any write-offs required during the cycle count. We will also continue to have all adjustments to inventory approved by the Supervising Storekeeper, in order to ensure that a complete review has been performed prior to any adjustment being approved. Although we share the same concern about the increase in write-offs in FY08, this represents 0.6% of inventory, still considerably lower than the median industry percentage of 1.7% referenced in the Finding.

Recommendation 2. Develop a written policy requiring departments to notify Storerooms immediately when there are changes in inventory needs to minimize obsolete inventory. Work with departments to identify an effective procedure for this process.

Central Stores Response:

Central Stores follows the procedures outlined in Administrative Regulation 35.50; Identification and Disposition of Central Stores Surplus Stock. At the close of FY08 (June 30, 2008), the dollars in possible obsolete stock was \$13,227. This represented 0.6% of the year-end inventory value of \$2.1 million. Central Stores will continue to work with departments to monitor possible inventory obsolescence throughout FY09 with the expectation of further reducing obsolete stock at the close of the fiscal year.

Recommendation 3. If manual requisitions are used after the implementation of ERP, use internal authorization cards for those employees using manual requisitions to request and receive supplies. If implemented, ensure controls, such as employee names on cards, an annual card expiration date and reports to departments, are put in place to prevent misuse.

Central Stores Response:

Manual requisitions will continue to be an option after the implementation of ERP. It is our expectation that a majority of requisitions will be electronic, which strengthens departmental internal controls for initiating and approving a storeroom requisition. Unfortunately, due to the number of field crews without access to a personal computer, it has been determined that we will need to continue to support the at-the-counter requests. We are working with the OneSD Project Team to determine the best way to increase internal controls for these requisitions.

Recommendation 4. Ensure ERP will include reports of Central Stores purchases to all departments. In addition to detailed reports of purchases, design summary reports in ERP for management's use in monitoring types and costs of supplies purchased from the storerooms.

Central Stores Response:

ERP is expected to significantly improve the ability for Central Stores customers to access data direct from the Materials Management Module. Departments will have the ability to customize their own reports, with access to all data fields, regarding purchases made from storeroom inventory. Currently, Central Stores provides detailed monthly reports for storeroom purchases to eleven (11) City departments who have requested this information. Also, upon request from WU, MWWD and GS- Streets Div., we have included an employee ID number in the accounting data stream, which allows these customers the ability to review purchases at the employee level.

Recommendation 5. Ensure ERP provides accurate inventory reports so Central Stores is able to reconcile beginning to ending inventory and provide this reconciliation to the Comptroller at year end.

Ensure ERP provides accurate summary reports related to inventory accounting so Comptroller staff is able to reconcile beginning to ending inventory in the general ledger and ensure the general ledger activity matches inventory activity reports from Central Stores. Comptroller staff should review and document the reasons for variances, if any, between the inventory records and the accounting records.

Comptroller Response:

Comptroller staff concurs with the recommendations. Comptroller staff will ensure, no less than once or twice per year, that the general ledger activity reconciles with inventory reports from Central Stores. In conjunction with Central Stores staff, Comptroller staff will review and document the reasons for variances between the inventory records and accounting records, if any.

Recommendation 6. In conjunction with the Comptroller, revise the accounting for storeroom inventory to segregate storeroom purchases from city-wide purchases and consider establishing a clearance account for city-wide purchase orders.

Comptroller Response:

Comptroller staff concurs with the recommendation and will partner with Central Stores and Purchasing to segregate storeroom purchases from city-wide purchases. A clearance account for city-wide purchase orders will be pursued within the ERP functionality.

Recommendation 7. Document storeroom policies and controls related to storeroom operational risks. Update storeroom procedures at the implementation of the ERP system.

Central Stores Response:

Central Stores policies and procedures are all under review as part of the ERP (SAP) implementation and will be complete prior to the expected implementation date of July 1, 2009. This project is assigned to our Supervising Storekeeper, who has been a member of the OneSD Materials Management Team throughout FY09.

CITY AUDITOR'S CONCLUSION

The San Diego Municipal Code requires an annual review of storeroom inventory. During our review, we found the accuracy of the inventory count improved; however, additional steps should be taken to minimize City losses related to write-offs and obsolete inventory and to improve controls over the disbursement and accounting for supplies. We recommended policies be updated, frequent monitoring of write-offs and obsolete inventory levels should be performed and controls considered that might minimize the risks of losses related to storeroom inventory and sales.

Central Stores Response

As previously referenced, Central Stores agrees that continued monitoring of inventory write-offs and obsolete stock is an essential part of managing the Storeroom Operations Activity. Although the FY08 dollar value of write-offs and obsolete stock fell well below median industry standards, our goal continues to be to improve upon these operational efficiencies. We are confident that the implementation of ERP will strengthen operational internal controls and provide better tools for managing the Central Stores inventory.