



THE CITY OF SAN DIEGO

DATE: July 16, 2012

TO: Jeffrey Baer, Director, Purchasing and Contracting Department

FROM: Eduardo Luna, City Auditor

SUBJECT: **Central Stores Agreed-Upon Procedures Inventory Count – Fiscal Year 2012**

We performed the agreed-upon procedures for the Fiscal Year 2012 inventory count as required by San Diego Municipal Code §22.0501. The procedures, which we agreed to perform and with which you concurred, consisted of comparing the City's physical inventory in its two storerooms to the inventory stock record in SAP. The agreed-upon procedures and the results of our work in the attached report were provided in draft form to Central Stores for review and comments. Your response can be found after page 4 of this report.

We conducted our work in accordance with Generally Accepted Government Auditing Standards, which incorporate certain financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. The Purchasing and Contracting Department is responsible for the adequacy of these agreed-upon procedures to meet your objectives, and we make no representation in that respect. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed our review on June 15, 2012. 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.

July 16, 2012

We would like to thank Central Stores staff for their assistance and cooperation during the audit. The audit staff members responsible for this report include Judy Zellers and Chris Constantin.

Respectfully submitted,

A handwritten signature in black ink that reads "Eduardo Luna". The signature is written in a cursive, flowing style.

Eduardo Luna

City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
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
Jan Goldsmith, City Attorney
Andrea Tevlin, Independent Budget Analyst

Central Stores Agreed-Upon Procedures Inventory Count – Fiscal Year 2012

Background

Central Stores

Central Stores is a division of the Purchasing and Contracting Department, 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 five percent surcharge on sales to offset its administrative expenses. Central Stores administers two storerooms.

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 two storerooms; the results are contained below.

Procedures

The following were the agreed-upon procedures conducted in the Fiscal Year 2012 inventory count:

- *Obtained an electronic version of stock records that is kept by the Purchasing Agent and selected a sample of stock items.*
- *Conducted physical inventory counts of the sample at the City's two storerooms and compared the results of the physical inventory counts to the stock records.*
- *Provided the results of the inventory counts, by storeroom, to the Purchasing Agent.*

July 16, 2012

Results

A total of 231 stock items were sampled and counted with a SAP inventory value of \$155,321.14. Of the stock sampled, we found that the physical count of items on hand did not match the City inventory records in 32 instances. As a result, the actual inventory value of stock items tested is \$3,525.52 or 2.27%, less than Central Stores' SAP records.

The table below reflects the results of the count—performed on June 12 - 13, 2012—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	1,182	\$771,690.56	104	\$61,895.13	12	(\$2,746.07)	-4.44%
2	1,493	\$1,830,472.99	127	\$93,426.01	20	(\$779.45)	-0.83%
Totals	2,675	\$2,602,163.55	231	\$155,321.14	32	(\$3,525.52)	-2.27%

Source: Office of the City Auditor.

During our procedures, we observed that some inventory items did not show an inventory value. As a result, some items have been issued and the departments were not charged properly. Central Stores' staff stated they were aware of this issue and there is a plan to resolve the discrepancy.

¹ Inventory value as of June 5, 2012

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 11, 2012

TO: Eduardo Luna, City Auditor

FROM: Jeffrey Baer, Director of Purchasing & Contracting 

SUBJECT: Central Stores Agreed-Upon Procedures Inventory Count-FY2012

Central Stores has reviewed the stock item discrepancy table presented in the results of the FY12 Inventory Count annual audit and has conducted an itemized review of all the items found to have a discrepancy during the physical count. For these items, a recount process was performed and all items requiring an inventory adjustment were documented within the SAP Inventory Management (IM) Module per Central Stores Department Instruction 4.00. During the recount process, two stock items were found to be issued to the customer department with an incorrect unit of issue. These items were credited at the incorrect quantity and reissued to the department at the correct quantity, resulting in a decrease in the overall negative total value of items counted to \$2,848.93, or a -1.83%.

During the audit it was noted that some inventory items did not show an inventory value and as a result, some items had been issued and departments not properly charged. Our research identified thirty-four (34) stock items went to \$0 value as part of an Account Maintenance process initiated by the Comptroller's Office and first performed in March 2012. As part of this process, any Goods Receipt (GR) completed in SAP that does not have a corresponding invoice posted for a period exceeding ninety (90) days are deleted. This deletion of the GR is what brought the average unit price of the affected items to \$0. All requisitions with items issued at \$0 value have now been identified and the City departments have been properly charged in FY12. Also, a monthly review process was established between Central Stores and the Comptroller's Office to review all Purchase Order GR's subject to the Account Maintenance process prior to deletion. This review has significantly decreased the need to delete GR's performed within the Central Stores IM Module and for the few GR's that are approved for deletion, provides the report of items in which an average unit price adjustment would be required prior to issuing stock items to customer departments.

We want to thank the City Auditor staff for their assistance in the annual Inventory Count audit. This is a very productive process for Central Stores for measuring our efficiency in managing the City's Inventory Asset account.