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# **AGREED-UPON PROCEDURES RELATED TO THE CENTRAL STORES PHYSICAL INVENTORY**

**Office of the City  
Auditor**

**City of San Diego**



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THE CITY OF SAN DIEGO

DATE: September 8, 2015  
TO: Kristina Peralta, Interim Director, Purchasing and Contracting  
FROM: Eduardo Luna, City Auditor, Office of the City Auditor  
SUBJECT: Agree-Upon Procedures Related to the Central Stores Physical Inventory

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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 results 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 MGO for their work, and the Purchasing & Contracting Central Stores staff for their assistance and cooperation during this audit.

Respectfully submitted,

Eduardo Luna  
City Auditor

cc: Honorable Mayor Kevin Faulconer  
Honorable City Councilmembers  
Honorable Audit Committee Members  
Scott Chadwick, Chief Operating Officer  
Stacey LoMedico, Assistant Chief Operating Officer  
Rolando Charvel, City Comptroller  
Andrea Tevlin, Independent Budget Analyst  
Brian Pepin, Director of Council Affairs  
Steve Fragoso, Stores Operations Supervisor

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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, 2015

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

**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, 2015. 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 1,024 and 1,342 items, respectively, for total of 2,366 items. Per concurrence with the Department and City Auditor at the entrance conference held on May 28, 2015, form items were excluded from the sampling population, resulting in a total sampling population of 2,106. Using a 99% confidence level and 8% confidence interval resulted in a total sample size of 232. We randomly selected 84 items from Store 1 and 148 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 232 stock items were sampled and counted with a recorded inventory value of \$382,183. There were 68 discrepancies and 161 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 \$60,736. There were no discrepancies 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 Store Manager, obsolete inventory is reviewed annually by the Purchasing and Contracting Department. Obsolete inventory is identified on a city department basis for items that meet the obsolete inventory criteria (no issues in a twelve month period). A listing of potential obsolete inventory and a memo is prepared by the Purchasing and Contracting Department, then sent to each city department for their review and a response within 30 days, to advise on the status of each inventory item identified. Obsolete inventory is taken out of the Central Stores inventory records on a timely basis and are set aside for proper disposal. 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 30, 2015. 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 Gini & O'Connell LLP*

San Diego, California  
September 2, 2015

## Attachment 1

Location	Total Number of Stock Items in Inventory Records <sup>1</sup>	Total Inventory Value <sup>2</sup>	Total Number of Sampled Stock Items <sup>3</sup>	Total Value of Sampled Stock Items	Number of Items Over/(Under) in Inventory Records	Total Value of Items Over/(Under) in Inventory Records	Percentage Difference Between the Value of Sampled Items Counted and Total Value of Sampled Inventory as Recorded in the Inventory Records	Estimated Difference in the Total Inventory Value per the Department's Stock Records Based on the Sampling Error
<b>Store 1</b>	1,024	\$ 1,141,128	89	\$ 89,476	25 (43)	\$ 282 (277)	0.32% -0.31%	\$ 3,600 (3,539)
<b>Store 2</b>	1,342	1,189,507	153	353,443	47 (114)	5,785 (5,789)	1.64% -1.64%	19,470 (19,482)
<b>Totals</b>	<b>2,366</b>	<b>\$ 2,330,635</b>	<b>242</b>	<b>\$ 442,919</b>	<b>(85)</b>	<b>\$ 1</b>	<b>0.01%</b>	<b>\$ 49</b>

<sup>1</sup> The "Total Number of Stock Items" is as of June 26, 2015, based upon the Department's inventory stock records including the various forms maintained in inventory, which were excluded from our sampling population.

<sup>2</sup> The "Total Inventory Value" is as of June 26, 2015, based upon the Department's inventory stock records.

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