

# Agreed-Upon Procedures Related to the Central Stores Physical Inventory Independent City Auditor's Report

SEPTEMBER 2024 | OCA-25-03

Andy Hanau, City Auditor

Matthew Helm, Assistant City Auditor

Kyle Elser, Principal Performance Auditor

Rod Greek, Performance Auditor

CITY OF SAN DIEGO



OFFICE of the CITY AUDITOR



DATE: September 30, 2024  
TO: Honorable Mayor, City Council, and Audit Committee Members  
FROM: Andy Hanau, City Auditor  
SUBJECT: **Agreed-Up Upon Procedures Related to the Central Stores Physical Inventory – Independent City Auditor’s Report**

---

We have performed the agreed-upon procedures enumerated below related to the City of San Diego (City) Office of the City Auditor’s (City Auditor) compliance with the requirements of Article 2, Division 5, Section 22.0501 of the San Diego Municipal Code regarding the City’s Central Store inventory records for the year ended June 30, 2024. The Purchasing and Contracting Department (P&C) management is responsible for the City’s Central Store inventory records.

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 City of San Diego Management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of compliance with the San Diego Municipal Code referred to above for the fiscal year ended June 30, 2024, and we make no representation in that respect. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated results are as follows:

- 1) Obtain an electronic version of the Central Store inventory stock record as of June 26, 2024, maintained by P&C and select a sample at Chollas Store storeroom based on a 99% confidence level and an 8% confidence interval.

**Result:** For procedure 1 above, a 99% confidence level and an 8% confidence interval were used to determine sample size resulting in a sample size of 232. The random number generator resulted in 10 duplicates. While on site conducting the count, we randomly selected an additional 10 items to count, which resulted in a final unique sample size of 232 items. We obtained an electronic version of the inventory stock records maintained by P&C for the Chollas Store, which contained a

total of 1,699 stock items. As directed by the City Auditor at the entrance conference held on June 15, 2023, paper-form stock items were excluded from the sampling population, which resulted in a total of 1,621 stock items for inclusion in our sample universe. The Central Store had 78 paper-form stock items.

- 2) Conduct a physical inventory count at P&C's Chollas Store location for the statistically randomly selected 222 sample stock items from the 1,621 stock items and compare the results of the physical inventory count to P&C's inventory stock records. The physical count included judgmentally opening 10 inventory boxes for the sample items selected, recounting the contents within, and comparing the recounted items to the quantity of items stated on the inventory box.

**Result:** Refer to Attachment 1 (which reports the results for Procedures 2 and 3) for a summary of the results of the physical inventory count and Attachment 2 for a detailed listing of the inventory stock item discrepancies.

- We selected a statistically random sample of 222 stock items from the 1,621 stock items listed on the June 26, 2024, inventory stock record. The 222 stock items were counted at the Chollas Store location with a recorded inventory value of \$216,707.20. Of the 222 stock items counted, we noted discrepancies for 54 stock items: 35 of the stock items resulted in an overstatement of 1,024 inventory units, or \$6,805.97, which were included per the inventory record system but not on hand; and 19 of the stock items resulted in an understatement of 146 inventory units, or \$1,686.04, which were on hand, but not included in the inventory record system. The net impact of items counted at the Chollas Store location is an understatement in the inventory record system of \$5,119.93. For the result of 10 inventory boxes, refer to procedure 3.

- 3) Judgmentally select 10 items on hand at the Chollas Store location, compare and agree the items to the inventory system stock records, and determine if they are accurately recorded in the inventory system.

**Result:** Refer to Attachment 1 (which reports the results for both Procedures 2 and 3) for a summary of the results of the physical inventory count and Attachment 2 for a detailed listing of inventory stock item discrepancies.

- Judgmentally selected and counted 10 stock items on hand at the Central Store and compared the result with a recorded inventory quantity of 1,811 and value of \$40,996.06. Of the 10 stock items counted, we noted a discrepancy for 4 stock items: 2 stock items with identified discrepancies resulted in an overstatement of 16 inventory units, or \$458.56, which was included in the inventory record system but not on hand; and 2 of the stock

items resulted in an understatement of 116 inventory units, or \$1,446.37, which were on hand, but not included in the inventory record system. The net impact of items counted at the Chollas Store location for these 10 judgmentally selected stock items was an understatement in the inventory record system of \$987.81.

- 4) Inquire with the Store Manager regarding P&C's Central Store procedures and activities to determine if obsolete inventory (inventory with no sales to City departments during the prior fiscal year) is annually reviewed. Confirm if P&C's justification for retaining obsolete items is maintained on file, or if obsolete inventory is being properly liquidated.

**Result:** Per inquiry with the Central Store Operations Supervisor, P&C utilizes SAP to track all material numbers created since implementation in calendar year 2009. The Operations Supervisor stated that the Chollas Store location did not have any additional materials identified as obsolete for fiscal year 2024 during the June 28, 2024 on-site inventory count. There continue to be 626 material numbers in SAP that had previously been recorded as inactive/obsolete.

P&C no longer stocks materials that are specific for a single department or division's use, and it has made a concerted effort to reduce the number of materials with short expiration dates. As a result, client departments have minimal to no unexpected costs at the end of the fiscal year. This drastically reduces instances of material obsolescence and allows P&C to maintain more shelf space dedicated to higher-volume materials.

- 5) Obtain a listing of the Chollas Store location inventory write offs occurring during the fiscal year ended June 30, 2024. Judgmentally select 5 items from the positive adjustment schedule and 5 items from the negative adjustment schedule written off during the fiscal year ended June 30, 2024, to obtain a written explanation for the reason for the adjustment, along with support for approval of adjustment.

**Result:** We selected 10 adjustments (5 positive adjustments and 5 negative adjustments). For each item selected, the Central Store Operations Supervisor provided a written explanation describing the adjustment and the approval. Per inquiry of the nature of adjustments and review of the supporting documents provided, we noted that the items and explanations appear reasonable.

- 6) Provide the result of the inventory counts of the Chollas Store location, the result of the obsolete inventory review, and a draft written report to discuss the results.

**Result:** An exit conference was held with P&C staff and City Auditor staff on August 19, 2024, to discuss the results of Procedures 1 through 5.

- 7) Hold an exit conference with P&C staff and City Auditor staff to review and finalize the draft report.

**Result:** An exit conference was held with P&C staff and City Auditor staff on August 19, 2024, to review the results of our procedures and the draft report. Since no recommendations were made in this report, Management decided not to provide a response memo to this report.

We performed this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the Central Store inventory records maintained by P&C. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of P&C and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the City Council and Audit Committee of the City of San Diego, City Management, and the Purchasing and Contracting Department of the City, and is not intended to be and should not be used by anyone other than these specified parties.

Since no recommendations were made in this report, Management declined to provide a written response memo, but their input is incorporated throughout the report. We would like to thank Central Stores staff for their assistance and cooperation during the audit. All of their valuable time and efforts spent providing us information is greatly appreciated. The audit staff members responsible for this audit report are Rod Greek and Kyle Elser.

Respectfully submitted,



---

Andy Hanau  
City Auditor

cc: Honorable City Attorney, Mara Elliot  
Eric Dargan, Chief Operating Officer  
Paola Avila, Chief of Staff, Mayor's Office  
Rania Amen, Acting Deputy Chief Operating Officer of Operational Support  
Christiana Gauger, Chief Compliance Officer  
Claudia Abarca, Director, Purchasing and Contracting Department  
Charles Modica, Independent Budget Analyst  
Fanela Catapia, Deputy Director, Purchasing and Contracting Department  
Thomas Sawade, Program Manager, Purchasing and Contracting Department

## Attachment 1

### Fiscal Year 2024 Summary of Results

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 Inventory Units Over / (Under) in Inventory Records	Total Value of Inventory Units Over / (Under) in Inventory Records	Percent Difference Between the Value of Sampled Items Counted and the 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
Chollas	1,699	\$ 1,824,447.71	232	\$ 257,703.26	1,040	\$ 7,264.53	2.82%	\$ 51,430.27
					(262)	(3,132.40)	-1.22%	(22,176.30)
<b>Total</b>	<b>1,699</b>	<b>\$ 1,824,447.71</b>	<b>232</b>	<b>\$ 257,703.26</b>	<b>778</b>	<b>\$ 4,132.12</b>	<b>1.60%</b>	<b>\$ 29,253.97</b>

### Summary of Results - Last Three Fiscal Years

Fiscal Year	Total Number of Stock Items in Inventory Records	Total Inventory Value	Total Number of Sampled Stock Items	Total Value of Sampled Stock Items	Number of Inventory Units Over / (Under) in Inventory Records	Total Value of Inventory Units Over / (Under) in Inventory Records	Percent Difference Between the Value of Sampled Items Counted and the 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
2024	1,699	\$ 1,824,447.71	232	\$ 257,703.26	1,040	\$ 7,264.53	2.82%	\$ 51,430.27
					(262)	(3,132.40)	-1.22%	(22,176.30)
					778	\$ 4,132.12	1.60%	\$ 29,253.97
2023	1,568	\$ 1,506,087.55	233	\$ 337,847.11	7,648	\$ 3,882.67	1.15%	\$ 17,308.54
					(463)	(6,129.17)	-1.81%	(27,323.21)
					7,185	\$ (2,246.50)	-0.66%	\$ (10,014.67)
2022	1,540	\$ 1,725,187.07	231	\$ 244,154.07	120	\$ 881.46	0.36%	\$ 6,228.38
					(95)	(855.83)	-0.35%	(6,047.28)
					25	\$ 25.63	0.01%	\$ 181.10

<sup>1</sup> The "Total Number of Stock Items" is as of June 26, 2024, based upon the Purchasing and Contracting 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, 2024, based upon the Purchasing and Contracting 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 #2 and #3.

**Attachment 2  
Chollas Store**

**PROCEDURE 2 (INDIVIDUAL STOCK ITEM EXCEPTIONS):**

Material Number (Stock Number)	Material Description	Inventory Value in SAP	Unit Value	Base Unit of Measure	Number of Units Recorded in SAP	Number of Units Per Physical Observation Count	Number of Units Overstated/(Understated ) in SAP	Inventory Value Overstated/(Understated) in SAP
22013136	PADLOCK MSTR 1KA 1CO26 W/O KEY 6 PER BOX	13,829.37	18.22	EA	759	744	15	273.31
22014607	CHAIN 1/4". COMMON COIL ELECTRO-GALV.	870.87	2.64	EA	330	0	330	870.87
22014639	STAKES, 5 FOOT "T" FENCE	921.27	8.08	EA	114	0	114	921.27
22014742	GLOVE LATEX-P/F DIAMOND GRIP LRG 10/CS	1,153.32	18.31	BX	63	0	63	1,153.32
22014816	HEADGEAR FOR FACE SHLD CREWS #103	14.87	7.44	EA	2	14	(12)	(89.22)
22014959	PLUG, REDWD 3"x1/2"x12" TAPER TO POINT	156.19	31.24	EA	5	11	(6)	(187.43)
22030013	AXE WOOD HANDLE 3.5 LB HEAD 11Z395	845.64	52.85	EA	16	15	1	52.85
22030141	Curb Cook Key 3/4" x 1"	585.20	45.02	EA	13	12	1	45.02
22030441	SHOVEL SQUARE-POINT UNION 44106	6,798.86	15.52	EA	438	420	18	279.41
22034909	BUCKET PAINTERS PLASTIC 5GAL	393.89	5.18	EA	76	85	(9)	(46.64)
22034914	PAINT BRUSH 3" (AGATE)	1,618.16	14.32	EA	113	119	(6)	(85.92)
22035091	PAINT SPRAY KRYLON BEIGE	1,033.11	12.15	EA	85	133	(48)	(583.40)
22035095	PAINT SPRAY KRYLON BLACK FLAT	2,160.09	10.39	EA	208	206	2	20.77
22035135	PAINT SPRAY KRYLON INVERT FLO ORNG 12/CS	379.91	4.42	EA	86	62	24	106.02
22037110	CITY CALENDAR CY 2024 SMALL 7-3/4"x11"	398.14	2.43	EA	164	101	63	152.94
22040213	BROOM FLOOR 18" W/O HANDLE 2050010	36.14	12.05	EA	3	15	(12)	(144.56)
22040290	CLEANER SPEEDBALL 2000 WAXIE 870530	237.83	3.26	EA	73	70	3	9.90
22040405	BAG TRASHLINER 16GL 24"x32" 70ML 709469	1,184.35	43.86	CS	27	31	(4)	(175.46)
22040548	TOWEL PAPER ROLL6X950FT 02000 850751	63.07	63.07	CS	1	0	1	63.07
22040967	SAFETY ALCOHOL RUBBING PLASTIC 1PT	2,365.71	5.27	EA	449	446	3	15.81
22040989	SAFETY BANDAGE FINGERTIP 10/PK HRT0117	333.66	1.69	EA	197	192	5	8.47
22040993	SAFETY BANDAID ASSRTD SHEER STRIP 50/BX	2,245.25	3.50	BX	641	606	35	122.60
22040996	SAFETY BANDAID 1X3 SHEER STRIPS 100/BX	522.45	5.02	EA	104	44	60	301.41
22041021	SAFETY BLANKET RESCUE 56X84 REFLECT MYL	438.94	3.95	EA	111	112	(1)	(3.95)
22041036	SAFETY DRESSING TRAUMA PAD 5" X 9"	241.90	1.32	EA	183	182	1	1.32
22041043	SAFETY SHEET BURN 60X96 STERILE	1,183.31	17.40	EA	68	70	(2)	(34.80)
22041103	SAFETY LIP BALM SPF30 15OZ	4.86	2.43	EA	2	0	2	4.86
22041126	SAFETY TWEEZER FORCEPS METAL SLANT END	940.57	5.99	EA	157	156	1	5.99
22042611	SPIT SOCK POLICE ISSUE #100SS	1,195.40	4.76	EA	251	252	(1)	(4.76)
22043683	BALL FOOTBALL RUBBER INTRMED VOIT #CF7	471.49	11.79	EA	40	38	2	23.57
22043701	FLAG PENALTY OFFICIAL BS-FBREFFLG	49.93	1.85	EA	27	26	1	1.85
22043704	BALL TABLE-TENNIS HALEX #1 24 BX/CS.	412.30	11.14	BX	37	33	4	44.57
22043727	BALL UTILITY 8.5 BSN VPG85HXX	175.50	7.98	EA	22	20	2	15.95
22043728	BALL UTILITY 6" BSN VPG6HXXX	77.04	5.93	EA	13	12	1	5.93
22043772	CONE LOW PROFILE ORANGE BSN-1255706	6.36	3.18	EA	2	10	(8)	(25.44)
22043885	NET BASKETBALL NYLON BSN SNBNN90X	3,973.82	2.16	EA	1,844	1845	(1)	(2.16)
22043999	GAME CAROM STICKS	15.84	5.28	PR	3	5.5	(3)	(13.20)
22044267	GRIDDLE SCREENS NO 55 C7-3	664.72	10.72	PK	62	74	(12)	(128.66)
22044297	SPATULA LARGE 8" X 3"	40.35	5.76	EA	7	0	7	40.35
22044307	TONGS COOKING 9"	8.52	4.26	EA	2	4	(2)	(8.52)
22077565	GRAFFITI RMVR SPARTAN 1317103	371.58	8.26	EA	45	58	(13)	(107.39)
22078151	SUNSCREEN SPF50 TINTED AMAVARA REEF SAFE	3,515.52	15.62	EA	225	168	57	890.60
22100059	CLOISONNE LAPEL CITY SEAL - PIN - BLACK	1,952.26	3.28	EA	596	536	60	196.54
22100060	CLOISONNE LAPEL CITY SEAL - MGMT - BLACK	1,429.88	3.79	EA	377	303	74	280.67
22100070	FLASHLIGHT STREAMLIGHT DUALIE 3AA 68751	4,945.83	42.27	EA	117	108	9	380.45
22100520	HAND SANITIZER GEL 16OZ BOTTLE WITH PUMP	164.69	5.31	EA	31	0	31	164.69
22100773	MASK EAR LOOP 4 PLY BLACK 1 = 50 masks	891.32	5.06	BX	176	161	15	75.96
22101969	SAFETY GLASSES GOGGLE KIT 3M SOLUS TINT	3,055.82	18.19	EA	168	163	5	90.94
22102339	ABSORBANT /DEGREASER RHINO DIRT	1,075.27	19.91	EA	54	51	3	59.74
22102631	SHIRT SHORT SLEEVE CLASS 3 XL COSD LOGO	1,252.53	18.69	EA	67	68	(1)	(18.69)
22102633	SHIRT SHORT SLEEVE CLASS 3 3XL COSD LOGO	317.81	18.69	EA	17	14	3	56.08
22102651	HYGIENE PADS 4 WAXIE DISPENSER - LIBRARY	0.01	0.00	CS	31	33	(2)	(0.00)
22103585	HAT VISOR AND SHADE - HIVIZ YELLOW	938.40	8.61	EA	109	112	(3)	(25.83)
22103586	HAT VISOR AND SHADE - HIVIZ ORANGE	1,454.96	8.61	EA	169	161	8	68.87
		<b>\$ 216,707.20</b>			<b>40,266</b>	<b>39,387.50</b>	<b>878</b>	<b>\$ 5,119.93</b>

Overstatement of Units	1,024	\$	6,805.97
Item Count	35		
Understatement of Units	(146)	\$	(1,686.04)
Item Count	19		
No. of items not agreeing to inventory on hand	54		

**PROCEDURE 3 (INDIVIDUAL STOCK ITEM EXCEPTIONS):**

Material Number (Stock Number)	Material Description	Inventory Value in SAP	Unit Value	Base Unit of Measure	Number of Units Recorded in SAP	Number of Units Per Physical Observation Count	Number of Units Overstated/(Understated ) in SAP	Inventory Value Overstated/(Understated) in SAP
22014641	CONE TRAFFIC 18" MARKED-"CITY OF S.D."	-	11.15	EA	-	89	(89)	(992.35)
22030257	PITCHFORK 6-TINE	1,121.03	65.94	EA	17	11	6	395.66
22039831	LUMBER DOUGLAS FIR 2X6X16 #2&BTR DF S4S	403.57	16.82	EA	24	51	(27)	(454.02)
22040434	TOWEL TOOL BOX Z400 POPUP BX 440314	6,101.21	6.29	EA	970	960	10	62.90
		<b>\$ 40,996.06</b>			<b>1,811</b>	<b>1,911.00</b>	<b>(100)</b>	<b>\$ (987.81)</b>

Overstatement of Units	16	\$	458.56
Item Count	2		
Understatement of Units	(116)	\$	(1,446.37)
Item Count	2		
No. of items not agreeing to inventory on hand	4		

TOTAL Overstatement of Units	1,040	\$	7,264.53
TOTAL Item Count	37		
TOTAL Understatement of Units	(262)	\$	(3,132.40)
TOTAL Item Count	21		
TOTAL No. of items not agreeing to inventory on hand	58		



**MANAGEMENT REPRESENTATION LETTER  
AGREED-UPON PROCEDURES AUDIT OF THE CENTRAL STORES INVENTORY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2024**

September 30, 2024

City of San Diego – Office of the City Auditor  
600 B Street Suite 1350, San Diego, CA 92101

In connection with your agreed-upon procedures engagement of the City of San Diego Central Stores Inventory for the Fiscal Year Ended June 30, 2024, for the purpose of compliance with the San Diego Municipal Code Section §22.0501, which requires an annual count of inventory in City storerooms and warehouses to confirm the valuation of Central Stores inventory, we confirm, to the best of our knowledge and belief, the following representations made to you during your engagement.

1. We are responsible for the management and record keeping, for the Central Stores inventory for the Fiscal Year Ended June 30, 2024, in conformity with the requirements of the State of California and the City of San Diego. We understand that, as is customary, your agreed-upon procedures engagement was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included such tests of the accounting records, and such other auditing procedures as you considered necessary in the circumstances to report on the results of applying the agreed-upon procedures. We further understand that such an agreed-upon procedures engagement would not necessarily disclose all irregularities should there be any.
2. Management is responsible for compliance with laws and regulations outlined in San Diego Municipal Code Section §22.0501. We have complied with record keeping and purchasing requirements as applicable from the State of California and City of San Diego.
3. In regard to the Central Stores Inventory for the Fiscal Year Ended June 30, 2024, there have been no:
  - a) actions taken by management which contravene the provisions of the State of California and City of San Diego laws or regulations or of purchase contracts and inventory issuance applicable to the Central Stores Inventory.
  - b) irregularities involving management or involving employees who have significant roles in the internal control structure.

Management Representations Letter for the Agreed-Upon Procedures Audit of Central Stores Inventory for the Fiscal Year Ended June 30, 2024

c) communication from the State of California or City of San Diego concerning noncompliance with, or deficiencies in, financial reporting practices or the other matters that could have a material effect on the Central Stores Inventory valuation for the Fiscal Year Ended June 30, 2024.

4. We have made available to you all financial records and related data.

5. In relation to the Central Stores Inventory for the Fiscal Year Ended June 30, 2024, there are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Standards, Accounting for Contingencies.

6. There are no irregularities involving employees (other than management or those who have significant roles in the internal control structure) that could have an effect on the Central Stores Inventory valuation for the Fiscal Year Ended June 30, 2024.

7. There are no:

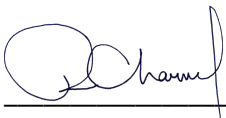
a) violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statement or as a basis for recording a loss contingency.

b) other liabilities or loss contingencies that are required to be accrued or disclosed.

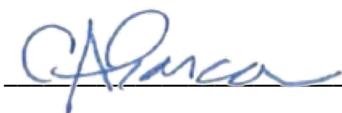
8. No department or agency of the State of California or the City of San Diego has reported a material instance of noncompliance to us in relation to the Central Stores Inventory for the Fiscal Year Ended June 30, 2024.

9. There are no transactions that have not been properly recorded in the accounting records underlying the Central Stores Inventory valuation for the Fiscal Year Ended June 30, 2024.

10. The entity has complied with all aspects of contractual agreements that would have a material effect on the Central Stores Inventory valuation for the Fiscal Year Ended June 30, 2024.



Rolando Charvel, Director and City Comptroller, Department of Finance



Claudia Abarca, Purchasing and Contracting Director