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

Office of the  
City Auditor

City of San Diego





## THE CITY OF SAN DIEGO

DATE: October 6, 2022  
TO: Claudia Abarca, Director, Purchasing and Contracting  
FROM: Andy Hanau, City Auditor, Office of the City Auditor  
SUBJECT: Agreed-Upon Procedures Report on Central Stores Physical Inventory – FY 2022

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Enclosed is the Agreed-Upon Procedures Report Related to the Central Stores Physical Inventory for Fiscal Year Ending 2022 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. MGO did not find any internal control issues nor did they make any new recommendations. The one recommendation presented in this report is the same from last year since it remains outstanding, and you agree with the recommendation. This recommendation, once implemented, will strengthen existing controls and your staff will gain efficiencies as they process orders. Your response to the audit recommendation is presented after page 6 of this report.

We would like to thank MGO for their work, and the Purchasing & Contracting Central Stores staff for their assistance and cooperation during this review.

Respectfully submitted,

Andy Hanau  
City Auditor

cc: Honorable Mayor Todd Gloria  
Honorable City Councilmembers  
Honorable Audit Committee Members  
Honorable City Attorney Mara Elliott  
Jay Goldstone, Chief Operating Officer  
Matthew Vespi, Chief Financial Offer  
Christiana Gauger, Chief Compliance Officer  
Rolando Charvel, Department of Finance Director and City Comptroller  
Andrea Tevlin, Independent Budget Analyst  
Thomas Sawade, Stores Operations Supervisor

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**CITY OF SAN DIEGO, CALIFORNIA**

Independent Accountant's Report  
on Applying Agreed-Upon Procedures  
Related to the Central Store Physical Inventory

June 30, 2022



Certified  
Public  
Accountants

**CITY OF SAN DIEGO, CALIFORNIA**  
Independent Accountant's Report  
on Applying Agreed-Upon Procedures  
Related to the Central Store Physical Inventory

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## Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Office of the City Auditor  
City of San Diego, California

We have performed the procedures enumerated below related to the Office of the City Auditor (City Auditor) of the City of San Diego, California (the City), 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 as of June 30, 2022. The Purchasing and Contracting Department (the Department) management is responsible for the City's Central Store inventory records.

The City Auditor 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. 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 records as of June 28, 2022 maintained by the Purchasing and Contracting Department and select a sample based on a 99% confidence level and 8% confidence interval.

**Result:** We obtained an electronic version of the inventory stock records maintained by the Purchasing and Contracting Department for the Central Store, which contained a total of 1,540 stock items. Per concurrence with the City Auditor at the entrance conference held on June 22, 2022, paper-form stock items were excluded from the sampling population, resulting in a total of 1,462 stock items. The Central Store had 78 paper-form stock items.

- 2) Conduct a physical inventory count at the Department's Central Store location for the randomly selected sample items and compare the results of the physical inventory count to the Department's inventory stock records. The physical count includes judgmentally opening 10 inventory boxes for the sample items selected and 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 both Procedures 2 and 3) for a summary of the results of the physical inventory count and Attachment 2 for a detail listing of the inventory stock item discrepancies.

- 221 stock items were randomly counted at the Central Store with a recorded inventory value of \$239,269. Of the 221 stock items counted, MGO noted discrepancies for 29 stock items. 18 of the stock items resulted in an overstatement of 119 inventory units, or \$880.24, which were included per the inventory record system but not on hand. 11 of the stock items resulted in an understatement of 95 inventory units, or \$855.83, which were on hand, but not included in the inventory record system. The net impact of items counted at the Central Store is an overstatement in the inventory record system of \$24.41.

MGO recommends that the Purchasing and Contracting Department consider procuring handheld devices that are compatible with the SAP inventory record module. These devices can be used to scan the barcodes that already exist on each stock item tag and will allow storekeepers to update inventory records in real-time for their inventory cycle counts and will provide more accurate and timely information regarding inventory record maintenance.

- 3) Judgmentally select 10 items on hand at the Central Store and 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 detail listing of inventory stock item discrepancies.

- Judgmentally selected and counted 10 stock items on hand at the Central Store with a recorded inventory value of \$4,885. Of the 10 stock items counted, MGO noted a discrepancy for 1 stock item. This 1 stock item discrepancy resulted in an overstatement of 1 inventory unit, or \$1.22, which was included in the inventory record system but not on hand.

- 4) Inquire with the Store Manager regarding the Central Store procedures and activities to determine obsolete inventory (inventory with no sales to the City departments during the prior fiscal year) is annually reviewed. Confirm if 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 Central Store Operations Supervisor, obsolete inventory is reviewed annually by the Purchasing and Contracting Department. Stock items in the inventory records without goods movement within the last 12 months are identified in SAP by Central Store staff. The Purchasing and Contracting Department attaches a listing of items identified from SAP to a memo that is sent to each respective department, requiring their review of the items identified and a response within 30 days. In their response, departments provide justification for retaining obsolete items or disposing of them. Obsolete stock items identified by the departments are removed from the inventory records by Central Store staff and set aside for disposal.

Due to the COVID-19 pandemic that affected the City for the entirety of fiscal year (FY) 2020/2021 and FY 2021/2022, it was difficult for Central Stores and its customer operating departments to properly identify materials by remote working, which did not move based on lack of consumption from the warehouse, versus the low consumption of items as a result of the full or partial closures of several departments during the fiscal year. Therefore, Central Stores did not conduct the obsolete inventory process for FY 2021/2022. However, per the Central Store Operations Supervisor, the procedures will resume for FY 2022/2023.

- 5) Obtain a listing of the Central Store inventory write offs occurring in FY 2021/2022. 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, 2022, to confirm if the items and explanations provided by the Purchasing and Contracting Department appear reasonable.

**Result:** We performed an analysis on 10 adjustments (5 positive adjustments and 5 negative adjustments). Per inquiry of the nature of adjustments with the Central Store Operations Supervisor and reviewing supporting documents, we noted that the items and explanations appear reasonable.

- 6) Determine if recommendation(s), if any, from the previous year's Inventory Agreed-Upon Procedures have been adequately implemented to resolve the identified issues. If no recommendations were made in the preceding year's Inventory Agreed-Upon Procedures, then this procedure would not apply.

**Result:** Per the FY 2020/2021 Inventory Agreed-Upon Procedures, which was consistent with FY 2019/2020 Inventory Agreed-Upon Procedures, MGO recommends the procurement of hand-held devices to aid in the efficiency of inventory counts, which has not yet been implemented as of June 30, 2022. Refer to our recommendation at procedure 2 above.

- 7) Provide the results of the inventory counts, the results of the obsolete inventory review, and the results of the recommendation follow-up in a draft written report with recommendations, as appropriate, to address any identified issues.

**Result:** The results of the physical inventory count for the Central Store were provided to the Department on September 23, 2022. An exit conference was held with the Department and City Auditor staff on September 23, 2022, to discuss the results of MGO's observations and recommendation.

- 8) Hold an exit conference with Purchasing and Contracting Department staff and City Auditor staff to review and finalize the draft report.

**Result:** An exit conference was held with Department staff and City Auditor staff on September 23, 2022 to review and finalize the draft report.

We were engaged by the City Auditor to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and 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 the Department. 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 the Department 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, the City Auditor 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.

*Macias Gini & O'Connell LLP*

San Diego, California  
September 23, 2022

## Attachment 1

### Fiscal Year 2022 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 the Inventory Records	Total Value of Inventory Units Over / (Under) in the 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
Chollas	1,540	\$ 1,725,187.07	231	\$ 244,154.07	120 (95)	\$ 881.46 (855.83)	0.36% -0.35%	\$ 6,228.38 (6,047.28)
<b>Total</b>	<b>1,540</b>	<b>\$ 1,725,187.07</b>	<b>231</b>	<b>\$ 244,154.07</b>	<b>25</b>	<b>\$ 25.63</b>	<b>0.01%</b>	<b>\$ 181.10</b>

### Summary of Results - Last Three 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 the Inventory Records	Total Value of Inventory Units Over / (Under) in the 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
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
2021	1,171	1,688,054.84	220	216,835.03	206	3,730.81	1.72%	29,044.26
					(596)	(2,583.85)	-1.19%	(20,115.24)
					(390)	\$ 1,146.96	0.53%	\$ 8,929.02
2020	1,279	1,301,193.00	223	227,485.41	1,308	18,698.03	8.22%	106,950.78
					(678)	(10,171.81)	-4.47%	(58,181.70)
					630	\$ 8,526.22	3.75%	\$ 48,769.08

<sup>1</sup>The "Total Number of Stock Items" is as of June 28, 2022, 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 28, 2022, 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 Item)	Material Description	Inventory Value	Unit Value	Number of Units Recorded in SAP	Inventory Unit of Measure	Number of Units Per Physical Observation Count	Number of Units Overstated/ (Understated) in SAP	Inventory Value Overstated/ (Understated) in SAP
1	22101440	DETERGENT CASCADE WAXIE 88PGC98208CT	\$ 336.55	\$ 15.30	22	EA	18	4	\$ 61.19
2	22037049	STRETCH-WRAP MOBIL 20"X1000' 80GA POLYET	2,694.12	8.02	336	EA	348	(12)	(96.22)
3	22030598	WRENCH PIPE 14" END-PATTERN RIGID 90117	632.09	70.23	9	EA	8	1	70.23
4	22018930	ADAPTER PVC SCH40 1" MIP X SLIP	6.04	0.43	14	EA	12	2	0.86
5	22039833	LUMBER DOUGLAS FIR 2X10X16 #2 OR BETTER	1,080.90	29.21	37	EA	36	1	29.21
6	22014736	GLOVE RUBBER SLVRS FL/LIN XLG 12PK-144CS	68.89	1.91	36	PR	84	(48)	(91.85)
7	22035690	HOSE GARDEN BLACK PVC NON-RUBBERIZED 300	486.33	24.32	20	EA	18	2	48.63
8	22041458	BATTERY C ALKALINE DURCELL/ENERGIZE	276.23	0.58	480	EA	492	(12)	(6.91)
9	22043727	BALL UTILITY 8.5 BSN VPG85HXX	2.80	2.80	1	EA	0	1	2.80
10	22030594	WRENCH PIPE 6" RIGID 31000	343.24	21.45	16	EA	15	1	21.45
11	22037089	BOOK COVER SELF-ADHESIVE 13" X 11"	13,724.12	167.37	82	EA	84	(2)	(334.73)
12	22030332	TAPE MEASURE 1"X25' STANLEY 33-425	745.95	13.81	54	EA	58	(4)	(55.26)
13	22040249	BRUSH WIRE STAINLESS TOOTHBRUSH 2060560	56.72	1.01	56	EA	50	6	6.08
14	22035101	PAINT SPRAY KRYLON BLACK GLOSS	809.76	12.85	63	EA	62	1	12.85
15	22040337	COVER TOILET SEAT 1/4FLD WAXIE 851710 CS	1,121.24	40.04	28	EA	30	(2)	(80.09)
16	22100060	CLOISONNE LAPEL CITY SEAL - MGNT - BLACK	1,710.55	3.79	451	EA	378	73	276.87
17	22014816	HEADGEAR FOR FACE SHLD CREWS #103	284.45	5.93	48	EA	52	(4)	(23.70)
18	22044019	SNAP-HOOK ROPE/SWIVEL 5/8" ZINC	179.67	2.81	64	EA	61	3	8.42
19	22040322	DETERGENT LAUNDRY LIQUID HD WAXIE 530994	2,686.50	32.37	83	EA	84	(1)	(32.37)
20	22034918	PAINT BRUSH 2" (PURDY)	224.86	10.22	22	EA	21	1	10.22
21	22031527	CONTROL PHOTO 2400W/240VAC TORK	649.88	6.37	102	EA	101	1	6.37
22	22041024	BOX FIRST-AID COMPLETE 9.5X9.5 (PD ONLY)	2,912.24	43.47	67	EA	68	(1)	(43.47)
23	22078140	BATTERY 3V LITHIUM ENERGIZER CR 123	1,042.15	2.10	496	EA	495	1	2.10
24	22037792	SERVICE AWARD, TIE TACK 10 YEAR	631.79	18.05	35	EA	36	(1)	(18.05)
25	22014993	RAINSUIT - YELLOW XX-LARGE	503.71	9.69	52	EA	43	9	87.18
26	22026577	CONNECTOR SWIVEL 2-1/2FHT X 2 MNPT	6,542.58	35.56	184	EA	182	2	71.12
27	22041108	SAFETY LOTION SPF 30 DRY TOUCH 4 OZ TUBE	740.97	9.15	81	EA	89	(8)	(73.18)
28	22037818	SERVICE AWARD, BUTTON 40 YEAR	1,335.35	49.46	27	EA	26	1	49.46
29	22078150	SUNSCREEN SPF30 CLEAR AMAVARA REEF SAFE	3,072.12	12.80	240	EA	231	9	115.20

<b>Overstatement of Units</b>	<b>119</b>	<b>\$</b>	<b>880.24</b>
<b>Count item</b>	<b>18</b>		
<b>Understatement of Units</b>	<b>(95)</b>	<b>\$</b>	<b>(855.83)</b>
<b>Count item</b>	<b>11</b>		





THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: September 30, 2022

TO: Honorable Councilmember Stephen Whitburn and Audit Committee

FROM: Members Claudia C. Abarca, Director, Purchasing & Contracting Department  
via Matthew Vespi, Chief Financial Operator

SUBJECT: Management Response to the *Independent Accountant's Report on Applying Agreed-Upon Procedures Related to Central Stores Physical Inventory*

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The purpose of this memorandum is to provide Management's response to the findings and recommendations in the June 30, 2022 report titled *Independent Accountant's Report on Applying Agreed-Upon Procedures Related to Central Stores Physical Inventory*. Additionally, we have provided updates on efforts taken to strengthen inventory control, standardize operating procedures, and minimize physical inventory discrepancies in Central Stores stock.

As of April 2022, Central Stores successfully implemented Warehouse Management which provide flexible, automated support in processing goods movement and managing overall warehouse stock. Warehouse Management has allowed Central Stores to map their entire warehouse in detail to storage bin level, allowing staff to quickly determine the entire quantity of a material in the warehouse, but also always determine exactly where the material is in the warehouse.

One recommendation was made in the report, which is as follows: "MGO recommends that the Purchasing and Contracting Department consider procuring handheld devices that are compatible with the SAP inventory record module."

**Management Response:** Agree. This recommendation has been recurring over several audits in the last few years. We are happy to say that Purchasing & Contracting (P&C) is currently in the process of reviewing various handheld equipment that can integrate with the SAP Warehouse Management module that was recently adopted. P&C has been engaged staff from the Department of Information Technology for this effort, to assist with integration efforts and meet staff needs related to capabilities and needs for efficient operational practices. This effort will be a joint effort with Public Utilities Department warehouse staff to ensure the City has a uniform system moving forward.

Central Stores will continue to monitor inventory throughout the fiscal year to ensure stock adjustments are being accurately made or discontinued.

Page 2  
Honorable Councilmember Stephen Whitburn and Audit Committee  
Members September 30, 2022

Sincerely,



Claudia C. Abarca  
Director, Purchasing & Contracting Department

cc: Jay Goldstone, Chief Operating Officer  
Rolando Charvel, City Comptroller and Department of Finance Director