



AUDIT MEMORANDUM

August 29, 2008

TO: Stockton City Council
FROM: F. Michael Taylor, City Auditor
SUBJECT: Substantive Testing: Annual Physical Inventory

We have completed an audit of the Annual Physical Inventory process. We concluded that the process and practices used by staff provide reasonable assurance that Central Stores and Municipal Utilities Stores inventory counts are accurate.

BACKGROUND:

The Annual Physical Inventory is performed at the end of each fiscal year. For Fiscal Year 2007-2008, the Purchasing Division planned the Annual Physical Inventory for June 23 through June 25.

Staff from Purchasing, Central Stores, and Municipal Utilities Department performed a physical inventory of items in both the Central Stores and Municipal Utilities Department Stores. After counts are entered into the computer system, an exception report is generated. This report captures any discrepancies between the physical count and the quantity stated in the system. A recount is done of all items on the exception report. This process repeats itself multiple times before the quantities in the system are updated to match the actual quantities on hand.

During inventory, both stores were closed, but still provided services for emergencies and to Fleet Services. Any item removed from the store during the count were documented and issued in the system to reflect the removal.

OBJECTIVE AND SCOPE:

The objective of our audit was to answer the following question:

What are the physical inventory procedures and are they adequate to ensure an accurate count?

The scope of our audit focused on procedures in place at the time of inventory and was limited to observing the physical count performed by staff.

Our audit testing period was from June 23 through June 24, 2008.

METHODOLOGY:

To accomplish our audit objective, we reviewed the documented inventory process, participated in performing counts, and observed the inventory process at both store locations. Our participation was exclusively limited to recording onto the worksheet the number of items counted by the staff member we were paired with. We participated in the count as an attempt to fully understand the inventory process. We did not make any management decisions or alter any instructions set by management. Lastly, we did not perform any test counts for the audit. The audit focused on the effectiveness and efficiency of the procedures in place.

We provided management with suggestions for system improvements under a separate memorandum. Suggestions for improvement are those conditions deemed by the auditor to be of less significance than audit findings. Generally, these are areas where procedures could be more efficient or where opportunities exist to make minor improvements. No follow-up work is performed on suggestions for improvement.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS:

Based on the results of our work, we concluded that the process and practices used by staff provide reasonable assurance that Central Stores and Municipal Utilities Stores inventory counts were accurate.

We would like to express our appreciation to the staff of the Purchasing Division, Central Stores, and Municipal Utilities Department for their assistance during this audit. We commend them for having an adequate and efficient process in place.


F. MICHAEL TAYLOR, CPA, CIA
CITY AUDITOR


NANCY XIONG
DEPUTY CITY AUDITOR I

emc: J. Gordon Palmer, Jr., City Manager
Ren Nosky, City Attorney
Katherine Gong Meissner, City Clerk
Mark Moses, Deputy City Manager/CFO
Janet Salvetti, Director of Financial Management
Candy Retamoza, Purchasing Agent
Connie Cochran, Public Information Officer
Macias Gini & O'Connell, LLP
The Record