




MEMORANDUM OF TRANSMITTAL

To: David Billingsley, Chief Procurement Officer

From: George J. McGowan, CPA 
Director, Office of Audit Services and Management Support

Date: June 10, 2026

Subject: City Stores Operational Audit (Report No. 26-02)

The Office of Audit Services and Management Support performed a review of City Stores operations for the period May 2025 through May 2026 to evaluate inventory management controls, purchasing compliance, and operational efficiency. The audit objectives were to ensure that inventory management controls adequately mitigated risks related to theft, loss, and inventory mismanagement; ensure that controls minimize the risk of purchases occurring outside established City policies and procedures; and ensure operational controls supported efficient inventory management and cost-effective operations.

Our audit procedures included interviews with management and staff, inventory testing, transaction sampling, price benchmarking, and walkthroughs of operational processes.

Overall, Inventory controls were operating effectively. Inventory floor-to-book and book-to-floor testing identified immaterial variances representing approximately 0.16% of total inventory value. We conclude that Inventory safeguard controls are functioning effectively. No exceptions were identified when testing for purchasing documentation and approval controls.

Opportunities for improvement were identified related to obsolete inventory disposal practices, operational KPI monitoring, and customer feedback processes.

Obsolete Inventory Disposal Process

Audit testing identified that the last documented disposal of obsolete inventory prior to April 2026 occurred in May 2016, representing approximately a ten-year gap between disposal cycles.

Recommendation: Management should establish a recurring process for identifying, documenting, and disposing of obsolete or damaged inventory.

Management Response: Management concurs with this recommendation.

To address this finding and prevent future gaps, City Stores will establish a yearly inventory review process that includes the identification, documentation, and disposal of obsolete, damaged, or surplus inventory.

Management will implement this process in conjunction with the annual fiscal year-end inventory count conducted each September. Any obsolete, damaged, or surplus inventory identified during the review will be documented and processed for disposal in accordance with established procedures.

Lack of Formal Inventory KPIs

Management does not formally have a process to monitor key inventory performance indicators (KPIs). Such KPIs are best practices used to monitor and report the most important inventory activities.

Recommendation: Management should identify and monitor key inventory performance indicators such as inventory turnover and other metrics relevant to management.

Management Response: Management concurs with this recommendation.

Management will establish and monitor key inventory performance indicators (KPIs) to better evaluate inventory operations and support informed decision-making. Relevant metrics will be identified and reviewed periodically to ensure effectiveness. One KPI is currently being used to monitor the value of City Stores inventory, measured monthly.

Lack of Formal Customer Feedback

City Stores Management does not have a formal process to measure the level of satisfaction of its customers.

Recommendation: Management should establish processes to solicit feedback from the users of City Stores on their level of satisfaction with the goods and services provided by City Stores.

Management Response: Management concurs with this recommendation.

Management will establish a process to solicit feedback periodically from customers regarding items such as the quality of goods, services, and customer service provided. Feedback received will be reviewed and used to identify opportunities for improvement, enhance customer satisfaction, and support continuous improvement efforts.

We would like to thank the employees and managers consulted during this review for their assistance. Audit Program Manager Perez Goree performed this review.

c: Jose Fernandez, Chief Financial Officer
Jody Litchford, Deputy City Attorney
Leonid Koryak, City Stores Supervisor