

## **COUNTY OF PLACER**

OFFICE OF AUDITOR-CONTROLLER

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July 1, 2010

Mr. Ken Grehm, Director Placer County Public Works Department 3091 County Center Drive, Suite 220 Auburn, CA 95603

Re: Year-End Inventory Count Review

Dear Mr. Grehm:

The Internal Audit Division of the Auditor-Controller's Office performed a review of the Road Maintenance Division (Division) year-end inventory count made by the Public Works Department (Department) for the period of July 1, 2009 to June 30, 2010. The objectives of our review were to obtain an understanding of the entity's internal control structure, assess the control risks, ensure inventory count is accurate and complete, and make recommendations for improvement.

Based on our review, which consisted of inquiries of Road Maintenance staff regarding current processes, procedures employed by the Department, and physical inspection of inventory, we feel the current internal controls over financial reporting are lacking sufficient checks and balances to ensure the safeguarding of assets.

Our findings and recommendations are as follows.

- Employees assigned to count inventory incorrectly counted three out of fifteen items; and,
- The Discrepancy Report contains significant variations as to inventory purportedly on hand and year-end inventory count totals.

We recommend the Division properly train employees on how to count inventory items and perhaps close the yard or shop during the count. New policies and procedures need to be put into place at both the Signage and Crew to more accurately track inventory receiving and usage.

## Department Response:

Counting items as correctly as possible is an important component of our inventory. We are constantly trying to be as accurate as possible while still remaining cost-effective and efficient. Road Maintenance maintains an inventory of materials for 7 crews spread throughout the County with an inventory value of approximately \$300,000. Some incorrect counting will occur but we are now doing annual inventory reviews so that the Foremen in Road Maintenance

(particularly those responsible for their inventory) are more conscious that the numbers are important, they are being reviewed and questions will be asked.

Many of the items being counted consist of aggregates (rock, sand, etc) purchased in bulk. These items are very difficult to estimate remaining quantities and quantities being periodically used. Other items such as pipe and sign blanks are very specific and should be able to be measured accurately. We will provide training to Foreman on importance of accuracy.

We are also going to change the lock at the Auburn satellite yard (off of B Avenue) and provide keys only to the District Foremen and Division Manager. This should help control inventory (aggregates and pipe) use at this unmanned yard and help insure that inventory procedures are followed before access to materials are granted.

We will continue to review the discrepancy reports and review the option of assigning a staff person the responsibility of managing inventory although the cost of a full-time person could be between \$50k-\$100K/year. The net shortfall in this year's inventory is only about \$2,000.

The Department's responses to the recommendations identified in our review are described above. We did not audit the Department's responses and, accordingly, we express no opinion on them.

We appreciate the courtesy and cooperation of the Road Maintenance Division staff and the Public Works Department throughout the course of this review.

Nicole C. Howard, CPA Internal Audit Manager

cc: Kevin Taber, Road Maintenance Manager, Public Works Department Cynthia Taylor, Senior Administrative Services Officer, Public Works Department Katherine Martinis, Auditor-Controller Placer County Audit Committee