

COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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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 count of the Traffic & Safety inventory made by the Public Works Department (Department) for the period of July 1, 2008 to June 30, 2009. The Division is made up of Administration, Valley Zone, Colfax Zone, Sierra Zone, Foresthill Zone, Auburn Zone, Project/Vegetation and Traffic & Safety. 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 Division 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.

Inventory Counting Practices

We noted the following:

- Estimates are made of gravel, rock and aggregate there is no accurate count due to the volume of inventory and differing estimates from personnel.
- Individual stop sign sheeting is counted by the box. Each box contains 100 pieces.

According to the County's *Accounting Policies and Procedures Manual - Inventories*, departments should "Maintain separate-item accountability by units and dollars for inventory quantities received, issued, and on hand."

We recommend the Department determine a more accurate method for measuring inventories for gravel, rock and aggregate. In addition, we recommend all items be counted separately to accurately reflect available inventory.

Department Response:

- Aggregates are our most difficult commodity to quantify since material is ordered periodically in bulk and used sporadically. Short of installing a truck scale at each yard, estimation is the most reasonable method of measurement. After investigation and discussion with the various Foremen, we feel that our yearly estimations of remaining material are accurate. The shortages are most likely estimations of use made on a regular basis or forgetting to log use on a daily basis. We will instruct Foremen in the need and importance of being more diligent in their completion of the inventory tracking sheets. Failure to complete accurately and timely may compromise the results and create a year-end shortage. As a whole, our yearly inventory reconciliation for all commodities has ranged from +1.35% to -7.4%; however, we will strive to more accurately account for all aggregate transactions throughout the year.
- Current tracking of stop sign sheeting has been very accurate to date. We can and will account for a portion of a box expressed as a percentage.

Unsupervised Access

All Division materials yards have unsupervised access due to the large number of County personnel including Facilities and Sheriff in possession of keys. During our review, we found that the locks on all yards are the same and employees from Valley, Colfax, Sierra, Foresthill, Traffic & Safety and Project/Vegetation divisions all have keys. According to the *Accounting Policies and Procedures Manual - Inventories*, "Inventories shall be protected against loss, theft, and damage through adequate physical controls; for example: locked access and storage facilities."

We recommend access to the various materials yards and usage of the facilities be limited to only Division personnel who are assigned there.

Department Response:

We have common locks at all of our yards for emergency response purposes and because employees may report to different yards (especially in Tahoe during the snow removal season). We feel the value we gain from this universal (Road Maintenance and other select County and emergency personnel), but restricted to the public, access outweighs the impact of having separate keys for each facility, especially considering what appears to be historically minor discrepancies that we have experienced.

Accounting for Inventory

We noted the following:

- Refurbished aluminum is not counted in inventory. However, used signs are water blasted or belt sanded to create a new surface that is able to be reused until the material becomes too thin.
- Major adjustments are made near fiscal year-end to the inventory listing accounting for the overage/shortage in actual inventory on hand for the Division.

The Accounting Policies and Procedures Manual - Inventories states, "Departments responsible for maintaining physical inventories must maintain adequate subsidiary records to support the amount recorded in the County general ledger."

We recommend all aluminum, whether refurbished or new, be placed on the inventory list. We further recommend management review the current inventory acquisition and consumption practices and consider adopting a more accurate method to account for all inventories.

Department Response:

- We send damaged, vandalized, or non-reflective signs of various sizes to an outside vendor for refurbishment. Some are so damaged that they are not salvageable. As suggested, we have created a new commodity "Refurbished Alum. Sign Blanks". This commodity will represent all recycled/refurbished blanks of all sizes. We will enter and remove them from the inventory in the same manner as all other sign maintenance commodities.
- It is not typical that major adjustments are necessary to account for discrepancies in the Sign crew's inventory. The overage this year was due to a commodity stored in a different location not known to the Foreman; however, he did correct the discrepancy during his year end review.

Separation of Duties

The year-end inventory count is conducted solely by the Senior Traffic Sign Supervisor, who also maintains inventory tags and authorizes purchases. This is violation of the *Accounting Policies and Procedures Manual - Inventories*, which states, "Persons authorizing inventory purchases or payments must not also have custody of the inventory and/or inventory records."

We recommend the duties of authorizing purchases and maintaining inventory records be separated. In addition, all inventories should be counted by two individuals who are not responsible for the custody of the inventory and records.

Department Response:

Typically, year-end inventory is conducted by various members of the Sign Maintenance crew. This is out of necessity as this crew's inventory is the Division's largest (+/- \$175k annually) and cannot be reasonably counted by a single individual. The Supervisor was under the impression that your office wanted to be present while he, individually, conducted this year's count. This will not occur in future years. We will ensure that at least two members of the crew perform inventory counts together. All purchases in all divisions are approved by the Engineering Manager prior to placing an order. Payment of invoices is reviewed first by the Division's Accounting Technician prior to final approval by the Engineering Manager.

We do not have any full-time staff assigned to inventory management. We do have a system of checks and balances. We would be happy to discuss additional reasonable measures to manage our inventory. We believe inventory losses have been historically low.

Inventory Count Date

Year-end inventory counts are conducted on various dates throughout late spring. According to the *Accounting Policies and Procedures Manual - Inventories*, departments should "Perform annual inventory on June 30th."

We recommend the Division conduct physical inventories on or nearer to June 30th for year-end inventory counts.

Department Response:

Next year we will attempt to conduct all year-end inventories as close to June 30 as possible. There are seven different crews so the end of June is not feasible due to the high accounting activity at fiscal year-end. We do reconcile our June 30 inventory with the date of our physical inventory by adding and subtracting purchases and usage between the two dates.

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, Roads Maintenance Manager, Public Works Department Cynthia Taylor, Senior Administrative Services Officer, Public Works Department Katherine Martinis, Auditor-Controller Placer County Audit Committee