



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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October 31, 2014

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 counts made by the Public Works Department (Department) for the period of July 1, 2013 to June 30, 2014. The objectives of our review were to obtain an understanding of the Division's internal controls over inventory reporting, its physical safeguards, monitoring, and usage tracking; 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 Division, and physical inspection of inventory, we feel the current internal controls over financial reporting are lacking sufficient checks and balances to ensure the accurate recording and safeguarding of County assets. Based on the review, our summary of findings and recommendations are as follows.

Inventory Reporting

During the review, we noted the Discrepancy Report for the Auburn-Crew and Foresthill yard locations contained significant variations as to inventory purportedly on hand and year-end inventory count totals.

We recommend the Department ensure inventory policies and procedures are followed by staff to more accurately track inventory received and used.

Department Response:

Part of the discrepancy at the Auburn Yard is due to scrap material intermingled with regular stored material. The Auburn Yard is currently re-organizing / cleaning up the yard from scrap material to allow for more accurate monthly inventory count by having a separate scrap pile. The scrap pile is created from left over pieces from jobs so that the scraps may be used on another

project in the future. Any small scrap not worth keeping, the Auburn yard will begin taking the scrap material to recycling.

The Foresthill discrepancy on the rip rap is due to the counting methodology and free recycled material being added to existing material. A value will be assigned to the free material that is being added to the yard's stock. There will continue to be discrepancies in stored aggregates since there is no cost-effective way to accurately count partial usage of aggregates.

Inventory Counting Practices

We noted during the inventory count that the method for counting aggregate base was inconsistent and inaccurate among yard locations in Auburn, Foresthill and Colfax.

We recommend the Division determine a consistent and more accurate method of measuring inventories for aggregate base and ensure they are being followed at each yard.

Department Response:

All yard locations (Lincoln, Colfax, Auburn-Special Projects, and Truckee) will use the same methodology for determining inventory – the measurement being a truck load for counting aggregate base. There will continue to be discrepancies in stored aggregates since there is no cost-effective way to accurately count partial usage of aggregates.

Separation of Duties

We noted that the inventory count at the Auburn-Special Projects, Colfax and Lincoln yard locations were conducted only by the Road's District Supervisor at each location. According to the *Accounting Policies and Procedures Manual – Inventories*, "Persons authorizing inventory purchases or payments must not also have custody of the inventory and/or inventory records."

We recommend the Department ensure that inventory counts are conducted by at least two staff other than the custodian of the records.

Department Response:

Year-end inventory counts will be performed by two individuals.

Special Inventory

We noted during the inventory count at the Auburn-Crew and Foresthill yard locations that there were materials such as pipes and bands that were not tracked or included in inventory. These materials consisted of items that were donated or left over from other projects.

We recommend the Department track and include in inventory materials that were donated. Additionally, materials left over from other projects should be returned to inventory and the applicable project(s)/department(s) should be refunded.

Department Response:

Each yard receiving free or recycled project generated excess material will assign a current value and add to the inventory. If there is scrap inventory left over, it will be kept separate from regular inventory and used for future projects as applicable. Accuracy for this added additional material will be limited.

Yard Access

The inventories located in the Auburn, Colfax, Foresthill, Lincoln yards are not separately fenced off and locked to prevent theft or loss. A large number of Division staff have keys and are able to access the yards at any time. 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 the Department fence off and lock the inventories located at each of the yards.

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 access, (Road Maintenance and other select County and emergency personnel), but restricted from the public, outweighs the potential negatives.

Unsecured Inventory

We noted during the inventory count at the Colfax yard location that there were aggregate base located across the street from the yard that was unsecured. 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 the Department secure all inventories as required by the accounting policy.

Department Response:

Currently there is a sign posted that the drain rock is county property. The Colfax yard is in the process of utilizing all of the drain rock outside of the locked facility by mid-November. Periodically, we may still need to store materials at this site.

The Department’s responses to our recommendations identified by our review are included above. We did not audit their responses and, accordingly, we do not express an 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.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Nicole C. Howard', with a stylized flourish at the end.

Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Kevin Taber, Roads Manager, Public Works Department
Cynthia Taylor, Senior Administrative Services Officer, Public Works Department
Placer County Audit Committee