



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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February 7, 2020

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

Re: Roads Maintenance Division Year-End Inventory Count Review

Dear Mr. Grehm:

The Internal Audit Division of the Auditor-Controller's Office performed a review of the year-end inventory count as of June 30, 2019 for the Roads Maintenance Division (Division), a division of the Department of Public Works (Department). 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; assessing the control risks; ensuring inventory count is accurate and complete; and, making recommendations for improvement.

During our review, which consisted of inquiries of the Division's staff regarding current processes, procedures employed by the Division, and physical inspection of inventory, we noted areas where internal controls over inventory safeguarding, recordkeeping, management, and financial reporting could be strengthened to ensure the accurate recording and safeguarding of County assets. Accordingly, our summary of observations and recommendations are as follows:

Inventory Counting Procedures

We noted during the inventory count that the inventory count procedures were inconsistently followed at the Auburn, Colfax, and Foresthill yard locations. We were unable to observe the Auburn Yard perform the inventory count because the Auburn Yard crew performed the inventory count prior to the scheduled year-end inventory count. We also noted at the Colfax and Foresthill yard locations Division staff were unclear of their responsibilities performing the inventory count.

We recommend Division management ensure the inventory count procedures are followed by staff performing the inventory counts.

Department's Response:

There was miscommunication in the count procedure, and timing, at the Auburn yard. We will do our best to insure that this does not happen again, and have informed staff of required procedures for scheduled year-end inventory counts. We spoke with the Foremen at our Foresthill and Colfax yards regarding the concern. They were unaware of the situation and concern, and feel that with a minor amount of additional training and instruction to staff we can prevent any future issues of this nature. In both instances, the person assigned to count inventory with Auditor staff was only instructed to count items on the list. In addition to additional training and instruction for "counting" staff, we will make sure that supervisory staff is available to answer any questions regarding inventory procedures.

We have developed written instructions that will be given to each Foreman in preparation for the annual count.

Special Inventory

During the inventory count, we noted at the Auburn-Special Projects, Auburn, and Granite Bay yard locations that there was material such as railing, retaining wall blocks, piping, and aggregate base that were not tracked or included in inventory. These materials consisted of items that were donated or left over from other projects.

This is a repeat observation from the Year-End Inventory Count Review report dated October 31, 2014.

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

Department's Response:

In the future, donated materials will be added to Inventory as a matter of routine. The retaining wall blocks currently stored in the Auburn yard will be sold at auction with assistance from the Procurement Division. We will not add them to our inventory unless instructed to do so.

Materials left over from maintenance projects will be returned (if taken from) or added (if delivered directly to a jobsite) to inventory. If the commodity does not exist as in inventoried item at one of our yards, we will either create a new commodity for that yard, or haul the left over material to a yard that already inventories that material. We will evaluate this situation on a case by case basis.

Scrapped Material

During the inventory count, we noted there was no designated area for scrapped material at the Auburn-Special Projects, Auburn, Colfax, and Foresthill yard locations. The scrapped material was intermingled with usable inventory. Also, we noted at the Auburn Yard there is piping material that was visibly aged with rust, but is still listed as inventory.

We recommend the Division designate an area for scrapped material separate from the inventory material to ensure accurate tracking of inventory at all yard locations. We also recommend the Division periodically review and remove from inventory material that should be scrapped.

Department's Response:

Material that is scrap material will be classified as either usable or unusable. Both will be separated from inventory. Usable material will be stored for future use. An example would be five feet of 18" pipe left over after installing a new culvert. By itself, that five foot section has no value, until such time as we need it to complete a project. In contrast, we often end up with unusable material, such as a rusted 18" pipe. We stockpile that type of material on a temporary basis, and will take it to a landfill or recycling facility if possible.

Inventory Training Material

There are no training procedures in place to educate staff on how to count inventory for aggregate base during inventory counts at the Auburn, Foresthill, and Colfax yard locations.

We recommend the Division develop training materials to educate staff on the method of counting inventory for aggregate base to ensure accuracy.

Department's Response:

We will continue to use our existing "Counting Aggregates" instructions when removing aggregate from inventory, see attached. For inventory counts, we will implement procedures where we will photograph typical stockpiles of a known weight. Aggregate unit weights can vary greatly depending on moisture content, but having examples of "typical" weights based on a stockpile's size will allow us to determine, within reason, an accurate count of material on hand.

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 Department staff throughout the course of this review.

Respectfully,



Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Kevin Taber, Roads Manager, Roads Maintenance Division, Department of Public Works
Cynthia Thomas, Accounting Technician, Roads Maintenance Division, Department of Public Works
Placer County Audit Committee