



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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October 1, 2020

Ken Grehm, Director
Placer County Department of Public Works
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 year-end inventory count as of June 30, 2020 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:

Scrapped Material

During the inventory counts at the Auburn Pit, Colfax, and Foresthill locations, we identified instances at which scrapped material was intermingled with usable inventory, although there were designated areas for usable and unusable scrapped material.

This is a repeat observation from the fiscal year 2018-19 Year-End Inventory Count Review report dated February 7, 2020.

We recommend the Division periodically review the locations and separate the scrapped material into the designated scrap areas and away from the inventory material to ensure accurate tracking of inventory at all locations.

Department's Response:

Scrap materials at all locations have been separated from inventory and placed in "usable" and "unusable" scrap piles. Updated balance sheets are given to Foremen monthly for review.

Inaccessible and Mislabeled Inventory

During the inventory count at the Auburn Pit location, we noted the Division staff experienced difficulties obtaining accurate counts because the staff could not easily access the CMP pipes and bands that were stacked on each other. Also, there were CMP bands that were inconsistently bundled, ranging from five to eight bands per bundle. Additionally, we identified eight CMP bands that were marked at 22 inches but should have been marked at 21 inches.

We recommend the Division develop quality control procedures to aide staff in accurately counting inventory that is difficult to access for the purpose of physical inventory counts. Also, we recommend the Division review the inventory and label inventory accurately to ensure inventory is correct.

Department's Response:

CMP pipe and bands have been arranged for easier access. Size has been labeled on each pipe (diameter and length) and band (diameter). The 21" bands have been correctly marked. Ongoing training of inventory procedures will be provided to ensure compliance and accuracy.

Inventory Transaction Sheet Not Submitted Timely

During the inventory count at the Foresthill location, we noted the $\frac{3}{4}$ aggregate base on hand was significantly less than the $\frac{3}{4}$ aggregate base recorded in the inventory, as a result, the general ledger was overstated by \$1,432 for the Foresthill location. This occurred because the location did not submit the inventory transaction sheet reporting the amount of $\frac{3}{4}$ aggregate base used for a culvert repair project.

During the course of the review, the Foresthill location submitted the inventory transaction sheet and the Division corrected the $\frac{3}{4}$ aggregate base overstatement in the inventory module.

We recommend the Division follow the County's Policies and Procedures to conduct periodic physical inventories, determining differences between book and physical inventories and adjusting inventory records accordingly and to maintain adequate subsidiary records to support the amounts recorded in the County general ledger. Also, we recommend the Division develop additional procedures, such as a periodic review of submitted inventory transaction sheets, to verify that all inventory transaction sheets are submitted timely to ensure inventory counts are accurate and current.

Department's Response:

Balance sheets are given to Foremen monthly for review of physical inventory. Unsubmitted inventory transaction sheets will be turned in if there are discrepancies. Ongoing training of inventory procedures will be provided.

Inventory Measurement Inconsistencies

During the inventory count at the Auburn Pit and Colfax locations, we noted inconsistencies when recording the length. Specifically, at the Auburn Pit location we noted a 30" CMP pipe measured five feet shorter than the length recorded for the inventory count, as a result, the general ledger is overstated by \$125. Also, we noted that both locations have CMP pipes that measure less than 10 feet, but are included as inventory, whereas the Division's internal procedures state inventory less than 10 feet in length is usable scrap and not included as inventory.

We recommend the Division perform a review of the 30" CMP pipe to verify the accuracy of the length recorded and adjust the inventory records accordingly. Also, we recommend the Division review inventory and remove any items that measure less than 10 feet to useable scrap as per the Division's internal procedure and communicate the procedure to all locations.

Department's Response:

The 30" CMP pipe was re-measured and is 15 feet in length. Correction has been made to GL. All CMP pipe under 10 feet has been moved to usable or unusable scrap piles. All crews are aware of this procedure and ongoing training will be provided.

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, Engineering Manager, Roads Maintenance Division, Department of Public Works
Cynthia Thomas, Accounting Technician, Roads Maintenance Division, Department of Public Works
Placer County Audit Committee