



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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October 27, 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 Fleet 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 Count Not Performed at Year End

The Division did not perform inventory counts at the Auburn and Tahoe garages as of fiscal year-end, June 30, 2020 as required per the County's Accounting Policies and Procedures Manual – Inventory which states, "Departments responsible for maintaining physical inventories must maintain adequate subsidiary records to support the amount recorded in the County general ledger... When the value of an inventory warrants: perform annual inventory on June 30th."

We observed inventory counts at the Auburn and Tahoe garages which occurred after the fiscal year-end, on August 8th and 20th, respectively.

We recommend the Division perform a year-end inventory count no later than June 30th each year the Division has inventory on hand as per the County's policies and procedures.

Department's Response:

COVID delayed our count this fiscal year due to low staffing. In the future, Fleet will complete a year-end inventory count before June 30th of each year.

Inventory Identification

During our observation of the inventory count at the Tahoe garage, we identified three hydraulic lift arms without an inventory number or identifying marker. As such, we were unable to verify whether the items were part of the garage inventory or were purchased specific for a job.

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 ensure all garage inventory items are labeled appropriately to ensure inventory can be accurately tracked when received and used. If items are not part of the garage inventory, those items should be segregated from the garage inventory and clearly marked for their intended purpose.

Department's Response:

Fleet will correctly identify items as inventory or non-inventory.

Incorrect Inventory Count

During our review of the inventory count for the Tahoe garage, we noted the inventory counters incorrectly counted three parts during the physical inventory count. As a result, the final inventory value does not accurately reflect the quantity of inventory on hand as per the County's Accounting Policies and Procedures Manual - Inventory which states, "Departments responsible for maintaining physical inventories must maintain adequate subsidiary records to support the amount recorded in the County general ledger."

We recommend the Division ensure inventory counts are conducted in teams of two, each team member separately counting the inventory items, comparing their counts, and immediately recounting any items with count differences.

Department's Response:

Fleet will move forward with conducting the inventory in teams of two.

Final Inventory Reconciliation

During our review of the inventory count reconciliation for the Auburn garage, we noted multiple items in the final inventory quantity do not reflect the inventory quantity adjustments noted during the Auburn garage physical recount because of errors made when entering the final quantities into the Division's inventory system. Also, we noted the Division does not perform a review of the ending inventory count for the Auburn and Tahoe garages to ensure the quantities recorded in the inventory system are accurate based on the physical inventory counts.

We recommend the Division establish procedures to review and approve the final inventory quantities after inventory adjustments are completed to ensure the final inventory is accurately recorded in the Division's inventory system. Also, we recommend the review and approval procedures are performed by a member of Division's management that is not responsible for performing the physical inventory or maintaining inventory records as per the County's policies and procedures.

Department's Response:

Fleet will review and approve the final inventory counts after inventory adjustments.

The Department's responses to the recommendations identified in our review are described above. We did not audit the Division's responses and, accordingly, we express no 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: Will Garner, Deputy Director of Public Works, Department of Public Works
Colby Wiesz, Public Works Manager, Fleet Division, Department of Public Works
Cierra Garcia, Staff Services Analyst II, Fleet Division, Department of Public Works
Placer County Audit Committee