



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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July 8, 2021

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

Re: Year-End Inventory Count Follow-Up Review

Dear Mr. Grehm:

The Internal Audit Division of the Auditor-Controller's Office performed a follow-up review to our prior Year-End Inventory Count Review for the Road Maintenance Division (Division), a division of the Department of Public Works. The objective of our procedures was to determine how the recommendations from our previous review were implemented. Our procedures included inquiries of the Division personnel along with reviews of supporting documentation relating to our recommendations in our previous report.

The following is a summary of our observations and recommendations along with the Division's responses from the previous report dated October 1, 2020, which is then followed by the status of the Division's implementations of our recommendations.

Observation #1: 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.

Recommendation

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.

Division'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.

Status – Implemented

The Division has set up designated areas for usable and unusable scrap. These areas are identified with signs that state “Usable Scrap” and “Unusable Scrap”. The Division informed their staff that inventory less than 10 feet needs to be removed from inventory and placed under either usable or unusable scrap. Also, each yard has separated their usable and unusable scrap into the appropriate designated areas. The Foreman at each location is provided a monthly inventory listing to review and determine whether items need to be moved into the usable scrap areas if inventory does not meet the Division’s minimum requirement of 10 feet of material for active inventory. Each location determines how frequently they review inventory based on the quantity and usage of inventory because the amount of inventory vary by location.

Observation #2: 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.

Recommendation

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.

Division’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.

Status – Implemented

The Division has separated, labeled, and stacked the CMP pipes and bands by size to accommodate easier access to the inventory for use and for inventory counting purposes. Also, the Division has labeled all usable scrap with the sizing of the scrap pieces.

Observation #3: 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.

Recommendation

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.

Division'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.

Status – Implemented

The Division started sending monthly inventory listings to the Foremen at each location to review for accuracy with their inventory on hand. The Foremen either review inventory monthly or at least periodically and monitor the high usage items. If the Foreman identifies a discrepancy in the amount of inventory on hand, they will check for any unsubmitted forms and contact the Accounting Technician to update the inventory usage. Also, the Division started performing random inventory counts at the Auburn Pit location and the Sign Shop. The Division will begin performing quarterly inventory count at all the locations in FY2021-22. Additionally, due to the amount of inventory, the Sign Shop will perform a quarterly count of their high-volume inventory and will subsequently complete a full inventory count twice a year.

Observation #4: 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.

Recommendation

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.

Division'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.

Status – Implemented

The Division remeasured the length of the 30" CMP piping at the Auburn Pit and corrected the quantity in inventory to 15 feet. Since the correction has been made the Division has obtained more 30" CMP piping and as of April 1, 2021, the Division's inventory shows 115 feet of 30" CMP piping. Also, the Division has shared with their staff that any inventory under 10 feet is considered usable scrap and removed out of inventory. We reviewed the inventory listing for the Auburn Pit yard as of April 1, 2021 and noted there were no inventory quantities less than 10 feet in the active inventory.

The Division's responses to our recommendations identified in our original report dated October 1, 2020 are included above. We did not audit the responses and accordingly, we do not express an opinion on them.

We appreciate the courtesy and cooperation of the Division's staff throughout the course of this review.

Respectfully,

A handwritten signature in blue ink, appearing to read 'N. Howard', is positioned below the word 'Respectfully,'.

Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Matt Randall, Engineering Manager, Roads Maintenance Division, Department of Public Works
Matt Lewis, Assistant Roads Superintendent, Roads Maintenance Division, Department of Public Works
Cynthia Thomas, Accounting Technician, Roads Maintenance Division, Department of Public Works
Placer County Audit Committee