



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

ANDREW C. SISK, CPA
Auditor-Controller
E-mail: asisk@placer.ca.gov

NICOLE C. HOWARD, CPA
Assistant Auditor-Controller
E-mail: nhoward@placer.ca.gov

September 7, 2021

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

Re: Road Maintenance Division Capital Asset Review – Heavy Equipment 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 January 26, 2021, which is then followed by the status of the Division's implementations of our recommendations.

Observation #1: Reserves for Capital Asset Replacement

During the review, we noted the Division, which operates within the County Road Fund, does not maintain a reserve for capital asset replacement.

Recommendation

We recommend the Division establish a replacement policy with adequate reserves to replace heavy equipment. Having a funded reserve will assist in enduring catastrophic failures beyond reasonable repair, thus allowing equipment to be replaced immediately and preventing a loss of critical services to the County.

Additionally, we recommend the Division budget to fund the established reserve for capital equipment replacement over the next five years. Approximately fifty percent of the annual capital replacement budget, approximately \$750,000 - \$900,000, would be sufficient to fund an emergency heavy equipment replacement.

Division's Response:

Having a more formalized policy for reserves including capital replacement is a good idea. We will develop a policy for road fund reserves that includes capital equipment replacement. We are concerned of the proposed 50% of our annual capital replacement costs since heavy equipment cannot be ordered quickly and typically has a 1-year

plus timeframe to obtain. The proposed amounts can be discussed further as we develop and share the proposed policy. Our general reserve of \$5.6M is over 20% of our current operating expenses. Part of the policy development discussion can be the best way to provide reserves for all of Road Maintenance's risks/needs.

We will also need to further discuss the timing of any reserve funding since we are still funding current equipment replacement needs. I would want to get our current fleet in a good sustainable position before funding an equipment replacement reserve.

Status – Not Implemented

The Division is funded primarily with Highway Users Tax Accounts with revenues from gas taxes which declined in FY20/21 because the public drove less due to COVID restrictions and stay at home orders. Their current equipment replacement plan requires a minimum annual investment of \$1.5 million and they plan to meet this investment in FY21/22 and future years despite declining revenues to sustain their aging equipment fleet and maintain service. The Division is investigating the possibility of using revenues from equipment surplus sales to fund the capital equipment reserve. In this scenario, \$50,000 - \$70,000 of annual surplus sales could fund a reserve account with a goal of a fully funded reserve account within 10-15 years. If feasible, this plan could be implemented by the end of this fiscal year.

Observation #2: Capital Replacement Plan

During our review of the capital replacement plan and budget process, we noted the Division does not use trend analysis to analyze maintenance repair trends for each piece of equipment to help determine heavy equipment replacement.

Recommendation

We recommend the division utilize trend analysis for vehicle repair and maintenance costs to help identify and best utilize County resources for heavy equipment replacement for the Master Fixed Asset List. Real time trend analysis will provide the division data to identify the equipment with the highest trending average annual and five year total maintenance and repair costs in comparison to replacement, providing management additional information when determining the capital replacement budget.

Division's Response:

We have implemented a \$1.5M/year equipment replacement plan that details which specific piece of equipment we plan to replace in the next several years. It is periodically updated based on current information. We based the plan on equipment age and expected useful life; however, we consider increasing repair costs and/or equipment down time. Using more formal metrics, including trend analysis, could improve our decision-making process. We are committed to exploring improved metrics, including some form of trend analysis, when making equipment replacement decisions. We will conduct research on what others are doing and potentially modify our process.

Status – Not Implemented

The Division reached out to construction contractors and other local agency road maintenance and fleet operations managers to inquire about their use of trend analysis for equipment repair, maintenance, and replacement costs and are awaiting responses. Agencies contacted include El Dorado County, Sacramento County, Sutter County, Stanislaus County, Santa Barbara County and the City of Sacramento. The Division already uses useful life projections in the equipment replacement plan and is looking at the possibility of using

historical cost data and repair trend data to improve cost projection confidence. They anticipate compiling all responses and plan to revise their processes, if necessary, by the end of this fiscal year.

The Division's responses to our recommendations identified in our original report dated January 26, 2021, 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 'Nicole C. Howard'.

Nicole C. Howard, CPA
Assistant Auditor-Controller

cc: Peter Kraatz, Assistant Director of Public Works, Department of Public Works
Matt Randall, Engineering Manager, Roads Maintenance Division, Department of Public Works
Matt Lewis, Assistant Roads Superintendent, Roads Maintenance Division, Department of Public Works
Placer County Audit Committee