

COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

KATHERINE J. MARTINIS, CPA Auditor-Controller E-mail: kmartini@placer.ca.gov

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

June 22, 2010

Mr. Ken Grehm, Director Placer County Public Works Department 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 Fleet Services Division (Division) year-end inventory count made by the Public Works Department (Department) for the period of July 1, 2009 to June 30, 2010. The objectives of our review were to obtain an understanding of the entity's internal control over financial reporting, assess the control risks, ensure inventory count is accurate and complete, and make recommendations for improvement.

Based on our review, which consisted of inquiries of Fleet Services staff regarding current processes, procedures employed by the Department, and physical inspection of inventory, we feel the current internal controls over financial reporting are lacking sufficient checks and balances to ensure the safeguarding of assets.

Our findings and recommendations are as follows.

- Employees assigned to count inventory incorrectly counted four out of fifty items,
- The Discrepancy Report contains significant variations as to inventory purportedly on hand and year-end inventory count totals, and
- An unassigned key is kept in an unlocked drawer in the front office.

We recommend the Division properly train employees on how to count inventory items and perhaps close the parts room during the count. New policies and procedures need to be put into place at both the Auburn and Tahoe garages to more accurately track inventory receiving and usage. We further recommend the unassigned key be removed from its current location and moved to a locked or secure area.

Department Response:

Counting items as correctly as possible is an important component of our inventory. We are constantly trying to be as accurate as possible while still remaining cost-effective. The Auburn Shop has over 1,800 inventory items with a typical inventory value of over \$300,000 and Tahoe

has over 1,300 with a value of over \$200,000. In addition we move over \$700,000/year of parts through inventory. Some incorrect counting will occur but we are now doing annual inventory reviews/instructions so that everyone in Fleet (particularly those responsible for the inventory) is more conscious that the numbers are important, they are being reviewed and questions will be asked (see photos of typical items).

Our procedure is that all parts coming into the shop are logged into inventory, even if they are immediately used on a vehicle. Consistency in the procedures implementation, particularly during extremely busy periods (like 24-hour snow removal operations) requires additional improvement.

We have been changing some of our procedures to assist in getting the best numbers possible. We have consolidated some of our Tahoe Inventory locations at our new maintenance building and an Auburn employee is helping with the inventory process. Tahoe data input is and has always been done in Auburn but is now being done more often (at least weekly).

We tested a new procedure in August to have more people (4+) perform the inventory in one day instead of over several days (see photos of work/part orders accumulated during inventory). This process will allow the inventory to stay more static during the inventory count, but still allow shop work for our customers to continue. It also avoids incurring overtime and increased costs in counting the inventory. We will continue to review and refine our processes during subsequent inventories.

The unassigned key in the unlocked drawer has been removed and two keys have been assigned to office staff.

The Department's responses to the recommendations identified in our review are described above. We did not audit the Department's responses and, accordingly, we express no opinion on them. The aforementioned photos have been removed from this report and are available upon request.

We appreciate the courtesy and cooperation of the Fleet Services Division staff and the Public Works Department throughout the course of this review.

Nicole C. Howard, CPA Internal Audit Manager

cc: Chuck Gordon, Fleet Manager, Public Works Department
Jim Geach, Assistant Fleet Superintendent, Public Works Department
Cynthia Taylor, Senior Administrative Services Officer, Public Works Department
Katherine Martinis, Auditor-Controller
Placer County Audit Committee