

Final Audit Follow Up

As of September 30, 2004



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"Fleet Parts Operations"

(Report #0303, Issued December 10, 2002)

Report #0512

November 15, 2004

Summary

The Fleet Division within the Development and Transportation Service Area has completed all of the action plan steps identified in our previously issued report #0303, issued on December 10, 2002.

In audit report #0303, we identified areas where management needed to strengthen internal controls in the Parts Unit. We made recommendations in the general areas of:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

We provided specific recommendations to address issues within each general area. Fleet management has been responsive as all of the issues have been addressed and resolved.

Scope, Objectives, and Methodology

The audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate.

Report #0303

The scope of Report #0303 was a review of the City's Fleet Parts Unit operations during the period September 2001 through September 2002. The primary objectives of the audit were to determine

whether adequate controls were in place to ensure that:

- Departments were being properly billed;
- Procurement of parts was properly paid for and billed to departments;
- Parts data in the FASTER system was accurate and complete; and
- The data transferred between the FASTER system and the Financials system was accurate and complete.

Report #0512

This audit follow up focuses on the action plan steps that executive management and Fleet management have implemented. We reviewed the documentation provided by Fleet and Workforce Development.

Previous Conditions and Current Status

In Report #0303, the primary purpose was to assist the City Manager and executive management in strengthening internal controls in the Fleet Division, specifically in the Parts Unit. Our review of the Parts Unit showed that Fleet had not established appropriate internal controls and where controls had been established there were acts of collusion to circumvent City control objectives. As of September 30, 2004, two former employees of the Fleet Division and one vendor employee were currently serving time in Federal prison. The Tallahassee Police Department (TPD) is continuing its investigation.

As a result of material deficiencies in internal controls related to recordkeeping, documentation, and reporting, historical amounts reported from the FASTER system were not reliable. These deficiencies have resulted in significant financial losses to the City in the Parts Unit of the Fleet Division. Our review of management actions taken in response to the previous audit shows progress in addressing identified issues. Table 1 provides a summary of the issues and the current status of each issue.

**Table 1
Issues Identified in Report #0303 and Current Status**

Previous Issue	Current Status
Control Environment	
<ul style="list-style-type: none"> Update ethics training manual to reflect the expectations of Appointed Officials. 	<ul style="list-style-type: none"> ✓ The foreword in the Ethics Training Manual has been updated to reflect the expectations of the City's Appointed Officials.
<ul style="list-style-type: none"> Conduct 54 Ethics training classes during 2003. 	<ul style="list-style-type: none"> ✓ From August 2001 to August 2004, 1,971 Full and Part Time employees have received Ethics training, but 915 Full and Part Time employees have still not received the training. Ninety-one training classes for over 1,000 employees were held from January 2003 to December 2003.
<ul style="list-style-type: none"> Have Ethics training classes taught by Assistant City Managers and Department Directors to reinforce the importance of ethics in the organization. 	<ul style="list-style-type: none"> ✓ Ethics training classes were taught by an Assistant City Manager and Department Directors to reinforce the importance of ethics in the City.
<ul style="list-style-type: none"> Develop and deliver written management reports to aid in the oversight of activities and assess the risks within Fleet operations. 	<ul style="list-style-type: none"> ✓ Several reports have been distributed to departments for their review. The billing report is circulated monthly. Copies of work orders are distributed monthly to department directors. Changes in administrative guidelines call for reporting annual utilization reports in January, other reports can be requested. Several departments now have FASTER monitoring capabilities and can obtain reports for their vehicles.
<ul style="list-style-type: none"> Segregate the authority within FASTER to disallow the same person to order and receive on the same auto part, fuel purchase or repair activity. 	<ul style="list-style-type: none"> ✓ Different employees now order, receive, and issue parts creating a segregation of responsibilities within FASTER.
Risk Assessment	
<ul style="list-style-type: none"> Have competitive bid packages in place for 90% of the products used by Fleet. 	<ul style="list-style-type: none"> ✓ Approximately 90% of parts products and services have been bid and several contracts have been completed.
<ul style="list-style-type: none"> Work with Operational Managers Advisory Committee (OMAC) to understand departmental needs and improve the level of service provided by Fleet. 	<ul style="list-style-type: none"> ✓ Fleet staff have been working with OMAC representatives to identify department needs. Pilot programs to out-source oil changes have begun with positive initial reaction. Other initiatives recently begun include: providing cost estimates for department decision-making, routine greasing of equipment at department sites, mechanic specific assignments, and improving information gathering on Fleet performance measures.
<ul style="list-style-type: none"> Develop an in-house procedures manual. 	<ul style="list-style-type: none"> ✓ Manuals have been developed including many of the City's procurement and FASTER control policies and procedures. Five employee teams developed business process manuals: parts, fuel, work order, equipment, and administration. Manuals are continually being updated for the Fleet certification program.
Control Activities	
<ul style="list-style-type: none"> Develop a list of reports to manage and monitor Fleet operations. 	<ul style="list-style-type: none"> ✓ Search capabilities of the system are being used to monitor transactions. The business process teams will identify the functions in FASTER needed to monitor and identify and develop performance measures for benchmarking. As process teams complete their assignments, the teams will conduct training exercises for their peers.
<ul style="list-style-type: none"> Enhance internal controls through the use of guidelines, organizational changes and observation of daily activities. 	<ul style="list-style-type: none"> ✓ Duties and responsibilities in the Parts Unit have been segregated, additional checks and balances have been created for all procurement activities, contracts have been established, and manuals have been created and are being enhanced. The Fleet Superintendent makes daily contact

	and observation of employees.
<ul style="list-style-type: none"> Meet with FASTER representatives, ISS, Procurement Services, Accounting Services, and City Auditor to determine FASTER's capability. 	✓ FASTER representatives met with City staff to review the capabilities of FASTER and identify best practices for fleet operations.
<ul style="list-style-type: none"> Restrict access to Parts Unit to Parts employees and supervisor. 	✓ Access to the Parts Unit has been restricted, and only authorized individuals are allowed in the Unit.
<ul style="list-style-type: none"> Segregate the duties of Parts Unit staff. 	✓ Duties have been segregated and are continuously monitored.
<ul style="list-style-type: none"> Request all vendors to provide additional information on invoices. 	✓ As part of each vendor contract, vendors are required to include a description of the part on the invoice.
<ul style="list-style-type: none"> Require parts description on all invoices. 	
<ul style="list-style-type: none"> All (95%) of parts received will be delivered with an invoice. 	✓ All vendors, except one (95%), have been able to meet this requirement.
<ul style="list-style-type: none"> Parts Specialists will record parts ordered in FASTER when ordered. 	✓ This has been addressed as part of the segregation of duties in the Parts Unit.
<ul style="list-style-type: none"> Develop RFPs for all term contracts. 	✓ Approximately 90% of the products and services have been bid. This is a continual activity.
<ul style="list-style-type: none"> Have term contracts approved for all parts. 	
<ul style="list-style-type: none"> Assign supervisors the responsibilities for approving all work orders to be closed. 	✓ Supervisors are responsible for closing all work orders on vehicles that have work performed by their staff. The Supervisor of Parts closes work orders for parts items given to department personnel when vehicles are not repaired or serviced.
<ul style="list-style-type: none"> Re-number all stock parts with original equipment manufactures (OEM) numbers and enter a description in FASTER. 	✓ Parts contracts with specific vendors allow staff to input vendor specific numbers together with additional reference numbers to improve the accurate identification of parts in FASTER.
<ul style="list-style-type: none"> Add to inventory stock parts routinely used by Fleet. 	✓ This is a continuing effort, parts contracts play a significant role in establishing the inventory stock levels.
<ul style="list-style-type: none"> Reorganize Fleet staff to ensure payments to vendors and billings to departments are accurate. 	✓ Staff has been reorganized, a business analyst has been added, and continued focus will be directed to achieve the best possible results.
<ul style="list-style-type: none"> Provide parts descriptions on work orders. 	✓ The parts description posting ability is much improved with the new version of FASTER.
<ul style="list-style-type: none"> Complete a proper physical inventory of all parts and fuel. 	✓ Completed in October 2003 and inventories completed monthly. Fuel and fluids are inventoried monthly.
<ul style="list-style-type: none"> Remove and delete obsolete inventory from FASTER. 	✓ Obsolete parts were removed and sold by Procurement Services. Processes are being developed to identify parts prior to their becoming obsolete. A separate inventory was set up in FASTER for used parts.
<ul style="list-style-type: none"> Establish procedures for recording and processing stock parts, direct purchase parts, sublets, and fuel purchases. 	✓ Employee process teams established procedures for recording and processing parts, sublets, and fuel. The fuel storage tank module will allow for improvements over the previous system.
<ul style="list-style-type: none"> Upgrade to the most current version of FASTER. 	✓ Activities are underway to use the new version of the FASTER system to its full potential.
Information and Communication	
<ul style="list-style-type: none"> Revise the FASTER interface report to provide all inventory transactions, including issues, receipts, and adjustments. 	✓ FASTER interface reports were revised to report separately on parts, fuel, and fluids (oil).
<ul style="list-style-type: none"> Periodically conduct reconciliations between the Financials system and FASTER. 	✓ The FASTER inventory value was reconciled to the Financial system in October 2003. Physical inventories are taken monthly, fuel and fluids are inventoried monthly.
<ul style="list-style-type: none"> Develop and implement procedures to ensure that correct 	✓ Supervisors are monitoring the accuracy of information input

information is being input into FASTER.	by their staff. Work orders that are re-opened require the approval of the superintendent.
<ul style="list-style-type: none"> Implement access security to limit persons authorized to delete transactions. 	<ul style="list-style-type: none"> ✓ Security levels are being monitored with changes being made as necessary.
<ul style="list-style-type: none"> Request departments to provide up-dated vehicle mileage information. 	<ul style="list-style-type: none"> ✓ Operators provide mileage information at re-fueling, the new Fuel Management system identifies the employee and the vehicle for continued up-to-date mileage information and monitoring .
<ul style="list-style-type: none"> Provide monthly reports to departments. 	<ul style="list-style-type: none"> ✓ Billing reports are provided monthly to departments. Administrative guidelines require annual utilization reports to identify underutilized vehicles.
<ul style="list-style-type: none"> Place a copy of the work order in the vehicle when service is completed. 	<ul style="list-style-type: none"> ✓ Copies of work orders are sent to departments on a weekly basis.
Monitoring	
<ul style="list-style-type: none"> Provide written procedures to ensure the conduct of a proper physical inventory. 	<ul style="list-style-type: none"> ✓ Accounting Services provided written procedures to conduct a physical inventory.
<ul style="list-style-type: none"> Conduct a physical inventory of parts and fuel, document differences with FASTER and record adjustments in the Financials system. 	<ul style="list-style-type: none"> ✓ Accounting Services conducted an inventory of parts, and fuel and adjustments were recorded in the Financials system.
<ul style="list-style-type: none"> Conduct training of Procurement Services staff to look for purchases that appear out of the ordinary. 	<ul style="list-style-type: none"> ✓ Accounts Payable held a retreat in December 2002 where agents were trained on how to look for items that appear to be suspicious or out of the ordinary. In April 2003, the City Auditor provided a two-hour training session on fraud to the Procurement Services staff.

Table Legend:

- Issue addressed in the original audit

- ✓ Issue addressed and resolved

We appreciate the cooperation of Accounting Services, Workforce Development, and the Fleet Division and the assistance provided in this Audit Follow Up.

Appointed Official Response

City Manager: The completion of the action plan is important for continued improvement of the Fleet Management Department. I appreciate the recognition and recommendations of specific issues by the auditing staff and the attention by Fleet Management staff in facilitating these recommendations.

Copies of this Final Audit Follow Up #0512 or audit report #0303 may be obtained from the City Auditor’s web site (<http://talgov.com/citytlh/auditing/index.html>), via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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