

Audit

Follow Up

As of March 31, 2003



“Fleet Parts Operations”

(Report #0303, Issued December 10, 2002)

Report #0318

June 4, 2003

Summary

The Fleet Division within the Development and Transportation Service Area has completed several 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 several issues have been addressed and resolved. In addition, corrective actions are in progress for other issues.

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 is accurate and complete.

Report #0318

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.

Previous Conditions and Current Status

In Report #0303, the primary purpose was to assist the City Manager and executive management to strengthen 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 March 31, 2003, three former employees of the Fleet Division and one vendor employee have been arrested by Tallahassee Police Department (TPD). TPD is continuing its investigation.

As a result of material deficiencies in internal controls relating to recordkeeping, documentation, and reporting, the amounts reported from the FASTER system are 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"> ◇ Training classes are an on-going activity.
<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"> 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"> ◀ Scheduled for completion by December 31, 2003.
<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 75% 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 the need 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 has 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 on Fleet performance measurement.
<ul style="list-style-type: none"> Develop an in-house procedures manual. 	<ul style="list-style-type: none"> ◇ An interim manual has been developed that includes many of the City's procurement and control policies and procedures. Business process manuals are being developed by five employee teams (parts, fuel, work order, equipment, and administration) and are scheduled for completion by September 30, 2003.
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. The

	Superintendent maintains an on-going process with the ACM for Development and Transportation.
<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, 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 75% of the products and services have been bid. The goal remains to have 90% by the end of the fiscal year.
<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 will 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 effort is on-going, the new parts contracts will 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 have 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 and another inventory completed in February 2003.
<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.
<ul style="list-style-type: none"> Establish procedures for recording and processing stock parts, direct purchase parts, sublets, and fuel purchases. 	◇ The process teams will enhance these activities through the establishment of 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. 	◀ Scheduled to be completed by June 30, 2003.

<ul style="list-style-type: none"> Periodically conduct reconciliations between the Financials system and FASTER. 	<ul style="list-style-type: none"> ◇ The FASTER inventory value was reconciled to the Financial system in October 2002. Another physical inventory will take place in June 2003, and related reconciliations will be performed.
<ul style="list-style-type: none"> Develop and implement procedures to ensure that correct information is being input into FASTER. 	<ul style="list-style-type: none"> ◇ Supervisors are monitoring the accuracy of information input by their staff. Work orders are still being re-opened with 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 as necessary.
<ul style="list-style-type: none"> Request departments to provide up-dated vehicle mileage information. 	<ul style="list-style-type: none"> ◇ Departments provided the mileage information, however problems with the Fuel Management program did not provide for continued up-to-date mileage information. An RFP has been prepared to select a provider to provide continual mileage information.
<ul style="list-style-type: none"> Provide monthly reports to departments. 	<ul style="list-style-type: none"> ✓ Reports are being provided but do not contain mileage or usage information to enable a determination of the number of vehicles not meeting the utilization rates established by Commission Policy #124 – Fleet Management Policy.
<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 placed in the vehicle when returned to the operator.
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"> ✓ A/P held a retreat in December 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
- ◇ Issue in-progress
- ◀ Scheduled for completion at a later date

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

Appointed Official Response

City Manager:

The City Administration is committed to the implementation of proper procedures and controls at Fleet Management. This audit follow-up recognizes that significant improvements have been achieved and will continue to be implemented.

Copies of this Audit Follow Up 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 (dooleym@talgov.com).

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