

Audit

Follow Up

As of September 30, 2003



Sam M. McCall, CIA, CGFM
City Auditor

“Fleet Parts Operations” (Report #0303, Issued December 10, 2002)

Report #0408

January 12, 2004

Summary

The Fleet Division within the Development and Transportation Service Area has completed 30 of the 35 action plan steps that were due and identified in audit report #0303, issued December 10, 2002.

In audit report #0303, we identified areas where management needed to implement or 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 by addressing the issues and either resolving them or making progress towards implementing improvements.

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 #0408

This audit follow up focuses on the progress and status of management efforts to implement the recommended action plan steps provided in the audit report. We reviewed the documentation provided by Fleet and held meetings with Fleet staff to review the status of implementation of action plan items.

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 further circumvent City control objectives. As of September 30, 2003, three former employees of the Fleet Division and three other individuals have either been convicted or pled guilty in association with this fraud. The Tallahassee Police Department is continuing its investigation.

and reporting, the amounts reported from the FASTER system were not reliable. These deficiencies resulted in almost \$3 million in 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 report shows significant progress in addressing identified issues. Table 1 provides a summary of the current status of each issue.

As a result of material deficiencies in internal controls related to recordkeeping, documentation,

**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. 	✓ Completed in a prior period.
<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. 	✓ Completed in a prior period.
Risk Assessment	
<ul style="list-style-type: none"> Have competitive bid packages in place for 90% of the products used by Fleet. 	✓ Nine contracts have been executed for specific parts. Contracts have also been completed for all significant sublet work.
<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. 	◇ Fleet staff have been working with OMAC representatives to identify department needs. Pilot programs to out-source oil changes have begun with positive initial response. Other initiatives recently begun include: providing repair cost estimates for department decision making, routine greasing of equipment at department sites, mechanic specific assignments, and providing departments information on vehicles not meeting the utilization rates established in CP124 – Fleet Management Policy.
<ul style="list-style-type: none"> Develop an in-house procedures manual. 	◇ Three business process manuals have been developed by employee teams (parts, work order, and administration) and two more (equipment and fuel) are scheduled for completion by March 31, 2004. Meetings with the FASTER vendor (CCG Systems) representative are scheduled for a review of current practices and modification of these manuals.
Control Activities	
<ul style="list-style-type: none"> Develop a list of reports to manage and monitor Fleet operations. 	✘ While this step is behind schedule, the Parts Supervisor reviews 15 reports from the FASTER system on a daily or weekly basis to monitor Fleet Parts operations. Additional reports continue to be developed as Fleet continues to critique its operations and make changes as necessary.

<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 Interim Fleet Superintendent makes daily contact with employees, observes operations, and regularly communicates 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. 	<ul style="list-style-type: none"> ✓ This is an on-going process involving almost daily contact with the FASTER Fleet Management System vendor. Fleet also had a technical representative from FASTER conduct a site visit in August 2003. New system capabilities continue to be implemented. In addition, system data is reviewed, verified, and corrected where necessary. Fleet has improved its understanding of the FASTER system and increased its usefulness.
<ul style="list-style-type: none"> Restrict physical access to Parts Unit to Parts employees and supervisor. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Segregate the duties of Parts Unit staff. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Request all vendors to provide additional information on invoices. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Require parts description on all invoices. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> All (95%) of parts received will be delivered with an invoice. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Parts Specialists will record parts ordered in FASTER when ordered. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Develop RFPs for all term contracts. 	<ul style="list-style-type: none"> ✗ This is an on-going activity. The contract for fuel management is now scheduled for completion by March 31, 2004.
<ul style="list-style-type: none"> Have term contracts approved for all parts. 	<ul style="list-style-type: none"> ✓ Completed, except for specialty parts.
<ul style="list-style-type: none"> Assign supervisors the responsibilities for approving all work orders to be closed. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Re-number all stock parts with original equipment manufacturers' (OEM) numbers and enter a description in FASTER. 	<ul style="list-style-type: none"> ✓ This has been completed for all current parts and is an on-going activity for new parts as they are added to inventory.
<ul style="list-style-type: none"> Add to inventory stock parts routinely used by Fleet. 	<ul style="list-style-type: none"> ✓ Complete. The Parts Supervisor continually identifies new parts from reports that identify stock movement and levels.
<ul style="list-style-type: none"> Reorganize Fleet staff to ensure payments to vendors and billings to departments are accurate. 	<ul style="list-style-type: none"> ✓ Complete. Staff are being reassigned temporarily on a rotating basis to the Parts Unit.
<ul style="list-style-type: none"> Provide parts descriptions on work orders. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Complete a proper physical inventory of all parts and fuel. 	<ul style="list-style-type: none"> ✓ Complete. Fuel inventory and charges continue to be an area where the new fuel management program will have an impact and improve the system.
<ul style="list-style-type: none"> Remove and delete obsolete inventory from FASTER. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Establish procedures for recording and processing stock parts, direct purchase parts, sublets, and fuel purchases. 	<ul style="list-style-type: none"> ✓ Complete. 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. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.

Information and Communication	
<ul style="list-style-type: none"> Revise the FASTER interface report to provide all inventory transactions, including issues, receipts, and adjustments. 	<ul style="list-style-type: none"> ✓ Complete. Transactions adjusting inventory will be recorded monthly by Accounting Services.
<ul style="list-style-type: none"> Periodically conduct reconciliations between the Financials system and FASTER. 	<ul style="list-style-type: none"> ✓ Complete. Parts staff conduct a cyclical inventory and record adjustments in FASTER. Fuel inventory continues to be a problem. The Fuel Management program is scheduled to be implemented by March 31, 2004.
<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"> ✓ Complete. Procedures have been implemented for supervisors to monitor the accuracy of information input by their staff.
<ul style="list-style-type: none"> Implement access security to limit persons authorized to delete transactions. 	<ul style="list-style-type: none"> ✓ Complete. Security levels are 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"> ✓ Complete. Departments have provided mileage information and Fleet staff are recording mileage when vehicles are re-fueling at the pumps.
<ul style="list-style-type: none"> Provide monthly reports to departments. 	<ul style="list-style-type: none"> ◇ On-going. One report, "Equipment Under-utilization Report," was recently provided to departments indicating the vehicles that do not meet the utilization rates established by the Fleet Management Policy, CP124. Additional reports need to be developed and provided to departments.
<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"> ✓ This was reported as completed in the March 2003 follow up; however, Fleet management continues to monitor this process.
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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.

Table Legend:

- Issue identified in the original audit
- ✓ Issue addressed and resolved
- ◇ Issue in progress
- ✘ Behind schedule

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

Appointed Official Response

City Manager: It is evident that many accomplishments have been achieved to date in response to City Audit #0303 - Fleet Parts Operations. Many additional issues of the audit are continuing to be addressed and Fleet is confident that positive resolutions will be attained.

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 (auditors@talgov.com).

Audit Follow Up conducted by:
 Jim Carpenter, Audit Manager
 Sam M. McCall, CIA, CGFM, City Auditor