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**Fleet Maintenance Audit**

October 20, 2017



**City of Fort Worth  
Department of Internal Audit**

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Fort Worth, Texas 76102

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**The audit of Fleet Maintenance was conducted as part of the Department of Internal Audit's Fiscal Year 2017 Annual Audit Plan.**

### **Audit Objectives**

The objectives of this audit were to:

- determine the effectiveness and efficiency of vehicle maintenance practices (i.e., preventive maintenance, routine inspections, etc.);
- evaluate the effectiveness of reporting practices; and,
- ensure that charge-backs are properly allocated to the appropriate department.

### **Audit Scope**

Our audit covered fleet maintenance for the period October 1, 2014 through September 30, 2016.

### **Opportunities for Improvement**

Improve monitoring of parts charges, labor charges, and fuel accounting

Develop internal standards for repair labor

Develop exception reports for departmental fleet charges

Ensure timely annual safety inspections and vehicle registrations

Review equipment utilization periodically and before purchasing replacements

Maintain appropriate system access and security control

Maintain inventory of salvage parts

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## **Executive Summary**

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As part of the Fiscal Year 2017 Annual Audit Plan, the Department of Internal Audit conducted an audit of Fleet Maintenance. The Fleet Services Division of the Property Management Department has primary responsibility for fleet maintenance in coordination with departments that use vehicles. Functions of the division include maintenance and repair of equipment, fuel management, and fleet procurement.

We identified erroneous charges totaling \$15,582 resulting from failure to receive credit for deposits on returned used parts (cores), duplicate charges, and failure by the parts supplier to credit battery warranties.

We concluded that labor charges for the same repair on the same make and model of equipment were found to vary significantly for multiple types of repairs. For example, the average labor charged for the replacement of a Ford F-150 battery was \$56.25, but the maximum charged was \$159.38. The average repair labor charged was reasonable for the F-150 battery replacement. However, the variances and erroneous parts charges indicate inadequate review of charges by Fleet Services and user department personnel.

Monthly fleet billing reports, provided to department personnel for monitoring fleet charges, are not adequate. The report is over 2,000 pages long, which limits the ability to efficiently monitor fleet costs and identify errors.

Fuel accounting errors resulted in general ledger balance adjustments in September 2016. For example, diesel and unleaded fuel inventory accounts were reduced by \$247,372 and \$64,800, respectively, to the reported physical inventory value. Approximately \$124,400 in fuel transactions were not charged to departments during the audit period, which was one cause for the required year-end adjustments.

Annual vehicle safety inspections were more than two months late for approximately 17% (832 of 4,887) of inspections performed during the audit period.

We calculated that 10% (251 out of 2,448) of the City's vehicles averaged less than the City's utilization standard of 4,000 miles driven per year. A majority of hour-metered equipment averaged fewer than 400 hours per year of recorded usage.

City employee and contractor access to the Fleet management system (Faster), including the ability to reopen closed work orders, is not sufficiently restricted. We identified instances where work orders were reopened by City staff and contractor personnel to add parts charges. In addition, three users had the same system operator IDs.



We found that City-owned inventories of parts (removed from wrecked vehicles and large equipment) were not adequately controlled. The items were inventoried during the audit; however, procedures for monitoring the parts throughout the acquisition and disbursement cycles had not been developed.

These findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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## Background

The Fleet Services Division (Fleet Services) of the Property Management Department maintains approximately 3,800 pieces of equipment, including on-road vehicles, trailers and off-road equipment. Fleet Services also manages the purchase and distribution of fuel for City vehicles. The division operates three repair centers and one body shop.

<b>Vehicle Count and Average Age, by Department</b>		
Age Based on In-Service Date		
As of 9/30/16		
Department	Vehicle Count	Average Age Years
Police Department	1,345	5.4
<b>Water Department</b>	<b>683</b>	<b>10.1</b>
Transportation & Pub Works Dept	528	11.9
<b>Park &amp; Recreation Department</b>	<b>375</b>	<b>12.2</b>
Fire Department	326	10.6
<b>Code Compliance Dept</b>	<b>253</b>	<b>7.7</b>
Property Management Dept	104	11.3
<b>Public Events Dept</b>	<b>74</b>	<b>12.4</b>
Planning & Development Dept	49	6.9
<b>Aviation Department</b>	<b>37</b>	<b>11.0</b>
Neighborhood Services Dept	35	9.2
<b>IT Solutions Department</b>	<b>28</b>	<b>9.8</b>
Municipal Court Dept	27	8.1
<b>City Manager's Office</b>	<b>7</b>	<b>9.0</b>
Library Department	4	5.0
<b>Economic Development Dept</b>	<b>2</b>	<b>0.7</b>
Human Resources Dept (1)	1	17.3
<b>Total/Average</b>	<b>3,878</b>	<b>See Note</b>
<small>(1) Vehicle retired in FY2017</small>		

**Source:** Faster system data

**Note:** The average of all 3,878 vehicles, based on an average acquisition date of 11/30/07, is 8.83 years.

### Fleet Composition

The City's fleet encompasses a wide variety of equipment, from fire trucks to ice resurfacing equipment. Vehicles are purchased by Fleet Services based on specifications developed with Fleet Coordinators within the user departments.



**City Vehicles and Equipment, by Classification**  
As of 9/30/2016

Vehicle Classification	Count	Percent
Sedan, Law Enforcement	875	22.6%
Pickup Truck	806	20.8%
Truck-Other	392	10.1%
Trailer	353	9.1%
Sport Utility Vehicle	187	4.8%
Sedan	185	4.8%
Van	142	3.7%
Sport Utility Vehicle - Law Enforcement	118	3.0%
Fire Apparatus	105	2.7%
Backhoe/Excavator	83	2.1%
Trailer Mounted Equipment	75	1.9%
All Terrain Vehicle	60	1.5%
Tractor	49	1.3%
Golf Cart/Utility Cart	49	1.3%
Riding Mower	43	1.1%
Motorcycle	40	1.0%
Forklift	36	0.9%
Grader/Dozer	18	0.5%
Watercraft	12	0.3%
Bus/Minibus/Command Center	9	0.2%
Other - (minor and off-road equipment)	241	6.3%
<b>Total</b>	<b>3,878</b>	<b>100%</b>

Source: Faster system

### Equipment Services Fund

Fleet Services' financial transactions are processed in the Equipment Services Fund, an Internal Service Fund that is used to account for services to departments on a cost reimbursement basis. Fund revenues represent charges to other departments.

**Equipment Services Fund**  
Revenues, Expenditures & Operating Income

Fiscal Year	Revenue	Expenses	Operating Income
FY 2015	\$26.6 Million	\$24.7 Million	\$1.9 Million
FY 2016	\$26.7 Million	\$24.3 Million	\$2.4 Million

Includes revenue other than charge backs to departments

Source: Comprehensive Annual Financial Report



### Maintenance and Repair Services

Maintenance and repair charges to departments include the cost of parts, labor, and subcontracted services. Rates charged are based on a Rate Model developed by a consultant that incorporates budgeted expenditures and personnel hours. Parts and subcontracted service charges included a markup percentage of 32% and 5.3%, respectively, for FY2016.

**Parts** – Repair parts are provided under a contract with NAPA Genuine Parts (NAPA) at a cost of approximately \$4.9 million per year. NAPA personnel are based at each fleet service center to distribute parts for City equipment repairs.

**Labor** – Labor is charged at a standard hourly rate that is based on budgeted payroll and projected hours. The standard hourly rate is calculated using payroll costs divided by the number of mechanics, then multiplied by an assumed 1,500 direct labor hours per year for each mechanic. Labor is not charged based on published standard repair times. Instead, labor is charged based on the reported time worked on each repair.

**Subcontracted Services** – Contractors provide approximately \$3.9 million in services per year including tire service, towing service, body repair, and other repairs that are included in fleet charges to departments.

**Administrative Fee** – Departments are charged an annual per-vehicle administrative fee to recover the cost of fleet administration. The fee is charged monthly for vehicles that meet specific criteria that include purchase cost, state license requirements, and other criteria. The administrative fee charge per vehicle was \$564 in FY2015 and \$588 in FY2016.

Department	FY 2015		FY 2016	
	Services	Fuel	Services	Fuel
Police Department	\$4,851,620	\$2,824,666	\$5,548,721	\$2,307,518
Fire Department	\$4,027,384	\$637,226	\$4,473,028	\$510,939
Water Department	\$4,104,001	\$1,270,767	\$4,361,074	\$933,461
Transportation & Pub Works Dept	\$3,365,931	\$977,740	\$3,404,371	\$644,400
Park & Recreation Dept	\$1,490,434	\$342,261	\$1,427,690	\$256,614
Code Compliance Dept	\$1,009,943	\$397,920	\$1,114,882	\$344,921
Property Management	\$211,700	\$37,106	\$337,544	\$68,724
Public Events Dept	\$234,901	\$38,185	\$222,272	\$30,158
Aviation Department	\$141,560	\$32,517	\$129,686	\$21,992
Municipal Court Dept	\$116,447	\$64,181	\$121,339	\$51,772
Planning & Development Dept	\$103,168	\$88,838	\$105,945	\$70,515
Neighborhood Services Dept	\$0	\$0	\$80,742	\$18,715
IT Solutions Department	\$52,861	\$20,035	\$51,621	\$13,947
Library Department	\$16,674	\$23,148	\$39,327	\$18,398
City Manager's Office	\$9,628	\$6,340	\$8,767	\$4,378
Economic Development Dept	\$23,071	\$7,851	\$2,357	\$358
Human Resources Dept	\$1,187	\$310	\$628	\$85
<b>Total</b>	<b>\$19,760,510</b>	<b>\$6,769,091</b>	<b>\$21,429,994</b>	<b>\$5,296,895</b>

Source: General Ledger

### Faster Software and Fuel Data Warehouse

Fleet charges for employee labor, parts, contracted services, and other charges are accumulated in the Faster system. Transactions in a fuel data warehouse, that are maintained by Information Technology Solutions (ITS), are imported into the Faster system. Faster system data is then interfaced to the general ledger (GL),



monthly, to charge departments for services and fuel. Fleet Services revenue is also recorded and Faster system reports are used to monitor fleet charges.

### **Fuel Services**

Fleet Services operates five fuel sites and delivers fuel to tanks at fire stations and other locations throughout the City. A fleet card vendor provides the option for City vehicles to obtain fuel at multiple private sector locations.

Fuel accounting transactions are recorded in inventory accounts for Gasoline, Diesel, Propane, and Bulk Motor Oil. The separate fuel data warehouse maintained by ITS is used to accumulate and store fuel transactions, including the vehicle number, quantity purchased, price per gallon, and odometer readings recorded by employees.

### **Preventive Maintenance**

Vehicles and equipment are scheduled for preventive maintenance services based on the mileage and time elapsed since the previous maintenance service. Maintenance schedules include safety inspections along with specific maintenance items that are tailored to the type of vehicle. For example, fire trucks have maintenance items that differ from other equipment.

### **Salvage Inventory**

NAPA owns the inventory of repair parts used on City vehicles. However, Fleet Services' body shop employees at the Brennan Street Body Shop remove salvage parts from wrecked vehicles for use on other City vehicles. In addition, a small inventory of heavy equipment parts is retained at the James Avenue Service Center.

### **Fleet Utilization**

Equipment utilization is a factor for the efficiency of fleet operations. Leasing or mileage reimbursement may be more efficient than purchasing seldom-used equipment. The City's utilization standard, according to Fleet Services personnel, is a minimum of 4,000 miles or 400 hours per year. Exceptions to minimum utilization standards may be justified in specific circumstances such as equipment that must be retained at a specific location for immediate use.

### **Fleet Coordinators**

Departments with several vehicles have employees assigned to coordinate vehicle management with Fleet Services. These coordinators have an important role in reviewing repair charges, reviewing fuel charges, and ensuring that required preventive maintenance is performed. Coordinators also coordinate the purchase of new and replacement equipment with Fleet Services personnel.

The Police and Fire Departments have employees with additional fleet-related functions. These functions include the installation and maintenance of specialized equipment.



## Objectives

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The objectives of this audit were to:

- determine the effectiveness and efficiency of vehicle maintenance practices (i.e., preventive maintenance, routine inspections, etc.);
- evaluate the effectiveness of reporting practices; and,
- ensure that charge-backs are properly allocated to the appropriate department.

## Scope

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The scope of this audit covered the period October 1, 2014 through September 30, 2016. Activity beyond this period was reviewed when deemed necessary.

Our review of fuel operations was limited to verifying fuel transactions and charges to departments.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed personnel within Property Management's Fleet Services Division, along with other department personnel, including Fleet Coordinators;
- reviewed a fleet management competitiveness assessment prepared by a consultant in FY2010;
- analyzed data from the Faster system used to process fleet data and parts and labor charges to equipment;
- reviewed standard reports available in the Faster system;
- analyzed data from the fuel data warehouse maintained by ITS;
- reviewed access to the Faster system by City and contractor personnel;
- reviewed the contract with NAPA and compared prices to market prices;
- reviewed parts and labor charges charged to equipment; and,
- evaluated internal controls related to fleet maintenance and repair operations.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## Audit Results

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Fleet Services operations were found to be effective and efficient, with the exception of issues noted in this report. Work orders include notes that maintain a history of vehicle repairs. However, reports provided to departments are not adequate for identifying incorrect or unusual charges. The charges to departments matched costs recorded by Fleet personnel with the exception of fuel costs noted below that were not charged to departments.

User departments complained about delays in ordering vehicles, including delays in purchasing equipment budgeted in prior years. We noted that the number of vehicles and equipment, placed in service, increased from 139 in FY2016 to 438 from October 2016 through July 2017.

### **Maintenance and Repairs**

**Parts** – We identified billing errors of \$15,582 for parts deposits, uncredited warranty refunds, and other errors. NAPA personnel cooperated in helping to identify and resolve the errors. A refund check for the errors was provided by NAPA to Property Management during the audit.

**Labor** – We found that the average labor charged for frequently performed services was reasonable when compared to third party estimates. However, standard repair times are not used and there was wide variation in the amount charged for the same type of repair. In addition, a separate labor charge for quality control was often included on work orders. This separate quality control charge makes comparison to private sector charges more difficult.

**Subcontracted Services** – The percentage markup was charged incorrectly at 8.9% instead of 5.3% (the budgeted rate) for the first four months of FY2016. However, the error was detected in January 2016 and credits issued to departments. Subcontracted services expenditures exceeded budgeted expenditures by \$2.1 million in FY2015 and \$2.6 million in FY2016, because not all services were included in the budgeted amounts. The budget was increased in FY2017.

**Administrative Charge** – The annual total charge was reported as \$585 per vehicle in FY2016. Fleet Services erroneously charged \$48.75 per month for 11 months and \$51.83 for one month, totaling \$588.

### **Fleet Reporting**

The monthly billing report provided to Fleet Coordinators is over 2,000 pages long. The labor and parts charges for the same work order may be on different pages of the billing report, which makes identifying the total charged for a specific work order difficult. Additionally, fuel transactions listed on the report do not include the person who pumped the fuel, odometer reading errors, or transaction anomalies such as fuel transactions that exceeded the capacity of the vehicle.

### **Fuel Accounting**

Fuel inventory accounts required \$318,671 in total FY2016 adjustments to reduce GL balances to the reported value of the physical inventories. Inventory-to-GL reconciliations were not performed at fiscal year-end 2015, so the FY2016 adjustment included at least two years of activity. Since the measured quantities used for the adjustments did not include fire station and other locations that had 21% of diesel fuel stocks in prior years, the adjustments were larger than necessary. Departmental Fleet Coordinators do not receive exception reports that would help to identify inappropriate fuel use.



<b>Fuel Inventory Account Transactions with Adjustments</b>			
FY 2015 and FY 2016			
	<b>Diesel</b>	<b>Gasoline</b>	<b>Propane</b>
<b>Beginning balance FY2015</b>	\$263,687	\$315,921	\$40,722
Purchases - FY2015	\$2,338,263	\$1,563,111	\$0
Charges to Departments - FY2015	(\$2,307,406)	(\$1,694,586)	(\$9,567)
Yearend adjustment - FY2015	\$0	\$0	\$0
<b>End bal FY2015/Beg bal FY2016</b>	<b>\$294,544</b>	<b>\$184,446</b>	<b>\$31,155</b>
Purchases - FY2016	\$1,718,868	\$1,218,016	\$5,585
Charges to Departments - FY2016	(\$1,660,941)	(\$1,225,385)	(\$6,023)
Yearend adjustment - FY2016	(\$247,373)	(\$64,800)	(\$6,498)
<b>Ending balance FY2016</b>	<b>\$105,098</b>	<b>\$112,277</b>	<b>\$24,219</b>

Source: General Ledger

### Vehicle Maintenance & Inspections

Preventive maintenance inspections that should be performed at 12-month intervals were not performed within 14 months of the previous inspection for approximately 17% of the safety inspection services performed. As a result, vehicles could be operated in an unsafe condition, suffer premature wear or have excessive vehicle emissions. In addition, vehicles with delayed inspections were not eligible for registration renewal, resulting in expired registrations. However, we also identified vehicles with expired registration stickers that had timely state inspections performed.

### Salvage Inventory

Even though departmental procedures were not in place for updating records issued from the inventory of salvage and spare parts, an inventory count was provided during the audit. In addition, inventory items at both the Brennan Street Body Shop and the James Avenue Service Center were input into the NAPA parts system as the audit was on-going.

Salvage parts usage was not recorded on work orders (except within notes) to provide support for the cost/benefit of removing the parts for reuse. Specific parts, including batteries, were observed stored outside, exposed to the elements and subject to theft.

### Equipment Utilization

Low usage vehicles that did not meet annual utilization standards (average miles driven/hours per usage) were identified. Retention of low-utilization equipment may be justified in some circumstances such as the need to have airport ice removal equipment available. However, mileage reimbursement could be used instead of purchasing or retaining low mileage sedans. Leasing construction equipment that is seldom used might be more efficient than purchasing the equipment.

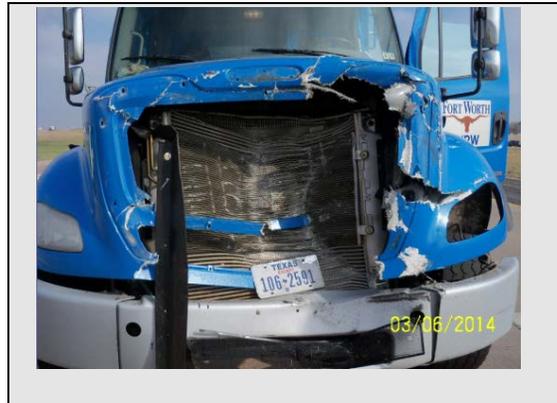
### Faster Information System and Fuel Data Warehouse

We found terminated users with access to the Fleet software and users with the same shared operator ID. We also found that 52 employees and 13 contractor employees had the ability to reopen work orders after work orders were closed. The ability to reopen closed work orders allows charges to be made after the work order has been closed and reviewed.

### **Equipment Damage**

Damages and repairs, classified as from accidents or “not-normal” causes, resulted in a total of \$2.1 million in labor charges during the two-year audit period. This amounts does not include the cost of parts or subcontractor repairs, which are not coded to indicate that the repair was “not-normal.” The following photo provides an image of a City vehicle that incurred over \$60,000 in subcontracted repair costs due to a “not-normal” cause.

#### **Damaged City Vehicle**



**Source:** Fleet Services files

### **Tires Auctioned**

The City purchases over 3,200 vehicle tires annually with approximately 2,100 of the tires used on Police Department vehicles. Police tire consumption is relatively high due to the City’s prohibition on repairs of pursuit vehicle tires to reduce the risk of catastrophic failure. Tires removed that are in usable condition are installed on non-pursuit vehicles to the extent possible with the excess sold at auction. Tires that are not usable or in a condition to be sold must be scrapped, incurring disposal cost. We noted that there were no tires sold at auctions in FY2016, after sales of 131 tires in FY2015. A March 2017 auction included 170 tires that may have included tires from FY2016.



## Overall Evaluation

High	Medium	Low
<a href="#"><u>Parts charge errors not detected</u></a>		
<a href="#"><u>Labor charge anomalies inadequately monitored</u></a>		
<a href="#"><u>Inadequate reports made available for monitoring</u></a>		
<a href="#"><u>Fuel accounting errors not detected</u></a>		
<a href="#"><u>Vehicle inspections not performed timely</u></a>		
<a href="#"><u>Salvage part inventory control weaknesses</u></a>		
<a href="#"><u>Indications of underutilized vehicles</u></a>		
<a href="#"><u>Fleet system access not sufficiently controlled</u></a>		
<a href="#"><u>Additional costs incurred due to damaged or abused equipment</u></a>		
	<a href="#"><u>Warranty repairs performed in-house without department approval</u></a>	



## Detailed Audit Findings

### 1. Repair part charges were not adequately monitored, resulting in overcharges.

Monitoring vendor charges is a critical control for preventing overcharges and errors. Adequate monitoring includes procedures to ensure that core deposits are refunded when used or defective parts are returned.

We identified parts billing errors, totaling \$15,582, that resulted in overcharges to the City.

- \$11,524 in core deposits were not refunded to the City of Fort Worth. This does not include 173 cores where no refund was issued because return of the part could not be verified (out of 584 total cores charged). The deposits were for vehicle batteries and parts that should have been refunded upon the return of batteries or parts that were replaced.
- erroneous duplicate billings of \$2,499
- battery warranties not credited, totaling \$1,559

Monthly parts reports include approximately 170 pages with approximately 38 parts per page, making it difficult to identify errors, especially when reports are not designed to identify exceptions. As a result, the City and individual departments were overcharged \$15,582 for repair parts. Other core credits may not have been issued for damaged cores that could not be rebuilt.

The City's part supplier, NAPA, repaid the City for the amount of the overcharges identified during the audit. NAPA personnel also indicated that City employees did not always return used parts for deposit refund.

During the audit, the City did not have reconciliation procedures to verify that cores were returned. Monitoring of parts charges was, therefore, not adequate to identify that the core deposits had not been refunded. The manual monitoring procedure primarily focuses on verifying that reports matched charges.

**Recommendation 1A:** *The Property Management Director should ensure that the monitoring of parts charges is improved so that errors, such as the failure to return core deposits, are detected and corrected.*

**Auditee Response:** Concur. Property Management Fleet has addressed the finding with Contract Compliance, Accounts Payables, Fleet Services, and the IBS parts vendor. Concurrent to the audit time frame, the core deposit charges by IBS has been removed. Cores accepted and outstanding reporting is now completed weekly and sent to Contract Compliance and the Fleet Superintendent for review.

**Target Date:** October 15, 2017

**Responsibility:** Senior Contract Compliance Specialist, Account Technician and Fleet Superintendent

**Recommendation 1B:** *The Property Management Director should direct staff to correct charges to departments for the total of credits received from NAPA.*

**Auditee Response:** Concur. Property Management Fleet has fully credited departments affected by core charges with reimbursement received by the IBS core charge overbills.



**Target Date:** Completed

**Responsibility:** Senior Contract Compliance Specialist

## 2. Labor charge-out anomalies were identified.

Labor monitoring is required for effective management of expenditures and employee productivity. Managers and customers should review parts charges to ensure that they are appropriate and reasonable.

Labor charges for the same service varied significantly for specific services such as filter or battery replacement. The average labor charge for 25 frequently charged services was reasonable when compared to private sector estimates. However, individual charges varied significantly. For example, the average labor charged to replace a Ford F-150 battery was \$56.25. The maximum charged was \$159.38. Although the private sector estimate average was \$60.50, comparison to private sector charges is difficult, since the City repairs may include a separate charge for quality control review while the private sector may not.

Reports are not available to identify outlying labor charges. The Faster system provides Technician Efficiency Reports, but the reports are not useful because service time standard data has not been entered into the system. The reports are designed to compare the actual time required to complete tasks to the standard time to complete these tasks.

According to Fleet Management personnel, service task standard time estimates have not been entered into the system because the number of repair task codes is excessively high and includes duplicate codes for the same type of repair. We verified that the system includes a large number of repair descriptions that include duplicates. There are plans to standardize repair codes with an expected system upgrade in FY2018.

Identification of labor charge anomalies and measurement of employee efficiency are difficult because work orders must be reviewed individually to verify that the hours for each task are reasonable. As a result, departments may be over- or under-charged for specific repairs. Also, employee efficiency may not be monitored adequately.

**Recommendation 2:** *The Property Management Director should ensure that reports, to measure technician efficiency at completing specific service tasks, are functional after the implementation of the Faster system upgrade.*

**Auditee Response:** Concur. Property Management Fleet will consider developing additional measurement and reporting tools related to technician efficiency during the FASTER Web upgrade.

**Target Date:** October 1, 2018

**Responsibility:** Fleet Superintendent, Senior Tech Support Analyst and Assistant Director Fleet

## 3. Reports provided to user departments are inadequate for effective monitoring.

Exception reporting is required to effectively monitor large numbers of transactions like fuel and work order transactions. Monitoring fuel efficiency and related accounting transactions requires exception reports that help identify errors and anomalous transactions.



The monthly fleet billing report provided to departments is over 2,000 pages long, which limits the ability to effectively review the report for errors or anomalies. City vehicles generate over 10,000 fuel transactions per month. Due to human error and/or other reasons, employees enter incorrect odometer readings that could make monitoring fuel use difficult, considering the volume of the monthly billing reports.

Exception reports have not been developed for distribution to departments. Also, some departmental Fleet Coordinators reported not receiving training on Faster reports. Without effective exception reports, department personnel may not identify billing or fuel consumption errors that would increase costs or indicate vehicle abuse.

**Recommendation 3A:** *The Property Management Director should ensure that reports that could help identify exceptions are provided to departmental personnel. The reports should include, but not necessarily be limited to, high cost work orders, duplicate parts, fueling over the capacity of the vehicles, and odometer entry errors.*

**Auditee Response:** Concur. Property Management Fleet prior to and concurrent with ongoing audit was in the process of developing additional reporting tools to assist department personnel in identifying exceptions. Processes being developed consist of reinstating fueling over capacity exceptions, odometer errors, and other exception based reporting beneficial for department use and functionality. Current reporting includes high cost work orders tailored to specific department needs.

**Target Date:** October 1, 2018

**Responsibility:** Fleet Services Manager, Fleet Superintendent, Fleet Supervisors and Senior Administrative Assistant

**Recommendation 3B:** *The Property Management Director should ensure that training on the use of Faster system reports is provided to user department personnel.*

**Auditee Response:** Concur. The Property Management Fleet FASTER Web implementation agreement will stipulate FASTER specific trainers are to be provided by the vendor. These trainers will be tasked with providing updated training to all Fleet coordinators for each department currently using FASTER.

**Target Date:** October 1, 2018

**Responsibility:** IT Business Planner

#### **4. Deficiencies in fuel accounting controls, including inadequate monitoring of fuel transactions, were identified.**

Financial Directive FD12 requires a bi-annual reconciliation of physical inventories to the GL.

In FY2016, the diesel fuel inventory account was adjusted down by \$247,373, based on the calculated value of the reported gallons of fuel on hand. The gasoline inventory GL account was also adjusted downward by \$64,799 to reduce the GL balance of physical inventories. Other fuel system issues identified included:

- transactions totaling approximately \$124,400 were not charged to departments and the related inventory accounts, resulting in no reductions in the GL balance for fuel inventory accounts;
- fuel quantities reportedly pumped into City vehicles sometimes exceeded the tank capacities; and,



- approximately \$14,800 worth of high-pressure car wash transactions, processed through the fuel management system, were not charged to departments.

It should be noted that fuel stocks are monitored as required for environmental compliance using electronic monitors and physical measures. However, the monitoring is focused on environmental compliance and not on financial controls that are designed to ensure appropriate use of fuel.

Fuel inventory GL accounts were not adjusted to the value of physical fuel inventories in FY2014 or FY2015, so the FY2016 adjustments included several years of transactions. Fuel inventory GL balance verification and adjustments were not a priority in prior years. In addition, the following anomalies were noted.

- Fuel tanks at fire stations and park maintenance facilities were not included in the year-end inventory stock used to value inventory in FY2016. In prior years, these smaller (approximately 1,500-gallon capacity) tanks comprised approximately 21% of diesel fuel stocks.
- The Department of Internal Audit identified over 3,280 high-pressure car wash transactions recorded in the fuel data warehouse at zero cost to departments. No justification was provided for the decision, which was reportedly made by prior management, to not charge for the car washes.

The failure to periodically reconcile fuel could result in the failure to detect significant accounting errors or fuel losses. In addition, the failure to bill transactions reduced Property Management revenue and resulted in the need for a large accounting adjustment.

**Recommendation 4A:** *The Property Management Director should ensure that reconciliation of fuel inventories to General Ledger fuel account balances is performed at least bi-annually as required by the Financial Directive. During inventory counts, the Property Management Director should require that fuel from all tanks with significant quantities be included in the fuel inventory counts.*

**Auditee Response:** Concur. Staff will work with Financial Management Services to set up an additional mid-year reconciliation of fuel inventory accounts in addition to continuing the reconciliation completed at the end of the fiscal year to ensure full compliance with the Financial Directive. Fuel from all tanks with significant quantities will be included in the fuel inventory counts.

**Target Date:** March 30, 2018

**Responsibility:** Fleet Services Manager and Senior Administrative Assistant

**Recommendation 4B:** *The Property Management Director should enhance the monitoring procedure to ensure that transactions that exceed the vehicle capacity are reported to departments for follow up.*

**Auditee Response:** Concur. As noted in 3A, Property Management Fleet prior to and concurrent with ongoing audit was in the process of developing additional reporting tools to assist department personnel in identifying exceptions. Processes being developed consist of reinstating fueling over capacity exceptions, odometer errors, and other exception based reporting beneficial for department use and functionality. Current reporting includes high cost work orders tailored to specific department needs.

**Target Date:** October 1, 2018

**Responsibility:** Fleet Services Manager, Fleet Superintendent, Fleet Supervisors and Senior Administrative Assistant



**Recommendation 4C:** *The Property Management Director should ensure that high-pressure car washes are charged to departments.*

**Auditee Response:** Concur. Property Management Fleet will evaluate each car wash site to ensure wash monitoring equipment is in place and to provide a billing vehicle for each use of the wash areas. Current wash rate structures are in place for FY18 budget considerations.

**Target Date:** January 1, 2018

**Responsibility:** Fleet Services Manager and Senior Administrative Assistant

## **5. Vehicle inspections were not performed timely.**

State law requires an annual inspection for vehicles over two years old. The inspection is required prior to renewing vehicle registration and includes emissions testing. Property Management Department policy requires an annual inspection for vehicles subject to the state inspection requirement. In addition, vehicles are required to have an annual or 10,000 mile preventive maintenance service that includes a bumper-to-bumper inspection.

We identified 832 state inspection services (out of approximately 4,880) during the audit period that were performed more than 14 months since the previous service. Since these services are required at least annually, the gap indicates that inspections were not performed in the required 12-month interval. State-mandated inspections are required prior to registration renewal. For some vehicles, the delayed inspections resulted in vehicles operating with expired inspections or registrations.

State inspections were reportedly delayed in order to synchronize the inspection and the registration due dates after the state law mandated a combined inspection-registration process in 2015. However, the legislative change did not prevent staff from performing vehicle inspections in a timely manner. Although vehicle registrations cannot be obtained without an inspection, inspections must be completed annually. Prior to the law change, exempt City vehicles were only required to display inspection stickers. Registration stickers were not required. The law now requires only registration stickers as proof of inspection.

By having expired registrations, vehicles may have operated with safety deficiencies or emission system failures, thus increasing the risk of an accident, vehicle breakdown, or excessive emissions. Also, vehicles with expired registrations are a violation of the law and do not set a positive example. Defects that are not identified timely may be more costly to repair.

**Recommendation 5:** *The Property Management Director should ensure that vehicles that have not had required inspections and registration renewals are reported to the applicable Department Head.*

**Auditee Response:** Concur. Property Management Fleet Services currently provides monthly documentation tailored to each department, which documents preventive maintenance needs. Fleet Services is evaluating, developing, and scheduling preventative maintenance meeting reviews with department fleet coordinators and leadership teams to bring further awareness to inspection needs and registration issues.

**Target Date:** March 1, 2018

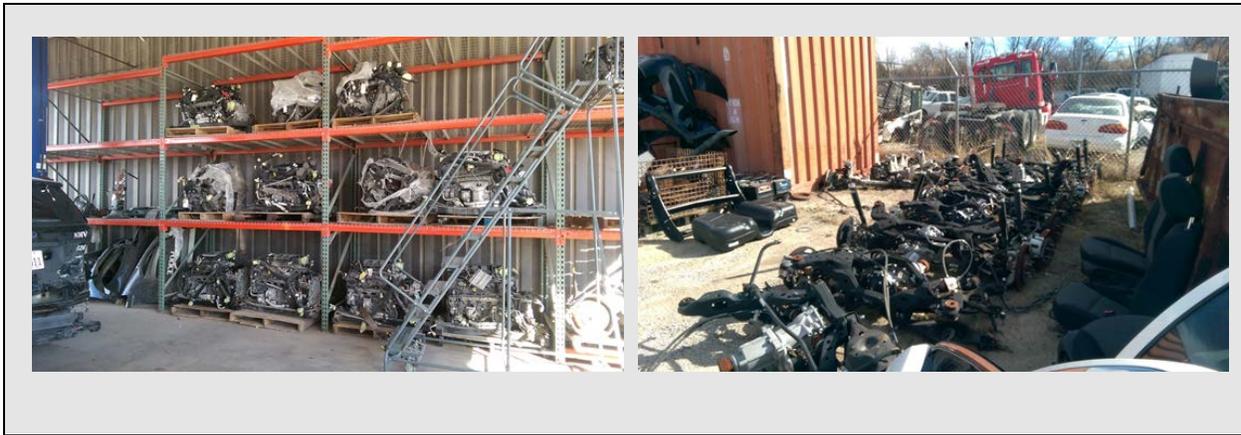
**Responsibility:** Administrative Assistant Technical Services, Senior Administrative Assistant, Fleet Superintendent and Fleet Supervisors

**6. Procedures for the management of salvage inventory have not been developed.**

An Inventory Control System for the accounting of salvage and spare parts should encompass receiving, storing, and recording usage. Financial Directive FD12 requires periodic reconciliation of inventories.

The use of inventory from salvage and spare parts was not consistently recorded, although parts quantities were entered into spreadsheets. Furthermore, salvage parts were found stored outside exposed to the weather and possible theft. Although parts were added to the inventory system during the audit, procedures for recording usage had not been developed.

**Brennan Street Body Shop  
Salvage Inventory**



**Source:** Auditor generated (1/24/17)

Records of salvage parts physical inventories, prior to October 2016, were not available. The potential for theft exists without a process for accounting and tracking usage of salvage parts. However, the potential losses are difficult to determine due to the large quantity, variety and varied condition of the parts removed from vehicles.

**Recommendation 6:** *The Property Management Director should require that procedures for intake, use, and periodic physical inventories of salvage parts be developed that include a rationale for removal of the parts. The procedures should require periodic inventory counts by employees who are not involved in the management of the inventories.*

**Auditee Response:** Concur. Property Management Fleet prior to and concurrent with ongoing audit provides inventory tracking data and documentation on salvage uses related to fleet repairs. During the audit, Property Management Fleet worked with IBS, the third party parts vendor, to develop and initiate a transaction tracking system to further show measurable transaction data. In addition, a salvage inventory ordering step was created to initiate transactions through a Parts tracking system currently in use with the third party parts supplier. Property Management Fleet is evaluating salvage inventory time frames as well as developing a published schedule of salvage inventory inspections (Monthly / Quarterly / Year).

**Target Date:** October 1, 2018



**Responsibility:** Fleet Superintendent, Fleet Supervisors and Senior Contract Compliance Specialist

**7. The City's fleet includes underutilized vehicles.**

City standards for equipment utilization state that vehicles driven fewer than 4,000 miles per year or equipment operated fewer than 400 hours per year may not be efficiently utilized. It is good business practice to reassign or sell underutilized vehicles and equipment.

Based on an analysis of vehicle usage, we found that approximately 10% of vehicles with mileage data had on the average less than 4,000 miles of usage per year. A majority of the 410 pieces of equipment with hour meters had less than 400 hours of operation per year.

Vehicles that operate within a small geographical area such as an airport, water treatment plants, convention center, or other locations may justifiably result in low utilization. Other equipment may be necessary for operations, but not used frequently. Evaluation of utilization requires judgement for each piece of equipment.

Underutilized equipment represents an inefficient use of fleet resources. User department cost may be higher than necessary as a result.

**Recommendation 7:** *The Property Management Director should periodically report equipment with low utilization to Department Heads. The report should include low usage equipment from all departments and recommend rental or sharing of vehicles instead of vehicle/equipment replacement where applicable and feasible.*

**Auditee Response:** Concur. Technical Service staff will provide management, on a bi-annual basis, with an underutilized fleet report. The report will be emailed to applicable departments and require justifications on equipment listed within the report. Once reviewed and an evaluation has been made by each department head, the vehicles /equipment will either be shared or cascaded to other departments in need of the vehicles / equipment.

**Target Date:** January 1, 2018

**Responsibility:** Assistant Director Fleet and Fleet Services Manager

**8. The Faster fleet management system user access is not adequately controlled.**

Administrative Regulation D-5 requires that system access be limited to the minimum level required for users to perform their required functions under the principle of least privilege. The regulation also states that individual user accountability must be maintained.

We identified three (3) terminated users with Faster system access, as well as users with the same system operator ID. In addition, there were 52 employees and 13 contractor employees with the ability to reopen closed work orders to add parts or labor charges.



Fleet management personnel did not recognize the need for controls to address the specific issues identified. Individual user accountability is not possible when more than one user has the same operator ID. Also, terminated users with access could bypass controls.

Employees or contractors that have system access could reopen closed work orders and charge parts or labor inappropriately after the work orders have been reviewed by managers. As a result, inappropriate costs could be charged to user departments without detection.

**Recommendation 8:** *The Property Management Director should ensure that terminated users are removed from the system, that each user has a unique operator identifier, and that the ability to reopen closed work orders is limited to the appropriate personnel.*

**Auditee Response:** Concur. Property Management Fleet has removed the terminated users from the FASTER system. Further, Fleet has changed the level for Administrative rights for FASTER. Upon the implementation of FASTER Web, employee level will be hard coded and specific profiles will be available to secure level responsibility and oversight.

**Target Date:** October 1, 2018

**Responsibility:** Fleet Superintendent, Fleet Supervisors and Administrative Technician (HR)

**9. Labor charges coded as required, due to accidents and/or negligence, incurred labor costs of approximately \$1 million per year.**

Employees are responsible for operating equipment in an appropriate and safe manner per CFW Personnel Rules and Regulations.

Labor charges coded by mechanics as resulting from accidents or “non-normal” use totaled over \$2 million during the two-year audit period. This does not include the cost of subcontracted repairs or parts required to repair vehicles damaged due to accidents and negligence.

Although some repairs may have been coded incorrectly, the Department of Internal Audit concluded that the expensing of \$2 million dollars over a two-year period for labor only was considered significant for accidents or repairs considered by Fleet staff to be “non-normal”. Damage could result from a lack of knowledge about the proper use of equipment or carelessness. As a result, the City could incur costs that could be avoidable or lessened.

**Recommendation 9:** *The Property Management Director should develop reports that include vehicle repair cost attributed to negligence or accidents for distribution to an appropriate level of City management.*

**Auditee Response:** Concur. Property Management Fleet FASTER system currently provides this information to Fleet Coordinators for each department. To improve the process, Fleet will evaluate repair costs incurred through preplanned meetings with each department. Also, Fleet will determine additional reporting steps needed to improve the availability of information as well as the best practices needed to provide information tailored to each department.

**Target Date:** October 1, 2018



**Responsibility:** Fleet Superintendent, Fleet Supervisors and Crew Leaders

**10. Fire Department personnel were not consulted about warranty repairs performed in-house.**

Inter-fund charges, including fleet repairs, should be authorized by the department that will be charged.

Fire equipment under warranty was repaired in-house at a cost of \$3,939 with reimbursement requested from the vendor for the warranty repairs. One warranty repair was not fully reimbursed when the vendor would not pay the City for \$79 of the amount charged, citing a maximum limit set for that type of charge. Fire personnel stated that they would prefer to be contacted to determine if warranty work should be performed by the vendor.

Generally, we would expect vehicle warranty work to be performed by the manufacturer. Discussions with Fleet Services staff revealed that having warranty work performed in-house sometimes decreases the length of time the vehicle is out of service, etc. When warranty work is performed by Fleet Services, user departments may not believe that the best value was obtained. Departments could conclude that the City incurred higher costs than for a third party repair.

**Recommendation 10:** *The Property Management Director should require that user departments be contacted before warranty work is performed in-house.*

**Auditee Response:** Concur. Property Management Fleet Service has met with applicable departments and is conducting weekly reporting and meeting reviews to help improve communication and decision making related to warranty work.

**Target Date:** Completed

**Responsibility:** Fleet Superintendent, Fleet Supervisor and Crew Leaders



## Acknowledgements

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The Department of Internal Audit would like to thank the Property Management Department personnel for their cooperation and assistance during this audit.