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HIGHLIGHTS

Highlights of City Auditor Report #1418, a report to the City Commission and City management

WHY THIS AUDIT WAS DONE

This audit was conducted to evaluate the billing process for the City's Fleet Division (Fleet). Specifically, our objective was to answer the following questions: (1) are internal controls relating to the Fleet billing process adequate to reasonably assure the process is functioning as intended; (2) are work orders accurate, reasonable, complete, and supported; (3) are the parts markup and labor rates charged by Fleet reasonable and supported; and (4) does the interface between the Fleet FASTER System and the City's PeopleSoft Financials System (PeopleSoft) correctly transfer information needed to ensure City departments are accurately and properly charged for Fleet services.

The scope of the audit included a review of Fleet repair and maintenance work orders, certain operational processes related to repairs and maintenance of City equipment, and aspects of financial activities related to charging City departments for Fleet services. The audit covered the period from October 1, 2010, to January 31, 2014.

WHAT WE RECOMMENDED

As part of this audit we made several recommendations to improve the billing process for Fleet. The more significant recommendations relate to (1) updating operating procedures in the areas of equipment intake, garage operations, the parts section, and the monthly closeout process; (2) reemphasizing the importance of correct and accurate work order completion by mechanics and corresponding reviews by supervisors; (3) increasing the role of staff external to the parts section in all aspects of the periodic physical counts of parts; (4) conducting a formal rate study to determine appropriate labor and parts rates and markup; and (5) reconsidering the disposition of surpluses generated from Fleet repair and maintenance services.

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June 5, 2014

Fleet Billing Process

Overall, we concluded the Fleet billing process accurately charges City departments for the services received from Fleet. Areas were identified where enhancements would improve that process. Those areas related to internal controls, yearend financial adjustments, the FASTER System, and reporting of performance measures. Recommendations were made to address those areas.

WHAT WE CONCLUDED

The City's Fleet Division operates as an internal service fund and bills City user departments for vehicle repair, maintenance, and other services. We found the Fleet billing process accurately charges City departments for those services. In fiscal year 2013, the Fleet Division generated almost \$14 million in revenues and a yearend surplus of almost \$450,000.

Areas identified where improvements should be made included:

- Complete the update of operating procedures for equipment intake, garage operations, parts section, and the monthly closeout process.
- Reemphasize the importance of correct and accurate work order completion by mechanics and corresponding reviews by shop supervisors.
- Increase the role of staff independent of the inventory process in the periodic physical counts of parts inventory as well as the related reconciliation and update of parts inventory records.
- Conduct a formal rate study to determine appropriate rates to charge for labor and parts.
- Consider changes to the method of disposing of surpluses (or deficits) generated from Fleet operations.
- Establish a procedure to ensure FASTER is timely updated to reflect cost center changes in PeopleSoft.
- Include purchase numbers from FASTER with the data transferred to PeopleSoft as part of the purchasing interface.
- Remove or reclassify certain equipment in FASTER so as to properly reflect only equipment maintained by Fleet.
- Review performance measure data to ensure accuracy of the measures included in the annual budget.

Audit Report



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City Auditor

Audit of Fleet Billing Process

Report #1418

June 5, 2014

Executive Summary

The purpose of this audit was to evaluate the billing process for the City's Fleet Division (Fleet). Specifically, our objectives were to answer the following questions:

- Are internal controls relating to Fleet billing adequate to reasonably assure that processes are functioning as intended?
- Are work orders (on which Fleet billings are based) accurate, reasonable, complete, and supported?
- Are the parts mark-up and labor rates charged by Fleet reasonable and supported?
- Does the interface between the Fleet FASTER System (software application used to manage and account for Fleet operations) and the City's PeopleSoft Financials System (City's accounting system) correctly transfer information needed to ensure City departments are accurately and properly charged for Fleet services.

The scope of our audit included a review of Fleet repair and maintenance work orders, certain operational processes related to repair and maintenance of City equipment, and aspects of financial activities related to charging City departments for Fleet services. Our audit covered the period from October 1, 2010, to January 31, 2014.

Fleet fueling and motor pool operations, as well as vehicle acquisition services, were

specifically excluded from this audit.

Overall, we concluded the Fleet billing process accurately charges City departments for vehicle repair and maintenance services received from Fleet, and internal controls relating to the Fleet billing process are adequate to provide reasonable assurance the Fleet billing process is working as intended.

In the course of the audit we identified three areas (internal controls, yearend adjustments, and FASTER) where changes to processes should be made to enhance the Fleet billing process. Additionally, we identified one area where changes should be made to improve the reporting of Fleet performance measures.

Internal controls – Within the area of internal controls we determined:

1. Operating procedures in the areas of equipment intake, garage operations, parts section, and the monthly closeout process were generally adequate. However, we identified several areas that should be updated to reflect current processes and procedures. Fleet management indicated they were aware of those areas and had already initiated the process to update the operating procedures. We recommend those efforts be completed. (*Issue #1*)
2. A few errors are occurring within work orders and are not being detected through the supervisory review and approval process. We recommend Fleet management reemphasize the importance of correct and

accurate work order completion by mechanics and corresponding reviews by supervisors. **(Issue #2)**

3. Six staff within Fleet had the ability to reopen (and subsequently reclose) previously closed work orders. Large numbers of staff with the ability to reopen and reclose work orders increases risks related to fraudulent activities being concealed within previously closed work orders. When this was brought to the attention of Fleet management, the number of staff with the ability to reopen work orders was reduced to three employees. We concur with this Fleet management corrective action. **(Issue #3)**
4. Periodic physical counts of parts inventory, with the results compared/reconciled to the related inventory records, serve as a critical control to detect errors and fraudulent activities. To work properly, those counts and the related comparison/reconciliation to inventory records should be observed and/or conducted and approved by staff independent of the parts section. While garage shop mechanics participated in the periodic counts of the parts inventory, those counts and the related comparison/reconciliation to the corresponding inventory records were controlled by parts section staff. We recommend staff independent of the parts section take a more active role in that control process. (Fleet has indicated that in the most recent inventory count, April 2014, they initiated changes to the inventory process whereby staff independent of the parts process are included in all aspects of the physical count of the parts inventory and related reconciliation to the inventory records. We will address this change during our first follow-up audit). **(Issue #4)**

Yearend adjustments – As an internal service fund Fleet should generate little or no profit or loss from operations. However, based on rates established for billing purposes, Fleet has operated at a profit for five of the last six years, with profits ranging from \$30,385 to \$674,621. Within the area of rate establishment and yearend adjustments we determined:

1. In April 2011 the previous Fleet management increased the labor rate for mechanics and the markup for parts and outsourced services. That increase was not supported by rate studies to determine the appropriate labor rate and markup. We recommend a current rate study be conducted to establish rates whereby Fleet will more likely operate with little or no profit or loss. **(Issue #5)**
2. Yearend surpluses (profits) from Fleet garage operations have been transferred to the City's vehicle replacement fund. A more appropriate distribution of those surpluses would be to return them to City departments receiving Fleet services in amounts proportional to services received during the year. Accordingly, we recommend management reconsider the current treatment of Fleet operating surpluses (or deficits). **(Issue #6)**

FASTER – Regarding the use of the FASTER System to manage Fleet garage operations we determined:

1. Fleet billing information is transferred from the FASTER System to the PeopleSoft Financials System through a system interface. For the system interface to function properly, City cost center information must be the same in both systems. When changes to the cost center structure were made in the PeopleSoft Financials System, corresponding changes were not always timely made within the

FASTER System. We recommend Fleet and the Department of Management and Administration establish and implement a procedure to periodically ensure the FASTER System is timely and properly updated for cost center changes. *(Issue #7)*

2. The FASTER System is used for the purchasing of parts, outsourced services, and fuel. The purchasing information is interfaced into the PeopleSoft Financials System for payment of vendors. We noted the unique FASTER purchasing number was not included as part of the interface, thereby hindering management's ability to efficiently trace purchase information from one system to the other. We recommend the FASTER purchasing number be included in the interface between the two systems. *(Issue #8)*
3. The FASTER System showed 2,861 vehicles (and equipment) maintained by Fleet. Our analysis of that data showed 582 of those vehicles (equipment) are maintained and serviced by other City departments (StarMetro, City golf courses, etc.) or represent items (fuel keys) that are not vehicles or similar equipment. Fleet management indicated they were already aware of this issue and planned to remove from or reclassify those 582 items in the FASTER system. We recommend those planned actions be completed. *(Issue #9)*

As part of this audit, we also examined Fleet performance measures reported in the City's approved FY 2014 budget. We noted some of those reported measures were not accurate or reasonable due to errors by Fleet staff when entering performance information into the City's budget application (GOVMAX). To ensure accurate and proper reporting of performance measures, we recommend enhanced reviews of that information after it

has been entered into GOVMAX. *(Issue #10)*

We would like to thank and acknowledge the full and complete cooperation and support of Fleet and Accounting Services during this audit.

Scope, Objectives, and Methodology

The purpose of this audit was to evaluate the Fleet billing process. Specifically, our objectives were to answer the following questions.

- 1) Are internal controls relating to Fleet billing adequate to reasonably assure that process functions as intended?
- 2) Are work orders (on which Fleet billings are based) accurate, reasonable, complete, and supported?
- 3) Are the parts mark-up and labor rates charged by Fleet reasonable and supported?
- 4) Does the interface between the Fleet FASTER System (software application used to manage and account for Fleet operations) and the City's PeopleSoft Financials System (City accounting system) correctly transfer information needed to ensure City departments are accurately and properly charged for Fleet services?

The scope of the audit included a review of Fleet repair and maintenance work orders, certain operational processes related to repairs and maintenance of City equipment, and aspects of financial activities related to charging City departments for Fleet services. The audit covered the period from October 1, 2010, to January 31, 2014.

Fleet fueling and motor pool operations were specifically excluded from this audit, except as they relate to the annual yearend financial adjustment ("true-up") for Fleet garage operations. The acquisition of new vehicles by

the City’s Fleet Division was also excluded from this audit.

To meet the audit objectives identified above we:

- Conducted interviews of Fleet and other City staff.
- Observed aspects of Fleet garage, parts, and administrative operations as they relate to the billing process.
- Reviewed supporting documentation related to work orders, parts processing, and the interface of the FASTER system and the PeopleSoft Financials system.
- Selected and tested a random sample of 150 work orders from the audit period.
- Obtained, reviewed, and analyzed FASTER and financial data relating to Fleet garage operations.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The City’s Fleet Division (Fleet) provides vehicle acquisition, maintenance, repair, and fueling services to City departments. All activities (maintenance, repair, etc.) other than vehicle acquisitions are accounted for in the Fleet Garage Operating Fund. Costs for new vehicles acquired by the Fleet Division on behalf of City departments are tracked and accounted for in the Fleet Vehicle Replacement Reserve Fund. As previously noted in this report, activity and costs associated with Fleet’s acquisition of new

vehicles was not addressed by this audit. Organizationally, Fleet is part of Utility Services and reports to the Assistant City Manager for Utility Services. (Note: The term “vehicle” as used in this report includes cars, trucks, and other specialty vehicles and equipment such as street sweepers, trailers, and tractors.)

Fleet as an Internal Service Fund

The Fleet Garage Operating Fund is accounted for as an internal service fund. Internal service funds are typically used to account for departments that provide services to other departments on a cost-reimbursement basis. Typically, an internal service fund bills user departments for goods and services in the course of regular operations; and amounts billed for those goods (e.g., vehicle parts and fuel) and services (labor for vehicle repair and maintenance) should be structured such that the total amount billed to departments equals the total cost of delivering those goods and services. In other words, internal service funds should be structured such that the applicable functions operate with little or no profit or loss.

For the past several years the City’s Fleet garage operation has operated at a profit. The profits resulted when the amounts Fleet billed City departments for goods and services exceeded the cost of providing those goods and services. The following table shows the financial results of Fleet garage operations prior to the yearend financial adjustment (true-up) where any profits or losses of Fleet are reassigned (e.g., transferred).

Table 1
Result of Fleet Garage Operations

Fiscal Year	Revenues	Profit/(Loss)	Percent
2013	\$13,832,745	\$447,565	3.2%
2012	12,695,324	496,388	3.9%
2011	11,668,176	674,621	5.8%
2010	11,019,521	30,385	.3%
2009	11,102,572	(1,775)	(.01%)

As can be seen in the above table, the Fleet garage operation was operating at more or less a breakeven point for fiscal years 2009 and 2010 but has subsequently operated at a profit for fiscal years 2011 through 2013. The disposition of year end balances (i.e., profits) in the Fleet Garage Operating Fund is discussed in detail within this report in the section related to the yearend true-up process.

Organizational and General Information

For financial reporting and cost recovery purposes in regard to the Garage Operating Fund, Fleet is organized into the following four areas:

1. Fleet Services – Captures costs associated with repair and maintenance services (excluding parts and sublets) for all City vehicles (with the exception of StarMetro buses).
2. Fleet Parts – Captures costs associated with (1) parts placed on City vehicles during repair and maintenance services, (2) fuel purchased for City vehicles, and (3) sublets (outsourcing of repair and maintenance to vendors).
3. Motor Pool – Captures costs associated with “pool” vehicles made available (rented) to City departments for authorized City business/operations.
4. Fleet Administration – Captures costs associated with management and administration of the Fleet Division.

Services provided through Fleet Services, Fleet Parts, and Motor Pool areas are billed to the applicable benefitting City departments. Costs for Fleet Administration are proportionately allocated to applicable City departments separate from the billing process. In regard to billable activities, this audit addresses services involving vehicle repair and maintenance and vehicle parts, including sublets. The billing of fuel and motor pool services, as well as the allocation of administrative costs, were excluded from the scope of this audit.

Table 2 that follows shows employee staffing for fiscal year (FY) 2013 within each of the Fleet financial components.

Table 2
Fleet Division Staffing

Section	Number
Administration	4
Fleet Services	40
Fleet Parts	5
Motor Pool	9
Total	58

Table 3 below shows the respective costs incurred during FY 2013 within each of the four Fleet financial components.

Table 3
Fleet Division Costs (FY 13)

Section	Amount
Administration	\$1,118,062
Fleet Services	\$3,002,061
Fleet Parts	\$8,595,838
Motor Pool	\$669,220
Total	\$13,385,181

Table 4 that follows shows the number of City vehicles (and equipment) tracked and maintained by Fleet.

Table 4
Vehicles Maintained by Fleet

Department	Number of Vehicles
City Attorney	1
City Treasurer-Clerk	4
City Auditor	1
Executive Services	8
Fire	152
Police	519
Public Works	402
Parks and Recreation	201
Planning	1
Economic and Community Development	13
Aviation	45
StarMetro	14
Electric Utility	358
Growth Management	29
Solid Waste	79
Utility Business and Customer Services	322
Communications	1
Department of Management and Administration	38
Energy Services	17
Fleet Management	138
Underground Utilities	479
Emergency Management	3
Environmental Policy and Energy Resources	4
Other	32
Total	2,861

Source: FASTER as of 3/14/2014

FASTER Application

The City uses the FASTER application to manage operations and vehicles maintained by Fleet. FASTER is used to manage and/or track:

- Vehicle activity and history from acquisition to disposal.
- Parts acquisition, inventory, and issuance for installation on vehicles.

- Vehicle repair and maintenance activities/services performed within the Fleet garages/shops.
- Consolidation and transfer of data relating to charges for vehicle repair and maintenance services, fuel usage, and motor pool usage.

Billing Process

City departments are billed for parts and repair and maintenance services through a “work order” process. Specifically, a unique FASTER work order is created each time a City vehicle is brought to Fleet for services. All activities relating to repair, maintenance, and parts are recorded and tracked through the work order established for the vehicle for that particular service. Costs associated with those activities as reflected on the work order are subsequently billed to the applicable City department to which the vehicle is assigned. For recent fiscal years, Fleet processed approximately 11,500 work orders annually.

For the areas included in the scope of this audit (vehicle repair and maintenance, vehicle parts, and sublets) there are three primary billable activities:

- Labor – The time (labor) spent by mechanics on vehicle maintenance and repair activities is accounted for within Fleet garage operations. Specifically, Fleet mechanics track and record their time on FASTER work orders using work codes (known as RTYs). For each particular service/job performed on a vehicle, the mechanic opens an appropriate RTY code in FASTER on the established work order when the work starts and then closes that RTY code when the applicable service/job is completed. As several specific services/jobs may be performed on a vehicle during the repair and maintenance activity, there may be multiple RTY codes for a single work order. FASTER calculates the time between the opening and closing of each RTY code as the

amount of mechanic labor time that will be charged to the work order. The sum of all labor time charged to each RTY code is the total labor charged to a work order. The standard billing rate charged for mechanics' labor is \$59.50 per hour.

- Parts - When a specific part is needed to complete a repair/maintenance job, the mechanic within the garage/shop section requests the part from the Fleet parts section, a separate unit within Fleet. Based on the mechanic's request, a parts specialist obtains the part from inventory and assigns the part, in FASTER, directly to the work order established for the repair/service work being performed. The part is provided to the mechanic for installation on the applicable vehicle. This process is intended to ensure all parts removed from inventory are assigned to a work order and billed to a City department. The standard mark-up rate for parts issued by the parts sections is 25% (i.e., the amount charged to the applicable City department is the cost of the part increased by 25%). The intent of the 25% mark-up is to recover overhead costs (e.g., salaries of parts specialist, supplies, etc.) within the parts section.
- Sublets - In some circumstances it is appropriate to outsource maintenance or repair work because the work can be done more efficiently by a vendor and/or because Fleet mechanics do not have the expertise to work on the applicable vehicle (equipment). One example is repair work on booms placed on certain electric utility trucks. The term used to describe outsourced repair and maintenance work is "sublet." As with repair and maintenance work performed by Fleet mechanics, the sublets are charged through the FASTER work order process. The amounts charged are the actual cost (fee charged by vendor) increased by a 25% mark-up. Similar

to parts, the mark-up is intended to recover overhead costs.

For purposes of this audit, we categorized the billing process into the four following components:

Vehicle Intake - This component relates to the identification of the need for a repair and/or maintenance service. Generally, either a vehicle operator reports something not functioning properly or, based on information recorded in FASTER (e.g., maintenance schedules), the vehicle is brought to Fleet for periodic preventative maintenance services. When the vehicle is brought to Fleet, the Fleet customer service section obtains applicable information about the vehicle and creates a FASTER work order. The vehicle is assigned to the appropriate shop within the garage section. There are multiple shops, with each shop designated to perform specific types of work (e.g., heavy duty, light duty, police cars).

Garage Operations - This component relates to the actual physical performance of the repair or maintenance activities by mechanics. After the work order has been created and assigned to the appropriate shop through the vehicle intake process, the supervisor of the shop reviews the work order and assigns the work to a mechanic, or to the appropriate vendor if the work is not to be performed internally by Fleet mechanics. If the work is performed internally, the assigned mechanic performs the actual repair and/or maintenance tasks and records the applicable information through the FASTER work order process (e.g., RTY codes, start and stop times). Upon completion of the work, the assigned mechanic notifies the shop supervisor. The shop supervisor reviews the vehicle and work order to ensure the work was appropriate and complete. In the event the work was outsourced to a vendor (sublet), the shop supervisor reviews the returned vehicle, FASTER work order, and vendor invoice

for appropriateness, accuracy, and completeness. If work and related work orders are determined appropriate and complete, the shop supervisor closes the work order in FASTER and the applicable City department is notified the vehicle is ready to be picked up and returned to service.

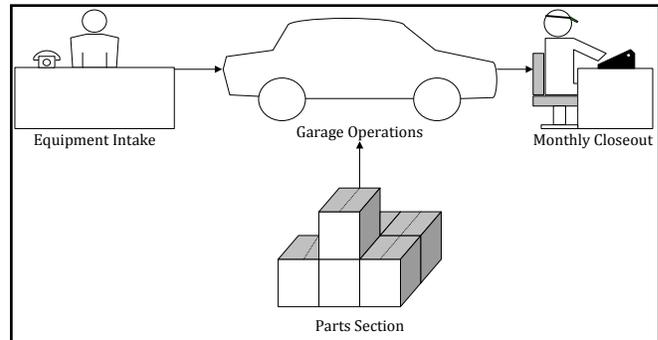
Parts – Vehicle and equipment parts (inventory) are stored in a separate secured room within the Fleet facility. The parts section maintains an inventory of over 1,600 different parts and is responsible for ordering, issuing, accounting for, and safeguarding those parts. Special or unique parts not retained in inventory are also acquired, issued, and accounted for by the parts section. When a part is needed for a repair or maintenance job, the assigned mechanic goes to a counter located between the garage area and parts room (mechanics do not have unsecured access to the parts room and inventory) and requests the part. The mechanic notifies the parts staff of the applicable work order and the parts staff that obtains and issues the part to the mechanic then records the parts issuance on that work order through FASTER. All parts issued by the parts section should be placed on a work order.

Monthly Closeout – Within five days of the end of each month, garage and parts issuance monthly activity recorded in FASTER is closed out, processed, and transferred to the PeopleSoft Financials System through a systems interface. That process is mostly automated but does require some manual steps by staff in both Fleet and Accounting Services. One result of the closeout process is the recording of journal entries in the City’s accounting system that, in essence, charges those departments for the Fleet services and transfers funds from the applicable departmental funds to the Fleet Garage Operating Fund as payment for those services.

Diagram 1 below shows the flow of Fleet operations; beginning with the intake of the equipment into Fleet, to the garage maintenance/repair activities, to the issuance of

parts, and ultimately to the monthly closeout where the FASTER work order information is summarized and transferred to PeopleSoft.

Diagram 1
Flow of Operations



Internal Controls for Fleet Billing

Internal controls are a key part of any business process and are intended to ensure the process is functioning as intended.

We reviewed the internal controls within each of the four areas of the billing process as defined in the background section of this report (vehicle intake, garage operations, parts, and monthly closeout). Our review of those billing process areas showed there were adequate controls in place to provide reasonable assurance the billing process is functioning such that maintenance and repair activities (including parts issuances and sublets) of Fleet are being charged to the City departments in an accurate, equitable, and proper manner based on their usage of Fleet services.

We did, however, note some areas where internal controls could be strengthened. Those areas related to operating procedures, supervisory review of work orders, reopening closed work orders, and independent oversight of the physical count of parts inventory.

Operating Procedures (Issue #1)

Documented operating procedures help ensure consistency of operations and compliance with

established business rules; and serve as a reference when needed, such as for new staff.

During our review we noted documented operating procedures were generally adequate, complete, and placed into operation. However,

areas were identified where improvements and enhancements should be considered. Those areas are described in Table 5 below.

Table 5
Documented Procedures

Billing Process Area	Areas for Improvement
Equipment Intake	Documented procedures for customer service section employees to follow for the vehicle intake process are generally adequate. Those procedures describe the process and actions to be taken for vehicles brought to Fleet for repair and maintenance services. However, those procedures incorrectly (1) indicate <u>customer service</u> section employees will administer the sublet process regarding receiving and processing vendor invoices after the related work is done and approved by the applicable shop supervisors (that administrative work is instead performed by <u>parts</u> section employees) and (2) reflect a version of FASTER (e.g., screenshot examples) that has been subsequently replaced and updated.
Garage Operations	Documented procedures for mechanics and supervisors are generally adequate as to the technical aspects of using FASTER, such as opening and closing RTYs on work orders. However, those procedures do not address the specific responsibilities and expectations for mechanics and shop supervisors. Accordingly, the procedures should be enhanced to specify the tasks mechanics should follow, including when to record the start and stop times for an RTY, the process for requesting parts from the parts section, the process for notifying shop supervisors when work is completed and ready for review, etc. Similarly, the procedures for shop supervisors should be enhanced as to the process for assigning work to mechanics, reviewing and correcting (as needed) work orders, and closing work orders after approval.
Parts Section	Detailed documented procedures for the parts section have been established. However, some of those procedures should be updated to reflect current processes and procedures and to replace employee names with employee positions. Examples where those procedures are not current include (1) outdated listing of parts contracts and (2) inappropriate dates for conducting inventory counts (specified dates that were several years ago). In some areas those procedures should be enhanced to provide more detailed instruction, such as (1) the process for sublets and (2) the processes for conducting periodic physical inventory counts, including staff that should conduct those counts and reconcile the count results to the FASTER inventory records.
Monthly Closeout	Documented procedures were established for the monthly closeout process. Those procedures specify in detail the steps to be taken to close out a month’s activities within the FASTER System and to generate a computer file for transferring the monthly information into the PeopleSoft Financials System. However, those procedures should be enhanced to specify the staff positions responsible for the process and the dates/times of the month the process should be initiated and completed.

In summary, documented procedures have been established for key areas pertaining to the Fleet billing process. However, areas were identified where improvements and enhancement should be made. In response to our inquiry on this matter, Fleet management stated they were aware of these circumstances and indicated a process to update and improve the current documented procedures had been initiated. We recommend Fleet complete the revisions and updates to the documented procedures for the noted areas.

Supervisory Review of Work Orders (Issue #2)

As part of our testing of the Fleet billing process we selected a random sample of 150 work orders for examination from a population of 38,724 work orders that were completed by Fleet during the period October 1, 2010, to January 31, 2014. Our review consisted of:

- Examining the work orders for logic, reasonableness, and consistency as to RTY codes, parts applied, and mechanic/supervisor note descriptions.
- Recalculating the labor charges and markup applied to parts and sublets for consistency and accuracy.
- Reviewing mechanic time charged to work orders for reasonableness.
- Tracing parts not normally maintained in inventory and sublet charges to supporting purchase documentation.
- For sampled work orders with part charges exceeding \$200 (32 work orders), observed the applicable vehicles and, with assistance of City staff to whom the vehicle was assigned, verified the installation of the applicable parts.

For the most part, our review showed the work orders were logical, reasonable, and consistently prepared and completed. Labor charges and the

markup applied to parts and sublets were accurately and correctly calculated. Mechanic time charged to each task was generally reasonable, and applied parts and sublets were reasonable and supported by appropriate documentation.

In the course of our review, we noted only three instances where work order charges were not correct or accurate. Specifically:

- In two instances, the applicable mechanics did not open applicable RTY codes for the work performed until the physical repair/maintenance was completed. At the completion of the physical repair/maintenance the applicable RTY codes were opened and then immediately closed. As a result the work orders (and FASTER) do not accurately reflect the amount of work time actually devoted to the repair/maintenance. That, in turn, resulted in the labor cost for both work orders being understated. In the first instance there was a \$2.62 labor charge to the work order while the estimate for labor cost for that specific repair/maintenance is \$60-90. In the second instance there was a \$0.40 labor charge to the work order while the estimate for labor cost for the specific maintenance is \$60.
- In one instance, the applicable mechanic completed two different repair/maintenance tasks (hydraulic leak repair and air leak repair) on a vehicle. The mechanic however, opened a RTY code for only one of the two tasks on the work order, and closed that RTY code after both tasks were physically completed. A RTY code for the other task was not opened and closed until the physical repair/maintenance work for both tasks was completed. As a result, although total labor charges of \$146.39 were correct, the work order did not reflect the accurate time and cost for each respective task (time for one task was

overstated by the amount of time spent completing the second task, and the time for the second task was understated as the only recorded time was the initial opening and almost simultaneous closing of the applicable RTY code).

While the overall test results indicate there are no material errors in regard to accuracy and correctness of work orders and related billings, the above described instances do indicate the need for enhanced reviews of work orders by shop supervisors. We recommend Fleet management reemphasize the importance of correct and accurate work order completion by mechanics and corresponding reviews by shop supervisors.

Reopening Closed Work Orders (Issue #3)

One specific area reviewed in this audit was the process of reopening closed work orders. Previously closed work orders may be reopened for the purposes of correcting errors, updating recorded information, and adding information and/or charges when appropriate. An example may be when a special part has been ordered, received, and installed on a vehicle and the applicable work order closed prior to the receipt of the vendor invoice for that special part. After the invoice is received, the work order is reopened so the cost (and markup) can be added to the work order.

Notwithstanding there are legitimate and appropriate reasons to reopen a previously closed work order, the ability to perform that function should be restricted to appropriate personnel. Specifically, staff that can reopen a previously closed work order, and subsequently reclose the work order, should not have unsecured access to vehicle parts. Specifically, if an employee with unsecured access to parts also has the ability to reopen a closed work order and subsequently reclose that work order, and that staff fraudulently takes a part for unauthorized uses, that fraudulent

act could be more easily concealed through the inappropriate reopening and reclosing of a previously closed work order.

As part of this audit, we determined as of March 7, 2014, that six staff had the ability through FASTER permissions to reopen a previously closed work order. Each of those six staff also had the ability to reclose that work order without independent review by another staff. In addition, we noted two of those staff (both managers) also had access to parts inventory. From January 1, 2005, through March 7, 2014, 1,879 work orders were reopened by nine different employees within Fleet. Upon bringing this to the attention of Fleet management during this audit, prompt action was taken and staff with the ability to reopen work orders was reduced appropriately to three employees within the Fleet Administrative Division. Those three employees do not have access to parts inventory. We concur with these actions taken by Fleet management to enhance controls over work orders.

Independent Oversight of Physical Count of Parts Inventory (Issue #4)

As stated in the background section of this report, the Fleet parts section maintains an inventory of over 1,600 different parts. The value of that parts inventory as of September 30, 2013, was approximately \$2.38 million. Overall, our review showed that adequate and appropriate controls were established for ordering, purchasing, receiving, storing, accounting for, and securing parts. However, as described in the following paragraphs, we noted one area where controls should be enhanced.

In regard to parts inventory, one critical control that should be in place is periodic physical counts of the parts and comparison of the count results to the quantities recorded in the parts inventory records. Such counts and comparisons serve two purposes. First, they serve to ensure accuracy and

correctness of the recorded inventory records through either validation of the recorded quantities or detection and correction of errors in recorded quantities. Second, if the counts are performed by staff independent of the parts function, they serve to help detect unauthorized diversions of parts (fraud). For example, if a staff with access to the parts inventory were to inappropriately divert parts for unauthorized purposes, a count and related comparison to the inventory records by staff independent of the parts function may detect that diversion.

We noted that, in accordance with good internal control and business practices, Fleet does conduct periodic physical counts and compare the results to the inventory records. Specifically, physical counts are conducted quarterly for a random sample of parts and the results compared/reconciled to the FASTER parts inventory records. Those quarterly counts and related comparison/reconciliations are performed by parts section staff. Additionally, an annual physical count is performed for all parts and the results compared/reconciled to the FASTER parts inventory records. The annual count is performed by parts section staff with assistance from garage shop mechanics. The comparison and reconciliation of the annual count to the inventory records are controlled/performed by parts section staff.

These counts and comparisons/reconciliations serve to detect errors. However, because the counts and related comparisons/reconciliations to the inventory records are performed and/or controlled by parts section staff, they are not adequate to provide likely detection of unauthorized diversions of parts for fraudulent purposes by parts section staff. As stated above, to help ensure timely detection of fraudulent diversion of parts by staff with access to parts, good internal control practices provide that physical counts and related

comparisons/reconciliation to the inventory records be observed and/or performed by staff independent of the parts function.

The lack of independent physical inventory counts and related comparisons/reconciliations was one of several factors that contributed to the City not timely detecting a significant unauthorized diversion of Fleet parts more than a decade ago. (See Audit Report #0303 "Fleet Parts Operations," issued December 10, 2002.) To help reduce the likelihood of another instance of unauthorized diversion of Fleet parts, we recommend staff external to the parts section (1) conduct or observe the annual physical count and (2) participate in or review and approve the related comparison and reconciliation of the count results to the FASTER inventory records. (Fleet has indicated that during the most recent inventory count, April 2014, staff independent of the parts inventory process was involved in all aspects of the physical count and the reconciliation/update of FASTER inventory records. We commend Fleet for quickly addressing this issue and will verify these changes during our first follow-up).

Yearend Adjustments-Fleet Billing

For the last six fiscal years, Fleet generated annual revenues ranging from \$11 million to \$13.8 million and expenses ranging from \$10.9 million to \$13.4 million. The majority of revenues resulted from charges for services billed to City departments receiving Fleet services.

At the end of each City fiscal year the Accounting Services Section of the Department of Management and Administration analyzes financial activity (revenues and expenses) within each of the City's internal service funds, including the Fleet Garage Operating Fund, for the purpose of determining what, if any, yearend billing and accounting adjustments may be appropriate. Yearend adjustments are generally recommended

in those instances where a City activity, accounted for through an internal service fund, generates more than a marginal “profit” or “loss.” As previously noted in the background section of this report, activities accounted for through the Fleet Garage Operating Fund should operate with little (marginal) or no profit or loss, as the amounts charged City departments for services are intended to recover the cost of rendering services and not to generate a profit. The yearend analysis and adjustment process, performed for most City

internal service funds, is known as the yearend “true-up” process.

In connection with this audit, we reviewed financial activity within the Fleet Garage Operating Fund for the last six fiscal years. As shown below in Table 6, our analysis showed that, before the yearend adjustments resulting from the annual true-up process, Fleet activities generated more than a marginal profit in four of those six years.

**Table 6
Fleet Revenues and Expenses**

Fiscal Year	Revenues	Expenses	Net Income	Percentage Net Income to Revenues
2008	\$13,580,931	\$13,298,092	\$282,839	2.08%
2009	11,102,572	11,104,347	(1,775)	(.01%)
2010	11,019,521	10,989,136	30,385	.28%
2011	11,668,176	10,993,555	674,621	5.78%
2012	12,695,324	12,198,937	496,387	3.91%
2013	13,832,745	13,385,181	447,564	3.24%
Totals	\$73,899,269	\$71,969,248	\$1,930,021	2.61%

Establishing Billing Rates (Issue #5)

As previously explained within the background section of this report, City departments are charged for Fleet activities for the following services:

- Mechanic labor for garage repair and maintenance services (current rate of \$59.50 per hour).
- Parts (cost plus a markup of 25%)
- Sublets (cost plus a markup of 25%)

In addition, City departments are charged for fuel consumption based on quantities of fuel dispensed through City fueling stations (cost plus a markup of 10%).

In accordance with the concepts explained previously in this report, rates for those services should be established with the intent of recovering the costs of providing the respective services, without generating more than a marginal profit or loss.

We noted Fleet management has not conducted a formal rate study in recent years to ascertain the appropriate rates to charge for services (current City staff did not know the last time a formal rate study was conducted). The current billing rates described above were determined and initially applied in April of 2011. Discussions with Fleet staff indicate the current rates were determined by previous Fleet management based on informal estimates of rates needed to recover costs with no

significant profit or loss. However, as noted in Table 6 above, those current rates have generated more than a marginal profit in four of the last six years. Because the profits generated in those years have not been returned to applicable City departments in proportion to the services received (*see following report issue*), we recommend that a formal rate study be performed and rates adjusted accordingly as an effort to reduce profit generation to no more than a marginal amount.

True-Up - Yearend Adjustments (Issue #6)

The intent of the yearend adjustment (true-up) process described above is to identify and appropriately dispose of any significant profit or loss resulting from internal service fund operations. The most equitable and appropriate treatment (disposition) is to distribute the applicable profit or loss back to the users (departments receiving services) in amounts proportional to the services received during the year. For a simple example, if one City department was billed 10 percent of the total services rendered during the year by an internal service fund operation (such as the Fleet vehicle repair and maintenance services), the yearend true-up process should result in 10 percent of any generated profit being returned to that department through a yearend accounting adjustment.

Contrary to that concept, City management has not returned annual profits generated in the Fleet Garage Operating Fund back to applicable City departments based on their respective services received during the year. Instead, profits generated as shown in Table 6 above, ranging up to \$674,621 (FY 2011) have been transferred to the City's Vehicle Replacement Reserve Fund. That fund is used by the City for the acquisition of new vehicles for all City departments. The primary funding sources for the Vehicle Replacement Reserve Fund are budgeted transfers from the City departments for which City vehicles

are purchased for use in the respective departments' operations.

While there may be some correlation between (1) vehicle repair, maintenance and fueling services and (2) new vehicles acquired for the various City departments, the correlation is indirect as the acquisition of new vehicles is not directly and solely based on or determined by the costs of vehicle repair/maintenance and fuel. Accordingly, City management has not demonstrated that the dispositions of the profits generated in the Fleet Garage Operating Fund have been disposed of (used) in the most equitable and appropriate manner.

We acknowledge that authorization was requested from and granted by the City Commission for the transfers (dispositions) of Fleet Garage Operating Fund profits to the Vehicle Replacement Reserve Fund in recent years as part of the annual commission agenda item pertaining to dispositions of profits and losses for all City internal service funds. Notwithstanding that authorization, we recommend City management reconsider the current accounting treatment of those dispositions and instead dispose of any future Fleet profits (or losses) to applicable City departments in amounts proportional to the services received during the year.

NOTE: City management acknowledged our recommendation for this issue but indicated at this time they intend to continue to transfer any profit generated through Fleet vehicle repair and maintenance services to the City's Vehicle Replacement Reserve Fund. We acknowledge this management policy decision. Accordingly, there is no action step in Appendix A of this report to address this issue. However, as indicated above, transferring the profits to the Vehicle Replacement Reserve Fund is not, from an accountability perspective, the most equitable disposition of those profits.

FASTER

As noted in the background section of this report, the Fleet Division uses FASTER to manage the City's vehicles and related equipment and to track billable activities for repair and maintenance, parts, fuel, and motor pool services. As such, we reviewed the data within FASTER as it relates to the Fleet billing process. In the course of that review, we identified the following issues.

FASTER Interface with General Ledger (Issue #7)

As part of the monthly closeout process (see page 8 in this report), billing information and activity recorded in FASTER is processed and transferred to the PeopleSoft Financials System through a systems interface. The process is initiated when a Microsoft Access application extracts relevant billing information from FASTER and configures that information and transfers it to Accounting Services. Accounting Services further configures the information so that it can be imported (interfaced) into PeopleSoft Financials (general ledger) in the form of accounting journal entries. As described, the process is primarily automated with some manual steps.

For the interface process to work correctly and accurately, cost centers in both FASTER and PeopleSoft Financials must be the same. Changes to cost centers occur periodically and are generally made for departmental reorganizations or other budgetary reasons. Examples of changes to cost centers include establishing new cost centers for new functions and eliminating cost centers when functions are revised, reorganized, or terminated. For some reorganizational changes, an existing cost center is retained but certain activities formerly accounted for in that cost center are now accounted for in a newly created (or different) cost center. Accordingly, when adjustments to cost centers are made in the PeopleSoft Financials System, the same

adjustment should be made in FASTER. If corresponding adjustments in FASTER are not made, the costs of billed Fleet services for affected cost centers will not be transferred accurately and correctly.

We noted there are no procedures to ensure cost center changes made in the PeopleSoft Financials System are also made in FASTER. We did note that staff may (and sometimes do) become aware that such changes were (are) not made to FASTER (i.e., after changes were made to the PeopleSoft Financials System) when the interfaced charges result in charges to a cost center within the PeopleSoft Financials System that are in excess of the budget established for Fleet services in that cost center. However, reliance cannot be placed on that circumstance to ensure corresponding changes are made in FASTER, as inaccurate and incorrect transfers of charges can still occur even if a cost center budget is not exceeded. Accordingly, we recommend that Fleet, in conjunction with the Department of Management and Administration (DMA), establish and implement a procedure to periodically (e.g., monthly) ensure that FASTER is timely and properly updated for cost center changes to the PeopleSoft Financials System.

FASTER Purchasing Interface (Issue #8)

In connection with the provision of repair and maintenance services, parts and sublets are periodically acquired. The FASTER System is used by Fleet in that purchase process. Specifically, a unique purchase number is generated within FASTER for each authorized purchase (e.g., similar to a purchase order). The applicable items (parts or sublets) are then acquired. The FASTER System is updated to document receipt of the purchased items and applicable vendor invoices. Twice each week (semi-weekly), the information for completed purchases (i.e., items ordered and received and

vendor invoice also received) recorded in FASTER is transferred into the PeopleSoft Financials System through an interface similar, but different from, the monthly closeout and billing interface previously described in this report. The City's Accounts Payable Section within the Department of Management and Administration processes the purchase information transferred into the PeopleSoft Financials System from FASTER for the purpose of generating payment to the vendors. Actual payments are made by the City Treasurer-Clerk's Office.

In the course of our review of FASTER work orders, we traced the purchase of certain parts from the sampled work orders to purchase information recorded in FASTER and to the payment information reflected in the PeopleSoft Financials System. The information in the PeopleSoft Financials System was used to identify the supporting records (e.g., vendor invoices) in the City's electronic document management system (EDMS). During that testing, we noted the unique FASTER purchase number assigned to individual acquisitions was not included in the purchase information transferred from the FASTER System through the systems interface into the PeopleSoft Financials System. Not including that unique FASTER purchase number in the PeopleSoft Financials System made it cumbersome (less efficient) to correlate individual purchases in the FASTER System to the corresponding voucher and payment in the PeopleSoft Financials System. That, in turn, made it cumbersome to identify the supporting documentation in EDMS.

To enhance management's ability to identify, correlate, and review supporting documentation for purchases of parts and sublets, we recommend the purchase interface be revised such that the unique FASTER purchase number is included in

the information imported into the PeopleSoft Financials System.

Misclassification of Equipment (Issue #9)

As part of our audit, we reviewed the specific vehicles (and equipment) accounted for and tracked in FASTER. As shown in Table 4 within this report, a total of 2,861 vehicles and equipment are tracked within FASTER as maintained by Fleet. Our analysis showed that 582 of those 2,861 items were not, however, maintained by Fleet. Those items included, for example, golf carts from the City's municipal golf courses that are maintained by staff at the golf courses. Other examples include StarMetro buses which are maintained by StarMetro and keys for the FuelMaster fueling system which are not vehicles and should be tracked separately. In response to our inquiry as to why these 582 items were tracked in FASTER, Fleet management indicated that over time, vehicles and miscellaneous equipment acquired by Fleet for use by (and maintained by) other City departments has been added to FASTER at the time of acquisition but never removed from FASTER when the items were transferred to the other City departments.

When this issue was brought to their attention, Fleet management acknowledged the issue and stated they were aware of the need for FASTER to be updated to properly reflect only those vehicles serviced and maintained by Fleet. Additionally, Fleet management asserted actions had already begun to improve the classification of data within FASTER.

To ensure information and reports generated through FASTER are accurate and properly interpreted, we recommend that Fleet management continue the process of removing or reclassifying applicable vehicles and equipment in FASTER so as to properly reflect only those maintained by Fleet.

Performance Measures

As part of this audit we reviewed Fleet performance measures reported in the City’s FY 2014 approved budget. A total of 17 performance measures were reported in that budget. Measures reported included items such as the number of vehicles per mechanic, parts inventory turnover, and percentage of Fleet maintenance that is outsourced. Performance measures serve as a mechanism for evaluating and demonstrating efficiency, effectiveness, and results (successes and challenges) in Fleet operations.

Inaccurate Performance Measures (Issue #10)

Our review showed that six out of the 17 measures reported in the City’s FY 2014 budget are not accurate or reasonable. In several instances the reported measures indicated Fleet exceeded more than 100% of the activity measured for FY 2013 year to date activity, which is not logical. Examples are shown in Table 7 that follows.

Table 7
Performance Measure Errors

Measure Description	Reported Measure for FY2013 Year-to-Date Activity
Percent of fleet available during scheduled shifts (industry standard is 95%).	192.9%
Preventative maintenance as a percentage of total Fleet maintenance.	101.3%
Percent of mechanics work time that is billable (industry standard is 79%).	141%
Percent of maintenance that is scheduled (industry standard is 70%).	126.2%

We determined the errors occurred due to staff mistakes while inputting the performance measure data into GOVMAX (the City system used to manage the budget process). Specifically, although staff had properly captured the performance measure data from the FASTER system, that staff incorrectly entered the data into GOVMAX. To help ensure accurate and meaningful reporting of performance measures, we recommend actions be taken to ensure Fleet performance measure data is correctly entered into GOVMAX. Such actions should include, but not be limited to, reviewing data in GOVMAX after it has been entered to ensure Fleet performance measures are reported correctly and accurately.

Conclusion

Overall, we concluded the Fleet billing process accurately charges City departments for services received from Fleet. We did however identify areas where enhancements are/were needed to improve that process. Specifically, in the course of the audit we noted:

- The updating of operating procedures for Fleet vehicle intake, garage operations, parts section, and monthly closeout process to better reflect current operations and to provide more enhanced procedural instructions should be completed.
- The importance of accurate and correct work order completion by mechanics and corresponding reviews by shop supervisors should be reemphasized.
- Fleet management took prompt action in response to our audit to reduce the number of employees with the ability to reopen (and subsequently reclose) work orders.
- Staff independent of the parts process should take a more active role in the conduct of the

Appointed Official's Response

periodic physical counts of parts inventory and the associated comparison/reconciliation to, and update of, FASTER inventory records.

- A formal rate study should be conducted for mechanic labor rates, as well as the markup for parts, sublets and fuel. Those rates should be adjusted accordingly based on the results of the rate study.
- The current method of disposition for Fleet profits (or losses) should be reconsidered, with any future profit/losses allocated (e.g. returned) to applicable City departments proportional to the services received during the year.
- A process should be developed by DMA and Fleet to ensure changes to the City's cost center structure are timely and properly made within FASTER.
- The FASTER Purchasing interface should be revised such that the unique FASTER purchase number is imported into the PeopleSoft Financials System.
- The process of removing or reclassifying equipment not maintained by Fleet within FASTER to properly reflect only those items maintained by Fleet should be completed.
- Performance measure data should be reviewed after it is entered into GOVMAX to ensure the data was entered correctly.

We would like to thank the staff and management of Fleet and Accounting Services for their assistance and cooperation during this audit.

I thank the City Auditor's Office for the detailed review provided in the audit of the Fleet Division's billing process. Staff will review areas identified in the audit to improve processes and consider enhancements as recommended. I would like to also extend my sincere thanks to the applicable City departments for their full cooperation and assistance in the audit process.

Appendix A – Management Action Plan		
Action Steps	Responsible Employee	Target Date
A. Objective: <i>Improve procedures for the vehicle intake, garage operations, parts section, and monthly closeout.</i>		
1) Complete the review and update the procedures for the Fleet vehicle intake process.	Buddy Driggers	10/31/14
2) Complete the review and update the procedures for the Fleet garage operations process.	Buddy Driggers	10/31/14
3) Complete the review and update the procedures for the Fleet parts process.	Michael Jackson	7/31/14
4) Complete the review and update the procedures for the Fleet monthly closeout process.	Clem Novenario	7/31/14
B. Objective: <i>Improve the accuracy of work orders.</i>		
1) Remind mechanics of the importance of accuracy and completeness of work orders including the proper use of RTY codes for work performed.	Buddy Driggers	9/30/14
2) Reemphasize to shop supervisors the critical role they have in the review and approval process for work orders.	Buddy Driggers	9/30/14
C. Objective: <i>Improve internal controls related to periodic physical counts of the parts inventory and related reconciliation to corresponding records.</i>		
1) Staff independent of the parts process will oversee or conduct the periodic physical counts of the parts inventory.	Michael Jackson	9/30/14
2) Staff independent of the parts process will oversee or conduct the comparison/reconciliation of the physical count to the FASTER System inventory records.	Michael Jackson	9/30/14
D. Objective: <i>Improve the financial results of operations of the Fleet internal service fund.</i>		
1) A rate study will be conducted for the purpose of establishing a labor rate for mechanics and a mark-up rate for parts, sublets, and fuel that are structured to generate minimal profits (surpluses) and losses (deficits).	Reese Goad	9/30/15
2) The labor rate for mechanics and the mark-up rates for parts, sublets, and fuel will be adjusted based on the updated rate study.	Fleet Superintendent	9/30/15
3) Additional (subsequent) rate studies will be conducted periodically (e.g., annually) to ensure labor and mark-up rates remain appropriate.	Fleet Superintendent	9/30/16

E. Objective: <i>Improve the interface of FASTER with the PeopleSoft Financials System.</i>		
1) Develop a process to ensure changes to cost centers are communicated to Fleet within the month that the changes occur.	Accounting Services Manager	9/30/14
2) Make changes to cost centers within FASTER based on the information received from DMA within the current monthly billing cycle.	Clem Novenario	10/31/14
3) The purchase number from FASTER will be imported into the PeopleSoft Financials System as part of the purchasing interface.	Ryan Hurst	12/31/14
F. Objective: <i>Improve vehicle information within FASTER.</i>		
1) The equipment recorded within FASTER will be reviewed for proper classification as it relates to Fleet operations.	Clem Novenario	7/31/15
2) Equipment not maintained or serviced by Fleet as identified in step F.1 above will be removed or reclassified within FASTER.	Clem Novenario	9/30/14
G. Objective: <i>Improve Fleet performance measure reporting within the City's Annual Budget.</i>		
1) Prior to the completion of the budget process, applicable reports will be generated from GOVMAX and reviewed to ensure performance measure information will be accurately presented in the City's annual budget.	Tonya Driggers	9/30/14
2) Changes to the performance measure data in GOVMAX will be made as needed based on the review in step G.1 above.	Tonya Driggers	9/30/14

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