

Audit Follow-Up

As of November 30, 2014



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Audit of Fleet Billing Process

(Report #1418 issued June 5, 2014)

Report #1506

March 18, 2015

Summary

Each of the fourteen action plan steps established to address issues identified in audit report #1418, Audit of Fleet Billing Process, and due for completion as of November 30, 2014, has been completed by the Fleet Division and Accounting Services. We commend the Fleet Division and Accounting Services for the timely efforts to complete those action plan steps. Four remaining action plan steps due for completion after November 30, 2014, will be addressed in our subsequent follow-up engagement.

In audit report #1418, we concluded the Fleet billing process accurately charged City departments for vehicle repair and maintenance services provided by the Fleet Division (Fleet). We also concluded internal controls relating to the Fleet billing process were adequate.

In the course of the audit we identified areas where changes were needed to enhance the Fleet billing process and to improve reporting of Fleet performance measures. Those areas included the need to (1) update operating procedures, (2) reemphasize the importance of accurate and complete work orders, (3) reduce the number of employees with the ability to reopen and subsequently reclose work orders, (4) ensure independent staff participate in periodic parts inventory counts and related reconciliations to inventory records, (5) update and establish more appropriate billing rates, (6) reconsider the disposition of Fleet profits, (7) ensure timely changes to the FASTER System (software application used to manage and account for Fleet operation) for changes to the

City's cost center structure, (8) enhance an existing interface such that unique FASTER System purchase numbers are imported into the City's PeopleSoft Financials System, (9) reclassify equipment within the FASTER System to better reflect items maintained by Fleet, and (10) ensure accurate performance measures are entered into the City's budget system.

Eighteen action plan steps were developed to address the identified areas. Fourteen of those 18 steps were due for completion as of November 30, 2014. This initial follow-up engagement showed that the Fleet Division (with the assistance of Accounting Services in one instance) has completed each of those 14 action plan steps. The completed actions included:

- Completed the review and update of procedures for various Fleet processes (*four action plan steps*).
- Reminded staff of the importance of accurate and complete work orders and reemphasized to shop supervisors the critical role they have in the review and approval process (*two action plan steps*).
- Enhanced controls over parts inventory by involving independent staff in the periodic physical counts of parts and reconciliation of the count results to the related inventory records (*two action plan steps*).
- Enhanced processes to ensure the Fleet FASTER System is timely updated for changes in the City's cost centers (*two action plan steps*).
- Completed a review of equipment tracked

within the FASTER System and reclassified equipment based on that review to clearly reflect those items maintained by the Fleet Division (*two action plan steps*).

- Completed actions to ensure accurate performance measures are recorded in the City's budget system (*two action plan steps*).

The four remaining action plan steps due for completion after November 30, 2014, will be addressed in our subsequent follow-up engagement. Those four steps pertain to (1) developing and implementing more appropriate billing rates that are structured to generate minimal profits for the Fleet Garage Operating Fund (*three action plan steps*) and (2) transferring the FASTER purchase number for parts acquisitions into the PeopleSoft Financials System as part of the existing purchasing interface (*one action plan step*).

We appreciate the cooperation and assistance provided by the Fleet Division and Accounting Services during this follow-up engagement.

Scope, Objectives, and Methodology

We conducted this audit follow-up 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 follow-up 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 follow-up objectives.

Report #1418

The scope of report #1418 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.

The objectives of the audit were to determine:

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

Fleet fueling and motor pool operations were excluded from the scope of the initial audit, except as they related to the annual year-end financial adjustment ("true-up") for Fleet garage operations. The acquisition of new vehicles by the Fleet Division also was not included in the scope of the initial audit.

Various audit procedures were conducted to meet the stated audit objectives.

Report #1506

This is our first follow-up on action plan steps identified in audit report #1418. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion as of November 30, 2014. To determine the status of the action plan steps, we interviewed staff, made observations, and reviewed relevant documentation.

Background

Overview. 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. Activity of that fund was addressed in the initial audit. 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, which was not included in the scope of the initial audit. Organizationally, Fleet is part of Utility Services and reports to the Assistant City Manager for Utility Services.

Fleet as an Internal Service Fund. The Fleet Garage Operating Fund is accounted for as an internal service fund. Internal service funds are 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.

The initial audit reported that, for the past several years, the City’s Fleet garage operation had 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 from the initial audit report shows the financial results of Fleet garage operations prior to the year-end 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%)

The table shows the Fleet garage operation was operating at more or less a breakeven point for fiscal years 2009 and 2010 but subsequently operated at a profit for fiscal years 2011 through 2013.

In the initial audit, we noted Fleet management had not conducted a formal rate study in recent years to ascertain the appropriate rates to charge for services. The current billing rates noted in the initial audit were determined and initially applied in April of 2011. Discussions with Fleet staff indicated those 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 1 above, those current rates have generated more than a marginal profit in three of the last five years. Because the profits generated in those years were not returned to applicable City departments in proportion to the services received, we recommended 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.

Fleet Billing Process. City departments are billed by the Fleet Division for parts and repair and maintenance services through a “work order” process. Specifically, a unique 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. The

initial audit noted that for recent fiscal years Fleet had processed approximately 11,500 work orders annually.

For the areas included in the scope of the initial audit there were three primary billable activities:

- Labor - time (labor) spent by mechanics on vehicle maintenance and repair activities
- Parts - specific parts required to complete a repair/maintenance job
- Sublets - circumstances where 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).

The Fleet Division uses the FASTER application (software application) to manage operations and vehicles maintained by Fleet. Work orders as described in the prior paragraphs are generated through FASTER.

Previous Conditions and Current Status

In audit report #1418, we concluded the Fleet billing process accurately charged City departments for services provided by Fleet. We also identified areas where enhancements were needed to improve the billing process. Those areas and recommended enhancements pertained to and/or included:

- Updating operating procedures for the Fleet vehicle intake process, garage operations, parts section, and monthly closeout process.
- Completing and reviewing work orders.
- Reducing the number of employees with the ability to reopen and subsequently reclose work orders. (*Corrective action completed during initial audit.*)
- Involving independent staff in the periodic physical counts of parts inventory and related comparisons/reconciliations to (and update of) FASTER inventory records.

- Updating and establishing more appropriate billing rates.
- Changing the method for disposition of Fleet profits/losses in future period. (*Considered by management but no changes made.*)
- Ensuring changes to the City's cost center structure are timely and properly made in FASTER.
- Enhancing a system interface to better correlate purchase information between the FASTER and PeopleSoft Financial System.
- Reclassifying equipment within the FASTER to better reflect items maintained by Fleet.
- Ensuring accurate performance measures are entered into the City's budget system.

Eighteen action plan steps were developed to address the identified issues. Fourteen of those 18 steps were due for completion no later than November 30, 2014. As shown below in **Table 2**, as of the end of our follow-up fieldwork, each of those 14 steps had been completed.

**Table 2
Action Plan Steps from Audit Report #1418
Due as of November 30, 2014, and Current Status**

Action Plan Steps Due as of November 30, 2014	Current Status
<i>Improve procedures for the vehicle intake, garage operations, parts section, and monthly closeout.</i>	
<ul style="list-style-type: none"> • Complete the review and update the procedures for the Fleet vehicle intake process. 	<ul style="list-style-type: none"> ✓ The procedures for the Fleet intake operations process were updated to address the concerns expressed in the initial audit. Specifically, the procedures were updated and enhanced to (1) correctly show that parts section employees administer the sublet process as to receiving and processing vendor invoices after the related work is done and approved by shop supervisors and (2) reflect the current version of the FASTER system in the screenshot examples. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Complete the review and update the procedures for the Fleet garage operations process. 	<ul style="list-style-type: none"> ✓ The procedures for the Fleet garage operations process were updated to address the concerns expressed in the initial audit. The procedures were enhanced to specify and address, for example, (1) the tasks mechanics should follow when recording the start and stop times for an RTY (RTY codes are used to categorize work by type and track work time for billing purposes), (2) the process for requesting parts from the parts section, and (3) the process for notifying shop supervisors when work is completed and ready for review. Additionally, the procedures were enhanced to address the supervisory process for assigning work orders to mechanics, reviewing and correcting work orders, and closing work orders after approval. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Complete the review and update the procedures for the Fleet parts process. 	<ul style="list-style-type: none"> ✓ The procedures for the Fleet parts process were updated to address the concerns expressed in the initial audit. The procedures were updated to (1) include a current list of parts contracts, (2) define dates at which cyclical and annual inventories should be conducted, (3) specify the staff positions (not employee names) that should be involved in the inventory process, and (4) reflect other detailed instructions. Accordingly, this step has been completed.
<ul style="list-style-type: none"> • Complete the review and update the procedures for the Fleet monthly closeout process. 	<ul style="list-style-type: none"> ✓ The procedures for the Fleet monthly closeout process were updated to address the concerns expressed in the initial audit. The procedures were enhanced to specify the staff positions responsible for the process and the dates of the month the process should be performed. Accordingly, this step has been completed.

<i>Improve the accuracy of work orders.</i>	
<ul style="list-style-type: none"> Remind mechanics of the importance of accuracy and completeness of work orders including the proper use of RTY codes for work performed. 	<ul style="list-style-type: none"> ✓ Because of a few instances identified in the initial audit where work orders were not properly completed, Fleet mechanics were reminded in the March 25, 2014, departmental staff meeting of the importance of accuracy and completeness of work orders, including the proper use of RTY codes for work performed. (RTY codes are used to categorize work by type and track work time for billing purposes.) Accordingly, this step has been completed.
<ul style="list-style-type: none"> Reemphasize to shop supervisors the critical role they have in the review and approval process for work orders. 	<ul style="list-style-type: none"> ✓ Because of a few instances identified in the initial audit where work orders were not properly completed, Fleet supervisors were reminded in the March 25, 2014, departmental staff meeting of the critical role they have in the review and approval process for work orders. Accordingly, this step has been completed.
<i>Improve internal controls related to periodic physical counts of the parts inventory and related reconciliation to corresponding records.</i>	
<ul style="list-style-type: none"> Staff independent of the parts process will oversee or conduct the periodic physical counts of the parts inventory. 	<ul style="list-style-type: none"> ✓ As stated above in the reported status for a different action plan step, the Fleet Division revised the procedures for the parts process. One of those revisions provides for non-parts (independent) staff to participate in the periodic counts and related reconciliations of the count results to the FASTER inventory records. The Fleet Division provided records showing those revised procedures were followed during a recent count and reconciliation. Our discussion with applicable staff confirmed the accuracy of those records as to the independent staff that participated in the counts and related reconciliation. Accordingly, this step has been completed.
<ul style="list-style-type: none"> Staff independent of the parts process will oversee or conduct the comparison/reconciliation of the physical count to the FASTER System inventory records. 	<ul style="list-style-type: none"> ✓ This step has been completed as described in the status reported for the previous action plan step.
<i>Improve the interface of FASTER with the PeopleSoft Financials System.</i>	
<ul style="list-style-type: none"> Develop a process to ensure changes to cost centers are communicated to Fleet within the month that the changes occur. 	<ul style="list-style-type: none"> ✓ Accounting Services, in conjunction with the Office of Budget and Policy, has a process to ensure updated cost center information is provided to the Fleet Division as appropriate. That process is being followed. Accordingly, this step is considered completed.
<ul style="list-style-type: none"> Make changes to cost centers within FASTER based on the information received from DMA within the current monthly billing cycle. 	<ul style="list-style-type: none"> ✓ The Fleet Division administrative staff implemented a formal ongoing process to ensure cost centers as reflected in FASTER are properly updated for cost center changes made in the PeopleSoft Financials System, thereby ensuring Fleet billings are properly

	and correctly transferred into the City’s accounting records. Accordingly, this step has been completed.
<i>Improve vehicle information within FASTER.</i>	
<ul style="list-style-type: none"> The equipment recorded within FASTER will be reviewed for proper classification as it relates to Fleet operations. 	<ul style="list-style-type: none"> ✓ The Fleet Division completed their efforts to review FASTER for proper classification of equipment as it relates to Fleet operations. Based on that review, equipment tracked in FASTER but not maintained by the Fleet Division (i.e., StarMetro buses, certain City golf course equipment, fuel tanks and related fueling equipment, etc.) were reclassified within FASTER so as not to imply those items were maintained by the Fleet Division. Accordingly, this step has been completed.
<ul style="list-style-type: none"> Equipment not maintained or serviced by Fleet as identified in the previous step will be removed or reclassified within FASTER. 	<ul style="list-style-type: none"> ✓ This step has been completed as described in the status reported for the previous action plan step.
<i>Improve Fleet performance measure reporting within the City’s Annual Budget.</i>	
<ul style="list-style-type: none"> Prior to the completion of the budget process, applicable reports will be generated from GOVMAX (City budget application) and reviewed to ensure performance measure information will be accurately presented in the City’s annual budget. 	<ul style="list-style-type: none"> ✓ The Fleet Division provided reports showing that reasonable performance measure determinations had been made as part of the FY 2015 budget process. Those performance measures as recorded in the City’s budget system (GOVMAX) were properly and correctly recorded in the FY 2015 budget, with corrections made for presentation of previous year’s performance measures. Accordingly, this step has been completed.
<ul style="list-style-type: none"> Changes to the performance measure data in GOVMAX will be made as needed based on the review described in the previous step. 	<ul style="list-style-type: none"> ✓ This step has been completed as described in the status reported for the previous action plan step.

Table Legend:

- Issue to be addressed from the original audit.
- ✓ Issue addressed and completed.

Conclusion

Table 2 above shows each of the 14 action plan steps established to address issues identified in our initial audit and due for completion by November 30, 2014, have been completed.

As previously noted within this report, there are four action plan steps for which completion is due subsequent to November 30, 2014. Those four steps pertain to (1) developing and implementing more appropriate billing rates that are structured to generate minimal profits for the Fleet Garage Operating Fund (*three action plan steps*) and (2) transferring the FASTER purchase number for parts acquisitions into the PeopleSoft Financials System as part of the existing purchasing interface (*one action plan step*). We will follow up and report on those four action plans steps in our subsequent follow-up engagement.

We appreciate the assistance and cooperation provided by the Fleet Division and Accounting Services during this follow-up engagement.

Appointed Official's Response

City Manager:

We appreciate the work performed by the City Auditor on the Fleet billing process. Staff reviewed areas identified in the audit to improve processes and implemented enhancements as recommended. We are pleased that each of the 14 action plans scheduled to be completed by November 2014 have been completed. Work has begun on the remaining four action plan items due for completion subsequent to that date. I would like to thank the City Auditor's Office as well as all of the departments for their work and follow-up on this audit.

Copies of this audit follow-up #1506 or audit report #1418 may be obtained from the City Auditor's website (<http://www.talgov.com/auditing/auditing-auditreports.aspx>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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