



City of Bowling Green

Internal Auditor's Office

Fleet Division Follow-up Audit

Project# 2014-06

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Deborah Jenkins, CFE, CICA

Transmittal Letter

TO: Kevin D. DeFebbo, City Manager, Ex-officio Member
Cristi Pruitt, Audit Committee Chair
David McKillip, Audit Committee Vice-Chair
Scott Gary, Audit Committee Member
Tony Witty, Audit Committee Member
Joe Denning, Commissioner and Audit Committee Member

CC: Jeff Lashlee, Public Works Director
Kris Crowe, Fleet Operations Manager

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the *Charter of the Internal Auditor's Office*, I hereby submit the follow-up report covering the Fleet Division. The objective of this follow-up report was to determine if the Fleet Division and related staff implemented the eleven (11) recommendations made in an earlier report, *Fleet Division Audit* (Project# 2011-11, finalized on January 10, 2012). The results of the *Fleet Division Follow-up Audit* have been discussed with management.

Results in Brief

Ten of the eleven recommendations have been fully implemented and one recommendation is considered partially implemented. There have been multiple improvements within the Fleet Division which is particularly impressive considering the two separate Fleet Managers overseeing the changes since the original audit. They have responded impressively to the recommendations and are making a great effort to improve their accountability. It has been a pleasure to work with them and I look forward to their additional improvements in the future.

Sincerely,

Deborah Jenkins, CFE, CICA
Internal Auditor

Objective

The objective of the Fleet Division Audit follow-up was to determine if management implemented the eleven (11) recommendations made in an earlier report, *Fleet Division Audit* (Project# 2011-11, finalized on January 10, 2012).

Scope and Methodology

The scope of this follow-up audit included Fleet related transactions from January 1, 2013 through January 13, 2014. To determine the implementation status of prior recommendations, I performed the following:

- Interviewed Fleet Division staff
- Reviewed the original audit report
- Performed test work to determine compliance with various recommendations
- Imported Calendar Year 2013 work order data into IDEA Analytical Software for analysis
- Analyzed the results of the test work performed and discussed results with management

Conclusion

Ten of the eleven recommendations have been fully implemented and one recommendation is considered partially implemented. There have been multiple improvements within the Fleet Division which is particularly impressive considering the two separate Fleet Managers overseeing the changes since the original audit. They have responded impressively to the recommendations and are making a great effort to improve their accountability. It has been a pleasure to work with them and I look forward to their additional improvements in the future.

Previous Observation and Recommendation:

- 1. The Fleet Division time clock system should be used consistently and accurately to document time worked within the division.**

Prior Auditor Recommendation

Since there is a time clock provided to the Fleet Division, all staff should be required to accurately use the system to account for the time worked each week. Any hand written times entered should be an exception which is approved by management on the time card. Leave forms should be submitted and approved to document time off work and should be reconciled to the weekly time cards to ensure all leave forms have been submitted properly. All weekly time cards should be approved by management and signed prior to submittal for payroll entry.

The time cards should account for all worked time including overtime and compensatory time earned. The time cards should be the source document for payroll and leave slips should account for any time not recorded on the time cards. Verbal changes should not be accepted.

Prior Fleet Division Management Response

Accurate measurement of time is critical in the work place. Despite the presence of a time clock, standards regarding tracking time needed Improvement. Several measures have been developed to address the concerns of the audit. These measures are listed and described below:

- A. All employees are required to use the time clock. The time cards shall serve as the primary means measuring time worked. Leave forms will be approved by management for time off. These measures have been modified and are currently in-place. Fleet Management will reconcile leave forms to the weekly time cards.*
- B. On occasions, employees may forget to “clock in” or “clock out”. On these occasions, the employee is required to have their immediate supervisor to approve the time adjustments.*
- C. A camera has been placed facing the time clock. If there are any concerns or adjustments, actual times can be verified by time stamped video.*

Current Status: IMPLEMENTED

The City of Bowling Green is in the process of transitioning all employees to centralized timekeeping software, Timeclock. The Fleet Division has been using this timekeeping system since September 2012. Any missed punches were tracked and required electronic approval beginning in August 2013. Leave requests were added to the system in late January 2014 and all time began automatic import from Timeclock to the City’s financial software system in Mid-March 2014.

2. Fleet Division staff should adhere to City procurement policy by keying accurate quantities or purchase prices, ensuring purchases are charged to proper general ledger accounts and refraining from splitting purchases to prevent departmental approval.

Prior Auditor Recommendation

City and departmental procurement policies must be followed. Purchases should have one invoice and all items should be entered correctly and charged to the appropriate general ledger code. Management should review purchases periodically to ensure that the policies are being followed. A system of tracking should be developed to account for inventory items that are held as future credits to ensure that the City receives the appropriate amount due.

Prior Fleet Division Management Response

All City policies should be strictly followed, including procurement policies. The observed purchasing irregularities require three primary actions by management, employee education of procurement policy, periodic checks of procurement activity, and altering the practice of used tire trade-ins.

- A. Education regarding procurement policy will be conducted on a regular basis. In this case, annual training is to be conducted. This training should include fleet procurement personnel as well as other administrative personnel within the Public Works Department.*
- B. Periodic spot check will be conducted to test for split purchases and incorrect quantities by fleet management.*
- C. The process of trading used tires for credit toward new tires purchases has been revised. When used tire are “traded in”, the credit will be shown on a separate credit invoice with the quantity. History has shown that larger tires bring a higher trade in value than standard tires. As a result, the larger tires are traded in while regular tires are subject to be declared as surplus property. Secured storage and deposition of surplus property will take place through the Procurement Office.*

Current Status: IMPLEMENTED

Department wide purchasing training was conducted by the City’s former Purchasing Agent on 10/18/11. There was no departmental wide training conducted by purchasing since that time; however, the Purchasing Agent position has transitioned to a new employee and the new Purchasing Agent has met on several occasions with staff to discuss purchasing guidelines such as quotation requirements, authorization guidelines as well as conducted a review of the FY2013 purchase order history.

The new Fleet Manager has been in place since December 2013 and has not conducted his first review for split purchases; however this is something he is aware of and Purchasing is assisting in these reviews.

The practice of trading used tires has been abolished. Tires are currently purchased on Kentucky State Pricing contracts and when used tires are taken out of use, they are disposed of by transferring them to the Purchasing Agent for surplus auction.

3. Fleet management should create proper segregation of duties for procurement and inventory processes.

Prior Auditor Recommendation

Fleet management should review the inventory and procurement processes to ensure that no one employee has control or access to an entire process. Key functions that should be separated include:

- *Approval of purchases orders and payments*
- *Accounting of, reconciling and system entry of assets or inventory*
- *Asset custody and periodic inventory counts and adjustments.*

If these activities cannot be separated due to the size of the division, then detailed supervisory review should be required. No one person should:

- *Initiate a transaction*
- *Approve a transaction*
- *Record a transaction*
- *Reconcile the balances*
- *Handle the assets*
- *Perform the inventory counts and make inventory adjustments*

Prior Fleet Management Response

In order to maintain adequate management/financial controls within the Fleet Division, proper segregation of inventory activities and financial approvals must exist. To address the segregation of activities and approvals, the following hierarchy matrix will be implemented.

Activity	Fleet Shop Sup.	Fleet Inv. Coord.	Office Assoc.	Fleet Man.	PW Dir.
Initiate Purchase Order		X	X		
Approve Purchase Order < \$200			X		
Approve Purchase Order > \$200 & < \$1000				X	
Approve Purchase Order > \$1000 & < \$5000					X
Receive inventory	Back-up	X			
Issuing inventory	Back-up	X			
Inventory counts		X (w. External Observer)			
Inventory adjustments		X (w. Approval)		A	

Current Status: IMPLEMENTED

Fleet employee access has been changed as stated above. The access levels were confirmed with IT staff which removes the ability to approve purchase orders from the Fleet Coordinator and requires either the Office Associate or the Fleet Manager to approve purchase orders before they can be processed. The purchase order limits are also as listed above.

Inventory counts are conducted with a second City staff member and inventory adjustments are reviewed by Fleet Management and reported to the Director of Public works.

4. Access to the parts room should be restricted to secure inventory, security cameras should be installed throughout the facility and the process of charging parts should be reviewed to ensure items are charged out to the appropriate work order.

Prior Auditor Recommendation

Fleet management should analyze the entry points into the parts room and remove any excess entry points to the parts room. The Fleet Inventory Coordinator and one backup should have the only keys to this secure area of the facility and the parts room should remain locked. The Fleet Inventory Coordinator would be responsible for ensuring that the mechanics parts can be pulled in an absence by coordinating with management to ensure a backup is available. Small items such as washers and bolts as well as the will call cart may need to be moved outside of the parts room to reduce the reasons why mechanics would need to enter the parts room. Management should also analyze the manual process of charging parts to see if the scanning system would be more accurate and efficient. Security cameras should be installed at key locations throughout the facility to monitor entry and access of the various areas of the facility.

Prior Fire Department Management Response

Inventory Security

Parts inventory room is now restricted. This action involved the elimination of several perimeter doors to the parts room (from 12 to 8) and the changing of locks to the facility and parts room. The practice of allowing all employees to enter the parts room for parts has been eliminated. Access is restricted to the Fleet Inventory Coordinator only with the Fleet Shop Supervisor serving as back up in the Fleet Inventory Coordinator's absence. Additionally, cameras have been installed in strategic locations to insure security of the parts room and other strategic areas of the Fleet facility.

Inventory Assignment and Tracking

Additionally, inventory controls should continue through the shop with parts tracking and tied to the appropriate work order. The current process utilizes a manual process using the fleet management software by the Fleet Inventory Coordinator. The use of handheld barcode scanners will be studied for two primary reasons. The first reason is to improve accuracy of parts assigned to a work order and vehicle. The second reason is to increase productivity by division. If study proves financial/functional advantage of using scanners, the technology will be implemented.

Current Status: IMPLEMENTED

A review of the physical security of the parts room resulted in the closing of several access points to the parts room. Small items such as washers were moved out of the secured parts room for easier access by technicians. The locks were re-keyed for the remaining doors and only the Parts Coordinator has a key on site. The Director of Public Works has a backup key, but then the Parts Coordinator will leave his key with the Fleet Manager, Fleet Supervisor or Office Associate as a backup in his absence to control access to the parts.



Security cameras have been installed throughout the facility as well as an alarm system.



Handheld devices were reviewed, but management felt that the work order system in the new version of Fleet Focus would be sufficient and have enough features to ensure correct charging of parts to work orders. The new version of Fleet Focus was purchased a year ago; however, only the purchasing module of the software has been implemented as of March 2014.

5. The inventory system should include all parts; an annual inventory should be taken with assistance from employees not responsible for inventory as well as regular bin counts by management to randomly test parts during the year.

Prior Auditor Recommendation

The inventory system should be revised to include used parts as well as parts purchased by other departments, but left in the custody of the Fleet Division. Annual inventory should be conducted utilizing staff that does not serve as custodian of parts and periodic spot counts should be performed by management to randomly test inventory and parts at the facility.

Prior Fleet Management Response

The Fleet Division will continue with an annual inventory of parts. Inventory will also include used parts and parts purchased by other agencies (e.g. Police car accessories purchased by BYPD). Software configuration has been completed for tracking used inventory (e.g. spare engines out of totaled vehicles) in the Fleet Focus system. However, completion of used inventory is pending data entry. This process allows for the source vehicle to be retired and used part components are assigned to inventory with a value. Work related to externally purchased parts is under way with the fleet management software with assistance from the IT Department. Accounts from other departments have been developed in Fleet Focus. Parts in inventory will be assigned to vehicles in the appropriate external (non-fleet) accounts.

Inventory Accuracy and Controls

An Inventory Record Accuracy (IRA) rate of 90% for parts will be established as the accepted standard metric. Inventory is to be conducted by Fleet Inventory Coordinator in the presence of an external party. The 90% inventory accuracy standard will be a performance metric for the Fleet Inventory Coordinator. Additionally management will conduct periodic spot checks of inventory for verification of accuracy.

Current Status: IMPLEMENTED

Used parts such as the engines shown below are maintained in the Fleet Focus system with an identifiable suffix to the part number to identify that it is a used or rebuilt part.



Parts that are purchased through other funds from either other City Departments or other agencies such as Community Action also are now maintained within the Fleet Focus system with unique identifiable suffixes.

Annual inventories are conducted by the Fleet Parts Coordinator with the assistance of the Fleet Office Associate as well as a secondary person that is either Fleet Management or help from a different department or division.

Inventory Record Accuracy (IRA) is now part of the Parts Coordinator's annual evaluation and is monitored by management. In fiscal year 2014, \$331,773.02 worth of parts were used and charged out to technicians and work orders, but only \$1,664.80 worth of adjustments were made due to inventory counts and miscellaneous adjustments. This amount is well above the 90% recommended IRA.

Due to the changeover of the Fleet Manager in December 2013, the periodic testing has not been performed by the new manager, but management has assured the process will continue.

6. Inventory adjustments should be approved by management and reviewed on a periodic basis.

Prior Auditor Recommendation

Access to the inventory adjustment portion of the Fleet Focus software should be reviewed and restricted to the employees who are responsible for adjusting inventory. Management should periodically review adjustments and should review and sign off on all annual inventory mass adjustments and updates.

Prior Fleet Management Response

The Fleet Division will continue with an annual inventory of parts. Fleet Inventory software rights will be revised. Only the Fleet Inventory Coordinator and the Fleet Shop Supervisor have software rights to perform inventory functions with the exception of inventory adjustment. The Fleet Manager will have the software rights to adjust the inventory. The annual inventory and adjustments will require the review and approval by the Fleet Manager with an annual report to the Public Works Director.

Current Status: IMPLEMENTED

Due to a perceived limitation within the software, management has implemented a mitigating control that requires the Fleet Manager to report the results of the inventory counts and any adjustments to the Public Works Director for approval each year. The Fleet Manager also maintains a binder of the annual inventory results for documentation.

7. Fleet management should design a system to track small tools and equipment which is owned by the City and have them clearly identified from the individual mechanics small tools that are brought in or purchased using their tool allowance.

Prior Auditor Recommendation

A tracking system should be created to identify and maintain what tools and equipment the City has purchased for use at the Facility. There should also be a way to identify personally owned tools from City provided tools so there would be no confusion about ownership.

Prior Fleet Management Response

Quarterly Inventory

Fleet has conducted an inventory count of City owned tools and equipment. Tools and equipment inventory are currently tracked in the Logos software as controlled assets. A quarterly inventory will be conducted for these tools.

Tool Inventory Controls

City Owned tools will be marked and stored in a secured area. These tools will be issued to staff as needed and returned upon completion of work.

Inventory Accuracy

An Inventory Record Accuracy (IRA) rate of 95% for tools and equipment will be established as the accepted standard metric. Inventory is to be conducted by the Fleet Inventory Coordinator in the presence of an external party.

Current Status: IMPLEMENTED

The Fleet Division has obtained approval and funds to purchase tool boxes and a standardized set of tools for each of the Fleet Technicians in the division. This removes any issues as to whether or not a tool is a City owned tool or a personal tool and ensures that all technicians have all of the tools they need to perform their job as soon as they start working for the City. The tool boxes are inventoried on a periodic basis.



Technician Tool Boxes

Specialized tools and equipment have also been inventoried and tagged with controlled asset numbers so they can be entered into the City's financial software. The specialized tools and

equipment have a specified technician that is in charge of maintaining the tools and checking out the tools to the technicians when needed. Fleet has organized a tool room where they are all organized and maintained. The specialized tools are inventoried on a periodic basis.



Cabinet with Specialty Tools



Example of City Tag on Specialty Tool

Management has also implemented a 95% Inventory Record Accuracy goal for tools and equipment. So far each inventory count has been at 100% accuracy.

8. Fleet management should review large spending categories and determine if annual contracts should be bid out for outsourced services where the City spends over \$25,000 per year.

Prior Auditor Recommendation

Management should review vendor and expenditure categories periodically to determine if quotes or a formal bid would be more appropriate for certain products or services.

Prior Fleet Management Response

The Fleet Division will analyze spending on outsource parts and services with annual purchases over \$25,000. These parts and services will either be considered for a large bid or procured with multiple quotes as specified in the City Procurement Manual. If it is perceived that large bids provide a price advantage, Fleet management will bid for parts and services. Additionally some parts are available under state price contracts. Where possible, state contract pricing will be used if less than normal pricing.

The Fleet Division will begin the process of bidding fuel. As part of the bid, other agencies will be contacted to gauge interest in a cooperative bid for fuel. The idea is to develop a large customer pool to reduce prices on a volume basis.

Current Status: IMPLEMENTED

The City's Fleet Division partnered with Western Kentucky University to issue a public bid for fuel services. This bid was approved on March 18, 2014. The Division also issued a public bid for out-sourcing parts service which opened publicly on March 13, 2013; however, management has not made a decision on overall parts servicing. If parts service stays in-house, it is recommended that the City issue a public bid for the most used parts to obtain better pricing based on our volume than we can obtain on an individual quote process.

The purchase of tires is also an area that management has identified as a possible bid item. We currently purchase tires by using the Kentucky State Pricing Contract; however, according to the Purchasing Agent, the Fleet Division spends approximately \$70,000 on tires each year. The Purchasing Agent is now working with the Fleet Manager to determine if tires should also be bid out to ensure the best pricing for the City.

9. A tracking system should be created to ensure that the City receives the correct amount due for core charges and recyclables.

Prior Auditor Recommendation

Management should implement a method to track core fees to ensure that the old parts are returned and credit is given to the City. Recycling should be taken to companies which issue checks to the City instead of cash revenues. In addition, Fleet management should track any confiscated item held at their facility and ensure proper disposal of them once approved to ensure proper accountability of those items.

Prior Fleet Management Response

Core fees

Fleet will track core fees within the work order for a given vehicle as a separate line item. Weekly a report will be generated with all core charges. The Fleet Inventory Coordinator will be responsible for ensuring cores get to the appropriate vendor. Core fees should be placed in the work order as a credit for the core.

Recyclables and Scrap Metal

Recyclables and scrap metals are stored in designated bins/containers. When bins/containers are full, product is hauled to an approved salvage yard or recycler. Fleet management will visually confirm bin/container contents on a periodic basis. Printed weight tickets are issued to the driver. No cash is to be disbursed to drivers. A check will be issued to the City of Bowling Green. Reconciliation shall be performed by the Office Associate with approval by the Fleet Manager.

Description	Reusable Value	Rebuildable Value	Salvage Value	Meet Performance Standard	Tracking
Used Parts	Yes			Yes	Tracked in Fleet Focus
Core Parts		Yes			Tracked in Fleet Focus as a credit
Surplus Parts/Items	Yes				Release to Procurement
Salvage Parts/Items			Yes		Salvage bin
Trash					Use appropriate disposal

Current Status: IMPLEMENTED

Parts which include a core charge are identified with a “5” suffix in the Fleet Focus system. This allows the core fee to be charged to the work order when the part is pulled. Then when the old core is returned to the Fleet Coordinator, he can remove the charge from the work order and receive the core fee back into the system. All core returns are issued as a credit memo which is turned in to the Department of Finance for crediting on future invoices.

Recyclable materials are stored in a salvage bin. When the bin fills, the Fleet Manager takes a photo of the items to be recycled prior to employees taking the items off of the premises. The employees are only allowed to take the recyclables to companies which issue checks to the City of Bowling Green. The check and receipt is reviewed by the Fleet Manager after the items are taken to recycling to review for accuracy and the check is submitted to the Department of Finance for deposit.

10. Shop efficiency is not adequately tracked to evaluate performance.

Prior Auditor Recommendation

The inventory system should be revised to include used parts as well as parts purchased by other Management should develop a process to report actual labor times associated with key reporting variables whether with the use of the handheld devices or some other method to ensure the shop is performing as needed and to help identify needs of the division.

Prior Fleet Management Response

The use of efficiency metrics have been in-place for some time. However, new metric measure efficiency (Actual time versus book time, Technician productivity measure, Service returns) will be employed. These efficiency measures will be in place for all equipment technicians by mid-fiscal year.

Current Status: PARTIALLY IMPLEMENTED

The inventory system has been updated to include used parts as well as parts purchased through other departmental budgets. Labor times for the technicians were reviewed and it was decided not to use the handheld devices, but to have the technicians' clock in and out of each work order in order to record their actual time. Below is the 2013 Technician Performance Report that is maintained by Fleet Management to track technicians' time.

2013 Technician Performance						
Hours Paid	Hours off	Hours Worked	Billable Hours	Non-Billable Hours	Production	Utilization
2496.00	600.20	1895.80	1488.30	407.50	78.51%	59.63%
2304.00	253.60	2050.40	1786.10	264.30	87.11%	77.52%
2318.00	434.40	1883.60	1555.10	328.50	82.56%	67.09%
2321.00	635.50	1685.50	1175.10	510.40	69.72%	50.63%
2643.75	1211.25	1432.50	962.10	470.40	67.16%	36.39%
2344.25	335.25	2009.00	1792.50	216.50	89.22%	76.46%
14427.00	3470.20	10956.80	8759.20	2197.60	79.94%	60.71%

However, when data was extracted with the assistance of IT staff, it was determined that numerous work order times were entered on dates that were past the actual day the labor was performed on the work order. This loophole allows technicians to go back into a work order and enter their time at a later date instead of tracking the actual time as it was intended. This data has been shared with Fleet Management and the Director of Public works.

11. Warranty work is not billed in a consistent cycle and multiple claims are denied due to inadequate information or timing of the reimbursement claim.

Prior Auditor Recommendation

Management should implement a standard process for submitting reimbursement claims on a monthly basis. In addition, a review should be performed periodically by management to monitor denied claims in order to locate the reason and correct for future submittals.

Prior Fleet Management Response

Staff has discovered three primary issues. These include the need for better communication between equipment technicians and fleet administration, lack of information from fleet diagnostic equipment, and set schedule filing warranty claims.

Communication

In order to improve communication, equipment technicians need to understand the needed data for warranty claims. Training of staff regarding the need and type of information will be addressed in staff meetings on a regular basis.

Diagnostic Equipment

Fleet is in the process of researching pricing for either new diagnostic equipment or upgrades to existing equipment to find the best alternative. Based on this effort, Fleet will gain the capability to provide necessary code data to receive warranty.

Warranty Claim Schedule

Fleet Administration will develop a process for weekly warranty claim submittals. By providing more timely claims, Fleet will obtain a higher warranty claim recovery rate.

Current Status: IMPLEMENTED

Management has reviewed the diagnostic needs of the division and funds are approved within the FY2014 budget year to purchase subscriptions for correct coding of warranty repairs. However, there have been no warranty repairs performed in the calendar year 2013 to require warranty reimbursement. The City's fleet of vehicles is aging and not many are still under warranty. The newest City vehicles are Dodge and Nissan, but Fleet does not have approval to perform warranty for Dodge or Nissan yet. Fleet management has reached out to Dodge to inquire about necessary steps to become certified to perform warranty work, but has not received a response yet from Dodge.

A Warranty Claim form was created to document the needed steps for warranty claims. When Fleet has warranty work that can be performed, the standardized process will already be in place. Warranty claims on file were reviewed and the only item of note is to ensure that the warranty claim forms are fully completed as the status changes and ensure that the status is updated in Fleet Focus. A copy of the warranty form is included in attachment A. During follow-up interviews, the Office Associate stated that she is notified by the Fleet Supervisor when a

warranty repair has been completed and receives a notification in the Fleet Focus software when she closes out the work order and there is a warranty claim associated with it.

Reports from Fleet Focus were shared with the new Fleet Manager so reviews can begin again once warranty repairs resume.

Attachment A

Warranty

Work Order # _____

Unit # _____

Date Sent _____

Amount \$ _____

Date Paid _____

Amount Paid \$ _____

Parts Used

Qty. _____ *Code* _____

Description _____

Labor Codes: _____

Status

In Preparation _____

Pending _____

Sent to Vendor _____

Denied _____

Partially Approved _____

Disputed _____