

Final Audit Follow-Up

As of April 30, 2016



T. Bert Fletcher, CPA, CGMA
City Auditor

Audit of Fleet Billing Process

(Report #1418 issued June 5, 2014)

Report #1612

May 20, 2016

Summary

Of the 18 action plan steps established to address issues identified in audit report #1418, Audit of Fleet Billing Process, 17 were due for completion as of March 31, 2016. Each of those 17 steps had been completed as of April 30, 2016. Because of the successful efforts in addressing and completing those 17 steps, responsibility for following up to ensure the one remaining action plan step, not yet due for completion, is turned over to management.

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. Seventeen of those 18 steps were due for completion as of March 31, 2016. Fourteen of those steps were reported as completed in our first follow-up engagement (report #1506). Our current follow-up engagement showed that the remaining three steps due for completion were also completed. Actions taken in relation to those three steps included:

- Completion of a rate study to establish updated and appropriate billing rates.
- Application of the updated billing rates.
- Enhancement of a systems interface such that the purchase number from the FASTER System is imported into the City's accounting system.

Because management has successfully addressed all other action plan steps and has indicated plans to continue to conduct future rate studies as needed, responsibility for following up on the one action plan step not yet due for completion is turned over to management.

We appreciate the cooperation and assistance provided by staff in the Fleet and StarMetro Department and other City departments 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 #1612

This is our second and final 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 March 31, 2016. 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. At the time of the initial audit, Fleet was organizationally part of Utility Services and reported to the Assistant City Manager for Utility Services. (Fleet is now part of the Fleet and StarMetro Department under Citizen Services, which reports to the Deputy City Manager.)

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 reported as completed in our initial follow-up report (#1506) issued March 18, 2015. Three of the four remaining action plan steps were due for completion as of March 31, 2016, with the last remaining step not due for completion until September 30, 2016. As shown below in **Table 2**, the three steps due for completion as of March 31, 2016, were completed as of April 30, 2016.

**Table 2
Action Plan Steps from Audit Report #1418
Due as of March 31, 2016, and Current Status as of April 30, 2016**

Action Plan Steps Due as of March 31, 2016	Current Status as of April 30, 2016
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> Complete the review and update the procedures for the Fleet parts process. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<i>Improve the financial results of operations of the Fleet internal service fund.</i>	
<ul style="list-style-type: none"> A rate study will be conducted for the purpose of establishing a labor rate for mechanics and a markup rate for parts, sublets, and fuel that are structured to generate minimal profits (surpluses) and losses (deficits). 	<ul style="list-style-type: none"> ✓ A rate study was completed in March 2016 that established a labor rate for mechanics and markup rates for parts, sublets, and fuel. Those rates were structured such that significant profits or losses should not be generated.

<ul style="list-style-type: none"> • The labor rate for mechanics and the markup rate for parts, sublets, and fuel will be adjusted based on the updated rate study. 	<ul style="list-style-type: none"> ✓ The rates were adjusted based on the rate study addressed in the previous action plan step; the resulting updated rates were implemented (applied) starting in early April 2016.
<p><i>Improve the interface of FASTER with the PeopleSoft Financials System.</i></p>	
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> • The purchase number from FASTER will be imported into the PeopleSoft Financials System as part of the purchasing interface. 	<ul style="list-style-type: none"> ✓ The interface that transfers purchasing information from the FASTER System into the PeopleSoft Financials System (City’s accounting system) has been enhanced such that the unique FASTER purchase number assigned to individual purchases is also transferred. That action will allow management and others to more efficiently identify, correlate, and review supporting documentation for purchases of parts and sublets.
<p><i>Improve vehicle information within FASTER.</i></p>	
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.
<p><i>Improve Fleet performance measure reporting within the City’s Annual Budget.</i></p>	
<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"> ✓ Completed in a prior period.
<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"> ✓ Completed in a prior period.

Table Legend:

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

Remaining Step Turned Over to Management

As noted on page 1 of this report, there is one action plan step that is not due for completion until September 30, 2016. That step provides for management to conduct additional (subsequent) rate studies on a periodic basis (e.g., annually) to ensure labor and mark-up rates remain appropriate. Because management has successfully addressed and completed all other action plan steps and has indicated plans to conduct future rate studies as needed, responsibility for following up to ensure completion of this step is turned over to management.

Conclusion

Table 2 above shows each of the 17 action plan steps due for completion as of March 31, 2016, have been completed. Actions completed during the period covered by this follow-up engagement included:

- Completion of a rate study to establish updated and appropriate billing rates.
- Application of the updated billing rates.
- Enhancement of a systems interface such that the purchase number from the FASTER System is imported into the City’s accounting system.

Additionally, because management has successfully addressed all other action plan steps and has indicated plans to conduct future rate studies as needed, responsibility for following up on the one action plan step not yet due for completion is turned over to management. Accordingly, this is final follow-up engagement for our Audit of the Fleet Billing Process.

We appreciate the assistance and cooperation provided by staff of the Fleet and StarMetro Department and other City departments during this follow-up engagement.

Appointed Official’s Response

City Manager:

The City operates a diverse fleet of vehicles to provide public safety services, utilities, public works, and other public services. The completion of an updated rate study, the update of billing rates, and the enhancements to the interface between the FASTER System and the City’s accounting system will improve the accuracy of charges for service to each department. I would like to thank the Auditor’s Office for their professional work on this audit. I would also like to thank the involved departments for their efforts.

Copies of this final audit follow-up #1612 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).

Audit follow-up conducted by:
T. Bert Fletcher, CPA, CGMA, City Auditor