

Bowling Green Audit Committee
Regular Meeting
January 9, 2012

The Bowling Green Audit Committee convened in a regular meeting at 3:30 p.m. on January 9, 2012 in the City Hall Commission Chamber. The meeting was called to order by Vice Chair Cristi Pruitt. Members of the Committee present were: Audit Professional Cristi Pruitt, General Business members Scott Gary and James Martens and Ex-Officio member City Manager Kevin DeFebbo. Absent: Audit Professional David McKillip and Commissioner Joe Denning. Also present were Public Works Director Jeff Lashlee, Fleet Division Manager Barry Harris, Internal Auditor Deborah Jenkins and Assistant City Clerk Ashley Jackson. There was a quorum of the board present.

Vice Chair Cristi Pruitt presided in the absence of Chair David McKillip.

Approval of Minutes.

Vice Chair Pruitt announced that the first item of business was to approve the minutes of the July 11, 2011 regular meeting and December 12, 2011 special call meeting, which were mailed with the agenda to the members for their review prior to the meeting. Motion was made by Mr. Gary and seconded by Mr. Martens to accept the minutes as written. The minutes were approved as written by unanimous vote.

Present Fleet Division Audit report.

Ms. Jenkins introduced Public Works Director Jeff Lashlee and Fleet Division Manager Barry Harris, who were in attendance and available for questions during the review of the audit. She reviewed the background, objective, scope, criteria and approach, statement of standards and audit conclusion of the Fleet Division Audit. The areas of observation and recommendation were as follows: **1)** the Fleet Division time clock system should be used consistently and accurately to document time worked within the division. It was confirmed that all employees were now required to use the time clock, including Fleet Division Manager Barry Harris, and if someone failed to clock in or clock out the immediate supervisor would be required to approve the time adjustments. **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. Ms. Jenkins commented that based on policy purchases \$1,000 to \$4,999 required approval by the Public Works Director and all purchases \$5,000 and above required approval by the Purchasing Agent. She explained that in her findings it was important to pay close attention to trading allowances and splitting purchases, as that had been encountered in order to prevent department or Purchasing Agent approval. Mr. Harris confirmed that he performs spot checks weekly now and the Inventory Coordinator, who oversees parts, had already started to document and keep accurate records. He also assured that the Purchasing Policy spoke for itself and was being followed. **3)** Fleet management should create proper segregation of duties for procurement and inventory processes. It was recommended by Ms. Jenkins for Fleet to review the inventory and procurement processes to ensure that no one employee had control or access to an entire process and that key functions should be separated. Mr. Harris confirmed that the duties had been separated and the Inventory Coordinator now shared duties when performing such tasks as, ordering parts or supplies, keeping inventory, paying bills and issuing purchase orders. **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 orders. It was reported by Ms. Jenkins that doors had been secured and only two employees had access to the parts area following the audit, and Mr. Harris confirmed that himself and Inventory

Coordinator were the only two employees with keys and access, also inventory security and assignment of tracking had been implemented by management and Mr. Harris oversees the process. **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. Ms. Jenkins remarked that a surprise inventory count was performed on a day the Fleet Division was closed. It was determined that from the blind counts, 698 items were selected for testing and 539 of the tested items reconciled to the quantity within the Fleet Focus software for an IRA (Inventory Record Accuracy) of 77.22%. The IRA percentage was calculated based on Number of Correct Records divided by Number of Records Checked multiplied by 100. Ms. Jenkins emphasized that the typical tolerance level was between 5% and 10% error rate, but the spot count showed a 22.78% error rate. The Fleet Division now uses the Fleet Focus software and Logos Software to record inventory, per Mr. Harris. He further stated that the inventory process was conducting by the Inventory Coordinator during normal business hours and with the assistance of other staff members. **6)** Inventory adjustments should be approved by management and reviewed on a periodic basis. It was recommended to adjust the security portion of the Fleet Focus software and restrict the usage to the employees responsible for adjusting inventory. Mr. Lashlee confirmed that Mr. Harris was the only employee who had access to the inventory adjustment section of the software and an annual report would be prepared by Mr. Harris and due to him annually. **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. It was reported that the recommendation was to create a tracking system to identify and maintain what tools and equipment the City had purchased for use at the facility and there should also be a way to identify personally owned tools from City provided tools so there would be no confusion regarding ownership. **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. Mr. Lashlee explained that the fuel bid was something that had been reviewed as a large purchase item and was soon to be bid out, but that the Fleet Division was working to review the parts and services with annual purchases over \$25,000 and would be sure to bid purchases or use state pricing contracts when available. **9)** A tracking system should be created to ensure that the City receives the correct amount due for core charges and recyclables. Ms. Jenkins acknowledged that Fleet did not have a method to identify recyclables sold by the City. Furthermore, Fleet would need to track core fees within the work order for a given vehicle as a separate line item and weekly reports would be generated for all core changes. Mr. Harris stated that the recyclables and scrap metals were stored in designated bins/containers and pictures were taken of the items before and after they were to be recycled. Also printed weight tickets and checks would be issued to the City of Bowling Green, and the Office Associate would be responsible for reconciliation and final approval by the Fleet Manager. **10)** Shop efficiency is not adequately tracked to evaluate performance. Ms. Jenkins recommended that management 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 was performing as needed and to identify needs of the division. The Fleet Focus software was now being utilized and mechanics may now log actual labor times to each specific work order through the handheld devices that were originally not being used, per Mr. Harris. **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. The recommendation was for management to implement a standard process for submitting reimbursement claims on a monthly basis. In addition, a review should be performed periodically by management to monitor denial claims in order to locate the reason and correction for failure submittals. Management's response was that they did discover three primary issues and those included: communication and training of staff, diagnostic equipment and a warranty claim schedule. Fleet

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Administration developed the process for weekly warranty claim submittals, and the other areas would be addressed accordingly.

Mr. Harris provided the Committee with a copy of the Fleet Audit Tasks Implementation and listed were all the recommendations of the Internal Auditor and of those 72% had been completed to-date. He agreed that the Division would continue to work on the areas and reach full compliance.

Discussion of 2011 narcotics burn.

Ms. Jenkins reported that the 2011 Bowling Green Police Department narcotics burn was completed. She and Evidence Custodian David Bragg of the Bowling Green Police Department examined all items marked for disposal and compared the case numbers to the ones provided on the Bowling Green Narcotics Disposal (BGND) form. All hazardous material was removed from the boxes and then sealed with tamper proof evidence tape, signed and dated and then taken for destruction. On December 28, 2011 Ms. Jenkins, Mr. Bragg and Captain Glenn Bratcher witnessed 1,373 units of narcotics related evidence being destructed at the Gallatin Steel Company in Ghent, Kentucky.

Present 2011 Annual Report.

An Annual Report prepared by Ms. Jenkins was discussed and briefly summarized. The report provided the Internal Auditor’s activity summary for 2011. Ms. Jenkins explained that she had completed the Bowling Green Fire Department Payroll Audit and Fleet Division Audit, and currently working on the Code Enforcement follow-up, which will be presented at the next regular meeting. It was also reported that she was researching the feasibility of a Fraud Hotline, as well as the creation of a Request for Proposal (RFP) was prepared and received for outsourcing an IT Security Audit. Ms. Jenkins stated that she was in the process of reviewing the requests and gathering a review committee. Also, she explained that she had advisory services, special requests, training, administration and other miscellaneous tasks throughout the year.

Furthermore, she reported her yearly audit timesheet comparison schedule. The indirect audit time included holiday, vacation, sick time, personal time, employee appreciation, training, administration and other, for a total of 55%. The direct audit time included the audit plan, unannounced cash counts, audit follow-up, verification of narcotics disposal, advisory services and special requests, for a total of 45%.

The next quarterly meeting is scheduled at 3:30 p.m. on April 9, 2012.

Ms. Jenkins announced the next quarterly meeting date.

Adjournment.

There being no other business to be conducted, at 5:00 p.m. Vice Chair Pruitt declared the meeting adjourned.

Date Approved

David McKillip, Chair

Ashley Jackson, Assistant City Clerk