



City of Bowling Green

Internal Auditor's Office

Fleet Division Audit

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Deborah Jenkins, CFE, CICA

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Transmittal Letter

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

CC: Jeff Lashlee, Public Works Director

Pursuant to the approved 2010/2011 Internal Audit Plan, I hereby submit the Fleet Division Audit. The objective of this audit is to evaluate the adequacy of internal controls related to 1.) payroll, 2.) equipment, small tools and parts inventory management, 3.) surplus, used parts/tires and recycling, 4.) warranty reimbursements as well as analyze shop efficiency. This report includes background information to assist the reader in understanding processes at the Fleet Division. The body of the report consists of observations, recommendations and management's responses to the recommendations.

Results in Brief

The audit identified several areas in which Fleet Division operations can be improved. Eleven (11) recommendations are identified within this report to strengthen internal controls within the division. The recommendations are as follows:

- 1. The Fleet Division time clock system should be used consistently and accurately to document time worked within the division.**
- 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.**
- 3. Fleet management should create proper segregation of duties for procurement and inventory processes.**
- 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.**
- 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.**
- 6. Inventory adjustments should be approved by management and reviewed on a periodic basis.**
- 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.**
- 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.**

- 9. A tracking system should be created to ensure that the City receives the correct amount due for core charges and recyclables.**
- 10. Shop efficiency is not adequately tracked to evaluate performance.**
- 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.**

It was a pleasure working with the Department of Public Works and the Fleet Division employees. Their cooperation and quick response to recommendations was greatly appreciated.

Sincerely,

Deborah Jenkins, CFE, CICA
Internal Auditor

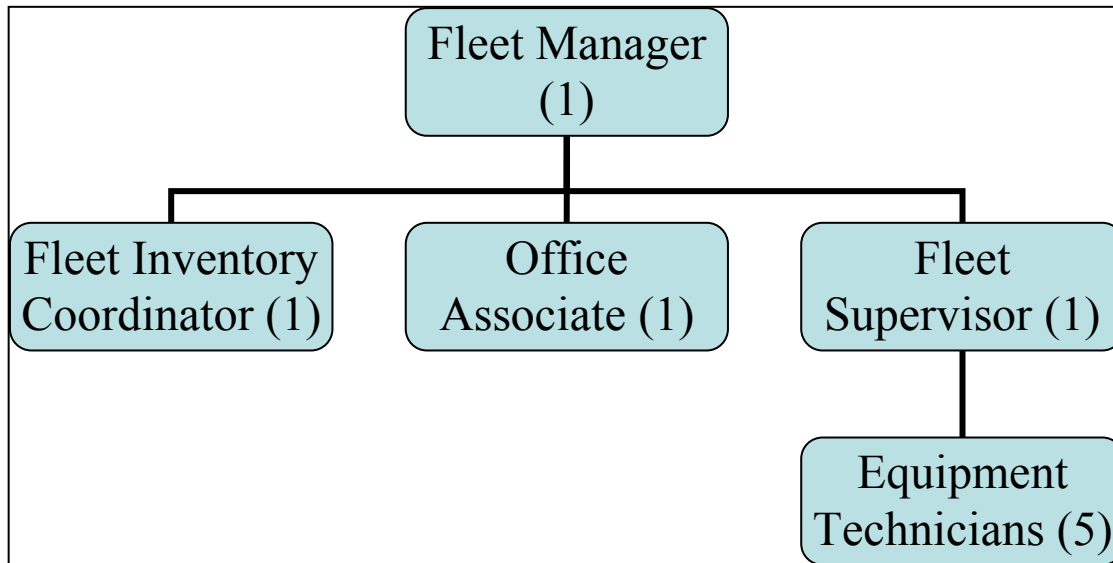
Background

In September of 1970 a Service Division was created at the City of Bowling Green. The responsibilities were to maintain and operate the City Service Center and maintain city vehicles and equipment under the leadership of a Service Center Manager. This function had been performed by various employees within the Street Division or outsourced to local repair facilities in prior years. Then in 1978, the division was combined into the Public Works Maintenance Division where it remained until 1997 when the department was reorganized due to recommendations from a management study back to the Service Center Division. Finally, in 2002 the name was changed to Fleet Management Division which it is still known as today.

The Fleet Management Division is an internal service fund within the Department of Public Works which, according to the 2011/2012 budget program summary:

Provides professional preventative maintenance and repairs for most City vehicles and equipment. Additional responsibilities include maintaining records of repair histories and costs and citywide fuel usage; formulating recommendations for vehicle and equipment replacement, vehicle bidding, and auction/disposal of obsolete vehicles and equipment; coordinating contract maintenance support and body work; performing select warranty repairs when efficient and feasible to do so; perform maintenance and repair for non-City agencies (ATF, Public Library, GOBG Transit).

Fleet operates on central repair facility located at 611 Raven Street as shown in Attachment A. There are a total of 9 full-time positions within this division as shown below.



The Fleet Division is funded through fleet lease rates that are charged to vehicles and equipment within the various City Departments, warranty repair fees and service contracts with other outside agencies. Budgeted revenues are listed below:

FY2012 Budgeted	FY2011 Actual	FY2010 Actual
\$1,974,652.00	\$1,609,213.65	\$1,759,991.19

The division's expenditures are budgeted and categorized as follows:

Expenditure Type	FY2012 Budgeted	FY2011 Actual	FY2010 Actual
Personnel	\$511,240.00	\$479,251.44	\$486,983.97
Contractuals	\$124,370.00	\$137,919.52	\$153,849.37
Supplies	\$1,329,890.00	\$981,920.75	\$885,760.44
Contingency/Transfers	\$9,152.00	0	\$100,000.00
Assets	0	\$2,788.28	\$5,306.25
Total Expenditures	\$1,974,652.00	\$1,601,879.99	\$1,631,900.03

Contractual amounts include utilities, repairs on the facility and equipment, as well as special education and any related travel costs. Supplies include fuel purchases, operating supplies, maintenance supplies and automotive supplies.

Objective

The objective of this audit was to evaluate the adequacy of internal controls related to 1.) payroll, 2.) equipment, small tools and parts inventory management, 3.) surplus, used parts/tires and recycling, 4.) warranty reimbursements as well as analyze shop efficiency.

Scope

The scope of this audit included Fleet Division operations from July 1, 2009 through June 30, 2011.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three phases:

1. Understanding the Process:

During phase one, a surprise inventory count was performed and staff meetings were held to discuss objectives of the audit work, collect information and documentation, and inform them why they were selected. I then conducted interviews with key Fleet, Human Resource and Finance employees and observed processes.

2. Sample Determination and Detailed Testing:

During phase two, eleven (11) risk areas were identified and prioritized based on perceived control techniques, control weaknesses as well as the impact and probability of occurring within the payroll process. A combination of randomized testing and haphazard selection of samples were tested based on the priority scale of risks identified.

3. Reporting:

During phase three, I analyzed and evaluated the results of the tests performed. I then summarized the observations and recommendations into a report format based on the analysis. An exit conference was conducted with management and their responses were incorporated into this report.

Statement of Standards

The audit was performed in accordance with generally accepted government auditing standards. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit.

An audit also includes assessments of applicable internal controls, compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.

Audit Conclusion

Based on the results of this audit, substantial opportunity exists for Fleet Management to improve its processes and become more accountable.

Observations and Recommendations

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

Observation

The Fleet Division has a time clock that hangs within the shop and employees were directed to use the time clock, per the Fleet Manager, with the exception of the Fleet Manager, Office Associate and Parts Coordinator. However, the time clock was not used consistently and was not used as the basis for payroll entry. When the time clock was used, it was often incomplete and had several hand written times. The time clock was not used to track any overtime or compensatory time. In discussion with Fleet staff, it was discovered that leave slips were the documents used for payroll entry and not the time clock provided. It was also discovered that overtime and compensatory time was verbally provided or altered by the Fleet Manager for payroll entry. There was no documentation other than periodic e-mails to document overtime and compensatory time earned since the time clock was inconsistently used.

Risk

Without accurate and consistent usage of the provided time clock system, it creates a high risk of inaccurate time worked and leave submitted where employees can easily not claim leave time or submit inflated worked hours resulting in increased cost to the City.

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.

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.

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.**

Observation

According to Public Works Departmental procedures, any purchase of \$1,000 to \$4,999 must be approved by the Director of Public Works. Any purchase \$5,000 and above requires approval by the City’s Purchasing Agent. Tire purchases were tested looking for accurate quantity entry and purchase price; trade in allowances, and any applicable split purchases. As a result from the testing amounts less than \$1,000, multiple occurrences of split purchases were found. A sample of the split purchases found is listed below:

Date	Time	Invoice	Amount	Description of Tires Purchased
9/25/2009	3:20 PM	162212	\$953.37	P225/60R16 97V S2 EAG RS-A
9/25/2009	3:23 PM	162213	\$907.56	P235/55R17 98W S2 EAG RS-A
9/25/2009	3:25 PM	162214	\$447.52	P225/60R16 97V S2 EAG RS-A P235/55R17 98W S2 EAG RS-A
1/28/2010	1:19 PM	164441	\$959.91	11R225 G G622 RSD TL
1/28/2010	1:21 PM	164442	\$959.91	11R225 G G622 RSD TL
1/28/2010	1:24 PM	164443	\$767.74	11R225 G G622 RSD TL
2/24/2011	11:12 AM	172373	\$445.56	11R225 G G149 RSA RH TLDX
2/24/2011	11:16 AM	172374	\$800.00	P235/55R17 98W S2 EAG RS-A

Used tires are also traded in for credit towards new tires; however, there is no system in place to determine the amount of tires that left the Fleet facility to be traded in. There are invoices with credits shown for trade in’s, but there is no tracking system which would allow testing to determine if the City received credit for all the tires that left the facility. The one known attempt by fleet staff to document the amount of tires that left the facility during the audit resulted in a discrepancy between the number of tires listed by the staff member and the number issued on the resulting credit memo.

Incorrect quantity amounts were found throughout the tire purchase testing. This makes it very difficult to maintain an accurate inventory count or reconcile between the purchased tires and credits. Below are some examples found within the tire purchases:

Date	Invoice #	Qty. Entered	Actual Qty.
9/1/2010	168981	1 at \$911.97	1 at \$331.71 each 8 at \$112.37 each Credit 1 tire at \$326.70
9/20/2010	169367	1 at \$563.40	10 at \$99.84 each Credit 47 auto tires for \$235.00 Credit 6 truck tires for \$210.00 State Tire Fee \$10.00
2/24/2011	172373	1 at \$445.56	2 at \$321.78 each

			Credit \$200.00 for used tires car & truck
			State Tire Fee \$2.00
5/10/2011	174030	1 at \$1,384.76	8 at \$84.50 each
			4 at \$105.00 each
			2 at \$321.78 each
			Credit 7 truck tires for \$210.00
			Credit 36 auto tires for \$154.80

As shown above, invoices were keyed in to the City's financial system as 1 tire for the net amount of the invoice instead of accurately keying the number of tires purchased and recognizing any associated credit from traded in tires. The picture below shows where the tires are kept prior to being taken for trade in. They are kept in an open bay at the facility; however, there is no listing or documentation kept to determine how many tires should be in this area.



Risk

By splitting purchases and incorrectly entering quantities, credits or general ledger codes, the division has an increased risk of errors; potential theft and the inventory cannot be reconciled properly.

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.

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

Observation

The Fleet Inventory Coordinator has full access to the procurement and inventory processes within the Fleet Division. The Coordinator orders inventory items with vendors, creates purchase orders in the City’s financial software, accepts deliveries or picks up merchandise from vendors, keys the items into both the City’s financial software as well as the Fleet Focus software and has the ability to process payment on the invoices. There is no segregation of duties other than the practice of handing the invoices over to the Office Associate for payment; however, the Coordinator has access to do so. The Fleet Inventory Coordinator manages all inventory items within the Fleet Focus software which is the operational software for the division as well as performs the inventory counts alone and makes any adjustments from those counts. There is no segregation of duties in this process.

Risk

Without proper segregation of duties, the internal control environment will not be adequate to prevent error, fraud, waste or abuse.

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

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 follow 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	

- 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.**

Observation

Walkthroughs of the Fleet facility were performed to evaluate access to the parts room, inventory held within the Fleet facility and any security features throughout the facility. There are a total of ten points of entry into the parts area of the Fleet facility, many of which remain open or unlocked throughout the work day. The facility had a perimeter gate with remote entry access as shown in the aerial view on Attachment A; however there was not a security system. Parts and equipment are stored within the parts room, but also throughout the facility in open bay areas as well as work areas of the mechanics. Attachment B shows the points of entry to the parts inventory and equipment.

The work order system has a handheld barcode scanning system which allows for parts to be scanned and attached to the applicable work order; however the barcode scanners are not currently being used. The bar codes are being attached to the parts, but the Fleet Inventory Coordinator charges the parts to the work order manually and then places it on a will call cart within the parts room for the mechanic to pick up. This manual system of charging parts can be problematic when the Fleet Inventory Coordinator is either off work for the day or out of the office picking up parts. If the mechanics need a part during this time, they either have to wait for the Coordinator to return to the office or they pull the part off the shelf themselves and should manually charge the part to the work order.

Risk

Without proper restriction of access to the parts inventory or security cameras at the facility, the risk of parts being used and not being charged to a work order increases in addition to the risk of theft of parts or tools and equipment.

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.

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.

- 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.**

Observation

Prior to notifying Fleet Division staff that an audit had been requested, a surprise inventory count was performed. The purpose of this unannounced inventory count was to spot check various inventory amounts and get a snap shot of the items on site at the Fleet Division building as of February 20, 2011. Blind count sheets were utilized to compare with amounts listed in the system. Multiple photographs were also taken to document the facility.

The surprise count was compared to the Fleet Focus software inventory reports. It was discovered that there were items at Fleet that were not being accounted for in the Fleet Focus software including transmissions, engines and any part that was considered a "used" part that had

been removed from vehicles or repaired for future use. Below are two photos of engines and transmissions at the Fleet facility that were not recorded within the inventory system.



There are also multiple items purchased with BGPD funds for installation on cruisers that are not inventoried or tracked in any fashion. Discrepancies were found among items recorded in the inventory system including parts such as: windshield wiper blades, oil filters, rotors, bush hog blades, etc. 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%.

$$\text{IRA (\%)} = \frac{\text{Number of Correct Records}}{\text{Number of Records Checked}} \times 100$$

It is unrealistic to expect that a physical inventory count and record will match exactly for every item; however, typical tolerances are between a 5% and 10% error rate where this spot count shows a 22.78% error rate.

The current inventory process at Fleet is conducted by the Fleet Inventory Coordinator during normal working hours and conducted without assistance from other staff.

Risk

Incomplete inventory tracking and lack of segregation of duties hamper the ability to properly account for inventory and parts.

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.

Management Response

Annual Inventory

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 BGPD). 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 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.

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

Observation

Part inventory adjustments for FY2009/2010 and FY2010/2011 were reviewed and showed total inventory adjustments which reduced the value of inventory on hand by \$14,288.35 and \$15,454.92 respectively. The reported inventory for June 30, 2010 totaled \$140,275 so the reduction in inventory equated to 10.18% of total inventory. The external audit had not been completed for FY2011 to accurately equate the adjustment percentage.

There was no explanation required when adjustments were made and there was no management review of the adjustments to the inventory within the Fleet Focus software. Four of the eight current staff has the ability to make adjustments to the Fleet Focus system inventory. According to the City's IT Department, two of the employee's with access hadn't made any adjustments since 2009.

Risk

Parts and inventory can be easily removed and written off when multiple people have the ability to do adjustments and there is no management review of the adjustments.

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.

Management Response:

Approval Controls

Fleet Inventory software rights will be revised. Only the Fleet Inventory Coordinator and the Fleet Shop Supervisor shop 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.

- 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.**

Observation

The overall City asset threshold is items costing \$5,000 and above; however, in a facility such as Fleet there are multiple tools and equipment that should still be accounted for. The Fleet Division requires that the mechanics bring in their own tool box and hand tools, but the mechanics are provided a tool allowance to supplement and replace broken tools each year. The City purchases all specialized tools and more expensive tools or equipment for use at the Facility. The tools and equipment are housed within the bays of facility, but there is no method to identify which tools and equipment belong to the individual mechanic versus the City.

There was also no tracking of tools and equipment purchased by the City so if a break-in, fire or theft were to occur it would be very difficult to identify what was lost or stolen.

Risk

Tools and equipment of both the individual mechanics and the City have a high risk of loss or theft since there was no method to identify who owned the tools.

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.

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.

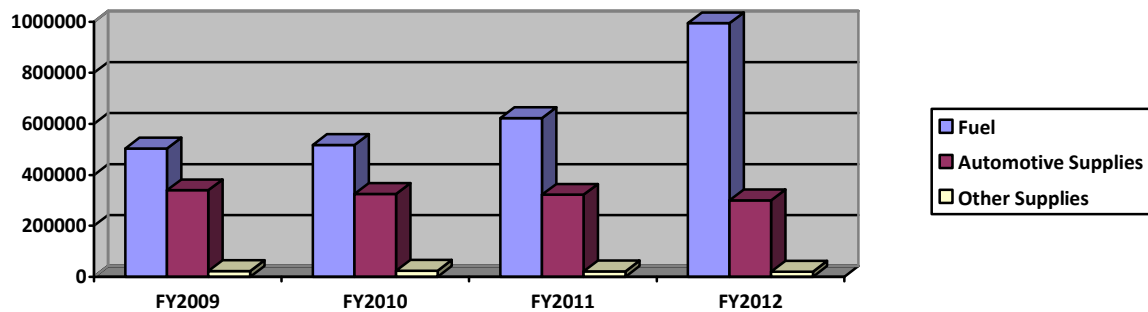
Inventory Accuracy

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.

- 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.**

Observation

Fuel expense accounts for an increasing amount of the supply category each year accounting for a budgeted cost of \$944,315.00 in FY2012, actual cost of \$623,245.24 in FY2011, actual cost of \$517,551.06 in FY2010 and actual cost of \$503,440.61 in FY2009.



The City utilizes one fuel company, but has never bid out the product to ensure that the best price is received for the product.

Outsourced repairs were also reviewed which indicated that one vendor received 100% of the accident repairs for paint and body work totaling \$7,980.09 in FY2011, \$28,092.18 in FY2010 and \$10,371.89 in FY2009. This same vendor also was utilized frequently for equipment paint and body repairs and received a total of \$29,640.67 in FY2011, \$44,992.83 in FY2010 and \$41,545.61 in FY2009 for services rendered to the City. This type of service was not bid out on a contract basis; however one vendor was utilized for these services.

Risk

Without reviewing expenditures and bidding large expenditures out publically, the City cannot ensure that it is receiving the best product or service for the most appropriate price.

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 service.

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 consider 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 contacts. 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.

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

Observation

Core fees are charged for certain car parts when they are purchased to encourage the return of the old part for remanufacturing purposes. Various parts such as water pumps, brake rotors, batteries, alternators, distributors and brake calipers are commonly sold with core charges. The core fee is charged when a new part is purchased and refunded when the old part is removed from the vehicle and returned to the store. The Fleet Division did not have a method to identify these parts consistently to ensure that the City was receiving refunds for any core fees charged.

Recycling bins were located at the Fleet facility for miscellaneous metal that could be recycled. The Fleet Division also stores confiscated vehicles and other large items such as canoes from BGPD or other agencies. During review of recycling revenues, it was determined that in at least one occurrence the actual amount paid to an employee for recycling City materials was not fully submitted to the City. The review indicated a failure to adequately ensure that the City receives full compensation for all recyclables sold by the City.

Risk

Without properly recording core fees, managing the sale of recyclables and tracking confiscated items, theft may occur.

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.

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

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

Observation

The Fleet Focus software allows for mechanics to apply their actual labor times to each specific work order through the handheld devices that are not currently being used. The Division utilized the handheld systems to charge actual labor times until March 2010 when the Division transitioned into a flat rate labor charge for entry. During this time frame, changes were made to a service contract that the City had with another agency, where the billing changed to a flat rate basis for labor. The term “flat rate” according to Wikipedia is defined as:

A price a customer pays for a specific service based on the amount of time deemed necessary to perform the service, which remains constant regardless of the actual time a particular worker needed to complete the service. Flat rate manuals are used throughout the service industry and are based on timed studies of the time it takes to perform a specific job. Flat rate helps provide a uniform pricing menu for service work and helps establish the worth of the performance of a particular job.

Management decided to apply a flat rate to all work orders after the work orders were completed instead of having the mechanics charge their actual work time to work orders. Now, labor time is entered by either the Fleet Manager or the Office Associate as they close the work orders. The change in labor reporting to a flat rate verses actual labor cost has restricted the ability of management to analyze the shops efficiency as well as prevented the Division from being able to accurately report on one of their key performance measurements. The Fleet Division had tracked and reported a key performance measure of:

Police vehicle downtime- average time required to complete preventative maintenance service “A” (routine oil change and checkup) for PD vehicles

This performance measurement can no longer be used in its current form because all of the labor times attached to these work orders were flat rate estimates and not actual labor times.

Risk

Without the use of actual labor times, management will be limited in their ability to evaluate employee performance as well as overall shop performance or needs in addition to being unable to accurately report on their key performance measures.

Recommendation

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.

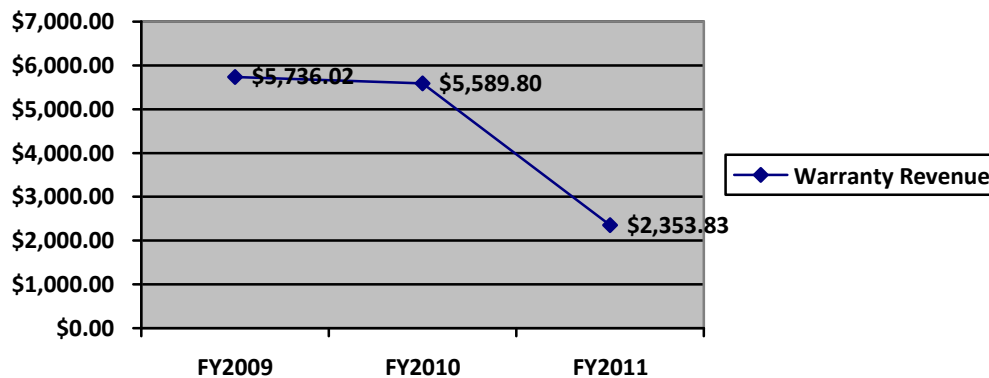
Management Response

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.

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.

Observation

The City’s Fleet Division has the ASE “Blue Seal of Excellence” and is certified to perform warranty work on Ford and GM vehicles. When the Fleet Division warranty work was performed, it was identified as such in the Fleet Focus software for reimbursement requests. The Office Associate has the responsibility to process the reimbursement requests with Ford and GM. According to the City’s financial software, the revenues received for warranty work are as follows:



Warranty claim reports were also ran from the Fleet Focus software which separated warranty claims by status codes. Below is a summary of the past three fiscal years warranty claims.

Status Code	FY2008/2009	FY2009/2010	FY2010/2011
Approved	47	31	14
Performed by Vendor	16	42	27
Denied	24	11	3
Pending or Sent to Vendor	7	9	5
In Preparation	1	9	26
Total Claims	95	102	75

The Office Associate stated that there was no set schedule as to when warranty claims were submitted and a claim could be denied for various reasons including:

- GM required failure codes to be submitted for battery replacements with its upgraded system and our testers do not show battery codes
- The mileage exceeded warranty limits when work performed
- Recall was issued that must be performed and billed within a specified time period which is exceeded

As the table above shows, there were 26 claims from FY2011 coded as “in preparation” which means that the work had been completed by the mechanic; however, the claim has not been submitted for reimbursement.

Risk

Failure to timely and completely submit warranty claims would reduce the revenue received by the City for performing these services.

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.

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 in 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.

ATTACHMENT A



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ATTACHMENT B

