

# **Audit Report**



**As of September 30, 2002**

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City Auditor

## ***“Fleet Parts Operations”***

**Report #0303**

**December 10, 2002**

### **Executive Summary**

The purpose of this report is to assist the City Manager and executive management to strengthen internal controls in the City's Development and Transportation Service Area – Fleet Division, and specifically in the Parts Unit within the Fleet Division. In June 2002, a City employee provided information to the Tallahassee Police Department (TPD) causing an initiation of a criminal investigation of alleged theft of fleet parts and supplies.

At the time the information was reported, the Office of the City Auditor was conducting an audit of the Parts Unit with an audit of the Fleet Repair and Maintenance Unit to follow. In response to the above information and the initiation of the criminal investigation by TPD, we temporarily suspended on-site work at Fleet. Concurrently, the City Manager requested that we provide audit assistance to TPD. We have subsequently performed analytical procedures, provided financial information from City records, and provided other assistance to TPD as requested.

Our review of the Parts Unit showed that Fleet had not established appropriate internal controls. Also, in those instances where controls had been established, there were acts of collusion to circumvent City control objectives. As a result of material deficiencies in internal controls relating to recordkeeping, documentation, and reporting, the amounts reported from the FASTER system are not reliable. These deficiencies have also resulted in significant financial losses to the City in the Parts Unit of the Fleet Division.

In October 2002, TPD arrested two former employees of the Fleet Division and two other individuals not employed by the City of Tallahassee. TPD is continuing its investigation.

Because of the on-going nature of the criminal investigation and the need for TPD to

accumulate evidence, the City Manager could not initiate corrective actions prior to October 2002. We anticipate that audit assistance will continue to be provided to TPD and that we will assist the City Manager, City Attorney, and City Treasurer-Clerk in quantifying the amount of loss for their information and further administrative and legal actions.

The City Auditor has had an ongoing dialog with the City Manager during the investigation, and we are aware that the City Manager has initiated corrective actions for the control issues identified in this report.

We will continue to work with the City Manager to assist her in her determination of changes needed to improve the internal control system in the Fleet Division.

### **Scope, Objectives, and Methodology**

The scope of this audit included a review of the City's Fleet Parts Unit operations during the period of September 2001 through September 2002.

Our audit objectives were to determine whether adequate controls were in place to ensure that:

- departments are being properly billed;
- procurement of parts are properly paid for and billed to departments;
- parts data in the FASTER system is accurate and complete; and
- the data transferred between FASTER system and Financials system is accurate and complete.

To address the above objectives, we interviewed staff in Fleet Division and key department customers, reviewed records and documents maintained by the Fleet Parts Unit in the FASTER System, the City's Financial System, the electronic records management system, and the Treasurer-

Clerk's documentation. We also conducted extensive data analysis, tests of controls, and relevant detailed tests of transactions. These audit procedures were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate.

## Background

The Fleet Division is accounted for as an Internal Service Fund. The City's annual audited financial statements reported inventory for fiscal years 2001 and 2000 at \$840,000 and \$599,000, respectively.

The Parts Unit is located within the Fleet Division, Public Works Department. The Parts operating budget for FY 2003 is \$7,397,377, comprising 66% of the Fleet Division operating budget. The Fleet Division acquires City vehicles and heavy equipment and provides routine repair and preventive maintenance. The Parts Unit maintains inventories and issues parts, fuel, and oil for the City Fleet.

The City's Fleet Division utilizes the FASTER system to manage their operations. The FASTER system consists of various modules to support operations, including: Assets (vehicle information and history), Fuel (purchases, issuance and inventory), Parts (purchases, issuance and inventory), Reports (pre-designed for management's use), and Work Orders (recording repair labor and parts costs for billing). Regarding parts and fuel, a perpetual inventory system also maintains information related to inventory unit cost and quantity. Annually, physical inventories are performed and adjustments are made to the quantities maintained in the FASTER system by Fleet. The general ledger maintained by Accounting Services in the Department of Management and Administration is then adjusted as necessary for differences between perpetual records and physical counts.

Pursuant to City Commission Internal Control Policy No. 220, the City Manager has developed appropriate guidelines for City departments to use in the establishment of internal controls. These "Internal Control Guidelines," dated November 1994, are contained in Administrative Policy and Procedure No. 630. City internal controls should promote the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting, and
- Compliance with applicable policies, guidelines, and procedures.

A subset of the above three objectives is the safeguarding of assets to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisitions, use, or disposition of City assets.

## Significant Issues and Recommendations

The following table is presented to describe internal control issues identified to date and to provide recommendations for management's consideration and implementation. We are providing recommendations to the City Manager and executive management in the following general areas:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Executive management has developed an action plan that identifies the person responsible for implementing the recommendation, the estimated completion date, and the action plan activities.

**Table 1**

**Control Environment**

Management is responsible for the control environment, for setting the tone for the organization, and for influencing the control consciousness of its people. The control environment provides an atmosphere in which people conduct their activities and carry out their responsibilities, and reflects the overall attitude, awareness and actions of management concerning the importance of control and its emphasis on the entity. It is the foundation for the other four components.

Issue	Recommendation	Management's Action Plan	
		Person Responsible	Estimated Completion Dates
<p>1. The City needs to complete ethics training classes so all employees are aware of ethical behavior and expectations. We are aware that for the past two years the City Manager has made ethics training a priority for City government. An ethics training manual, "Ethics for a Modern Workforce," has been developed to serve as a citywide guide on ethics. Over 700 utility service area employees and over 350 employees from other departments have received training thus far. For the period January – March 2003, an additional 54 training sessions have been scheduled to train other City employees.</p>	<p>1. City management should continue to communicate and reinforce its commitment to an expectation that all City employees, from the top down, act with integrity and ethical values. The ethics training guide should be updated to address the City Manager and Appointed Officials' expectations and be distributed to employees. Employees should be encouraged to identify suspected improper activity without fear of repercussion, and disciplinary actions taken as a result of violations found should be widely communicated so others know the expected consequences for similar actions.</p>	Tom Coe	12/31/02
		The ethics training manual will be updated to reflect the expectations of Appointed Officials.	
		Sharon Ofuani	On-going
		City management is committed to continue mandatory ethics training for all City employees. Ethics training will continue and an additional 54 classes have been scheduled for 2003.	
		Sharon Ofuani	On-going
Assistant City Managers and Department Directors will continue to teach ethics classes to reinforce the importance of ethics in the organization.			

<p>2. Management oversight for the Fleet Division and specifically for the Parts Unit needs to be strengthened and improved.</p>	<p>2. Senior Managers (Assistant City Manager, Department, and Division Superintendent) should set a tone at the top by continually assessing risks, receiving verbal and written management reports relating to Fleet operations, and frequently visiting operational areas.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe Michael Wright</p>	<p>On-going</p>
		<p>Written management reports have been delivered to each department and conversations are ongoing relative to the development of additional reports. The development of additional reports will aid in the oversight of activities and contribute to a joint effort in assessing the risks within the Fleet Division. The ACM for Development and Transportation has attended two Fleet Division meetings and communicated one-on-one with many employees during the last six weeks. The interim Fleet Superintendent has daily contact and discussions with employees.</p>	
<p>3. Written policies and procedures need to be developed for the Fleet Division that take into consideration internal control guidelines issued by the City Manager in Administrative Policy and Procedure No. 630.</p> <p>Note: This issue is discussed in further detail under Control Activities.</p>	<p>3. Fleet purchasing procedures are unique within the City government. Written internal policies should be developed for the Fleet Division consistent with internal control guidelines contained in Administrative Policy and Procedure No. 630. Such policies should be reviewed and approved by the ACM for Development and Transportation Services. The development of policies and procedures should be coordinated with the divisions of Accounting and Procurement Services in the Department of Management and Administration.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe</p>	<p>1/31/03</p>
		<p>Internal control guidelines issued by the City Manager in Administrative Policy and Procedure No. 630 establish the guidelines for use by each department in establishing and maintaining its control structure in accordance with Resolution No. 89-R-066 and the City Commission Policy No. 220CP. The components of the internal control are 1.) Control Environment; 2.) Risk Assessment; 3.) Control Activities; 4.) Information and Communication; and 5.) Monitoring. All components have been addressed with the most important being the segregation</p>	

		<p>of duties in the financial system to disallow any employee with requisition authority to also have approver authority. The authority within the FASTER system has also been segregated to disallow the same person to order and receive on the same auto part, fuel purchase or repair activity.</p>
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## Risk Assessment

Risk assessments are mechanisms to determine the relative potential for irregularities or non-compliance in programs and functions from both external and internal sources. Management is responsible for assessing risk and encouraging continuous assessment at all levels in the organization.

Issue	Recommendation	Management's Action Plan	
		Person Responsible	Estimated Completion Date
<p>1. Management and operating managers need to assess the susceptibility to risks in Fleet operations. Management needs to assess internal controls in relation to risks to include: (1) the potential impact of departments not receiving accurate and complete reports for maintenance charges to City vehicles and equipment; (2) the lack of segregation of duties among employees in Fleet Parts; (3) potential for duplicate payment of vendor invoices; and (4) the potential for inaccurate inventory valuation.</p>	<p>1. Management should conduct a risk assessment in Fleet to identify:</p> <ul style="list-style-type: none"> <li>• Programs and activities that have an inherent risk;</li> <li>• Ways to mitigate risk;</li> <li>• Risks associated with planned changes in management and processes; and</li> <li>• Expenditure trends among suppliers.</li> </ul>	<p>Terry Lowe Michael Wright</p>	<p>12/31/02</p>
		<p>Processes have begun to mitigate the risks at Fleet by identifying activities that a competitive bid process should occur resulting in a contract with a specific vendor. The goal is to have 90% of the bid packages in the market by 12/31/02. Key personnel have been reassigned to facilitate and provide accountability for reliable financial reporting. A division in-house procedure manual has been initiated. Fleet has already identified areas such as the warranty application process, which has not been properly conducted. An aggressive program has been undertaken to collect warranty repayment to the extent possible and apply for all future entitlements. Fleet is working with the Operational Managers Advisory Committee (OMAC) department liaisons and employees within departments to understand the need and improve the level of service provided.</p>	

### Control Activities

Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives. They are an integral part of planning, implementing, reviewing, and accountability. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, and creation and maintenance of records that provide evidence of execution of activities as well as appropriate documentation.

Issue	Recommendation	Management's Action Plan	
1. Performance measures, recommended in the 1998 audit of the Fleet Management Program (#9702), have not been established to efficiently and effectively monitor Fleet operations.	1. Management should develop and use performance measures to manage and monitor all Fleet operations, including the Parts Unit.	<b>Person Responsible</b>	<b>Estimated Completion Date</b>
		Terry Lowe	12/31/02
		ISS and Fleet have developed a list of reports to manage and monitor and will further discuss additional capabilities of the FASTER system on 12/9/02 when representatives of the software company will be on site.	
2. The former Superintendent of the Fleet Division did not adequately supervise, analyze, and properly assign authorization and access controls in the Fleet Parts Unit. Unsupervised actions of the Fleet Parts staff appear to have occurred over a period of at least five years and resulted in the apparent diversion of a significant amount of Fleet parts and supplies. Had the Fleet Superintendent established, implemented, and monitored internal controls consistent with City internal control guidelines, it is probable that the apparent diversion of City parts and supplies would have been detected much earlier.	2. The Superintendent of Fleet should ensure that internal controls for the Fleet Division are comprehensive and consistent with City internal control guidelines. Training activities should be performed at all levels at Fleet to ensure that City internal control objectives are understood and achieved.	<b>Person Responsible</b>	<b>Estimated Completion Date</b>
		Terry Lowe	12/31/02
		Internal controls have been enhanced. The interim Fleet Superintendent has taken a hands-on approach and observes activities in the parts section several times a day. Guidelines have been established which do not allow any one employee full authority over any process. Organizational changes necessary to accomplish the segregation of duties and require businesses to establish the desired controls have been completed for the short-term.	

<p>3. Internal controls within the FASTER system have not been effectively implemented. Currently, there is not an adequate number of Fleet staff that are both knowledgeable of the capabilities of the FASTER system and good industry business practices for all Fleet operations.</p>	<p>3. The FASTER system should be upgraded to the most current version, and Fleet business rules and processes should be redesigned to accommodate the FASTER system. In addition, staff should receive training regarding all business processes and features available in FASTER so as to best use the system at Fleet.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe Park Malloy</p>	<p>TBD</p>
		<p>A 12/9/02 meeting with FASTER representatives has been scheduled. Several brainstorming meetings between Information Systems Services (ISS), Procurement Services, the Office of the City Auditor, Accounting Services, and Fleet have taken place to determine the system's capability.</p>	
<p>4. Too many employees have physical access to Fleet parts and supplies.</p>	<p>4. To the extent possible and practicable, physical controls should be implemented to limit access to parts and supplies to others that are not responsible for them.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe</p>	<p>Completed</p>
		<p>Only five employees, including the supervisor, have unlimited access to parts section. Others are admitted according to need, with supervision.</p>	



<p>5. Duties within the Fleet Parts Unit were not appropriately segregated. Several Parts employees (eight employees in December 2001; six employees in September 2002) could perform incompatible functions. The same person could:</p> <ul style="list-style-type: none"> <li>• Order, approve, receive, and issue parts, and record those transactions into the FASTER system;</li> <li>• Add vendors to the FASTER system without vendor verification by Fleet administration or Procurement Services;</li> <li>• Delete orders, invoices, and receipts in the FASTER system;</li> <li>• Open closed work orders and assign additional parts and labor without supervisory approval; and</li> <li>• Make adjustments to perpetual inventory records in the FASTER system.</li> </ul> <p>Employees performing incompatible duties are in a position to perform all key aspects of a transaction or event. For example, numerous parts were purchased and recorded as direct charges that were never received by the City. In these situations, the parts were charged directly to a vehicle or equipment in the FASTER system. Based upon information made available to us, a significant number of parts represented by direct charge were never received by the City.</p>	<p>5. Key duties and responsibilities should be divided or segregated among employees in the Fleet Parts Unit in order to reduce the risk of error or fraud. Simply put, no one individual should control all key aspects of a transaction or event.</p> <p>Issues that need to be addressed include the chain of custody over parts as they are received and issued to include who can:</p> <ul style="list-style-type: none"> <li>• Order</li> <li>• Receive</li> <li>• Issue</li> <li>• Delete orders and receipts</li> <li>• Re-open work orders to add or remove costs or quantities</li> <li>• Adjust inventory quantities and costs</li> <li>• Exercise control over vendors added to the Financials system for purchases initiated in the FASTER system</li> <li>• Provide supervisory approval</li> </ul> <p>To provide accountability for users' actions, individual user ID's and</p>	<table border="1"> <thead> <tr> <th data-bbox="1493 157 1743 269"><b>Person Responsible</b></th> <th data-bbox="1749 157 2001 269"><b>Estimated Completion Date</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="1493 269 1743 381">Terry Lowe Partially completed</td> <td data-bbox="1749 269 2001 381">1/31/03</td> </tr> </tbody> </table>	<b>Person Responsible</b>	<b>Estimated Completion Date</b>	Terry Lowe Partially completed	1/31/03	<p>Segregation of duties has been completed which will not allow one individual the opportunity to err or commit fraud. Only authorized employees, including the supervisor, have unlimited access to parts section. Others are admitted according to need, with supervision.</p>
<b>Person Responsible</b>	<b>Estimated Completion Date</b>						
Terry Lowe Partially completed	1/31/03						

	<p>passwords should be enforced to ensure that transactions are only conducted by authorized persons. In addition, access capabilities in FASTER should reflect the employee's authorized role in the procurement process.</p> <p>In addition, as a general rule, all parts ordered and received by the City should be accompanied by a proper invoice and recorded appropriately in the FASTER system.</p>						
<p>6. Blanket purchase orders do not provide sufficient detail of parts ordered. A significant number of phone orders are made for parts but not recorded in the FASTER system when ordered. As a result, it is difficult for Parts staff to know that a received part has been properly ordered.</p>	<p>6. To the extent possible, parts and supplies should be either ordered from City issued purchase orders or recorded in the FASTER system when ordered.</p>	<table border="1"> <thead> <tr> <th data-bbox="1486 592 1743 678"><b>Person Responsible</b></th> <th data-bbox="1743 592 1997 678"><b>Estimated Completion Date</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="1486 678 1743 829">Terry Lowe</td> <td data-bbox="1743 678 1997 829">3/31/03</td> </tr> </tbody> </table>	<b>Person Responsible</b>	<b>Estimated Completion Date</b>	Terry Lowe	3/31/03	
<b>Person Responsible</b>	<b>Estimated Completion Date</b>						
Terry Lowe	3/31/03						
		<p>Blanket purchase orders have been eliminated. Invoices are requested when an order is placed and a parts description is required on the invoice. Ninety-five percent of all direct ordered parts now have an invoice when the part is delivered. All stock parts now have an invoice when delivered. Parts specialists are recording the parts on the work order in FASTER when ordered. RFPs will be released for all term contracts by 12/31/02 and contracts will be in place by 3/31/03.</p>					

<p>7. Transactions and events were not recorded on a timely basis. In many instances the time period between the date of the vendor's invoice and the date the item was entered into the FASTER system was several months. These transactions were not detected, or reported, by the Fleet Superintendent through monitoring nor detected and reported by Procurement Services staff when processing payments.</p>	<p>7. Staff should be alert to activities that appear out of the ordinary. They should bring such matters to the attention of supervisory personnel for review and investigation, as appropriate.</p>	<table border="1"> <tr> <th data-bbox="1493 159 1738 235"><b>Person Responsible</b></th> <th data-bbox="1745 159 2003 235"><b>Estimated Completion Date</b></th> </tr> <tr> <td data-bbox="1493 240 1738 316">Terry Lowe</td> <td data-bbox="1745 240 2003 316">On-going</td> </tr> </table>	<b>Person Responsible</b>	<b>Estimated Completion Date</b>	Terry Lowe	On-going	<p>Timeliness of transactions is now monitored by the interim Fleet Superintendent. The supervisor responsible for the repair for a specific vehicle now critiques both parts and labor and approves the work order to be closed. This was previously done in the parts section.</p>
<b>Person Responsible</b>	<b>Estimated Completion Date</b>						
Terry Lowe	On-going						
<p>8. Numerous vendor invoices did not contain enough description to identify the item purchased. This was made more difficult because blanket purchase orders were used and phone orders were common practice. As a result, vendor invoices often contained only a part number. In many instances, those part numbers:</p> <ul style="list-style-type: none"> <li>• Concealed the identity of the part ordered, and</li> <li>• Concealed the cost of the part by dividing the cost in as many as five ways. In such instances, the cost of the part was divided and assigned to multiple vehicles.</li> </ul>	<p>8. The ordering system should require the description and identity of parts ordered. Vendors should be required to adequately describe the part ordered on the invoice, and vendors failing to comply should be removed from the City's approved vendor listing.</p>	<table border="1"> <tr> <th data-bbox="1493 607 1738 683"><b>Person Responsible</b></th> <th data-bbox="1745 607 2003 683"><b>Estimated Completion Date</b></th> </tr> <tr> <td data-bbox="1493 688 1738 760">Terry Lowe</td> <td data-bbox="1745 688 2003 760">3/31/03</td> </tr> </table>	<b>Person Responsible</b>	<b>Estimated Completion Date</b>	Terry Lowe	3/31/03	<p>All vendors that have been requested are providing additional information on their invoices. Parts staff are presently renumbering all stock parts with OEM (Original Equipment Manufacturer) numbers and entering a description into the FASTER system inventory. Parts staff is making efforts to stock the routinely used parts. This will eliminate problems with the direct purchase process.</p>
<b>Person Responsible</b>	<b>Estimated Completion Date</b>						
Terry Lowe	3/31/03						

<p>9. There was excessive use and misuse of generic (TC) codes to describe parts charged to work orders. Such generic coding (TC 51) Accessories – General, (TC 34) Lighting, and (TC 51) Lines and Controls made it extremely difficult to determine exactly what had been done to a City vehicle.</p> <p>Because of this generic coding and apparent collusion with a vendor parts store, we were only able to determine the exact description of a particular part after making inquiry directly with the vendor's home office.</p>	<p>9. Charges to City vehicles should adequately describe the work done. In those situations where the description is inadequate, the department receiving the maintenance charge should do such follow up as necessary to satisfy themselves as to the validity of the charge. The use of generic codes should be limited. All substantial parts issued to a vehicle should be adequately described on the work order.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe</p>	<p>12/1/02</p>
		<p>The codes, with the addition of the OEM number and part description associated with them will allow the departments to know exactly what has been done to their vehicle. They will know the exact part charged to their vehicle and the labor associated with that part. A monthly report is now being distributed. Four departments have inquiry access to the FASTER system and can critique all activities related to their vehicles. Parts descriptions on the work orders is still not available. ISS and Fleet will address this issue with the FASTER representatives on 12/9/02.</p>	
<p>10. Processes to ensure the accuracy of payments to vendors and billing to departments were not consistently performed in the Fleet Parts Unit. The result was duplicate payments were made to vendors for the same invoice, and departments were billed twice for the same part.</p>	<p>10. Fleet management should ensure that processes to ensure the accuracy of payments and billings to departments are consistently performed and corrections made as needed.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe</p>	<p>1/31/03</p>
		<p>The Fleet staff has been reorganized to ensure payments to vendors and billings to departments is accurate. This is an ongoing process. ISS and Fleet will discuss this issue with FASTER representatives on 12/9/02.</p>	

<p>11. The Parts inventory has not been properly managed and accounted for, in that:</p> <ul style="list-style-type: none"> <li>• Inventory records were fraudulently altered;</li> <li>• Physical inventory counts were not independently observed;</li> <li>• Not all parts are accounted for in the FASTER inventory (fuel and parts stored at off-site locations);</li> <li>• Parts have been ordered and received by vehicle maintenance staff;</li> <li>• Obsolete inventory has not been disposed;</li> <li>• No consistent method is in place for determining which items are expensed, placed in inventory, or directly charged to vehicles;</li> <li>• Unit quantity is not consistently recorded (fuel, oil);</li> <li>• Not all issued inventory parts are recorded in the FASTER system; and</li> <li>• Minimum and maximum quantities in the system are not observed.</li> </ul>	<p>11. Proper inventory management processes need to be implemented, such as: ensure proper physical inventories are conducted; include all parts and fuel in inventory; order and receive parts only in the Parts Unit; manage minimum and maximum quantities on-hand; dispose of obsolete inventory; define methods for identifying what should be included in inventory and what should be expensed; and define unit quantities in a consistent manner.</p>	<table border="1"> <thead> <tr> <th data-bbox="1493 157 1736 293">Person Responsible</th> <th data-bbox="1743 157 2001 293">Estimated Completion Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="1493 298 1736 373">Terry Lowe</td> <td data-bbox="1743 298 2001 373">12/31/02</td> </tr> </tbody> </table>	Person Responsible	Estimated Completion Date	Terry Lowe	12/31/02	<p>A proper inventory has been completed, and staff is in the process of removing obsolete inventory.</p> <p>The estimated completion dates dealing with the FASTER related issues will be determined after the 12/9/02 meeting with the FASTER vendor (CCG Systems). Obsolete inventory has been physically removed awaiting Accounting Services and ISS to electronically remove from inventory. All parts purchases, with the exception of road mechanics working for solid waste and streets and drainage, come through the parts inventory. Processes for stock parts, direct purchase parts, sublets, and fuel have been established.</p>
Person Responsible	Estimated Completion Date						
Terry Lowe	12/31/02						

### Information and Communication

Information should be communicated to management and others who need it and in a form and within a time frame that enables them to carry out their responsibilities. Information needs to be relevant, reliable, and timely communicated.

Issue	Recommendation	Management's Action Plan	
1. The Parts Supervisor made significant adjustments to the FASTER perpetual inventory without approval by the Fleet Superintendent or notification to Accounting Services.	1. The FASTER Interface report made available to Accounting Services and Fleet management should provide all inventory transactions, including receipts, issues, and adjustments.	<b>Person Responsible</b>	<b>Estimated Completion Date</b>
		Terry Lowe Park Malloy Rick Feldman	TBD
		This date will be determined after the 12/9/02 meeting with the FASTER vendor (CCG Systems).	
2. Information (invoices and credits) existed in the Financials system maintained by DMA, but that information was not in the FASTER system and vice versa. These discrepancies are indicative of an employee having the ability to inappropriately delete information in FASTER.	2. Periodic reconciliations and reports, as appropriate, should be produced that show that parts related adjustments made to the Financials system are also made to the FASTER system and vice versa. Such information should be provided to the Fleet Superintendent and Accounting Services Manager for their review.	<b>Person Responsible</b>	<b>Estimated Completion Date</b>
		Terry Lowe	12/31/02
		Reconciliations have been completed. Other related reports will be completed by 12/31/02. This will be discussed in more detail with FASTER representatives on 12/9/02.	
3. The data in the FASTER system is not reliable. There are several areas in the FASTER system for which the data is not accurate and/or complete, including: <ul style="list-style-type: none"> <li>• work orders and receipts have been deleted;</li> <li>• vehicle mileage is incorrect; and</li> <li>• fuel inventory and unit cost is incorrect.</li> </ul>	3. Fleet management should develop and implement business processes to ensure that the correct information is being input into the system and that the system calculations are accurate. In addition, access security should be implemented to ensure that only authorized persons can delete transactions.	<b>Person Responsible</b>	<b>Estimated Completion Date</b>
		Terry Lowe	1/31/03
		Access security has been implemented to limit persons authorized to delete transactions. Departments are being requested to provide up-dated vehicle mileage information. This will be discussed in more detail with FASTER representatives on 12/9/02.	

<p>4. Accurate and complete vehicle cost reports have not been provided to management to assist in monitoring costs charged to vehicles and equipment. In Report #9702, issued July 2, 1998, the City Auditor recommended that Fleet develop and provide reports to departments and Assistant City Managers to allow them to assess the efficiency and effectiveness of the City's Fleet Management Program. In four six-month follow up reports and in the final closeout report issued June 5, 2001, we continued to recommend action on this item. In the closeout report, the Department responded on May 25, 2001, that such reports would be issued semi-annually beginning June 2001. We identified this lack of completing the action plan item as a significant outstanding issue. As of September 2002, comprehensive vehicle maintenance cost reports had not been issued.</p>	<p>4. Management should establish a high priority on providing City departments with accurate and complete reports showing monthly charges to their vehicles and equipment. At a minimum, departments should receive a monthly report listing each vehicle and the total maintenance cost by work orders and showing, at a minimum, total cost for work order by vehicle. Reports should include all charges and provide monthly billing information. Departments should verify that amounts shown on the FASTER report agree with amounts billed through the FASTER interface sent to Accounting. In addition, key user departments should receive training on the FASTER system so they have a better understanding of how to make their own inquiries into FASTER and how to obtain reports that meet their needs.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe Park Malloy</p>	<p>TBD</p>
		<p>Monthly reports are now being delivered to the departments. Fleet staff is available to answer any concerns departments may have related to the reports. Four departments now have inquiry access to FASTER and can critique any activity related to their vehicle. Training has been completed, and any additional training is available upon request. A copy of the work-order is placed in the vehicle and itemized parts costs cannot be placed on the work order. This will be discussed with FASTER representative on 12/9/02.</p>	

<p>5. Vehicles returned to departments were not always accompanied by a work order showing all costs assigned (parts, labor, sublet, credits, etc.). As a result, departments were unable to ensure that they were being properly billed. Tests showed user departments were charged for parts not placed on their vehicles.</p>	<p>5. Reports should be provided to user departments to identify individual work orders and include monthly summary billing information.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Terry Lowe</p>	<p>11/13/02 Completed</p>
		<p>Monthly reports are now being delivered to the departments. Fleet staff is available to answer any concerns departments may have related to the reports. Four departments now have inquiry access to FASTER and can critique any activity related to their vehicle.</p>	
<p>Training has been completed, and any additional training is available upon request. A copy of the work order is placed in the vehicle and itemized parts costs cannot be placed on the work order. This will be discussed with FASTER representative on 12/9/02.</p>			



### Monitoring

Monitoring should occur in the course of normal operations. A variety of controls should be in place to check accuracy, completeness, and authorization of transactions.

Issue	Recommendation	Management's Action Plan	
		Person Responsible	Estimated Completion Date
<p>1. Fleet Parts did not have physical inventory procedures and the Fleet Parts staff conducted the inventory without independent oversight or involvement. The City's Administrative Procedures Manual outlines departmental responsibilities relating to inventory control and indicates that DMA will assist departments in establishing inventory controls and procedures.</p>	<p>1. Accounting Services and Procurement Services should assist Fleet in the establishment of procedures and provide training in the inventory process, including:</p> <ul style="list-style-type: none"> <li>• Providing written instructions for how to conduct an inventory, control inventory sheets, and establish and follow an inventory cut-off process;</li> <li>• Identifying who should conduct the inventory (at least one person on each team should be independent of the custodian);</li> <li>• Identifying who should observe the inventory; and</li> <li>• Recording and documenting differences between physical counts and perpetual inventory records.</li> </ul>	Rick Feldman	Completed 10/25/02
		<p>There is an administrative procedure that outlines responsibilities for inventory control. Fleet conducted a physical inventory in the summer. Accounting Services had begun the process to conduct a follow-up inventory because of the indicated differences between the FASTER system and the general ledger. TPD asked that Accounting Services hold off the inventory because of the investigation. Once Accounting Services was given the go-ahead, they conducted a complete inventory in conjunction with Fleet personnel. Written procedures were provided in order to ensure a proper inventory was completed. Differences between the physical inventory and the perpetual system were documented. Adjusting entries were recorded.</p> <p>Accounting Services will review the inventory control procedure and offer training to appropriate departments. The inventory process was completed by October 25, 2002.</p>	

<p>2. In prior years, significant and allegedly fraudulent adjustments were made to FASTER inventory without detection. The general ledger was adjusted by DMA to reflect the total of the physical inventory in FASTER. At the time, the differences were believed to be due to system problems.</p> <p>The effect of the above fraudulent adjustments is that such cost was subsequently allocated (charged) to department budgets.</p>	<p>2. DMA should identify documentation that should be submitted to Accounting Services to support the inventory results and related adjustments. Differences between perpetual records and physical counts should be identified, investigated, and corrected. Perpetual inventory records should be adjusted based upon physical inventories with written approval signed by a responsible official (the Fleet Superintendent) before being made in FASTER. Also, the Accounting Services Manager should approve material adjustments for inventory reported in the general ledger.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>Rick Feldman</p>	<p>Completed 10/25/02</p>
		<p>The inventory differences were documented by the physical inventory. The interim Fleet Superintendent participated in the inventory process. The differences were recorded by Accounting Services in the general ledger upon completion of the inventory. This process was completed by October 25, 2002.</p>	
<p>3. Staff that process payments in DMA have not been trained to be alert to the possibility for fraud through:</p> <ul style="list-style-type: none"> <li>• Altered invoices to conceal pertinent information;</li> <li>• Invoices containing inadequate descriptions;</li> <li>• Consecutive payment requests for the same large amount; and</li> <li>• Sequentially numbered invoices for the same part number and the same large amount.</li> </ul>	<p>3. City Procurement Services staff should be trained to look for purchases in amounts and description, or lack thereof, that appear out of the ordinary. For unusually large purchases or purchases that appear to be divided to circumvent purchasing or pre-audit procedures, Procurement Services staff should request their supervisor's review and approval prior to payment.</p>	<p><b>Person Responsible</b></p>	<p><b>Estimated Completion Date</b></p>
		<p>David Reid</p>	<p>12/31/02</p>
		<p>Training will be conducted. Audit staff will provide examples of altered invoices. Additional reports are being developed to provide additional tools to detect fraud. Additionally, Procurement Services staff is working with Fleet staff to issue bids for price agreements for parts, supplies and services. Detailed descriptive invoices will be required of all vendors. The training will be completed by December 31, 2002, and all contracts in place by March 31, 2003.</p>	

## Conclusion

Because of the above material weaknesses in the control environment, risk assessment, control activities, and monitoring within the Fleet Division, we are unable to provide assurances that:

- Departments are billed correctly;
- Parts are procured, properly paid and billed to departments;
- Parts data in the FASTER system is accurate and complete; or
- The data transferred between the FASTER system and the Financials system is accurate and complete.

We are able to provide assurances that the City Manager has developed an action plan to address the control issues identified in this report and has taken immediate actions to review the organizational structure and assignment of personnel at Fleet.

In summary, our recommendations address the need for increased management oversight and involvement (above and below the Fleet Division) in the establishment, implementation, and oversight of internal controls to ensure:

- Accurate and reliable financial statements and reports;
- Effective and efficient Fleet Parts operations;
- Compliance with City policies, procedures, laws, and regulations; and
- Safeguarding of City assets from fraud, waste, abuse, and misuse.

Management has the responsibility for establishing an adequate system of internal control as required by the City Manager's Administrative Policy and Procedure No. 630. Management processes need to be developed to set objectives, put the control mechanisms in place, and monitor and evaluate the controls.

To assist in management's performance of this responsibility, we provided the City Manager a comprehensive internal control management and evaluation tool for distribution as she deems appropriate.

We believe that a work team should be established and include representation from Fleet Administration, Parts, Repair and Maintenance, Accounting Services, Procurement Services, key department users, and the City Auditor. This team should review and assess business processes and controls in the FASTER system, establish appropriate access controls, and develop management reports for Fleet, department management, and user departments.

## Appointed Official's Response

This report reflects our organization's commitment to ethics and good government. This is an unfortunate situation where criminal collusion occurred between employees and vendors. It is a major priority of this government to make sure that all steps necessary to correct control weaknesses have been implemented or will be taken by appropriate personnel.

Copies of this Audit Report #0303 (project #0116) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([dooleym@talgov.com](mailto:dooleym@talgov.com)).

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