

**FLEET MANAGEMENT DIVISION**

**MAY 18, 2004**

**REPORT #592**



## **EXECUTIVE SUMMARY**

May 18, 2004

Report No. 592

### **INTRODUCTION**

The Fleet Management Division (Division) of the Administration and Finance Department (Department) is responsible for the overall management of motor vehicle service operations of the Consolidated Government and the development and implementation of policies and procedures for motor vehicles and related equipment utilized by the Consolidated Government. The Division services 5,429 vehicles as of February 2, 2004 and also provides maintenance services for other state and federal agencies. The Division operates as an Internal Service Fund that charges a user fee for its services to recover its costs. The 2003/04 approved budget totaled \$25,103,487 and 180 employees. On October 1, 1989, the City created Chapter 106 that required the Division to maintain a vehicle replacement fund that accumulated funds paid from City agencies for the purchase of replacement vehicles. Per Ordinance 2003-1105-E, the City amended Chapter 106 of the Municipal Code, to require that the City replace vehicles based on a point system for age, mileage, and operating maintenance costs instead of basing the replacement on the age of the vehicle. This ordinance became effective for fiscal year 2003/04.

### **STATEMENT OF OBJECTIVES**

The objectives of the audit were as follows:

1. To determine whether parts and tires are being properly purchased, recorded into inventory, issued and charged to the using department.
2. To determine whether fuel and oil are being properly purchased, recorded into inventory, and charged to the using department.
3. To determine whether bids are in compliance with the City's Purchasing Procedures.
4. To determine that surplus vehicles and equipment are sold in accordance with Ordinance 2002-1296-E.

### **AUDIT CONCLUSIONS**

1. We could not determine whether parts and tires were properly purchased, recorded into inventory, issued, and charged to the using department due to the internal control weaknesses found involving the computer system and the lack of security in the Parts Department and the Tire Shop. Also, we found that the inventory was materially incorrect based on our inventory test counts, 26% of the value of the parts inventory was obsolete, and commercial charges were being incurred prior to their authorization.
2. We determined that fleet fuel and oil were properly purchased and recorded into inventory; however, we found numerous internal control weaknesses and findings involving oil, fleet fuel and commercial credit cards. A summary is as follows:

- We could not determine that oil was appropriately charged to the using agency.
  - We found that Fleet Management had not completed an inventory for oil since September 1995.
  - We noted numerous internal control weaknesses for fleet fuel.
  - We could not determine that commercial fuel was properly purchased and charged to the using department due to the numerous weaknesses in Fleet Management's controls over the commercial credit cards.
  - Fleet Management was not updating the commercial credit card system and as a result, they were not able to provide an accurate inventory of the credit card numbers on hand or an inventory of the credit card numbers that had been assigned to Agencies.
3. All bids examined were in compliance with the City's Purchasing Procedures.
  4. All surplus vehicles and equipment sales examined were in accordance with Ordinance 2002-1296-E.

### **SIGNIFICANT WEAKNESSES AND FINDINGS**

- Physical access to the Parts Department and the Tire Shop was not being controlled to allow only authorized personnel responsible for the inventory into the area.
- There was not a proper segregation of duties in the Parts Department, Tire Shop or the Fuel Section.
- The Tire Shop lacked organization and structure in its inventory efforts and used tires were not inventoried at all.
- Fleet Management was not controlling the number of slow moving parts on hand.
- Inventory test counts for Parts, Tire Shop, Fire Parts and Body Shop resulted in a total net shortage of \$19,996 (9.8%) when compared to Fleet Management's inventory records. Based on the extrapolation from the statistical sample, there was a potential shortage of 35,899 parts valued at \$81,809 for the same areas.
- Adjustments to inventory were not always documented and approved.
- There were several weaknesses with the inventory system. For instance, the adjustment form and the returned goods form were not automated and the system allowed the user to input any employee's number when making entries, adjustments to inventory, etc.
- Fleet Management was not always receiving reimbursement for repairs to parts and vehicles that were under warranty.
- Commercial charges were being invoiced prior to their documented authorization.
- There were several weaknesses involving the fleet fuel card system. The system was not password protected, the fleet fuel cards were not in a secure location, and there was not a procedure to ensure that fleet fuel cards were returned upon the termination of an employee.
- Oil (#OIL8500) has not been inventoried since September 29, 1995.
- There were many weaknesses and findings regarding commercial fuel credit cards; such as no policies and procedures, lack of segregation of duties, lack of supporting documentation for issuance and destruction of cards, an excessive number of credit cards on hand, the system was not being maintained, and the procedure that expired cards be returned was not being enforced.

### **RECOMMENDATIONS**

In summary, we recommended that Fleet Management implement policies and procedures, enforce segregation of duties, implement internal controls within the computer system, secure inventory of parts and fuel cards, and review the area of commercial credit cards used for fuel.

**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



May 18, 2004

Report No. 592

Honorable Members of the City Council  
City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Jacksonville Municipal Code, we examined the activities of the Fleet Management Division of the Administration and Finance Department and present this report thereon.

The Fleet Management Division (Division) of the Administration and Finance Department (Department) is responsible for the overall management of motor vehicle service operations of the Consolidated Government and the development and implementation of policies and procedures for motor vehicles and related equipment utilized by the Consolidated Government. The Division services 5,429 vehicles as of February 2, 2004 and also provides maintenance services for other state and federal agencies. The Division operates as an Internal Service Fund that charges a user fee for its services to recover its costs. The 2003/04 approved budget totaled \$25,103,487 and 180 employees. On October 1, 1989, the City created Chapter 106 that required the Division to maintain a vehicle replacement fund that accumulated funds paid from City agencies for the purchase of replacement vehicles. Per Ordinance 2003-1105-E, the City amended Chapter 106 of the Municipal Code, to require that the City replace vehicles based on a point system for age, mileage, and operating maintenance costs instead of basing the replacement on the age of the vehicle. This ordinance became effective for fiscal year 2003/04.

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**SURVEY RESULTS**

In order to assess the value of Fleet Management's services to their users, we sent surveys to each Agency. A summary of the responses to the survey is attached as Exhibit A.

## **STATEMENT OF SCOPE**

The scope of the audit varied by objective. The audit period for testing Fleet Management's inventory and repair orders was from October 1, 2002 through September 30, 2003 (Objective 1). Fuel was analyzed by examining the current status of fuel and oil purchased by Fleet Management and fuel purchased from commercial vendors (Objective 2). Fleet Management purchases were examined from October 1, 2002 through September 17, 2003 (Objective 3). All vehicle sales of surplus vehicles from October 8, 2002 through November 18, 2003 were examined (Objective 4).

## **STATEMENT OF METHODOLOGY**

The methodology varied depending on the audit objective. Sample sizes and selections were made using the Stats sampling program and IDEA. We performed analysis as necessary as well as determined compliance with applicable laws and/or policies and procedures. We also evaluated Fleet Management's fleet system to determine if there were adequate security and internal controls in place.

## **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. This audit also included an assessment of applicable management controls and compliance with requirements of laws and regulations when necessary to satisfy audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **AUDIT CONCLUSIONS**

1. We could not determine whether parts and tires were properly purchased, recorded into inventory, issued, and charged to the using department due to the internal control weaknesses found involving the computer system and the lack of security in the Parts Department and the Tire Shop. Also, we found that the inventory was materially incorrect based on our inventory test counts, 26% of the value of the parts inventory was obsolete, and commercial charges were being incurred prior to their authorization.
2. We determined that fleet fuel and oil were properly purchased and recorded into inventory; however, we found numerous internal control weaknesses and findings involving oil, fleet fuel and commercial credit cards. A summary is as follows:
  - We could not determine that oil was appropriately charged to the using agency.
  - We found that Fleet Management had not completed an inventory for oil since September 1995.
  - We noted numerous internal control weaknesses for fleet fuel.
  - We could not determine that commercial fuel was properly purchased and charged to the using department due to the numerous weaknesses in Fleet Management's controls over the commercial credit cards.
  - Fleet Management was not updating the commercial credit card system and as a result, they were not able to provide an accurate inventory of the credit card numbers on hand or an inventory of the credit card numbers that had been assigned to Agencies.
3. All bids examined were in compliance with the City's Purchasing Procedures.
4. All surplus vehicles and equipment sales examined were in accordance with Ordinance 2002-1296-E.

Fleet Management's responses to our findings and recommendations have been inserted in the body of this report and are attached as Exhibit B.

### **AUDIT OBJECTIVE #1**

In order to determine whether parts and tires were being properly purchased, recorded into inventory, issued and charged to the using department, we selected a sample of Authorization to Ship (ATS) numbers and Repair Order (RO) numbers for detailed testing. We also conducted test counts of their physical inventory in the high volume areas of the Fleet Management Division. We categorized the internal control weaknesses and findings into three categories, which are inventory, record keeping, and warranty and commercial charges.

### **INVENTORY**

#### **Background**

As of October 1, 2003, Fleet Management's inventory quantity was 127,460 items and was valued at \$880,763. The Parts Department's inventory comprised 60% of the total inventory quantity and 53% of the total inventory value. The other shops tested were Tire Shop, Fire Parts, and Body Shop.

#### **Internal Control Weakness #1-1**

Physical access to the Fleet Management's Parts Department and Tire Shop is not controlled to allow only authorized personnel responsible for the inventory into the area. For example, keys to the entire Fleet Management facility, including the alarm code to the Tire Shop, are kept in a mounted key box that is in a central area of the Parts Department. The key to the mounted box is kept in the keyhole of the mounted box. Also, shop foremen and other mechanics have access to the Parts Department on the weekend without a Part's employee being present. The foremen, leadermen, and mechanics in the Fire Shop have an open door policy to work on the weekend. A log is supposed to be signed listing the part number that they take off the shelf; however, per Part's personnel this does not always occur.

#### **Recommendation to Internal Control Weakness #1-1**

We recommend that keys to Fleet Management's Parts Department and the alarm code to the Tire Shop be kept in a secure location and only be given to authorized employees. We also recommend that Fleet Management review the policy that allows an employee not assigned to the Parts Department access to the Parts Department on the weekend to determine if the access is necessary and cost/beneficial.

#### **Response to Internal Control Weakness #1-1**

*Cipher locks will be installed and keys will be kept in a secure and centralized location. Authorized personnel who work on weekends and require access to repair parts and related supplies will be given a separate access code and will document the time in/out and parts drawn on the logbook. The Superintendent in charge will audit the logbook each Monday.*

#### **Internal Control Weakness #1-2**

There is not a proper segregation of duties over ordering, receiving, issuing and posting adjustments to inventory. Even though they are separate areas with different job functions within the Parts Department, all of the employees have access to order, receive and issue parts. One employee in the Parts Department is allowed to order parts, perform cycle counts and enter adjustments in the inventory system and one employee in the Tire Shop has the ability to order tires, receive tires, and issue tires to vehicles.

**Recommendation to Internal Control Weakness #1-2**

We recommend that a proper segregation of duties be enforced in the Parts Department and the Tire Shop and that no one individual should be able to order, receive, and issue parts or tires.

**Response to Internal Control Weakness #1-2**

*Fleet will establish a policy and procedure where only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. Fleet will allow two functions to be performed by any one person (i.e. Order and issue but not received or received and issue but not order) this will allow fleet to better utilize its personnel. The parts manager or part supervisor will closely monitor this arrangement. The parts manager or parts supervisor will review such transaction and will sign the receipt document.*

**Internal Control Weakness #1-3**

During the inventory of the Tire Shop, we observed that the Tire Shop lacks organization and structure in its inventory efforts and that used tires are not inventoried at all. Neither new or used tires have a marked location; therefore, it was difficult to complete the test counts of new tires that we performed. Fleet Management does not have an inventory for used tires. A used tire that is removed from a vehicle is not properly accounted for, whether Fleet Management plans to re-use the tire or scrap the tire. A tire with a nail puncture that is removed from an emergency vehicle can be re-used on a non-emergency vehicle.

**Recommendation to Internal Control Weakness #1-3**

We recommend that the Tire Shop inventory be organized so that all inventory and locations are well labeled and maintained. Inventory in the shops should be organized and the location of the inventory should be labeled. We also recommend that Fleet Management develop a method of inventorying and accounting for used tires.

**Response to Internal Control Weakness #1-3**

*Fleet will organize the tire inventory by assigning specific location for each tire size. This will allow fleet to better manage the tire inventory. Additionally, Fleet will be posting and accounting the re-useable used tires, not surplus tires.*

**Finding #1-1**

Fleet Management is not controlling the number of slow moving parts on hand. We obtained the “Inventory Non Usage By Location” report, which provided a list of parts that have not been used within the past year. The oldest “Date of Last Usage” was January 1998. The part items totaled 7,150 items (10.6% of parts inventory) and were valued at \$144,204.21 (26.9% of parts inventory value).

**Recommendation to Finding #1-1**

We recommend that Fleet Management determine which of these parts are obsolete and attempt to return, sell, or surplus the items. Furthermore, Fleet Management should develop a method of decreasing their slow moving part inventory.

**Response to Finding #1-1**

*Fleet is currently identifying all parts that are no longer required or to be carried in stock and will return them to the supplier or turn-in to surplus. The slow moving stock, less than six (6) turn per year will be closely monitored by the parts manager or parts supervisor on monthly basis with a follow-up report to management.*

**Finding #1-2**

We performed inventory test counts in the Parts Department, Tire Shop, Fire Shop and the Body Shop. Of 270 items counted valued at \$204,539, 128 items, (47%), valued at a total net shortage of \$19,996 (9.8%) were incorrect when compared to Fleet Management’s inventory records. The detail by shop is as follows:

<u>Shop</u>	<u>Total Items Counted</u>	<u>Items Incorrect</u>	<u>% Incorrect</u>	<u>Total Net Over/ (Shortage)</u>	<u>Inventory Value by Shop</u>	<u>% Of Inventory Value Incorrect</u>
Parts	72	22	31%	(\$10,039)	\$87,535	11.5%
Tire	52	40	77%	(6,864)	71,309	9.6%
Fire	69	17	25%	830	23,721	3.5%
Body	<u>77</u>	<u>49</u>	64%	<u>(3,923)</u>	<u>21,974</u>	17.9%
Total	<u>270</u>	<u>128</u>	47%	<u>(\$19,996)</u>	<u>\$204,539</u>	9.8%

Since the sample was selected using statistical sampling, we extrapolated the testing results to the inventory universe for Parts, Tire Shop, Fire Shop, and Body Shop. This resulted in a potential shortage of 35,899 parts valued at \$81,809.

The overages and shortages in inventory could be caused by, but not limited to, charging the wrong part number when issued, not adding an item to inventory correctly, making an inventory adjustment incorrectly, not posting a returned item correctly, and loss or theft of a part.

**Recommendation to Finding #1-2**

We recommend that the controls over inventory be changed to include more security in the Parts Department, more restrictive access to functions within the inventory system, and proper approval configurations within the computer system to authorize an adjustment or a returned item.

**Response to Finding #1-2**

*Fleet will establish improved procedures for identifying and tracking (assigning part number) the repair parts. A possible solution is using the OEM part numbering system, and utilizing the suitable substitute screen. This system will eliminate the duplication of part numbers and minimize charging the wrong part number to the work order. Additionally, Fleet will set a policy that only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. See weakness #1-1 Repeat.*

**Finding #1-3**

Adjustments to inventory are not always documented and approved. We found that 135 (51.9%) out of 268 adjustments sampled did not have proper documentation to support the adjustment or the approval of the adjustment. Fleet Management’s system allows an adjustment to be made to inventory within the system without approval. The approval process is on “paper” only and is not required to enter the inventory adjustment in the system.

**Recommendation to Finding #1-3**

We recommend that the Adjustment Form be configured in the system and the approval process be required in order for the inventory adjustment to be effective.

**Response to Finding #1-3**

*Fleet will implement a policy and procedure that only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. Additionally, the fleet system will be configured so that only authorized personnel can make an adjustment.*

**RECORD KEEPING**

**Internal Control Weakness #1-4**

A returned inventory item is not removed from inventory until the credit is received from the vendor even though the vendor has the inventory item and the item is no longer in the possession of the Fleet Management Parts Department.

**Recommendation to Internal Control Weakness #1-4**

We recommend that inventory be adjusted when an item is returned to the vendor or possibly flag an item that is awaiting credit, instead of waiting until the credit is received. At the time an item is returned to a vendor, Fleet Management should receive a ticket signed by the vendor representative.

**Response to Internal Control Weakness #1-4**

*Fleet will configure the fleet system such that the adjustment will be posted once the item is turned-in to the supplier. The system will flag the item that was turned-in “awaiting credit”. Fleet will require all vendors to provide a “credit memo” for returned items.*

**Internal Control Weakness #1-5**

Parts that are identical have different Fleet part numbers because they were purchased from different vendors. The inventory records may be inaccurate because a part could be charged incorrectly since there are several part numbers on the shelf for the same part. Also, a part may be reordered based on minimum reorder point even though the same part may be on the shelf from a different vendor and with a different part number.

**Recommendation to Internal Control Weakness #1-5**

We recommend that Fleet Management have a system that allows parts to have the same part number even though the part is from a different vendor (i.e. original equipment manufacture).

**Response to Internal Control Weakness #1-5**

*Fleet will establish improved procedures for identifying and tracking (assigning part number) the repair parts. A possible solution is using the OEM part numbering system, and utilizing the suitable substitute screen. This system will eliminate the duplication of part numbers and minimize charging the wrong part number to the work order.*

**Internal Control Weakness #1-6**

Parts' employees use their employee number instead of their signature when signing for the receipt of an inventory item.

**Recommendation to Internal Control Weakness #1-6**

We recommend that employees be required to sign their names when receiving an inventory item in addition to their employee number.

**Response to Internal Control Weakness #1-6**

*Fleet will require all employees who received material (repair parts, related supplies and services) to sign their names along with their employee number.*

**Internal Control Weakness #1-7**

The Returned Goods Form that is generated when a part is returned to a vendor and the Adjustment Form to enter inventory adjustments are not automated. A stamp numbers the Returned Goods Form and in one instance a blank form was copied and used as originals. Also, the Returned Goods Forms were not organized in any manner so it was difficult to determine the number of parts that had been returned. The Adjustment Form has three signatures that include 1) the person who performed the cycle count, 2) the person who entered the adjustment, and 3) the person who approved the adjustment. This form is on paper and is not automated. The completion of the Adjustment Form is not required to enter an adjustment in the inventory system. As a result, an adjustment to inventory may be made in the system without proper documentation or proper authorization.

**Recommendation to Internal Control Weakness #1-7**

We recommend that the Returned Goods Form and the Adjustment Form be configured in the system and make the approval process required in order for the form to be effective.

**Response to Internal Control Weakness #1-7**

*Fleet will configure the fleet system such that the adjustment will be posted once the item is turned-in to the supplier. The system will flag the item that was turned-in “awaiting credit”. Fleet will require all vendors to provide a “credit memo” for returned items. The vendor supplied “credit memo” will be filed in a systematic way with the “Returned Goods Form”.*

**Internal Control Weakness #1-8**

Fleet Management’s computer system allows the user to input any employee’s number when making entries, adjustments to inventory, etc. The system does not automatically “pull in” the currently logged-on employee’s number. A drop down box appears and the user is allowed to choose any employee number to identify the person who is making the entry. An employee may make an entry and not enter his or her own employee code as the person who made the entry; for example, a buyer may order a part and receive the part but enter a receiving clerk’s employee code.

**Recommendation to Internal Control Weakness #1-8**

We recommend that the system be changed to cause the field to default to the logged-on employee’s code without the ability to be changed.

**Response to Internal Control Weakness #1-8**

*Fleet will configure the fleet computer system to cause the field to default to the logged-on employee’s code without the ability to be changed.*

**WARRANTY & COMMERCIAL CHARGES**

**Internal Control Weakness #1-9**

Fleet Management does not always enter the current warranty information when they input a new vehicle in the Fleet system.

**Recommendation to Internal Control Weakness #1-9**

We recommend that the current warranty information be entered in the Fleet system for every vehicle added to the system.

**Response to Internal Control Weakness #1-9**

*Fleet will update and enter the current warranty information for every new vehicle into the fleet computer system.*

**Finding #1-4**

Of the 34 Authorization to Ship (ATS) forms for special orders tested and from the 73 repair orders (RO) tested, eight of the repairs were eligible for reimbursement from the dealer under warranty. Four were correctly reimbursed and four (50%) repairs that should have been reimbursed under warranty were not reimbursed.

**Recommendation to Finding #1-4**

We recommend that shop supervisors become familiar with and approve all repair orders within their respective shops and know whether vehicles are under warranty to ensure that the City gets the benefit of the warranty.

**Response to Finding #1-4**

*Fleet has instructed all shop supervisors to review repair orders warranty claims, and to stamp them as warranty even if the claims is questionable.*

**Finding #1-5**

We found that 12 (48.0%) of the 25 ATS's for commercial charges tested were authorized after the invoice date for the commercial charge and it could not be determined if three (12.0%) other repairs were properly authorized because the invoices were not dated. Fleet Management's internal standard operational procedure for outside repairs authorization dated May 8, 2000 states, "When it is determined that a vehicle must be sent out for repair by an outside source the foremen or leaderman must first contact the Storeroom Supervisor for authorization...Under no circumstance shall any repair be made without an approved purchase order and proper authorization from the parts/supply section."

**Recommendation to Finding #1-5**

We recommend that Fleet Management review this policy to determine if the Storeroom Supervisor is the appropriate person to approve this transaction. The approval of the repair and the verification of available funds need to be completed by appropriate personnel.

**Response to Finding #1-5**

*The foreman or leaderman will create the "ATS" for the sublet repairs after approval of the sublet repair by the superintendent.*

**AUDIT OBJECTIVE #2**

In order to determine whether fuel is being properly purchased, recorded into inventory, and charged to the using department, we analyzed the bids awarded, the inventory process and the process of how the Agencies are charged for usage. We categorized the internal control weaknesses and findings into two categories, which are fleet fuel & oil and commercial credit cards for fuel.

## **FLEET FUEL AND OIL**

### **Background**

Fleet Management has three types of fuel cards. They are an operator card, an activity card and a vehicle card. Fleet recently implemented a new fuel system. As a result of the new system, all 2003 vehicles and newer have a vehicle information transmitter that transmits a signal to the pump when the nozzle is placed inside the gas tank of the vehicle in order to authorize the pumping of fuel. The transmitter automatically reads the vehicle number and the mileage. Vehicles older than 2003 that do not have the transmitter are required to use the two-card system, which is the same as the old system. The two-card system requires that two cards be used to pump fuel. The two cards could either be an operator card and a vehicle card or an activity card and a vehicle card. The operator card is assigned to an individual, whereas an activity card is assigned to an Agency. The vehicle card is to remain inside the vehicle at all times. The user is required to enter the mileage of the vehicle in order to receive fuel. Operators of emergency vehicles are not required to enter mileage to receive fuel.

### **Internal Control Weakness #2-1**

Fleet Management's Fuel Section did not have any written procedures for issuing Fleet activity cards. The intracity web page had some procedures for operator cards and vehicle cards but procedures were not listed for activity cards.

### **Recommendation to Internal Control Weakness #2-1**

We recommend that Fleet Management develop and implement written policies and procedures for issuing Fleet fuel activity cards.

### **Response to Internal Control Weakness #2-1**

*Fleet is developing comprehensive written policies and procedures concerning issuing fleet activity cards.*

### **Internal Control Weakness #2-2**

The Fuel Section does not password protect the Fleet fuel card computer system. Although the system has the capability of setting up a password protection option, the Fuel Section does not use passwords to limit users. The password is saved in the computer and anyone can use the system by hitting the 'enter' key.

### **Recommendation to Internal Control Weakness #2-2**

We recommend that Fleet Management require a password to be entered to utilize the Fleet fuel system.

### **Response to Internal Control Weakness #2-2**

*Fleet will set up a password protection option to allow only authorized personnel to access the fleet fuel card system.*

### **Internal Control Weakness #2-3**

The Fuel Section does not secure the plastic Fleet fuel cards used to create new vehicle cards, operator cards and activity cards. The Fuel Section stores the plastic cards used to create new fuel cards next to the fuel card computer.

**Recommendation to Internal Control Weakness #2-3**

We recommend that the Fuel Section secure all plastic cards used to operate the fuel system. We also recommend that only authorized employees have access to the cards.

**Response to Internal Control Weakness #2-3**

*Fleet will secure (Safe Lock Box) all plastic cards used to operate the fuel system and only authorized personnel will be able to access these cards.*

**Internal Control Weakness #2-4**

The Fuel Section does not know when an employee is transferred to another department or leaves employment with the City; and as a result, the Fuel Section does not always update the system when an employee is transferred or terminated. There is a “City of Jacksonville Department Out Processing List” form that is required to be completed upon the termination of an employee. A line for the “Return White Vehicle Operator Card” is included on the checklist; however, there is not a procedure in place to ensure that the “white vehicle operator card” is returned to Fleet Management.

**Recommendation to Internal Control Weakness #2-4**

We recommend that Fleet Management develop a standard procedure that requires each Agency’s vehicle coordinator to notify Fleet Management when employees are transferred or leave employment with the City and to develop a procedure for the return of the fuel card to Fleet Management.

**Response to Internal Control Weakness #2-4**

*Fleet will put the city’s employee number on the operator card for tracking purposes, and establish the policy with Equipment Coordinators that the operator cards must be returned to Fleet when the employee leaves the city.*

**Finding #2-1**

Fleet Management has not inventoried oil (#OIL8500) since September 29, 1995. Fleet Management performs informal counts daily; however, these counts are only performed to determine the amount of oil that needs to be purchased and is not compared to the inventory per the system. During our testing, we performed inventory counts on October 22, 2003 and January 23, 2004, and we found after comparing the actual counts with the inventory per the system, that oil per the inventory system was overstated by 16,416 quarts and 21,504 quarts, respectively. We also used these two counts to calculate the usage for the same time period (inventory counted on 10/22/03, plus purchases per Fleet, less inventory counted on 1/23/04). We found that Fleet Management charged approximately 2,799 (13.2%) less quarts of oil than we calculated should have been charged to the Agencies for the same period of time.

**Recommendation to Finding #2-1**

We recommend that oil be inventoried on a periodic basis and at a minimum annually. The inventory count should be compared to the inventory per the system and any adjustments should be explained and approved. Fleet Management should also attempt to reconcile the number of quarts of oil used to the number of quarts of oil charged to Agencies to determine that all costs are recovered. This comparison may also help to explain necessary adjustments or to identify problem areas.

**Response to Finding #2-1**

*Fleet intends purchase the “Oil Automated Inventory System”. This system will allow Fleet to track all oil transaction. Additionally, Fuel section will periodically conduct physical count and bounce it*

*against the inventory record. Any discrepancies against the inventory record will be investigated before adjustment will be approved and posted by the supervisor.*

## **COMMERCIAL CREDIT CARDS FOR FUEL**

Our review of the management and control over the issuance of commercial credit cards and the payment of the credit card bill revealed the following internal control weaknesses:

- Fleet Management does not have written policies and procedures for the Fleet Fuel Section for commercial credit cards.
- The Fleet Management Fuel Section could not provide all documentation needed to support the issuance and authorization for assigned commercial fuel credit cards. Per the Fleet Fuel Section, a request form is not always required from the Agency to receive a credit card. On some occasions, a card is issued as a result of a verbal request. The Fuel Section also stated that each person in the Fuel Section had their own method of filing the request forms.
- Employees in the Fuel Section destroy expired credit cards without witnesses or documenting that the card has been destroyed. On January 2, 2004, we inventoried 619 credit cards and on February 26, 2004 we inventoried 456 credit cards, a decrease of 163 cards. Fleet Management indicated that these cards were destroyed; however, they could not provide documentation to support the destruction of the cards.
- There is not a proper segregation of duties over commercial credit cards. The same person is issuing credit cards to Agencies, receiving the receipts and approving the bills for payment.
- Requests for commercial fuel credit cards submitted by the Agencies do not always include all of the information required by the City's internal policy and the format used by the Agency is not in a standard format dictated by Fleet Management. The City's website for the Fleet's Fuel Section includes procedures for the use of fuel cards. The procedures require that "*Requests for commercial credit cards be submitted in writing by an authorized Department/Agency Officer...*" The policy also requires the request to include, but not be limited to, the employees full name, vehicle number, Department or Agency name, reason for request, beginning and ending dates for requested services. The required items vary depending on whether the use of the card will be for travel within or outside Duval County. We found that the requests submitted by the Agencies do not always include the required information and the format used by the Agency is not in a standard format dictated by Fleet Management.
- The Fleet Fuel Section does not agree the gas receipts to the commercial credit card bills to ensure that all charges are appropriate. There are also some Agencies that do not send their gas receipts to the Fleet Fuel Section. This was also a weakness that was cited in our previous audit report number 444 dated January 26, 1996.
- The Fleet Fuel Section does not reconcile the monthly commercial credit card expenses for fuel to the monthly-billed charges for commercial credit cards to the Agencies. One employee approves the credit card bills for payment and another employee bills the monthly charges to the Agencies; however, these amounts are not reconciled to ensure that Fleet Management is recovering 100% of their commercial credit card expense.

In addition to these internal control weaknesses, we had the following findings:

- Fleet Management had an unreasonable amount of commercial fuel credit cards on hand that was not assigned to an Agency. We inventoried 456 unassigned commercial fuel credit cards

on February 26, 2004 at Fleet Management. As a result of a survey sent by Fleet Management that requested each Agency to submit a list of their assigned commercial fuel credit cards, we found that the Sheriff's Office and Fire Rescue have a total of 124 fuel credit cards which is equivalent to 27% of Fleet's unassigned inventory. Assuming that the Sheriff's Office and Fire Rescue comprise the majority of the City's credit card usage, it appears that 456 credit cards remaining in unassigned inventory is unreasonable.

- The Fuel Section is not maintaining the Fleet Fuel System for commercial credit cards. The Fuel System has the ability to provide a list of unassigned and assigned commercial credit cards; however, the Fuel Section is not updating the system. As a result, the system could not be relied upon to determine which Agencies or employees had credit cards or the assigned credit card numbers. We completed an inventory of the cards at Fleet Management to determine the number of unassigned cards and the Agencies were requested to submit a list of the credit cards in their possession in order to have an inventory of the assigned cards. In addition, the Fuel Section is not updating the Fuel System when cards are canceled. This was also a finding that was cited in our previous audit report number 444 dated January 26, 1996.
- The Fleet Fuel Section had several unassigned commercial credit cards with the same company name and the same account number. Someone other than the authorized user could fraudulently use a credit card with the same company name and the same account number without being detected.
- Fleet Management does not enforce the requirement that agencies return commercial credit cards upon expiration. The Fleet Fuel Section was unaware of the procedure on Fleet Management's website that requires commercial credit cards to be returned to the Fleet Fuel Section upon expiration of the card. Employees in the Fuel Section stated that they do not enforce this requirement. They wait until the employee calls for his/her new card or calls to complain that the card does not work.

## **RECOMMENDATIONS**

Because of the lack of internal controls and the findings as outlined above, we recommend that the Administration conduct a thorough review of this area including examining the criteria and need for the use of commercial credit cards, the minimum number, if any, cards needed, and appropriate controls over their safeguarding, issuance, destruction and use. Also needed are appropriate procedures to ensure that the using agencies are held accountable for the use of the cards issued to them by approving invoices with their charges before payment is made to the vendor.

### **Response to Commercial Credit Cards for Fuel Weaknesses and Findings**

*Currently, Fleet is conducting a comprehensive analysis of the present procedures on commercial credit card for weakness along with findings and audit recommendations. Based on the analysis and audit recommendations Fleet will write comprehensive policies and procedures. The written policies and procedures will include but not limited to the following:*

- *Complete written documentation for the request and authorization, a standard form.*
- *Disposition of expired credit cards will be properly documented and witnessed by another individual with both signatures.*
- *Segregation of duties (issuing, bills payment).*
- *Gas receipts versus Invoice (have using agency reconcile the bills against the receipts)*
- *Reconcile the monthly credit card expenses against the monthly-billed charges to the using agencies.*

- *Fleet will reduce the number of credit card available on hand and will only carry 10% above the actual requirement.*
- *The Fleet Fuel System that accounts for the unassigned and assigned commercial credit cards is now updated.*
- *Unassigned credit cards with the same company name and the same account number will be reduced to only one card.*
- *Fleet will require that all expired credit cards will be turned-in to Fleet Management, Fuel Section. This will be accomplished by notifying vehicle coordinators of expired cards.*

**AUDIT OBJECTIVE #3**

In order to determine whether fleet bids were in compliance with the City's Purchasing Procedures, we selected a sample of purchases from October 1, 2002 through September 30, 2003. All bids sampled were in compliance with the City's Purchasing Procedures.

**AUDIT OBJECTIVE #4**

In order to determine whether surplus vehicles and equipment sold are in accordance with Ordinance 2002-1296-E, we analyzed all sales of surplus vehicles from October 8, 2002 through November 18, 2003. All surplus vehicles and equipment sales from October 8, 2002 through November 18, 2003 were in accordance with Ordinance 2002-1296-E.

We would like to thank the employees in the Fleet Management Division for their cooperation during the course of our audit and would like to commend them for accomplishments made thus far toward improving the operations of Fleet Management.

Respectfully submitted,

Richard Wallace, CPA  
Council Auditor

Audit performed by:  
Renee Smith, CPA  
Cabrina Hartley  
Sonia Summerford

Attachments

### Summary of Agency's Survey Results

A summary of the 39 surveys received from the Agency's vehicle coordinators during the audit of the Fleet Management Division is as follows:

	<b>Survey Question</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Don't Know</b>
1	The Fleet Management Division strives to provide quality maintenance service.	46.2%	53.8%	0.0%	0.0%	0.0%
2	Fleet's preventive maintenance schedule is adequate for my needs.	43.6%	53.8%	2.6%	0.0%	0.0%
3	Fleet's turnaround time for maintenance and repairs is reasonable.	33.3%	56.4%	2.6%	5.1%	2.6%
4	The Fleet Management Division provides adequate communication to my department relative to repair delays, billings, etc.	25.6%	48.7%	17.9%	2.6%	5.1%
5	Billing/leasing charges are reasonable based upon the services provided.	15.4%	48.7%	2.6%	5.1%	28.2%
6	Mechanics appear to be trained sufficiently for my needs.	25.6%	64.1%	2.6%	0.0%	7.7%
7	What improvements would you recommend for better efficiency.	All suggestions for improvements were made available to Fleet Management.				

DEPARTMENT OF ADMINISTRATION AND FINANCE  
Fleet Management Division

MEMORANDUM

**Date:** May 28, 2004

**To:** Richard Wallace, Council Auditor

**Thru:** Cal Ray, Director Administration & Finance

**From:** Sam K. Houston Jr., Chief, Fleet Management Division

**Subj:** Audit Report #592 Action Plan

Enclosed is the Audit Report #592 Action Plan of the Fleet Management Division. Fleet would like to thank and express our appreciation to the Audit Team (Renee, Cabrina and Sonia) for their findings and recommendations. We would like to commend the audit team for their professionalism and dedication. Fleet is committed to accomplishing these "Action Plans" and will utilize these findings and recommendations to better serve our customers. Fleet intends to invite the Audit Team to revisit these issues in the near future to insure Fleet is on track in correcting these weaknesses.



## **Fleet Management Audit Report #592**

### **Action Plan**

#### **Inventory**

##### **Internal Control Weakness #1-1**

Physical Access to the Parts and Tire Section is not controlled; only authorized personnel should have access to these areas.

**Action Plan:** Cipher locks will be installed and keys will be kept in a secure and centralized location. Authorized personnel who work on weekends and require access to repair parts and related supplies will be given a separate access code and will document the time in/out and parts drawn on the logbook. The Superintendent in charge will audit the logbook each Monday.

##### **Internal Control Weakness #1-2**

There is not a proper segregation of duties over ordering, receiving, issuing and posting adjustment to inventory that applies to repair parts and tires.

**Action Plan:** Fleet will establish a policy and procedure where only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. Fleet will allow two functions to be performed by any one person (i.e. Order and issue but not received or received and issue but not order) this will allow fleet to better utilize its personnel. The parts manager or part supervisor will closely monitor this arrangement. The parts manager or parts supervisor will review such transaction and will sign the receipt document.

##### **Internal Control Weakness #1-3**

Tire Shop lacks organizational structure in its inventory efforts and used tires are not inventoried at all.

**Action Plan:** Fleet will organized the tire inventory by assigning specific location for each tire size. This will allow fleet to better manage the tire inventory. Additionally, Fleet will be posting and accounting the re-useable used tires, not surplus tires.

##### **Finding #1-1**

Fleet Management is not controlling the number of slow moving parts in their inventory.

**Action Plan:** Fleet is currently identifying all parts that are no longer required or to be carried in stock and will return them to the supplier or turn-in to surplus. The slow moving stock, less than six (6) turns per year will be closely monitored by the parts manager or parts supervisor on monthly basis with a follow-up report to management.

#### Finding #1-2

Inventory test count in the Part Section, Tire Shop, Fire Shop and Body Shop; of 270 items counted with a valued of \$204,539, 128 items did not matched the inventory records. The overages and shortages could be caused by charging the wrong part number when issued, making inventory adjustment incorrectly, not posting returned item, and loss or theft.

Action Plan: Fleet will establish improved procedures for identifying and tracking (assigning part number) the repair parts. A possible solution is using the OEM part numbering system, and utilizing the suitable substitute screen. This system will eliminate the duplication of part numbers and minimize charging the wrong part number to the work order. Additionally, Fleet will set a policy that only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. See weakness #1-1 Repeat.

#### Finding #1-3

Inventory adjustments are not always document and approved. The Fleet System allows an adjustment to be posted without approval. The approval process is on paper only and is not required to enter the inventory adjustment in the system.

Action Plan: Fleet will implement a policy and procedure that only the parts manager or parts supervisor will be authorized to approve and post inventory adjustment to the stock records. Additionally, the fleet system will be configured so that only authorized personnel can make an adjustment.

### **Record Keeping**

#### Internal Control Weakness #1-4

Parts returned for credit to the supplier remain in the inventory until the credit is received from the vendor even though the vendor has the possession of the item.

Action Plan: Fleet will configure the fleet system such that the adjustment will be posted once the item is turned-in to the supplier. The system will flag the item that was turned-in "awaiting credit". Fleet will require all vendors to provide a "credit memo" for returned items.

#### Internal Control Weakness #1-5

Parts that are identical have different part numbers because of being purchased from different companies. The inventory records may be inaccurate since the part could be charged incorrectly. Additionally, parts may be reordered even though this item is already in stock.

Action Plan: Fleet will establish improved procedures for identifying and tracking (assigning part number) the repair parts. A possible solution is using the OEM part numbering system, and utilizing the suitable substitute screen. This system will

eliminate the duplication of part numbers and minimize charging the wrong part number to the work order.

Internal Control Weakness #1-6

Parts' personnel use their employee number instead of their signature when signing for the receipt of an inventory item.

Action Plan: Fleet will require all employees who received material (repair parts, related supplies and services) to sign their names along with their employee number.

Internal Control Weakness #1-7

The "Returned Goods Form" that is generated when a part is returned to the vendor and the "Adjustment Form" to post inventory adjustment are not automated. Also, the forms were not organized in any manner, thus it was difficult to determine the number of parts that had been returned.

Action Plan: Fleet will configure the fleet system such that the adjustment will be posted once the item is turned-in to the supplier. The system will flag the item that was turned-in "awaiting credit". Fleet will require all vendors to provide a "credit memo" for returned items. The vendor supplied "credit memo" will be file in a systematic way with the "Returned Goods Form".

Internal Control Weakness #1-8

The Fleet System allows the user to input any employees' number when posting an entry, adjustment to the stock records.

Action Plan: Fleet will configure the fleet computer system to cause the field to default to the logged-on employee's code without the ability to be changed.

**Warranty & Commercial Charges**

Internal Control Weakness #1-9

Fleet does not always enter the current warranty information when they input a new vehicle in the Fleet System.

Action Plan: Fleet will update and enter the current warranty information for every new vehicle into the fleet computer system.

Finding #1-4

Of the 34 Authorization to Ship (ATS) forms for special orders tested and from the 73 repair orders tested, eight of the repairs were eligible for warranty reimbursement and only 50% were reimbursed under the warranty program.

Action Plan: Fleet has instructed all shop supervisors to review repair orders warranty claims, and to stamp them as warranty even if the claims is questionable.

### Finding #1-5

Twelve (12) of the 25 ATS's for sublet repairs tested were authorized after the invoice date and three (3) could not be determined if the repairs were properly authorized because the invoices were not dated. Fleet SOP for sublet repair dated May 8, 2000 states, "*When it is determined that a vehicle must be sent out for repair by an outside source the foreman or leaderman must first contact the Storeroom Supervisor for authorization... Under no circumstance shall any repair be made without an approved purchase order and proper authorization from the parts/supply section.*"

Action Plan: The foreman or leaderman will create the "ATS" for the sublet repairs after approval of the sublet repair by the superintendent.

## **Fleet Fuel and Oil**

### Internal Control Weakness #2-1

Fleet Management's Fuel Section did not have any written procedures for issuing fleet activity cards. The intercity web page had some procedure for operator cards and vehicle cards but procedures were not listed for activity cards.

Action Plan: Fleet is developing comprehensive written policies and procedures concerning issuing fleet activity cards.

### Internal Control Weakness #2-2

Fleet Management's Fuel Section does not have a password to protect the fleet fuel card computer system. It does not use password to limit users and anyone can use the system by hitting the "enter" key.

Action Plan: Fleet will set up a password protection option to allow only authorized personnel to access the fleet fuel card system.

### Internal Control Weakness #2-3

The Fuel section does not secure the plastic fleet fuel cards used to create new vehicle cards, operator cards and activity cards. The Fuel section stores the plastic cards used to create new fuel cards next to the fuel card computer.

Action Plan: Fleet will secure (Safe Lock Box) all plastic cards used to operate the fuel system and only authorized personnel will be able to access these cards.

### Internal Control Weakness #2-4

The Fuel Section does not know when an employee is transferred to another department or leaves employment with the City; as result the Fuel section is unable to update the system. There is a "City of Jacksonville Department Out Processing list" form that requires to be completed upon termination of employment. On this check-off list there is line that states "Return White Vehicle Operator Card" however, there is no procedure in place to ensure that the "Card" is returned to Fleet Management.

Action Plan: Fleet will put the city's employee number on the operator card for tracking purposes, and establish the policy with Equipment Coordinators that the operator cards must be returned to Fleet when the employee leave the city.

Finding #2-1

Lubricating Oil (Oil 8500) last inventory was September 29, 1995. Fleet performs informal counts daily; however, the count is only performed to determine the replenishment amount and it is not compared to the inventory record for validity. On, October 22, 2003 and January 23, 2004 inventory count were performed and the result were compared with the inventory records and there was overstated by 16,416 quarts and 21,504 quarts respectively.

Action Plan: Fleet intends purchase the "Oil Automated Inventory System". This system will allow Fleet to track all oil transaction. Additionally, Fuel section will periodically conduct physical count and bounce it against the inventory record. Any discrepancies against the inventory record will investigated before adjustment will be approved and posted by the supervisor.

**Commercial Credit Cards for Fuel**

Action Plan: Currently, Fleet is conducting a comprehensive analysis of the present procedures on commercial credit card for weakness along with findings and audit recommendations. Based on the analysis and audit recommendations Fleet will write comprehensive policies and procedures. The written policies and procedures will include but not be limited to the following:

- Complete written documentation for the request and authorization, a standard form.
- Disposition of expired credit cards will be properly documented and witnessed by another individual with both signatures.
- Segregation of duties (issuing, bills payment).
- Gas receipts versus Invoice (have using agency reconcile the bills against the receipts)
- Reconcile the monthly credit card expenses against the monthly-billed charges to the using agencies.
- Fleet will reduce the number of credit cards available on hand and will only carry 10% above the actual requirement.
- The Fleet Fuel System that accounts for the unassigned and assigned commercial credit cards is now updated.
- Unassigned credit cards with the same company name and the same account number will be reduced to only one card.
- Fleet will require that all expired credit cards be turned-in to Fleet Management, Fuel Section. This will be accomplished by notifying vehicle coordinators of expired cards.