



GARLAND

INTERNAL AUDIT

Date: September 24, 2013

To: Honorable Mayor Athas
Members of the City Council
Members of the Audit Committee

From: Craig Hametner, City Auditor

Subject: Fleet Services Follow-up Audit

This is a follow-up of the report "Fleet Services Audit" issued on February 8, 2011. The original audit included testing of procedures assessing management controls, such as reviewing segregation of duties, checks and balances, accurate billing, proper revenue reporting, compliance with laws, regulations, City ordinances, and professional service agreements. The follow-up audit was not intended to be a detailed study of every relevant system, procedure, and transaction.

We performed this follow-up under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

This audit follow-up was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our previous recommendations.

The original audit report included 10 recommendations. Upon completion of our follow-up, we determined that five recommendations were fully implemented, three recommendations were partially implemented, and one recommendation was not implemented. We did not review one of the recommendations because management did not concur.

Following is a summary of the results of this follow-up.

Audit Follow-Up

Finding #1

Condition

During our evaluation of objective 1, it came to our attention that the COG pays a 10% gross profit rate (regardless the cost of the parts) and all NAPA operating costs, including a % of NAPA Headquarter fees. The contract is written to state that the COG will pay all operating costs.

Our review of COG payments and NAPA P&L statements is as follows:

	COG Cost (Jan 2009 – Apr 2010)	Average / Month
NAPA Cost of Parts (including Freight and Postage)	\$3,341,256	\$208,828
NAPA Cost of Shop Supplies	\$29,178	\$1,824
NAPA Profit (Parts & Shop Supplies) – 10% Gross Profit Rate	\$371,639	\$23,227
NAPA Operating Cost	\$385,097	\$24,069
Total COG Cost	\$4,127,170	\$257,948

The COG pays NAPA for all its operational costs to include:

	Operational Cost Description	Average Cost/Month
1	Headquarters Accounting & Data Processing Fee	\$1,151
2	Headquarters General Office Fee	\$1,721
3	Counterperson and Delivery Employee Payroll *	\$13,912
4	Delivery – Maintenance	\$2
5	Shelving and Equipment Depreciation Fees	\$137
6	Employee Benefits (including Pension)	\$3,232
7	Insurance	\$917
8	Interest	(\$1)
9	Rent	\$110
10	Stationery, Ship, Supply	(\$936)
11	Store expenses	\$132
12	Taxes (Use Tax & Payroll Tax)	\$2,582 (\$1,400 Property Tax)
13	Telephone	\$300
14	TAMS (Computer Support Fee)	\$803
15	Training	\$8

* Includes overtime pay. As of April 24, 2010, NAPA charged approximately \$7,500 (for five out of seven employees) in overtime in 18 weeks.

It should be noted that NAPA employee payroll and benefit payments for a month

average about \$17,000. Also, the COG is paying property tax (approximately \$16,500/yr for the NAPA inventory) even though it is a governmental entity. In addition, the COG furnishes, at its sole expense, space for NAPA's onsite store and all utilities and services, including a fleet vehicle, water, sanitation, sewer, light, telephone, heat, gas, electricity, power and fuel.

Recommendation

Before the next contract takes effect, the COG should renegotiate:

- Caps on gross profit rate (based on part cost).
- Headquarter fees.
- Concession on remaining operating costs.
- Limits of NAPA personnel and overtime.

Management Response

- Fleet Services concurs with the recommendation regarding caps on gross profit. The current 10% rate actually serves as a cap and is the rate common to other area public entity agreements with NAPA when secured through interlocal agreement. However, Fleet Services has already secured concurrence from NAPA to implement fixed dollar mark-up caps on higher cost parts upon renewal of the agreement.
- Fleet Services will explore the issue of other operating costs and headquarter fees to compare allocation of overhead with other in-house NAPA programs.
- Fleet Services has been involved in selection of NAPA parts staff over the last several years allowing acquisition of increased expertise on specialized equipment such as large trucks, emergency vehicles, and heavy equipment. This involvement provides balancing some control of NAPA personnel expenses with the business need for specialized parts service. Fleet Services has negotiated staffing provisions with NAPA for renewal of the agreement. NAPA staff overtime is often incurred at Fleet Services request to accommodate special or emergency needs, and for parts support of holiday fleet operations.

The primary benefits of the in-house NAPA parts program, which comprise the financial, service, and business value of the program include:

- NAPA agreements with many third party vendors providing volume purchase discounts not available to the City
- Access to large inventory at Fleet Services and the NAPA distribution center, without committing City funds to shelved inventory. The City does not pay for parts until issued to mechanics.
- Reduced equipment down-time associated with quicker parts availability.

- Parts acquisition (purchase) services and producing payment to vendors for thousands of parts purchased each month.
- No ultimate liability for NAPA obsolete parts or parts with diminishing demand. These parts can often be transferred to other NAPA in-house programs with continued or higher demand.
- Opportunity to transfer non-NAPA parts no longer used by the City, to other NAPA in-house programs. For example – Garland moves from purchasing TORO brand mowers to another mower brand. The TORO parts are transferred to another NAPA in-house store where TORO mowers are still used.

Auditor's Comment

The original interlocal agreement mentioned by the management was signed in 2002. This contract expired in 2004 and the COG entered into a direct agreement with NAPA in 2004. Our inquiry with three other local municipalities revealed the following: Since 2004, 1) One city conducted an internal cost benefit analysis, and in response to this study, NAPA agreed to reduce their overhead charges by approximately 12% 2) Another City conducted a best value request for bid proposal and entered into an annual fixed fee agreement with NAPA (for approximately \$1,750,000) 3) The third city discontinued their relationship with NAPA and entered into an agreement with another third party vendor. We strongly believe, considering the economy, COG's budget constraints and operation and price equity to both parties, this contract needs to be renegotiated.

Follow-up

We obtained the amended agreement and compared it to the old agreement. The NAPA agreement has been updated, however, the agreement does not appear to address the following recommended concessions regarding headquarter fees, concession on remaining operating costs and limits of NAPA personnel and overtime.

Implementation

Partially Implemented

Finding #2

Condition

1. Internal Audit identified two fixed assets (2009 Chevy Pickup and Forklift (\$15,600)) that were not accounted for on the fixed asset list. These items should have been capitalized.
2. Three fixed items located on the fixed asset list are sold in auction (A/C Recovery Machine & Fleet Truck #480017) or replaced (Forklift) with other equipment. The fixed asset list is inaccurate.
3. Internal Audit was unable to account for four fixed assets (one Solder Station and three Portable Radios) that were on the fixed asset list. The location of these items is unknown.

Recommendation

Fleet should ensure that:

- All equipment that meet the Capitalization of Expenditure Directive criteria must be capitalized and monitored as part of the City's fixed assets.
- A fixed asset inventory be performed annually and all assets are accurately accounted for in the Fixed Asset system.

Management Response

Fleet Services concurs with this recommendation. It should be noted that most of these issues are of a clerical nature only. Although the 2009 Chevy Pickup (#480000 and Forklift #480042) were not on the capital items list, they were accounted for in the fleet system and in the equipment replacement fund. These items have been added to the capital items list. Fleet Truck #480017 was sold at auction 8/17/00 and documentation provided to Audit. This unit has been removed from the capital item list.

The issue regarding the 3 portable radios that cannot be located is unresolved. Fleet suspects the radios were not removed from the capital item list when replaced with new radios by Telecom. Regarding the solder station that could not be located, records indicate purchase in 1992 with a purchase price of \$2,545. Fleet staff has no recollection of this item. Records indicate the A/C Recovery Machine purchased in 1992 for \$3,849.00 was sold in auction but the date of sale is unknown. These items are fully depreciated, they no longer meet current stated capitalization criteria, and will be removed from the list of capital items.

Fleet will work with accounting to provide better communication in the future as well as audit our fixed asset list each year.

Follow-up

1. We obtained a copy of the Fixed asset list provided by Fleet and originated by Finance. We reviewed the list for accuracy, then we randomly selected vehicles

and machinery listed to ensure the equipment was present, then we randomly selected vehicles and equipment located in and around the shop to determine if it was listed. We noted two vehicles not included on the list (2006 Van and a 1994 Electric Cart). When we reviewed the assets in Finance's Asset system the 1994 Electric Cart was not listed due to age. The 2006 Van was not updated with the appropriate department location and new number in Finance's Asset System. In a review of the Fleet's AssetWorks system, both vehicles were listed.

2. We obtained documentation of an audit performed by the Finance Department. Finance reviews Fleet's assets annually and will physically review assets if they determine there is a discrepancy.
3. All other assets could be found.

Implementation

Partially Implemented

Finding #3

Condition

According to the inventory list provided by NAPA, as of October 29, 2010, there was approximately \$1,000,000 worth of inventory maintained at the COG on-site store. Based on section 14 (a) of the agreement, upon termination by either party, the COG shall purchase all non-NAPA products (approximately \$820,000), owned by NAPA, located at the on-site store, at NAPA's acquisition cost.

Recommendation

Before the next contract takes effect, the COG should renegotiate the terms of the non-NAPA inventory agreement. Upon termination of the agreement, the COG's purchase of non-NAPA parts should be an option, not a requirement.

Management Response

Fleet does not concur with this recommendation.

Increasing on-site inventory was the primary business intent of the NAPA program.

Most of the non-NAPA parts for which the City would have liability upon contract termination are specialized equipment parts of which the need and desire to retain would continue beyond contract termination.

Current procedures prevent addition of inventory items without Fleet Director approval.

Auditor's Comment

With the implementation of the audit recommendation, the COG should still be able to retain the specialized equipment parts if it desires.

According to Fleet (Management Response to Finding #1), one of the primary benefits of NAPA agreement is the opportunity to transfer non-NAPA parts to other NAPA in-house programs.

At the time of termination, the COG's budget and the economy may prohibit the COG from having the resources to purchase the existing non-NAPA inventory.

Follow-up

Because the Fleet department did not concur, we did not follow-up on this recommendation.

Finding #4

Condition

P&L Supporting documents are not obtained from NAPA: As mentioned in Finding # 1, the COG pays all NAPA's operating costs. Our discussion with Fleet revealed that they are not obtaining supporting documents (Ex: payroll register, shelving depreciation documents, tax statements, etc.) from NAPA to verify the accuracy of these charges. Our review of NAPA P&L statement identified at least three clerical data entry errors made by NAPA.

Recommendation

Fleet should request supporting documents from NAPA to verify the accuracy of the charges

Management Response

Fleet concurs with this recommendation on a limited or spot check basis.

Resources are not available to review extensive supporting documentation of each expense item every month. Fleet will periodically request support documents and spot check various expense items monthly.

Follow-up

We obtained and reviewed three months of P&L statements and did not find explanations of charges. There was no backup documentation included to verify the P&L charges. We inquired with management to determine if backup was obtained and found that Fleet does inquire via email and obtains explanations of charges periodically.

Implementation

Fully Implemented

Finding #5

Condition

Only one price comparison test has been performed since the Agreement was signed in February 2004 and it was an informal study done by Purchasing in January 2010. The study included a price comparison of 50 parts through National Joint Power Association. NAPA's price were lower in most cases (46 out of 50)

Recommendation

We recommend an independent periodic price comparison be performed to ensure the COG is getting the lowest possible price at all times.

Management Response

Fleet concurs with this recommendation and has historically conducted periodic independent and in-house price comparisons.

The first independent comparison was performed as part of the Celerity Consulting Fleet review program in 2006 with positive results provided to Council.

The most recent independent comparison was performed by Purchasing In 2010 through National Joint Power Assn with positive results. Periodic in-house comparisons are also performed.

Auditor's Comment

1) Our review of the 2006 Celerity Consulting Report revealed no evidence of a price comparison study.

2) During our audit, IA was informed of only one price comparison study. This is the informal study done by Purchasing in 2010. Fleet did not provide any documents regarding Fleet's periodic in-house price comparison study for IA to review.

Follow-up

We inquired with the Fleet Department and determined a price comparison was not performed formally since the audited period. In addition we contacted the Director of Materials Management to determine if a price comparison was performed and he indicated that there was none performed since the audit.

Implementation

Not Implemented

Finding #6

Condition

There were no documents in the COG file verifying background checks (criminal & drug testing) were performed on NAPA employees.

Recommendation

According to the NAPA Agreement, Fleet Services Director should ensure NAPA submits proof of criminal history check and drug test on all NAPA employees.

Management Response

Fleet concurs with the intent but is unable to obtain individual criminal history and background checks from NAPA due to privacy laws.

NAPA has provided their drug testing and background check policies.

Auditor's Comment

IA is not recommending the COG to obtain NAPA employees individual criminal and background check results. Instead, it must at least obtain a letter from NAPA stating that all NAPA employees working at the COG NAPA store have successfully passed the criminal and drug testing. This letter should be provided periodically and during new assignments.

Upon request, NAPA provided IA with the requested letter.

Follow-up

We contacted NAPA to obtain a list of employees working at the Fleet location and compared the list to a letter obtained in the previous audit. Our inquiry with Fleet's Operations Financial Coordinator revealed that no new employees had been hired. Our review of individuals working at NAPA revealed three individuals hired since the previous audit. In addition, we inquired with the NAPA District Manager who notified us via email that Fleet had received the necessary documentation. However, we were unable to obtain evidence in the form of a letter to verify that these individuals were cleared through background and drug testing.

Since our inquiries and review, Fleet provided us with letters verifying that the three individuals were cleared through background and drug testing. These letters were not dated therefore we could not determine if they were obtained before, during or after our follow-up audit.

Implementation

Partially Implemented

Finding #7

Condition

1. NAPA's second shift does not monitor or verify if 85% of all City part requirements are being met on demand.
2. Fleet does not verify if NAPA is providing 95% of all CITY parts requirements by the commencement of business on the workday following the request.

Recommendation

We recommend COG implement:

1. An interface between the Fleet's Maximus System (Asset and Maintenance Management Software) & NAPA's Total Automotive System (TAMS) systems so continuous monitoring can be performed.
2. An internal policy regarding daily monitoring of this requirement.

Management Response

Fleet Concur's

1. The requirement for a software interface is an agreed item upon contract renewal.
2. The current dashboard reflects the current manual process of tracking parts availability and will be expanded to evening shift

Fleet also has agreement on performance penalties to be included in the renewal contract.

Follow-up

1. We reviewed the interface between the TAMS and AssetWorks systems and verified it was complete and working.
2. We inquired with the Fleet Department regarding the process for parts tracking and determined that the new process had been recently implemented. April was the first month to implement the new parts reporting.

We reviewed the amended agreement and found that performance penalties were included.

Implementation

Fully Implemented

Finding #8

Condition

Our review of work orders generated during the audit period revealed 18 missing work orders out of a sample of 27.

Recommendation

1. Work orders should not be closed without data.
2. If need to be voided, the reason for voiding should be documented.
3. All work orders voided should be reviewed by the supervisors.
4. Written policies should be developed regarding work order process.

Management Response

Fleet Concur

Fleet system work orders cannot be deleted according to the vendor. Work orders without data do not appear in the numbering sequence and cannot be recalled through the system because no data exists. The software vendor indicates it can be recalled through sequel processing. Fleet has implemented a policy that no work orders will be closed without data, such as "Voided", or explanation. Example - if a unit already has an open work order it will be noted on the new work order not needed due to work order already open.

Follow-up

1. We reviewed work orders in Fleet's AssetWorks system and found that notes are made on work orders opened.
2. We used Crystal Reports to pull work order information from AssetWorks and perform a Gap Analysis for each of the previous three years. We found numerous gaps for each location and consecutive large gaps for the Heavy Shop (27 and 69 consecutive gaps). We inquired with Fleet to determine if there was an explanation of the gaps. Fleet informed us that there was a software issue that occurred in December and January of 2012/2013. Additionally, the software vendor's IT Department confirmed the software glitch and assured us that it had been corrected.
3. Because the work orders within the gaps did not exist, we could not determine supervisory review.
4. We obtained and reviewed the new work order policy and found no exceptions.

Implementation

Fully Implemented

Finding #9

Condition

The data entry process performed by NAPA is inefficient. Currently, a NAPA employee enters data into both NAPA's Total Automotive Management System (TAMS) and Fleet's Maximus system (Asset and Maintenance Management Software).

Recommendation

Fleet Services should work with NAPA to develop an interface to allow information to be downloaded from the TAMS system to the Fleet's Maximus system.

Management Response

Fleet Concur

An interface is now available and plans for installation are underway. Efficiency monitoring will be addressed through the interface.

Follow-up

We reviewed the interface between the TAMS and AssetWorks system and found that the process is in place and fully functional. The TAMS system updates the FLEET system on an hourly basis.

Implementation

Fully Implemented

Finding #10

Condition

An inventory of City's specialized tools located in the NAPA store does not exist.

Recommendation

1. Fleet should perform a monthly inventory of specialized tools.
2. Written policy should be developed regarding monitoring of this inventory.

Management Response

Fleet Concur

Fleet has generated an inventory list of all specialized tools and marked each with an inventory number for use in the current "check-out" program. A monthly inventory will be conducted.

Follow-up

1. We requested and reviewed inventory for three months and found no exceptions.
2. We obtained the Tool Room Policy and found no exceptions.

Implementation

Fully Implemented