



Fleet Management

Internal Audit

March 2015

Bernalillo County Internal Audit Fleet Management

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over Fleet Management at Bernalillo County. Our internal audit focused on testing various policies and procedures and internal controls, including: vehicle acquisition, reassignment and disposal, security of fleet data, monitoring of fuel consumption, vehicle repair and maintenance, and accountability of auto parts.

We performed the following procedures:

- Obtained an understanding of operational procedures through reading relevant Fleet Management documentation and interviewing various personnel.
- Tested vehicles that were purchased in fiscal year 2015 (July 2014 to March 2015) to determine if approvals were obtained, and vehicles were added to systems on a timely basis for maintenance and fixed asset tracking.
- Obtained the vehicle usage report and determined if low usage vehicles were reassigned as needed.
- Tested a sample of reassigned or disposed vehicles, equipment and units to determine if required documentation was completed and support was maintained for the sale, if applicable.
- Tested employees with access to the Fleet Management M5 software system to determine if access was disabled timely.
- Tested fuel consumption reports for accuracy and timeliness of submission.
- Analytically tested a sample of vehicles for mileage reasonableness.
- Tested a sample of vehicles to determine if repairs and maintenance were completed timely and required documentation was completed.
- Tested a sample of work orders to determine if sourcing of auto parts followed established procedures.
- Tested a sample of count sheets for auto parts maintained at the Fleet facility to determine if counts were completed regularly with support to indicate investigation of differences, if applicable.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. We determined that the overall amount budgeted for vehicle purchases in fiscal year 2015 had been properly approved, the budgeted amount had not been exceeded and vehicles were added to the Fleet Management system for proper tracking within a reasonable timeframe. Vehicles that were reassigned or disposed met the qualifications for mileage or age as outlined in Fleet guidelines.

Significant high and moderate risk observations are presented below:

- **Monitoring of Fuel Consumption**—The Fleet department prepares quarterly reports and provides those to Departments; however, there was no process to track or investigate unusual fuel activity or trends. Additionally, 14 of the 22 vehicles tested from the Fuel Usage report had mileage entry errors. A formal process should be implemented and documented with a centralized person to ensure all departments are conducting their reviews and investigations.
- **Accountability of Auto Parts at the Fleet Facility**—Low value assets, such as auto parts maintained at the Fleet Facility, should be properly accounted for and tracked with a monthly physical count. For the months of November 2014 and January 2015 physical counts were not completed. Additionally, for two physical counts tested, count documentation did not include complete information with resolution of differences identified. A documented process should be established to maintain accountability of auto parts.

The lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations are included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from the Fleet Management Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 16, 2015

Bernalillo County Internal Audit Fleet Management

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Bernalillo County Internal Audit Fleet Management Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes relating to Fleet Management functions. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on March 12, 2015, and fieldwork began the week of March 16, 2015. An exit conference was held on April 8, 2015, and final management responses were received on April 16, 2015.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating whether processes were in place to monitor compliance with Fleet Management requirements and to determine if those processes were in compliance with policies and procedures (P&P), applicable regulations, and reflected best practices and sound internal controls. We assessed the security of Fleet data, as it relates to the M5 software, which is a fleet management system used to track vehicles and equipment. Additionally, we evaluated vehicle acquisition, reassignment and disposal of vehicles and equipment, vehicle repair and maintenance, all of which are managed through the M5 software. We also evaluated the monitoring of fuel consumption, and accountability of auto parts at the Fleet Management facility. The Fleet Management department maintains auto parts at their facility of items that are regularly used. They also source parts from both the Inventory Warehouse managed by the Procurement and Business Services Department, as well as directly from vendors.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations surrounding Fleet Management, we interviewed the following personnel:

- Dwight Coleman, Fleet Administrator
- Jared Divett, Fleet Shop Supervisor

In order to understand policies and procedures over the Fleet Management processes we read relevant portions of:

- The Bernalillo County Fleet Operating Policy and Procedures dated June 1997; and,
- The Bernalillo County “Draft” Fleet Management / Maintenance Standard Operating Guidelines dated June 2015.

We performed the following testwork:

Vehicle Acquisition: We obtained supporting documentation for approvals to purchase vehicles for the fiscal year 2015 (July 2014 to June 2015). We obtained the listing of all County vehicles tracked in the M5 system as of March 2015. We assessed whether vehicles purchased in fiscal year 2015 through the date of testing were added to the M5 system for proper monitoring. Additionally, we obtained the listing of all vehicles in the County's Fixed Asset module in SAP, the County's enterprise software for recording financial data. We tested to determine if:

- Required approvals for the purchases were obtained.
- Amount approved agreed to vehicles purchased.
- Vehicles were added to M5 timely after purchase.
- Vehicles were added to SAP timely for asset tracking.

Reassignment or Disposal: We obtained the listing of all County vehicles and equipment with their assigned locations as of January 2015 and select a judgmental statistical sample of 22 disposals or reassignments (based on 90% Confidence Level (CL) and 10% Tolerable Deviation (TD) from a total population of 243 units) and tested to determine if:

- The Vehicle Decommissioning Form was completed and maintained.
- The Diagnostics Evaluation Form with determination to either reassign or sell the vehicle was completed and maintained.
- Fleet communicated the determination to the County's Fixed Assets Section for reassignment or disposal.
- The vehicle met requirements for reassignment or disposal listed in the Fleet Standard Operating Guidelines.
- Support for sale of vehicle, or other support was maintained to determine that it was properly disposed, if applicable.

Additionally, we obtained the “Vehicle Usage” report from the M5 system as of March 2015 to assess for vehicles identified with low usage based on annual mileage and average monthly mileage driven to determine whether the vehicle should be reassigned.

Security and Access to Fleet Data: We obtained the listing of all users for the WEX Fuel Card system and the M5 system as of January 2015. We also obtained the listings of all active employees and terminations as of January 2015 from the Human Resources Department and tested to determine if users identified with access to Fleet systems were active employees with the County. Additionally, we assessed whether terminated employees had access disabled and that no activity occurred after the termination date.

Monitoring of Fuel Consumption: We obtained the “Fuel Report by Department” for the 1st quarter and 2nd quarter of fiscal year 2015. We tested to determine if:

- Quarterly reports were submitted timely to designated reviewers (County Manager, DCMs and Department Directors).
- Data included in the report could be traced and agreed to supporting documentation.
- Issues identified had been investigated with documentation maintained to support resolution.

We also obtained the “Fuel Usage” report from the M5 system for the period of December 2014 through February 2015. We then judgmentally selected 22 vehicles listed in the report (based on 90 CL / 10 TD from total population of 847 units). We then scanned the transactions for the 22 vehicles for mileage data entry errors.

Vehicle Repair and Maintenance: We obtained the listing of all active County vehicles as of January 2015 and the listing of master parts maintained at the County’s Procurement and Business Services inventory warehouse as of January 2015. We selected a random statistical sample of 22 vehicles (based on 90 CL / 10 TD from a total population of 1,319 vehicles) and tested to determine if:

- The vehicle’s preventive maintenance service was completed timely.
- For the last preventive maintenance or repair service performed:
 - The work order was completed and entered to M5 accurately including the parts used.
 - The vehicle checklist (inspection) form was completed and notes were transferred accurately to M5.
 - If condition documented appeared to be due to an incident, determined whether the required Risk Management forms had been completed.
 - Parts identified as used in the work order were ordered through the established process.

Sourcing of Auto Parts: We obtained a listing of the auto parts activity by work order from the M5 system for the period of August 2014 through January 2015 and selected a judgmental statistical sample of 22 work orders (based on 90 CL / 10 TD from a total population of 1,622 work orders). We tested to determine if the parts were ordered from the inventory warehouse, if available, in accordance with the established procedures.

Additionally, we obtained the listing of expenditures for fiscal year 2015 from M5 by unit (vehicles and equipment). We selected all units (eight units) with maintenance or repair expenditures greater than \$20,000 and tested that they were active in use units and the expenditures were supported.

Accountability of Auto Parts at the Fleet Facility: We requested all inventory counts performed in the period of August 2014 to January 2015 and tested four of the six months to determine if:

- A physical count was performed and documented.
- Reconciliation to expected system counts was completed and documented.
- Variances were investigated and resolution documented.
- Counts and changes to quantities were verified by an independent employee.

Additionally, we obtained change reports from the M5 system to determine if quantities changed in the system agreed to the counts completed. We also scanned the report for any changes that appeared unusual and requested explanations.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County’s processes:

1) Monitoring of Fuel Consumption

The Fleet department prepares quarterly reports and provides those to Departments; however, there was no process to track or investigate unusual fuel activity or trends. Additionally, 14 of the 22 vehicles tested from the Fuel Usage report had mileage entry errors.

Potential Risk: Moderate—Mileage updates to vehicle records in both the M5 and WEX systems are dependent on manual data entry and are susceptible to error or could be falsified. Fleet relies on departments to monitor for unusual trends and there was no process for investigating, documenting and communicating issues identified which could result in excess fuel consumption going undetected.

Recommendation: A formal process should be implemented and documented to include monitoring for consumption and discrepancies, analyzing fuel usage and mileage for each vehicle, reporting data consistently to the identified parties, investigating and documenting resolution of issues identified. The County should include in this process who is responsible for each part of the process as it will likely result in various departments working together; however, a centralized person should be identified who will ensure all departments are conducting their reviews and investigations.

Additionally, Fleet is currently researching a system that tracks mileage automatically which would eliminate the possibility of errors in the mileage data. Once mileage is accurate, miles per gallon by vehicle should be analyzed to identify unusual trends.

Management’s Response

Fleet/Facilities Management Department (FFMD), with the aid of the Accounting Department, will draft a recommended document to become part of the County’s Administrative Instructions, for the review, approval, and distribution from the office of the County Manager with a target to implement by July 30, 2015. This policy will contain the follow:

1. Requirement for FFMD to provide quarterly fuel consumption reports and mileage tracking to the County Manager, DCM’s, Elected Officials (other than the Commissioners), and Department Directors.

2. Director's will provide feedback to FFMD on all fuel usage increases/decreases for the current quarter compared to previous quarter, that reflects an increase/decrease in consumption 10% or more.
3. FFMD will provide semi-annual vehicle utilization reports to Directors to be verified by the Director (or their designee) that vehicles are properly assigned and utilized and mileage reported is accurate to the vehicles actual mileage, notifying Fleet of major differences in miles reported by Fleet.
3. FFMD will report the data from departments to ensure proper utilization of assigned Fleet and make recommendations to the County Manager of any deficiencies.
5. Penalties for Department's failure to follow policy.

2) *Accountability of Auto Parts at the Fleet Facility*

Low value assets, such as auto parts maintained at the Fleet Facility, should be properly accounted for and tracked with a monthly physical count. For the months of November 2014 and January 2015 physical counts were not completed. Additionally, for two physical counts tested:

- The count documentation was not dated or signed to indicate personnel involved in the count or when it occurred.
- A reconciliation between expected and on hand counts was not documented.
- An investigation and resolution of variances was not documented.

We determined that auto parts on hand at the Fleet facility are not properly secured in a locked storage area with restricted access. Additionally, the Fleet Management Department does not have a process established to document or verify changes to quantities of parts in the system were accurate or supported.

Potential Risk: Moderate/Low—Without proper tracking and verification in place, theft could occur without detection.

Recommendation: A documented process should be established to reconcile physical counts to quantities recorded in the M5 system. Documentation should include the physical count with personnel involved, the date performed, reconciliation to expected system counts, investigation and resolution of variances, and verification by an independent employee for variances and changes to quantities in the system.

Management's Response

The small amount of shop stock (filters, wiper blades, etc.,) maintained at the shops is there to allow Fleet to provide immediate preventive maintenance (PM) services for our walk-in customers. It is not intended to circumvent the services provided by the Purchasing Inventory Warehouse. A sturdy, lockable cabinet is being acquired to better manage and control the stock. This locking cabinet will also be used to house pre-ordered auto parts that are required for vehicles scheduled for next day PM repairs. Access will be controlled by the Shop Supervisor who will also be responsible for monthly inventory counts. Adjustments to stock quantities will only be made by the Fleet Administrator. The following addresses each bullet observation specifically.

1. At the time of the audit, staff was not fully knowledgeable of all the functions of the new M5 system Physical Inventory process. The system generates count sheets that identify date,

time and individual responsible for the count. This will be used by Fleet for all future counts.

2. Staff was still in the process of learning all the features of our new software and was unable to produce a complete variance report. Staff is now able to conduct a complete inventory count within the M5 system (a primary reason for purchasing the upgraded M5 system) allowing them to review and document variances.

3) *Reassignment or Disposal of Fleet Assets*

Fleet Standard Operating Guidelines state that all unit reassignments or disposals should have documentation to support the change. During our testing of 22 units identified as reassigned or disposed in the M5 system we found the following:

- One vehicle had a date identified as removed from Fleet as of September 2014, which was inaccurate as a result of data clean-up related to the conversion to the M5 system; however, we were unable to determine the actual decommission date.
- Six trailers were removed from the M5 system as of September 2014 and have not been tracked since then.
- Six units did not have adequate documentation maintained with the unit's record within the M5 system to support the changes to the unit's status.

The process for tracking changes does not appear to be consistently followed.

Potential Risk: Low—The data in the system is not accurate and units have not been consistently tracked which could lead to theft, loss or misuse.

Recommendation: The County should formally adopt the revised Fleet Management Standard Operating Guidelines. A process should be implemented to ensure operating guidelines are updated annually. Fleet should ensure that all required documentation is maintained with the unit's record in the M5 system and units are properly described. Once documentation has been completed, a process to verify the location and status of the unit should be established to ensure that all steps in the process have been completed.

Management's Response

The revised Fleet Management Standard Operating Guidelines, SOG, has been in re-write since February 2015 following the implementation of the new M5 software. Once all newly established processes and procedures have been incorporated from the M5 system into this SOG, this document will replace existing Fleet guidelines. Procedures will require that all required forms showing vehicle assignments and disposition are maintained within the Fleet records within M5 and therefore available as needed to allow for better tracking and control. Required documents (Vehicle Transfer and Decommission, Vehicle Inspections, etc.), will be scanned into M5 for recordkeeping. The following addresses each bullet observation specifically.

1. Unit had been removed from Fleet records several years back however; previous Fleet software did not reflect the change. Fleet maintenance records show last service of this unit was conducted in June 2006 and SAP has no historical record of this as an asset. Not until the software upgrade was conducted in September 2014 was this info updated.
2. Trailers were removed as a standard unit because of software licenses they were consuming. The intent was to make these items a component (not requiring a software license) in the

new system. However, after testing component functionality this change did not properly served Fleets reporting needs. All trailers have been added back into the M5 system as a unit and additional license purchased to cover the additional trailers.

3. The existing vehicle Decommissioning/Transfer form used by the County has been modified to reflect all transfers; from the department to Fleet, from Fleet to Fixed Assets for decommissioning/disposal or From Fleet to the gaining department. Each reassignment of ownership will require a signature.

4) *Vehicle Repair and Maintenance*

Preventative maintenance should be completed and documented in the M5 system every 5,000 miles for Public Safety vehicles and 7,500 miles for General Fleet vehicles according to Fleet guidelines. During our testing of 22 vehicles serviced we determined that:

- 14 vehicles had no evidence to indicate a full inspection was performed on the vehicle for the last preventative maintenance service.
- Six vehicles did not have maintenance completed timely. The vehicles identified were assigned to the following locations: Parks and Recreation – Administration, Facilities Maintenance, MATS Detox Program and three vehicles from the Sheriff’s Office.

Inspection checklists and forms were not maintained with the upgrade to the M5 system. Mechanics were instructed to add notes to the M5 system for the work performed; however, guidance did not specify the need to document that a full inspection was completed.

Potential Risk: Low—Without routine maintenance performed and documented there is a risk that the vehicle could require more costly repairs in the future that could have been prevented or safety issues may not be identified in a timely manner. Based on testing this appears to be a recordkeeping issue and there were not excessive periods between maintenance.

Recommendation: Fleet has implemented several new processes that were evident during testing. These new processes included a full inspection checklist maintained electronically in M5 (implemented as of March 2015) and a process for Fleet to notify departments that vehicles are due for service, with follow up for scheduling (implemented as of December 2014).

Documentation to support that the County has performed proper maintenance on fleet assets, may alleviate liability as a result of perceived negligence. Fleet should ensure the new process is consistently followed and documentation is maintained in the M5 system.

Management’s Response

Mileage tracking currently is a manual process. Should an employee mis-key this data at the pumps the possibility of corrupting the data is a reality which was identified and a major part of why Fleet to purchase the upgraded software. As part of the upgrade, Fleet purchased a “Vehicle Identification Box” (VIB) as part of the fuel management system that, once installed, will automatically update the vehicles mileage into M5 removing the need for manual driver input; reducing overall error rate. This, coupled with the installation of updated ICU’s at each 4 fuel location in February 2015, will better manage mileage and overall routine maintenance scheduling. Fleet began testing and installing the VIB devices in March 2015 and will begin full installation in June 2015. The following addresses each bullet observation specifically.

1. An electronic checklist has been developed and will be used by the PM mechanics to document items inspected during each PM visit. This form will be saved with the unit's history in the M5 system and can be printed out on request.
2. Concur. The lack of adequate and timely service of County vehicles and equipment was identified in 2013 and used as part of Fleet's justification to purchase the M5 upgrade of our updated M4 Fleet Management system. Since the upgrade in September 2014, Fleet staff has been working with departments to capture more accurate mileage updating it into the M5 system.

5) *Security and Access to Fleet Data*

Access to Fleet Management systems should be disabled on a timely basis, ideally by the end of the pay period after termination of the employee. During our testing of 58 employees identified as active M5 system users, we identified four employees that had been terminated but were still listed as active users. We determined that there was no documented login by these employees after termination. Fleet did not have a process to disable access upon termination.

Potential Risk: Low—Although there was no documented login by these employees after termination, inappropriate changes to data could occur if access is not disabled timely.

Recommendation: The Fleet Management Department should implement a process to disable access to Fleet systems. This should be completed at least monthly.

Management's Response

As part of the M5 upgrade, Fleet has been working with County Human Resources (HR) and with our software vendor, AssetWorks, since January 2015 to create a HR interface to eliminate this issue. The interface extracts employee data from a file provided by HR and imports that biweekly data into M5. The data automatically changes employee status from active to inactive (if terminated) removing employees access to fueling and to the M5 system and or changing employee department of assignment as necessary. This interface is nearing completion and should be fully implemented in the system by July 2015. Until that time this is a manual process done by authorized Fleet staff as Fleet is notified monthly of employee terminations.

6) *Sourcing of Auto Parts*

The Fleet Management Department currently has an established process to obtain specific auto parts from the inventory warehouse, which is managed by the Procurement and Business Services Department. All parts maintained at the inventory warehouse are listed on a master parts list and should be requested from the warehouse prior to ordering the part directly from a vendor. For three of 22 work orders tested, parts available at the inventory warehouse were ordered directly from vendors.

Potential Risk: Low—Although auto parts were not always sourced from the inventory warehouse, the exceptions identified were ordered from authorized vendors and at a comparable price.

Recommendation: The Fleet Management Department should follow established processes. Additionally, if the department feels that revisions should be made to the process, formal approval should be obtained prior to circumventing the established process.

Management's Response

The period identified was during a two week test period that the Fleet Administrator had authorized his General Fleet Shop staff to order directly from the vendor (Just In Time) so that Fleet to evaluate the benefits of JIT parts delivery. FFM routinely orders parts that are not stocked by inventory from the vendor. However, this test was to evaluate the timeliness of ordering standard inventory from the vendor, rather than using the Inventory Warehouse, to see if JIT made sense for the department. Major benefits of ordering directly from a parts vendor is their ability to research parts (a function that is now required of the mechanic). This is a major time saver for Fleet. However, the disadvantage is an increase in deliveries for the vendor which may not be easily maintained.

Fleet discontinued this test and has elected to remain with the current system. Therefore, parts that are stocked by the warehouse will be requested from the warehouse. If not available, they will be ordered from the vendor.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from the Fleet Management and Accounting Departments during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
April 16, 2015