SURPRISE
ARIZONA

Fleet Management Internal Audit Report

April 30, 2020

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Image Source: City of Surprise Fleet Services Guide

Executive Summary and Observations

Executive Summary

The City of Surprise's (City's) Fleet Management Division (Fleet Management or the division) of the Public Works Department is responsible for managing the acquisition, maintenance, and disposition of the City's fleet with a 14 person staff. Fleet Management maintains a 672 piece fleet inventory consisting of emergency SUV's and Sedans (21% of fleet), light, medium, and heavy duty trucks (23% of fleet), and trailers and utility carts (21% of fleet), along with refuse trucks, motorcycles, vans / busses, and other equipment.

In Fiscal Year 2020 (FY20), Internal Audit (IA) assessed the design and operating effectiveness of Fleet Management's internal controls and procedures. Procedures performed indicate that defined controls exist around asset acquisition and disposal, inventory receipt, and work order management. No material deficiencies in the division's internal control structure were noted. There were some areas for improvement discussed with Fleet Management which are not included as audit observations as the division is aware of and / or working on plans for improvement. These include: 1) due to current space limitations, inventory was not stored in a secured area and had not been reconciled since the prior year; 2) due to Fleet Technician (Tech) workload, Fleet Management is behind on performing preventative maintenance and repair work orders by a monthly average of 350 preventative maintenance appointments and 120 work orders; and 3) due to a recent update in asset disposal process, the Procurement Division is updating policies accordingly. Observations were noted around inventory management on an ongoing basis and during the division relocation and around securing assets through user access restrictions.

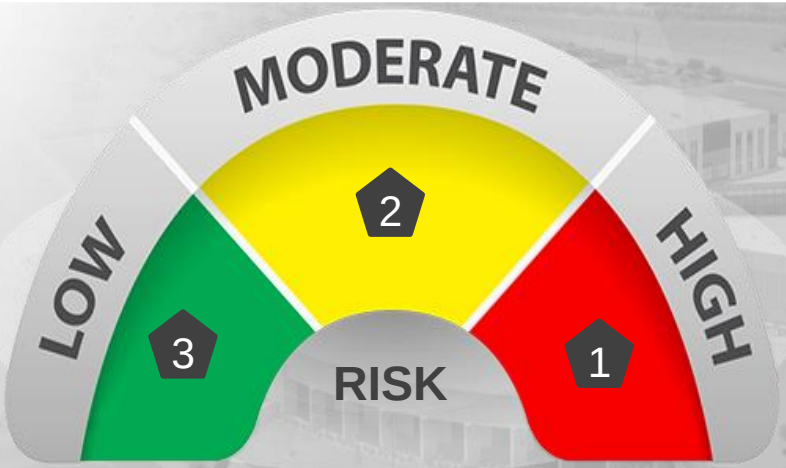
Observations

1. Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020. *(Page 5)*

2. Fleet Management should establish formal inventory records and procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. *(Page 6)*

3. Fleet Management should ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. *(Page 7)*

Observation Risk Rating



Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction. Refer to the rating definitions in Appendix B.

Background, Objectives, and Scope

Background

Fleet Management has grown with the City as fleet size and complexity of needs has increased. The division implemented new AssetWorks software for managing the motor pool, maintenance and work orders, and inventory in 2017. The most recent significant change for Fleet Management was moving into the new Public Works Operations facility in the spring of 2020 which allows for enhanced employee safety, security of parts and tools and room for growth (See comparison photos below).

Each City department pays for its own vehicles, fuel, and the parts necessary for vehicle repairs out of their individual budgets with Fleet Management coordination. Fleet Management works with departments to prepare and approve new vehicle checklists, orders and bills departments for parts required for repairs, and purchases specialty tools for general use by Fleet Techs. Fleet Management employs a number of Fleet Techs whose work is overseen and reviewed for quality by the Fleet Leads. One Fleet Tech serves in the role of dedicated storekeeper for the parts and tools inventory and the Administrative Specialist serves as a contracts and invoice manager.

Old Fleet Facility

New Fleet Facility – Public Works Operations Center

Image Source: IA (Alison Matthees)

Audit Objectives

The objective of the Fleet Management audit was to:

1. Determine if controls are in place to protect and safeguard City assets.

This audit did not comprehensively review regulatory requirements and is not intended to conclude the City is in compliance with all applicable regulations.

Scope / Methodology

The scope of the audit was for the period of January 1, 2019 to March 31, 2020. Procedures included:

- Interviews and discussions with Fleet Management, Information Technology (IT), and Finance (Procurement) personnel
- Review of fleet-related policies and procedures
- Analysis and sample-based testing of AssetWorks data and supporting documentation around fleet assets and inventory
- Testing of the design, implementation, and operating effectiveness of key internal controls relevant to the objectives

Detailed Observation – High Risk

Observation	Recommendation	Management Response
1 – Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020. Fleet Management is moving its operations from the overcrowded and over-programmed Vehicle Maintenance Facility, near Grand Avenue and Dysart Road, into the bond-funded Public Works Operations Facility, next to the water plant at Cactus and Litchfield roads, scheduled to open at the end of March. Fleet Management staff and management are moving new equipment (e.g. parts washer), tools, shop stock, and all parts inventory and spare parts (with the exception of tires), independently with rented trucks. Fleet Management's operational and budgetary decision to manage the move internally eliminates the formal inventorying that would be done with third-party moving services. The City's Finance Department Standard Operating Procedure for inventory of equipment and supplies states: "Each City department is responsible for exercising general supervision and control over inventories of equipment and supplies." Based on inquiry performed, Fleet Management has outlined general plans for the move and received input from the City Attorney's Office but, at the time of the audit, does not have detailed procedures outlined to ensure that all parts and tools are moved securely to the new location. ***Risk:*** • Accidental loss or theft of assets	Fleet Management should: A. Develop procedures to be utilized while moving tools and parts between locations to ensure all parts and tools are moved and reduce the risk of loss or theft. Options to be considered may include, but are not limited to: - Counting and recording items by description or location when being loaded and unloaded. - Locking trucks with key's restricted to assigned individuals at start and end point and not provided to vehicle drivers. - Inventory any capital assets and any other high dollar value assets (parts, tools, and equipment) before and after the move.	***A. Partially Concur.*** Fleet Maintenance will follow certain inventory controls during the move to the new Maintenance Facility to mitigate the risk of loss or theft of City assets without performing a full 100% inventory count. Details of procedures to be performed continue in Appendix A – Management Response Detail *Internal Audit Note: As the fleet operations move occurred before this report was issued, this recommendation was communicated with the department in advance of report issuance.*

Detailed Observation – Moderate Risk

Observation	Recommendation	Management Response
2 – Fleet Management should establish formal inventory records and procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Management has implemented formal policies around inventory management for parts and tools including periodic inventory counts. The division plans to further secure and formalize inventory management upon moving to the new Public Works facility which was designed with secure parts, tire, and tool storage. Fleet Management does not have procedures around: 1) core management for parts to be returned to suppliers for a credit; 2) unused but incomplete parts / kits; or 3) parts waiting to be sold as surplus. The City's inventory policy states, "Each City department is responsible for exercising control over inventories of equipment and supplies. City policy is that all City assets are tracked including surplus, obsolete items, and items waiting to be sold." Based on testing performed, three of 20 parts inventoried were not recorded as inventory in AssetWorks. Two were removed as a component from a large kit and not utilized, but saved in case of future need and the third hadn't been used in a number of years and is stored with other parts that will eventually be sold as surplus parts. Additionally, the City retains cores but does not have a formal core management, tracking, or inventory process. ***Risk:*** • Inaccurate records and potential for loss or fraud	Fleet Management should: A. Work with Procurement to continue development of a core tracking system to include, but not limited to: - Record of value of pending core credits for each supplier - Any applicable deadlines or due dates for core returns for credit - Quantity and condition of cores on hand recorded in AssetWorks and included in inventory procedures B. Develop independent tracking mechanism for, or include in inventory counts and AssetWorks, parts that are unused pending sale as surplus goods or that were removed and unused as part of a larger parts kit.	***A. Concur.*** Fleet Maintenance will follow certain procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Maintenance will work with Procurement to develop a Core Return policy. This will include the process, due dates and condition. This will be completed by December 31st, 2020 ***B. Concur.*** Fleet Maintenance will follow certain procedures around parts on hand pending return to suppliers for credit or sale as surplus goods. Fleet Maintenance will develop an area for all return, repair, core and incomplete kits. The shelves will be labeled and each item will have a colored sticker identifying the issue. This has been completed.

Detailed Observation – Low Risk

Observation	Recommendation	Management Response
3 – Fleet Management should ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. Fleet Management has used AssetWorks for fleet, maintenance and repair, work order management, parts receiving, and inventory management since its implementation in 2017. The Human Resources Department uses AssetWorks to manage the City's motor vehicle pool. All City employees have limited access to Asset Works to reserve a motor pool vehicle and submit a work order for fleet repair work. The City's IT policy states, "Each user's access privileges must be: authorized according to business needs, restricted to least privileges necessary to perform job responsibilities, and assigned based on job classification and function." Access to AssetWorks was set-up with the software vendor in 2017, prior to IT access management for the system. Based on inquiry and testing performed, for two employees in AssetWorks, the users have access to make changes when inquiry only access would be sufficient for the review and monitoring procedures their roles require. For two other employees with elevated access to add / modify in AssetWorks, the employees are not members of Fleet Management and do not require elevated access. Additionally, for one of the 15 user groups tested (Storekeeper), access does not align with segregation of duties best practices. ***Risk:*** • Unauthorized changes to fleet or inventory records	Fleet Management should: A. Work with IT to remove elevated access levels for any inappropriate users and reduce access levels for members of the department who perform review and monitoring procedures who need inquiry access only. B. Align the Storekeeper user group with inventory and receiving segregation of duties best practices or, where the division's small size does not allow for sufficient segregation of duties, implement mitigating review controls (e.g. monthly review of any inventory adjustments made) completed by an employee without access to update selected area.	***A. Concur.*** Fleet Maintenance will work with our Business Management Analyst to ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. The fleet manager will work with our Business Management Analyst to ensure the proper users are assigned the accurate access levels. This will be complete by December 31st, 2020. ***B. Concur.*** Fleet Maintenance will work with our Business Management Analyst to ensure sufficient systematic user access restriction and segregation of duties exist to safeguard City fleet assets. The fleet manager will work with our Business Management Analyst to ensure the proper access levels are identified for the storekeeper position. This will be complete by December 31st, 2020

Appendix A – Management Response Detail

Observation 1 Management Response (Continued from Page 5)

Observation 1: Fleet Management should develop and document asset management procedures to ensure security of parts and tools during the departmental move to the new fleet facility in April 2020.

Management Response

A. Partially Concur. Fleet Maintenance will follow certain inventory controls during the move to the new Maintenance Facility to mitigate the risk of loss or theft of City assets without performing a full 100% inventory count as follows:

- Individual parts are currently on shelves and labeled. These shelves will be shrink wrapped and numbered accordingly. To ensure delivery the shelves will be counted on an inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor.

- All capital assets have designated location on the construction plans and are numbered accordingly. All capital assets will be labeled with the corresponding number from the construction plan before the move. They will be documented on the inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor when unloaded to their designated location.

- All loose items around the shop and office will be placed in totes. These totes will be numbered accordingly. To ensure delivery the totes they will be counted on an inventory transfer sheet by the Fleet Manager or Fleet Supervisor while loading. When delivered to the new maintenance facility they will be checked off as delivered by the Fleet Manager or Supervisor.

- The moving trucks carrying the inventory and capital assets will be secured by a lock by the Fleet Manager or Fleet Supervisor only. The Fleet Manager or Fleet Supervisor will be the only ones to maintain the key or combination until delivered. The Fleet Manager or Fleet Supervisor will open the moving trucks when they arrive at the new maintenance facility.

- After all inventory items and capital assets are delivered to the new maintenance facility and checked off the inventory transfer sheet as being delivered, the Fleet Manager or Fleet Supervisor will sign off on the inventory transfer sheet as being completed and accounted for.

Appendix B – Data Reliability and Risk Rating

Data Reliability

The data utilized for the work performed was either obtained from Munis, the City's financial system of record, or from Fleet Management's asset management software, AssetWorks.

Munis data reliability is materially verified annually via the audit of the Munis financial reports and the Comprehensive Annual Financial Report (CAFR) performed by the City's external auditor. Additionally, as part of testing procedures for this fleet management audit, IA performed testing on samples of assets and identified no errors or limitations in the data material in context of the work performed. Though there were some inventory variances noted in testing, they are addressed in recommendations included and Fleet Management plans for inventory management at the new facility. They were not material in context of the work performed.

Internal Audit determined the data utilized is sufficiently reliable given its intended use.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of high, moderate, or low priority based on the need for action or correction:

- High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.
- Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.
- Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

Appendix C – Standards and Acknowledgements

Audit Standards

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS). 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 audit objectives.

The scope of this audit included review and testing of the design, implementation, and operating effectiveness of key internal controls relevant to the audit's objectives. In accordance with GAGAS, IA verified the audit objectives and related controls identified address all 17 principles of the COSO framework. Though some control weaknesses were identified and are included in the Detailed Observations section of this report, none rose individually or cumulatively to the level of a Fleet Management Division or City-wide internal control deficiency.

This project was not intended or designed to be a detailed study of every relevant procedure, regulation, system, or transaction. As such, the conclusion and recommendations contained in this report may not include all areas which may need improvement.

Acknowledgements

IA appreciates the time City staff contributed to this review. IA would like to take this opportunity to thank all of the departments and individuals involved in the Workers' Compensation Audit for their considerable cooperation.

We received input and assistance from the following:

- Fleet Management Division (Public Works Department)
- Procurement Division (Finance Department)
- Information Technology Department

Auditor: Alison Matthees, MPA, CIA

Surprise Internal Audit

Vision

The development of people, systems, and processes that delivers innovative and effective auditing services to the City of Surprise.

Mission

To provide independent, objective, accurate, and timely auditing services that are designed to improve operations, cultivate transparency, and accountability.

For more information or to contact Internal Audit:
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