

August 16, 2012
Audit Committee
Mayor McMillan and City Council
City of Clarksville
Clarksville, TN 37040

RE: City Wide Vehicle Audit

Dear Audit Committee, Mayor McMillan and City Council Members:

Attached is the Internal Audit Department's report on the City Wide Vehicle Audit. Also attached is an executive summary which highlights the findings and recommendations contained in the full report.

We thank the management and staff of the various City departments for their cooperation and assistance during this audit.

Sincerely,



Lynn Stokes, CPA
Director of Internal Audit

Attachment

cc:	Charlie Koon	Chief of Staff
	Ben Griffin	Director of Finance
	Jimmy Smith	Director of Transportation
	Lorraine Foust	CFO of Transit
	Randy Reese	Supervisor of City Garage
	Brian Taylor	Interim Superintendent of CDE Lightband
	David Johns	CFO of CDE Lightband
	Bruce Walker	Operations Manager of CDE Lightband
	Pat Hickey	General Manager of Gas, Water and Sewer
	Fred Klein	CFO of Gas and Water
	Charlie Gentry	Shared Services Manager of Gas, Water and Sewer
	Mike Roberts	Chief of Fire Department
	Michael Papke	Assistant Chief of Fire Department
	Al Ansley	Chief of Police
	Mark Tummons	Parks & Recreation
	Les Crocker	Buildings & Codes

The Honorable Mayor Kim McMillan
City Council Members
Department Heads
Clarksville, Tennessee 37040

Executive Summary of City Wide Vehicle Audit

Internal Audit Report on the City Wide Vehicle Audit for the period July 1, 2008 to January 31, 2012. The following is a summary of the findings, recommendations and management's comments for the above process. For additional detailed information please see the full audit report.

Objectives of the audit

Review internal controls, compliance, efficiency and effectiveness of the City wide vehicle process for:

- Policies and procedures
- Acquisition and disposal
- Maintenance
- Utilization
- Data Systems
- Fueling

Brief Background

The City owns and maintains a vehicle fleet of approximately 926 vehicles of various types that are used to provide services internally to other departments and externally to City residents.

To maintain the fleet, the City operates five separate internal maintenance garages: City garage, Fire, CDE, Gas and Water and Transit. Additional maintenance may be obtained externally from dealers and specialty shops.

The City wide fleet vehicle manager vehicle position has been vacant for over ten years and as a result, each department has maintained oversight over its own vehicles. The Fleet vehicle policy of 1996 is out of date and does not provide coordination of vehicle related activities to take advantage of shared resources and needs.

Many department activities are operated on a 24/7 basis. For after-hours work departments maintain on-call lists of employees who are required to commute in City vehicles. Unless the vehicles are considered to be qualified non-personal vehicles the IRS considers commuting as a personal fringe benefit and therefore requires that taxes on the benefit be collected through payroll.

Vehicle data is managed through various computer software. The data functions at each location vary and because the systems do not interact with one another it is not possible to provide consolidated City wide vehicle information.

Vehicle fuel is available from a variety of sources: the City garage and at other alternative sites such as FleetOne commercial stations, the Beach Oil fuel island, the Transit garage, and at other commercial stations by purchasing card. The alternative sources were established due to convenience of availability and improve efficiency by reducing unnecessary travel to the City garage.

The current vehicle processes across the City departments are not standardized which can result in confusion and inconsistencies and sometimes inefficiencies. The lack of a policy in certain areas, such as inventory management, results in weak internal control over garage purchases.

Summary of Findings and Related Management Comments:

The following findings are presented in the audit report:

1. Weaknesses Identified in the Fleet Policy:

Recommendation: City management should assign responsibility for the fleet management process.

Management Response: The Mayor and Chief of Staff agree; Mr. Jimmy Smith, Director of Transportation has agreed to assume the responsibilities of the City Wide Fleet Manager; the Fleet Vehicle Policy and Procedures document will be updated.

Projected completion date: by end of February 2013.

2. Weaknesses surrounding Take Home Vehicles:

Recommendation: Develop a standardized written policy for take-home vehicles; determine and document the need for department heads to take vehicles home at the executive level; maintain adequate supporting documentation for personal commuting; revise the taxable fringe benefit form for proper tax calculations.

Management Response:

Department	Responsible Manager	Agree/Disagree	Projected Completion Date
Gas and Water	Pat Hickey	Agree	November 1, 2012
Transit	Jimmy Smith	Agree	December 31, 2012
Fire	Michael Roberts	Agree	September 30, 2012
Buildings and Code	Les Crocker	Agree	March 2013
Parks and recreation	Mark Tummons	Agree	December 31, 2012
Police	Al Ansley	Agree	July 26, 2012
Finance	Ben Griffin	Agree	August 31, 2012

3. **Weakness in Inventory Management:**

Recommendation: All garages should develop a method of inventory control according to criteria listed in the report; City management should consider having a uniform inventory system for all City garages in order that vehicle and inventory reports City wide are comparable; software interfaces should be established between the data systems and the financial accounting systems in order to properly account for inventory.

Management's Response:

Department	Responsible Manager	Agree/Disagree	Projected Completion Date
CDE	David Johns	Agree	November 30, 2012
Gas and Water	Pat Hickey	Agree	August 31, 2012
Transit	Jimmy Smith	Agree	April 6, 2012
City Garage	Jimmy Smith	Agree	December 31, 2013
Fire	Michael Roberts	Agree	December 31, 2012

4. **Lack of Communication/Coordination between City garages:**

Recommendation: Establish a central process owner or other platform to facilitate communications between garages such as periodic meetings between garage managers; Establish a common software system that allows collection of all City wide vehicle fleet information such as acquisitions, disposals, inventory, purchases, in-house maintenance and outsourced work in order to monitor and manage the fleet.

Management's Response: Chief of Staff Charlie Koon agreed and delegated action to Transportation Director Mr. Jimmy Smith who has assumed the Fleet Vehicle Manager's responsibilities (audit finding #1 above discusses that responsibility) .

Projected completion date: December 31, 2013.

5. **Verbal Garage Tool Policies:**

Recommendation: When updating the fleet Policy add a topical section regarding tools, their purchase, use and replacement.

Management Response: Jimmy Smith Director of Transportation agreed that a written policy is needed so as to improve understanding.

Projected completion date: December 31, 2013.

If you have any questions about the audit, the findings, or the recommendations please contact me at 648-6106.

Respectfully,



Lynn Stokes

Director of Internal Audit

cc: Charlie Koon, Chief of Staff
Ben Griffin, Director of Finance
Jimmy Smith, Director of Transportation
Pat Hickey, General Manager, Gas and Water
Brian Taylor, Superintendent CDE Lightband
Al Ansley, Chief of Police
Mike Roberts, Chief of Fire
Parks & Recreation, Director, Mark Tummons
Buildings & Codes, Director, Les Crocker



INTERNAL AUDIT REPORT

AUDIT TITLE:	VEHICLE AUDIT
DEPARTMENT:	CITY WIDE
AUDIT PERIOD:	JULY 1, 2008 TO JANUARY 31, 2012

CITY OF CLARKSVILLE
Internal Audit Department
City Wide Vehicle Audit

Robin Manley

Auditor

Lynn Stokes

Audit Director

August 16, 2012

Date

**CITY OF CLARKSVILLE
INTERNAL AUDIT REPORT**

City Wide Vehicle Audit

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Internal Audit Report

Origin of the Audit

This audit was conducted as a part of the annual audit plan approved by the Audit Committee for the fiscal year 2011. However, due to the late start in the fiscal year the audit was subsequently added to the approved fiscal year 2012 plan.

Audit Objectives

The specific audit objectives were to review the following for internal controls, compliance, efficiency and effectiveness for the City wide vehicle process:

- Policies and procedures
- Acquisition and disposal
- Maintenance
- Utilization
- Data systems
- Fueling

Scope and Methodology of the Audit

The audit covered the time period from July 1, 2008 to January 31, 2012. Evidence to support our conclusions was gathered from inquiries of management and staff as well as observations of source documentation and tests of the controls surrounding the activities listed above. The sampling method used in tests was judgmental sampling.

The audit did not cover the appropriateness of the decisions regarding the types of vehicles purchased, the size of the fleet, the type and frequency of maintenance provided and the timeliness of vehicle replacement and disposition.

Statement of Auditing Standards

We conducted this audit in accordance with generally accepted government auditing standards except for the peer review. 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.

Background

In the mid 1990's, the City hired a fleet administrator who subsequently developed and distributed the "Policy and Procedure for City of Clarksville Vehicle and Equipment" (hereafter called the "Fleet Policy").

The Fleet Policy's purpose was "to provide the City departments with the most efficient and economical vehicle or equipment for their requirements, to ensure standardization throughout the City and to control maintenance costs". An exception allowed the Transit and Fire departments to be responsible for developing their own specifications, submitting their purchase requests and maintaining their own vehicles.

About the year 2000 the fleet administrator position became vacant and has not been filled. As a result, the Fleet Policy document over time has become outdated.

Vehicle acquisitions and disposals are initiated at the department level with assistance provided from the Purchasing department and the City Garage. Vehicles are purchased from authorized dealers through a State wide contract or by bid. Disposals are accomplished by sales to the highest bidder through either an internet auction (GovDeals) or to a salvage dealer.

From 2000 to 2006 several events occurred: 1) the City Garage reached capacity, 2) the Gas and Water Department's fleet increased and the Department established its own maintenance facility, and 3) CDE Lightband, which had previously outsourced all of its maintenance, brought that function in house by establishing its own garage. The City now has five separate maintenance facilities (City Garage, Transit, CGW, CDE and Fire) with some maintenance outsourced as necessary to specialty shops or to dealers who perform warranty work.

Management oversight is at the department level. There is no overall fleet management process owner for the City whose job it is to ensure that vehicle policies are consistently applied and vehicle and maintenance data are consistently tracked and recorded. There is no method in place to coordinate vehicle-related activities to take advantage of shared resources and needs.

The City's vehicle fleet currently consists of approximately 926 vehicles of various types including automobiles, pickup trucks, vans, sports utility vehicles, large utility trucks, buses and trolleys. These vehicles are used to provide services both internally to other departments and externally to City residents.

A number of City employees and officials drive City vehicles home at night. In most cases a taxable benefit is added to the income of these individuals to comply with IRS requirements. All employees who drive a City vehicle are required to take an initial driver safety class and are required to take refresher classes if they are involved in an accident. All drivers are also required to obtain a liability insurance rider to cover personal driving time (e.g. commuting or driving during the lunch hour if returning to their duty station to pick up their personal vehicle to go to lunch is inefficient). The responsibility for tracking these aspects of vehicle usage is at the department level.

Vehicle data is managed through various computer software based systems that process transactions for purchases, work orders, accounts payable, inventory and assets and other accounting requirements. The data functions performed at each location vary.

Vehicle fuel is obtained from five sources: at the City garage, at a commercial FleetOne subscribing gas station, at any local Beach operated gas station and at the Transit garage. The City garage maintains a 24/7 unattended but secure onsite gas and diesel distribution station that uses a card-lock method to dispense fuel to City vehicles. Each vehicle is assigned a FleetOne card and authorized drivers may obtain fuel for only that vehicle by swiping the card and entering a unique passcode into a fuel island terminal. Drivers may also purchase fuel from an authorized commercial fuel station with the FleetOne card. This alternative is available for those drivers who may be logistically unable to obtain fuel from the City garage. CDE Lightband has an agreement (competitively determined) with Beach Oil to provide them with all vehicle fuel. Transit buses are re-fueled at the Transit garage. Employees traveling out of town may use cash, a FleetOne card or an authorized City purchasing card.

The City garage and Transit garage receive fuel from a variety of vendors on a bid basis. Transit purchases diesel fuel from vendors on a bid basis. CDE receives monthly billings from Beach Oil.

Statistical Information

Number of City Vehicles by Department

Entity	Total	Autos	Vans	SUV's	Trucks	Pickups	Buses	Demand Response	Trolleys
Police	411	353	12	32	1	13			
Gas and Water	171	0	6	12	35	118			
CDE Lightband	68	7	1	6	13	41			
Street	81			6	31	44			
Fire	55	4	4	12	26	9			
Parks & Rec	49	6	1	9	4	29			
Transit	45		4	2		5	22	10	2
Buildings & Codes	18	1		2		15			
City Garage	6				2	4			
Building Maint	4					4			

Information Technology	4		2	2					
Golf Swan Lake	4			2		2			
Cemetery	3				1	2			
Mayor	2	1		1					
Human Resources	2	2							
Golf Mason Rudolph	1					1			
Internal Audit	1	1							
Municipal Properties	1			1					
Total All Entities	926	375	30	87	113	287	22	10	2

Book Value of City Vehicles as of 6/30/2011

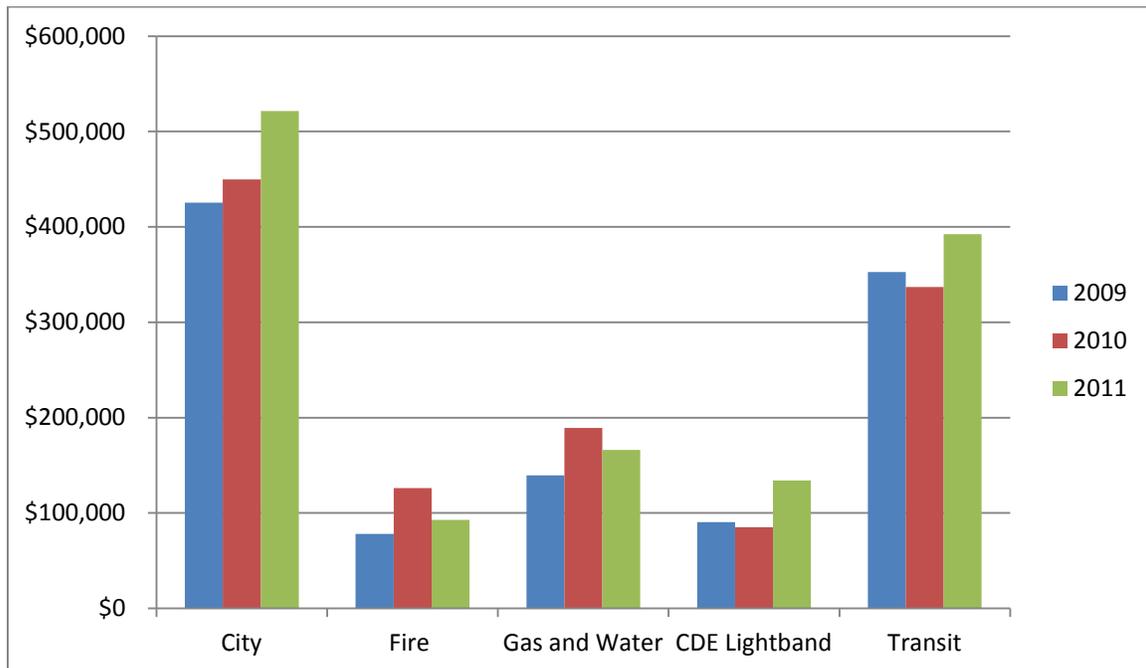
City General			Gas and Water	
Police	\$7,668,267		Sewer	\$2,181,999
Fire	\$4,194,018		Water	\$1,382,583
Street	\$2,777,613		Gas	\$1,062,203
Parks/Rec	\$843,542		Ft Campbell	\$161,642
Bldgs./Codes	\$268,733		Total Gas and Water	\$4,788,927
Garage	\$125,916			
Bldg. Maint.	\$70,922		CDE Lightband	
Golf	\$67,151		Total CDE	\$2,870,472
Info Technology	\$61,584			
Cemetery	\$47,018			
Mayor	\$40,602			
Human Resources	\$17,608		Transit	
Municipal	\$16,000		Revenue Vehicles	\$6,193,803
Internal Audit	\$10,500		Revenue Vehicles - ARRA	\$1,896,285
Total City General	\$16,209,474		Other Vehicles	\$276,568
			Total Transit	\$8,366,656
City Wide Grand Total	\$32,235,529			

Value of City Vehicles Acquired Fiscal Years 2009, 2010, 2011

City General	2009	2010	2011
Police	\$549,298	\$778,973	\$723,572
Fire	\$151,950	\$29,820	\$41,613
Bldgs./Codes	\$12,986	\$15,436	\$40,706

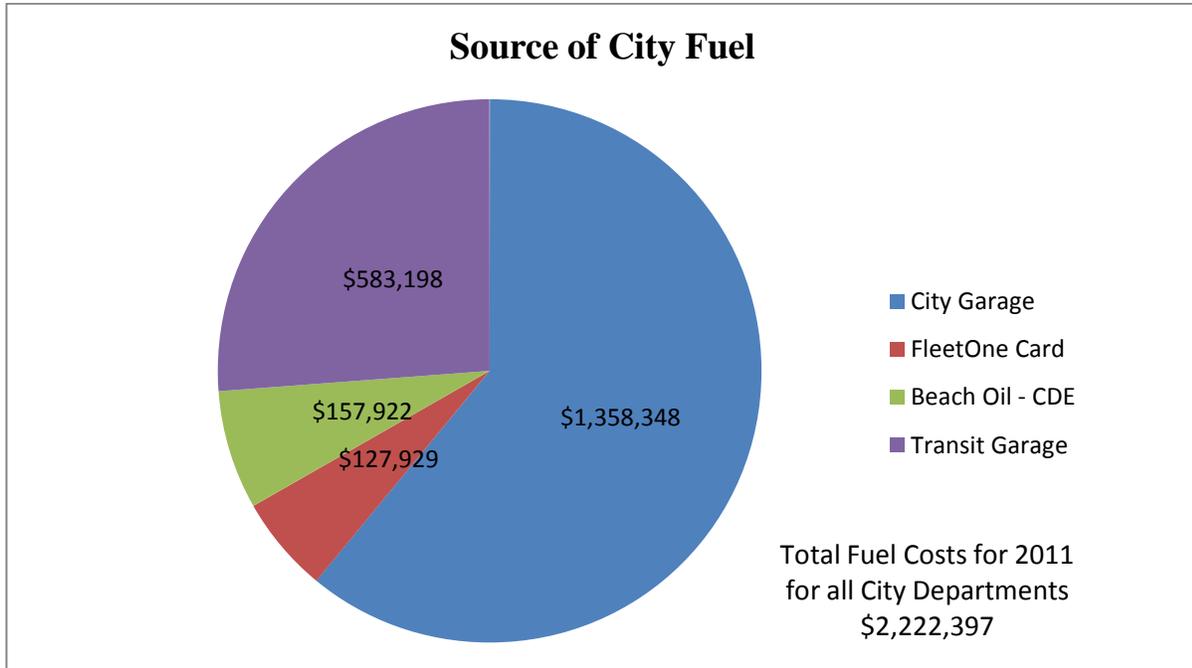
Street	\$141,740	\$137,432	\$153,500
Parks/Rec.	\$26,968	\$68,852	\$115,690
Info Tech.	\$20,000	\$17,074	\$0
Garage	\$0	\$44,870	\$0
Human Resources	\$1,600	\$0	\$0
Mayor	\$40,602	\$0	\$0
Total	\$945,144	\$1,092,457	\$1,075,081
Gas Water and Sewer			
Gas	\$40,141	\$152,839	\$57,229
Water	\$42,437	\$248,940	\$111,500
Sewer	\$40,228	\$18,604	\$671,441
Total	\$122,806	\$420,383	\$840,170
CDE Lightband			
Total	\$61,082	\$0	\$626,685
Transit			
Demand Response	\$218,505	\$86,886	\$0
Support	\$21,077	\$20,259	\$0
Buses	\$0	\$2,644,591	\$0
Total	\$239,582	\$2,751,736	\$0
City Wide Grand Total			
	\$1,368,614	\$4,264,576	\$2,541,936

City Wide Vehicle Maintenance Expenditures by Garage

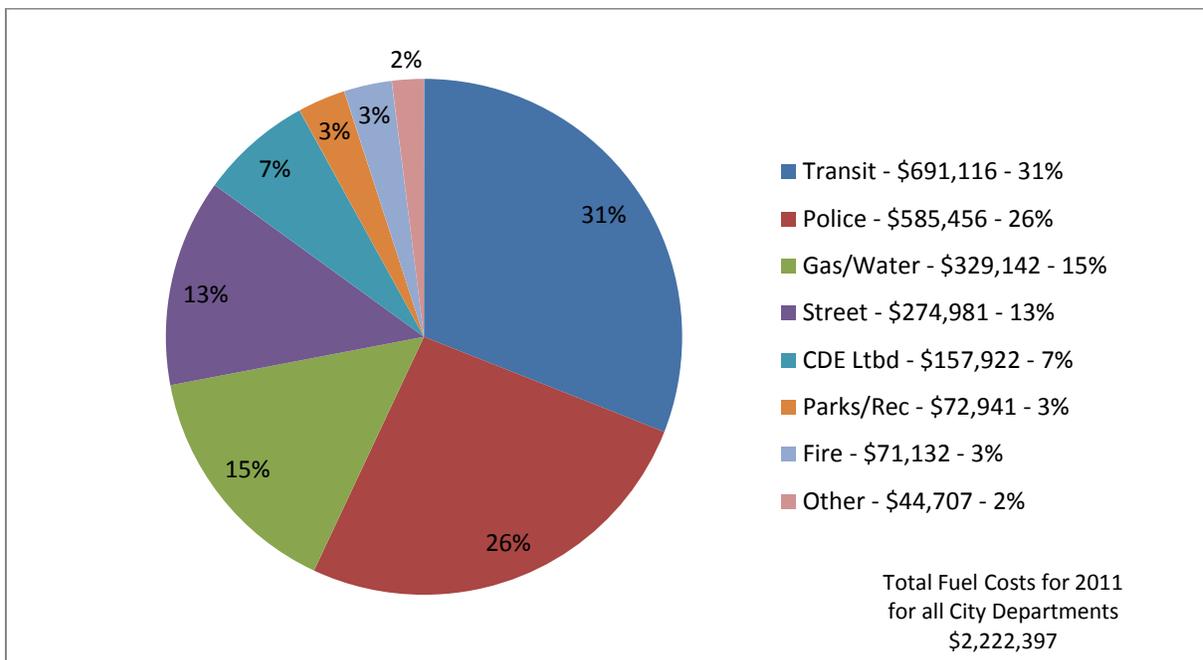


Note: Amounts for Fire and Gas and Water are estimates from actual data extracted from commingled accounting records.

Fuel Usage by Supplier for FY 2011



Percentage of Fuel Costs by Department for FY 2011



Good News

Our testing and inquiries revealed that:

- **Vehicle acquisitions and disposals were done in accordance with City purchasing policies. The processes appear to be effective and efficient.**
- **Employees received driver safety training as required in accordance with City policy.**
- **Controls around the fueling methods appear to be well designed and effective.**

Our discussions with departments regarding the requirement of drivers to have a liability insurance rider on their personal vehicle insurance policies for occasions when a City vehicle is driven for non-business purposes (commuting) revealed that departments are aware of the requirement and have notified their employees of the requirement.

We also noted that the City garage saves money during cold weather by heating the work bays with used motor oil. Any unburned oil is periodically removed at no cost by a local resident.

Results of Audit

Auditor testing and research revealed the following findings and recommendations.

1. Weaknesses Identified in the Fleet Policy

Criteria:

Best business practices require current, complete and clearly written policies and procedures, identifiable ownership for all processes and timely distribution of all information to users.

Condition:

- **The Fleet Policy is not current because it still identifies the fleet manager as the process owner for the City. That position has been vacant for over ten years. The responsibility for oversight of the process has not been assigned.**
- **The Policy lacks guidance because it contains terminology that is ambiguous, does not address certain relevant topics and only partially addresses some other topics.**
- **It is not adequately distributed to all City departments.**

Cause:

The process owner's position has been vacant since 2000.

Effect:

The current vehicle processes across the City departments are not standardized which can result in confusion and inconsistencies and sometimes inefficiencies. The lack of a policy in certain areas, such as inventory management, results in weak internal control over garage purchases.

Recommendation:

- City management should assign responsibility for the fleet management process.
- The Fleet Policy should define the scope of applicability for City General, Gas and Water, Transit, CDE Lightband and the Fire Department.
- The Fleet Policy should be revised and updated for the following topics using clearly defined terminology:
 - a) Acquisition and disposition – provide reference to the City’s purchasing manual.
 - b) Vehicle identification – how vehicles are numbered in the databases.
 - c) Utilization – references to safety, personal insurance and take home vehicles.
 - d) Maintenance – methods and locations.
 - e) Fueling – methods and data analysis records.
 - f) Record-keeping systems
 - g) Tool policy- all maintenance garages
 - h) Inventory management
 - i) Periodic policy updates – who’s responsible
- The revised Fleet Policy should be distributed to all City departments.

Management Comments: *Chief of Staff, Charlie Koon responded:*

Agree _____ *x* _____

Disagree _____

Corrective Action Plan: *On August 6, 2012 Mr. Jimmy Smith, Director of Transportation, was asked by Mayor McMillan to assume the responsibilities of City Wide Fleet Manager and Mr. Smith has accepted.*

The Fleet Policy will be updated to include department specific information as well the topics listed above.

Projected Completion Date: *The current City Wide Fleet Vehicle Policy and Procedures document will be updated with an anticipated completion date by end of February 2013.*

Responsible Manager: *Jimmy Smith, Director of Transportation*

2. Weaknesses Surrounding Take Home Vehicles

Criteria:

- a) Per IRS Pub. 15-B, elected officials and employees who take vehicles home after hours must have appropriate adjustments made to their payroll to include taxable commuting fringe benefits. Elected officials must use the Fair Market Value method (FMV) for determining the benefit. For other employees, one of three methods is available: If the employee is required to commute then the Commuting Rule (CR) is used. If the employee is not required to commute then the Cents Per Mile (CPM) or the FMV method must be used.

In order for public safety employees to be exempted from having a taxable benefit added to their pay, the IRS requires that there must be a written policy that contains all of the following elements:

- The employee must always be on call during the hours at home.
- The employee must be required by the employer to use the vehicle for commuting.
- The employer must prohibit personal use (other than commuting) for travel outside of the officer or firefighter's jurisdiction.
- In addition, it must be readily apparent, by words or painted insignia, that the vehicle is a public safety vehicle. A marking on a license plate is not a clear marking for this purpose.

In order for utility repair truck drivers to be exempted from having a taxable fringe benefit added to their pay, the IRS requires that the truck must meet the following specifications:

- If over 14,000 pounds:
 - Be designed to carry tools, equipment, etc. and
 - Have interior constructed shelves and racks.
- If 14,000 pounds or less:
 - Must be clearly marked with permanently affixed decals or painting, and
 - Have an hydraulic gate, or
 - Have permanent tanks or drums, or
 - Have permanent side boards or panels that materially raise the level of the sides of the truck bed.

- b) All departments who require employees to take vehicles home after hours should have a written policy regarding take home vehicles, a current list that identifies employees who are required to take vehicles home and a specific business-related reason for taking a vehicle home. Departments should keep records of actual take home occurrences and submit them to their payroll representative periodically on a City form for inclusion as taxable income.
- c) Written approval for a department head to take a City vehicle home on a regular basis should be documented by the Mayor or Chief of Staff. The approval should state whether or not it is a requirement of the job to commute in a City vehicle since that information will determine the method by which the taxable benefit is calculated. The possibility that

a department head may be called out after regular work hours to address a work related problem is not a sufficient basis for stating that it is a requirement for the City vehicle to be driven home at night.

Condition:

a) Computation of taxable computer fringe benefits:

- The equation on the commuting use form used by City General departments incorrectly doubles the amount used in computing fringe benefit income for the employee’s W-2.
- The percentage of personal usage used in determining the Mayor’s taxable fringe benefit does not agree with the supporting documentation.
- The following table identifies weaknesses in the take-home vehicle procedures by department. Items without an “X” are not in compliance with IRS regulations.

Department	Written departmental take-home policy	Written requirement to commute in City vehicles	Specific business purpose stated	Travel activity records on file	Taxable fringe benefit method in use
Buildings and Codes	X			X	X
Transit	X			X	X
Parks	X			X	X
Fire					
Gas and Water	X		X	X	X
Police	X		X		
CDE	X	X	X	X	X

Notes:

- Departments that have no take-home vehicles are not listed in this table.
 - Transit, Parks and Gas and Water use the City Fleet Policy as their take-home policy but they do not use the forms provided in the policy which show the approved level of usage per driver.
- b) Department heads that drive vehicles home at night are incorrectly using the Commuter Rule method of calculating the taxable fringe benefit since there is no documentation showing that they are required to commute in a City vehicle.
- c) Public safety departments are incorrectly considering the commuter benefit as a tax exempt benefit since there is no written requirement for their employees to commute in public safety vehicles.

Cause:

The major cause for the above weaknesses is a misunderstanding of what IRS regulations require. The mistake on the form used to determine the taxable benefit for City General employees is also a result of misunderstanding.

Effect:

- The City’s methods of applying taxable fringe benefits are not in compliance with IRS requirements.
- A lack of written take-home vehicle policies or the lack of adherence to the policy contributes to weak control over the use of the vehicles.
- The City may be paying more for vehicle operating expenses than is necessary.

Recommendations:

- Revise the employee commuter fringe benefit form so that it calculates properly.
- Every year, obtain samples representative of a normal month for calculating the Mayor’s personal usage, taking into consideration the distance from the home to the office and any business stops made prior to arriving at the office. Establish taxable fringe benefit methods in compliance with IRS requirements: The FMV method must be used for elected officials, the FMV or CPM method must be used for any employee who is not required to take a vehicle home, and the Commuting Rule method may be used for employees who are required to take a City vehicle home.
- Modify public safety take-home policies to comply with IRS requirements in order for public safety commuting to be considered qualified non-personal use. If all conditions are not met then apply either the FMV or CPM method to determine the taxable benefit amount and include it in public safety payroll amounts.
- Develop a standardized written policy for take-home vehicles. Additional supplemental policies may be added according to individual department needs. Department operating procedures should include maintaining the following information: 1) an authorized list of employees, 2) a business related purpose for each employee, 3) travel records and 4) the fringe benefit tax valuation method applied per employee.
- Determine and document the need for department heads to take vehicles home at the executive level. If commuting in a City vehicle is not required, then use the FMV or CPM method to determine the taxable fringe benefit.

Management Comments:

Department: Gas and Water	
Agree _____x_____	Disagree _____
Corrective Action Plan: <i>The only CGW personnel that regularly commute in a city vehicle</i>	

are on-call personnel that must respond to customer call-ins after hours or respond to emergency calls after hours. CGW will develop a written policy on requirement that on-call personnel commute in a city vehicle.

Projected Date of Completion: *November 1, 2012*

Responsible Manager: *Pat Hickey, General Manager*

Department: Transit

Agree _____ *x* _____ Disagree _____

Comments: *The Transit accounting office has been using the same IRS commuting formula as a means of satisfying the tax code for several years as the rest of the city has. We feel that is incumbent on the Finance and Revenue and Internal Audit departments to pass on IRS related information so that CTS and the other enterprise funds can stay in compliance regarding any tax related issues.*

In regards to the take home vehicles, we have attempted to follow the vehicle utilization policy that was adopted in 1996, however it appears that some documentation is lacking. The CTS will make sure all documentation for take home vehicles is completed and placed in the proper files until a new Fleet Policy can be adopted.

Corrective Action Plan: *We will adapt our method of determining the taxable fringe benefit on take home vehicles to the appropriate method as soon as the Mayor's office / Fleet management identifies the City policy regarding take home vehicles.*

Projected Date of Completion: *December 31, 2012*

Responsible Manager: *Jimmy Smith, Director*

Department: Fire

Agree _____ *x* _____ Disagree _____

Corrective Action Plan: *The department will develop, adopt and disseminate a written policy which encompasses all specifications as outlined above.*

One unmarked vehicle in the fleet will be marked by October 31, 2012.

Projected Date of Completion: *September 30, 2012*

Responsible Manager: *Michael Roberts, Fire Chief*

Department: Building and Codes

Agree _____ *x* _____ Disagree _____

Corrective Action Plan: *The department will adjust the calculation of the taxable benefit on*

take home vehicles in accordance with written approval from the Mayor's office.

Projected Date of Completion: March 2013

Responsible Manager: Les Crocker, Director

Department: Parks and Recreation

Agree _____

Disagree _____

Corrective Action Plan: *The department will adopt the new City fleet policy which results from this audit. We will add the requirement to commute and the business purpose into our internal written policy where necessary.*

Projected Date of Completion: December 31, 2012

Responsible Manager: Mark Tummons, Director

Department: Police

Agree _____

Disagree _____

Corrective Action Plan: *The department has modified its policy to reflect the requirement for police officers to drive their vehicles home if they live in the county or to the nearest police station if they don't. It has also removed the language regarding personal usage of a police vehicle while on leave. These changes should bring our policies into compliance with the IRS requirements.*

Projected Date of Completion: 7/26/2012

Responsible Manager: Al Ansley, Police Chief

Department: Finance

Agree _____

Disagree _____

Corrective Action Plan: *Re the calculation of the Mayor's taxable fringe benefit: I checked the percentages and came up with a different percentage as well. I can only say that the log was difficult to read and I believe that Finance came up with the percentage and I agree it was incorrect, although the difference appears to be a minor amount.*

I have talked with the Mayor's Office and they will do a new sample month and adjust the percentage based on the new sample. We will ask the Mayor to do a sample at least annually and more often if the usage appears to change.

Projected Date of Completion: 8-31--2012

Responsible Manager: Ben Griffin, Director of Finance

3. Weakness in Inventory Management

Criteria:

A good inventory control system has the following characteristics: all acquisitions into inventory and disbursements out of inventory are tracked by quantity and dollar amount, at any point in time an inventory balance can be determined and verified by physical count, storage areas are secured with limited access and are under control of someone other than the individual responsible for recording transactions, periodic inventory counts are performed by someone other than the inventory custodian or transaction recorder, and inventory counts are compared and reconciled to accounting records. An effective inventory system includes the capability to generate reports that are useful to management in making decisions such as re-order points, cost analyses and cost projections.

Condition:

A review of the inventory management process for each of the garages revealed the following strengths and weaknesses. Areas without an “X” represent a weakness.

	City Garage	Transit	Gas and Water	CDE Ltdb	Fire
Inventory acquisitions and disbursements are tracked by quantity and dollar amount	X	X	X		
Inventory balance can be verified by physical count at any time	X	X	X	X	X
Storage areas are secured with limited access	X		X	X	X
Storage areas are under control of someone other than the transaction recorder	X		X		X
Periodic inventories are performed by someone other than custodian or recorder	X	X	X		
Inventory counts are compared and reconciled to accounting records	X	X	X		
Reports are generated and used to make financial decisions	X		X		
Software system used to maintain inventory	RTA	RTA	Munis	None	None

Software system used to maintain accounting	Munis	Munis	Munis	Daffron	Munis
Electronic transfer of inventory data to accounting system			X		

Notes:

- **Gas and Water – Some inventory purchases are used directly and recorded as supplies (expensed) and not recorded in inventory. Not inventorying items is a weakness.**
- **CDE – Most inventory items are used immediately after acquisition in repair and service and are not recorded in inventory. The quantities, items and cost are recorded by vehicle number in a description field of the accounts payable journal. Not inventorying items is a weakness.**
- **Fire – Almost all inventory purchases are made with a purchase card and parts are used immediately and not recorded in inventory. However, some receipts are annotated as “inventory” but no formal process is in place. Not inventorying items is a weakness.**
- **CDE and Transit – Storage area security and control is not managed by separate persons due to lack of personnel. This is a weakness.**
- **The manual transfer of information between two software systems creates a weakness in control that can lead to errors or misappropriation of assets that go undiscovered.**
- **Transit – Some purchased inventory/maintenance items could not be traced to a receiving vehicle.**

Cause:

Each garage has established its own process of inventory management according to perceived need and what has been done in the past. The inventory software has been implemented separately from the accounting software.

Effect:

- **When maintenance parts and supplies are expensed instead of being accounted for in an inventory tracking system, there is weak control over those items. This is true even if the purchased item is used immediately. Many times it is impossible to trace an expensed item to the vehicle which received it. Items can disappear without being missed.**
- **When inventory records are maintained by an individual that has unlimited access to inventory items, control is weak and misappropriation of inventory is possible.**
- **When physical access to the inventory storage area is not limited, items are at risk of disappearing without being accounted for.**
- **When periodic physical inventories are not performed, account balances may be incorrectly stated. Periodic physical inventories also identify missing items.**
- **When an inventory method doesn’t provide good financial and quantity information, management doesn’t have the tools it needs to make good business decisions.**
- **When inventories are not recorded on the books of account the financial statements for the entity may be understated.**
- **When information is manually transferred between software systems there is opportunity for error or fraud.**

Recommendation:

The auditor recommends that:

- a) All garages develop a method of inventory control that meets the criteria listed above.
- b) City management should consider having a uniform inventory system for all City garages in order that vehicle and inventory reports City wide are comparable. Such reporting would facilitate cost analyses by departments and possibly facilitate coordinated purchasing across all departments.
- c) Software interfaces should be established between the data systems and the financial accounting systems to order to properly account for inventory.

Management Comments:

Department: CDE Lightband
Agree <input checked="" type="checkbox"/> _____ Disagree _____
<i>Corrective Action Plan: Management agrees that lack of inventorying items and storage area security lack of additional personnel are potential weaknesses. However, the total amount of items kept "on stock" amounts to \$7,328 for 2012. Amounts purchased and used immediately on specific vehicles totaled \$49,446. Due to the small amount kept on hand in the storage area, management does not feel it is cost beneficial to hire or devote additional personnel. Due also to the small amount of items kept "on-stock", management does not feel it beneficial to keep an inventory of them. Additionally, until accounting system upgrades are completed this fall, our supply of "locations" in the system is used up.</i>
Projected Date of Completion: November 30, 2012
Responsible Manager: David Johns, CFO, CDE

Department: Gas and Water
Agree <input checked="" type="checkbox"/> _____ Disagree _____
<i>Corrective Action Plan: The department will begin entering all vehicle maintenance and repair items into the inventory system right away even if the item is immediately used on a vehicle. Discussions with staff reveal that this method may actually be more efficient for the department as well as increase control.</i>
Projected Date of Completion: August 31, 2012
Responsible Manager: Pat Hickey, Director

Department: Transit
Agree <input checked="" type="checkbox"/> _____ Disagree _____

Corrective Action Plan: *All parts acquisitions and disbursements will be processed through inventory and identified to a specific vehicle. Physical inventory will be semi-secured in the last bay with access limited by keypad and under the control of other than the transaction recorder. RTA is used for inventory management and Munis is used for financial management. Currently a software interface for electronic transfer is not available between them so manual entry is used to update Munis.*

Projected Date of Completion: *Inventory April 6, 2012; The parts room access issue cannot be resolved due to limited personnel resources.*

Responsible Manager: *Jimmy Smith, Director*

Department: City Garage

Agree _____

Disagree _____

Comment: *The only aspect of control that is missing at the City garage is an electronic interface between RTA and Munis.*

Corrective Action Plan: *Right now there is no software interface available between the two software applications. We will investigate the feasibility and cost of having an interface developed by either RTA or Munis.*

Projected Date of Completion: *Inquiries will be made by December 31, 2013.*

Responsible Manager: *Jimmy Smith, Director*

Department: Fire

Agree _____

Disagree _____

Corrective Action Plan: *will develop method to track inventory acquisitions and disbursements. Will conduct periodic physical inventory. Will work with other garages to develop best practices for inventory management.*

Projected Date of Completion: *December 31, 2012*

Responsible Manager: *Michael Roberts, Fire Chief*

4. Lack of Communication/Coordination Between City Garages

Criteria:

When the same or similar functions are performed at multiple locations for the benefit of a single entity, coordination and communication between the locations provide opportunity to leverage cost efficiencies as well as provide technical support that might otherwise be purchased on the outside.

Coordinated and effective decision making is based on the ability to collect adequate information from all process owners and the ability to generate reports that inform management about operating effectiveness and efficiency.

Condition:

There is little coordination or communication between the City garages to leverage cost efficiencies or share technical knowledge and support. Each garage acts independently and there is no central repository for all vehicle data.

Cause:

There is no central process owner or platform by which information can be shared and/or analyzed. Multiple software systems and methods of tracking information make analyses on a City wide basis difficult or impossible.

Effect:

The City may be missing various opportunities to purchase in bulk, share technologies, provide support in case of absences and leverage software costs. System support and software costs are higher when multiple systems are used.

Recommendation:

The auditor recommends:

- Establishing a central process owner or other platform to facilitate communications between garages such as periodic meetings between the garage managers.
- Establishing a common software system that allows collection of all City wide vehicle fleet information such as acquisitions, disposals, inventory, purchases, in-house maintenance and outsourced work in order to monitor and manage the fleet. The RTA software that is currently used at the City garage and Transit garage has enough software licenses available that it could be implemented in the other garages with little or no additional expense (\$950 for additional blocks of 5 concurrent users). RTA provides very good reporting capability. RTA representatives also estimate that an interface with Munis accounting software could be developed for \$3,000-\$6,000.
- Establishing a standard data format to record acquired vehicles.

Management Comments: *Chief of Staff, Charlie Koon responded:*

Agree _____x_____

Disagree _____

Corrective Action Plan: *This action has been delegated to Transportation Director Mr. Jimmy Smith to accomplish in his role as Fleet Manager.*

Projected Completion Date: *December 31, 2013*

Responsible Manager: *Jimmy Smith, Director of Transportation*

5. Verbal Garage Tool Policies

Criteria:

A written tool policy is essential for all parties to understand who is responsible for supplying which tools in the garage, who is responsible for replacing broken or missing tools, and what kind of replacement tools will be supplied. Typically repair shops require the mechanics to supply their own basic tools initially and then the shop replaces the tools as they break or get lost. A tool policy should require a beginning inventory of all the tools that a mechanic brings with him to the job. It should also address the quality of the replacement tools compared to the original tools, the abuse of shop-owned tools, the daily maintenance of shop-owned tools (returning them to the proper location), and a periodic inventory of shop-owned tools. There should also be a clear understanding of what tools the mechanic can take with him when he leaves. If mechanics receive a tool allowance, the criteria surrounding the allowance should be spelled out in the policy.

Condition:

Each garage currently has only a verbal tool policy. Tools are expensive for both the mechanics and the garages. Tool management is not clearly understood.

Cause:

The Fleet Policy does not address tool management.

Effect:

Lack of a written policy can lead to misunderstanding, inconsistency and/or potential abuse.

Recommendation:

When updating the Fleet Policy add a topical section regarding tools, their purchase, use and replacement.

Management Comments:

Agree _____x_____

Disagree _____

Comments: *Jimmy Smith, Director of Transportation:*

Several issues regarding tools need to be discussed that have been presented in the audit report to determine what the City policy should be. Different garages handle tools in different manners. We agree that a written policy is needed so there is no misunderstanding.

Corrective Action Plan: *A written tool policy will be included in the new Fleet Policy when it's adopted.*

Projected Completion Date: *December 31, 2013*

Responsible Manager: *Jimmy Smith, Director of Transportation*

The auditor would like to thank the Chief of Staff, City Department Heads and their employees for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

If further information about this audit is desired please contact Internal Audit at 931-648-6106 or 931-648-6151.