Internal Audit Report

DEPARTMENT OF COUNTY ADMINISTRATION
FLEET OPERATIONS AUDIT
OCTOBER 2013

Office of the County Auditor

OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA
County Auditor

October 2013

The Honorable Members of the County Council
The Honorable Ken Ulman, County Executive
Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the Department of County Administration, Fleet Operations Division. The body of our report presents our findings and recommendations.

Our audit disclosed inadequate written policies and procedures for the safeguarding of fuel and automobile parts. Our audit also disclosed a lack of adequate controls over fuel cards and the inventory of automobile parts. Our findings have been reviewed with the Chief Administrative Officer and we have included the Administration's responses. We wish to express our gratitude to the Department of County Administration for the cooperation and assistance extended to us during the course of this engagement.

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INTRODUCTION AND SCOPE

The County Auditor's Office performed an audit of the fuel and parts inventory and usage at the Department of County Administration, Fleet Operations Division. We reviewed the parts inventory and usage for Fiscal Year 2012 and the fuel as of December 12, 2012. Our audit was performed in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States. During Fiscal Year 2012, the dollar value of the fuel dispensed was $4,909,087 and the dollar value of the parts used was $1,893,882. The value of the inventory at the end of the fiscal year was $456,658 and $746,180 respectively. We did not review any of the contracts the County has for the purchase of fuel or parts.

BACKGROUND

The Fleet Operations Fund was established in Fiscal Year 1994. It is an internal service fund administered by the Fleet Operations Division and is responsible for the purchase, operation and maintenance of all County vehicles. All fuel used by County vehicles and all parts used in the maintenance of those vehicles are purchased by and stored at locations throughout the County that are maintained by Central Fleet.

There are thirteen fueling locations in the County which supply fuel to County vehicles and equipment, and also to vehicles owned by various County agencies. Fuel used by the agencies is billed to the agencies by Central Fleet. There are six vehicle maintenance shops in the County. These shops perform maintenance operations on County vehicles and equipment using parts purchased through the Central Fleet shops.

Central Fleet maintains a software system known as iMaint to track its operations. All vehicle repair orders and all information about vehicle fueling are tracked through this system. The inventories and pricing of both fuel and parts are also tracked by the system.

Central Fleet issues two types of fuel cards: a "user" card which is assigned to an individual, and a "vehicle and equipment" card, which is assigned to a specific automobile or piece of equipment. However, some vehicle and equipment cards are assigned to departments, not pieces of equipment. They are known as "auxiliary cards" and are used to fill gas tanks and cans that are used for filling small equipment and generator fuel tanks. Both cards must be inserted into a recording device attached to each pump in order to dispense fuel.

The person fueling the vehicle must input information on vehicle usage to the recording device. Either the vehicle's mileage or the piece of equipment's number of hours of usage is inputted at the pump. For gas cans, the entry inputted is zero. On a daily basis, a report is generated by the iMaint system that summarizes the fuel usage. If there are any obvious discrepancies a Central Fleet employee investigates and resolves those discrepancies.

All six Central Fleet locations maintain an inventory of parts. Parts that are frequently used and those that are not readily available are kept in inventory. Other parts are ordered from local suppliers when needed. Purchases are made on procurement cards (PDQ cards) which are issued to employees at each location. Parts that are used are entered onto work order forms and, if they are part of inventory, they are tracked by the iMaint system. The purchase of parts is approved by supervisory employees.

FINDINGS AND RECOMMENDATIONS

1. Our audit disclosed that there are no current comprehensive written policies and procedures governing the process for ordering, receiving, storing, disbursing and paying for fuel or parts. Additionally, there are no written procedures governing fuel cards. All aspects of the division's operations should be clearly documented in an up-to-date procedures manual. The lack of written procedures increases the risk of loss and could result in a disruption of the operation. Additionally, written procedures are beneficial for the training of current and new employees and are a valuable resource when employees leave.

   We recommend that Central Fleet develop a policies and procedures manual to govern the process for ordering, receiving, storing, disbursing and paying for fuel or parts. The manual should also include policies and procedures for fuel cards.

Administration's Response

The Administration concurs with this recommendation. Central Fleet is currently working on specific procedures for the items mentioned above. The initial installation procedures for iMaint are dated 2009 and include some updates. The procedures will be reviewed, updated, and then implemented.

Fuel Inventory and Usage

2. Our audit disclosed that one employee performed all of the following functions:

   - Issued and canceled user and equipment cards.
   - Was responsible for reviewing fuel card activity reports and making changes to the iMaint fuel inventory system.
   - Ordered the fuel and maintained the fuel records.

   A fundamental element of internal control is the separation of duties so that one individual cannot perpetuate and conceal errors and irregularities while performing his or her duties. Because these duties are not separated, this employee has the ability to produce user and/or equipment cards for anyone, including himself. Because he is also the reviewer of fuel card activity, any improper use of the cards would be undetected.

   We recommend that the incompatible duties of authorizing transactions, maintaining physical custody of fuel cards, and related record keeping be segregated among an appropriate number of personnel.

Administration's Response

The Administration concurs with this recommendation and the need to have internal controls for the separation of duties related to the entire fuel process. Central Fleet will evaluate the staffing within the department and work to separate job duties where feasible to reduce the opportunity for improper activities to occur.

3. Our audit disclosed that Central Fleet did not properly ensure accountability of fuel card issuance. Specifically, Central Fleet was unable to provide approved written authorization requests to substantiate any of the 4,273 fuel cards. We determined that Central Fleet did not have a formal application form. We were advised that requests were made by email, and that cards were sometimes picked up by individuals other than those requesting the card.

   We recommend that Central Fleet implement a formal requisition form for all fuel cards and require the signatures of the person's supervisor and the person picking up the card prior to issuance. We also recommend that Central Fleet maintain a copy of the form as a permanent record.

Administration's Response

The Administration concurs with this recommendation. A new Fuel Card Application/ Change Request form has been developed and implemented for issuance of a driver fuel card. The new form is available on the County's internal web site. The employee or a representative from the department is required to sign for the fuel card when it is picked-up. Central Fleet will retain a copy of all completed forms as a permanent record on the departmental shared drive. Any fuel card that is reported as inoperable or damaged will be reissued to the employee with the same number as the inoperable or damaged card. The employee will not be required to complete another Fuel Card Application/Change Request form.

4. Our audit disclosed that Central Fleet's user card records were inaccurate. Specifically, there were 51 active user cards listed on Central Fleet's records that were assigned to individuals who were retired, deceased, or had been terminated. Four of the cards were used after the individuals had left employment. The Administration was unable to provide an explanation.

We recommend that Central Fleet perform a comprehensive review of its user card listing and update it as necessary. We also recommend that the Administration implement procedures that will ensure that fuel cards are deactivated and records are updated when personnel with fuel cards leave County, Component Unit, or Non-County entity employment.

Administration's Response

The Administration concurs with this recommendation. Human Resources will send Central Fleet a bi-weekly listing of all terminated employees. Once the list is received, terminated employees cards are deactivated in iMaint and FuelMaster. Central Fleet is in the process of requiring the same process from all other outside agencies. This will minimize the potential of cards being used after employees have left employment. The Fuel Card Application/Change Request procedures will be included in the Howard County Policy and Procedure Vehicle Use.

The fifty-one active user cards that were identified during the audit have been deactivated in both iMaint and FuelMaster.

5. Our audit disclosed that user cards were issued to individuals who did not require a fuel card. According to Central Fleet's records there were approximately 400 user cards that were inactive during calendar year 2012.

We recommend that Central Fleet review its fuel card records to determine if inactive cards should be deactivated. Additionally, Central Fleet should establish written guidelines that govern who should and should not be issued a fuel card.

Administration's Response

The Administration concurs with this recommendation. The records of all fuel cards are being reviewed. Central Fleet will continue to review the records on a monthly basis. Any fuel cards not used in the previous 365 days will be deactivated. This process will be sufficient to determine which fuel cards are actually being utilized and provide the opportunity to deactivate any cards that are not being used. The employee's department head or designee will be required to sign the Fuel Card Application/Change Request stating the employee is authorized and required to receive a County fuel card.

6. Our audit disclosed that Central Fleet's vehicle and equipment card records were unreliable. We compared a list of equipment cards provided to us by the Howard County Public School System (HCPSS) and the Department of Inspections, Licenses and Permits (DILP) to Central Fleet's records. There were 45 instances where HCPSS's list of vehicle cards did not agree with Central Fleet's records. Additionally, one of DLLP's vehicle cards was not on Central Fleet's records.

We recommend that Central Fleet perform a review all vehicles and equipment cards and update their records as needed.

Administration's Response

The Administration concurs with this recommendation. Central Fleet will review vehicle and equipment cards on an annual basis and update the records as needed. The outcome of the Auditor's findings for the forty-five instances are as stated below:

Item #1 - FAICS #A21000 – Still researching.
Item #2 - #4 (B00285, B00474 and B00475) – The Board of Education should show these vehicles on their listing. Central Fleet will contact them and make the correction.
Item #5 – FAICS #22264 – This is correct in Central Fleet records. Central Fleet will contact Board of Education to clarify why they have a duplicate record with a different description and make the correction.
Item #6 through Item #23 – These vehicle cards are all inactive in Central Fleets records. They were part of the initial set up when the Board of Education began using the Howard County fuel system and were never activated. Central Fleet will contact Board of Education to clarify and update.
Item #24 through Item #45 – Central Fleet will contact the Board of Education to clarify the issues with these cards.

7. Our audit disclosed that auxiliary cards were used to fuel automobiles. Specifically, three of the ten auxiliary card transactions we selected for testing had been used to fuel vehicles. We also determined that Central Fleet did not have a review process in place to identify when the auxiliary cards were being used for anything other than gas tanks and cans. Without an established review process for auxiliary cards, non-County owned vehicles could be fueled without detection.

We recommend that Central Fleet implement procedures for the review of auxiliary card usage.

Administration's Response

The Administration concurs with this recommendation. Central Fleet will review the use of auxiliary cards and develop a procedure to manage the activity.

Parts Inventory and Usage

8. Our audit disclosed that there was inadequate segregation of duties over inventory at all six locations. Specifically, employees at all locations except Alpha Ridge can order parts, receive parts, stock parts, distribute parts and enter parts data into iMaint. There is only one employee at Alpha Ridge. He does not order or enter data, but does perform all other functions.

We recommend that Central Fleet segregate incompatible duties at each location.

Administration's Response

The Administration concurs with this recommendation. All options will be considered for feasible solutions to segregate duties at each location and reduce the opportunity for improper activity to occur.

9. Our audit disclosed that there was an inconsistent treatment of rebuilt parts. Some shops included rebuilt parts as part of their inventory while others did not. Rebuilt parts have value, and the lack of tracking increases the chances of misappropriation.

We recommend that all Central Fleet locations include rebuilt and remanufactured parts in their inventories.

Administration's Response

The Administration concurs with this recommendation. Each Central Fleet location will create a parts area in their inventories for rebuilt and remanufactured parts. Central Fleet will develop an inventory procedure that includes tracking of rebuilt and remanufactured parts.

10. Our audit disclosed that some purchases of parts made on PDQ cards were not reviewed by supervisory personnel prior to payment. Of 192 total purchases, seven purchases totaling $88,908 were approved by employees of the Department of Finance in the absence of Central Fleet supervisory approval.

    Additionally, supervisory personnel in Central Fleet can adjust subordinate's PDQ purchases prior to approving them. In five cases, totaling $56,607, a supervisor made adjustments to the purchases made by subordinate employees before authorizing payment.

    We recommend that the Fleet Operations Division establish a procedure to ensure that supervisory personnel from Central Fleet review all purchases before they are processed for payment.

    We also recommend that the County's SAP financial system be adjusted to preclude personnel who approve purchase from being able to approve payments for purchases that they have modified in any way.

Administration's Response

The Administration's concurs with this recommendation. Central Fleet has activated a substitute in the SAP system to ensure that in the absence of the department head a designated substitute will review and approve the statement for payment.

In December 2012, the SAP system was adjusted to preclude authorized approvers from modifying the document and then approving for payment.

11. Our audit disclosed that there was a high rate of differences between the parts used during vehicle repairs recorded on the iMaint system and the information on the corresponding physical repair work order. Specifically, of the 135 vehicle repairs we selected from iMaint to review, we found a total of 25 errors. Twenty of those errors related to repairs on fire vehicles at Ridge Road. Additionally, Central Fleet was unable to provide two work orders for repairs totaled $2,401.

Incorrect data entry could be used to mask pilferage. Additionally, because the inventory was misstated, items could be ordered unnecessary or items could be shown to be on-hand when they are actually out-of-stock. This could cause delays in the performance of maintenance.

We recommend that all parts usage entered into the iMaint system be reviewed periodically.

Administration's Response

The Administration concurs with this recommendation. Central Fleet will review the current practices at all locations and establish procedures to minimize or eliminate errors that could lead to unnecessary ordering of items on hand or not having parts available that could delay maintenance and repairs. An Administrative Support Tech III position was recently hired at Ridge Road to assist with data entry and review of work orders.

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