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CITY OF CORAL GABLES, FLORIDA

Internal Audit of Department of Public Works: Automotive Division

October 2018

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EXECUTIVE SUMMARY

Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures during May and June 2018 related to The City of Coral Gables’ Department of Public Works (“the Department”). The overall objective was to review the internal controls over fuel and vehicle usages and other processes and procedures involved in the Department’s Automotive Division (“the Division”) operations. Our procedures included review of policies and procedures, interviews of personnel, and testing of certain sampled items related to purchases, asset management and reconciliation, and inventory control.

Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating. Supplemental information can be found on page 13 of this report.

Process	Observation #	Department Primarily Responsible	Opportunity for Improvement	Risk Rating**
Authorized Users	1	Public Works	Authorized user access master list needs to be updated in a more efficient manner.	High
Take Home Vehicles	2	All departments	Draft a uniform policy that establishes the requirement for take home vehicles.	Moderate
Vehicle Mileage Monitoring	3	Public works	Implement a procedure to regularly monitor vehicle mileage.	Low
Tires Inventory	4	Public Works	Tire inventory documentation retention.	Low
Work Order Review	5	Public Works	Perform review over all open work orders on a monthly basis.	Low

**For explanation of *Risk Rating* determination, refer to page 5.

INTRODUCTION

Background

The Public Works Department's Automotive Division ("Division") maintains approximately 700 city-owned and operated vehicles across 11 departments. The Administrative Office is located at the City's Westside Complex at 2800 SW 72nd Avenue in Miami, Florida. The Division operates three fueling facilities throughout the City and a repair and maintenance service center, parts inventory and City fueling supplies at the Westside Complex.

The Automotive Division provides a safe, reliable and attractive fleet of vehicles and equipment suitable to the functions of the City's departments at a competitive cost. The objectives of the Division include:

- To acquire, maintain and dispose of all City vehicles and motorized equipment.
- To ensure that the City's equipment meets the needs of the City and its personnel.
- To conduct maintenance and repair work and to operate the fuel dispensing system.
- To provide welding, fabrication. Painting and repair service for all departments upon request.
- To manage the City's maintenance and storage site, complying with all requirements for fuel tank storage and hazardous material and waste disposal.

Objective and Scope

The objective of the procedures performed was to evaluate and test the design and effectiveness of internal controls, processes implemented are in compliance with City Policies, and that the Division is operating effectively and efficiently. In summary, this internal audit evaluated the following:

- Monitoring of fuel dispensing and fuel management operations
- Reconciliation of fuel usage to fuel deliveries and purchasing and dispensing of fuel to users
- Procedures to order and receive fuel in accordance with City policy
- Proper management of fuel cards available to users
- Appropriate fixed asset reporting and inventory of vehicles

The detailed procedures performed can be found starting on page 9 of the report.

The specific procedures performed were based on the concepts of selective testing and sampling. Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

INTRODUCTION

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

Fleet Services:

The scope of procedures performed in the Division in relation to fleet included performing tests of transaction on asset additions and disposals, review of inventory procedures, review of maintenance and services performed, and review of the FASTER system and how it is used. Additionally, we analyzed processes and procedures to determine whether proper internal controls were in place.

Fuel Services:

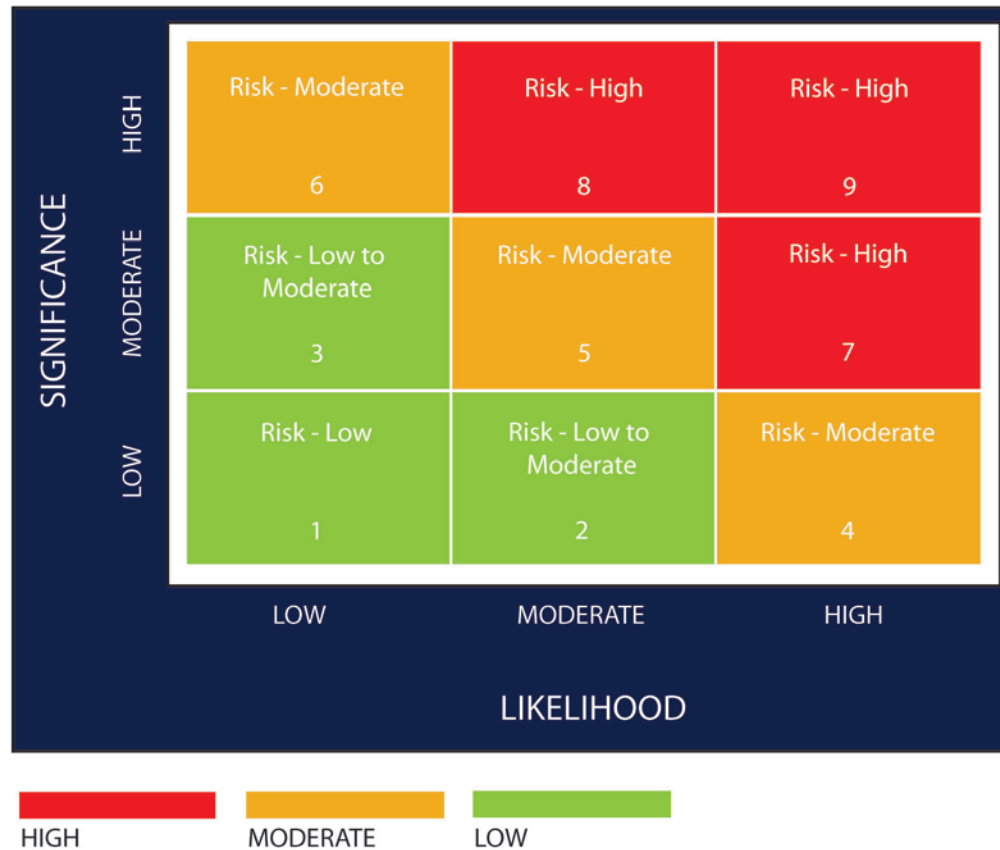
The scope of procedures performed in relation to fuel focused on performing tests of transactions on fuel purchases, fuel card usage and tracking, review of the FuelMaster system and how it is used, and contracts. Additionally, we analyzed processes and procedures to determine whether proper internal controls were in place.

INTRODUCTION

Risk Management

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:

Risk Model



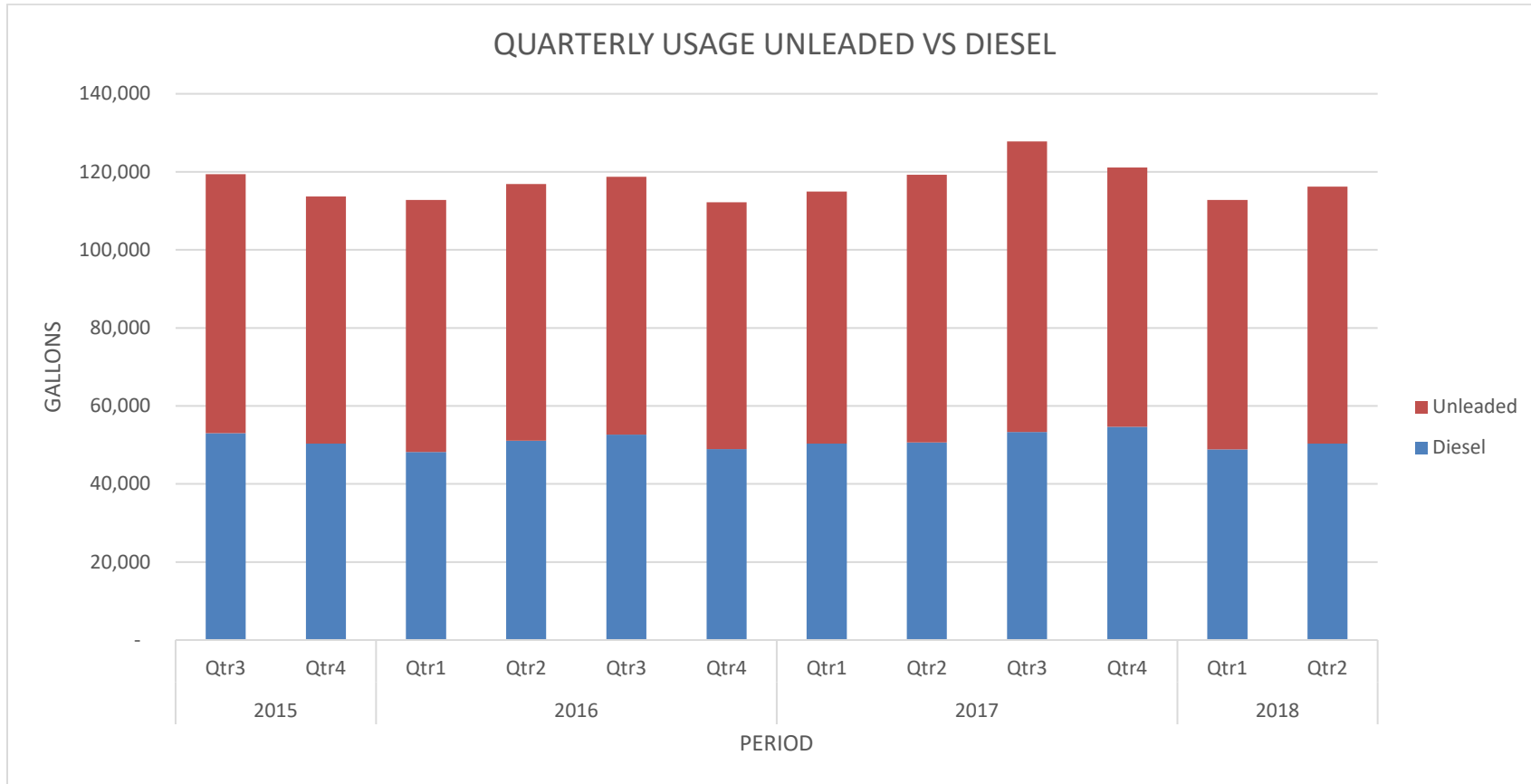
FUEL USAGE ANALYSIS

For comparative purposes, listed below is an analysis of the city's Fuel Usage for the past three years. The following information was compiled from the fuel usage reports provided by the Automotive Division. The third quarter and into the fourth quarter of 2017 represents an increase in usage due to the recovery effort after Hurricane Irma.

Period	Diesel	Unleaded	Grand Total
2015	103,396	129,726	233,122
Qtr3	53,025	66,395	119,420
Qtr4	50,371	63,331	113,702
2016	200,910	259,672	460,582
Qtr1	48,214	64,587	112,801
Qtr2	51,120	65,752	116,872
Qtr3	52,665	66,068	118,734
Qtr4	48,910	63,265	112,175
2017	208,902	274,214	483,116
Qtr1	50,332	64,632	114,964
Qtr2	50,633	68,652	119,284
Qtr3	53,283	74,482	127,765
Qtr4	54,653	66,448	121,102
2018	99,250	129,703	228,952
Qtr1	48,896	63,871	112,767
Qtr2	50,354	65,831	116,185
Grand Total	612,457	793,314	1,405,771

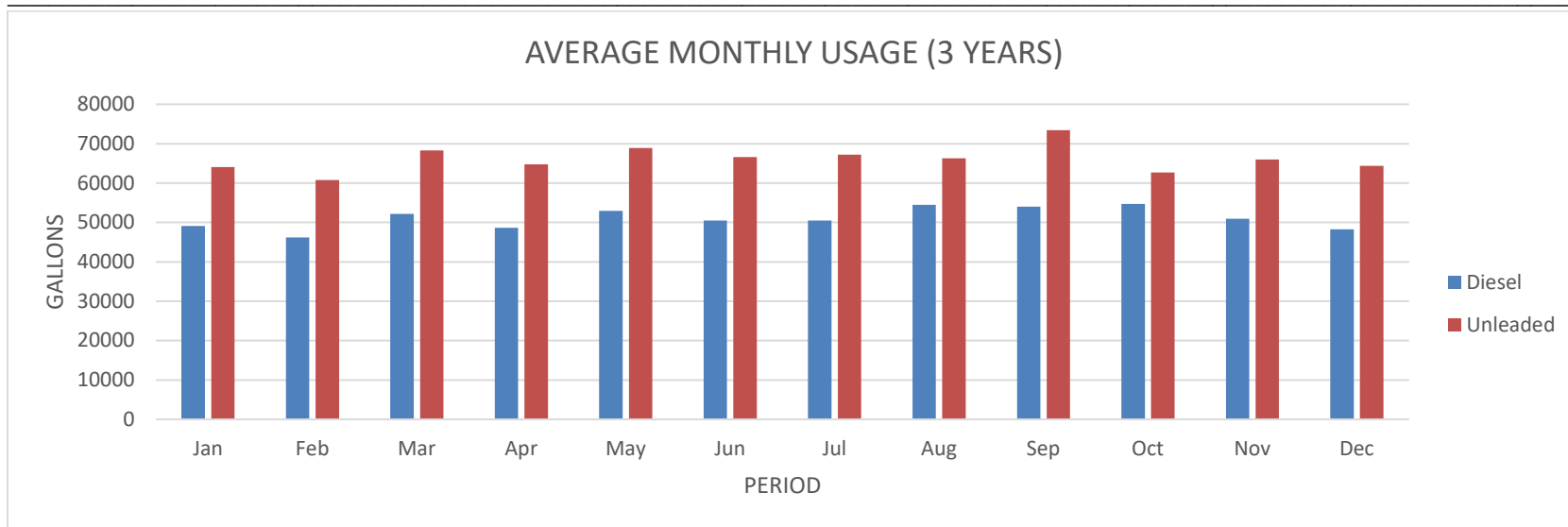
FUEL USAGE ANALYSIS

The following exhibits present the information from above:



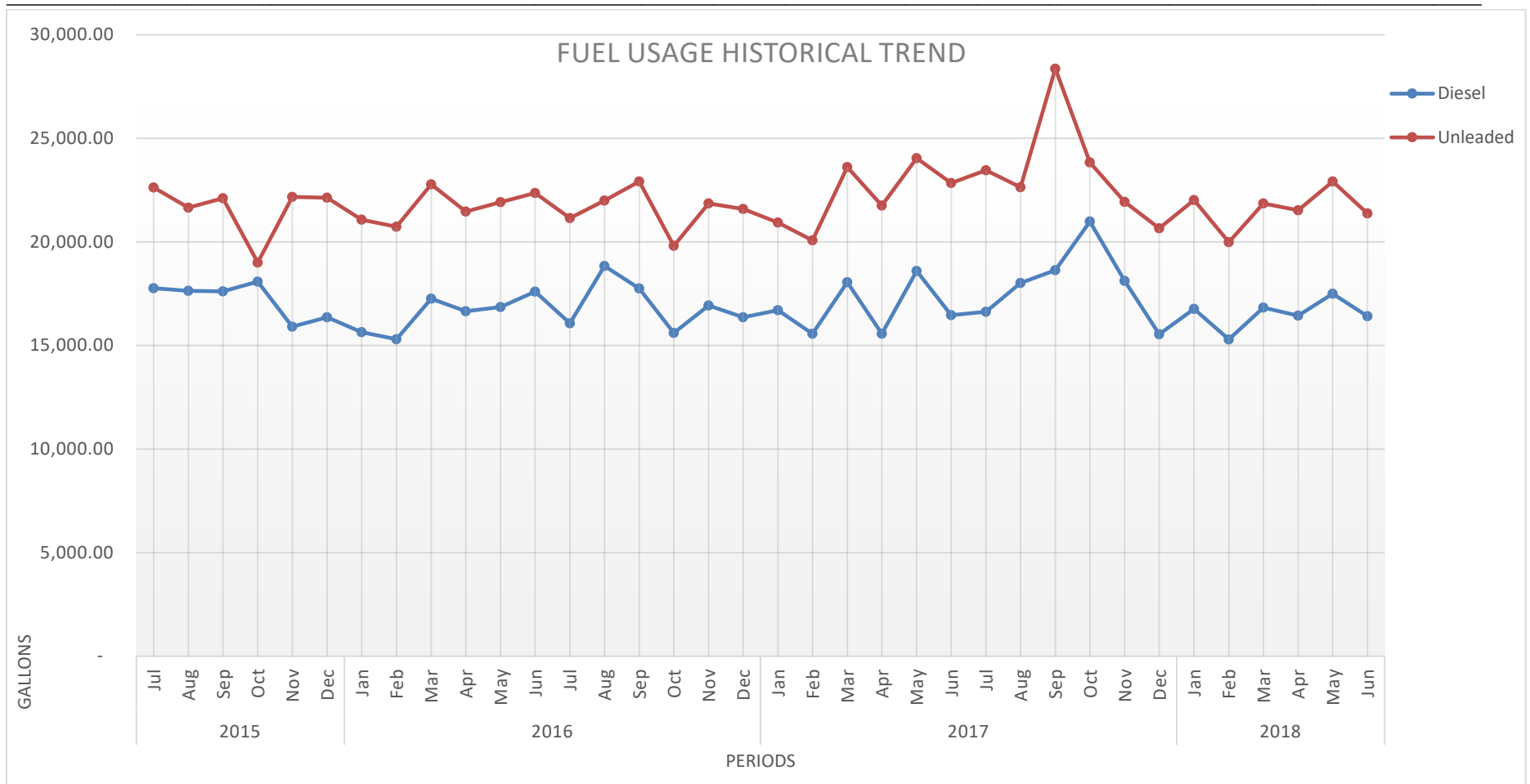
On average the monthly breakdown of fuel usage is 44% diesel to 56% unleaded. On the highest consumption quarter (Qtr 3 July - September 2017) there was approximately 74,000 gallons of unleaded used accounting for 58% of all fuel usage. Diesel usage accounted for 42% of all usage at approximately 53,000 gallons. The graphic above and on page 5 demonstrates the consistent consumption of the different types of fuel over time.

FUEL USAGE ANALYSIS



Lowest Diesel Months	February
Highest Diesel Months	October
Lowest Unleaded Months	February
Highest Unleaded Months	September
Lowest Diesel and Unleaded	February
Highest Diesel and Unleaded	September
Average Diesel Use by month for (3 years)	51,038.1
<u>Average Unleaded Use by month (3 years)</u>	<u>66,109.5</u>
Total Average Fuel Use by month (3 years)	<u>117,147.6</u>
Standard Deviation Diesel	2,585.7
<u>Standard Deviation Unleaded</u>	<u>3,112.0</u>
Total Standard Deviation Fuel Use	<u>5,043.2</u>

FUEL USAGE ANALYSIS



Diesel and unleaded have a positive correlation. Historical trends show that usage has been constant with variations of approximately +/- 2,600 gallons for diesel and +/- 3,100 gallons for unleaded. The highest usage month was September 2017 with an approximate usage of 19,000 (diesel) and 28,000 (unleaded) gallons. This peak in usage was caused by natural disasters (Hurricane Irma), usage increase amidst preparations and emergency services fuel needs.

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
Fuel Services	
1) To gain an understanding of the Fuel Services and the control environment, job descriptions, fuel purchase policies, and other Division policies.	We obtained the Division's Automotive Standard Operating Procedures manual dated October 23, 2015, reviewed fuel purchasing policies and procedures through interview, noted key fuel purchasing documents, and reviewed other Division policies. We documented the process flows based on inquiry with the Department heads and staff, and various procedures and testing for fuel purchases and monitoring, fuel inventory, fuel card usage, and other various areas.
2) Obtain an understanding of the fuel card system, including how the system works, how fuel cards are issued, authorized, and tracked, the procedures in place when assets are added or disposed of, and replacement and safekeeping procedures. <i>Select samples of active and terminated employees from the fiscal year and determine whether the fuel card access was appropriately restricted.</i>	We obtained information related to how fuel cards are assigned to new employees, how they are managed during vehicle decommission, and the procedures for fuel card replacement. We obtained the FuelMaster Authorized user List from which we then selected 10 authorized employees and reviewed the procedures performed on fuel cards related to each. See opportunity for improvement #1.
3) Determine whether controls are in place to ensure security around the FuelMaster System, which is used to monitor and provide fuel access to authorized City employees. <i>Perform a walkthrough to test the security controls in place to limit access to the FuelMaster System.</i>	We noted that the FuelMaster System is stored behind a locked door and requires a username and password to gain access. Furthermore, upon entering the room, we noted camera surveillance that records the entry point. This surveillance can be viewed in the Automotive Directors office.
4) Determine how vehicle mileage is tracked during the fueling process and how the City reconciles for exception reporting. <i>Perform a walkthrough regarding vehicle mileage to determine if the City is tracking business and personal vehicle mileage.</i>	We noted that vehicle mileage is tracked by a combination of mileage input at the time of fuel purchase and by the recording of mileage during maintenance inspections. During our walkthrough we noted that the Division does not utilize the FuelMaster System reporting for monitoring vehicle mileage. See opportunity for improvement #3.

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>5) To understand the processes involved with fuel management we conducted a walkthrough of the fuel purchase cycle. We then obtained invoices and fuel level reports (Veeter Root) for selected fuel purchases to ensure that appropriate support is available and that required policies are followed throughout the process.</p> <p><i>Make a selection of fuel shipments ordered and received during the fiscal year to determine whether controls are being properly adhered to. Agree fuel amounts per the invoices provided to that received via the Veeter Root report.</i></p>	<p>Through walkthroughs and inquiry, we obtained an understanding of the processes involved with fuel ordering and receiving. Fuel tank levels are reviewed daily by the Automotive Director by way of the FuelMaster System implemented in December of 2016. We randomly selected 10 weeks through the fiscal year and obtained invoices and Veeter Root reports to test whether the city is properly recording shipments of fuel received at all tanks. Upon receiving fuel shipments, tank levels should be measured before and after the input of fuel into the tank to ensure the accuracy of the amount of fuel received versus the amount ordered.</p>
<p>Vehicle Services</p>	
<p>1) To gain an understanding of the vehicle services and the control environment, obtain and review a copy of the organization chart, job descriptions, fixed asset procedures, key contracts, and other department policies.</p>	<p>We obtained the Division's Automotive Standard Operating Procedures manual dated October 23, 2015, reviewed fixed asset purchasing and disposal policies and procedures through interview, and reviewed other Department policies including employee handbooks. We documented and mapped process flows based on inquiry with the Division head, staff, and various procedures and testing for new and disposed vehicle procedures, inventory counts, employee usage, maintenance, and other various areas.</p> <p>See opportunity for improvement #2.</p>
<p>2) Obtain an understanding of the methodology used for the City's 10-year fleet replacement plan. Determine if goals and strategies are clearly defined and appropriately met.</p>	<p>We obtained an understanding of the 10-year replacement plan through inquiry and interview of the Automotive Division Director. The 10-year plan is maintained and updated via Excel and formally produced in the Commission-approved yearly budget. We have reviewed the final replacement plan for fiscal year 2017, as well as the adopted plan for fiscal year 2018. Goals are set to ensure vehicles are replaced according to plan or maintained for extended life as appropriate. We noted the Division performs procedures throughout the year to comply with replacement plan goals set forth in the annual budget.</p>
<p>3) Obtain an understanding of the process of ordering new vehicles. Review how specifications for orders are determined, met, or changed if necessary and the process to reduce cost overrun.</p> <p><i>Select a sample of new vehicles for the fiscal year and agree to inventory reports. Ensure selected vehicles were appropriately processed under Division policies.</i></p>	<p>We obtained an understanding of the new vehicle purchase process by inquiry and interview of Division management. Specification requirements are determined by budgeted and departmental needs and purchase requisitions are approved by the Procurement Department in order to reduce the risk of unnecessary purchases or cost overrun.</p> <p>We obtained a listing of new vehicles purchased in the fiscal year and selected 5 for testing. We reviewed the bid contract for each new vehicle and verified the vehicle in FASTER by its unit number; noting no exceptions.</p>

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>4) Obtain an understanding of the process of decommissioning vehicles.</p> <p><i>Select a sample of decommissioned vehicles to ensure appropriate processing under Division policies.</i></p>	<p>We obtained an understanding of the vehicle disposal process by inquiry and interview of Division management.</p> <p>We obtained a listing of decommissioned vehicles for the fiscal year and selected 10 for testing and obtained the auction bid contract from the sale. We noted no exceptions during testing of our disposal sample.</p>
<p>5) Review the policies and procedures of maintaining vehicles, the Division billing methodology, and active management of asset maintenance schedules. Obtain and review maintenance schedules for automotive assets.</p> <p><i>Obtain maintenance schedules for the fiscal year and compare to work order system to determine if work is performed according to plan.</i></p>	<p>We obtained an understanding of vehicle maintenance processes through interviews with the Automotive Division Director and performing walkthroughs of maintenance invoices. Vehicle maintenance is appropriately billed to the department for which the fleet asset is assigned to.</p> <p>We noted that upon acquiring a new vehicle, it is entered into the FASTER system where the unit is put under a mileage-based maintenance schedule.</p> <p>We selected 12 vehicles (10 recently purchased and 2 high mileage) and verified that maintenance was being performed consistently, and following proper procedures. We noted no exceptions during testing of our maintenance sample.</p>
<p>6) Review the procedures for parts and tires cycle counts. Perform a walkthrough of each cycle count.</p> <p><i>Make a selection of parts and tires cycle counts and ensure all initial count exceptions are investigated and adjusted according to Division policies.</i></p>	<p>We obtained an understanding of cycle count controls through interviews with the Automotive Division Director and inventory cycle count walkthroughs. All parts inventory owned by the City is kept behind locked doors/cages with camera surveillance. Shop equipment and special tools inventory counts are conducted once yearly by the fleet analyst. Tire inventory counts are conducted every Monday as these parts have large turnover.</p> <p>We performed a cycle walkthrough at the Westside Complex noting the written policy for parts and tires cycle counts were appropriately followed. We selected 5 cycle counts for each, exception reports, and final inventory listings; noting no material exceptions for counts performed. During our walkthrough, we noted that all cycle counts are performed by the fleet analyst and reviewed by the Automotive Division Director. We noted that the Division was not able to provide 3 of the 5 tire cycle count sheets requested for testing.</p> <p>See opportunity for improvement #4.</p>

PROCEDURES PERFORMED

PROCEDURES PERFORMED	RESULTS
<p>7) Obtain an understanding of the process of ordering parts from NAPA.</p> <p><i>Select a sample of work orders and review whether parts being ordered are approved by a supervisor and marked received upon receipt while completing each work order.</i></p>	<p>We obtained an understanding of the process of ordering parts from NAPA during our interview with the Automotive Division Director. We noted that all parts must be requested by way of a work order. Each part requested must be approved by the Supervisor in charge and then sent to the fleet analyst for ordering. We noted that parts are not owned by the City until they are received and implemented within the work order. Once received, the Division then inputs the part into the FASTER system where all parts inventory is processed.</p> <p>The City has a contract with NAPA through 2019 with agreement terms in purchasing these parts on a daily basis. We noted one exception during our review and testing.</p> <p>See opportunity for improvement #5.</p>
<p>8) Obtain an understanding of the process of physical inventory of fleet assets.</p> <p><i>Perform a walkthrough of the City's processes for tracking fleet inventory including the department's yearly fleet inventory count.</i></p>	<p>We obtained an understanding of the processes the City has in place to track fleet inventory. We noted that fleet inventory is approved and ordered by the Automotive Division Director based on the budget set each fiscal year and certain departmental needs. We obtained the City's fleet inventory count sheet and inventory report for December 2017 and noted that all exceptions were properly addressed and resolved at the time of the count.</p>
<p>9) Review the City's policies for authorizing take-home vehicles and determine if there is standardization between departments.</p> <p><i>Select a sample of take-home vehicles to review for proper authorization.</i></p>	<p>We reviewed policies and procedures for proper authorization of take-home vehicles. We noted authorization is given on a per-need basis, coming from order of each department director.</p> <p>We could not obtain a population for take home vehicles, as the current system does not track which vehicles are authorized to be driven home by City employees.</p> <p>See opportunity for improvement #2.</p>

OBSERVATIONS AND RECOMMENDATIONS

1. OPPORTUNITY FOR IMPROVEMENT 1 – Authorized Users: **HIGH RISK**

During our testing of authorized user access we identified instances where terminated employees were not removed from the fuel master system. We obtained a sample of five retired employees, once these were cross-referenced with the FuelMaster Authorized User Listing noting that three out of the five employees selected were still in the database as authorized fuel users. We verified that there was no usage after their termination date. The current controls include the Human Resources department collecting the employee's fuel cards during the employees debriefing. If this procedure does not occur, terminated employees could continue to have access to fuel.

Recommendation: We recommend that the Authorized User Listing be updated on a regular and on-going basis. A procedure should be developed whereby the Human Resources department sends to the Automotive Division a listing of all retired and terminated employees on a monthly basis. This would allow the Division to have an updated list of employees that have been terminated/retired and remove their access from the FuelMaster system.

Management Response / Action Plan: The system has been updated and all unauthorized users removed. Regular updates are now received from Human Resources and the system is updated upon receipt.

2. OPPORTUNITY FOR IMPROVEMENT 2 – Take home vehicles: **MODERATE RISK**

The City allows employees in certain management and professional positions to take home City vehicles on a regular basis. In general, the City extends this benefit to Public Safety employees whose responsibilities include a twenty-four hour on-call requirement and other employees who would be required to return to the City in the event of an emergency.

We noted that there is no centralized system or policy to track the usage of City vehicles. When we requested a listing of take-home vehicle, the department was unable to provide one due to the decentralized nature of the policy. With the exception of Human Resources and Fuel & Fleet Department, the head of each department awards take home vehicles on their own criteria.

Recommendation: We recommend that the City's Automotive Division implement procedures to establish and maintain a centralized listing (by department) of all take-home vehicles. We also recommend that the list be updated and provided to the Human Resources Department on at least a monthly basis.

Management Response / Action Plan: The Automotive Division will establish a list of authorized take home vehicles and maintain the list with regular updates from department heads. All department heads will be responsible for reporting additions or deletions to the authorized take-home vehicle list to the Automotive Division as the changes occur. The list will be shared with Human Resources on a monthly basis.

OBSERVATIONS AND RECOMMENDATIONS

3. OPPORTUNITY FOR IMPROVEMENT 3 – Vehicle mileage monitoring: **LOW RISK**

Through our review and discussions with Division staff, we noted that there is no current procedure in place to monitor mileage on a per vehicle basis. This procedure could assist in identifying any concerns related to personal use of City vehicles.

Recommendation: We recommend the Division implement a procedure to monitor vehicle mileage on a monthly or quarterly basis.

Management Response / Action Plan: The Automotive Division will prepare a report indicating the mileage put on each City vehicle for each month. The report will be sent to each department head on a monthly basis. The department heads will be directed to review the report for excessive mileage and report their respective findings to the Automotive Division. All questionable findings will be discussed with the Labor Relations Department by the respective department head.

4. OPPORTUNITY FOR IMPROVEMENT 4 – Tire Inventory: **LOW RISK**

The Automotive Division takes tire inventory counts every Monday of each week. We noted that three out of the five weeks of inventory counts chosen for testing were not able to be provided. We noted that all tire inventory count sheets are maintained and stored in cabinets at the Westside Complex location.

Recommendation: Due to the large amount of tires inventory count sheets accumulated throughout the year, we recommend that the count sheets be organized on a monthly basis in an effort to keep from misplacing count sheets in the future. Due to the large turnover of tires on a monthly basis, these count sheets should be reconciled to the tire inventory per the FASTER system at the end of each month.

Management Response / Action Plan: A few months of inventory documents were inadvertently destroyed during the transition of a separating supervisor. However staff was able to use the fleet management system reports to reconcile the tire inventory. Tire inventories are conducted on a weekly basis using FASTER reports. In addition, all tires received from our vendors and placed on city vehicles are tracked through our fleet management system.

We are updating the Standing Operating Procedures to ensure that all tire inventory documents are filed in a standardized location each month.

OBSERVATIONS AND RECOMMENDATIONS

5. OPPORTUNITY FOR IMPROVEMENT 5 – Work Orders: **LOW RISK**

During our testing over Work Orders we noted that one out of ten work orders selected was not appropriately closed in time. Work order 137702 was open for a duration of approximately six (6) months. In this instance, the system failed to catch that there was an open work order for a specific vehicle, while it still allowed new work orders to be opened for that same vehicle. Per inquiry of the Division, new work orders on a vehicle cannot be issued until the current one is closed.

Recommendation: We recommend the department pull a monthly report with all open orders above five (5) days. Any unusual open orders should be reviewed and further investigated. The current system did not flag the existence of a work order on this vehicle before issuing a new one.

Management Response / Action Plan: During the previous year, we have experienced several database crashes of our fleet management system after the installation of updates from our software manufacturer. These crashes varied in scope and operational effectiveness of the software. We are unsure as to how the system allowed this work order to remain open while issuing new work orders for the same vehicle. We routinely run reports to check for work orders with excessive days open. We will continue to monitor all work order statuses on a bi-weekly basis to ensure they are closed in a timely manner.