

City Vehicle Fleet Management Follow-up Report

December 2014

Office of the Auditor
Audit Services Division
City and County of Denver



Dennis J. Gallagher
Auditor

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Dennis J. Gallagher

Auditor

December 3, 2014

Honorable Michael Hancock, Mayor
City and County of Denver
Re: Audit Follow-Up Report

Dear Mayor Hancock:

In keeping with professional auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure that audit findings are being addressed and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the City Vehicle Fleet Management Performance Audit issued January 20, 2011. Our review determined that the City has adequately implemented eight of the nine recommendations made in the audit report. The City disagreed with the remaining recommendation.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation. Although we did not update the status of the recommendation with which the City disagreed, this recommendation is included in the status update section for reference.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to City personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5029 or Dawn Wiseman, Internal Audit Supervisor, at 720-913-5069.

Sincerely,

Kip Memmott, MA, CGAP, CRMA
Director of Audit Services

KRM/dmw

cc: Honorable Michael Hancock, Mayor
Honorable Members of City Council
Members of Audit Committee
Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer

To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people. We will monitor and report on recommendations and progress towards their implementation.

Ms. Janice Sinden, Chief of Staff
Mr. David P. Edinger, Chief Performance Officer
Ms. Beth Machann, Controller
Mr. Scott Martinez, City Attorney
Ms. Janna Young, City Council Executive Staff Director
Mr. L. Michael Henry, Staff Director, Board of Ethics
Mr. Jose Cornejo, Executive Director of Public Works

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REPORT HIGHLIGHTS



City Vehicle Fleet Management Follow-up Report: December 2014

The Departments of Public Works, Police, Sheriff, and Fire have implemented all recommendations made in the January 2011 audit report.

Background

The City and County of Denver maintains a fleet of more than 4,000 vehicles and pieces of equipment, which are essential for providing City services and conducting City business. The management of the City's fleet is decentralized and performed by three separate Departments: Public Works, the Department of Safety, and the Department of Aviation. Primary fleet management responsibilities include vehicle purchase, vehicle utilization, vehicle maintenance, and vehicle disposal.

Purpose

The objective of this audit was to evaluate the effectiveness and efficiency of fleet management operations and to review and assess internal controls over maintenance practices and fuel distribution. City entities reviewed included Public Works and the Denver Police, Sheriff, and Fire Departments. Denver International Airport (DIA) was excluded from the audit scope because it operates as a separate City and County of Denver enterprise fund and is highly regulated by the Federal Aviation Administration. DIA Fleet Management operations were examined in a subsequent audit engagement in December 2012.

Highlights from Original Audit

The audit had four findings:

Finding 1: Lack of Accountability and Monitoring Over Take-Home Vehicles.

Audit work determined that the requirements surrounding take-home vehicles were not being complied with, monitored for enforcement, or applied consistently.

Finding 2: Fuel Access Internal Controls Are Inadequate. Audit work found a lack of internal controls over the process for obtaining and terminating access to fuel, which posed a significant risk of fraudulent fueling.

Finding 3: Opportunities Exist To Improve Parts Inventory Controls. Audit work determined that a lack of internal controls over the parts inventory process at the Denver Police Department (DPD) and Denver Fire Department (DFD) led to inaccurate on-hands and inventory valuation, part out-of-stocks and overstock, increased levels of obsolete and slow moving inventory, and significant risk of asset misappropriation.

Finding 4: Significant Outstanding Internal Billing Transfers (IBTs). Audit work identified 116 outstanding IBTs, amounting to \$134,127, from 2009 and 2010 that had not been collected by Public Works from various agencies. Since IBTs are the main revenue source for the Public Works Fleet Maintenance Division, failure to collect could create undue hardship on the Division.

Findings at Follow-up

The Controller's Office revised Fiscal Accountability Rules to address the lack of accountability and monitoring of take-home vehicles. Public Works created a formal process to ensure access to fuel is properly controlled and monitored. Additionally, Public Works' Division of Finance and Administration developed procedures to monitor internal billing transfers to ensure all revenue has been billed and received. The implementation of an automated fleet management system allowed the Department of Safety to improve parts inventory controls.

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
Finding 1: Lack of Accountability and Monitoring Over Take-Home Vehicles		
<p>1.1 The Controller’s Office should revise Fiscal Rule 10.6 to include:</p> <ul style="list-style-type: none"> a. Specific requirements regarding "full-use safety vehicle" and "qualified non-personal use vehicle" to ensure consistent application for all Safety departments. This should include language on how these exemptions apply to other City agencies as well. b. Specific requirements to ensure reimbursement is remitted to the City by personnel for take-home vehicle usage. Specifically, requirements should address full-time and intermittent usage, a method to monitor usage and circumstances when the annual lease value method³⁵ would be imposed after failing to submit required trip logs. 	<p>The Controller’s Office revised three Fiscal Rules—10.5 City Business Vehicle Use, 10.6 Take-Home Vehicles and Carpooling, and 10.7 Use of Personal Vehicles for City Business—to address the full-use safety vehicle and take-home vehicle concerns identified in Finding 1.</p>	Implemented
<p>1.2 The Mayor should revise Executive Order 25 to formalize the existing Utilization Committee and require that:</p> <ul style="list-style-type: none"> a. The Committee consists of representatives from the Department of Safety, PWs, the Mayor’s Office, Budget and Management, and other agencies at the Mayor’s discretion. b. The Committee meet annually to consider the most recent take-home vehicle reports submitted by agencies prior to budget finalization. c. The Committee review take- 		Disagree

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
	<p>home vehicle usage for each agency and make policy and budget adjustments as necessary.</p> <p>d. The Committee be given specific authority to approve or deny take-home usage based on Fiscal Rule and Executive Order requirements.</p>		

<p>1.3</p>	<p>The Department of Safety should create policies and procedures to ensure compliance with take-home vehicle requirements. These procedures should include:</p> <p>a. A process to review the appropriateness of take-home vehicles across all departments under the Department of Safety to ensure that only those take-home vehicles that meet the requirements of qualified non-personal use and full use public safety vehicle are authorized and documented.</p> <p>b. Requirements to ensure that all authorizations are completed properly, including the Manager of Safety’s signature authorizing “full use public safety vehicles” and providing adequate justifications for take-home use that demonstrate the benefit to the City and the need for the vehicle.</p>	<p>Due to organizational changes made by the new police chief, the Department of Safety has decided to use Fiscal Rules to address recommendation 1.3, rather than creating policies and procedures, which would have included the same guidance. The changes made to Fiscal Rules 10.5 City Business Vehicle Use and 10.6 Take-Home Vehicles and Carpooling address both areas in this recommendation and are being utilized as guidance for Department of Safety take-home vehicle compliance.</p>	<p>Implemented</p>
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Finding 2: Fuel Access Internal Controls Are Inadequate

<p>2.1</p>	<p>The Fleet Management Division should create a formal process to grant and terminate access to fuel which includes:</p> <p>a. Developing policies and procedures for the process including a standardized form that</p>	<p>The Fleet Management Division created a formal process for granting and terminating access to fuel. The agency converted more than 5,200 fuel users to the use of their respective City IDs as a fueling ID and added a PIN number for additional</p>	<p>Implemented</p>
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Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<p>requires agency information, employee full name and ID number and supervisor signature.</p> <p>b. Using employee ID as the fuel ID to eliminate duplicates and create an audit trail.</p> <p>c. Requiring edits to a fuel ID if an error is found rather than creating a new ID.</p> <p>d. Performing regular reconciliations between PeopleSoft records and the active fuel ID list to remove terminated employees. At a minimum, these reconciliations should be performed every six months.</p> <p>e. Requiring annual positive confirmations from all entities with fuel access regarding validity and necessity of fuel users. This confirmation should include language stating the fuel user will protect the fuel ID and notify Fleet in the event their fuel ID is compromised.</p>	<p>security. The agency inactivated 3,600 fuel users who did not convert to the new ID system and who have not fueled in ninety days. The agency will reach out to remaining active fuel users who have not yet converted to the new ID system and terminate fueling authorization for any employee who fails to return an authorization form in ninety days. Additionally, policies and procedures have been developed for regular and annual fuel user reconciliations.</p>	
<p>2.2 When the Fleet Management Division invoices agencies for fuel usage, the invoice detail should include the name associated with the fueling ID used to fuel each vehicle so the agencies can review for appropriateness.</p>	<p>The Fleet Management Division will provide detailed information with each November billing that is distributed annually in December. Fleet expanded its effort by creating a fuel audit report that will accompany billing invoices and provide all agencies with the names of people fueling. The fuel audit report will also flag transactions when old IDs are used to obtain fuel.</p>	<p>Implemented</p>

Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
2.3	The Fleet Management Division should install video cameras at all fueling sites and consider obtaining additional data storage to allow for a minimum of 60 days of footage available for review.	Cameras have been installed at the 5440 Roslyn fueling facility at a cost of \$25,000. In addition, cameras have been installed at the Cherry Creek fueling facility at a cost of \$10,000, but cannot be powered up until construction at the facility is complete. Cameras are in place at both the Central Platte Campus and Wastewater fueling facilities. Funding was budgeted in 2012 to increase video storage capability at the Central Platte Campus and Wastewater fueling facilities. Cameras are in the process of being ordered for the Osage and Himalaya fueling facilities.	Implemented

Finding 3: Opportunities Exist to Improve Parts Inventory Controls

3.1	<p>DPD and DFD should establish inventory operating procedures similar to Public Works to record parts inventory activity within FASTER as it occurs. Procedures should address:</p> <ul style="list-style-type: none"> a. Parts charged to work orders at time of disbursement. b. Parts returned to stock and to vendors. c. Secure access to the parts room by assigning an alternate parts room custodian. d. Incorporate the use of the barcodes for tracking purposes. 	DPD and DFD have established procedures to control and track automotive parts. All parts are now entered into the FASTER inventory system upon receipt. The FASTER inventory system uses barcodes to track inventory items. All parts issued by the parts room are scanned to corresponding work orders to establish parts inventory control after receipt. Items considered expendable such as nuts, bolts, and clamps are not included in the tracked inventory.	Implemented
3.2	DPD and DFD should perform cycle counts regularly to ensure on-hand accuracy of inventory.	Bi-monthly inventory counts are completed to ensure accuracy of the process. Exceptions are researched and corrected.	Implemented

Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
Finding 4: Significant Outstanding Internal Billing Transfers		
<p>4.1 Public Works should ensure compliance with the City's Fiscal Accountability Rules by creating robust policies and procedures outlining the recovery of outstanding internal billing transfers (IBTs). Specifically, the policies and procedures should:</p> <ul style="list-style-type: none"> a. Identify staff responsible for recovery of the outstanding balances, if deemed cost beneficial, and recover the IBTs identified in the audit period and include prior years if applicable. b. Create, with assistance from the Controller's Office, an internal direct billing procedure to ensure revenue is received timely. 	<p>Public Works' Division of Finance and Administration performs the following steps monthly to monitor, track, and close outstanding internal billing transfers (IBTs). The Senior Accountant:</p> <ul style="list-style-type: none"> • Creates a report of outstanding IBTs • Contacts agencies with outstanding IBTs to request payment and re-send supporting documentation • Documents collection efforts • Researches billing discrepancies and collect amounts owed • Escalates outstanding IBTs that cannot be closed timely 	<p>Implemented</p>

Conclusion

We found that the City has fully implemented eight of the nine recommendations and adequately mitigated the risk identified during the original audit. The recommendation with which the City disagreed suggested revising Executive Order 25 in order to formalize the existing Utilization Committee to ensure representatives from City agencies are represented during decisions made regarding take-home vehicles and vehicle usage. After the audit was completed, Executive Order 25 was retired and the revisions to Fiscal Accountability Rules 10.5 City Business Vehicle Use, 10.6 Take-Home Vehicles and Carpooling, and 10.7 Use of Personal Vehicles for City Business have incorporated some of the changes recommended, therefore minimizing some of the risk identified in the audit. Additionally, in May 2013, the City began working on consolidating fleet operations for Public Works and the Department of Safety. This may result in additional controls and efficiencies regarding City vehicle usage. As a result, we conclude our follow-up effort related to the City Vehicle Fleet Management Performance Audit.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the City for their cooperation during our follow-up effort and their dedicated public service.