

AUDIT REPORT

Date:	November 8, 2021
Department:	Fleet Services
Subject:	Parts Management
Lead Auditor:	Michelle Hutson, Senior Internal Auditor

OBJECTIVE

This audit was conducted to determine whether effective controls are in place over parts management to prevent or detect errors, fraud, waste, or abuse and ensure compliance with policies and other applicable requirements.

SCOPE & METHODOLOGY

The scope of the audit was primarily on parts operations and inventory data for the period of April 1, 2020 through March 31, 2021. However, some procedures performed consisted of testing current inventory data.

To accomplish our objectives, we:

- Interviewed Fleet Services personnel.
- Reviewed policies and procedures and observed processes to gain an understanding of parts operations, including the purchasing, receiving, and issuing of parts and the disposal of inactive and obsolete parts.
- Reviewed a sample of adjustments made to the inventory listing, including examining inventory system access for those employees who have the ability to make adjustments to the parts inventory.
- Reviewed a sample of issued parts.
- Observed physical security measures at the parts warehouse facilities.
- Analyzed data for all employees who have accessed the parts warehouse facilities.
- Performed a physical inventory count by selecting a sample of current parts inventory.
- Reviewed performance measure goals.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards, which 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 & DISCUSSION

Parts Management is responsible for providing all replacement parts associated with the repair and maintenance of city vehicles. It operates two parts warehouse facilities located throughout the city. Parts Management is comprised of eight full-time equivalent (FTE) positions, which includes one parts and supply supervisor, one senior parts and supply specialist, and six parts and supply specialists.

Parts Management is funded through the Fleet Internal Services Fund. During FY 2020/2021, the operational budget for Parts Management was \$6.8 million, including \$884 thousand budgeted for costs related to personal services, \$5.66 million budgeted for the purchase of commodities, and \$250 thousand budgeted for other services.

During the audit period, total program expenses were \$6.18 million, which includes \$3.97 million spent on vehicle and equipment parts and supplies. As of March 2021, the total recorded value of parts inventory on hand was \$966,175.

CONCLUSION

In our opinion, Parts Management's controls are operating effectively to ensure parts are issued according to department policies and procedures and adjustments made to the inventory listing are properly approved. However, some controls should be further improved to ensure parts inventory is adequately safeguarded and properly disposed of in a timely manner. Additionally, the efficiency of Parts Management operations is measured monthly against industry best practices. However, the criteria used in these performance measures should be adequately supported. Our observations and recommendations are summarized below. For additional details, please see the attached Issue and Action Plans.

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

- 1. Observation:** Parts Management did not always follow their written policies and procedures to ensure an accurate inventory.

Recommendation 1-1: Enforce its written policies and procedures.

Recommendation 1-2: Modify its existing written policies and procedures to reflect a more appropriate and reasonable frequency for when its inventory control methods should be performed.

- 2. Observation:** Physical access to the parts warehouse facilities is not restricted to ensure parts inventory is adequately safeguarded.

Recommendation 2-1: Restrict physical access, including limiting the distribution of keys, to the parts warehouse facilities to only parts specialists and other personnel deemed necessary, such as management.

Recommendation 2-2: Develop and implement policies and procedures to address physical security measures for the parts warehouse facilities.

- 3. Observation:** Parts Management does not have written policies and procedures to ensure inactive and obsolete parts are being disposed of in a timely manner.

Recommendation: Parts Management should develop and implement written policies and procedures to address the disposal of inactive and obsolete parts inventory.

- 4. Observation:** The benchmark criteria used to measure the efficiency of Parts Management operations is not supported with documentation.

Recommendation: Parts Management should maintain documentation to support the benchmark criteria used to measure the efficiency of its operations. In addition, the criteria should be periodically evaluated to ensure that the criteria being used is still relevant and appropriate.

Issue and Action Plan #1

Issue #1: Written policies and procedures are not always followed to ensure an accurate inventory.

Observation:	<p>During calendar year 2020, Parts Management staff performed only two perpetual inventory counts at each parts warehouse facility. In addition, as of June 2021, there has only been one perpetual inventory count performed at each parts warehouse facility during calendar year 2021.</p> <p>Further, count verifications when issuing parts, spot checks, and consignment counts by vendors are not consistently performed.</p>
Criteria:	<p>According to Fleet Services' policy, <i>Parts Room Inventory Control Process</i>, the following control methods have been implemented to ensure their parts inventory is accurate:</p> <ol style="list-style-type: none">1. Count Verification When Issuing: Parts staff will verify the shelf count against the operating system when pulling stock items from the shelf.2. Spot Checks: The Parts Supervisor or designee will request random spot checks on a line of items or a specific bin location.3. Perpetual Counts: All inventoried parts will be counted a minimum of three times per year.4. Consignment Counts: The vendor representative (owner) of the consignment inventory will count their product weekly using their records.
Comments:	<p>Due to limited staffing, Parts Management staff did not always have the time and availability to perform their inventory control methods to ensure an accurate inventory. Without an accurate inventory, there is an increased risk for the potential of theft and loss of parts. In addition, inaccurate inventory data could also impact the services provided by Fleet Services by delaying the repair and maintenance of city vehicles.</p>
Recommendations and Management's Action Plans:	<p>To ensure an accurate parts inventory, Parts Management should:</p> <p>Recommendation #1-1: Enforce its written policies and procedures by performing:</p> <ul style="list-style-type: none">○ Blind perpetual inventory counts at least three times per year.○ Count verifications when pulling stock items from the shelf.○ Random spot checks.

- Observations of the consignment counts performed by vendor representatives.

Action Plan #1-1: Revise current policies and procedures to account for shortage of Parts staff so that Fleet Services can adhere to them until additional staff can be hired and new/revised procedures are in place.

Individual or Position Responsible: Fleet Services Director, Fleet Support Services Administrator and Parts & Supply Supervisor

Estimated Completion Date: January 31, 2022

Recommendation #1-2: Modify its existing written policies and procedures to reflect a more appropriate and reasonable frequency for when its inventory control methods should be performed.

Action Plan #1-2: Review Department and Parts area procedures and develop one set of new/revised written policies/procedures to be followed for appropriate and reasonable frequency of when controlled inventory methods should be performed.

Individual or Position Responsible: Fleet Services Director, Fleet Support Services Administrator and Parts & Supply Supervisor

Estimated Completion Date: March 31, 2022

Issue and Action Plan #2

Issue #2: Physical access to the parts warehouse facilities is not restricted.

Observation:	During the period of April 1, 2020, through March 31, 2021, equipment mechanics and other Fleet Services' employees were regularly accessing the parts warehouse facilities while a parts specialist was not on duty. Specifically, 52 Fleet Services employees had accessed the parts warehouse facilities on more than 1,000 different occasions while a parts specialist was not on duty. In addition, 3 of the 52 employees had accessed the warehouse facilities during times they were not on shift and scheduled to work.
Criteria:	An effective system of internal control safeguards its assets against unauthorized acquisition, use, or disposition.
Comments:	As there are shifts that do not have a parts specialist on duty, equipment mechanics have been allowed access to the warehouse facilities. Although there was no evidence of inappropriate or suspicious activity, without restricting physical access, there is an increased risk of unauthorized access into the warehouse facilities as well as an increased risk of theft and loss of parts. Additionally, without proper restriction, there is also a risk that parts may be used but not properly charged to a work order.
Recommendations and Management's Action Plans:	<p>To ensure parts inventory is adequately safeguarded, Parts Management should:</p> <p>Recommendation #2-1: Restrict physical access, including limiting the distribution of keys, to the parts warehouse facilities to only parts specialists and other personnel deemed necessary, such as management.</p> <p>Action Plan 2-1: Fleet Services currently has measures in place with C-Cure access, cameras, and limited keys, and has identified short coverage in the Parts area during the day. Going forward Fleet Services will publish procedures and request additional staff for FY 22/23 to enhance coverage.</p> <p>Individual or Position Responsible: Fleet Services Director, Fleet Support Services Administrator, Parts & Supply Supervisor and Fiscal Analyst</p> <p>Estimated Completion Date: February 28, 2022</p>

Recommendation #2-2: Develop and implement policies and procedures to address physical security measures for the parts warehouse facilities, such as:

- The process for granting and revoking badge and key access to ensure only appropriate individuals are authorized to enter the warehouse facilities.
- Periodically reviewing employee access rights to the warehouse facilities to ensure access remains appropriate and limited to only those individuals whose job responsibilities require it.
- Periodically reviewing security camera footage as well as badging access reports to monitor for suspicious or unauthorized activity in the warehouse facilities.

Action Plan #2-2: Fleet Services will receive a monthly Parts Room access report from the Badging Office that can be checked against a Kronos time worked report. Since the access report is very large and time consuming to check, Fleet Services will work with IT to see if an automated monthly report can be created that ties the Badging office and Kronos report together. When a discrepancy is found between the two reports, Fleet will cross reference with our video system that has a 30-day retention. Also, once the FY 22/23 budget year begins Fleet Services will hire budget approved Parts Specialist(s) and publish policies/procedures that address physical security measures for the parts/warehouse area.

Individual or Position Responsible: Fleet Services Director, Acting Fleet Services Director, Fleet Support Administrator, Fiscal Analyst, Parts & Supply Supervisor, and Department of Innovation and Technology.

Estimated Completion Date: October 31, 2022

Issue and Action Plan #3

Issue #3: There are no written policies and procedures in place to ensure inactive and obsolete parts are being disposed of in a timely manner.

Observation: There are no written policies and procedures for disposing of inactive and obsolete parts.

Criteria: According to the City's Management Policy 100, *Management Procedures*, "operational procedures shall be written departmental procedures issued by the department head." In addition, according to MP 100, procedures are written instructions telling employees what actions are necessary to accomplish a particular action in compliance with previously approved policies, rules, and regulations.

Comments: Without written policies and procedures in place, there is an increased risk that Parts Management may not be achieving department objectives or meeting their established benchmark criteria. Additionally, if inactive or obsolete parts are not disposed of in a timely manner, there is an increased risk that these parts may be more susceptible to loss or theft as well as an increased risk in incurring higher inventory carrying costs.

Recommendation and Management's Action Plan: **Recommendation #3-1:** To ensure compliance with the City's Management Policy 100, *Management Procedures*, Parts Management should develop and implement written policies and procedures to address the disposal of inactive and obsolete parts inventory, including the process for identifying and evaluating inactive or obsolete parts that remain in inventory, the frequency of when inactive or obsolete parts should be evaluated and disposed of, and to ensure compliance with the City's Management Policy Number 205, *Disposal of City Personal Property*.

The policies and procedures should also be periodically reviewed and updated, if necessary.

Action Plan #3-1: Develop new written policy/procedure for disposal of inactive/obsolete inventory parts. Procedures will follow the City's Management Policy 205 and will include how to identify/evaluate inactive or obsolete parts that remain in the Fleet Services inventory, and the frequency of when to evaluate inactive/obsolete parts for disposal.

Individual or Position Responsible: Fleet Services Director,
Acting Fleet Services Director, Fleet Support Administrator and Parts
& Supply Supervisor

Estimated Completion Date: January 31, 2022

Issue and Action Plan #4

Issue #4: The benchmark criteria used to measure the efficiency of Parts Management operations is not supported with documentation.

Observation: Each month, Parts Management reports data on its parts inventory, which is used to measure the efficiency of its operations. In developing these performance measures, the benchmark criteria were based on industry best practices.

However, the benchmark criteria are not supported with documentation to show where these best practices originated from. In addition, there is no documentation to demonstrate that the criteria are periodically evaluated to ensure that the criteria are still relevant and appropriate.

Criteria: Benchmarking is the practice of comparing an organization's process or performance to industry standards or best practices. To be effective, a good performance measure should be specific, measurable, achievable, relevant, and timely.

Comments: Without adequate documentation, the performance measures may not be well-defined and clear. In addition, without relevant and appropriate benchmark criteria, the performance measures may be limited in its effectiveness in determining whether Parts Management is operating efficiently or meeting industry best practices.

Recommendation and Management's Action Plan: **Recommendation #4-1:** Parts Management should maintain documentation to support the benchmark criteria used to measure the efficiency of its operations. In addition, the criteria should be periodically evaluated to ensure that the criteria being used is still relevant and appropriate.

Action Plan #4-1: Fleet Services performs a monthly review of performance measures that includes a review of the appropriateness of the KPI and maintains an annual spreadsheet and uses the historical data to set the KPIs. Fleet Services has also developed documentation listing the four national KPI benchmarks that are used. A signature form will be developed showing that the four KPIs are checked yearly for relevancy and appropriateness.

Individual or Position Responsible: Fleet Services Director, Acting Fleet Services Director, Fleet Support Administrator and Parts & Supply Supervisor

Estimated Completion Date: [January 31, 2022](#)