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Fleet Management Review

September 19, 2012

Report # 2012-06

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Date: September 19, 2012

To: Steve Kotke, Public Works

Re: Fleet Management Review

The Internal Audit Department (IA) conducted a review of the Fleet Services Division (FSD) within the Public Works Department (PW) of the City of Minneapolis (City). This review was included in the 2012 Internal Audit Plan and was completed in August 2012.

Background

FSD handles the acquisition, maintenance, disposal, fueling and contractual agreements of 1,300 units of equipment. The City's fleet primarily consists of vehicles such as sedans, pick-up trucks, police cars, fire trucks, snow plows, etc.¹ As an internal service fund agency, FSD tracks all vehicle costs and bills other City departments for the services provided.

FSD's 2011 expense budget was approximately \$44.3 million. As of December 31, 2011, FSD had approximately \$806,000 of parts inventory. Also in 2011, FSD purchased fuel which amounted to approximately 1.7 million gallons for use in performing operations.

Objectives

The review was performed to determine whether controls are adequate to properly monitor FSD including fuel, inventory and financial charges to other departments.

Scope

This review included gaining an understanding of internal controls, current policies and procedures through observation, inquiry, and limited testing surrounding the FSD processes of maintenance, fueling, billing, and disposal. IA performed, on a sample basis, testing of processes and transactions for the period January 1, 2011 through July 31, 2012 and related expenses, expenditures and revenue. In addition, IA followed up on previous internal audit reports.

Summary of Findings and Management Action Plans:

1. External Customers

Either no contracts exist or contracts are expired between the City and the external customers regarding fuel dispensing from City fuel stations. Additionally, an external customer had been using the FSD operated car wash and was not billed in 2012.

Management Response

FSD is working with these entities on renewing and establishing contracts and developing agreements or memorandums of understanding. The billing problem has been resolved.

¹ Source: City of Minneapolis 2012 Budget Financial Plan

2. Granting and Removing Fuel Access

There is no formal process (i.e. forms, supervisor authorization, etc.) involved for City personnel in obtaining and removing fuel access.

Management Response

FSD is working on creating an authorization and documentation process.

3. Fuel Dispensing Practices

In order to accommodate different fuel user needs, FSD allows the use of various methods to dispense fuel.

Management Response

FSD, in collaboration with the using departments, will develop a process to validate that each department is using an appropriate method.

4. Benchmarking Fleet Shop Rates

FSD charges customers for repair and maintenance services by calculating *actual* hours spent on services by the Fleet shop rate. *Actual* hours spent on the same service may vary from customer to customer, which results in different amounts billed for the same service. The use of standard hours may increase shop efficiency by setting expectations on the time needed for a specific service/repair and charge City Departments consistently for the same service which will help City Departments in managing budgets.

Management Response

PW does not agree with IA's recommendation.

5. Parts Inventory

Discrepancies were noted between the actual counts and what was listed in the perpetual inventory system.

Management Response

FSD will develop a documented process on how parts will be expensed as well as how they will be tracked.

6. Equipment Tracking

At times, specific departments/divisions throughout the City purchase their own equipment and do not notify FSD; thus preventing FSD to adequately track and schedule the necessary preventative maintenance required for the piece of equipment.

Management Response

FSD and Finance and Property Services (Finance) are working together to establish City-wide policies that address the purchase and maintenance of equipment, including grant funded equipment.

7. Fuel Can Accounts

Fuel can accounts can be overridden and more gallons can be dispensed from these accounts than intended.

Management Response

Fuel can accounts will be discussed including a review of who is authorized to use them, the quantity allowed, and how fuel will be tracked for end-use.

8. Fuel Tank Locks

Fuel tanks at FSD fuel sites were not locked that could potentially allow for tampering which may result in safety and financial issues.

Management Response

Completed – FSD has installed locks on all unlocked tanks.

Conclusion

Based on our review, we believe there are opportunities for improvements to address risk areas identified in this report. PW and Finance Department management worked collaboratively with IA to develop action plans. However, this report contains a disagreement (see #4 below).

IA would like to extend our appreciation to PW, FSD, Finance, Minneapolis Fire Department and Minneapolis Police Department personnel who assisted and cooperated with us during this review.

Cc: Paul Aasen, City Coordinator's Office
Nicole Bettcher, PW
Kevin Carpenter, Finance
Gary Dahl, PW
Connie Griffith, Finance
Heidi Hamilton, PW
John Scharffbillig, PW
Vicki Stone, PW

Fleet Management Review

Audit Findings and Action Plans

1. External Customers

A number of external customers (e.g. Hennepin County, Minneapolis (MPLS) School Board, Parents In Community Action, Inc. (PICA)/Head Start², Xcel Energy, etc.) are permitted to dispense fuel at various FSD fuel sites. In return, on a monthly basis, the City sends invoices to the customer for the amount of fuel dispensed. Currently, either no contracts exist or contracts are expired between the City and the external customers regarding fuel dispensing from City fuel stations. This could potentially impose unnecessary liability on the City if an accident or dispute were to occur as a result of related fuel dispensing activities. Furthermore, a contract in place would help ensure external individuals dispensing fuel are properly authorized. A contract in place essentially protects both parties.

Additionally, FSD operates a car wash for City vehicles and external users/customers. Users of the carwash are billed monthly for its use. However, it appears an external customer had been using the carwash and was not billed through July 2012. IA would like to acknowledge that Finance is working to determine and bill the correct amount due to the City.

Recommendation

IA recommends FSD management work with the City Attorney's Office to draft and implement contracts with all external customers that dispense fuel at the City's fuel stations. In addition, IA recommends the contract language require a formal authorization of external individuals to dispense fuel.

Furthermore, IA recommends FSD management work with Finance to identify and address the reasoning for not billing the external customer for use of the City's car wash to avoid similar situations from occurring and appropriately bill and collect the amount due to the City.

Management Response

At this time, we have an expired contract with Hennepin County that we are operating under. FSD is working on the renewal of this contract.

MPLS Park Board and the Municipal Building Commission are part of the City of Minneapolis finance system and, therefore, are not billed. Payment is received via a fund transfer, as is done with City Departments. FSD will work with these entities to develop agreements or memorandums of understanding documenting the arrangements.

MPLS School Board, City of Richfield and the Federal Bureau of Investigation (FBI): Our fuel system for these entities is being used primarily as a back-up system for emergencies or when their systems are down for maintenance. Last calendar year we sold them a total of 232 gallons of fuel. FSD is checking to see if this falls under our mutual aid contracts; if it does not, FSD will establish contracts with each of the entities.

Head Start: A contract is needed to sell PICA-Head Start fuel. FSD will contact PICA-Head Start to put a contract in place.

Billing for the use of the car wash: The only contract we have in place for car wash use is with Xcel. In 2011 FSD provided a total of 355 washes for Xcel at \$5.00 a wash for a total of \$1,775.00. Finance

² Parents In Community Action, Inc. (PICA) is a private, non-profit agency designated by the federal government to operate Head Start and Early Head Start programs in Hennepin County, Minnesota. The Head Start Program is a program of the United States Department of Health and Human Services that provides comprehensive education, health, nutrition, and parent involvement services to low-income children and their families.

and FSD worked together to find out why a bill was not issued. The problem has been resolved and Xcel is now being billed monthly.

Responsible Party

John Scharffbillig, FSD

Expected Completion Date

August 31, 2013

Projected Cost of Implementation

One-time Total Estimated Cost: \$7,680.00 (one-time)

One-time Hours: 64 (one-time)

2. Granting and Removing Fuel Access

The process to obtain access for fuel dispensing is informal whereby FSD only requires the name and employee ID number from the end-user that will be dispensing fuel. There is no formal process (i.e. forms, supervisor authorization, etc.) established for City personnel to obtain fuel access. Allowing City personnel to request fuel access without proper authorization and approval could potentially lead to waste or abuse.

Furthermore, in order to remove a user's access to the fueling system, City Departments contact FSD, as needed, and provide updates to employees' user access in the event of employee termination, transfer, etc. Some Departments are more diligent than others at reporting this information to FSD. On an annual basis, FSD reconciles fuel access users to an active City employee Human Resources (HR) query and removes access for those who do not have an active HR record or have not dispensed fuel within a year's time. Although FSD is verifying that users are actively employed and use fuel on an annual basis, there may be instances where the employee should not be allowed to access and/or dispense fuel.

Recommendation

IA recommends FSD management develop a formal authorization process for granting fuel access to personnel.

Additionally, IA recommends FSD management periodically (at least annually) send a list of active fuel users to their respective Department's management for verification to determine whether the employees' access is legitimate and/or still necessary.

Management Response

FSD is working on creating an authorization and documentation process for departments to allow their employees to gain access to the fuel system, along with a process to follow for removal of a user from the system.

Responsible Party

John Scharffbillig, FSD

Expected Completion Date

December 31, 2012

Projected Cost of Implementation

Total Estimated Cost: \$9,120.00 (one-time), \$2,400 (recurring annually)

Hours: 76 (one-time), 20 (recurring annually)

3. Fuel Dispensing Practices

In order to accommodate different fuel user needs (i.e. PW, Police, Fire, Park Board, etc.), FSD allows the use of various methods to dispense fuel. Some examples of the methods in use include:

- Unit (i.e. vehicle) fuel ID cards are managed by FSD and are needed to access fuel; the card can either be swiped or the number can be manually entered. Some users do not use unit fuel ID cards associated to units but simply enter a unit number, which is not the fuel ID card number.
- Employee ID cards are also needed to access fuel; depending on the user, the employee ID cards are either programmed to be swiped or can be accessed by entering their employee ID number manually.
- Other users, on the other hand, do not have cards assigned to them and instead, enter their payroll numbers into the fueling system.

In the current control environment, fuel dispensing practices could potentially lead to waste and abuse.

Recommendation

IA recommends FSD management prepare a cost-benefit analysis to determine whether consistent fuel dispensing would be practical for end-users collectively or ensure other compensating controls are in place to mitigate risk to the City.

Management Response

There are several ways to dispense fuel. The issue of concern is about controlling and documenting the product being dispensed and by whom. There are reasons for the different methods of dispensing fuel, depending on departmental needs. FSD, in collaboration with the using departments, will develop a process to validate that each department is using an appropriate method, and to ensure that the departmental controls that are in place include tracking the fuel being dispensed to the right unit and employee.

Responsible Party

John Scharffbillig, FSD
Using Departments (applicable Department Heads)

Expected Completion Date

December 31, 2012

Projected Cost of Implementation

Total Estimated Cost: \$1,920.00 (one-time)

Hours: 16 (one-time)

4. Benchmarking Fleet Shop Rates

As an internal service fund, FSD charges its customers for services provided to generate revenues to meet expenses. FSD strives to reduce cost and be competitive with the existing market rates. To accomplish this, FSD performs an hourly rate comparison (i.e. benchmarking) between Fleet shop rates and private rates. The results of this survey can be found on p.25 of the "Public Works Transportation & Internal Services" (May 2012) [Results Minneapolis Department Report](#).

While the hourly rate for FSD appears consistently less than the private rate, there is no use of *standard* time in work orders like most private workshops. *Standard* time is the fixed amount of time allotted to a particular repair or maintenance service that private workshops charge regardless of *actual* time spent.

Currently, FSD charges customers for repair and maintenance services by calculating *actual* hours spent on services by the Fleet shop rate, as discussed above. *Actual* hours spent on the same service may vary from customer to customer, which results in different amounts billed for the same service. The use of standard hours may increase shop efficiency by setting expectations on the time needed for a specific

service/repair and charge City Departments consistently for the same service which will help City Departments in managing budgets.

Recommendation

IA recommends FSD develop a *standard* number of hours for repair and maintenance services. Furthermore, IA recommends FSD monitor and update as necessary the *standard* hours to *actual* hours which may provide FSD the opportunity to increase efficiencies.

Management Response

PW believes this finding lies outside of IA's scope of work and PW does not agree with IA's recommendation. As an internal service fund, FSD must recover the actual cost of all of its work. On all of our work orders we include the time being charged for the job. FSD will continue to track time through M-5 and bill customers on a monthly basis for work provided. PW will consider utilizing standard time information to monitor efficiency.

Responsible Party

Steve Kotke, PW

Expected Completion Date

As priorities allow.

Projected Cost of Implementation

TBD

5. Parts Inventory

FSD uses a perpetual inventory system to track its parts inventory, which allows for real-time information on inventory levels and tracks inventory on an item-by-item basis. Two main advantages to using a perpetual inventory system is that it allows FSD to better manage their inventory and it improves the accuracy of the financial statements by allowing accurate record keeping. In performing physical counts on a sample of items, IA noted discrepancies between the actual counts and what was listed in the perpetual inventory system caused by a lack of tracking or other contributing factors.

Recommendation

IA recommends FSD management periodically perform a physical count on inventory items, investigate discrepancies, if any, and update inventory records, as necessary.

Furthermore, IA recommends FSD management research different tracking mechanisms and develop a process to properly authorize and track inventory movement from one site to another to ensure inventory is accurately reflected within the perpetual inventory system.

Management Response

FSD/Distribution Center will develop a documented process on how cutting edges and other parts will be expensed as well as how they will be tracked when being moved from one location to another. In developing its processes, FSD will consider the cost vs. the benefit of increasing the level of detail tracked in the parts inventory and make an appropriate business decision.

Responsible Party

John Scharffbillig, FSD

Expected Completion Date

June 30, 2013

Projected Cost of Implementation

Total Estimated Cost: \$9,600.00 (one-time), \$4,800 (recurring annually)
Hours: 80 (one-time), 40 (recurring annually)

6. Equipment Tracking

At times, specific departments/divisions throughout the City purchase their own equipment and do not notify FSD; thus preventing FSD to adequately track and schedule the necessary preventative maintenance required for the piece of equipment. It has been difficult for FSD to locate these pieces of equipment to ensure the equipment is receiving the necessary preventative maintenance. Equipment that does not receive the necessary preventative maintenance in a timely manner may potentially lead to more costly repairs later on.

Recommendation

IA recommends FSD management work with Finance to develop a process to ensure all equipment purchased is funneled through FSD for proper tracking purposes.

Management Response

PW believes this finding lies outside of IA's scope of work and that the finding does not recognize that FSD is not responsible for the purchase and maintenance of all City equipment. It is the responsibility of the department making the purchase to ensure it is included in the City asset records maintained by Finance (for financial reporting purposes) and that the asset is appropriately maintained. FSD and Finance are working together to establish City-wide policies that address the purchase and maintenance of equipment, including grant funded equipment.

Responsible Party

Kevin Carpenter, Finance
Steve Kotke, PW

Expected Completion Date

As priorities allow.

Projected Cost of Implementation

Total Estimated Cost: \$2,400.00 (one-time)
Hours: 20 (one-time)

7. Fuel Can Accounts

In order for City personnel to fuel smaller engines (i.e. lawn mowers, weed whips, etc.), *fuel can* accounts were created to fuel this type of equipment. Fuel is dispensed using these accounts by manually inputting a fuel ID number along with an employee ID number. *Fuel can* accounts were originally intended to have a 5 gallon limit per transaction, but based on discussions with FSD personnel, this control can be overridden and more than 5 gallons can be dispensed from these accounts, which forfeits the purpose of this process. Lax controls surrounding *fuel can* accounts could potentially lead to waste and abuse. It was noted that the automated system that tracks fuel usage has the functionality to program specific limits on *fuel can* accounts (i.e. number of transactions per day, number of gallons dispensed per transaction).

Recommendation

IA recommends FSD management develop robust controls that include procedures for managing the fuel dispensing activity from *fuel can* accounts.

Management Response

At regular meetings that FSD has established with all using departments, *fuel can* accounts will be discussed including a review of who is authorized to use them, the quantity allowed, and how fuel will

be tracked for end-use (weed whips, chain saw, lawn mowers, etc.). FSD works with each of the departments on fuel issues as they arise. In developing its processes, FSD will consider the cost vs. the benefit of increasing the level of detail tracked in the *fuel can* accounts and make an appropriate business decision.

Responsible Party

John Scharffbillig, FSD
Using Departments (applicable Department Heads)

Expected Completion Date

December 31, 2012

Projected Cost of Implementation

Total Estimated Cost: \$8,400.00 (one-time)
Hours: 70 (one-time)

9. Fuel Tank Locks

Currently, some of the fuel tanks are properly locked. However, there are some fuel tanks at FSD fuel sites that need to be locked. Unlocked fuel tanks could potentially allow for tampering which may result in safety and financial issues.

Recommendation

IA recommends FSD management install locking mechanisms on all fuel tanks located at FSD fuel sites.

Management Response

FSD has installed locks on all unlocked tanks.

Responsible Party

John Scharffbillig, FSD

Expected Completion Date

Completed

Projected Cost of Implementation

Total Estimated Cost: \$960.00 (one-time)
Hours: 8 (one-time)

10. Surveillance System Upgrade

The surveillance system in use at the 2710 Pacific Avenue location is a stand-alone system and is outdated which includes the fuel islands. If updated, the surveillance system would allow for more enhanced security over the facility.

Recommendation

IA recommends FSD management evaluate the feasibility of upgrading the surveillance system at 2710 Pacific Avenue to determine whether the cost is justified in relation to reducing the risk of unauthorized fuel usage, intentional disruption, etc. In addition, it would also help in providing physical evidence, in the event there is a need.

Management Response

PW will discuss this issue with the City's security team to determine appropriate next steps to evaluate and determine whether the cost is justified in relation to the reduction in the risk of unauthorized fuel usage and other potential risks.

Responsible Party
 Heidi Hamilton, PW
 Art Thomas, Finance – Property Services

Expected Completion Date
 As priorities allow.

Projected Cost of Implementation
 TBD

Projected Cost of Implementation (contents provided by Public Works)					
Audit Finding		Estimated Hours		Total Estimated Cost	
		One-time	Recurring Annually	One-time	Recurring Annually
1	External Customers	64	-	\$ 7,680	-
2	Granting and Removing Fuel Access	76	20	9,120	\$ 2,400
3	Fuel Dispensing Practices	16	-	1,920	-
4	Benchmarking Fleet Shop Rates	TBD	TBD	TBD	TBD
5	Parts Inventory	80	40	9,600	4,800
6	Equipment Tracking	20	-	2,400	-
7	Fuel Can Accounts	70	-	8,400	-
8	Fuel Tank Locks	8	-	960	-
Totals		334	60	\$ 40,080	\$ 7,200

Abbreviations Used Throughout the Report	
City	The City of Minneapolis
FBI	Federal Bureau of Investigation
Finance	Finance and Property Services Department
FSD	Fleet Services Division
HR	Human Resources
IA	Internal Audit Department
MPLS	Minneapolis
PICA	Parents In Community Action, Inc.
PW	Public Works Department