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DEPARTMENT OF PUBLIC WORKS
AUDIT OF FLEET SERVICES
FOR THE PERIOD
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

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ERIE COUNTY COMPTROLLER

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December 31, 2015

Erie County Legislature
92 Franklin Street 4th Floor
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Dear Honorable Members:

The Erie County Comptroller's Office has completed a performance audit of the Department of Public Works (DPW), Division of Fleet Services (Fleet) for the period January 1, 2014 through December 31, 2014. Our audit focused on the County's fleet of passenger vehicles, small vans, and light duty pick-up trucks. Also included were the 24-hour use vehicles, permanently or regularly assigned to departments as well as the County's motor pool vehicles. This audit did not, however, include vehicles assigned and used by the Offices of the District Attorney and the Sheriff nor those of Erie Community College.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objectives.

Our objectives were to evaluate the controls over the County's vehicle inventory and the assignment and maintenance of vehicles; and to verify compliance with internal policies and procedures over the purchase, assignment, maintenance, and disposition of County vehicles as well as with any applicable State and/or Federal regulations.

Management of DPW is responsible for establishing and maintaining a system of internal control. The objective of such a system is to provide reasonable, but not absolute, assurance that transactions are executed in accordance with management's

authorization and are recorded properly. Because of inherent limitations in the system of internal control, errors or irregularities may nevertheless occur and not be detected.

Internal controls over Fleet operations are deficient because the design of controls did not allow management or employees in the normal course of performing their assigned functions, to prevent, detect and correct errors or irregularities on a timely basis. The absence of sufficient written operating policies and procedures made it difficult for Fleet to effectively maintain control over the vehicles, their maintenance, and the billing of Fleet services.

Fleet could not address the discrepancies we noted in our testing of vehicle inventory nor in our testing of interdepartmental billing. Because we were not able to apply alternative auditing procedures to satisfy ourselves as to the accuracy of the inventory and the propriety of the billing, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the quantity and value of the vehicle inventory and the accuracy of the interdepartmental billings. Improved inventory and interdepartmental billing processes could allow us to better examine these areas in the future.

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EXECUTIVE SUMMARY

- Fleet vehicle inventory is not adequately maintained with inventory discrepancies amounting to at least $850,634 in the Capital Asset System of the County.
- No supporting documentation for at least $269,589 in interdepartmental billings for fuel, vehicle usage, parking and washes for the months of May and September.
- Non-compliance with IRS Publication 15-B resulting in unreported income of $15,933.
- Interdepartmental billings for repairs/parts are overstated by $4,423.

BACKGROUND

Fleet, a division of DPW, is the central managing unit for all county vehicle use and activity and provides centralized support services for all County departments. Thus, the administrative responsibility of the County's motor vehicle fleet is held by Fleet. The functions provided by Fleet include equipment acquisition, deployment, disposal, maintenance, fueling, repair facilities management, inventory control, procurement of rental vehicles for out of town travel, and administration.

A Motor Vehicle Policy is in place to provide guidelines for the procurement and use of official County vehicles as well as rental vehicles and employees' personal vehicles being used for official County business. However, while this policy governs all County owned and registered vehicles and their use and assignment, independent elected officials (Erie County Sheriff, District Attorney and County Clerk) have responsibility for the administration and enforcement of the Motor Vehicle Policy for their employees.

Fleet, in cooperation with the Division of Purchase is required to maintain a roster of vehicles. This roster is to include the year, make and model and information regarding where the vehicle is assigned. No passenger vehicles within the County government are to be sold, sent to surplus, or otherwise transferred or disposed of without the consent of Fleet, Director of Purchase and the Director of the Division of Budget and Management (Budget).

AUDIT FINDINGS

1. Fleet Inventory

Fleet maintains a vehicle inventory which should be recorded on the County's Capital Asset System (Asset List) which tracks items with a value in excess of $500. According to the Asset List, there are 392 vehicles (cars, pickups, and vans) valued at their acquisition cost of $8,086,422 and are located at 54 different sites.

One of our primary objectives was to evaluate control over the County's vehicle inventory. From the Asset List we selected 12 sites to perform an inventory of the vehicles assigned to that location or, vehicles found to be located at that site whether assigned formally or not. The 12 sites selected had 194 vehicles assigned as per the Asset List. At these locations, we were able to locate 90 vehicles and were informed that another 52 of the vehicles were in use and thus not on site. With an acquisition cost of $850,634, another 52 vehicles from the Asset List could not be located or otherwise accounted for at the sites visited. In addition, we found 7 vehicles at these locations that were not on the Asset List. These exceptions that the auditors noted were forwarded to Fleet seeking an explanation for the differences. At the time of this report, Fleet had not provided us with any information to account for these discrepancies. The explanations provided by Fleet and DPW to account for these asset variances included that some of the vehicles were either scrapped, sold or transferred by various departments without the benefit of supporting documentation or that the supporting documentation was never input and thus not properly reflected on the Asset List.

WE RECOMMEND that Fleet and DPW take the necessary steps to provide accountability for the vehicles under their purview. Minimally, this should include the implementation of updated policies and procedures for the addition, deletion and transfer of vehicles.

Note: At the exit conference, DPW provided us with an SAP listing which purportedly showed that all 52 missing vehicles were accounted for in some manner. Since our field work had been completed in December, we were not able to verify the propriety of this list.

2. Interdepartmental Billing for Fleet Services Not Supported

Fleet provides various services to departments that utilize space, vehicles, fuel and car washes. The costs of these services are billed interdepartmentally each month. In 2014, there were 35 cost centers that took advantage of these services totaling $1,755,542. More specifically, these costs were as follows:

2014 Fleet Services Monthly Interdepartmental Billing					
	Fuel	Parking	Vehicle Usage & Mileage	Vehicle Washes	Monthly Total
January	$ 202,762	$ 10,115	$ 6,281	$ 135	$ 219,294
February	$ 159,429	$ 10,115	$ 6,415	$ 340	$ 176,299
March	$ 140,995	$ 10,115	$ 6,117	$ 365	$ 157,592
April	$ 105,005	$ 10,115	$ 6,326	$ -	$ 121,445
May	$ 115,574	$ 10,115	$ -	$ -	$ 125,689
June	$ 130,585	$ 10,115	$ 9,982	$ 290	$ 150,972
July	$ 137,670	$ 10,115	$ 8,033	$ 365	$ 156,182
August	$ 122,916	$ 10,115	$ 6,903	$ 235	$ 140,169
September	$ 125,370	$ 10,115	$ 8,085	$ 330	$ 143,900
October	$ 103,947	$ 10,115	$ 7,884	$ 350	$ 122,296
November	$ 127,593	$ 10,115	$ 4,978	$ 150	$ 142,835
December	$ 82,544	$ 10,115	$ 5,935	$ 275	$ 98,868
Year Total	$ 1,554,388	$ 121,380	$ 76,938	$ 2,835	$ 1,755,542

To test the accuracy of these monthly charges, the auditors sampled the expenses for May and September of 2014. We were only provided with SAP document numbers and the dollar amounts associated with those numbers. The purpose of our test was to review the individual documents that support the monthly charges. However, after several requests for this information, we were not provided with any detailed records. For the two months selected, we were unable to verify the interdepartmental billing charges of $269,589.

WE RECOMMEND that Fleet immediately implements procedures that would require the retention of all supporting documentation for interdepartmental billing charges.

Note: At the exit conference, DPW stated that they would provide us the documentation for the months of May and September. However, as we were not given access to these items until March 15, 2016 which was well past the close of our field work, we were unable to perform substantive tests to verify the propriety of these documents.

3. Non-compliance with IRS Requirements

The Internal Revenue Service (IRS) Publication 15-B (Employer's Tax Guide to Fringe Benefits) requires that personal use of a company vehicle be reported to the employee as income. In the absence of specific written County guidelines on this matter, we noted that 28 employees who had 24 hour vehicles did not have any taxable fringe benefit reported on their Wage and Tax Statement (W-2 form) for 2014. The total income for these employees in 2014 that was not reported to the IRS was $15,933. Additionally, although our audit was limited to 2014, we were informed that inaccurate W-2's for those with 24 hour vehicles were similarly prepared for prior years as well.

WE RECOMMEND that County management take the steps necessary to ensure that each department head annually notifies the Personnel Department with a list of employees utilizing 24 hour vehicles to help ensure compliance with the IRS requirement to report personal use of these vehicles as income for payroll reporting purposes. Additionally, County management should address compliance with IRS publication 15-B through a formal policy and procedure.

FURTHER, **WE RECOMMEND** that Fleet Services work with County management regarding qualified non-personal use vehicles to insure that such vehicles are correctly identified in accordance with IRS guidelines and specifically prescribed by written County policies and procedures.

Lastly, **WE RECOMMEND** that County management take the steps necessary to make the appropriate adjustments to correct the 2014 Form W-2 for the 28 employees noted.

4. Overstated Interdepartmental Billings for Fleet Repairs

The interdepartmental billings for Fleet repairs and maintenance performed at various highway district garages are overstated. The monthly vehicle repair chargebacks from the Vehicle Work Log are calculated utilizing an Excel spreadsheet. This spreadsheet contains the appropriate formulas for calculating parts cost, labor cost and total cost after inputting the raw data each month. One of the imbedded formulas contains a 10 percent "surcharge". The total amount of this surcharge for parts in 2014 was $4,423. Acknowledging that this surcharge has been in place for a long time according to DPW staff, similar overbilling has been taking place for many years.

WE RECOMMEND that DPW takes the steps necessary to revise the formulas within the vehicle repair chargeback spreadsheet and eliminate the 10 percent surcharge.

5. Capital Asset System Not In Agreement With Fleet Vehicle List

The Erie County accounting policy on county-owned assets with a cost of $500 or more stipulates these assets must be recorded in the County's Capital Asset System (a module of the SAP accounting system). The purposes of the Capital Asset System are to: maintain an information system in which information on machinery and equipment is recorded on a continuous basis; improve equipment control and utilization; optimize financial management and planning; and comply with legal and Generally Accepted Accounting Principles reporting requirements.

Under this Capital Asset Policy, departments are responsible for notifying the Comptroller's Office at the time an asset is transferred, purchased or deleted. These departments are responsible to work through Fleet Services for vehicle transfers and in conjunction with Fleet Services and the Division of Purchase for vehicle purchases and disposals.

We sampled 60 of the 342 vehicles on the Fleet Vehicle List and traced these vehicles to SAP and found 35 discrepancies between the two lists. These discrepancies included vehicles not being listed in SAP, vehicles at different locations, vehicles with different VIN numbers and vehicles with different descriptions. Departments are not notifying either the Erie County Comptroller's Office or Fleet of all vehicle inventory changes in a timely manner. The Comptroller's Office sends out a yearly asset listing for verification. Department Heads are not completing and returning the verification in a timely manner. Departments are not providing Fleet with a copy of the portion of this annual asset verification that covers vehicles.

WE RECOMMEND that Fleet:

- Issue a formal policy requiring each department to send a copy to them of asset listings regarding vehicles that are returned to the Comptroller's Office.
- Compare asset listings received from the departments to the Fleet Services roster with any discrepancies investigated.
- Report any required changes to this department vehicle listing to the department and to the Comptroller's Office.
- Include the changes noted in the above recommendations when further updating the County's Motor Vehicle Policy.

6. Fleet Vehicle Roster Not In Agreement With Departmental Vehicle Lists

The Erie County Motor Vehicle Policy (Erie County Personnel Policies and Procedures Manual, Chapter X, Section 17, Subsection III Vehicle Assignment) requires Fleet to maintain a county roster of vehicles. This roster is to be updated as needed and include the year, make and model of the vehicle as well as information regarding where the vehicle is assigned. We could not verify the accuracy of this list by comparing the Fleet vehicle roster to lists provided by Budget on behalf of the individual departments.

There is a lack of monitoring and follow-up by Fleet to insure that departments are informing their office of all vehicle inventory changes in a timely manner.

WE RECOMMEND that Fleet:

- Provide to all County departments and offices written instructions detailing that vehicle information and changes be forwarded to Fleet in a timely manner.
- Follow-up annually with all the departments to insure that changes to the vehicles assigned and vehicle locations are current.

7. Motor Vehicle Policy Is Outdated

The Erie County Personnel Policies and Procedures Manual, Chapter X, Section 17, Motor Vehicle Policy, effective date 3/1/1990 was last revised on September 4, 2007.

Since that revision Fleet has been moved from the Division of Information and Support Services to DPW. The Bureau of Fleet Services was restructured by the prior administration causing a reduction in personnel. However, the policies and procedures were not modified in accordance with the restructuring.

WE RECOMMEND that DPW update the Motor Vehicle Policy to reflect the existing organizational structure and current policies and procedures.

Corrective Action: DPW and Fleet working in concert with County management, revised the Motor Vehicle Policy, effective April 16, 2015.

8. Operating Policies and Procedures Not Documented

During the course of our audit, we noted that current policies and procedures followed by Fleet in the performance of their service objectives have not been formally documented. Without written policies and procedures to follow, adherence to guidelines passed from one employee to another can lead to the inconsistent application of management's directives. This is particularly relevant for repairs and maintenance to Fleet vehicles, warranty agreements for new vehicle purchases and the tracking of vehicle repairs and maintenance under those agreements, and the Interdepartmental Billing for repairs and maintenance, fuel, parking, washes, mileage and motor pool usage.

WE RECOMMEND that Fleet and DPW work together to document the policies and procedures that reflect both the current organizational structure for Fleet as well as their operating procedures. These procedures should include, but not be limited to, guidelines for repairs and maintenance, vehicle warranties, interdepartmental billing for Fleet services and management of the Fleet vehicle inventory.

AUDITOR'S COMMENTS

1. Outdated Administrative Code

Article 3, Section 3.08 of the County's Administrative Code states that the Division of Information and Support Services is responsible for the care and supervision of all vehicles and vehicle maintenance equipment in the division and the operation of a central motor pool for county employee use, as well as the collection of data on maintenance and operating costs of all county vehicles and the preparation and distribution of vehicle cost and utilization reports to participating departments and agencies.

In 2009, Fleet was no longer under the auspices of the Division of Information and Support Services but was reassigned as a division of the Department of Public Works.

WE RECOMMEND that the Department of Public Works work in concert with County management and submit a formal request to the Erie County Legislature (Legislature) to revise Article 3, Section 3.08 of the Administrative Code to properly reflect the powers and duties of the oversight department.

2. Staffing Shortage

In 2008, there were five employees in Fleet Services and by 2010 the number of employees had been reduced to two and yet the duties and responsibilities have largely remained unchanged. If it was not for regular assistance provided by two employees of the Highway Division, Fleet could not function.

Fleet operations will dramatically change in the next few years thus requiring additional employees. We were informed by DPW that there will be enhancements to the Gasboy system, the construction of a dedicated Fleet maintenance garage and the implementation of a new inventory control system. As these changes were outside the scope of our audit, we did not evaluate these changes or consider the number of staff that would be required to meet the increased workload and responsibilities. In the past, Fleet had a supervisor as well as a supervising automotive mechanic and several automotive mechanics.

WE RECOMMEND that DPW work with both Budget and the Legislature and take the steps necessary to adjust the size of the Fleet staff commensurate with their changing needs and requirements.

3. Fleet Parts Inventory

On our visits to the Clarence, East Aurora and Hamburg Highway Districts, we determined with input from DPW employees that both the inventory of supplies and tools at these facilities attributable to Fleet had an estimated value of $10,000. While we acknowledge that much of the inventory is already obsolete with the balance to become obsolete as the fleet continues to age, there is little, if any, control over these assets.

In order to safeguard assets, the inventory needs to be secured, properly managed and adequately controlled. As previously noted in Auditor's Comment #2, management of DPW has informed us that they are in the process of implementing an inventory control system module within SAP that would be able to track the inventory of repair parts as well as the inventory and assignment of Fleet vehicles.

WE RECOMMEND that in addition to the SAP inventory control enhancement that DPW and County management consider the feasibility of expanding the module to include the capability for Interdepartmental Billing. This would help automate billings for maintenance, repairs and other miscellaneous costs associated with vehicle usage.

4. Fleet Vehicle Work Log

The Fleet 2014 Vehicle Work List is the official DPW document for logging in requests for fleet vehicle repairs as well as scheduling repairs to fleet vehicles, documenting work completed, recording expenses (parts and labor) and is the basis for billing the work completed.

For the sample of repairs tested, there were exceptions as follows:

- Missing authorizations for work to be performed > $1,000.
- Date work was performed did not coincide with work order.
- Invoices for parts used in repairs were not signed as received by employees.
- Work Orders were not properly completed.
- Three different variations of work orders were used.
- There was no definite supervisor's approval verifying the work performed.

The Fleet Vehicle Work List needs to be secured and maintained by a designated person in DPW and approved periodically by an authorized person in supervision.

WE RECOMMEND that DPW assign a designated person to maintain and control the document. The assigned person can centralize all invoices, work orders, maintain proper completion, and verify invoices were properly approved as well as work orders. The Supervisor of Mechanics should review and approve the document monthly. The work order needs to become an official DPW Form with enhancements made to allow for proper sign off for authorizing work >$1,000 and approval of work performed in all cases.

RESULTS OF EXIT CONFERENCE

An exit conference was held on March 4, 2016 with the Commissioner of the Department of Public Works, members of his staff and a representative from the Division of Budget and Management. The contents of the report were discussed in detail and the attendees were in general agreement with our findings and recommendations.

In accordance with the County's Audit response System and Procedures, we request that DPW prepare a written response to the County Executive concerning the audit findings and recommendations by April 11, 2016. We further request that the County Executive forward copies of the response to the Legislature and the Comptroller by April 26, 2016.

ERIE COUNTY COMPTROLLER'S OFFICE

cc: Hon. Mark C. Poloncarz, County Executive
John C. Loffredo, Commissioner, Department of Public Works
Robert W. Keating, Director, Budget and Management
Erie County Fiscal Stability Authority