

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Fleet Management: Inventory Controls Audit



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February 4, 2016

Roger Weaver, Director
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**SUBJECT: FLEET MANAGEMENT DEPARTMENT INVENTORY CONTROLS AUDIT FOR
FISCAL YEAR ENDED JUNE 30, 2015**

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Fleet Management Department's inventory controls as of June 30, 2015. The primary objective of the audit was to determine if the controls over inventories were in place and effective. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

Controls over inventory were generally effective, with the exceptions identified in the Audit Findings and Recommendations section of this report.

We sent a draft report to the Department on October 27, 2015 and discussed our observations with management on November 4, 2015. The Department's responses to our recommendations are included in this report.

We would like to express our appreciation to the personnel at the Fleet Management Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Larry Walker

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



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Fleet Management Department: Inventory Audit

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Summary of Audit Results

Our findings and recommendations are provided to assist management in improving internal controls and procedures relating to the Fleet Management Department's (Department) inventory.

The table below summarizes the audit findings and recommendations for this audit engagement. For further discussion, refer to our *Audit Findings and Recommendations* section of this report.

| Finding No. | Findings and Recommendations | Page No. |
|-------------|---|----------|
| 1 | Tracking of inventoriable items needs to be improved. | 5 |
| | We recommend that the Department develop and implement procedures to monitor all inventory items. Furthermore, we recommend that all items that have not been added to inventory be inputted into the FASTER System to be tracked properly. | |
| 2 | Actual quantity of parts did not always match quantity in inventory system. | 6 |
| | We recommend that Fleet Management should closely monitor the parts inventory to maintain more accurate inventory records. We further recommend that inventory safeguarding procedures be sent to all part room employees. | |
| 3 | Controls over the safeguarding of fuel need to be improved. | 6-7 |
| | We recommend that management increase controls over fuel so it is properly safeguarded. There should be secure locks on all the fuel tank lids. | |
| 4 | Computer access is not secure for PIN documentation and the Fuel Force program. | 7-8 |
| | We recommend that management establish and implement a policy regarding the security of sensitive data files and computer programs. Access to the Fuel Force program should be restricted. The PIN excel file should be permission protected and only be accessed by the minimum number of employees necessary. | |



| Finding No. | Findings and Recommendations | Page No. |
|-------------|---|----------|
| 5 | <p>Segregation of duties needs to be improved.</p> <p>We recommend that management reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could commit and conceal errors or irregularities. We also recommend that a secondary or supervisory review be completed of the fuel levels entered into the Fuel Force system. Lastly, we recommend that an employee other than the person entering the fuel levels into the system issue PIN numbers to County employees.</p> | 8-9 |



INVENTORY CONTROLS AUDIT

The Department

The San Bernardino County Fleet Management Department provides vehicles, equipment, and services to the officials and employees of the County so that they may provide services that promote health, safety, well-being, and quality of life to the residents of the County.

The Fleet Management Department provides acquisition, maintenance, repair, modification, and disposal services for the majority of County vehicles and equipment. Fleet Management also operates a motor pool which has ownership and/or maintenance responsibility for approximately 1,820 vehicles or equipment assigned to or used by County departments. Additionally, the department operates two car washes and provides Department of Motor Vehicle registration services and security lock-up services.

Our audit focused on the effectiveness of Fleet Management's controls over their fuel and parts inventory.

Fuel

The Fleet Management Department operates five smaller service centers in outlying locations (Barstow, Hesperia, Needles, Rancho Cucamonga, and 29 Palms) and 62 strategically located fueling sites.

Parts

Fleet Management's main garage in San Bernardino includes four shops: automotive, heavy-duty, welding/metal fabrication, and generator services, as well as a parts room and fueling station. The Department uses a perpetual inventory system called the FASTER system and conducts a confirmatory inventory count for a percentage of total inventories every month.



Scope and Objectives

Our audit examined the Department's controls over parts and fuel inventories as of June 30, 2015. We conducted our fieldwork at Glen Helen Emergency Vehicle Operation Center (EVOG), Chino Road Yard, Fontana Sheriff's Station, San Bernardino Main Yard and Parts Room Number 3. The objective of our audit was to determine if controls over Fleet Management's inventories were in place and effective.

Methodology

In achieving the audit objectives, the following evidence gathering and analysis techniques were used, including but not limited to:

- Reviewing the Department's policies and procedures and the San Bernardino County Internal Controls and Cash Manual.
- Interviewing Department management and personnel that were directly involved in the inventory process.
- Observing departmental personnel perform their respective job functions.
- Testing the existence and completeness of parts inventory and recalculating the conversions of fuel readings.



Finding 1: Tracking of inventoriable items needs to be improved.

The County's Internal Controls and Cash Manual (ICCM) Chapter 2 states that it is a critical step to safeguard assets and to record them at the time of acquisition, verify their existence, and value periodically.

In the Fleet Management Department's parts room, there are items that have not been input into the FASTER system. Currently, the department uses these items that have not been inventoried for work orders or to sell them to customers as needed but there is no method used to track these items.

After a merger between the Fleet Management Department parts room and Fire Department parts room, these items were not added to the inventory list. These items could be stolen or staff could reorder items that are already in stock because these items are not in the FASTER system used by Fleet Management Department.

Recommendation:

We recommend that the Department develop and implement procedures to monitor all inventory items. Furthermore, we recommend that all items that have not been added to inventory be inputted into the FASTER System to be tracked properly.

Management's Response:

I agree with the finding. Fleet has a responsibility to safeguard all County assets. The Department's inventory policy (Fleet Policy 09-01) is very specific in requiring – "all parts will be inventoried." To insure all Parts employees are aware of this requirement, Management met with Parts employees on Monday, November 2, 2015 and reviewed Chapter 2 of the ICCM and Fleet's Department policy 09-01.

I confirmed that a small number of parts remaining from the Fire/Fleet merger were not input into the inventory tracking system. The total item count was approximately 100 individual parts with a total value of approximately \$2,000. All these parts were input into the inventory tracking system on October 31 and November 1, 2015.

Auditor's Response:

The Department's actions will correct the deficiency noted in the finding.



Finding 2: Actual quantity of parts did not always match quantity in inventory system.

The County's Internal Controls and Cash Manual (ICCM) Chapter 2 states that a complete physical inventory of assets should be taken periodically to insure that the assets exist and that they are completely accounted for.

During our observation of inventory count and testing of parts inventory, we noted that for two out of the ten parts in our sample, the quantities on the shelf did not match the quantities in the FASTER system. The first part had one quantity more on the shelf than the inventory list due to an employee not adjusting the computer inventory count when the unused part was returned to the shelf. The second part had one quantity less than the inventory list because an employee sold the wrong part to a customer.

Recommendation:

We recommend that Fleet Management closely monitor the parts inventory to maintain more accurate inventory records. We further recommend that inventory safeguarding procedures be sent to all part room employees.

Management's Response:

I agree with the finding. Parts staff was retrained on the importance and proper tracking of inventory on November 2, 2015. The training included proper return of parts issued and how to correct parts being issued incorrectly.

Fleet also performs a "random 10%" physical inventories of all storerooms monthly. Any variance (based on absolute dollar value) exceeding 2% triggers a mandatory 100% inventory of that storeroom within five working days and the results are sent to the Director for review/approval.

Auditor's Response:

The Department's actions will correct the deficiency noted in the finding.

Finding 3: Controls over the safeguarding of fuel need to be improved.

According to the County's Internal Controls and Cash Manual (ICCM), Chapter 2, access to valuable assets should be controlled in order to safeguard them.

During our audit we noted that the fuel tanks at Glen Helen Emergency Vehicle Operation Center (EVOC) had locks which were ineffective because fuel lids



could be unscrewed. The fuel tanks at Chino Road Yard had no locks, and were ungated and unattended. Fuel not properly secured increases the risk of potential theft at the stations.

Recommendation:

We recommend management enforce the County's ICCM regarding the safeguarding of assets, such as fuel. There should be secure locks on all the fuel tank lids.

Management's Response:

I agree with the finding. The EVOG fuel tank is one of six tanks scheduled for replacement during FY 2015-16. Management will be very watchful to ensure that all new tanks meet this specification.

Locks were placed on the Chino Road Yard on November 5, 2015. A placard will be posted, as noted in this audit, that locks are mandated and should be in place at all times. All fuel sites are inspected regularly and during the next cycle, Fleet will assess each tank for similar deficiencies and, if appropriate, take similar actions.

Auditor's Response:

The Department's actions and planned actions will correct the deficiency noted in the finding.

Finding 4: Computer access is not secure for PIN documentation and the Fuel Force program.

According to the County's Internal Controls and Cash Manual (ICCM), Chapter 2, County managers are responsible for safeguarding assets such as fuel. It is the responsibility of management to control the issuance of PIN numbers as this is what enables County employees to obtain fuel. It is also the responsibility of management to control which Fleet employees have access to the Fuel Force program.

During our audit, we noted that all Fleet employees who have access to the Fleet Management's shared drive can view all of the issued Personal Identification Numbers (PIN) for any county employee. In addition, we noted that there are four Fleet Department employees who have full access to the Fuel Force program. These employees have the ability to change fuel limits, issue PIN numbers and change fuel inventory.



Fleet Management employees could use the PIN numbers to retrieve gas under another employees' identification number. Also, employees with unlimited access to Fuel Force are able to change limits and adjust fuel levels in the program. This increases the potential risk of unauthorized fuel being used.

Recommendation:

We recommend that management establish and implement a policy regarding the security of sensitive data files and computer programs. We further recommend that unlimited access to the Fuel Force program be restricted to the minimum number of employees necessary. The PIN excel file should be permission protected and also only be accessed by the minimum number of employees necessary.

Management's Response:

This finding is accurate. PINs should be, and will be, secure! Access to this file was restricted on October 29, 2015 at approximately 5:30 PM. From that point forward, access can only be granted by the Director and must be in writing. Five Fleet employees currently have permission to access this information.

Fleet also assessed all files on the shared "T" drive to determine if additional files contain sensitive data and/or should also have limited access.

Due to the limited (overall) access to Fleet's shared "T" drive, it is unlikely the existing PIN list was compromised. However, Fleet will contact each affected user department to explain the potential for exposure and to obtain their assistance in evaluating the need to reissue their PINs.

In regards to the Fuel Force program, it is accessible by four Fleet employees, the minimum number possible given the requirement for 24/7 coverage.

Auditor's Response:

The Department's actions and planned actions will correct the deficiency noted in the finding.

Finding 5: Segregation of duties needs to be improved.

The County's Internal Cash and Controls Manual (ICCM) Chapter 2 states that no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset. Effective segregation of



duties reduces the risk that any one person could perpetrate and conceal errors and irregularities in the normal course of their duties.

The Equipment Services Specialist I is currently responsible for issuing Personal Identification Numbers (PIN) to county employees. Furthermore, the Equipment Service Specialist I receives all the weekly inventory sheets for the fuel sites throughout the County and he also enters all the fuel levels into the Fuel Force System. There is no secondary or supervisory review of information that is entered to the system. The risk of undetected errors and potential theft of assets increases when duties are not properly segregated.

Recommendation:

We recommend that management reorganize assignments with existing staff to have effective segregation of duties and reduce the risk that any one person could commit and conceal errors or irregularities. We also recommend that a secondary or supervisory review be completed of the fuel levels entered into the Fuel Force system. Lastly, we recommend that an employee other than the person entering the fuel levels into the system issue PIN numbers to County employees.

Management's Response:

I agree with the findings. Duties identified in the audit as being performed by the Equipment Services Specialist I (ESSI) are now segregated as follows:

1. Issuing PINs will be completed by ESS I.
2. Weekly inventory sheets will be received and input in the fuel tracking system by clerical staff in the Business Office.
3. The Fuel section supervisor (or designee, other than the ESS I) will review/validate fuel usage input sheets weekly.

Auditor's Response:

The Department's actions will correct the deficiency noted in the finding.