

County of San Bernardino

**Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section**

Department of Fleet Management: Inventory Controls Follow-Up Audit



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SUBJECT: Fleet Management Department Inventory Controls Follow-Up Audit

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 a follow-up audit of the Fleet Management Department's Inventory Controls for the period of April 1, 2016 through September 13, 2016. The objective of the audit was to determine if the recommendations for the findings reported in the February 4, 2016, *Audit of Inventory Controls* have been implemented. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We have provided a status of the audit findings identified in the original audit report issued on February 4, 2016. Of the 5 recommendations from the original audit report, 1 has been implemented and 4 have been partially implemented.

We sent a draft report to the Department on January 3, 2017. The Department's response to the current status of our recommendations is 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,

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By:



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Fleet Management Department: Inventory Controls Follow-Up Audit

Scope, Objective, and Methodology

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**Prior Audit Findings, Recommendations, and
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Scope and Objective

Our audit examined the Department's Inventory Controls for the period of April 1, 2016 through September 13, 2016.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *Fleet Management Inventory Controls Audit*, issued on February 4, 2016.

Methodology

In achieving the audit objective, the following audit procedures were performed, including but not limited to:

- Reviewing the Department policies and procedures.
- Interviewing Department management and personnel that were directly involved in the inventory process.
- Reviewing system generated reports.



Prior 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.

Current Status: Implemented

Inventoriable items have been added to the FASTER system for proper tracking purposes. Additionally, the Fleet Management Policy and Procedure Manual addresses the monitoring and tracking of inventory items.

Prior 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.

Current Status: Partially Implemented

During our testing of the Department's inventory records, the quantities on the shelf did not match the quantities in the FASTER system for 3 out of 26 parts tested. However, the Department's safeguarding procedures are communicated to Fleet Department employees on a monthly basis.

Management's Response:

Fleet was very disappointed in the results of the follow-up audit, we were, and are, very confident in our inventory processes and control. Department Policy 09-01 mandates a random 10% physical inventory every month. This equates to 120% of the storeroom being inventoried annually. Fleet ardently adheres to this policy and over the past two years the results have always fallen within our tolerance target (max 2% error). The 11.5% error in the follow-up audit was a total surprise and a huge disappointment.

On the positive side of the audit follow-up, it was encouraging to learn that all of the Parts employees are aware of, and review, the department's policy monthly. At least the "culture" of accuracy, concern and awareness of inventory control are in place.

The department agrees with the findings and to improve the chances of identifying weaknesses in our processes, we will augment the monthly random 10% inventories (as outlined above) with weekly random sampling of 20 SKU's drawn from the parts issued or received during the preceding week. We believe this will help us identify where (or who) errors are being made. Weekly and monthly physical inventory results will be posted in the Parts room to further raise awareness.

Additionally, there are two significant changes coming for the Parts Room that will likely bring positive change; The long-time (20+ years) Parts Supervisor will retire in early March 2017 and Fleet is scheduled to migrate from the FASTER system to the County-wide enterprise system SAP by the end of 2017. Each of these are viewed as very real opportunities to review and update all procedures and policies related to the Parts storeroom.



Auditor's Response:

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

Prior 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.

Current Status: Partially Implemented

During our field visit, we noted that the locks have been placed on both fuel tank lids at Chino Road Yard. However, the Glen Helen Emergency Vehicle Operation Center (EVOC) had locks missing from both fuel tank lids. Additionally, we visited Glen Helen Regional Park and noted that the locks were ineffective because the fuel lids could be unscrewed.

Management's Response:

Traditionally, Fuel tank "fill lid" locks were keyed-alike with the dispenser nozzle/hose lock. Fleet believes that either the fuel delivery drivers and/or County employees are not replacing the locks after use and/or misplacing the locks. To help identify which group may be removing and not replacing the locks, the two locks are now different. The "lid locks" are now only accessible by fuel delivery drivers and Fleet Management employees. Lid locks have also been tethered to the lid or the tank to remind delivery drivers to put the lock back on after a fuel delivery. Fleet also created plaques (signs) that will be posted adjacent to fuel tanks to remind everyone of the County Policy requirement to protect inventory (replace the lock after use).



Additionally, Fleet is installing a "motion sensor" camera covering Glen Helen Regional Parks' fuel tank to determine if the added security is possible to monitor security of all County-owned fuel tanks.

Auditor's Response:

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

Prior 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.



Current Status: Partially Implemented

There has been great improvement in restricting access to the Fuel Force Program from the prior audit report. The Department has created a procedure regarding the security of sensitive data files and computer programs. However, eight fleet employees still have access to the Fleet Fuel Force Program, and two of those eight employees still have PIN access in the shared drive.

Management's Response:

The number of Fleet employees with access to Fuel Force has been reduced to a maximum of six. None of these employees have access to the PIN number file on the shared drive. There are only three Fleet employees with access to the PIN number file on the shared drive, none of which have access to the Fuel Force system.

Auditor's Response:

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

Prior 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 anyone 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 anyone 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.

Current Status: Partially Implemented

The Department has reorganized and segregated the duties of the Fleet Management office staff, so that the employees that enter data fuel levels no longer have PIN number access. However, during our review we were unable to determine if the Department has implemented a secondary or supervisory review of the fuel levels entered into the Fuel Force System.

Management's Response:

Fleet has updated and re-published the documentation requiring the Fuel & Security Supervisor to randomly check fuel input sheets against Fuel Force data weekly. A copy of this requirement/process along with the performance and results of the review are on file in the Fuel & Security procedure folder in the Fuel & Security office.

Auditor's Response:

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