



CITY AUDITOR REPORT

Fleet Management & VEF Reserves – Phase I

August 24, 2020

BACKGROUND

Fleet Management was a scheduled project in the Council-approved 2020 Audit Calendar. After the COVID-19 pandemic occurred, accompanied by a state ‘stay at home’ order expected to significantly reduce economic activity and sales tax revenue, this audit’s scope was revised to focus on these **fleet cost and operation elements**:

- The accuracy and reasonableness of the systems used to record and budget for fleet assets and related Vehicle/Equipment Replacement Reserve (VERF) lease fee payments
- Adherence to fleet asset replacement justification and authorization processes, which control the level of expenditures for equipment
- Fleet utilization monitoring methods and processes, which identify unused assets to be sold or salvaged, and ensure acquired assets are in use
- The utilization level of City fueling stations, to ensure the lowest possible fuel costs
- Security practices in place for fleet asset protection, to ensure vehicles and equipment are available for critical operations and services
- The conduct and results of policy-required fleet asset inventory counts to ensure the completeness and accuracy of fleet asset records

Phase II of this audit project is planned for a later date, and will review improvements made by the new fleet software implementation.

AUDIT CONCLUSIONS

- Fleet asset accounting controls have recently been enhanced by management.
 - Enhancements to fleet accounting controls were implemented as part correction of a 2017 \$3 million asset duplication error. This error was recorded and disclosed as a prior period adjustment, emphasized matter, and footnote in the 2018 Comprehensive Annual Financial Report (CAFR).
 - Auditor review of these duplicate entries and related vendor payment activity was performed at the Audit Committee’s request. Correction information provided by management and vendor general ledger bank account activity reviewed **detected no duplicate payments caused by the error**. The impact appears to be to internal service fund balances only.
 - One 2019 **double payment for \$282,000** occurred in 2019; this payment was **detected by management, recovered and reversed. The cause is being researched by Accounting management.**
 - In addition to additional enhanced controls, Audit recommends that **any future entry or payment errors in the VEF be closely evaluated. Should significant errors occur, Audit recommends that management consider additional controls** such as periodically monitoring the overall VEF activity/fund balance, or running duplicate payment queries to prevent/detect overpayment. **See Detail Finding 1.**
 - Enhanced fleet accounting controls will be reviewed later this year in a **planned Asset Capitalization audit project.**

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AUDIT CONCLUSIONS, continued....

- 2019 Fleet additions reviewed were authorized and accurately recorded.
- Vehicle Equipment Replacement Fund (VERF) lease payment calculation methods comply with policy.
- The VROOM report used to budget vehicle lease payment revenue contained management-known inconsistencies at initial review.
 - These have been remedied and management is in the process of reconciling the VROOM report to lease fees charged to ensure lease revenue is correct for budgeting purposes.
- A sample of fleet assets inspected noted **one exception related to a low cost non-capital asset purchased in 2001**. It is expected Vehicle Maintenance's fleet records will be refreshed when new fleet software is implemented.
 - The newly created details will be verified in the planned **Phase II** fleet audit project after implementation; no corrective controls to address the issue are requested based on this. **See Detail Audit Finding 2.**
- Justification, review and approval of asset retirement/replacement is compliant with City policy.
- Monitoring of fleet assets for potential underutilization is compliant with City policy.
 - Utilization monitoring capabilities will be enhanced by the fleet management system upgrade.
- Visually inspected fleet assets were noted to be secure, with restricted/protected access behind fences or in buildings where possible. Consistent use of vehicle locks with appropriately secured keys was also observed.
- Fleet use of City fueling stations is consistent and minimizes retail fuel markup costs for the City.
 - Review of the limited gasoline purchase activity at retail outlets noted reasonable use to optimize asset availability and service delivery.
- The full fleet inventory due every three years (per the provisions of Administrative Regulation F-07, 2.1.) was deferred until 2020, due to Fleet Maintenance's 2019 conduct of an interim inventory as part of a software upgrade. **See Detail Audit Finding 3.**
- The most recent full inventory count was conducted by former Accounting personnel in 2016. Documentation of this count confirms it occurred, but was **not sufficient to enable review of count exceptions and their resolution**. The **effectiveness of the control could not be evaluated** due to this. Audit recommends that Finance take steps to ensure retention of count documentation for all future inventory counts. **See Detail Audit Finding 3.**
- **Asset retirement processing controls** will be reviewed in conjunction with the future planned **Phase II** Fleet Management audit project.

The Auditor appreciates the assistance, time and expertise provided by the Resource Management and Vehicle Maintenance teams throughout this project. Audit also thanks the Police, Parks, Fire, Utilities, and Engineering departments for their assistance inspecting fleet assets..

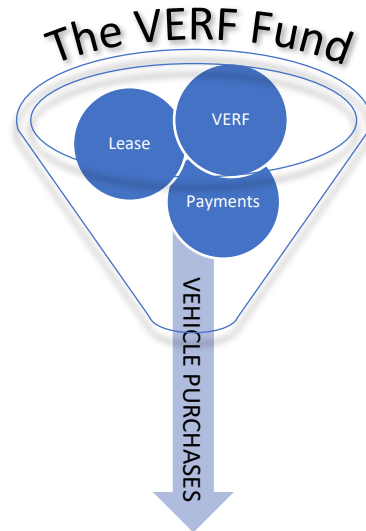
INTRODUCTION AND OVERVIEW

Olathe’s machinery and equipment fleet is essential to deliver critical services to the community. The 2019 Comprehensive Annual Financial Report (CAFR) indicates the financial value of the fleet is approximately **\$86.2 million dollars**. Since fleet assets are usually mobile, they are subject to higher physical damage and theft risks.

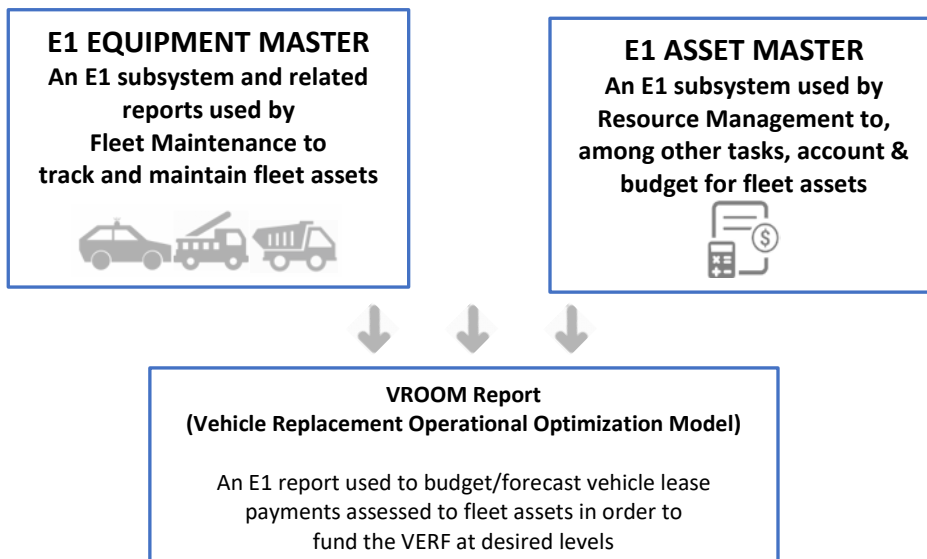
Fleet assets are located across City locations, and are in the custody and use of various departments. Scheduled and as-needed repair and maintenance of the fleet is performed by the Vehicle Maintenance team within the Field Operations department of Public Works. Fleet records for financial and budgeting use are maintained by the Accounting and Budget team within Resource Management.

The internal service fund created specifically to fund most planned fleet purchases is the **Vehicle and Equipment Replacement Fund (VERF)**. The VERF had a fund balance of **\$35.6 million at 12/31/19, containing \$5.8 million in cash/cash equivalents**. The VERF funds fleet purchases by:

- charging departments lease payments for current fleet assets on a monthly basis,
- accumulating these payments for future purchase and/or accessory additions to fleet assets, and
- making purchases for selected vehicles/equipment replacements proposed by Fleet Management, reviewed by the Executive team, and approved by the City Council.
- Budget also incorporates planned VERF fund use into the budget forecast.



Several automated E1 subsystems and reports are used to support fleet functions; these are described below and referred to in the following **Detail Audit Findings** section of report:



DETAIL AUDIT FINDINGS AND COMMENTS

1. Fleet Vehicle Replacement Fund Controls

In 2019, management discovered and corrected a \$3 million 2017 duplicate fleet asset error, resulting in a prior period adjustment to the 2018 Comprehensive Annual Financial Report (CAFR).

- The error overstated VERN Internal Service Fund 2017 net capital, total assets, net position, and operating income, and occurred due to an error in the 2016 year end closing process.
- Management provided error and correction information, and Audit reviewed related vendor payment and general ledger bank account activity. No evidence of duplicate payments was detected. Based this review and information furnished by management, it appears only the VERN fund was affected.

Accounting management responded proactively to the error by implementing enhanced controls designed to achieve:

- appropriate, approved use of VERN funds
- accurate and complete fleet vehicle project costs
- accurate use of fleet asset project cost and lease fee revenues in the budget forecast
- fleet vehicle project-level spending within budgeted amounts
- proper identification, recording and capitalization of fleet vehicle projects as they are placed in service
- closure of completed vehicle projects to prevent incorrect recording of additional/duplicate costs

After reviewing the 2017 error, 2019 correction and resulting enhanced controls, **Audit considered the following other factors:**

- one additional **2019 VERN overpayment for \$282,000 caused by a purchase order error** was noted; this payment was **detected and recovered**. The cause is under research by Accounting personnel.
- **VERN lease payment revenues:**
 - are budgeted using the E1 automated VROOM report, which contained **since-corrected inconsistent data upon initial audit review**
 - **vary from year to year as lease terms expire**, to calibrate VERN fund levels
 - **are not typically monitored during the year**; management relies on the payments' monthly automated calculation and posting
- cost allocation for some multi-asset projects is developed by exporting data from E1, then manually allocating data to each individual asset
- Any VERN misstatements/unexpected fluctuations **could impact fleet purchase strategies**
 - VERN funding levels and the accuracy of VERN records may be increasingly important in periods of reduced revenue

Audit recognizes the substantial effort and initiative by Accounting Management to strengthen fleet asset controls. If *future* fleet asset vendor overpayment, lease fee revenue, or cost errors occur, Audit recommends that management consider additional monitoring controls, such as:

- periodic monitoring of the fund balance during the budget year, and/or
- using a duplicate payment query control to assist with preventing or recovering overpayment

No response is requested related to fleet asset and VERN accounting controls at this time.

2. Vehicle Maintenance Equipment Master Records

A sample of fleet assets listed on Vehicle Maintenance's Equipment Master (EM) records was physically inspected. This sample spanned 5 departments and represented roughly 5% of fleet assets. The inspection noted:

- Minor variations in asset descriptions (such as color or manufacturer model number)
- A sprayer purchased for approximately \$1,200 in 2001 could not be located

The above inspection results are not viewed as significant exception levels. Additionally, the upcoming fleet management software implementation and planned 2020 full fleet asset inventory count (**see Detail Finding 3., below**) are expected to further ensure the completeness and accuracy of Vehicle Maintenance fleet records. **A Phase II** audit project will review the new system's records, processes and controls. **Due to this combination of factors, no response is requested or considered necessary for this finding at this time.**

3. Full Fleet Asset Inventory Count (Vehicle and Equipment Replacement and Disposition Policy, Administrative Regulation F-07, section 2.0; applicable policy text is at Appendix I).

Current City Administrative Regulation **F-07, section 2.0** establishes requirements for periodic fleet asset inventory counts. The policy prescribes:

- physical inventory of all fleet assets to be directed by Strategic Financial Management every three years
 - (Strategic Financial Management (SFM) is comprised of the Purchasing Manager, Accounting Manager, and Budget Manager within the Resource Management group)
- an annual inventory verification conducted by Fleet Management and departments in interim years

Strategic Financial Management opted to delay the full physical inventory count due in 2019 and rely on Vehicle Maintenance's interim count done for software implementation purposes. To review three year all asset physical inventory compliance, **Audit requested records of the most recent count in 2016.** Records support **the 2016 all asset count was performed** by former personnel, but do not contain information detailing count results (such as exceptions or corrections noted).

Based on this, Audit concludes:

- the 2016 all asset inventory count appears to have been performed in compliance with policy;
- **an overall conclusion** on the **effectiveness** of the last physical count **cannot be formed** due to lack of documentation on count exceptions and corrections
 - Discussion determined Accounting management is relying on annual asset disposal entries recorded for inventory count corrections of any assets not located. A potential different type of exception - assets located but not recorded in E1 records - would not be corrected/addressed by disposal entries.

Audit recommends that SFM personnel improve retention of upcoming 2020 all asset count documentation - including assets and locations counted, count exceptions noted, and any adjustments/corrections made.

3. Full Fleet Asset Inventory Count (Vehicle and Equipment Replacement and Disposition Policy, Administrative Regulation F-07, section 2.0), continued...

MANAGEMENT RESPONSE:

Resource Management acknowledges that components of the documentation from the 2016 inventory count could not be located. There was a transition in accounting personnel and back-up documentation was not retained in established network folders. Management will work with staff and communicate documentation requirements. Management will verify proper documentation is retained going forward.

The City is in the process of implementing new fleet management software and using the RSC Communications – GoTrack technology on vehicles. The tracking technology allows for vehicle tracking such as location and the City currently has 256 vehicles on this software. Staff will update the Vehicle and Replacement Fund Administrative Guideline to reflect the utilization of the new software in the financial planning process, asset management, and inventory process

APPENDIX I:

POLICY F-07, VEHICLE AND EQUIPMENT REPLACEMENT AND DISPOSITION POLICY
Section 2.0, applicable to Annual Fleet Inventory

2.0 ANNUAL FLEET INVENTORY

2.1 By November 30 of no less than every third year, with verification during the interim years, a physical inventory of all fleet assets shall be completed at the direction of SFM.

2.2 By December 20 of each year, SFM shall distribute an inventory of all fleet assets to the Fleet Manager and to each department.

2.3 By January 15 of each year, the Fleet Manager and each department shall verify the accuracy of the inventory and return it to SFM. The final inventory shall include: asset number, description of asset (make, model, year), division or program the asset is assigned, and the mileage or hours of operation.

2.4 By March 31, SFM shall finalize the City-wide fleet asset inventory and distribute it to user departments and the Fleet Manager. SFM shall cross reference the submitted inventories with the previous year's records to ensure all assets are included in the final inventory.