



CITY OF WILMINGTON

Fleet Management

Internal Audit Review

February 9, 2018

City Auditor's Office

Terence J. Williams
City Auditor
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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of Fleet Management. The audit was in accordance with the 2016 Internal Audit Plan.

Methodology

The objectives were met thru discussions with City personnel, the review of the City's vehicle maintenance contract, and the review of processes and transactions related to the purchase, maintenance, disposal, fueling, replacements, taxation, assignment and financial recording of City Motor vehicles.

Audit Review Committee:

Robert C. Johnson, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

As part of our audit plan, we conducted a Performance Audit of Fleet Management for the period commencing July 01, 2014 and ending October 31, 2015. Our objective was to determine whether operating procedures and internal controls are documented and reasonably sufficient to provide adequate assurance against identified risks; to determine whether operating procedures and internal controls are operating effectively; to determine whether the City's assets (Motor Vehicles) are safeguarded against loss; to determine whether transactions related to the purchase, maintenance, disposal, fueling, replacements, taxation and financial recording of the fleet are processed in accordance with the City of Wilmington's established policies and procedures; and to determine whether the practice of assigning City vehicles to individuals, including take home and type of vehicle assigned, authorized number and type of vehicles actually assigned in each department. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Authorization process for City drivers

Some City personnel receive driving privileges as a result of their job classification. For instance, the job classification for sanitation vehicle drivers stipulates the driving of a City sanitation truck as a part of the employees' day-to-day duties.

When driving is not a direct requirement of employment, department heads can request driving privileges for City personnel. These requests should be sent to administrative-level personnel in Human Resources.

Before City personnel are provided with access to a vehicle, City policy 605.4 "Motor Vehicle" requires that each driver successfully complete either a driving orientation course or a defensive driving course. In addition, City personnel must provide a copy of their driver licenses and allow Human Resources to complete a background check on their driving history.

During an authorized driver's term with the City, policy requires that supervisors routinely inspect driver licenses for validity. Per section II. C. ("Driver Qualifications") of City policy 605.4 ("Motor Vehicle"): The Human Resources Department will conduct periodic checks on employees authorized to use City vehicles. Supervisors should visually inspect driver's license every six (6) months to check its validity and to review any restrictions, such as corrective lenses, daylight driving only etc. imposed on the driver as a condition of being licensed. In addition, Human Resources are required to periodically check driver records. Any issues with a driver's status can result in the suspension of the driver's privileges.

Take home vehicles

Per City policy "Motor Vehicle Tax" (603.2) and the fringe benefit rules in IRS publication Part B, the personal use of a take home vehicle is a taxable fringe benefit. Personal use includes the value of commuting to and from a place of work in the City vehicle. The fringe benefit requirements apply to civilian drivers and do not apply to drivers of clearly marked police or fire vehicles. During the audit, Human Resources provided IAD with a December 21, 2015 listing, which recorded 20 civilian drivers with take home vehicles.

Composition of the City fleet

During the audit, IAD received an October 27, 2015 inventory listing from First Vehicle Services, Inc. (occasionally, hereinafter, "FVS") a third party that services City vehicles. Based on the inventory list provided, the City's Fleet composed of 706 vehicles and pieces of equipment. The structure of the fleet ranged from sedans, trucks, sports utility vehicles (SUV), and buses to mowers, sweepers, trailers, command units, and fire suppression apparatuses. The total cost of all units purchased in the City's fleet was recorded as over \$27 million.

Vehicle maintenance and repair

During the audit period, the Director of Operations in Public Works provided supervision over the City's fleet. By contract, First Vehicle Services, Inc. (FVS) provides preventive maintenance and repair services for City vehicles. The contract between the City of Wilmington and FVS consists of the following documents:

- The Fleet Management and Maintenance Contract (10/01/09)
- The City of Wilmington's Fleet Maintenance and Repair Services Request for Proposal (RFP) (PS09010; 12/31/08)
- FVS's Technical and Cost Proposals (02/17/09)
- The 1st Contract Extension (09/01/14)
- The 2nd Contract Extension (09/10/15)
- A Contract Amendment (08/18/16)

In some instances, work is outsourced by First Vehicle Services to other vendors. In order to ensure that the terms of the contract between the City and First Vehicle Services are met, the work performed on City vehicles and all related invoices are assessed by the Director of Operations.

Purchases and disposal of vehicles and equipment

During the audit period, purchases and disposals were performed in conjunction with City departments, the Director of Operations in Public Works, managers with First Vehicle Services, Inc., and a manager from Mercury Associates, Inc., another third party that provides assistance with the fleet management process.

Concerning purchases, an overall budget of approximately \$3.2 million was established for fiscal years 2015 through 2016. The budget and purchases are recorded "Automotive Equipment." under the "Motor Vehicle" fund. For fiscal years 2013 through 2015, there was a net cumulative budget surplus of approximately \$6.2 for "Automotive Equipment."

Concerning disposals, auctions are the primary method of disposal. Procurement handles the scheduling of auctions. Before vehicles are auctioned, equipment and City logos are removed. Once a vehicle or piece of equipment has been auctioned, the City receives a check for the net proceeds from the auction house.

Fueling of City vehicles

Fueling of vehicles is largely performed at City facilities such as the Municipal Services Complex, the Public Safety Building, and Willington Fire Department stations. The fuel pumps at the Municipal Services Complex and Public Safety Building utilize the FuelMaster system. FuelMaster grants some drivers the ability to use fuel pumps through their City issued proximately badges. In order to gain access to fuel, drivers with badge access swipe their badges next to readers on the pumps. As a part of the badge access fueling process, wireless frequency equipment in City vehicles transmit information such as mileage to the FuelMaster software in the fuel pumps.

For those drivers who do not have badge access, keys are used to access terminals in the fuel pumps. In order to use the pumps, drivers are prompted by the terminal to input identifying information about themselves and the vehicle.

Regardless of the manner of fueling, FuelMaster records the amount of gallons dispensed. During the audit period, fuel usage was tracked by specific departments. However, there were also instances where the fuel pumps were placed on manual override. When the pumps are placed on manual override, the tracking feature by department is disabled.

Motor vehicles incidents

City policy 602.5 “Employee Incident Report” requires that drivers contact their supervisor when a motor vehicle incident occurs. For each incident, policy requires that the driver and supervisor complete specific reports. These reports must be submitted to the Occupational Health, Safety, and Loss Prevention Program and Risk Management. According to City policy 602.5 “Employee Incident (Injury/Accident) Report,” City personnel and supervisors must complete a City “Accident Report” and a “Supervisor's Incident Investigative Report” for all motor vehicle incidents that result in damage.

Claims for motor vehicle incidents are coordinated between Risk Management, First Vehicle Services, Inc., and PMA Management Corp (PMAMC), the third party who processes all risk management claims on the behalf of the City.

Accounting entries for City vehicles

Finance performs the accounting entries for the City fleet assets with the assistance of First Vehicle Services, Inc. In addition, Mercury Associates calculates the direct and indirect motor vehicle costs, which will be allocated to the City’s various departments. Motor vehicle costs for individual departments are based on fueling reports and service reports provided by First Vehicles Services, Inc. to Mercury Associates. A manager at Mercury Associates provides a Senior Accountant in Finance with the monthly motor vehicle cost amounts to record. At fiscal year end, the Senior Accountant also records a journal entry, which nets motor vehicle gains against motor vehicle costs.

Key Statistics:

Key Statistics	FY15	FY14	FY13	FY12	FY11	FY10	FY09	FY08	FY07	FY06	Prior to 2006
Units in Service	40	51	86	79	53	88	80	69	34	50	76
% of Total Units	5.67%	7.22%	12.18%	11.19%	7.51%	12.46%	11.33%	9.77%	4.82%	7.08%	10.76%

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

<i>Risk Ranking:</i>		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1	2	3	4
		Strong Controls	Controlled Effectively	Controlled - Improvement Required	Significant Improvement Required
Contract Compliance	Vincent Carroccia				√
Record Retention	Vincent Carroccia Charlotte Barnes Bruno Battaglia				√
User Access	Demond May				√
Cash receipts	Vincent Carroccia			√	
Fixed Assets	Vincent Carroccia			√	
Reporting	Vincent Carroccia			√	
Underutilized Vehicles	Vincent Carroccia			√	
Vendor Payments	Vincent Carroccia			√	

Contract Compliance

1. Inconsistent controls exist surrounding how services were performed, billed and paid versus what is required in the contract. The City was overcharged for the following services that should have been covered under the Fleet Management (FM) Contract for costs related to the decommissioning vehicles, the preparation of vehicles for auction the billing of snow-related services.

There were also other discrepancies with the billing of snow related services, due to targeted costs such as tire chains, replacement wipers damaged by snow and snow plow repairs being submitted and paid by the City of Wilmington (CoW) as non-targeted costs totaling approximately \$2.3 K, although FVS should have been responsible for the expenses.

2. Noncompliance exists with contract terms and conditions surrounding incentive payouts, due to non-covered categories being submitted and paid. Two discrepancies were noted involving incentive pay, due to nonexistent pay categories being submitted and paid which is a violation of the contract
3. Control weaknesses exist surrounding FuelMaster usage. Fueling data was not tracked by vehicle or department and fueling data was lost. In addition, unauthorized personnel can place fuel pumps on manual override without obtaining authorization from Management.

4. Noncompliance exists surrounding ensuring that approvals were obtained for work orders that exceeded \$500. A total of 25 non-target work orders that exceeded \$500 were tested. For example, 24 of 25 (96%) work orders, had one of the following exceptions: documentation of late approval by the CoW, illegible documentation concerning the date of approval and no documentation evidencing pre-approval.

Record Retention

5. Controls need strengthening surrounding record retention, due to binding Legal agreements between the CoW and third parties not being available for review. No authorized contracts could be obtained for Delaware Car Company or the Riverfront Development Corporation (RDC).
6. Noncompliance exists with City Policy #602.5, due to Employee Incident Reports not consistently being completed and unsecured transmissions of accident information occurring. One (11%) of nine motor vehicle incident reports was not completed in its entirety, as required by City Policy. Risk Management submitted unsecured motor vehicle incidents via e-mail to PMAMC which is a third-party administrator.
7. Noncompliance exists with City Policy 605.4 "Motor Vehicle," due to driver files not consistently having the appropriate supporting documentation in the records. Twenty-eight out of 28 (100%) files did not have verification of periodic checks occurring every six months which could ensure there were no restrictions such as daylight. Three out of 28 (11%) employees selected for detail testing did not have a driver license in their personnel file.
8. Due to Public Works not being able to provide records upon request, controls need strengthening surrounding maintaining supporting documentation for scrap metal. Management was not able to provide documentation concerning the amount of scrap metal that was inventoried during the audit period and was not able to provide figures on the amount of scrap metal provided for disposal.

User Access

9. Controls need strengthening regarding obtaining a signed interconnection security agreement, to access the City's network. FuelMaster which is a third-party vendor currently accesses the City's network although they have not completed an interconnection security agreement.

Cash Receipts

10. Weak controls exist regarding how cash receipts obtained at auctions were handled. Three (60%) of five checks examined from vehicle auctions had excessive lag dates of 17 to 20 days from when the checks were received versus when they were deposited. Checks could not be locked in a safe as required because the combination was lost. A lack of segregation of duties (SOD) was noted because a Senior Accountant in the Finance Department responsible for receiving checks from auctions also had bookkeeping responsibilities.

Fixed Assets

11. Inadequate controls exist surrounding how fixed assets were being depreciated because the wrong schedules were being used. Purchases in fiscal year 2016 were not recorded in FAS in a timely manner. FAS records were not accurate. Also, depreciation guidelines and rates are not consistent, and the depreciation expense for buses is high.

Reporting

12. Controls need strengthening surrounding Motor Vehicle expenses that were recorded without proper verification by Public Works Management. Expenses that were calculated by a third-party (Mercury Associates) were not formally confirmed by Public Works management as accurate before the costs were recorded by Finance.

Underutilized Vehicles

13. Weak controls exist surrounding monitoring the utilization of vehicles. Vehicles were designated to departments without operational justification. Seven (7) Low usage vehicles were identified by calculating the average mileage per year.

Vendor Payments

14. Controls need strengthening regarding how the CoW monitors vendor payments such as toll transactions. At the time of this review, the CoW did not verify whether toll transactions were for legitimate business purposes.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Public Works management should continue to ensure that the CoW does not overpay for parts or pay services that are already covered by contract fees. In order to assist with the payment process, Public Works management should request that First Vehicle Services (FVS) management provide a fuller description of the circumstances behind non-target work orders.

Public Works management should ensure that contracts accurately describe the terms of services expected by the successful bidder. Any discrepancies between the expected practices of successful bidders and specific contract terms should be reconciled by Public Works management in future Request for Proposal (RFP's).

Concerning operator errors, Public Works management should communicate instances of vehicle and equipment damage. Public Works should notify management from the respective areas responsible for the damaged vehicles or equipment so that an Incident Report can be completed.

Agree

Management response & action plan: CoW has stream lined the process in the new agreement. The noted issues were addressed and corrected with the new agreement. For example, preparation of vehicles for auction is clearly defined and the charges are also defined. Other similar issues are brought to clarity in the proposed document.

One final element to the upcoming new system, the CoW will have a Contract & Fleet Administrator in place whose primary function is to ensure all aspects of the contract are understood and complied with. The Contract Administrator (CCA) will also be solely responsible for the approval of any and all costs outside those covered by target services. Any audit concerns will be reduced to this primary source.

Completion Date: Completed.

Recommendation #2: Public Works management should ensure that payments are following the contract terms.

Agree

Management response & action plan: Management will ensure that this will be remedied in the new RFP since there is no incentive pay. Now there is a penalty, if the target is not met.

Completion Date: September 30, 2017

Recommendation #3: Public Works management should ensure that fueling is tracked by vehicle. In addition, Public Works management should continue to work with the Department of Integrated Technology (DOIT) and the outside FuelMaster servicing vendor to resolve and prevent all technical issues. Finally, Public Works Management should restrict keys that provide access to the manual override feature on fuel pumps to management level personnel alone.

Agree

Management response & action plan: Public Works is working with IT to migrate the FuelMaster database to a SQL server on the CoW's network that will be backed up offsite daily.

Public Works is in the process of moving to a new version of the FuelMaster system with 2.4 GHz modules that should eliminate some of the technical issues we've encountered.

FVS has been instructed by the CCA that in the event of a failure requiring the FuelMaster System to be placed in manual mode, the CCA will be notified immediately via email or phone.

Completion Date: January 31, 2018

Recommendation #4: The Public Works Management and FVS should adhere to the terms of the contract. Supporting documentation should be maintained for all work orders.

Agree

Management response & action plan: This is remedied in the new RFP since all non-target work over the limit will be approved with electronic signature.

Completion Date: Completed.

Recommendation #5: CoW Management should work with its Law Department, in order to ensure that contracts for services provided by a third-party vendor are drafted and signed by both an authorized City and third-party representative; and retained on file, in accordance with the CoW's Record Retention Policy.

Agree

Management response & action plan: Public Works entered into an agreement with RDC for the sale of fuels on June 8, 2017.

Completion Date: Completed.

Recommendation #6: The Department of Human Resources should ensure that CoW policy 602.5 "Employee Incident Report" is followed for all incidents or the policy should be updated to reflect current practices. If the policy is updated, care should be taken to ensure that the documentation, which is required by the current "Employee Incident (Injury/Accident) Reports," is provided through substitute measures.

Human Resources Management should start transmitting all motor vehicle accident information to PMAMC in a secure manner, in order to protect the confidentiality of information.

Agree

Management response & action plan:

Incident Reports

The Occupational Health and Safety Manager works diligently to ensure incident reports are completed for motor vehicle incidents. Reminders are sent to supervisors / managers requesting submission of missing reports. Human Resources is considering recommending disciplinary action for failure to complete / submit incident reports.

Unsecured Transmission of Accident Information

Integrated Technologies is in the final stages of implementing secure email capabilities for all employees. Once finalized, confidential documents will be transmitted by secured email.

Completion Date: January 31, 2018

Recommendation #7: Overall, Human Resources management should enhance documentation in order to ensure compliance with the “Motor Vehicle” Policy. To evidence compliance with CoW policy, Human Resources Management should maintain signed authorizations for driving privileges on file for each driver. It is further recommended that Human Resources Management ensure that copies of all current valid driver licenses be kept in the personal files of all City, Wilmington Fire Department (WFD), and Wilmington Police Department (WPD) drivers.

In accordance with CoW Policy, checks on all City, WFD, and WPD driver records should be performed on a periodic basis. Human Resources Management should maintain documented proof of these checks on file along with current driver records.

Based on these checks, the authorized driver list should be updated. Prior to update, Human Resources Management should preserve a historical copy of the authorized driver list on file.

Finally, it is recommended that Human Resources Management require drivers to complete refresher driving courses on a periodic basis.

Agree

Management response & action plan: At the outset, it should be noted that Motor Vehicle Policy 605.4 is outdated and has only been minimally revised since inception. A comprehensive overhaul of the policy is pending approval by the Administrative Board. It is anticipated the policy will be submitted to the Administrative Board for adoption during the first quarter of 2018.

Human Resources will maintain documented authorization for employees who are authorized by management or the Mayor’s Office to drive City vehicles.

Effective immediately, the Manager of the Employment Services Division will ensure documented proof of review for non-uniformed employees. There is a binder that includes the historical records of all previously approved authorized drivers.

In addition, the department has direct access to Delaware DMV records, and will continue to perform license verification minimally on an annual basis.

Procedures will be implemented to ensure the verification is documented.

Human Resources will also conduct a comprehensive review of the list to determine if some employees need to be purged from the driver list. Further, the department will work diligently to ensure accurate files are maintained on course attendees.

Completion Date: March 31, 2018

Recommendation #8: Public Works Management should establish and follow a formal written policy concerning the inventory, disposal, and reimbursement process for scrap metal and adequately track scrap metal inventories.

As per City of Wilmington, Delaware code section Sec. 6-116 (d) (“Sales of unserviceable personal property”) Public Works should coordinate with Procurement for the disposal of scrap metal.

Also ensure that the amount of scrap metal provided for disposal is adequately documented, and that all the proceeds for scrap metal disposals are received and deposited in a CoW bank account in a timely manner.

Agree

Management response & action plan: The new Fleet Maintenance RFP addresses scrap metal related to the activities of the fleet maintenance vendor.

Public Works does not have staff available to monitor the daily scrap metal being disposed of in the on-site dumpster.

Completion Date: September 30, 2018

Recommendation #9: DOIT Management should consider drafting a formal policy concerning network interconnection security. The policy should be based on industry guidelines like the ones specified in the National Institute of Standards and Technology (NIST) document “Security Guide for Interconnecting Information Technology Systems (August 2002. Online. 09/12/16).”

Agree

Management response & action plan: Management currently has vendors sign an acceptable use agreement when there is account usage, however this must be improved.

Management will resolve the issue of not having a third-party interconnection security agreement. The IT department will work with the Law department to add an addendum to our new and existing contracts that vendors requiring third-party network access will sign. Pending review, by the Administrative Board.

Completion Date: January 31, 2018

Recommendation #10: The Department of Public Works should request that auction houses be required to send checks for auction proceeds to a lockbox. If a check is received by Finance, the check should be handled by an employee in Finance who does not have bookkeeping abilities. This designated individual should take the check to the Revenue department in a timely manner.

Finally, it is recommended that Public Works Management retain the combination to the safe at the Vehicle Maintenance building in a secure manner.

Agree

Management response & action plan: The Division of Procurement and Records in the Finance Department is responsible for the disposal of motor vehicles. The process for disposal has recently changed from the use of Utility Auctions to the use of a web site GovDeals.com. Checks no longer come to First Vehicle Service (FVS) or Public Works. Any checks that are inadvertently received by FVS or Public Works will immediately be taken to Customer Service in Finance for deposit. There is no need for the safe at the Holloway Building and it won't be used in the future.

Completion Date: Completed

Recommendation #11: First, Finance should update fixed asset records on a regular basis. Second, Finance should periodically perform reconciliation between FAS and First Vehicle Service's inventory records. Third, Finance and Public Works should work together to establish an updated schedule of depreciation rates by asset class. Lastly, the depreciation rate for buses should conform to industry guidelines.

Agree

Management response & action plan: Public Works would have no problem working with Finance to determine deprecation rates by asset class if requested.

Completion Date: This would be a Finance decision.

Recommendation #12: Prior to the recording of "Motor Vehicle expenses," Public Works Management should review and approve of the expenses proposed by Mercury Associates prior to Finance booking the transactions.

Agree

Management response & action plan: Management will ensure that the Administrative Internal Service functions be consolidated into one new City Department (similar to the State of Delaware model) called “General Administrative Services”, and that the chargeback system be eliminated completely. The Administrative Internal Services are Data Processing, Document Management, Mail Service, Duplication, Mapping & Graphics, Communications, and Motor Vehicle.

Completion Date: TBD

Recommendation #13: Public Works management and the Office of Management and Budget (OMB) should work together on each department’s budgeting process for vehicles. Public Works management should help ensure that vehicles are not be budgeted and distributed to areas, which do not have a consistent operational need for vehicle usage. Where possible, Public Works management should remove underutilized vehicles from departments and provide access to loaner vehicles for these areas.

Agree

Management response & action plan: At the request of the Mayor’s COS, Public Works is having a Fleet Rightsizing Study performed over the next several months with the intent to determine the proper City of Wilmington fleet size and phase out vehicles as determined by the study and dispose of as many vehicles as is possible.

Non-uniformed vehicles were already removed and decommissioned. Waiting on a decision from the Mayor and Chief of Staff on uniformed vehicles.

Completion Date: March 31, 2018

Recommendation #14: Public Works Management should haphazardly monitor vendor payments to ensure they correspond with legitimate business purposes. Management should also ensure that any transactions, which do not correspond to a legitimate business purpose, are reimbursed to the CoW by the employee.

Agree

Management response & action plan: Management has discontinued assignment of EZ Passes by Motor Vehicle to users.

Completion Date: Complete

Audit Team

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