

OFFICE OF THE CITY CONTROLLER



**FLEET MANAGEMENT DEPARTMENT (FMD)
AUDIT FOLLOW-UP PROCESS REPORT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

September 25, 2018

The Honorable Sylvester Turner, Mayor

**SUBJECT: Report #2019-05
Fleet Management Department (FMD) – Ongoing Audit Follow-Up Process**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by FMD management, as they relate to *Audit Report #2010-18*, titled, "*General Services Department – Fuel Management Performance Audit*" and *Audit Report #2016-07*, titled, "*Fleet Management Department – Vendor Contract Performance Audit of Genuine Parts Company (NAPA)*". As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

The Audit Division (Division) Audit Follow-Up Process uses a risk-based approach, which contains two primary components:

- Management Status Updates and
- Audit Testing/Verification.

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.²

- There were a total of thirteen (13) findings issued under Audit Reports 2010-18 and 2016-07 that were the responsibility of FMD. Although nine (9) findings were included in Audit

¹ IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c(4)

GAGAS Appendix I Supplemental Guidance A1.08 states "*Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for.... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations...*"

² See Exhibit 1 for the Detailed Remediation Assessment, 2018 Audit Follow-Up Procedures



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Report 2010-18, we determined that three (3) of them were the responsibility of another department. Compliance has been achieved with the remediation and closing of all thirteen (13) findings.

- In reviewing the department's remediation processes associated with the thirteen (13) findings, we concluded – the overall assessment to be **Adequate**.

We would like to thank the Fleet Management Department for their cooperation during the audit follow-up process.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Victor Ayers, Director, FMD
WeiYao Chang, Assistant Director, FMD
Marchelle Cain, Deputy Assistant Director, FMD
Marvalette Hunter, Chief of Staff, Mayor's Office
Shannan Nobles, Chief Deputy City Controller
Courtney Smith, City Auditor, Office of the City Controller



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EXECUTIVE SUMMARY

BACKGROUND

The Office of the City Controller's Audit Division (The Division) has completed its FY2018 follow-up procedures related to remediation efforts performed by Fleet Management Department (FMD) management, as they related to Audit Report #2010-18, titled, "General Services Department – Fuel Management Performance Audit" and Audit Report #2016-07, titled, "Fleet Management Department – Vendor Contract Performance Audit of Genuine Parts Company (NAPA)". As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

The Division's Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the City as a whole (High, Medium, and Low). Our continuous follow-up process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal that alerts the Division when received. This information is then assessed by the follow-up auditor, who considers (1) responsiveness to the original issue and (2) remediation of the issue. A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

FIELDWORK/TESTING VERIFICATION:

The information received through management status updates is used as a basis for follow-up testing. Additional supporting information is gathered by the follow-up auditor if it is needed to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed (Adequate or Inadequate). A rating of **Adequate** indicates the department has processes in place to sufficiently monitor and address issues identified. The department demonstrates this by having either remediated (if the finding is Closed) or is exhibiting progress in the remediation efforts

¹ IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations..."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c(4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for... addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."



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(if the status is Ongoing). An **Inadequate** rating is assessed when the status of the findings is not as reported by management and/or the issues have not been addressed as stated in a status update.

AUDIT SCOPE AND OBJECTIVES

The objectives of our Follow-Up Procedures were to determine:

1. The status for each open item and
2. The adequacy of the department's remediation process in place to resolve its universe of open findings.

PROCEDURES PERFORMED

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management's status updates to open findings;
- Determined the findings for which management's status updates indicated remediation;
- Determined and requested the documentation necessary to support the findings status reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

AUDIT METHODOLOGY

We conducted Follow-Up Procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and The International Standards for the Professional Practice of Internal Auditing as promulgated by The Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSIONS

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards:

Conclusion 1 – (Audit Objective 1)

There were a total of thirteen (13) findings issued under Audit Reports 2010-18 and 2016-07 that were the responsibility of FMD. We determined that three (3) of the findings issued under Audit Report 2010-18 were the responsibility of another department. All thirteen (13) findings were remediated and closed based on actions taken by management to address each. See Exhibit 1 for the detailed remediation assessment.

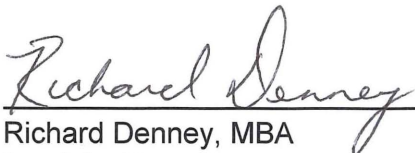


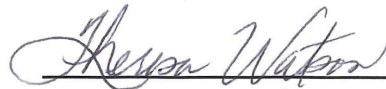
Conclusion 2 – (Audit Objective 2)

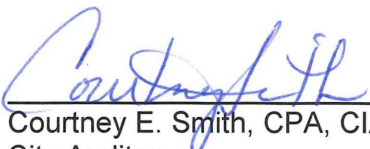
In reviewing the department's remediation efforts, we concluded that the processes implemented by them to remediate all thirteen (13) open findings were **Adequate**.

ACKNOWLEDGEMENT AND SIGNATURES

We would like to thank the Fleet Management Department for their proactive approach to risk management and their cooperation during our follow-up process.


Richard Denney, MBA
Lead Auditor


Theresa Watson, CIA
Manager


Courtney E. Smith, CPA, CIA, CFE
City Auditor

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Project: FY 2018 Follow-Up
Fleet Management Department - FY 2018 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY 2018 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/Closed	Remediation Process
2010-18	Fuel Related Administrative Procedures	The existing AP 5-1, Centralization of Vehicle Fuel Purchases, effective March 6, 1986, needs updating. Additionally, the City does not have a formal written SOP to distribute to the 94 fueling sites regarding the operation of fueling stations; an SOP will provide consistency of operations and improve compliance with laws and regulations	<p>Updated Response: 3/9/2018</p> <p>FMD Response: AP 5-1, Centralization of Vehicle Fuel Purchases was revised effective, October 1, 2011. FMD Fuel Management now handles operations and compliance with all regulations for the fuel sites. The sites have been inspected by TCEQ 74 times since FY2015 which resulted in a 100% pass-rate. FMD has created a SOP for all City of Houston Fuel Sites in 2014. Since then, there are additional fleet consolidation and several operations changes. FMD is in the process of updating that SOP.</p> <p>Updated Response: 4/10/2018 FMD has revised their Fuel SOP for all fuel sites effective 04/2/2018.</p>	Closed - Audit obtained and reviewed revised AP 5-1, as well as FMD's Fuel Standard Operating Procedures (SOP) and determined that updates were sufficient and provided consistency of operations. Management's remediation procedures were adequate to close this finding.	Adequate
2010-18	Fuel Inventory Reconciliation	GSD Fuel does not maintain a perpetual City-Wide fuel inventory balance and they cannot verify that the quantity of fuel listed on Oil Patch's delivery ticket is the quantity that went into the storage tank.	<p>Updated Response: 03/09/2018</p> <p>FMD Response: FMD Fuel Management accomplishes this with an Inventory Control Worksheet for each fuel site. Additionally, fuel levels for each site are taken from a stick reading, the Automatic Tank Gauge (ATG) or Fuel Force and entered into M5 daily. ATG is checked weekly for accuracy by comparing the printout to a stick reading. ATG will be calibrated if a discrepancy is found. The Fuel Inventory Report is available in M5 and CityPointe. Tank charts are used for all tanks to convert the inches taken from the stick readings to gallons.</p>	Closed - Audit obtained and reviewed Inventory control sheets, weekly comparisons, measurements on bills of lading, Fuel Inventory Reports and determined that fuel quantities received are being verified. Management's remediation procedures were adequate to close this finding.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2010-18	Recording Fuel Activity	<p>We reviewed a sample of 164 PWE Motiva Enterprises, LLC (Motiva) invoices for the period January 1, 2009 through March 31, 2009 and noted the following:</p> <ul style="list-style-type: none"> - Nine of 164 (5.48%) invoices were not included in Fuel Force. This amounted to 33,502 gallons of fuel at a cost of approximately \$51,204. - There were three fuel deliveries recorded in Fuel Force with no corresponding Motiva invoices. This amounted to 6,063 gallons of fuel, which were determined by GSD to be duplicates (items were entered twice). - There were seven deliveries recorded in Fuel Force whose total gallons entered did not agree with the amount of gallons invoiced. Total gallons entered for these seven was 16,100 and the invoiced quantity totaled 14,027; a difference of 2,073 gallons. - There were two deliveries recorded in Fuel Force (3,298 and 30 gallons) that were determined to be in error. The 3,298 gallons were recorded to the wrong delivery point, while the 30 gallons were consumed, but erroneously recorded as a delivery. 	<p>Updated Response: 3/9/2018</p> <p>FMD Response: Deliveries are now entered into M5 by FMD Fuel Management. They are no longer entered into FuelForce. M5 is where the fuel inventory for the City is recorded. Several fuel sites have been automated since 2011. There are only five manual sites remaining. The fuel log sheets at the five sites are collected and entered into FuelForce by FMD Fuel Management. Departments no longer enter the manual transactions into FuelForce. We have the FuelForce parts on-hand and will automate the diesel at 2300 Federal Rd. The other sites do not have enough transactions to justify installing FuelForce.</p>	Closed - Audit obtained and reviewed a sample of manual log sheets, FuelForce entries, SAP entries and determined that FMD management has implemented the necessary oversight of fuel dispensing activities. Management's remediation procedures were adequate to close this finding.	Adequate
2010-18	Fuel Related Invoices	<p>The City is obligated to pay interest to vendors if the payment exceeds 30 days from the date the proper invoice or the goods were actually received. By batching the invoices, it becomes impossible for SAP or the Controller's Office to recognize if the payment should include interest.</p>	<p>Updated Response: 3/9/2018</p> <p>FMD Response: All invoices are processed individually and daily now. Goods receipts are created in SAP for each invoice and submitted to Finance for payment.</p>	Closed - Audit obtained and reviewed the revised Fuel SOP requiring that invoices are processed individually. The Auditor traced a sample of invoices to receipts in SAP and no exceptions were noted. Management's remediation procedures were adequate to close this finding.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2010-18	Quality of Diesel For Generators	<p>Unleaded and diesel fuel have an "expiration date" or anticipated shelf-life. Most unleaded fuel contains ethanol (a corn by-product) and as a result has a 90-day shelf life; diesel has a 6-month to two-year shelf life according to our supplier and internet research. The City has 84 fuel tanks with capacity greater than 1,000 gallons dedicated to fueling generators when electrical service is interrupted. Using substandard fuel can have damaging effects on the City's generators leading to costly repairs and/or replacement.</p> <p>Our sample included only diesel fuel tanks with a capacity of 1,000 gallons and greater. We requested the departments furnish us with the latest fuel delivery date. We calculated the time lapsed from the last fuel delivery date. If the department had no record of when the last fuel date was, we included it in our testing. If the lapsed time was two or more years, we considered the fuel for testing.</p> <p>Table 3, included in Audit Report 2010-18 provides details of the cost to test the fuel, and the worst case estimated cost to remove the fuel (if the tanks were at capacity), should it be deemed necessary to do so. Note: All individual cost information was provided by GSD. Based on our analysis, 32 of the 84 (38%) fuel tanks with a capacity of 1,000 gallons or greater have diesel fuel exceeding two years old. The fuel can be tested to determine its condition.</p>	<p>Updated response: 3/9/2018</p> <p>FMD Response: AP 5-1, 6.1.2 states: The department/Division responsible for operating a fuel site or generator shall designate a minimum of two employees, one primary and one backup, to be responsible for each site or generator. The operation and maintenance of the generator lies within the responsibility of General Services and the departments of the facilities where the generators are located. General Service conducts testing and preventive maintenance several times a year. If at any time there is a reason to suspect there is a problem with the fuel, GSD contacts FMD Fuel Management. FMD Fuel Management will go to the location to inspect and test the fuel. If the fuel looks bad, we will send a sample to the lab for testing then replace the fuel and/or clean the tank if needed. This method has worked for the past six years as there has been no issues with fuel in generators. FMD revised existing Fuel SOP on 04/02/2018.</p> <p>Fuel Manager Responses from 6/28/18 Meeting:</p> <ol style="list-style-type: none"> 1. In nearly 7 years of Managing fuel for the City, I have had zero costly repairs and/or replacement to the engines on the generators reported to me due to fuel. 2. Testing the diesel involves taking a quart size sample to the lab located in Pasadena. It costs \$600 to test each sample. With more than 300 generators throughout the City, this is not practical. 3. The generators are tested and have preventive maintenance quarterly. General Services manages the contractor for the maintenance of the generators which also includes changing the fuel filters. 	Closed - Audit obtained and reviewed Fuel SOP and assessed the information obtained from FMD Fuel Manager, who took the position of testing the fuel only on an as-needed basis due to the high cost of testing and no history of failing generators due to bad fuel. Management's remediation procedures were adequate to close this finding.	Adequate
2010-18	Fuel Site Maintenance For Invoicing	<p>Overall, the department's accounting staff does not have the expertise to validate the correctness and necessity of fuel site maintenance performed or not performed and yet invoiced.</p>	<p>Updated response: 3/9/2018</p> <p>FMD Response: As of July, 2011, all requests for fuel site repairs are routed through FMD Fuel Management. FMD has fuel subject matter experts who determine whether to assign the repair in-house or to the vendor. Vendor invoices for these repairs are sent to FMD which review and pay the invoices and track warranties. All repairs are tracked electronically on a web-based Sprocket work order system.</p>	Closed - Audit obtained and reviewed the revised Fuel SOP and certification documentation of subject matter experts in FMD, as well as, determined that management is reviewing and approving repair invoices. Management's remediation procedures were adequate to close this finding.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2016-07	Genuine Auto Parts (NAPA) Invoiced the City for Inventory that the City Already Owned	NAPA invoiced the City for 70% (534 of 758) of all Category 2 parts inventory resulting in over charges totaling \$24,426.	<p>Updated Response: 2/5/2018</p> <p>FMD Management confirmed that credits were received in October and November of 2015 for the overcharges.</p> <p>Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.</p>	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate
2016-07	Genuine Parts Company (NAPA) is not in Compliance with the Contract's Limitation on Labor Rate Reimbursements	NAPA was not in compliance with the contract's limitation on the reimbursement of NAPA employees' salaries and overtime pay for calendar year 2014. This resulted in an overpayment to NAPA for salary costs totaling \$147,521 for 2014.	<p>Updated Response: 2/5/2018</p> <p>FMD is no longer utilizing NAPA as a contract vendor. Parts Operation was in-sourced on April 15, 2016.</p> <p>Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.</p>	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2016-07	Genuine Parts Company (NAPA) Billing for Jones Delivery Exceeded the Annual Contractual Labor Rate Limit	Our audit found that invoicing for Jones Delivery Vehicle Drivers exceeded the established labor rate for 73% (19 of 26) of delivery vehicle drivers resulting in overpayment of \$380,990 by the City during calendar year 2014. The contract requires that supporting documentation is provided with all applicable invoices. The documentation provided by NAPA to support payment for Jones Delivery drivers is not in compliance with section III, 1.1 and Exhibit "B-1", 8.2 of the contract.	Updated Response: 2/5/2018 FMD is no longer utilizing NAPA as a contract vendor. Parts Operation was in-sourced on April 15, 2016. Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate
2016-07	Genuine Parts Company (NAPA) Invoiced the City for Property Taxes on their Inventory	In 2014, NAPA invoiced and received reimbursement from the City for \$182,166 in property taxes related to their inventory maintained at the City of Houston's maintenance facilities. The only supporting documentation provided with the monthly P&L's were journal entries (JE) for the monthly accruals. NAPA did not provide copies of the property tax invoices that would have been used to create the JE. The City's reimbursement of property taxes to NAPA effectively resulted in a tax refund that was not approved by the Legal Department or City Council.	Updated Response: 2/5/2018 FMD is no longer utilizing NAPA as a contract vendor. Parts Operation was in-sourced on April 15, 2016. Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
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2016-07	Genuine Parts Company (NAPA) Invoiced the City Twice for Delivery Drivers due to Inadequate Supporting Documentation	NAPA charged the City twice for one week of Jones Delivery Services (Jones Deliver Drivers), drivers' salaries. Delivery drivers take parts to and from City maintenance facilities and pick up emergency or immediately needed parts from local suppliers. The duplicate billing resulted in an overcharge of \$12,678.	Updated Response: 2/5/2018 FMD Management confirmed Delivery Driver Charges were received in 2015 December's P&L. Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate
2016-07	Genuine Parts Company (NAPA) Invoiced the City for Operating Costs based on a Percentage of Sales to City Maintenance Facilities	NAPA invoiced the City a total of \$299,421 in management fees based on percentages of sales versus actual basic operating costs as outlined in the contract for calendar year 2014. These costs were charged to three line items on the P&L to include Accounting & Data Processing Salaries (A&D), General Office Salaries and Employee Benefit Pension fees (EBP).	Updated Response: 2/5/2018 FMD is no longer utilizing NAPA as a contract vendor. Parts Operation was in-sourced on April 15, 2016. Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate

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2016-07	Fleet Management Department (FMD) Has not Provided Effective Contract Management Oversight of the Genuine Parts Company (NAPA) Contract	<p>FMD has not adequately performed oversight in the administration of the contract between NAPA and the City. All of the discrepancies documented in this report are directly related to the management oversight function.</p> <p>FMD did not withhold payment until adequate documentation was provided when supporting documentation did not agree to the invoice and/or Profit & Loss (P&L) statement. FMD should require that NAPA provide documentation of actual costs for all invoices and those invoices are in compliance with contract terms;</p> <p>FMD did not monitor or require NAPA to provide monitoring of NAPA employee's wages to ensure the Labor Rate limits were enforced;</p> <p>FMD did not monitor and verify that the City's Zero Cost Inventory maintained by NAPA was not charged to the City when distributed to mechanics; and</p> <p>FMD did not retain supporting documentation for P&L statements provided by NAPA for 2013. This is not in compliance with the City and State of Texas record's retention requirements or the contract, which requires that records are kept and are available for at least two (2) years after the end of the agreement.</p>	<p>Updated Response: 2/5/2018</p> <p>FMD is no longer utilizing NAPA as a contract vendor. Parts Operation was in-sourced on April 15, 2016.</p> <p>Actions Taken: FMD Director elected to allow the NAPA contract to expire effective April 16, 2016.</p>	Closed - Audit obtained documentation from the Director of FMD and determined that Genuine Parts Company (NAPA) no longer conducts business with the City effective 04/16/2016. FMD assumed the responsibility and management of Parts Operations for the City. Management's remediation procedures were adequate to close this finding.	Adequate

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