FLEET VENDOR MANAGEMENT AUDIT

NUMBER OF RECOMMENDATIONS
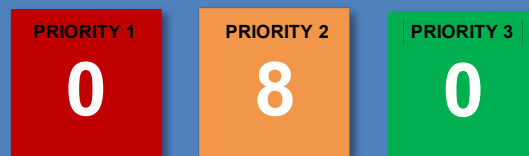
PRIORITY 1	PRIORITY 2	PRIORITY 3
0	8	0

Contents:

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A. Overview

Key Outcomes

The City of Glendale's Public Works Fleet Division (Fleet) consists of four garages and is responsible for the maintenance and repair of City equipment including, but not limited to, vehicles, portable generators, and riding mowers. Internal Audit reviewed the Fleet Division's vendors and related purchases and identified eight improvement opportunities related to updating its vendor management procedures, identifying routinely purchased items to be included in future requests for quotes, verifying invoiced amounts to the vendor negotiated price list, determining the feasibility of utilizing FASTER Fleet Asset Management System (FASTER) to monitor purchase order (PO) remaining balances, and ensuring that the FASTER user accesses are properly managed and upgrades are performed in a timely manner.

Impact Dashboard

This table summarizes the applicable value-added categories (total 22) for the eight recommendations based on their prority rankings.[1]

	Value Added Categories			
	Compliance	**Cost Saving**	**Efficiency**	**Risk Reduction**
Priority 1 **0**	0	0	0	0
Priority 2 **8**	7	1	6	8
Priority 3 **0**	0	0	0	0

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[1] Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
	Priority 2	
1.	Update Fleet Inventory Management Guide to provide sufficient information for Fleet Administration personnel to carry out their vendor management responsibilities. ***Value added:*** *Compliance, Efficiency, Risk Reduction*	06/30/2023
2.	Establish, maintain, and communicate to Fleet personnel the location of all contracts and their related negotiated price lists to be used to verify the accuracy of the invoiced amounts. ***Value added:*** *Compliance, Efficiency, Risk Reduction*	06/30/2023
3.	Update and distribute FASTER user account set-up, deactivation responsibilities, and default role-based accesses procedures. ***Value added:*** *Compliance, Risk Reduction*	06/30/2023
4.	Confirm negotiated price listed items, percentage discounts applied, and/or manufacturer's list price to the amount invoiced. ***Value added:*** *Compliance, Efficiency, Risk Reduction*	06/30/2023
5.	Identify routinely purchased items not currently included within a specific item price list to be included in future requests for quotes. ***Value added:*** *Compliance, Cost Saving, Efficiency, Risk Reduction*	06/30/2023
6.	Determine the feasibility of entering capital and outsourced services into FASTER and utilizing the system reports to track PO remaining balances. ***Value added:*** *Compliance, Efficiency, Risk Reduction*	06/30/2023
7.	Work with Information Technology to update/upgrade FASTER to include additional functionalities. ***Value added:*** *Efficiency, Risk Reduction*	06/30/2023
8.	Remind personnel that the City does not allow advanced payments to vendors without a surety bond approved by the Director of Finance. ***Value added:*** *Compliance, Risk Reduction*	06/30/2023

C. Background

Internal Audit has completed an audit of the Fleet Services Vendor Management. Fleet Services is one of eight divisions under the administration of the City's Public Works Department. The Fleet Services Division is responsible for the maintenance and repair of the City's in-service equipment including the City's vehicles, portable generators, and riding mowers amongst others. The vehicles maintained in Fleet's four garages come from various departments within the City. In addition to maintaining equipment and the automotive warehouse facilities associated with fleet repair, Fleet is responsible for performing scheduled preventive maintenance for all vehicles and equipment to ensure the safety and longevity of these assets.

According to the Fiscal Year 2021-22 Adopted Budget, Public Works Department's overall budget is $179 million, which represents 18.4% of the total City appropriated budget. The Fleet Management Fund, which is an Internal Service Fund, budget is $19.8 million (11%) of the Public Works Department's overall budget. The Fleet Management Fund has 42.75 authorized salaried positions.

Vendor Management Operation Overview

The key Fleet vendor management operations as related to this audit include the following:

- **Administration:** Fleet vendor management is primarily performed by the Mechanical Maintenance Superintendent, Fleet Services Stores Supervisor, and Public Works Management Analyst.

- **Inventory:** Stock parts inventory record is maintained within FASTER. FASTER has the ability to provide a report of the inventory and average usage of each part. Fleet personnel is also able to set the minimum and maximum inventory levels and set-up a notification when parts are due to be re-ordered.

- **Expense Tracking:** In addition to using FASTER and Munis systems, fleet manually tracks PO remaining balances for the warehouse, shops, and capital expenditures in Excel spreadsheets (encumbrance workbooks). These spreadsheets are used to identify outstanding invoices requiring follow-up and to ensure that the vendor purchases do not exceed the purchase order total.

- **Invoice Processing:** Fleet vendor maintenance, purchases, and invoice payments are centralized for the four garages at the Public Works Fleet Maintenance Garage and Warehouse.

- **Work Orders:** Mechanics track work performed on City vehicles and equipment within FASTER. Parts required to perform the repair and/or maintenance are documented within and charged to that specific work order.

Vendor Contracting and Purchasing Processes

Fleet purchases and services may be procured by contract, purchase order, or procurement card. Purchase orders, including annual purchasing contracts, are established through requisitions and can be fixed price and/or fixed discount from the manufacturer's list price.

The process for obtaining a contract or purchase order is initiated by Fleet submitting a requisition to the Finance Purchasing Division (Purchasing). This requisition will include a list of the most common items and quantities expected to be purchased. Purchasing will solicit bids and the contract will generally be awarded to the lowest bidder.

Once a contract or purchase order is issued, Fleet Administration utilizes FASTER and Tyler Technologies Munis (Munis) to track purchases including capital, inventory, and services. Because the FASTER Vendor Purchase Order Listing report does not currently include all purchases and is not user-friendly, Fleet Administration personnel monitor PO remaining balances by maintaining spreadsheets that track warehouse, shop, and capital purchases. Fleet also utilizes these workbooks to discuss PO remaining balances with the Shops Supervisor on a quarterly basis and references them for annual budgeting purposes.

Purchases are initiated within FASTER, the ordered parts and quantities received are verified, the items are received into FASTER, and the invoice total is verified. All warehouse inventory is labelled and placed in the storeroom. All vendors are instructed to send invoices directly to the City's Finance Department. Fleet Administration receives notification when vendor invoices are received by Finance. The invoice is reviewed and approved through Munis workflow.

D. Objective, Scope and Methodology

The objective of this audit is to determine if adequate controls exist to ensure that all vendors contracted to support Fleet Operations are appropriately managed following the City's procurement policy and third-party vendor management best practices.

The scope of the audit covered invoices for the period of July 1, 2021 to June 30, 2022.

In order to accomplish the audit objective, Internal Audit performed the following:

- Interviewed Public Works Fleet Services and Finance personnel regarding the vendor management processes.

- Conducted detailed testing of a sample of vendors and related invoices to determine whether the purchases made were in accordance with the items bid and agreed to the negotiated price listings.

- Compared the PO remaining balances between FASTER, encumbrance workbooks, and Munis.

- Reviewed the inventory receipts to identify and review items purchased from multiple vendors.

- Reviewed procurement card charges for vendors with purchase orders.

As a result of these audit procedures performed, eight observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	**Policies and Procedures**		
Priority 2	Based on review of the Inventory Management Guide, it was noted that the following information are not included to provide sufficient guidelines for Fleet Administration personnel to carry out their vendor management responsibilities: 1. How to determine which vendor should be used to purchase a particular item. 2. Where contracted vendors with negotiated item/price lists are located. 3. Who to contact for price discrepancies and/or updated price listings. 4. How to determine the parts and quantities to be included within the request for quote. 5. How often and who should review and update the Inventory Management Guide.	Fleet management update the Fleet Inventory Management Guide to include the following: 1. General guidelines on vendor selection for a particular item. 2. The location of a list of contracted vendors and negotiated items/prices. 3. Procedure to contact vendor and/or Purchasing when price discrepancies are identified and/or updated price listings are needed. 4. Procedure to generate a listing of all parts purchased in the prior year or an average of the last three years to include within the request for quote list. 5. Assignment of review/control activity responsibilities and periodic policy and procedure review and update.	Agreed and will implement by June 30, 2023.

Ref	Observation	Recommendation	Management Response
2.	**Invoice Review**		
Priority 2	A walkthrough of the invoice review process with Fleet and Purchasing personnel identified the following: 1. All contract and/or purchase order negotiated price listings are not consistently available in Munis and/or centrally located. 2. The existence and/or location of the price listings were not communicated to personnel responsible for invoice review. 3. A complete list of contracted vendors with the negotiated inventory items/prices are not readily available to personnel. 4. Invoiced items are not traced and agreed to the vendor negotiated price listing when applicable, and periodic secondary verification of the invoiced price to the vendor negotiated price list is not performed.	Fleet management perform the following: 1. Work with Purchasing to ensure all contracts and negotiated price lists are either scanned into Munis or stored in a centralized repository accessible to personnel. 2. Communicate the location of the contracts and negotiated price lists to applicable Fleet personnel. 3. Make a list of contract vendors with parts and negotiated prices readily available to personnel to perform invoice accuracy verification. ***and/or*** Look up or generate a list of the items ordered during the last fiscal year from FASTER as a quick reference. This may be useful for cooperative agreements with long lists of items and negotiated prices. 4. Require invoiced amounts be agreed to the contract negotiated price list prior to approval and require supervisors periodically verify the invoiced price to the vendor negotiated price list.	Agreed and will implement by June 30, 2023.

Ref	Observation	Recommendation	Management Response
3.	**FASTER User Accounts and Role-Based Accesses**		
Priority 2	Based upon a review of the FASTER user account listing to the Munis employee listing and role-based accesses, the following were noted: 1. Five terminated employees had FASTER active user accounts. Please note that their Active Direction accounts were disabled. 2. Review of the current FASTER role-based accesses identified inconsistencies within the same job titles. For example, 3 Equipment Mechanic I/IIs that should be assigned "Technician" access have some "Senior Mechanic" accesses. 3. Fleet management was not aware of the FASTER User Access Controls policy.	Fleet management perform the following: 1. Deactivate the five FASTER user access accounts assigned to terminated employees. 2. Review and determine the appropriateness of the extra accesses for the identified personnel. 3. Update and distribute the FASTER user account management policies and procedures, to include a) the roles and responsibilities of Fleet and IT for granting and removing user access; b) the role-based accesses to be provided for common Fleet job titles; 3) periodically review and update FASTER user accounts and role-based assignments.	Agreed and will implement by June 30, 2023. 1. (Implemented) The FASTER user access accounts for the five terminated employees were communicated and immediately deactivated. 2. (Implemented) Fleet has reviewed the extra accesses for the identified personnel and made corrections as appropriate.

Ref	Observation	Recommendation	Management Response
4.	**Invoice Accuracy and Annual Quote Estimates**		
Priority 2	According to the FASTER fiscal year 2022 Inventory Received Report, there were 128 vendors with $1.5 million in total costs. The top five vendors by expense and/or units purchased, representing 36% of the total cost, were selected for further review. Based upon detailed testwork performed on a judgmentally selected sample of invoices paid to these vendors, the following were noted: 1. Five vendors had invoiced amounts that did not consistently agree to the negotiated vendor price listings. 2. Two vendors had total purchases of 11% of the annual estimated units from the negotiated specific item price lists. The City's general guideline is to purchase 70% of the items from the negotiated price listing.	Fleet management perform the following: 1. Confirm the negotiated price listed items, percentage discounts applied, and/or manufacturer's list price to the amount invoiced. 2. Increase the percentage of items purchased from the negotiated vendor price listing by incorporating the actual items purchased over a pre-determined timeframe and/or routine maintenance parts/services within the request for quote.	Agreed and will implement by June 30, 2023.

Ref	Observation	Recommendation	Management Response
5.	**Price Verification**		

Priority 2	Based upon a sample review of invoices judgmentally selected from the FASTER fiscal year 2022 Inventory Received Report, the following were noted:
	
	1. Same parts were purchased from multiple vendors without a specific price quote. For example,
	   a. 2 parts were purchased from 4 vendors. This included 349 units of 0W20 (synthetic oil) and 16 units of PA30040 (air filter).
	   b. 9 parts were purchased from 3 vendors. This included 202 units of item 315/80R22.5 (tires), 1,272 units of item 960528 (brake/parts cleaner), and 384 units of item 962402 (CNG spark plug).
	   c. 165 parts were purchased from 2 vendors.
	2. Vendor price fluctuations are not identified and/or researched. This included a $200/unit price variance identified on item 315/80R22.5 (tires).
	3. Items were purchased from vendors that do not have a vendor negotiated price or percentage discount list. This included 48 units of 0W20 with a different negotiated volume.
	4. Shipping fees in the amount of $1,256 were paid to a vendor whose contract negotiated price includes shipping cost.
		Fleet management perform the following:
		
		1. Identify routinely purchased items not currently included within a specific item price list to be included within requests for quotes. This will increase Fleet's potential to obtain the lowest cost on its basket of routinely purchased items and increase percentage of items purchased from the negotiated vendor price listing.
		2. Research and resolve the price variances identified.
		3. Verify that items ordered are included within either the item specific price listing or fixed manufacturer's list price percentage discounts.
		4. Request a refund from the vendor and verify that shipping fees are not invoiced when the contract indicates that shipping is already included in the item pricing prior to approval.
			Agreed and will implement by June 30, 2023.

Ref	Observation	Recommendation	Management Response
6.	**Purchase Order Expenditure Tracking**		

Priority 2	Fleet utilizes FASTER, two manually prepared encumbrance workbooks (shop and warehouse), a capital log, and Munis to track PO remaining balances. Based upon a comparison of the PO remaining balances from the five sources, the following were noted:
	
	1. All five sources do not reconcile for the following reasons:
	  a. The encumbrance workbook includes purchase orders not included within FASTER.
	  b. Timing differences between FASTER/encumbrance workbooks and Munis resulting from orders placed, but not yet received or processed for payment.
	  c. Capital purchase orders are not being properly reduced for paid invoices within FASTER.
	2. The shop encumbrance workbook summary does not individually list all contract purchase order numbers and there was one formula error that resulted in a $5,000 understatement of vendor's PO remaining balance.
	3. Reconciliation procedures between FASTER, the encumbrance workbooks, capital log, and Munis have not been established or documented.
		Fleet management perform the following:
		
		1. Work with FASTER to determine the feasibility that all purchases can be tracked within FASTER, including capital purchases and outsourced services, are accurately reported in its Vendor Purchase Order Listing report. Additionally, perform reconciliation between the FASTER and Munis PO remaining balance reports to identify and resolve any discrepancies. Furthermore, FASTER training should be provided to personnel.
		2. Pending FASTER feasibility determination, the shop encumbrance workbook summary should individually list all purchase orders and the formula error should be corrected.
		3. Document reconciliations performed and the supporting documents to be maintained as of the reconciliation date.
			Agreed and will implement by June 30, 2023.
			
			2. (Partially Implemented) The formula error has been corrected.

Ref	Observation	Recommendation	Management Response
7.	**FASTER Asset Management Software**		
Priority 2	Based upon testwork performed and discussions with Fleet, it was identified that certain functionalities are not available. The City's current version of FASTER does not include access to additional functionalities such as the ability to drill down on components of the Vendor Purchase Order Listing report for details, additional operational reports, and the ability to download current reports in a version that is accessible to City personnel.

Further discussion with Fleet identified that they were not receiving the update notices because the previous Fleet contact had separated from the City and had not been updated. IT personnel confirmed that FASTER has released five upgrades since the version that the City is using. | Fleet management perform the following:

1. Contact FASTER to update the Fleet contacts to receive update/upgrade notifications.
2. Work with Information Technology to update/upgrade FASTER. | Agreed and will implement by June 30, 2023.

1. (Implemented) Fleet has contacted FASTER and updated the Fleet contacts to include the Mechanical Maintenance Superintendent and the Stores Supervisor. |
| **8.** | **Advanced Payments** | | |
| Priority 2 | Based upon a review of sampled vendor invoices, it was noted that a $1,399 deposit was paid to a vendor in violation of the City's Purchasing Policy. Additionally, the advance payment/credit was not tracked. | Fleet management remind personnel that the City does not allow advanced payments to vendors without a surety bond approved by the Director of Finance. | Agreed and will implement by June 30, 2023. |

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities, and available resources. A timeline has been established based on each priority ranking:

a.   **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.

b.   **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.

c.   **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

a.   **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.

b.   **COST SAVING** - lower the costs related to conducting City business.

c.   **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.

d.   **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.