



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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February 3, 2015

Christopher D. Amos, CAFM, Commissioner
Equipment Services Division
Board of Public Service
1900 Hampton Avenue
St. Louis, MO 63139

RE: Process Review (Project #2014-P09)

Dear Mr. Amos:

The Comptroller's Internal Audit Section has completed a process review of the Equipment Services Division's management of the fuel usage and equipment maintenance for the City departments. Enclosed is our report covering the period July 1, 2012 through June 30, 2014. A description of the scope of work is included in the report.

Fieldwork was completed on October 6, 2014. Management's responses to the observations and recommendations noted in the report were received on January 27, 2015, and have been incorporated into the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

Mohammad Adil, CPA, CGMA
Internal Audit Supervisor

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA
Internal Audit Advisor

Enclosure

CC: Richard T. Bradley, PE, President, Board of Public Service



CITY OF ST. LOUIS

BOARD OF PUBLIC SERVICE

EQUIPMENT SERVICES DIVISION

PROCESS REVIEW

JULY 1, 2012 THROUGH JUNE 30, 2014

PROJECT #2014-P09

DATE ISSUED: FEBRUARY 3, 2015

Prepared By:

The Internal Audit Section



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
BOARD OF PUBLIC SERVICE
EQUIPMENT SERVICES DIVISION (ESD)
PROCESS REVIEW
JULY 1, 2012 THROUGH JUNE 30, 2014**

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SUMMARY

Background

The Equipment Services Division (ESD) manages, maintains, and fuels vehicles and equipment for City departments including the St. Louis Metropolitan Police Department. ESD operates five repair garages at Hampton, North and South Refuse Transfer Stations, Forest Park, and Laclede (Police) respectively. ESD assumed responsibility for the Laclede Police garage in September, 2013, and it was included in the scope of our review.

Purpose

The purpose of this review was to determine if ESD effectively and efficiently managed risks to ensure:

- Accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies and procedures.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

Scope and Methodology

The scope of the review covered the period July 1, 2012 through June 30, 2014. The review was confined to evaluating internal controls over the financial and operational activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Analytical review of financial performance.
- Observations of relevant processes.
- Reviews of processes and transactions for compliance with applicable laws, regulations, policies and procedures.
- Limited tests of controls and related transactions.
- Comparison of processes against best practices.
- Follow-ups on any prior observations.
- Other procedures as considered necessary.

Conclusion

The opportunity exists for ESD to improve controls over its operations.

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Current Observations

We noted the following observations and opportunities for improvement.

1. Establish an Internal Service Fund
2. Segregate Fleet Parts Procurement Duties
3. Improve Controls over Automotive Lubricants

Management Response

An exit conference was conducted with the Management of ESD on Monday, January 12, 2015. In attendance from the ESD were:

- Commissioner
- Deputy Commissioner

Internal Audit Section was represented at the exit conference by:

- Internal Audit Supervisor
- Internal Auditor

The report observations and recommendations were discussed at the exit conference.

The management of ESD subsequently provided a written response to the Internal Audit Section on January 27, 2015, which has been incorporated into this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Establish An Internal Service Fund

ESD provided fuel, vehicle repairs and maintenance services to most of the City departments; however, it was not accounted for as an Internal Service Fund.

The State Auditor's report on ESD's Accounting System, issued September 2008, recommended the Board of Public Service work with applicable City officials to establish ESD as an Internal Service Fund on the City's financial statement.

An Internal Service Fund pays for all goods and services related costs and bills the applicable departments for the cost incurred. In an Internal Service Fund for fuel, vehicle repairs and maintenance each department is responsible for the related costs, and as such, budget for them.

Currently, ESD does not get reimbursed by the City departments for the costs incurred by ESD for vehicle repairs and maintenance services provided to them. All of ESD's vehicle repairs and maintenance expenses for the City departments are budgeted and incurred in the City General Fund, as well as to various vehicle replacement programs such as the St. Louis Works Fund.

Since the City departments are not responsible for these expenses, they do not budget for them and have no incentive to ensure efficient use of their resources and guard against waste and abuse.

Recommendation

We recommend that ESD, through the Board of Public Service, work with applicable City officials (Comptroller and Budget Director) to fully establish ESD as an Internal Service Fund in which all costs for services provided to the City departments are billed to and paid by the applicable departments.

Management Response

We support implementation of the recommendations in this finding but are unable to comply without approval of higher authority.

ESD fully tracks all resources expended by vehicle and rolls that up to operating departments in monthly billings produced by database application FleetFocus (M5). Re-establishing ESD

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Continued...

as an Internal Service Fund would transfer accountability and authority for maintenance and repairs to the appointing authorities responsible for the care and use of those vehicles. This process is already in place with non-general fund (1010) organizations with Water Division being the largest of these. Should City officials choose to pursue this route, ESD is prepared to provide budget estimates, establish service level agreements, and otherwise implement the procedural changes needed.

However, ESD is typically under-funded currently to support a fleet with a grossly under-funded capital replacement program. Transition to an Internal Service Fund should eventually result in better control of damage due to abuse and neglect but it will not impact the major operating cost driver which is insufficient vehicle replacement funding. Unless either capital funding is improved three-fold or additional operating costs for major repairs to older vehicles is allocated, the Internal Service Fund will be under-funded just as ESD is today.

2. Segregate Fleet Parts Procurement Duties

ESD operated five repair garages for City vehicles at Forest Park, North and South Refuse Transfer Stations, Hampton and Laclede respectively. We noted that at all of these garages, it was the Fleet Parts Specialist who ordered and received the automotive parts. At Hampton garage, the Fleet Supervisor and the Fleet Parts Specialist performed these two incompatible duties.

Allowing one individual to perform these incompatible duties increases the potential for the risk of loss, theft and misuse of assets.

Recommendation

It is recommended that ESD ensure that the functions of requesting, purchasing and receiving automotive parts be separated. For those instances where it is cost prohibitive or otherwise not possible to eliminate conflicting duties, put in place compensating controls such as a review of all transactions by a supervisor independent of the transactions.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

2. Continued...

Management Response

We believe we are in compliance with the alternative recommendations for this finding. To come into compliance with the primary recommendations is cost prohibitive and almost certainly exceeds the risk.

Implementation of best practices in each ESD shop whereby parts ordering, receiving and issuing are segregated would require hiring twelve additional personnel. Consequently, ESD does employ alternate means to mitigate this risk by using the database application FleetFocus (M5) to positively control and make audit possible for parts transactions and managerial review to approve all expenditures and spot check receiving parts into M5.

Once parts are delivered, those items are placed into inventory in M5. From that point, the parts must be on the shelf as part of stock, issued to a work order, transferred to another shop, or returned to the vendor. M5 maintains an auditable tracking of these transactions.

The invoice is validated by the Parts Specialist and then by the Deputy Commissioner of Equipment Services. This ensures reasonableness of the types of parts and quantities ordered. Further, the Deputy Commissioner or the Inventory Control Technician II who works directly for him independent of the Parts Specialist or Parts Supervisors spot checks invoices to validate that the parts were entered into M5.

Parts on the shelf as stock are subjected to an annual 100% inventory by the Inventory Control Technician II and a variance report produced by M5 submitted for management review. This same check would validate any transfer of stock between shops or returns to vendors.

Parts issued to a work order are reviewed by the shop Foreman and validated with signature by the Technician who installed them on a hard copy of the completed work order produced by M5.

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3. Improve Controls over Automotive Lubricants

ESD did not have adequate controls over the usage of automotive lubricants (motor oil and liquids) at its maintenance garages.

The authorized users of the automotive lubricants were ESD technicians and the City vehicle (Parks, Refuse and Street vehicles) drivers. During our observation of the usage of the lubricants, we noted:

- The automotive lubricant storage tanks did not have an automatic locking (fuel key or fuel card) system to allow access to the authorized users only. In addition, the storage tanks were not metered to record the quantity of oil received and dispensed to the authorized user in order to facilitate monitoring of the lubricants consumption.
- The City vehicle drivers had unrestricted access to the storage tanks and could obtain the lubricants for their personal vehicles. They were required to maintain a daily log of the lubricants obtained, but it was not consistently maintained.
- ESD did not maintain any reconciliation of the quantity purchased to usage. As a result, ESD could not track the dispensation of lubricants to detect any unauthorized consumption.

Inadequate controls over dispensation of the lubricants make monitoring and tracking of its consumption unfeasible. This increases the risk of unauthorized consumption that may go undetected. In addition, the City departments may not be charged correctly for the actual usage of lubricants.

Recommendation

We recommend that the ESD management implement the following procedures to improve controls over automotive lubricants:

- Automate the dispensing of the automotive lubricants from the storage tanks and limit access to authorized users only.
- Establish procedures that will require all city vehicle drivers to consistently complete the automotive lubricants usage log.
- Maintain a reconciliation of purchases and consumptions of automotive lubricants.

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3. Continued...

- Investigate any significant variations in the consumption of the automotive lubricants and minimize them.

Management Response

We support implementation of the recommendations in this finding but are unable to comply without budgetary support of higher authority and cooperation from other appointing authorities.

The best means to secure lubricants is to place pumping devices under electronic control which creates transactions charged to a vehicle work order in database application

FleetFocus (M5). ESD acquired a quote for this equipment which would cost approximately \$18K per garage. ESD operates five garages making the total implementation cost \$90K plus approximately \$5K annually. ESD made the budget request for this equipment and it was denied as being too costly compared to the risk of losses it would safeguard.

Therefore, ESD has continued to rely on manual log sheets which are prone to be inaccurate due to human error or neglect in using them for all instances of fluid use. We can't state with certainty that even ESD employees accurately record fluid use though they have been trained and reminded to do so. The problem is exacerbated by customers accessing fluids themselves without recording it. ESD has been unsuccessful in barring customers from the shop both because of the physical layout of facilities and the unwillingness of other appointing authorities to enforce keeping their employees out of ESD shops.

While it is likely that inventory shortages in bulk lubricant/fluids are legitimately being used in City vehicles, it is possible that some is stolen by employees. Employee parking is often adjacent to ESD shops. Coupled with a sporadically-functioning array of video surveillance cameras theft is possible however unlikely.