



**Fire Department Auto Part Purchases
Audit Report
A2014-01**

Issued by the
Internal Audit Office
November 27, 2013

**City of El Paso
Internal Audit Office
Fire Department Auto Part Purchases Audit A2014-01**

EXECUTIVE SUMMARY

At the request of the Fire Chief, the Internal Audit Office conducted an audit of the Fire Department's vehicle part purchases. Based on the results of the audit, four findings have been identified. All four of these findings are considered significant.

Listed below is a summary of the findings identified in this report:

1. The Fire Department's Logistics Division Policies and Procedures Manual is outdated and vague.
2. The Fleet Management System utilized by the Fire Department to track vehicle maintenance and vehicle parts inventory is not being utilized properly.
3. A review of vehicle parts purchased from "O'Reilly Auto Parts" during the period of March 1, 2013 to August 31, 2013 identified five invoices containing 19 questionable purchases totaling \$394.79.
4. Five internal control weaknesses were identified in the process of ordering, receiving, and approving vehicle parts.
 - No segregation of duties,
 - No review process to ensure that vehicle parts were charge to work orders or recorded in the parts inventory,
 - Material Specialists do not record work order, stock, or vehicle information on invoices,
 - Fleet Technicians have unsupervised access to the Parts Room during non-operating hours while on-call,
 - There are no surveillance cameras in the Parts Room or the Maintenance Shop.

For a detailed explanation of the findings please refer to the body of this Audit Report.

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BACKGROUND

The Fire Department's mission is to provide emergency response, prevention, preparedness, and education to residents, businesses and visitors of our City so they can live safely and prosper in a hazard resilient community. One of the many functions performed by the Fire Department is to maintain/repair the Fire Department's vehicle fleet. As of 8/27/13, the Fire Department has a fleet of 244 vehicles and one maintenance garage located at 8600 Montana. The fleet consists of heavy-duty vehicles (fire trucks and ambulances) and light-duty vehicles (trucks and cars).

AUDIT OBJECTIVES

The objectives of this audit were to:

1. Determine if vehicle parts were purchased for personal gain or use. Also, confirm that parts purchased for vehicles were in compliance with procurement laws, regulations, and contracts.
2. Determine if the Fire Department has proper internal controls when ordering, receiving, and approving vehicle parts.
3. Evaluate the vehicle part inventory process to ensure its procedures are operating efficiently and effectively.

AUDIT SCOPE

The scope of this audit focused on vehicle parts purchased from "O'Reilly Auto Parts" from March 1, 2013 through August 31, 2013.

AUDIT METHODOLOGY

In order to achieve the audit objectives we:

- Conducted interviews with Fire Department management and staff;
- Reviewed the City of El Paso's Purchasing Manual and Accounts Payable Manual;
- Reviewed Fire Department's policies and procedures for ordering and receiving vehicle parts;
- Conducted a review for proper segregation of duties;
- Reviewed O'Reilly invoices and the Fleet Management System;
- Conducted a review of vehicle part purchases for proper approval and documentation.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors

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***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a "Significant Finding" is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a "Regular Finding".

Finding 1

Policies and Procedures Manual

A strong system of internal controls requires that policies and procedures are written to document routine or repetitive activity followed by an organization. The development and use of policies and procedures are an integral part of a successful quality system as it provides individuals with the information and guidance to perform a job properly.

Based on our review of the Logistic Division's Policies and Procedures for the Fleet Maintenance Division, we identified the following weaknesses:

- Policies and Procedures are outdated and vague.
 - The Logistics Division Manual was last updated February 14, 2012 and does not provide a step-by-step outline of how employee activities should be performed and followed.
- There are no documented Policies and Procedures on how to order, receive, issue, and approve vehicle parts at the parts room.
- There are no documented Policies and Procedures on how to track, organize, or maintain an inventory of vehicle parts in the parts room.
- There is confusion as to who is responsible for maintaining and updating Policies and Procedures in the Logistics Division Manual.

Recommendation

The Fire Department should:

- Update the Policies and Procedures in the Logistics Division Manual to include:
 - How to order, receive, and approve vehicle parts.
 - How to keep an inventory of vehicle parts.
- Assign someone the responsibility of reviewing and updating the manual periodically.

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Management's Response

In September of 2013, the Fire Department identified areas of improvement within the Fleet Emergency Apparatus Program. As part of the business review the Logistics Division Manual has been formally reviewed and updated to include the ordering, receiving, and tracking of parts. Deficiencies in ordering and receiving were immediately corrected and have been incorporated in the manuals.

As a policy, revisions to the Logistics Division Manual will be made on an annual basis by the Fire Logistics Captain to ensure it remains current. Any necessary policy revisions made throughout the year will be communicated via memo and deficiencies will be addressed through annually updated policies and training.

Responsible Party

Terry Kebschull, Fire Logistics Chief

Implementation Date

Manuals will be published on February 14, 2014

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Finding 2

Fleet Management Software

The Fire Department has an official Fleet Management System - Ron Turley Associates (RTA) in place to track and maintain vehicle maintenance, vehicle part information, and a part inventory for the Fire Department.

A review of the RTA System was conducted to determine if vehicle parts were properly recorded and tracked in the Fleet Management System. Based on our review, the following weaknesses were identified:

- Vehicle parts are not properly recorded and tracked in the Fleet Management System – RTA.
 - 10 out of 15 (66.7%) invoices reviewed contained vehicle parts that were not properly recorded in the Fleet Management System – RTA.
- The Fleet Management System – RTA does not reflect an accurate or reliable count of the parts inventory on hand.
 - The Fire Department conducted an inventory of vehicle parts on September 3, 2013. A part shortage of 601 out of 3,189 (19%) parts was identified.
- The following weaknesses were identified in the inventory of vehicle parts:
 - Vehicle parts are not properly tagged and organized when stored in the Parts Room.
 - Periodic inventories of vehicle parts are not conducted.

Recommendation

The Fire Department should:

- Implement a process to ensure that vehicle parts are properly recorded and tracked in the Fleet Management System – RTA,
- Ensure that the inventory count of vehicle parts in the Fleet Management System is accurate and reliable,
- Properly tag and organize vehicle parts in the Parts Room,
- Periodically conduct inventory counts of vehicle parts.

Management's Response

In October 2013, a reorganization of the supervisory functions at the Fire Logistics Division was implemented. A baseline inventory was established and all parts were tagged and reorganized in the Fleet Management System – Ron Turley and Associates (RTA). The Logistics Division Manual outlines policies and procedures and clearly defines the business process for maintaining inventory control and tracking through the Fleet Management System. To ensure compliance, staff will conduct weekly cycle counts that will be verified by their supervisor, Deborah Olivas. In addition, the Fire Department's Finance Program will continue to conduct annual parts inventory audits of the Logistics Division.

Responsible Party

Terry Kebschull, Fire Logistics Chief

Implementation Date

Completed October 2013

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Finding 3

Questionable Auto Part Purchases

As required by the City of El Paso Purchasing Manual dated January 2010:

Section 45.8 – “Non-Allowable Expense”: *City staff is prohibited from using City funds for any personal financial gain.*

Section 45.8 – “Non-Compliance”: *Individuals violating this policy may be required to reimburse the City for unauthorized personal purchases.*

A review of vehicle parts purchased from “O’Reilly Auto Parts” during the period of March 1, 2013 to August 31, 2013 was conducted. Our assessment consisted of identifying uncommon or questionable vehicle part purchases. Based on our review we identified:

- Five invoices containing 19 questionable vehicle parts totaling \$394.79. These vehicle parts were not compatible with Fire Department’s vehicles.

Recommendation

The information identified in this finding has been referred to the Fire Chief and the Office of Professional Standards. The Fire Department should investigate the five invoices containing the 19 questionable parts totaling \$394.79 and determine if vehicle parts were purchased for personal use or gain.

Management’s Response

The Internal Audit Office was immediately notified when the Fire Department discovered the questionable purchases. A full investigation was conducted by the El Paso Fire Department’s Professional Standards Office which concluded that a violation had occurred. The audit and the investigation confirmed that only one employee was responsible for the violations in this instance. As a result of the findings, the individual’s employment with the City of El Paso was terminated.

Responsible Party

Samuel Peña, Fire Chief

Implementation Date

Completed on January 13, 2014

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Finding 4

Internal Control Weaknesses

The overall purpose of internal controls is to help an organization achieve its mission and accomplish certain goals and objectives. An effective internal control system helps to safeguard resources against loss due to waste, abuse, mismanagement, errors, and fraud.

A review of the Fire Department's procedures for requesting, ordering, receiving, and distributing vehicle parts was conducted. Based on our review, the following internal control weaknesses were identified:

- There are no segregation of duties and management involvement in the process of ordering, receiving, and approving vehicle parts.
- There is no process in place to verify if vehicle parts were charged to work orders or recorded in the parts inventory.
- Material Specialists do not record work order, stock, or vehicle information on the invoice. A random sample of 15 invoices identified that 14 out of 15 (93.3%) invoices reviewed contained no work order, stock, or vehicle information on the invoice.
- Fleet Technicians have unsupervised access to the Parts Room during non-operating hours while on-call.
- There are no surveillance cameras in the Parts Room or the Maintenance Shop.

Recommendation

The Fire Department should improve its procedures when ordering and receiving vehicle parts by:

- Separating duties and involving management in the process of ordering, receiving, and approving vehicle parts,
- Implementing a review process to ensure vehicle parts were charged to a work order or recorded in the parts inventory,
- Limiting access to the Parts Room during non-operating hours,
- Implementing a process to record work order, stock, or vehicle information on the invoice.
- Installing surveillance cameras in the Parts Room and the Maintenance Shop.

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Management's Response

The new workflow process will be utilized in combination with the department's Fleet Maintenance System (RTA) to assure that all work order requirements are met and vehicle parts are ordered, received, and approved correctly. Inventory control will require that parts are assigned to a work order number or inventory assignment. The process includes a review and signature by the Fleet Maintenance Supervisor indicating the work order is accurate and complete. All vehicle parts invoices are now reviewed by the Logistics Program Managers for accuracy and completeness before they are approved for payment.

During business hours the Parts Room is only accessible by the assigned Materials Specialists. After regular business hours, access has been limited to the on-site security officer, who will sign out any part requested by the on-call mechanic. The previous security cameras were taken off-line when Fire Headquarters was relocated. Due to the investigation, a Technology Purchase Request (TPR) was sent to Information Technology Services in December of 2013 for the reinstallation of the security camera system.

Responsible Party

Terry Kebschull, Fire Logistics Chief

Implementation Date

Manuals will be published on February 14, 2014. Anticipated 6-8 weeks after TPR approval for security system installation.

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INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded our work on the objectives of the Fire Department Auto Part Purchases Audit. In accordance with *Generally Accepted Government Auditing Standards* we are required to conclude whether the Fire Department met the objectives of this audit. Based on our audit work, we have determined that the Fire Department did not meet the audit objectives. These objectives include:

- Vehicle part purchases are not in compliance with the City of El Paso's Purchasing Manual dated January 2010.
 - Five invoices containing 19 questionable part purchases totaling \$394.79 were identified.
- Internal controls for ordering, receiving, and approving vehicle parts have not been established.
 - Policies and Procedures for the Fleet Maintenance Division are outdated and vague.
 - No segregation of duties and management involvement in the process of ordering, receiving, and approving vehicles parts.
 - No review process in place to verify if vehicle parts were properly charged to a work order or recorded in the parts inventory.
 - No process to record work orders, stock, or vehicle information on the invoice.
 - Unsupervised access to the Parts Room during non-operating hours while employees are on-call.
 - There are no surveillance cameras in the Parts Room or the Maintenance Shop.
- The parts inventory process is not operating efficiently and effectively.
 - The Fleet Management System – RTA does not reflect an accurate or reliable inventory of vehicle parts on hand.
 - Vehicle parts are not properly tagged and organized in the Parts Room.
 - Periodic inventories of vehicle parts are not conducted.

Based on the results of the audit, consideration needs to be given by City Management and the Fire Chief to consolidate the Fire Department Maintenance Shop with General Services. The General Services Department has its own Fleet Management System – Fleet Focus. The General Services Department also possesses the expertise in the maintenance of heavy equipment like Fire Trucks. The General Services Department provides maintenance services to every general fund department except the Fire Department.

During the completion of the audit, the Fire Department identified some of the same issues listed in the Audit Report. The Fire Department is in the process of addressing and correcting the findings. By implementing the recommendations contained in this Audit Report should assist the Fire Department in strengthening its internal controls.

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We wish to thank the Fire Department's management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File

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