



**CENTRAL FLEET
MANAGEMENT**

PERFORMANCE AUDIT

JULY 1, 2009 THROUGH NOVEMBER 30, 2010

**CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT**

March 10, 2011

The Honorable Alan P. Krasnoff and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

As part of the annual audit plan, we reviewed the City of Chesapeake's Central Fleet Management's (Central Fleet) administrative processes for the period of July 1, 2009 to November 30, 2010. Our review was conducted for the purpose of evaluating whether Central Fleet's processes (1) were effective and efficient, and (2) goods and services were procured in accordance with applicable City and State guidelines. The audit of Central Fleet focused significantly on a review of fuel site safety and security, competitive contract procurement issues, and other operational issues.

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.

For Fiscal Year (FY) 2009-2010, Central Fleet had an operating budget of \$9,013,734 and a capital outlay budget of \$6,369,277. Central Fleet started FY2010 with an authorized compliment of 41 full-time personnel; however, the City's 2010 reduction in force reduced its compliment by two staff members. Central Fleet occupied offices on Executive Blvd at the City's Butts Station Operating Center. They were also responsible for seven fuel site locations throughout the City.

To conduct this audit, we made observations at Central Fleet's fuel site locations, and obtained an understanding of Central Fleet's expenditures and competitive bidding practices. We also performed an in-depth study of Central Fleet's work flow processes which included the uploading of vehicles into the DM2 software system, the chipkey activation process for fuel pumps, and the process for transferring data captured by the

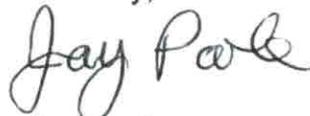
DM2 system to Central Fleet's FleetFocus system and AssetWorks InfoCenter (InfoCenter) - the system used to process reports for departmental use. Surveys were also conducted to gain insight on user departments' perceptions of their satisfaction with Central Fleet's service delivery, as well as their confidence in the reliability and accuracy of reports produced by Central Fleet's InfoCenter system. We also obtained an understanding of controls over fuel, parts inventory, and fuel credit card purchases.

Based on our review we determined that, although the majority of Central Fleet users were highly satisfied with the services they provided, there were several significant operational issues that hindered Central Fleet's ability to carry out its objectives. These issues included work flow deficiencies, fuel inventory credit card and safety controls, parts and equipment inventory control, and the need to issue Invitation For Bids (IFBs) for repair contracts and reduce the number of non-PO vouchers.

To address these issues, we recommended that Central Fleet continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data. We also recommended that Central Fleet develop procedures that facilitate accurate monitoring and reconciliation of fuel inventories, eliminate its fuel credit cards, use Public Procurement to establish one centralized credit distribution point, and take steps to improve the safety and security of the fuel sites. Central Fleet should also secure and reconcile the parts and equipment inventories, work to expedite the IFB issuance process for vehicle and equipment repairs, issue all future personal chipkeys using employee numbers assigned by the City, and work with Public Procurement to stage the release of multiple POs per contract to control its spending.

This report in draft was provided to Central Fleet officials for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Central Fleet management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Virginia

C: William E. Harrell, City Manager
Amar Dwarkanath, Deputy City Manager
George S. Hrichak, Fleet Manager

Managerial Summary

A. Introduction, Background, and Scope

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According to the FY2010 City Budget, Central Fleet's annual Internal Service Fund and Capital Budget was in excess of \$15 million, which was approximately 2% of the City's total operating budget. In July 2010, the City transferred Central Fleet's line of reporting from the Department of General Services to the City Manager's Office. As of the date of our report, however, the City had not yet reinstated Central Fleet to full departmental status.

To conduct this audit, we made observations at Central Fleet's fuel site locations, and obtained an understanding of Central Fleet's expenditures and competitive bidding practices. We also performed an in-depth study of Central Fleet's work flow processes which included the uploading of vehicles into the DM2 software system, the chipkey activation process for fuel pumps, and the process for transferring data captured by the DM2 system to Central Fleet's FleetFocus system and AssetWorks InfoCenter (InfoCenter) - the system used to process reports for departmental use. Surveys were

also conducted to gain insight on user departments' perceptions of their satisfaction with Central Fleet's service delivery, as well as their confidence in the reliability and accuracy of reports produced by Central Fleet's InfoCenter system. We also obtained an understanding of controls over fuel, parts inventory, and fuel credit card purchases.

Major Observations and Conclusions

Based on our review we determined that, although the majority of Central Fleet users were highly satisfied with the services they provided, there were several significant operational issues that hindered Central Fleet's ability to carry out its objectives. These issues included work flow deficiencies, fuel inventory credit card and safety controls, parts and equipment inventory control, and the need to issue Invitation For Bids (IFBs) for repair contracts and reduce the number of non-PO vouchers.

To address these issues, we recommended that Central Fleet continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data. We also recommended that Central Fleet develop procedures that facilitate accurate monitoring and reconciliation of fuel inventories, eliminate its fuel credit cards, use Public Procurement to establish one centralized credit distribution point, and take steps to improve the safety and security of the fuel sites. Central Fleet should also secure and reconcile the parts and equipment inventories, work to expedite the IFB issuance process for vehicle and equipment repairs, issue all future personal chipkeys using employee numbers assigned by the City, and work with Public Procurement to stage the release of multiple POs per contract to control its spending.

This report in draft was provided to Central Fleet officials for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Central Fleet management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Performance Information

According to the City's FY2010 budget document, Central Fleet was responsible for managing all of the rolling stock for the City from procurement through disposal. Central Fleet was also responsible for performing preventative maintenance, inspections, major and minor mechanical repairs, and providing other automotive support to provide a safe, reliable, and economical fleet for the City's operations. Central Fleet's staff also maintained all miscellaneous power equipment (chainsaws, tractors, pumps, etc.) belonging to the City. Central Fleet operated seven fueling sites located throughout the City for use by City drivers. Central Fleet also controlled the distribution of fuel and repair parts, maintained individual vehicle and equipment records, and recommended the purchase of new and replacement vehicles and equipment.

Customer service surveys issued by Central Fleet in 2009 indicated that the majority of survey respondents gave an “excellent” rating to the garage’s performance. The Audit Services’ 2010 survey results were consistent with Central Fleet’s survey results and also showed that department heads also rated the garage’s performance as “excellent” and “good.” However our survey noted that, although department heads were very satisfied with the overall garage staff performance, they were not as satisfied with vehicle and equipment reports provided them by Central Fleet’s InfoCenter for their management purposes.

In September 2009, the City was awarded a grant of \$244,214 as part of the national Clean Diesel Funding Assistance Program funded by the American Recovery and Reinvestment Act (ARRA). In October 2010, these funds were obligated for the purpose of funding the premiums associated with the cost of the retrofitted technology. On November 29, 2010, the City encumbered a total of \$1,140,047 to purchase five diesel-fueled refuse trucks and one grapple truck to replace six vehicles currently in operation that were less energy efficient than the ARRA required. All \$244,214 of the ARRA grant funds were applied to the premiums associated with those purchases.

For FY 2010, Central Fleet removed 36 vehicles from the fleet since they were too costly to maintain for their age. This action saved the city \$249,975 in repair costs and generated \$27,135 in revenue from the disposal of the equipment. Central Fleet continually strived to reduce the size of the fleet as evidenced by the decrease in vehicles from 1,398 in FY 2004 to 1,247 vehicles in FY2009.

Central Fleet had undertaken a number of environmental initiatives. These initiatives included:

- Recycling 190,500 pounds of paper, cardboard, and plastic, saving the City \$16,192 in tipping fees
- Using inmate labor to wash 4,260 vehicles saving the city \$111,738 in car washes and avoiding \$127,930 in environmental costs
- Recycling 139,232 pounds of metal, generating \$7,107 in revenue
- Recycling 9,490 gallons of used oil, generating \$3,892 in revenue
- Recapping 696 tires for reuse in the fleet
- Recycling 83,030 pounds of tires

Central Fleet was awarded twice, in 2009 and 2010, the Automotive Service Excellence “Blue Seal” award from the National Association of Service Excellence, becoming the only ASE Certified Garage in Chesapeake, one of only three municipal garages certified in Virginia, and only one of 172 municipal garages certified in the nation.

Central Fleet was chosen as one of the 100 Best Government Fleets in North America for 2009 and 2010 by Bobit Business Media Fleet Group, publishers of *Automotive Fleet*, *Work Truck*, *Government Fleet*, *Business Fleet*, *Fleet Financials*, and *GreenFleet* magazines, and The 100 Best Fleets in North America.

C. Work Flow and Fuel Control Issues

Most user departments were very satisfied with Central Fleet's service performance delivery. Despite this situation, Central Fleet had a number of workflow and fuel control issues that needed to be addressed. These issues included improvement of their workflow and the accuracy of user reports, improving fuel inventory controls, eliminating fuel credit cards, and addressing fuel safety and security issues.

1. Work Flow and System Deficiencies

Finding - The workflow processes utilized by Central Fleet for vehicle assignment, chipkey issuance, and mileage verification were not sufficiently controlled to ensure the accuracy of vehicle, fuel, and odometer information. In addition, user departments were less than satisfied with the accuracy of vehicle and equipment reports produced by Central Fleet's InfoCenter system.

Recommendation - Central Fleet should continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data.

Response - Central Fleet Management (CFM) agrees with the finding. The accuracy of the data in the InfoCenter reporting module is due, in part, to incorrect mileage data entry when employees fuel their vehicles. With FuelFocus, the mileage will be captured in the system electronically from the vehicle's on-board computers. There are still equipment in the fleet that don't have on-board computers to track miles/hours; this means we'll have to use fueling keys to identify those pieces and to activate the pumps to refuel, such as for: lawnmowers, hand-held power tools, and some off-road construction equipment. However, CFM is able to run exception reports on the use of the new fueling keys to track usage. The operators will still be responsible for entering the actual mileage or hour-meter reading for that equipment, if appropriate, to insure accurate information in our database for reporting. The new fueling system will also use the employee ID cards to track who is fueling which vehicle, and reports may be run on that data to monitor fuel distribution.

2. Fuel Inventory Control

Finding - Although Central Fleet accumulated the data necessary for a perpetual inventory of gasoline and diesel fuel, fuel inventory reconciliations were only being performed annually. Additionally, the levels of diesel and gasoline fuel inventory were inaccurate because the methods of measuring fuel were inaccurate.

Recommendation - Central Fleet should perform more frequent reconciliations of fuel inventory based on the EPA requirements. Additionally, it should ensure the methods of measuring the actual fuel inventory are accurate.

Response - Central Fleet Management agrees with the findings. There is no local, state, or federal requirement for non-commercial fuel sites to calibrate their equipment. However, it does make good business sense to accurately track fuel distribution. CFM will explore the costs associated with regularly calibrating the fuel pumps and TLS systems and determine if it is cost effective. Central Fleet's fuel reconciliations will be moved up from annual inventory checks to quarterly inventory checks with the eventual goal of performing fuel reconciliations monthly. Spreadsheets of the fuel inventories and journal entries accounting for differences will be maintained electronically on the garage servers.

CFM's cost to repair the unreadable totalizers on four fuel pumps is \$1,000. Additionally, the cost to calibrate the fuel pumps at all fueling sites is \$2,500. This cost does not include fees to adjust pumps out of calibration. Additional fees would depend upon the reasons for pumps being out of calibration.

3 . Fuel Credit Cards

Finding - Fuel Credit Card distribution within the City was not sufficiently centralized. In addition, many of the fuel credit card transactions did not have adequate supporting documentation. Also, some cards were used for local fuel purchases.

Recommendation - The City should eliminate all fuel credit cards and have new credit cards issued through Public Procurement, to establish one centralized distribution point.

Response - Central Fleet Management agrees with this finding. CFM notified all departments, in our September 2006 Fleet News and at our October 7, 2010 Fleet User's Group Meeting, that Central Fleet's fuel company credit cards will be canceled on January 31, 2011. Departments have been working with Purchasing to obtain P-cards for those individuals needing to purchase fuel when traveling. The Sheriff's Department recently obtained an extension of the January 31st deadline to get their P-cards in place. The Sheriff's Department will have their program in place by February 28th at which point all of the fuel credit cards will be deactivated.

4. Fuel Site Safety and Security

Finding - The safety and security of the fueling sites needed improvement. Spill Prevention, Control, and Countermeasure (SPCC) plans for the fuel sites were not readily accessible and were not clearly marked. The fuel nozzles were not routinely tested to ensure automatic shut off when vehicle/equipment tanks were full. There was no automated emergency services notification in the event of a spill. Also, a heavy rainfall contaminated two in-ground fuel tanks.

Recommendation - Central Fleet should take steps to improve the safety and security of the fuel sites.

Response - Regarding the Spill Prevention, Control, and Countermeasure (SPCC) Plan, Part 40 of the Code of Federal Regulations (CFR) 112.3 states, "the plan must be available for on-site review by the Regional Administrator during normal working hours." All of our inspectors interpret that to mean that the SPCC plan is to be available at the City Garage, not the individual fueling stations. Signs are posted at the fuel sites informing the operator what to do in case of a spill. Central Fleet will look at the signs to see what improvements can be made to increase their visibility. CFM is in the process of removing the old, unused, SPCC boxes at the fueling sites; all boxes should be removed by the end of this week.

CFM will research to see if an alarm notification can be incorporated into the fuel island's hardware upgrade with the FuelFocus program.

There is no Local, State or Federal requirement to test the automatic shutoff features on fuel nozzles. Operators are responsible to notify the Garage when nozzles fail, and most operators do; when notified, the Garage sends a Fleet Road Call technician to replace the nozzle. Manpower shortages limit CFM from testing all 62 nozzles on a regular basis.

The Public Works Department schedules the annual training on spill prevention. Central Fleet will ask them to invite all users of the City's fueling sites to participate in the training if space and funding allows. Additionally, CFM will incorporate some spill prevention training in quarterly Fleet User's Group meetings.

CFM's cost to repair the damaged bollards at the fuel sites is \$2,400. We will determine if sufficient funding is available for the repairs.

D. Other Operational Issues

We noted that Central Fleet needed to enhance inventory controls for parts and equipment. It also needed to expedite the IFB process for vehicle and equipment repair work. Central Fleet needed to process more purchases through the Purchase Order (PO) payment method to control spending. Finally, Central Fleet needed to develop methods to protect social security numbers from identity theft.

1. Parts and Equipment Inventory Control

Finding - Central Fleet was not reconciling their parts inventory to their perpetual inventory records maintained in FleetFocus. Additionally, the City's equipment inventory was not secure and was accessible to employees and contractors.

Recommendation - Central Fleet should take steps to both better secure and reconcile the parts and equipment inventories.

Response - Central Fleet Management disagrees in part with this finding. CFM's parts inventory is in a secured location, monitored by our parts contractor, Tidewater Fleet Supply, LLC., with limited access to authorized persons. The parts inventory was reconciled by CFM employees five times in FY09 and four times in FY10 using FleetFocus.

The City's powered hand-held equipment inventory was not reconciled on a regular basis. And, the back door to the parts room, which is locked to outside entry, was able to be opened from the inside to gain access to the outside as a fire exit. It is through this door that a City employee, who was authorized to be in the parts room to repair computers, stole the powered equipment. That back door has since had an alarm installed which activates whenever the door is opened and which requires a key to silence. Additionally, the powered small equipment has been moved into an enclosed, locked, partition in the parts room where it will be inventoried quarterly as part of the cyclic inventory performed on the parts inventory.

2. Repair Contracts

Finding - Although Central Fleet had been working with Public Procurement to issue a formal bid for repair work, delays in the development and issuance of an open Invitation for Bid (IFB) caused undue delays in open competition for equipment and vehicle repair work.

Recommendation - Central Fleet should work to expedite the IFB process. Central Fleet should establish a date to publish and award the IFB for Central Fleet vehicle and equipment repairs to comply with competitive bidding requirements.

Response - Central Fleet Management does not establish dates to publish and award IFB's, that is strictly the function of the City's Purchasing and Contract Manager. CFM will provide IFB specifications for repair contracts (accident repairs, truck repairs, hydraulic repairs, and small equipment repairs) to the Purchasing and Contract Manager by July 1, 2011.

3. Volume of Small Purchases

Findings - The large volume of Central Fleet's small purchases (known as non-Purchase Order vouchers) valued at less than \$5,000 diverted staff resources away from garage operations, and also bypassed Public Procurement's purchase order (PO) spending controls.

Recommendation - Central Fleet should work with Public Procurement to stage the release of multiple POs per contract to control City spending throughout the year.

Response - Central Fleet Management agrees with this finding. Finance suggests we continue to operate as we are now until we get the repairs contracts in place through Purchasing.

4. Identity Theft Protection

Finding - Several Central Fleet staff members had access to the chip key system, yet there was no system in place to prevent unauthorized access to social security numbers in the database.

Recommendation - Central Fleet should take steps to remove the social security numbers from the database and issue all future personal chip keys using employee numbers assigned by the City.

Response - Central Fleet Management agrees with this finding. With the new FuelFocus fueling system, city of Chesapeake badge number or RFID sticker number will be used to identify users of the fueling system. The old spreadsheet with employee SSN's that was used in conjunction with the DM2 software has been destroyed. Access to the present database holding the SSN's in DM2 is password protected and restricted to the three CFM employees responsible for issuing chip-keys and maintain the DM2 chip-key program. Once the FuelFocus system is up and running the old database using the employee's SSN will be destroyed.

CENTRAL FLEET MANAGEMENT
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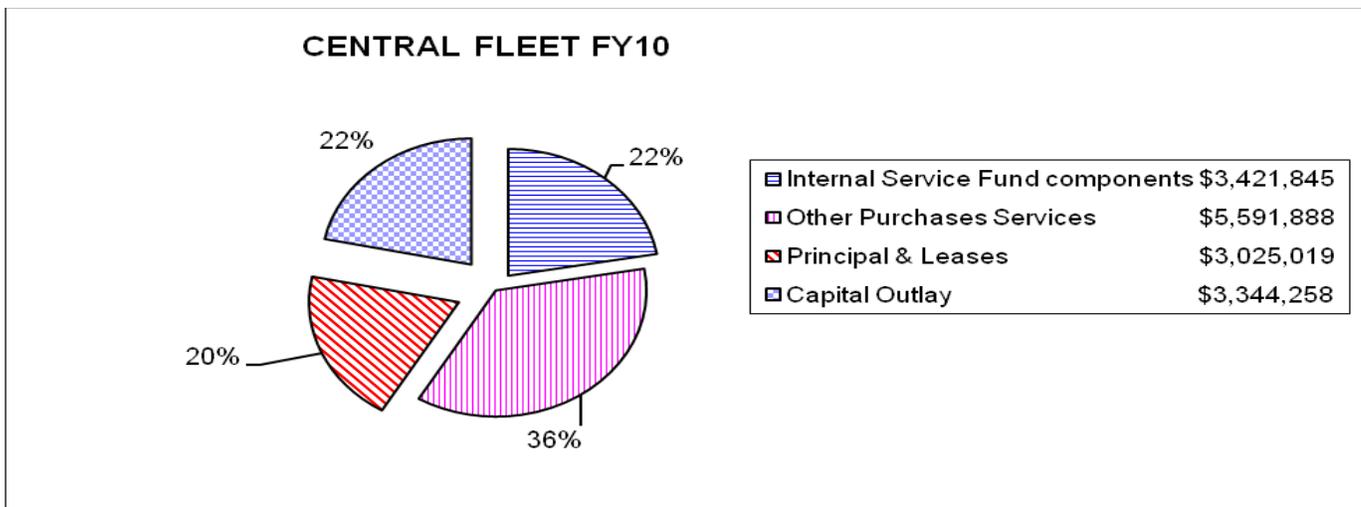
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Exhibit A Central Fleet's FY2010 Operating Budget



According to the FY2010 City Budget, Central Fleet's annual Internal Service Fund and Capital Budget was in excess of \$15 million, which was approximately 2% of the City's total operating budget. In July 2010, the City transferred Central Fleet's line of reporting from the Department of General Services to the City Manager's Office. As of the date of our report, however, the City had not yet reinstated Central Fleet to full departmental status.

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B. Performance Information

1. Mission and Organization

According to the City's FY2010 budget document, Central Fleet was responsible for managing all of the rolling stock for the City from procurement through disposal. Central Fleet was also responsible for performing preventative maintenance, inspections, major and minor mechanical repairs, and providing other automotive support to provide a safe, reliable, and economical fleet for the City's operations. Central Fleet's staff also maintained all miscellaneous power equipment (chainsaws, tractors, pumps, etc.) belonging to the City. Central Fleet operated seven fueling sites located throughout the City for use by City drivers. Central Fleet also controlled the distribution of fuel and repair parts, maintained individual vehicle and equipment records, and recommended the purchase of new and replacement vehicles and equipment.

As outlined in the FY2010 budget, Central Fleet's overall goals were to:

- Provide all departments with a fleet of safe, well-maintained vehicles and equipment.
- Provide cost effective and timely repairs to all City-owned vehicles and equipment.
- Continue increasing the technical competence of all technicians by providing up-to-date training.
- Replace equipment before operational costs exceed the usefulness of the equipment.
- Better utilize equipment and reduce the size of the fleet.
- Ensure sufficient fuel for vehicles and equipment.

In order to carry out its goals, Central Fleet organized its staff into three functional areas:

Administrative Area. The administrative division consisted of a small administrative staff and senior Central Fleet management. The administrative staff was responsible for the processing and approval of Central Fleet payments. The administrative staff was also responsible for the issuance of vehicle and personal chip keys and the download of data from the fuel sites' DM2 system to the FleetFocus System. The status of preventative maintenance and fuel usage for the fleet was available to user departments through the InfoCenter. Central Fleet Management relied heavily on the FleetFocus system for work order processing, parts inventory, and vehicle/equipment status reports.

Automotive Parts Area. Tidewater Fleet Supply (TFS), LLC was contracted by the City to provide automotive parts for City vehicles and equipment. Payments to TFS were based only on those items that were installed on vehicles. In addition to their

contractual responsibilities, TFS was responsible for verifying receipt of goods from other vendors and maintaining Central Fleet's vehicle parts perpetual inventory records.

Fleet Services/Garage Area. Fleet Services was responsible for the City's garage operations and conducting preventative maintenance on the City's rolling fleet of heavy and light equipment. Fleet Services was also responsible for updating and maintaining the work order history for vehicles, conducting safety and hazmat training, managing the customer service desk, and ensuring sufficient fuel availability for City vehicles and equipment.

Central Fleet had developed standardized procedures for their garage operations and a Central Fleet (CF) Customer Handbook that explained the services provided and departmental responsibilities. Central Fleet also conducted regular Central Fleet User's Group meetings.

The Fleet Manager coordinated with Human Resources to structure a specific mechanic career path for personnel. All mechanics above Mechanic I were required to hold Automotive Service Excellence (ASE) certifications. Some of the ASE certifications included:

- Automobile
- Refrigerant recovery and recycling
- Collision repair and refinish
- Engine machinist
- Transit bus
- Parts specialist
- Alternate fuels/CNG
- Automobile service consultant
- Truck equipment

In April of 2008 Fleet Counselor Services, a consulting firm hired by Central Fleet, performed a Fleet Utilization and Replacement Analysis for the City's Fleet equipment. Although their study included a review of garage operations, their primary recommendation was to implement a transfer of under-utilized vehicles to a centralized motor pool, with the elimination of some vehicles and equipment. Central Fleet addressed this finding and executed a fleet reduction in 2009. They also implemented the Invers Mobility Solutions system, a security system used to schedule and secure keys for the pool vehicles located within the City Hall Complex and the City Garage.

2. Central Fleet Service Delivery Perceptions

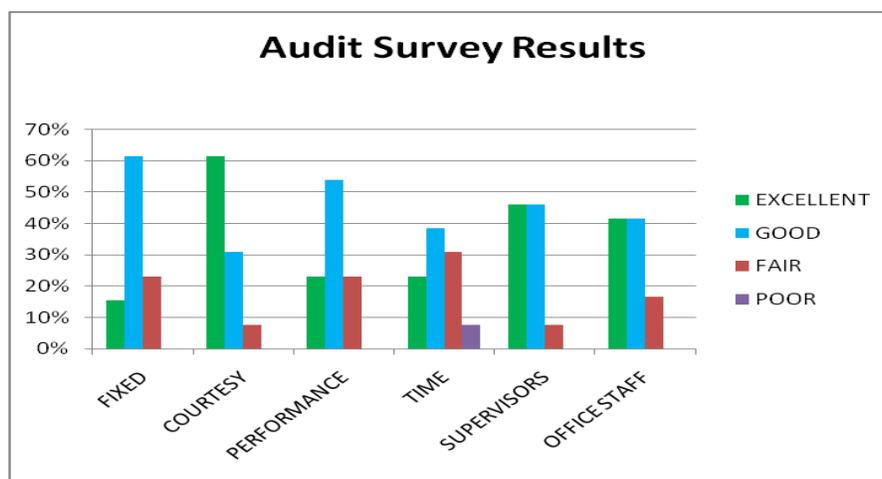
Audit Services conducted an independent survey to gather general information from the heaviest user departments who would be most likely to use the InfoCenter reports produced by Central Fleet. Ten surveys were issued directly to City department heads; however, 14 surveys were returned, as some department heads made copies for division supervisors to complete.

Audit Services developed survey questions to determine how satisfied departments were with the fleet services in the garage as well as the reliability of FleetFocus management reports. Since the Central Fleet’s InfoCenter system tracked vehicle and equipment inventory, the status of preventative maintenance and repairs, and fuel usage, we identified the departments that accessed their reports, how the reports were accessed, the type of reports used, and the data provided. Finally, we evaluated the adequacy of instructions and training for user departments on accessing and using the InfoCenter reports. We also attempted to determine if there were any mandatory departmental follow-up reporting requirements.

Customer service surveys issued by Central Fleet in 2009 indicated that the majority of survey respondents gave an “excellent” rating to the garage’s performance. The Audit Services’ 2010 survey results were consistent with Central Fleet’s survey results and also showed that department heads rated the garage’s performance as “excellent” and “good.” However our survey noted that, although department heads were very satisfied with the overall garage staff performance, they were not as satisfied with vehicle and equipment reports provided them by Central Fleet’s InfoCenter for their management purposes.

Department heads were given the opportunity to comment on how satisfied they were with Central Fleet’s staff’s performance with regard to timeliness of repair, courtesy shown by service garage staff, correction(s) of problems, general performance, assistance offered by garage supervisors, and parts/office staff. The survey results were consistent with those of Central Fleet’s survey in that overall, department heads were very satisfied with the work provided by the garage staff. Of those who responded, the majority were satisfied with the garage’s correction(s) of the problem(s) (the “fixed” graph) with 77% rating it as excellent or good.** Using this same criteria, courtesy shown by service personnel and technicians was rated at 92%, and Central Fleet’s overall performance was rated at 77%.

Exhibit B Satisfaction Survey Results



** The percentages referenced in narrative above were calculated by adding the excellent and good results together.

As part of our survey, we also asked questions about department use of InfoCenter reports. Specific survey results regarding InfoCenter reports were as follows:

- Ten of the 14 (71%) respondents reported having access to the FleetFocus InfoCenter. The other remaining 4 did not respond to this question.
- Seven of the 10 respondents (70%) accessed reports via the InfoCenter at least monthly. One respondent commented that their department was just starting to use the system. Another commented that they were not aware that vehicle information was available through the InfoCenter.
- Six of the 10 respondents reported using multiple InfoCenter functions while four reported using only one function. The functions/modules most accessed were Customer Access, Reservations, and the Reporting modules.
- When asked if training on InfoCenter was provided, six of the nine respondents indicated receiving training in either multiple or single functions. Three respondents did not receive training, and five did not respond to the question.
- The reports most frequently printed by user departments included equipment inventory inspections due, fuel usage vehicle/equipment usage, equipment work order history, and mileage reports.

3. Clean Diesel Grant

Section 792 of the Energy Policy Act of 2005 authorized the EPA to award grants and low-cost revolving loans to eligible entities to fund the costs of a retrofit technology that significantly reduced emissions. The objective of the assistance under this program was to achieve significant reductions in diesel emissions in terms of tons of pollution produced and reductions in diesel emissions exposure, particularly from fleets operating in areas designated by the Administrator as poor air quality areas.

In September 2009, the City was awarded a grant of \$244,214 as part of the national Clean Diesel Funding Assistance Program funded by the American Recovery and Reinvestment Act (ARRA). In October 2010, these funds were obligated for the purpose of funding the premiums associated with the cost of the retrofitted technology. On November 29, 2010, the City encumbered a total of \$1,140,047 to purchase five diesel-fueled refuse trucks and one grapple truck to replace six vehicles currently in operation that were less energy efficient than the ARRA required. All \$244,214 of the ARRA grant funds were applied to the premiums associated with those purchases.

4. Central Fleet Accomplishments and Awards

For FY 2010, Central Fleet removed 36 vehicles from the fleet since they were too costly to maintain for their age. This action saved the city \$249,975 in repair costs and generated \$27,135 in revenue from the disposal of the equipment. Central Fleet continually strived to reduce the size of the fleet as evidenced by the decrease in vehicles from 1,398 in FY 2004 to 1,247 vehicles in FY2009.

Central Fleet had undertaken a number of environmental initiatives. These initiatives included:

- Recycling 190,500 pounds of paper, cardboard, and plastic, saving the City \$16,192 in tipping fees
- Using inmate labor to wash 4,260 vehicles saving the city \$111,738 in car washes and avoiding \$127,930 in environmental costs
- Recycling 139,232 pounds of metal, generating \$7,107 in revenue
- Recycling 9,490 gallons of used oil, generating \$3,892 in revenue
- Recapping 696 tires for reuse in the fleet
- Recycling 83,030 pounds of tires

At the time of our audit Central Fleet was also attempting to determine if it would be in the City's best interest to begin utilizing Compressed Natural Gas (CNG) as a fuel for the City's fleet vehicles. CNG had the potential to save the City more than 25% per gallon compared to the cost of diesel or gasoline.

Central Fleet was awarded twice, in 2009 and 2010, the Automotive Service Excellence" Blue Seal" award from the National Association of Service Excellence, becoming the only ASE Certified Garage in Chesapeake, one of only three municipal garages certified in Virginia, and only one of 172 municipal garages certified in the nation.

Central Fleet was chosen as one of the 100 Best Government Fleets in North America for 2009 and 2010 by Bobit Business Media Fleet Group, publishers of *Automotive Fleet*, *Work Truck*, *Government Fleet*, *Business Fleet*, *Fleet Financials*, and *Green Fleet* magazines, and The 100 Best Fleets in North America.

Government Fleet's Public Sector Fleet Manager of the Year award, sponsored by Automotive Resources International (ARI) and Fleet Counselor Services, recognized outstanding achievements by government fleet professionals annually. The Fleet Manager was nominated in 2009 and 2010 by his peers for this prestigious award based on achievements in the areas identified below:

- Business plan development.
- Computer systems/technology utilization.
- Productivity initiatives.
- Policy and procedure development and implementation.
- Preventive maintenance programs.
- Utilization management.
- Vehicle acquisition and replacement programs.
- Customer service and downtime initiatives.
- Fuel management programs.
- 2009 and 2010 accomplishments

C. Work Flow and Fuel Control Issues

Most user departments were very satisfied with Central Fleet's service performance delivery. Despite this situation, Central Fleet had a number of workflow and fuel control issues that needed to be addressed. These issues included improvement of their workflow and the accuracy of user reports, improving fuel inventory controls, eliminating fuel credit cards, and addressing fuel safety and security issues.

1. Work Flow and System Deficiencies

Finding - The workflow processes utilized by Central Fleet for vehicle assignment, chipkey issuance, and mileage verification were not sufficiently controlled to ensure the accuracy of vehicle, fuel, and odometer information. In addition, user departments were less than satisfied with the accuracy of vehicle and equipment reports produced by Central Fleet's InfoCenter system.

Workflow processes, whether they are manual, automated, or a combination of both, should be designed to ensure that controls provide reasonable assurance of accuracy of reporting and efficiency of operations. Reporting systems should provide reasonable assurance as to the reliability of data and reports.

In reviewing Central Fleet's fueling operations we noted that the Central Fleet workflow processes established to assign vehicles to departments, authorize City employees to activate fuel pumps, and verify vehicle mileage were dependent on antiquated software. The workflow, related risks and control issues are highlighted in the table on the next page.

Exhibit C

Work Flow Processes, Risks and Control Issues

<u>Work Flow Processes</u>	<u>Risks and Control Issues</u>
<p>1. Central Fleet’s administrative staff assigned vehicle chipkeys to vehicles by using an antiquated MAS90 Launcher program.</p>	<p>1. Vehicles chipkeys could be assigned to the wrong department within the system. A system of controls did not exist to prevent and detect inaccurate vehicle assignment to departments. (i.e.: The system should have allowed Central Fleet to produce daily reports so the data entered could be validated.)</p>
<p>2. The DM2 system purchased in the mid1980’s would be used to code vehicle and personal chip keys upon written departmental supervisory approval.</p>	<p>2. Unauthorized chipkeys could be issued without being detected. Security reports could not be produced from the system to identified individuals who activated keys. Thus, the system lacked detective controls which would have identified those who activated chipkeys. (i.e.: The system should have produced a daily report that could have been compared to written supervisory authorizations.)</p>
<p>3. Employees who received activated vehicle and personal chipkeys could pump fuel from the City’s fueling stations upon manual entry of the personal identification code and vehicle odometer readings – data used by Central Fleet to monitor for upcoming preventative maintenance.</p>	<p>3. System controls did not exist to prevent custodians of chipkeys from entering erroneous odometer readings into the DM2 fuel sites (data required for fueling). Furthermore, the system did not prevent or detect the unauthorized fueling of non-city vehicles/equipment/or gas cans. Nor were there standard system generated reports that would identify and link fuel usage with personal chip keys. A chipkey custodian had the ability to fuel other City vehicles, more than one vehicle, or use vehicle fuel chipkeys to fill gas cans for small equipment. Central Fleet did not have security cameras at fueling sites, or manpower to monitor a security camera system. If there were problems with fueling, the custodians of the chipkeys were responsible for self-reporting those problems to Central Fleet.</p>
<p>4. The FleetFocus software pulled data from both the MAS90 and DM2 systems for statistical data.</p>	<p>4. Data produced from the FleetFocus system could be fed with inaccurate data provided by the MAS 90 Launcher program and DM2 system. The accuracy of data pulled from the FleetFocus software was dependent on the accuracy of vehicle and chipkey data (entered by the administrative staff) and the manual data (entered at fuel sites by chipkey custodians).</p>
<p>5. Central Fleet Administration provides vehicle and equipment data to user department from the FleetFocus system via the InfoCenter.</p>	<p>5. Departments did not appear to be verifying the accuracy of vehicle information (as noted in our survey results.) Thus, Central Fleet may not have been getting the follow-up needed to make the necessary corrections to vehicle records. Departments were not mandated to periodically check the validity of mileage reported in system generated reports.</p>

In addition to the workflow process control issues, most department heads were less than satisfied with the vehicle and equipment data residing in Central Fleet's InfoCenter system. As noted in our departmental audit survey, only two of the 14 (or 14%) were confident that the reports produced accurate and reliable reports all the time. Four of 14 (or 29%) believed that the reports produced from InfoCenter provided accurate and reliable data only some of the time. The remaining eight (or 57%) were not sure or did not access the reports at all. Those that did not feel that reports consistently provided accurate data described their concerns as follows:

- "The data was not always up-to-date."
- "After the latest changes with the system availability of information, the data was described as sporadic."
- "Errors resulted from using other vehicles' chip keys for small equipment affecting the fueling consumption for vehicles."
- "If last year's vehicle listing had some issues, they would only be corrected by Central Fleet staff if notified."
- "At times, fuel for vehicles from other departments was charged to another department."

Central Fleet recognized the deficiencies associated with their antiquated system. However, when Central Fleet requested a system upgrade General Services, which at the time had oversight responsibility for Central Fleet, denied the request. Furthermore, user department personnel were concerned about the accuracy of the information because neither they, nor Central Fleet had the means to ensure the integrity of fuel usage as it related to their vehicles and equipment. Consequently, since user departments did not appear to be consistently reviewing the InfoCenter records, they did not offer the feedback necessary for Central Fleet to make corrections.

Unless this situation is addressed, workflow deficiencies will continue, and Central Fleet will not have the ability to prevent practices such as the unauthorized fueling of non-city vehicles. Inaccurate data entered into the system will also continue to show up in vehicle and equipment status reports produced for departmental management purposes.

Recommendation - Central Fleet should continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data.

On November 23, 2010, City Council approved an appropriation of \$483,058 from the Central Fleet Fund Balance to the Capital Improvement Budget for a FuelFocus Upgrade. The funding is expected to cover the hardware for 1,400 vehicles and six fueling stations. The software is also expected to allow for real-time monitoring of fuel transactions to those vehicles equipped with Fuel Focus hardware. According to the request, the benefits of the FuelFocus upgrade include (1) improvement to the security and the accountability of the City's fleet fueling transactions (2) fueling from service stations to only those vehicles equipped with the Fuel Focus hardware, (3) savings on man-hours which were required to program chip-keys and correct fuel

transaction errors, (4) automatically stopping the flow of fuel when the fuel nozzle is pulled away from the vehicle, and (5) virtually eliminating the opportunity to put fuel into unauthorized vehicles. We recommend that Central Fleet continue to work with the City to develop more efficient and effective work flow processes similar to the ones the upgrade will provide.

Response - Central Fleet Management (CFM) agrees with the finding. The accuracy of the data in the InfoCenter reporting module is due, in part, to incorrect mileage data entry when employees fuel their vehicles. With FuelFocus, the mileage will be captured in the system electronically from the vehicle's on-board computers. There are still equipment in the fleet that don't have on-board computers to track miles/hours; this means we'll have to use fueling keys to identify those pieces and to activate the pumps to refuel, such as for: lawnmowers, hand-held power tools, and some off-road construction equipment. However, CFM is able to run exception reports on the use of the new fueling keys to track usage. The operators will still be responsible for entering the actual mileage or hour-meter reading for that equipment, if appropriate, to insure accurate information in our database for reporting. The new fueling system will also use the employee ID cards to track who is fueling which vehicle, and reports may be run on that data to monitor fuel distribution.

2. Fuel Inventory Control

Finding - Although Central Fleet accumulated the data necessary for a perpetual inventory of gasoline and diesel fuel, fuel inventory reconciliations were only being performed annually. Additionally, the levels of diesel and gasoline fuel inventory were inaccurate because the methods of measuring fuel were inaccurate.

Central Fleet was required to keep accurate perpetual inventory records for diesel and gasoline as part of an EPA six step process. This process was designed to help detect fuel leaks. It included measuring the tank's content; recording the amount pumped; recording fuel deliverables; using tank charts conversions; calculating daily changes in inventory; and calculating monthly changes in inventory. The maximum change in inventory allowed by federal regulations was 1% of throughput plus 130 gallons. If the difference exceeded the regulatory requirement for two months, the regulatory agency required notification within 24 hours that the tank(s) may be leaking.

As of FY2010, the City's total diesel and gasoline fuel inventory value was \$3,668,786. Measurements were taken for the purpose of obtaining the average price of inventory on hand for year-end financial reporting purposes. However, although fuel inventory reconciliations were being performed annually, there was no evidence of a consolidated reconciliation documenting the resolution of reconciling differences.

Some of the specific audit issues we identified follow:

- The stick readings were being recorded inaccurately because they appeared to be rounded to the nearest whole inch resulting in inaccurate conversions to gallons. Additionally, it appeared that an incorrect conversion table was used when the stick measurement were being converted to gallons. Variances existed between the 2010 year-end electronic measurements taken by the TLS system and the stick reading measurements. For instance, Central Fleet's records showed a TLS reading of 8,702 gallons for unleaded gas, yet the stick reading showed 8,253 gallons for the same timeframe.
- Central Fleet's records showed questionable or inaccurate meter readings for eight pumps. Specific rollback and roll forward readings are highlighted in the table below. The meter readings were unreliable for use in measuring amounts dispensed.

Exhibit D Questionable or Inaccurate Meter Readings

Pumps	Reading Dates	Meter Readings	Rollback/forward Differences
1	11/24/2009 12/3/2009	917,602.30 819,422.40	(98,179.90)
1	4/22/2010 4/29/2010	897,652.10 828,886.10	(68,766.00)
10	4/8/2010 4/15/2010	78,877.40 790,521.80	711,644
10	6/3/2010 6/9/2010	802,071.80 603,603.30	(198,468.50)
11	3/18/2010 3/26/2010	99,791.70 961.90	(98,829.80)
24	10/8/2009 10/15/2009	710,922.00 1,357.40	(709,564.60)
47	7/21/2009 7/30/2009	42,516.00 2,212.00	(40,304.00)
8	12/3/2009 12/10/2009	789,658.00 780,260.00	(9398.00)
8	2/26/2010 3/11/2010	788,996.00 780,175.00	(8,821.00)
8	5/19/2010 5/27/2010	789,145.00 780,243.00	(8,902.00)

- Customers continued to fuel vehicles during times when Central Fleet was taking physical measurements of the year-end fuel levels. This activity potentially compromised the accuracy of year-end inventory fuel balances. Also, although Central Fleet tracked total gallons delivered, Central Fleet personnel did not measure delivery quantities themselves. Instead, they relied solely on vendor invoices for the amount of fuel delivered and their accuracy.

- Central Fleet relied on the FleetFocus system to report the status of daily fuel usage. However, variances existed between the 2010 year-end ending tank balance for gasoline from the fleet focus readings compared to the year-end TLS reading. According to Central Fleet the variances were due to calibration errors.

This situation occurred because Central Fleet was not verifying the accuracy of meter readings, FleetFocus readings, TLS readings, and measuring stick readings. It also did not perform more frequent reconciliations of fuel inventory. As a result, fuel theft and leaks could go undetected, and vendors could be delivering less fuel than what was invoiced.

Recommendation - Central Fleet should perform more frequent reconciliations of fuel inventory based on the EPA requirements. Additionally, it should ensure the methods of measuring the actual fuel inventory are accurate.

Periodic reconciliations should be performed to identify any differences between the fuel inventory record and actual fuel readings. Central Fleet should establish standard inventory and reconciliation reports for the purpose of monitoring unusual fluctuations in fuel inventory. Central Fleet should also ensure that the DM2/FleetFocus systems and the TLS systems are periodically calibrated for accurate disbursement readings and readings of the fuel content within tanks.

Response - Central Fleet Management agrees with the findings. There is no local, state, or federal requirement for non-commercial fuel sites to calibrate their equipment. However, it does make good business sense to accurately track fuel distribution. CFM will explore the costs associated with regularly calibrating the fuel pumps and TLS systems and determine if it is cost effective. Central Fleet's fuel reconciliations will be moved up from annual inventory checks to quarterly inventory checks with the eventual goal of performing fuel reconciliations monthly. Spreadsheets of the fuel inventories and journal entries accounting for differences will be maintained electronically on the garage servers.

CFM's cost to repair the unreadable totalizers on four fuel pumps is \$1,000. Additionally, the cost to calibrate the fuel pumps at all fueling sites is \$2,500. This cost does not include fees to adjust pumps out of calibration. Additional fees would depend upon the reasons for pumps being out of calibration.

3 . Fuel Credit Cards

Finding - Fuel Credit Card distribution within the City was not sufficiently centralized. In addition, many of the fuel credit card transactions did not have adequate supporting documentation. Also, some cards were used for local fuel purchases.

Administrative Regulation 1.17 dated 6/1/2004 entitled Department of Finance City Credit Card Policy and Procedures allowed user departments to obtain credit cards through the Purchasing and Contracts Manager (Public Procurement Administrator) only with the authorization of the City Manager. This policy required department heads to approve subordinate credit card charges. It also required that original and itemized receipts be provided for each charge that was reflected on the credit card statement.

Administrative Regulation 1.23 dated 9/5/2008 entitled City Manager's Office Chesapeake Purchase Card (P-Card) Policy established a small purchase/travel/fuel card policy to allow City Departments and Offices to efficiently make small dollar purchases and pay for City business travel expenses. This policy made Directors/Officers responsible for ensuring that business expenses charged to the P-Cards were allowable and that the expenses had a justifiable business purpose.

In contrast to Administrative Regulation 1.17, Central Fleet issued credit cards to other user departments (such as the Sheriff's office, Community Services Board, Economic Development, Police Department, Fire Department, as well as to their own Central Fleet personnel). Central Fleet provided departments instructions of how to obtain City Commercial Fuel Credit Cards through their Central Fleet Customer's Handbook (Handbook). According to the Handbook, department heads and supervisors were responsible for the security, control, and use of fuel credit cards assigned to equipment under their supervision and for approving the replacement of cards when reported as lost. Secondly, commercial fuel credit cards were to be used only to refuel while traveling out-of-town. If the credit card was used within the City of Chesapeake, the department would be charged the difference between the City's bulk fuel cost and the commercial charge.

Audit Services extracted fuel purchases totaling \$27,083 from the City's PeopleSoft Financial Management System for FY 2010. A total of 56 monthly credit card payment vouchers for fuel were selected for testing. All of those fuel charges were posted against Central Fleet's budget instead of the individual users' department budgets. We also noted fuel purchases made on credit cards not issued by Central Fleet, and Central Fleet was not aware of those cards or fuel charges made on them. Those fuel purchases were processed against their respective user department budgets.

We noted that the majority of invoices tested did not include the supporting receipts, justification for expenses, or proper written management approval. Central Fleet's Administrative Assistant's signature was the only approval evident on the invoices prior to payment. Additionally, some City volunteers and employees had been fueling City vehicles with fuel credit cards from local retailers just miles away from City fueling pump stations, contrary to the guidance in the Handbook. Specifically, we noted the following:

- 37 of the 56 (or 66%) vouchers tested did not include original receipts as supporting documents to the invoices prior to payment.
- 48 of the 56 (or 85%) did not include director/officer approval. The only evident approval was from Central Fleet's Administrative Assistant I or Social Service's Administrative Assistant III positions. Only eight (or 14%) included the approving signature of a program director.
- 19 of the 56 (or 3%) were fuel transactions made by credit cards obtained independently by two departments. 35 of the 56 (or 62%) of voucher transactions tested included fuel purchases made at retail locations within the City of Chesapeake instead of Central Fleet's fuel pump stations. The remaining 21 (or 38%) were for fuel purchased outside of Chesapeake.
- Three of 56 (or 5%) of the fuel credit card transactions included other inappropriate charges such as a car wash, food, and oil.

This situation occurred because the City did not have a central distribution point for fuel credit cards. Although the majority of fuel credit cards were issued through Central Fleet, some credit cards were obtained directly by the user departments, while more could be obtained through the P-Card program from the Office of Public Procurement. Central Fleet was unaware of fuel credit card purchases made on cards obtained outside of Central Fleet. Additionally, both the Central Fleet and Public Procurement Administrators were unaware of each other's credit card distribution processes.

Also, Department Heads who were issued fuel credit cards through Central Fleet may not have recognized their responsibility to monitor, approve, and ensure proper support for fuel charges as prescribed by Administrative Regulations 1.17 and 1.23. Both regulations required department heads to approve subordinate credit card charges and required original, itemized receipts for each charge. The CF Customer Handbook, as noted earlier, only required department heads to be responsible for the security of the cards and the approval of replacement cards when reported as lost.

The lack of centralized controls for fuel cards may result in unauthorized fuel purchases. In addition, the City may be paying an unnecessary premium for gas purchased through the City-owned Fuel Credit Cards.

Recommendation - The City should eliminate all fuel credit cards and have new credit cards issued through Public Procurement, to establish one centralized distribution point.

Card distribution should be centralized under Public Procurement ,with adequate controls and documentation required. (Central Fleet and Public Procurement were working together toward one distribution center for credit cards.) Additionally, the cost of fuel purchased should be charged to the users' department budget instead of the Central Fleet budget. We also recommend that (1) new credit cards be subject to Administrative Regulations 1.23 and 1.17 with enforced policy regarding department/officer approval, and timely submission of original receipts as backup to invoices, (2) a full inventory occur of active and cancelled credit cards, and (3) employees who fail to submit original receipts have their cards cancelled.

Response - Central Fleet Management agrees with this finding. CFM notified all departments, in our September 2006 Fleet News and at our October 7, 2010 Fleet User's Group Meeting, that Central Fleet's fuel company credit cards will be canceled on January 31, 2011. Departments have been working with Purchasing to obtain P-cards for those individuals needing to purchase fuel when traveling. The Sheriff's Department recently obtained and extension of the January 31st deadline to get their P-cards in place. The Sheriff's Department will have their program in place by February 28th at which point all of the fuel credit cards will be deactivated.

4. Fuel Site Safety and Security

Finding - The safety and security of the fueling sites needed improvement. Spill Prevention, Control, and Countermeasure (SPCC) plans for the fuel sites were not readily accessible and were not clearly marked. The fuel nozzles were not routinely tested to ensure automatic shut off when vehicle/equipment tanks were full. There was no automated emergency services notification in the event of a spill. Also, a heavy rainfall contaminated two in-ground fuel tanks.

The Clean Water Act (CWA) Section 311(j) (published at 40 CFR Part 112) required facilities that stored oil in significant amounts to prepare spill prevention, control, and countermeasure (SPCC) plans. The SPCC plan was located in both the Fire Marshall's Office and Central Fleet. Additionally, users of the facilities (oil handling personnel) were required to be trained and made aware of the immediate response actions required by the SPCC.



Fire Station #1 – fuel on pavement

Fuel Spills. All but one of the seven fuel sites we visited during the audit had recent fuel spills on the pavement. Central Fleet noted that they had removed the “hands free” devices from fuel pump handles so that fuel nozzles would not be unattended while pumping fuel. However, some individuals would place foreign objects in the handle for the “hands free” effect. Overflow spills occurred due to unattended fuel nozzles and defective backflow devices which should have stopped fuel overflow. [II.E.1 Facility Tour – Fuel stations.doc](#)

Public Works, in cooperation with Central Fleet, conducted mandatory Level 2 (8-hour) Training in October each year. Although this training was conducted annually, not all departments were invited to the training on spill prevention.

Emergency Notification and Shut-off Issues. Each of the seven fuel sites had chip key readers that included an emergency shut-off button to shut down the pumps. However, there were no instructions on how to use the emergency shut-off button in case of an emergency. Additionally, there were no remote alarms or annunciators to notify Central Fleet or the Emergency Communications Center (911 Dispatch) of an emergency at any of the six remote fuel site locations.



Typical chip key reader with emergency shut-off button.

Damaged Bollards. Several bollards were damaged at fuel site locations. This damage reduced the effectiveness of the bollards in protecting the fuel pumps.



Fire Station #12

Unsecured Tank Cap. Two in-ground tank caps were left open and exposed to heavy rain, causing flooding in the tanks. This resulted in the tanks shutting down. Central Fleet was made aware of this problem only after an employee was unable to fuel his vehicle and notified them of it.



Tank monitoring system probe access – cover removed by Central Fleet

There were several causes for the safety and security issues:

- Fuel spills occurred due to a variety of reasons such as defective nozzles, and fueling errors by City employees.
- Although some departments attended the spill prevention training, not all departments were notified of the training.
- Damaged bollards resulted from vehicles hitting them and lack of funding for repairs.

There was no system in place that would monitor and automatically notify the Fleet's Central office of tanks that had shut down.

The fuel spills, damages to pumps, and fuel tank contamination posed the risk of serious environmental damage. The emergency systems notification deficiencies resulted in either no indication or delayed notification of spill related problems.

Recommendation - Central Fleet should take steps to improve the safety and security of the fuel sites.

To improve safety and security Central Fleet should consider the following actions:

- Add an alarm signal to notify the Emergency Communication Center and/or Central Fleet personnel when the emergency shutdown button is used. Also consider adding an alarm to signal the Emergency Communication Center and Central Fleet from the TLS 350 system when a tank leaks or there is the presence of an abnormal water level.
- Periodically test the effectiveness of the automatic shutoff features of fuel nozzles.
- Ensure that all departments are notified of the training on spill prevention to prevent future fuel spills.
- Replace, upgrade, and repair damaged bollards.

These actions should help reduce the risk of fuel spills and related safety concerns.

Response - Regarding the Spill Prevention, Control, and Countermeasure (SPCC) Plan, Part 40 of the Code of Federal Regulations (CFR) 112.3 states, "the plan must be available for on-site review by the Regional Administrator during normal working hours." All of our inspectors interpret that to mean that the SPCC plan is to be available at the City Garage, not the individual fueling stations. Signs are posted at the fuel sites informing the operator what to do in case of a spill. Central Fleet will look at the signs to see what improvements can be made to increase their visibility. CFM is in the process of removing the old, unused, SPCC boxes at the fueling sites; all boxes should be removed by the end of this week.

CFM will research to see if an alarm notification can be incorporated into the fuel island's hardware upgrade with the FuelFocus program.

There is no Local, State or Federal requirement to test the automatic shutoff features on fuel nozzles. Operators are responsible to notify the Garage when nozzles fail, and most operators do; when notified, the Garage sends a Fleet Road Call technician to replace the nozzle. Manpower shortages limit CFM from testing all 62 nozzles on a regular basis.

The Public Works Department schedules the annual training on spill prevention. Central Fleet will ask them to invite all users of the City's fueling sites to participate in the training if space and funding allows. Additionally, CFM will incorporate some spill prevention training in quarterly Fleet User's Group meetings.

CFM's cost to repair the damaged bollards at the fuel sites is \$2,400. We will determine if sufficient funding is available for the repairs.

D. Other Operational Issues

We noted that Central Fleet needed to enhance inventory controls for parts and equipment. It also needed to expedite the IFB process for vehicle and equipment repair work. Central Fleet needed to process more purchases through the Purchase Order (PO) payment method to control spending. Finally, Central Fleet needed to develop methods to protect social security numbers from identity theft.

1. Parts and Equipment Inventory Control

Finding - Central Fleet was not reconciling their parts inventory to their perpetual inventory records maintained in FleetFocus. Additionally, the City's equipment inventory was not secure and was accessible to employees and contractors.

In order to monitor for unexpected fluctuations in inventory, Central Fleet should maintain proper inventory records and reconcile it to a physical count on a routine basis. TFS maintained Central Fleet's inventory records on a daily basis. A physical inventory was typically performed at year-end.

We noted that there was no routine reconciliation of the inventory to the Fleet Focus records. Additionally, the inventory was accessible to employees and contractors including Central Fleet's parts supply vendor, Central Fleet personnel, the cleaning staff, Facilities Maintenance, and IT representatives.

This situation occurred because, the parts inventory was not secured, and there were no controls in place to monitor for unusual fluctuations in parts inventory. Additionally, no accountability had been established for the inventory.

Because of this situation, an employee from another City department was able to allegedly steal lawn equipment from their inventory. The person charged with the crime had authorized access to secure places within the garage.

Recommendation - Central Fleet should take steps to both better secure and reconcile the parts and equipment inventories.

Central Fleet plans to start performing a quarterly inventory reconciliation beginning this year. It should proceed with these quarterly inventory reconciliations. A Central Fleet employee should be assigned to manage and be responsible for the physical custody of all of the parts and equipment inventory in the FleetFocus system. Any additions or deletions from this inventory by either TFS staff or other City personnel should be reviewed and approved by the designated Central Fleet employee with full documentation of all transaction activity.

Response - Central Fleet Management disagrees in part with this finding. CFM's parts inventory is in a secured location, monitored by our parts contractor, Tidewater Fleet Supply, LLC., with limited access to authorized persons. The parts inventory was reconciled by CFM employees five times in FY09 and four times in FY10 using FleetFocus.

The City's powered hand-held equipment inventory was not reconciled on a regular basis. And, the back door to the parts room, which is locked to outside entry, was able to be opened from the inside to gain access to the outside as a fire exit. It is through this door that a City employee, who was authorized to be in the parts room to repair computers, stole the powered equipment. That back door has since had an alarm installed which activates whenever the door is opened and which requires a key to silence. Additionally, the powered small equipment has been moved into an enclosed, locked, partition in the parts room where it will be inventoried quarterly as part of the cyclic inventory performed on the parts inventory.

2. Repair Contracts

Finding - Although Central Fleet had been working with Public Procurement to issue a formal bid for repair work, delays in the development and issuance of an open Invitation for Bid (IFB) caused undue delays in open competition for equipment and vehicle repair work.

According to City Ordinance 54-33, the Public Procurement Administrator is responsible for purchasing all supplies and non-professional services using the Invitation for Bids (IFB) method, except for supplies and services totaling \$4,999.99 or less which have been delegated to the agency heads. Additionally, orders are not allowed to be split or favoritism shown to vendors. (Administrative Regulation 4.12).

We analyzed repair expenditures and noted that, although the majority of higher cost repair work was contracted or controlled through purchase orders and were subject to open competition, some vendors' repair work for the City was not subjected to the City's IFB process and (PO) spending controls. The cumulative payments for the top seven repair vendors' who fell into this category were \$230,385, \$123,929, and \$116,044 for Fiscal Years 2008, 2009, 2010 respectively.

According to Central Fleet, this situation occurred because:

"[Public Procurement] and [Central Fleet Management] started working together on several service contracts in 2007. [Central Fleet] had put together one IFB to work through problems in the pricing structure. During this time frame the City was having problems with delivery of vehicles already on order. These delivery problems diverted [Central Fleet's] attention from the service contracts. The [Senior Buyer] working the [Central Fleet] sent us some questions and we talk about them, but never formally answered them. The [former Purchasing Director] had some input as to how we should proceed, but a solution was never agreed on. These items were not in front of us as more pressing operational items took precedence. We talked with the [Senior Buyer] about these contracts and some of the pricing issues when we were meeting on another bid that we were putting together or was coming back in for evaluation. The service contracts were never given a top priority to complete we set it aside for more pressing problems.

These service contracts were looking for a set hourly labor rate from various repair facilities around the area. The nature of each repair will differ making it impossible to have a firm set pricing structure. These contracts will be issued to multiple vendors so that delivery time could be used when sending a unit out for repair."

Although Central Fleet obtained bids for much of this repair work from at least three vendors, Central Fleet did not ensure that repair work was publicly advertised and subject to open competition. Additionally, limited competition may have caused potentially inflated prices for the City.

Recommendation - Central Fleet should work to expedite the IFB process. Central Fleet should establish a date to publish and award the IFB for Central Fleet vehicle and equipment repairs to comply with competitive bidding requirements.

Central Fleet should also work with Public Procurement to establish an agreed upon standard method for computing labor rates and charges for parts. It should then re-establish a target date for IFB completion, so that the IFBs are issued in a timely manner.

Response - Central Fleet Management does not establish dates to publish and award IFB's, that is strictly the function of the City's Purchasing and Contract Manager. CFM will provide IFB specifications for repair contracts (accident repairs, truck repairs, hydraulic repairs, and small equipment repairs) to the Purchasing and Contract Manager by July 1, 2011.

3. Volume of Small Purchases

Findings - The large volume of Central Fleet's small purchases (known as non-Purchase Order vouchers) valued at less than \$5,000 diverted staff resources away from garage operations, and also bypassed Public Procurement's purchase order (PO) spending controls.

According to City Ordinance 54-35, departments were authorized to purchase supplies from qualified vendors totaling \$4,999 or less per transaction without submitting a requisition to the Public Procurement Administrator. Split bids were not authorized. Transactions of \$5,000 or more required administrative processing through the PO spending control process.

We analyzed Central Fleet's FY 2010 purchases and noted that there were 2,017 non-PO payment vouchers (or 79% of total vouchers) valued at \$3,471,121.29, and 544 PO payment vouchers (or 21%) valued at \$12,736,022.79. Furthermore, when the value of small purchases was accumulated by vendor¹, we noted several vendors whose payments exceeded the \$5,000 threshold that required processing through the PO payment process. The total dollar value of these 2010 non-PO payments that should have been processed through the PO process was \$971,865 or 42% (885 of 2017) of the total non-PO voucher payments processed by Central Fleet.

Finally, there were also some instances where the City had negotiated contracts but Central Fleet was not using the PO process to control spending. For instance, Central Fleet had negotiated a City contract for White Tire, Inc. However, instead of using the PO process, Central Fleet spent a total of \$130,125 on 131 non-PO vouchers to process the payments.

This situation occurred because Central Fleet bypassed PO spending controls and expedited payments using the non-PO payment process. They also utilized garage personnel instead of Public Procurement to perform separate competitive bidding work, which decreased time from garage operations.

Recommendation - Central Fleet should work with Public Procurement to stage the release of multiple POs per contract to control City spending throughout the year.

¹ This efficiency analysis did not take into consideration the 6 payment voids processed in 2010. Credit card and utility vendors were also excluded from this analysis. This analysis also excluded vendors with cumulative payments less than \$5,000.

Issuance of POs would allow the City to control spending associated with each contract. This action should also help reduce the amount of garage staff time spent performing procurement duties.

Response - Central Fleet Management agrees with this finding. Finance suggests we continue to operate as we are now until we get the repairs contracts in place through Purchasing.

4. Identity Theft Protection

Finding - Several Central Fleet staff members had access to the chip key system, yet there was no system in place to prevent unauthorized access to social security numbers in the database.

Administrative Regulation 1.27 entitled Identity Theft Protection Program, required management to prevent, mitigate, and respond to Identity Theft with “Red Flags” reporting. As a result of this Administrative Regulation, only the last four digits of an employees’ social security number were required for issuance of a chip key. However, the computer system database still maintained the full social security numbers for employees who were issued personal chip keys prior to the procedural change.

In the past, Central Fleet had required employees to provide their full social security numbers when applying for personal vehicle chip keys. However, unless this information is deleted from the database, employee social security numbers could be subject to identity theft.

Recommendation - Central Fleet should take steps to remove the social security numbers from the database and issue all future personal chip keys using employee numbers assigned by the City.

Until the numbers can be removed, Central Fleet should take measures to protect the existing social security numbers from being compromised. These steps should include limiting access to the database and ensuring that staff usage of the database is properly documented.

Response - Central Fleet Management agrees with this finding. With the new FuelFocus fueling system, city of Chesapeake badge number or RFID sticker number will be used to identify users of the fueling system. The old spreadsheet with employee SSN’s that was used in conjunction with the DM2 software has been destroyed. Access to the present database holding the SSN’s in DM2 is password protected and restricted to the three CFM employees responsible for issuing chip-keys and maintain the DM2 chip-key program. Once the FuelFocus system is up and running the old database using the employee’s SSN will be destroyed.

APPENDIX A

RESPONSE FROM CENTRAL FLEET MANAGEMENT OFFICIALS



VIRGINIA
ENVIRONMENTAL EXCELLENCE
PROGRAM



Central Fleet Management
956 Greenbrier Parkway
Chesapeake, Virginia 23320
(757) 382-3375
Fax (757) 382-3391

Memorandum

TO: Jay Poole, City Auditor

FROM: George S. Hrichak, Fleet Manager

DATE: January 28, 2011

SUBJECT: Internal Audit

This memorandum is to advise you that I have received and reviewed the draft audit provided by your office. The responses provided herein are acceptable and approved to publish as written.

If I can provide you with further assistance, please feel free to contact my office.

Central Fleet ~ Excellence in Fleet Services

*"The City of Chesapeake adheres to the principles of equal employment opportunity.
This policy extends to all programs and services supported by the City."*

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C. Work Flow and Fuel Control Issues

1. Work Flow and System Deficiencies

Finding: The workflow processes utilized by Central Fleet for vehicle assignment, chipkey issuance, and mileage verification were not sufficiently controlled to ensure the accuracy of vehicle, fuel, and odometer information. In addition, user departments were less than satisfied with the accuracy of vehicle and equipment reports produced by Central Fleet's InfoCenter system.

Recommendation: Central Fleet should continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data.

On November 23, 2010, City Council approved an appropriation of \$483,058 from the Central Fleet Fund Balance to the Capital Improvement Budget for a FuelFocus Upgrade. The funding is expected to cover the hardware for 1,400 vehicles and six fueling stations. The software is also expected to allow for real-time monitoring of fuel transactions to those vehicles equipped with Fuel Focus hardware. According to the request, the benefits of the FuelFocus upgrade include (1) improvement to the security and the accountability of the City's fleet fueling transactions (2) fueling from service stations to only those vehicles equipped with the Fuel Focus hardware, (3) savings on man-hours which were required to program chip-keys and correct fuel transaction errors, (4) automatically stopping the flow of fuel when the fuel nozzle is pulled away from the vehicle, and (5) virtually eliminating the opportunity to put fuel into unauthorized vehicles. We recommend that Central Fleet continue to work with the City to develop more efficient and effective work flow processes similar to the ones the upgrade will provide.

Response: Central Fleet Management (CFM) agrees with the finding. The accuracy of the data is the InfoCenter reporting module is due, in part, to incorrect mileage data entry when employees fuel their vehicles. With FuelFocus, the mileage will be captured in the system electronically from the vehicle's on-board computers. There are still equipment in the fleet that don't have on-board computers to track miles/hours; this means we'll have to use fueling keys to identify those pieces and to activate the pumps to refuel, such as for: lawnmowers, hand-held power tools, and some off-road construction equipment. However, CFM is able to run exception reports on the use of the new fueling keys to track usage. The operators will still be responsible for entering the actual mileage or hour-meter reading for that equipment, if appropriate, to insure accurate information in our database for reporting. The new fueling system will also use the employee ID cards to track who is fueling which vehicle, and reports may be run on that data to monitor fuel distribution.

2. Fuel Inventory Control

Finding: Although Central Fleet accumulated the data necessary for a perpetual inventory of gasoline and diesel fuel, fuel inventory reconciliations were only being performed annually. Additionally, the levels of diesel and gasoline fuel inventory were inaccurate because the methods of measuring fuel were inaccurate.

Recommendation: Central Fleet should perform more frequent reconciliations of fuel inventory based on the EPA requirements. Additionally, it should ensure the methods of measuring the actual fuel inventory are accurate. Periodic reconciliations should be performed to identify any differences between the fuel inventory record and actual fuel readings. Central Fleet should establish standard inventory and reconciliation reports for the purpose of monitoring unusual fluctuations in fuel inventory. Central Fleet should also ensure that the DM2/FleetFocus systems and the TLS systems are periodically calibrated for accurate disbursement readings and readings of the fuel content within tanks.

Response: Central Fleet Management agrees with the findings. There is no local, state, or federal requirement for non-commercial fuel sites to calibrate their equipment. However, it does make good business sense to accurately track fuel distribution. CFM will explore the costs associated with regularly

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calibrating the fuel pumps and TLS systems and determine if it is cost effective. Central Fleet's fuel reconciliations will be moved up from annual inventory checks to quarterly inventory checks with the eventual goal of performing fuel reconciliations monthly. Spreadsheets of the fuel inventories and journal entries accounting for differences will be maintained electronically on the garage servers.

CFM's cost to repair the unreadable totalizers on four fuel pumps is \$1,000. Additionally, the cost to calibrate the fuel pumps at all fueling sites is \$2,500. This cost does not include fees to adjust pumps out of calibration. Additional fees would depend upon the reasons for pumps being out of calibration.

3. Fuel Credit Cards

Finding: Fuel Credit Card distribution within the City was not sufficiently centralized. In addition, many of the fuel credit card transactions did not have adequate supporting documentation. Also, some cards were used for local fuel purchases.

Recommendation: The City should eliminate all fuel credit cards and have new credit cards issued through Public Procurement, to establish one centralized distribution point.

Card distribution should be centralized under Public Procurement, with adequate controls and documentation required. (Central Fleet and Public Procurement were working together toward one distribution center for credit cards.) Additionally, the cost of fuel purchased should be charged to the users' department budget instead of the Central Fleet budget. We also recommend that (1) new credit cards be subject to Administrative Regulations 1.23 and 1.17 with enforced policy regarding department/officer approval, and timely submission of original receipts as backup to invoices, (2) a full inventory occur of active and cancelled credit cards, and (3) employees who fail to submit original receipts have their cards cancelled.

Response: Central Fleet Management agrees with this finding. CFM notified all departments, in our September 2006 Fleet News and at our October 7, 2010 Fleet User's Group Meeting, that Central Fleet's fuel company credit cards will be canceled on January 31, 2011. Departments have been working with Purchasing to obtain P-cards for those individuals needing to purchase fuel when traveling. The Sheriff's Department recently obtained an extension of the January 31st deadline to get their P-cards in place. The Sheriff's Department will have their program in place by February 28th at which point all of the fuel credit cards will be deactivated.

4. Fuel Site Safety and Security

Finding: The safety and security of the fueling sites needed improvement. Spill Prevention, Control, and Countermeasure (SPCC) plans for the fuel sites were not readily accessible and were not clearly marked. The fuel nozzles were not routinely tested to ensure automatic shut off when vehicle/equipment tanks were full. There was no automated emergency services notification in the event of a spill. Also, a heavy rainfall contaminated two in-ground fuel tanks.

Recommendation: Central Fleet should take steps to improve the safety and security of the fuel sites.

To improve safety and security Central Fleet should consider the following actions:

- Add an alarm signal to notify the Emergency Communication Center and/or Central Fleet personnel when the emergency shutdown button is used. Also consider adding an alarm to signal the Emergency Communication Center and Central Fleet from the TLS 350 system when a tank leaks or there is the presence of an abnormal water level.
- Periodically test the effectiveness of the automatic shutoff features of fuel nozzles.
- Ensure that all departments are notified of the training on spill prevention to prevent future fuel spills.
- Replace, upgrade, and repair damaged bollards.

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These actions should help reduce the risk of fuel spills and related safety concerns.

Response: Regarding the Spill Prevention, Control, and Countermeasure (SPCC) Plan, Part 40 of the Code of Federal Regulations (CFR) 112.3 states, "the plan must be available for on-site review by the Regional Administrator during normal working hours." All of our inspectors interpret that to mean that the SPCC plan is to be available at the City Garage, not the individual fueling stations. Signs are posted at the fuel sites informing the operator what to do in case of a spill. Central Fleet will look at the signs to see what improvements can be made to increase their visibility. CFM is in the process of removing the old, unused, SPCC boxes at the fueling sites; all boxes should be removed by the end of this week.

CFM will research to see if an alarm notification can be incorporated into the fuel island's hardware upgrade with the FuelFocus program.

There is no Local, State or Federal requirement to test the automatic shutoff features on fuel nozzles. Operators are responsible to notify the Garage when nozzles fail, and most operators do; when notified, the Garage sends a Fleet Road Call technician to replace the nozzle. Manpower shortages limit CFM from testing all 62 nozzles on a regular basis.

The Public Works Department schedules the annual training on spill prevention. Central Fleet will ask them to invite all users of the City's fueling sites to participate in the training if space and funding allows. Additionally, CFM will incorporate some spill prevention training in quarterly Fleet User's Group meetings.

CFM's cost to repair the damaged bollards at the fuel sites is \$2,400. We will determine if sufficient funding is available for the repairs.

D. Other Operational Issues

1. Parts and Equipment Inventory Control

Finding: Central Fleet was not reconciling their parts inventory to their perpetual inventory records maintained in FleetFocus. Additionally, the City's equipment inventory was not secure and was accessible to employees and contractors.

Recommendation: Central Fleet should take steps to both better secure and reconcile the parts and equipment inventories.

Central Fleet plans to start performing a quarterly inventory reconciliation beginning this year. It should proceed with these quarterly inventory reconciliations. A Central Fleet employee should be assigned to manage and be responsible for the physical custody of all of the parts and equipment inventory in the FleetFocus system. Any additions or deletions from this inventory by either TFS staff or other City personnel should be reviewed and approved by the designated Central Fleet employee with full documentation of all transaction activity.

Response: Central Fleet Management disagrees in part with this finding. CFM's parts inventory is in a secured location, monitored by our parts contractor, Tidewater Fleet Supply, LLC., with limited access to authorized persons. The parts inventory was reconciled by CFM employees five times in FY09 and four times in FY10 using FleetFocus.

The City's powered hand-held equipment inventory was not reconciled on a regular basis. And, the back door to the parts room, which is locked to outside entry, was able to be opened from the inside to gain access to the outside as a fire exit. It is through this door that a City employee, who was authorized to be in the parts room to repair computers, stole the powered equipment. That back door has since had an alarm installed which activates whenever the door is opened and which requires a key to silence. Additionally, the powered small equipment has been moved into an enclosed, locked, partition in the parts room where it will be inventoried quarterly as part of the cyclic inventory performed on the parts inventory.

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2. Repair Contracts

Finding: Although Central Fleet had been working with Public Procurement to issue a formal bid for repair work, delays in the development and issuance of an open Invitation for Bid (IFB) caused undue delays in open competition for equipment and vehicle repair work.

Recommendation: Central Fleet should work to expedite the IFB process. Central Fleet should establish a date to publish and award the IFB for Central Fleet vehicle and equipment repairs to comply with competitive bidding requirements.

Central Fleet should also work with Public Procurement to establish an agreed upon standard method for computing labor rates and charges for parts. It should then re-establish a target date for IFB completion, so that the IFBs are issued in a timely manner.

Response: Central Fleet Management does not establish dates to publish and award IFB's, that is strictly the function of the City's Purchasing and Contract Manager. CFM will provide IFB specifications for repair contracts (accident repairs, truck repairs, hydraulic repairs, and small equipment repairs) to the Purchasing and Contract Manager by July 1, 2011.

3. Volume of Small Purchases

Findings: The large volume of Central Fleet's small purchases (known as non-Purchase Order vouchers) valued at less than \$5,000 diverted staff resources away from garage operations, and also bypassed Public Procurement's purchase order (PO) spending controls.

Recommendation: Central Fleet should work with Public Procurement to stage the release of multiple POs per contract to control City spending throughout the year.

Issuance of POs would allow the City to control spending associated with each contract. This action should also help reduce the amount of garage staff time spent performing procurement duties.

Response: Central Fleet Management agrees with this finding. Finance suggests we continue to operate as we are now until we get the repairs contracts in place through Purchasing.

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Until the numbers can be removed, Central Fleet should take measures to protect the existing social security numbers from being compromised. These steps should include limiting access to the database and ensuring that staff usage of the database is properly documented.

Response: Central Fleet Management agrees with this finding. With the new FuelFocus fueling system, city of Chesapeake badge number or RFID sticker number will be used to identify users of the fueling system. The old spreadsheet with employee SSN's that was used in conjunction with the DM2 software has been destroyed. Access to the present database holding the SSN's in DM2 is password protected and restricted to the three CFM employees responsible for issuing chip-keys and maintain the DM2 chip-key program. Once the FuelFocus system is up and running the old database using the employee's SSN will be destroyed.