



CITY AUDITOR'S OFFICE  
FINAL REPORT

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**FLEET OPERATIONS INTERNAL CONTROLS REVIEW**

September 16, 2024

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# Table of Contents

<b>I. Executive Summary</b>	<b>1</b>
<b>A. Introduction</b>	<b>1</b>
<b>B. Summary of Results</b>	<b>1</b>
<b>II. Introduction</b>	<b>2</b>
<b>A. Background</b>	<b>2</b>
<b>B. Scope and Methodology</b>	<b>2</b>
<b>C. Statement of Compliance with GAGAS</b>	<b>3</b>
<b>III. Fleet Operations Internal Controls Review</b>	<b>4</b>





# I. EXECUTIVE SUMMARY

## A. INTRODUCTION

As part of the fiscal year 2024 internal audit program, the Modesto City Auditor, Moss Adams LLP (Moss Adams), conducted a review of the City of Modesto's (the City) internal controls framework for the Fleet Services Division (the Division). The internal controls review took place between April 2024 and August 2024 and focused on assessing select key controls within the Division deemed important to protecting the City's fleet assets and resources as well as processing and reporting timely financial information.

## B. SUMMARY OF RESULTS

The Division appeared to have internal controls developed for some functions and was in the process of implementing internal controls for other functions. Some examples of commendable activities that, based on the review performed, appeared to have well-designed internal controls, include:

- Bid waiver reviews and approvals
- Record retention for auctioned assets
- Maintenance tracking within AssetWorks

There were opportunities to strengthen controls, policies, procedures, and systems within the Division. There were gaps in internal controls within the Division of varying degrees that were discovered across the functions reviewed.

Suggested priorities to address over the next six to 12 months include, but are not limited to:

- Refining and simplifying the vendor invoice review process
- Training employees on policies and procedures
- Developing policies and procedures for the billing process
- Segregating duties amongst ordering parts and receiving parts
- Securing parts to help prevent loss or theft
- Motivating departments to bring in vehicles for preventative maintenance



## II. INTRODUCTION

### A. BACKGROUND

As part of the City’s fiscal year 2024 internal audit program, Moss Adams conducted an internal controls review over the Division to determine the general adequacy of internal controls and identify areas of improvement.

The Division falls under the Public Works Department and oversees the parts and vehicle ordering for the City, parts and vehicle management, and vehicle and equipment maintenance for approximately 1,270 pieces of equipment. The Division’s “customers” are primarily City departments that use Division-maintained vehicles or equipment. The Division also maintains the fleet for the Stanislaus Regional Transit Authority (StanRTA), which is the primary provider of mass transportation in the suburban, rural, and metropolitan areas of Stanislaus County. Additionally, the Division maintains the fleet for five fire districts aside from the City’s own fire department. The Division employs 48 people and is organized into five areas:

- Administration
- Parts
- Bus Maintenance
- Heavy Bay
- Light Duty

The Division utilizes AssetWorks to request, manage, and track equipment parts, and utilizes Oracle, the City’s Enterprise Resource Planning (ERP) system, for invoice reviews and approvals.

### B. SCOPE AND METHODOLOGY

The scope of the internal controls review included the following Division functions:

- Requesting and ordering fleet parts
- Inventorying and tracking fleet parts
- Reviewing and approving vendor invoices
- Preparing, reviewing, and approving customer invoices
- Tracking and maintaining fleet vehicles and equipment
- Securing fleet vehicles, equipment, and parts
- Documenting controls and processes within policies and procedures

For each Division function assessed, we conducted a review of eight key controls, which included:

- Identifying control objectives in specific areas and controls that would satisfy each control objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls



- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity (who performs it; how often it is designed to operate; whether it is designed to mitigate fraud; whether it is a manual or automated control; and whether it is a preventive, detective, or corrective control)
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with Management, Technician, Parts, and Administrative employees within the Division.

In support of the internal controls review, the matrix provided in Section III provides results by including the:

- Control objective
- Control issue
- Recommendation
- Likelihood of occurrence
- Impact of occurrence

Likelihood of occurrence is defined as the probability of a negative event occurring. Impact of occurrence is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, or high were used to rate the likelihood of occurrence and impact of occurrence for each finding.

Beyond those controls that have been noted within this report as an issue, additional controls were reviewed without exception. Key controls with exception conditions are reported in this document.

## **C. STATEMENT OF COMPLIANCE WITH GAGAS**

We conducted this internal controls review in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the internal controls review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives. The internal controls review, control objectives, control issues, recommendations, and conclusions on likelihood of occurrence and impact of occurrence are included in the report body.

This internal controls review did not constitute an audit of financial statements in accordance with GAGAS. Moss Adams was not engaged to, and did not, render an opinion on the Division's internal controls or over financial management systems.



### III. FLEET OPERATIONS INTERNAL CONTROLS REVIEW

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
1	The vendor invoice review process is efficient and effective and reduces the administrative burden on the Parts team, as well as to pay vendors timely.	During our interviews, multiple employees explained that the current vendor invoice review process is complicated and burdensome due to excessive steps throughout the process, which creates delays with processing invoices and paying vendors timely. Additionally, during our testing of a sample of ten invoices, we observed that the average number of days from invoice receipt to final approval was approximately 25 days.	<p>The Division should refine the vendor invoice process by taking the following steps:</p> <ul style="list-style-type: none"><li>● Review the process of having the Administrative Services Technician print out invoices and deliver the invoices to the Parts team to stamp and return back to the Administrative Services Technician.</li><li>● Replace the process above with a step where the Administrative Services Technician searches within AssetWorks for the parts that were ordered to verify whether the Parts team received the parts ordered from the invoice.<ul style="list-style-type: none"><li>○ If the Administrative Services Technician is unable to locate the part within AssetWorks, then they can communicate that with the Parts team to determine whether the status of the part listed within the invoice.</li></ul></li><li>● Once parts have been confirmed within AssetWorks, the Administrative Services Technician would then enter the invoice into Oracle for Fleet Supervisor or Fleet Manager approval (based on dollar amount).</li></ul> <p>By having the Administrative Services Technician verify whether parts were received, the Parts teams will have more time to inventory, manage, and secure the parts on hand. The Division will also be able to process invoices more quickly, which will allow vendors to be paid on time which can result in vendors</p>	High	High



NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	LIKELIHOOD OF OCCURRENCE	IMPACT OF OCCURRENCE
			<p>being more likely to work with the Division in the future.</p> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments. This will require additional support for administrative support as well as modifying access rights to the parts inventory portion of AssetWorks. Parts staff have been restored to full allocations and currently have 4 staff assigned.</p> <p>This is a concern for checks and balances to review partial receipts, verification of receiving/packing list. As well as have the invoice and shipping receiving/packing list placed together for audit purposes.</p>		
2	Division employees are aware and understand the Division's policies and procedures.	The Division has policies and procedures in place for various processes, including but not limited to, processes for crew leaders, supervisor duties, administrative responsibilities and overall bus maintenance. During our interviews with various employees, it was mentioned that they generally were not aware of these policies and procedures. This could result in the current practices deviating from the designed practices detailed out in policies and procedures.	<p>The Division should conduct a training for Administrative, Parts, and Technician employees to review current policies and procedures. The trainings should cover the following topics:</p> <ul style="list-style-type: none"> <li>● Why the policies and procedures are important</li> <li>● Roles and responsibilities</li> <li>● Use of AssetWorks for each team's functions</li> <li>● Highlights from each policy and procedure including specific items that are essential to the Division's success</li> </ul> <p>The Division should also allow ample time for employees to ask questions about current processes to help clarify current roles and responsibilities as much as possible.</p>	High	High



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			<p><b>Management Response:</b> The recommendation is under evaluation for possible implementation adjustments. Fleet Manager is working with staff to review and revise Division policies and procedures.</p> <p>Staff are assigned Citywide reviews of policies, administrative directives, and security protections through Target Solutions, KnowBe4, and PolicyTech.</p> <p>Weekly and/or bi-weekly meetings have been established to provide staff opportunities to ask clarification questions, provide input and recommendations for processes and procedures to improve efficiency and accountability.</p>		
3	<p>The Division's monthly billing process is consistent and effective. Additionally, policies and procedures surrounding the billing process for the Division are current and comprehensive.</p>	<p>The Division does not have consistent and effective billing processes in place, which does not allow for consistent, well-designed, and timely completed processes. Due to the fact that the Fleet Manager position had been vacant, billing had not been occurring consistently since September 2023. Inconsistent billing processes might lead to departments thinking that they have more funds available than they actually do if the Division has not billed the departments timely.</p>	<p>The Division should develop standard processes for conducting monthly billing, along with a policy and procedure around the preparation and review of the monthly billing process. These should include the following items:</p> <ul style="list-style-type: none"> <li>• Roles and responsibilities: This outlines the responsibilities of individuals to implement and enforce the policy.</li> <li>• Billing schedule: This outlines the timeline for the billing process, including the deadline for submitting billing information and the date the billing journal entries will be posted. Ideally, this information is reviewed by the Division by the second week of the month following the date the goods/services were provided by the Division and is ready to be sent to the City's Finance Department approximately two weeks later.</li> </ul>	High	High



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			<ul style="list-style-type: none"><li>● Billing accuracy: This outlines the procedures and checks in place to ensure that bills are accurate and free from errors, including verifying department information, pricing, and billing rates.</li><li>● Billing approvals: This outlines the process for obtaining approvals for billing, including who is responsible for reviewing and approving bills before posting the billing journal entries.</li><li>● Billing adjustments: This outlines the procedures for making adjustments to bills, including how to handle billing disputes and how to issue credits or refunds.</li><li>● Billing records: This outlines the procedures for maintaining billing records, including how long records should be kept and how they should be stored. The Division should also limit access to billing records to prevent any unwarranted or unauthorized changes.</li><li>● Billing reports: This outlines the procedures for generating billing reports, including what information should be included in the reports and who should receive and review them.</li><li>● Training and education: This outlines the training and education requirements for employees involved in the billing process, including how to use the billing software and how to handle inquiries or complaints related to billing.</li></ul> <p><b>Management Response:</b> The recommendation is under evaluation for possible adjustments or additions to existing written SOPs.</p>		



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			<p>Fleet Manager is working with staff to review and revise these Division policies and procedures.</p> <p>Part of the Agreement with StanRTA has the timeline detailed for expectations.</p> <p>Checks and balances are joint effort between Finance, Budget, and PW Fleet Services for accuracy.</p> <p>The City has a records retention policy that additional training should be scheduled as refresher or introduction to staff.</p>		
4	<p>Roles and responsibilities for performing purchasing due diligence for the Division are clearly defined.</p>	<p>During interviews, it was communicated that when performing procurement due diligence for police vehicle parts (Cop Shop), research is very time-consuming because of the unique nature of the parts and limited vendors with those unique parts and there is confusion and misalignment on whether the Parts team or the City's Purchasing Department should be performing this due diligence. In some instances, the Parts team might spend a couple of months performing the due diligence of obtaining three bids for an item, which might delay the patrol car builds and start to impact public safety.</p> <p>Additionally, during our testing of compliance with the City's procurement due diligence requirements, we identified that</p>	<p>Based on our understanding of City-wide procurement procedures, the Buyers within the Purchasing Department are to perform the due diligence for purchases. Regardless, the Division (specifically the Parts team) and the Purchasing Department should discuss due diligence for parts purchases (specifically for the Cop Shop) to clarify who should perform this due diligence. If needed, the two teams should work together given the Parts team's familiarity with the Cop Shop parts and vendors. The two teams should also discuss whether these Cop Shop procurements might qualify for sole source procurement given the unique nature of the parts and limited vendors, which could result in a more efficient process.</p> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments.</p> <p>The staff have been updated on the policies for purchasing limits and the potential when bid waivers are warranted.</p> <p>In progress and recently approved through Council, Finance-Purchasing and PW-Fleet</p>	Moderate	Moderate



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		<p>three of the ten transactions tested did not comply with the City's Purchasing Policy as the Division did not obtain three bids for purchases greater than \$3,500.</p>	<p>have collaborated on obtaining agreements with parts vendors, service vendors (transmissions), upfitters as the Phase I effort to streamline and maintain compliance with City Policies and fiduciary responsibilities for public funds.</p> <p>Purchasing is not responsible for the individual parts/material purchasing as this is specialized for the model/year/type of equipment being repaired or maintained and thus part of PW Fleet Parts Technician duties.</p>		
5	<p>The duties for ordering and receiving parts for the Division are clearly defined and segregated to promote a strong internal controls environment.</p>	<p>The ability to purchase parts on behalf of the Division is not limited to the Crew Leader, who should be the only designated employee, based off interviews. Additionally, the Parts team employee who orders a certain part may be the same employee who receives the part, which creates a segregation of duties risk, increases the chance for mistakes, and increases the risk of loss or theft.</p>	<p>The Division should update role descriptions to clarify which position(s) is responsible and allowed to purchase parts. Limiting who has the ability to purchase parts will help decrease the risk of loss or theft and will help increase the Division's ability to better track its parts. The Division should also research whether it can limit parts ordering access to specific roles in AssetWorks to better create a segregation of duties.</p> <p>If possible, based on staffing levels, the Parts team should also segregate the ordering and receiving duties to ensure that whichever employee ordered parts is not the same employee to document receipt of those parts. This will help to ensure segregation of duties and lead to a stronger internal control environment, which helps to reduce the possibly of loss or theft.</p> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments.</p>	High	High



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			<p>There are existing duty assignment but are dated and require refreshing to address current needs, controls, staffing.</p> <p>The new Fleet Manager has implemented some revisions within the Asset Management software (FA) to address some deficiencies observed.</p> <p>Additional training for staff is being implemented with the software vendor to improve understanding and efficiencies.</p> <p>Pending is revising the SOP for documenting the controls for cross checking and validating ordering, receiving, stocking, distribution to WO.</p>		
6	<p>Roles within the Division are sufficiently staffed to help ensure that fleet operations progress is efficient, timely and effective.</p>	<p>During our review, the Division was short-staffed in each team (Administration, Parts, Bus Maintenance, Heavy Bay, and Light Duty), although there were plans to hire additional employees in the near future. Light Duty and Parts were each short one employee, Administration was short two employees, and Bus Maintenance was short three employees.</p>	<p>Based on benchmarking data from other similar California cities such as Fresno, Stockton, Merced, and Sacramento, the City has about 34 pieces of equipment per Division employee, while the average from the other four cities is about 33 pieces of equipment per fleet employee, which means the Modesto Fleet Services could be slightly understaffed. Because this data is estimated based on publicly available information and does not include data by the types of equipment maintained (such as heavy-duty equipment), the City should consider conducting a staffing assessment to help determine an appropriate staffing level.</p> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments.</p> <p>There is an industry standard for calculating the vehicle-to-technician (mechanic) ratio needs based upon Maintenance Repair Units</p>	Moderate	Moderate



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			<p>(MRU). This was started for the Fire apparatus needs and will continue to document reasonable staffing levels.</p> <p>Additional evaluation on PM schedules, recently completed for transit is a pending effort.</p>		
7	Parts are secured and inventoried to help prevent loss or potential theft.	Access to the parts room is not restricted to only the Parts team and there is no easy way to discern whether parts are lost or stolen as the Parts team does not perform regular inventory counts. Any employee with access to the Division yard could access the parts room at any time of day (the parts room is always accessible) and could remove parts without an easy way for Parts team employees to know that there are parts taken out of the inventory.	<p>The Division should install a security measure such as walling off the parts room or requiring a badge, code, or key to enter the parts room to help better secure parts. Appropriate lighting in the parts room and surveillance systems might also help to increase the security of the parts room.</p> <p>The Division should also conduct an inventory count, at least annually, to help track parts and increase reliability of financial reporting. If needed, the Division should implement inventory management technology to assist with the inventory count such as barcodes or radio-frequency identification (RFID) tagging. Lastly, the Division should define roles and responsibilities for the inventory count to include who will perform the count, who will review and approve the count, and who will investigate variances, if any should occur.</p> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments.</p> <p>The staff have implemented these measures for securing the rooms.</p> <p>Upgrading to cloud solution for software is an effort that is being discussed to implement more technology to lessen staff impacts and increase accuracy.</p>	High	High



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8	Timely preventative maintenance occurs for all vehicles that the Division is responsible to maintain.	<p>City departments do not bring equipment to the Division for preventative maintenance in a timely manner, which might lead to more expensive and complex repairs in the long run.</p> <p>During our testing, we found that two of the seven vehicles selected for testing did not receive preventative maintenance, which means that the Division was unable to adhere to its preventative maintenance schedule and might lead to more serious mechanical issues later on for those vehicles.</p>	<p>Although the Technicians send out weekly emails reminding departments about upcoming routine maintenance, the Division should consider other methods to encourage departments to bring their vehicles in for routine maintenance:</p> <ul style="list-style-type: none"> <li>● Incentives: The Division could offer incentives to departments that bring in their vehicles on time for routine maintenance. This could include discounts on future services, priority scheduling for repairs, or other perks that would encourage departments to prioritize maintenance.</li> <li>● Penalties: The Division could also consider implementing penalties for departments that consistently fail to bring in their vehicles on time for routine maintenance. This could include fines, restrictions on vehicle usage, or other consequences that would encourage compliance.</li> <li>● Education and Training: The Division could provide education and training to departments on the importance of routine maintenance and how to properly care for fleet vehicles. This might help departments understand the impact of not bringing in vehicles on time and how to avoid common maintenance issues.</li> </ul> <p><b>Management Response:</b> The recommendation is under evaluation for potential implementation adjustments. The staff have started discussions with client departments for educating the critical need for timely PMs.</p>	Moderate	Moderate



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			Incentive or penalty (just as cut-off fuel card) are future discussions after educating end-users.		



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