

Internal Audit Department

ORANGE COUNTY in the USA
 6th Largest County

FIRST FOLLOW-UP AUDIT INTERNAL CONTROL AUDIT: OC PUBLIC WORKS COUNTYWIDE FLEET MANAGEMENT

AS OF MARCH 15, 2012

Our First Follow-Up Audit found that OC Public Works partially implemented six (6) recommendations; and has not implemented one (1) recommendation from our original audit report dated April 12, 2011. During the original audit period, OC Public Works/OC Fleet Services had County fleet inventory consisting of 2,909 vehicles and equipment, including 51 pool vehicles available to County employees, and had an operating income of \$20 million for fleet management, repair and maintenance services.

AUDIT No: 1130-B
 (Original Audit No. 1028)

REPORT DATE: JUNE 27, 2012

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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1130-B June 27, 2012

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit:
OC Public Works – Countywide Fleet
Management, Original Audit No. 1028,
Issued April 12, 2011

We have completed a First Follow-Up Audit of OC Public Works – Countywide Fleet Management. Our audit was limited to reviewing, as of March 15, 2012, actions taken to implement the **seven (7) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because not all recommendations were fully implemented during First Follow-Up Audit, we will be conducting a Second Follow-Up Audit approximately six months from the issuance of this report.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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OC Public Works
Countywide Fleet Management
Audit No. 1130-B***

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OC Internal Auditor's Report



Audit No. 1130-B

June 27, 2012

TO: Ignacio Ochoa, Interim Director
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit: OC Public Works Countywide Fleet Management, Original Audit No. 1028, Issued April 12, 2011

Scope of Review

We have completed a First Follow-Up Audit of the Internal Control Audit of OC Public Works Countywide Fleet Management. Our audit was limited to reviewing, as of March 15, 2012, actions taken to implement the **seven (7) recommendations** from our original audit.

Background

We conducted an audit of internal controls over OC Public Works (OCPW) Countywide Fleet Management to evaluate OC Fleet Services' oversight of countywide fleet management, including the administration of County fleet assignment and enforcement of vehicle rules and regulations. During the original audit period, OC Fleet Services reported a **total fleet inventory of 2,909** vehicles and equipment. The original audit found that OCPW fleet management oversight and responsibility is not aligned with the Board Resolution adopted in 1989 that prescribed "centralized" oversight of fleet management. The current oversight and responsibility of fleet management lies with departments/agencies in monitoring their assigned fleet and for enforcing County vehicle rules and regulations.

Results

Our First Follow-Up Audit indicated that OC Public Works **partially implemented six (6) recommendations, and has not implemented one (1) recommendation**. Based on our First Follow-Up Audit, the following is the implementation status of the seven original recommendations:

1. **Board Resolution and Defining Responsibility for Fleet Management**

(Significant Control Weakness) OC Public Works partner with the County Executive Office to evaluate existing Board policy including the determination of responsibility for monitoring and oversight of County fleet management, and take measures to ensure Board policy is aligned with actual practices.

Current Status: Partially Implemented. In March 2011, the Board of Supervisors authorized the County Executive Officer to work with OC Public Works, OC Fleet Services, County Counsel, and the Auditor-Controller in developing, updating, implementing and administering fleet related policies and procedures aimed at improving fleet operations and oversight. We noted that the related ASR and Minute Order discussed in great detail a new OC Fleet Services business model for providing services to cities and special districts; however, it contained no discussion on the "centralized" fleet management policy established by the Board of Supervisors in 1989, and the current decentralized/hybrid environment of countywide fleet management.

OC Internal Auditor's Report



Because OC Public Works obtained Board of Supervisors approval to update fleet related policies and procedures, but we did not see where further actions were taken to address governance and responsibility over countywide fleet management, we consider this recommendation partially implemented.

Planned Action:

Implementation on hold due to absence of OC Public Works Director. Issue will be addressed upon resolution of leadership issue.

2. **Establishment of Countywide Policies and Procedures**

(Significant Control Weakness) OC Public Works establish and make available countywide policies and procedures that address the above administrative responsibilities over County fleet management.

Current Status: **Partially Implemented.** OC Public Works established and/or updated OC Fleet Services' policies and procedures, which are currently in draft form. Policies established/updated included: *Use of County Vehicles; OC Fleet Management Vehicle Purchasing & Vehicle Disposal; Motorized Equipment Purchasing; Fuel Card Usage; OC Fleet Management Billing, and Off-Road Diesel Heavy Equipment Anti-Idling Policy.* OC Public Works plans to develop an OC Fleet Services' Intranet website where the current policies and procedures will be made available.

Our review of the draft policies and procedures found that OC Public Works addressed some of the fleet management issues identified in the original audit. However, we did not see a policy that clearly delineates fleet management responsibilities between OC Fleet Services and the user departments/agencies. Because OC Public Works established/updated fleet management policies and procedures, and have not yet distributed policies and procedures countywide, we consider this recommendation partially implemented.

Planned Action:

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. IT is making final changes and will begin testing in early FY 12-13. OC Fleet will implement and enforce policies as supported by County leadership.

3. **Notification of County Fleet Purchases to OC Fleet Services**

(Significant Control Weakness) OC Public Works partner with the County Executive Office to establish a countywide policy ensuring OC Fleet Services is notified of all fleet purchases by County departments/agencies and being informed of any repair and/or maintenance services from non-County authorized vendors.

Current Status: **Partially Implemented.** In March 2011, the Board of Supervisors authorized the County Executive Officer to work with OC Public Works, OC Fleet Services, County Counsel, and the Auditor-Controller in developing, updating, implementing and administering fleet related policies and procedures aimed at improving fleet operations and oversight. OC Public Works established draft policies and procedures for *OC Fleet Management Vehicle Purchasing, and Vehicle and Motorized Equipment Purchasing.*



Our review of the draft policies and procedures found them to be detailed and informative concerning fleet vehicle purchases. However, they are in draft form and have not been distributed countywide. In addition, Policy No. 1.1.006 – *Vehicle & Motorized Equipment Purchasing Policy*, Section V. states:

"It is the policy of the County of Orange that the procurement of all vehicles and motorized equipment for the County will be centralized within the County..."

Based on the draft policy, fleet vehicle purchasing will be centralized under OC Fleet Services. Therefore, it becomes more important to ensure that all departments/agencies that purchase vehicles coordinate with OC Fleet Services. Because OC Public Works developed a draft policy on vehicle purchases, but the policy has not been distributed countywide, we consider this recommendation partially implemented.

Planned Action:

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. Additionally, IT has developed a page for requestors seeking to procure vehicles. IT is making final changes and will begin testing in early FY 12-13. CEO Budget has reviewed the vehicle purchase policy. OC Fleet will implement and enforce policies as supported by County leadership.

4. **Reconciliation of County Fleet Records to Capital Asset Inventories**

(Control Finding) OC Public Works evaluate the feasibility of reconciling department/agency capital asset inventories to the records maintained in Fleet Focus to ensure completeness and accuracy of County fleet inventory records.

Current Status: **Partially Implemented.** OC Public Works evaluated the feasibility of reconciling department/agency capital asset inventories to the records maintained in Fleet Focus. OC Fleet Services now reconciles all Fund 296 (ISF) assets to the CAPS+ database that shows the acquisition of new vehicles. OC Fleet Services stated that vehicles not included in OC Fleet Services' Fund 296 are the responsibility of the purchasing department/agency. However, this is not consistent with the draft Policy No. 1.1.006 – *Vehicle & Motorized Equipment Purchasing Policy*, that states the procurement of all vehicles and motorized equipment will be centralized within the County (see [Finding No. 3 above](#)).

Because corrective action was taken on this recommendation, but the vehicle purchasing policy remains in draft form and governance over fleet management (centralization or decentralization) has not been determined, we consider this recommendation partially implemented.

Planned Action:

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. IT is making final changes and will begin testing in early FY 12-13. OC Fleet will implement and enforce policies as supported by County leadership.



5. **Establishment of Policies for Take-Home County Vehicles** (Control Finding)

OC Public Works establish countywide policy and procedures that state the criteria for assigning and monitoring compliance of take-home vehicles. This policy should include periodic evaluations for assignment and use of take-home vehicles and require user's signature to acknowledge having read and received a copy of the take-home vehicle policy.

Current Status: **Not Implemented.** OC Public Works has a draft policy and procedure on *Use of County Vehicles*. Section H – *Department Assigned Take-Home Vehicles* provides guidelines for assigning take-home vehicles and the reporting requirements when using an assigned take-home vehicle. Based on our review of the policy, we noted that no revisions were made to the policy since the original audit.

The draft policy currently does not indicate if this area is centralized or decentralized, and does not state the responsibilities of OC Fleet Services and user departments/agencies for monitoring the usage of take-home vehicles. Because no corrective action was taken, we consider this recommendation not implemented.

Planned Action:

OC Public Works Policy and Procedure 1.1.102 addresses the use of County vehicles including procedures for take-home vehicles for OC Public Works staff. The policy specifies that division managers are responsible for authorizing use of take-home vehicles and for monitoring compliance with the policy.

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. IT is making final changes and will begin testing in early FY 12-13. OC Fleet will implement and enforce policies as supported by County leadership.

6. **Establishment of Policy for Replacing, Retiring and Surplus of Fleet**

(Control Finding) OC Public Works establish countywide policies and procedures over fleet replacement, retirement, disposal, auctioning and surplus of County fleet.

Current Status: **Partially Implemented.** In March 2011, the Board of Supervisors authorized the County Executive Officer to work with OC Public Works, OC Fleet Services, County Counsel, and the Auditor-Controller in developing, updating, implementing and administering fleet related policies and procedures including fleet replacement, retirement, disposal, auctioning and surplus. OC Public Works drafted a policy – *OC Fleet Management Vehicle Disposal*. OC Fleet Services met with representatives of the County Procurement Office to discuss revisions to the County Surplus policy and procedure as it related to surplus of fleet vehicles.

Based on our review of the draft policy, it indicates that "*OC Fleet Services is the centralized disposal authority for all vehicles and related components. All vehicles will be auctioned by the County's contracted auctioneer or auctioned on-line via our web based third party auctioneer.*" This policy is in draft form and has not been distributed to departments/agencies. Because the policy indicates disposal authority will be a centralized function, and the policy is in draft form and not been distributed, we consider this recommendation partially implemented.

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Planned Action:

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. IT is making final changes and will begin testing in early FY 12-13. OC Fleet will implement and enforce policies as supported by County leadership. Meanwhile, OC Fleet continues to act as disposal agent for the County and its vehicles.

7. **Updating Policy and Procedures for Pool Vehicle Administration** (Control Finding)

OC Public Works/OC Fleet Services update their policies and procedures over pool vehicles including standardized form use to reflect current practices.

Current Status: **Partially Implemented.** OC Public Works' policy and procedure on *Use of County Vehicles, Section D – Pool Vehicles* has a link to the *Vehicle Assignment Form* and a link to step by step instructions for checking out pool vehicles. OC Public Works/Information and Technology worked on automating the pool vehicle check out process available through the OC Fleet Intranet website. Because the policy addressing Pool Vehicle administration is still in draft form and has not been distributed countywide, we consider this recommendation partially implemented.

Planned Action:

OC Public Works Information & Technology (IT) has developed a countywide-accessible portal where countywide fleet policies and procedures will be posted. IT is making final changes and will begin testing in early FY 12-13. OC Fleet will implement and enforce policies as supported by County leadership.

We appreciate the assistance extended by OC Public Works and OC Fleet Services during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Mary Fitzgerald, Director, OCPW/Administration
Tony Bernard, Manager, OCPW/OC Fleet & Procurement Services
Larry Stansifer, Manager, OCPW/Administration
Anthony Marquez, Manager, OCPW/OC Fleet Services
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