2 0

FINAL CLOSE-OUT SECOND FOLLOW-UP AUDIT

OC PUBLIC WORKS COUNTYWIDE FLEET MANAGEMENT

AS OF DECEMBER 31, 2012

Our Second Follow-Up Audit found that OC Public Works implemented five (5) recommendations and is in process of implementing two (2) recommendations following policy direction from the County Executive Office. Previously, six (6) recommendations were partially implemented and one (1) recommendation was not implemented on our First Follow-Up Audit. During the original audit, 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: 1228-E (Original Audit No. 1028)

REPORT DATE: APRIL 19, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA Senior Audit Manager: Michael Goodwin, CPA, CIA Audit Manager: Lily Chin, CPA, CGMA

RISK BASED AUDITING

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

AlCPA 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







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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA

Director Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 1228-E April 19, 2013

TO: Ignacio Ochoa, Interim Director

OC Public Works

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up Audit:

OC Public Works – Countywide Fleet

Management, Original Audit No. 1028, Issued

April 12, 2011

We have completed a Second Follow-Up Audit of OC Public Works – Countywide Fleet Management. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the **seven (7) recommendations** remaining from our First Follow-Up Audit report dated June 27, 2012. We conducted this Second Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the OC Internal Auditor's Report following this transmittal letter. Our Second Follow-Up Audit found that OC Public Works implemented five (5) recommendations and is in process of implementing two (2) recommendations. Because this is our final follow-up audit, the recommendations not fully implemented will be reported to the Audit Oversight Committee in a quarterly status 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.

Table of Contents



Second and Final Close-Out Follow-Up Audit: OC Public Works – Countywide Fleet Management Audit No. 1228-E

As of December 31, 2012

Iransmittal Letter	ı
OC Internal Auditor's Report	1
Scope of Review	1
Background	1
Results	1



Audit No. 1228-E April 19, 2013

TO: Ignacio Ochoa, Interim Director

OC Public Works

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up Audit: OC Public Works - Countywide

Lughes

Fleet Management, Original Audit No. 1028, Issued April 12, 2011

Scope of Review

We have completed a Second Follow-Up Audit of OC Public Works Countywide Fleet Management. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the **seven (7) recommendations** remaining from our First Follow-Up Audit report dated June 27, 2012.

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 Second Follow-Up Audit indicated that OC Public Works **implemented five (5) recommendations and is in process of implementing two (2) recommendations.** The following is the implementation status of the seven (7) 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.

<u>Current Status:</u> **In Process.** In our First Follow-Up Audit, OC Public Works obtained Board of Supervisors' approval to update fleet related policies and procedures, but no further actions were taken to address governance and responsibility over countywide fleet management. The implementation of the recommendation was put on hold due to absence of a permanent OC Public Works Director.

In our Second Follow-Up Audit, we found that OC Public Works was not able to take further action due to the absence of the Deputy CEO and CEO. The recruitment for the new CEO is currently in progress. OC Public Works is waiting on guidance from the new CEO on determining responsibility for monitoring and oversight of County fleet management.



OC Public Works informed us they are responsible for monitoring and providing oversight to a "portion" of the County's fleet services and has posted countywide policies and procedures for those administrative responsibilities. OC Public Works claims responsibility for only County fleet purchased from Fund 296 (ISF), and any non-ISF fleet purchases that are brought to their attention by the purchasing department/agency.

OC Public Works is committed to taking corrective actions to support the policy and responsibilities as defined by County leadership. Depending on the final policy decisions on responsibility for fleet management (centralized, decentralized, or a hybrid model, which currently exists), it could require additional policy revisions on issues we identified below, such as take-home vehicles, and responsibility for purchasing, disposing, replacing, and surplusing County fleet. For example, current policy indicates OC Fleet Services has centralized authority for purchasing and disposing of all vehicles within the County. Yet, OC Public Works asserts that it is only responsible for a portion of County fleet vehicles. Because final policy decisions are still pending, we consider this recommendation in process.

Planned Action:

OC Public Works will address the governance and countywide fleet management responsibility with the interim and/or new County Executive Officer and County agencies/departments and will establish policies and procedures as directed by County leadership.

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.

<u>Current Status:</u> **Implemented.** In the First Follow-Up Audit, we found policies and procedures established and/or updated by OC Fleet Services were in draft form. Because of the changing leadership discussed above in #1, the policy did not address fleet management responsibilities between OC Fleet Services and the user departments/agencies. In our Second Follow-Up Audit, we found that policies and procedures for administrative responsibilities have been posted and made available countywide on the OC Fleet website. Policies and procedures accessible from the OC Fleet Website include:

- Vehicle & Motorized Equipment Purchasing Policy
- OC Fleet Management Vehicle Disposal Policies & Procedures
- OC Fleet Use of County Vehicles
- Toll Road and Transponder Usage
- Accidents Involving the Public
- Off-Road Diesel Heavy Equipment Anti-Idling Policy
- Fuel Card Usage
- Use of Intoxicants and Illegal Drugs

However, as discussed above in #1, a policy delineating fleet management responsibilities between OC Fleet and user departments/agencies has not been established. **Modifications to the above administrative policy and procedures may be needed depending on direction from the new CEO.** Because OC Public Works established and made available policies and procedures for County fleet management, we consider this recommendation implemented.



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.

<u>Current Status:</u> **In Process.** In the First Follow-Up Audit, there were two policies and procedures on vehicle purchases that were in draft form. Our Second Follow-Up Audit found that OC Public Works made available the policy on *Vehicle & Motorized Equipment Purchasing Policy* on OC Fleet website. The policy on *OC Fleet Management Vehicle Purchasing* has not been posted because OC Public Works has not finalized the countywide policy on oversight of all fleet purchases due to the absence of the Deputy CEO and the CEO, as discussed above in #1.

The policy on countywide vehicle purchases still needs further clarification. OC Public Works management states that "OC Public Works is responsible for purchasing a portion of the County's fleet vehicles." Yet, OC Public Works' 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..." Because countywide policy for vehicle purchases still needs to be clarified by the new CEO, we consider this recommendation in process.

Planned Action:

OC Public Works will address notification of all County fleet purchases with the interim and/or new County Executive Officer and County agencies/departments and establish policies and procedures as directed 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.

<u>Current Status:</u> **Implemented.** OC Fleet Services currently is responsible for maintaining inventory on all Fund 296 (ISF) assets and keeping records in the Fleet Focus system. In the First Follow-Up Audit, OC Public Works evaluated the feasibility of reconciling department/agency capital asset inventories to the records maintained in Fleet Focus. OC Public Works began reconciling all Fund 296 ISF assets to CAPS+ database of new vehicle acquisitions.

In our Second Follow-Up Audit, we noted that OC Public Works has not finalized countywide policy on governance over vehicle procurement (centralized or decentralized) due to absence of the Deputy CEO and the CEO (see #3 above). There still needs to be policy clarification as to OC Fleet's responsibility over non-ISF Fund 296 assets purchased by departments/agencies. **Modifications to the vehicle procurement policy and procedures may be needed depending on direction from the new CEO.** Because OC Public Works evaluated the feasibility of reconciling department/agency capital asset inventories to the records maintained in Fleet Focus, we consider this recommendation implemented.



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.

<u>Current Status:</u> **Implemented.** Our Second Follow-Up Audit found OC Public Works has posted the *Use of County Vehicles* on its OC Fleet website. We reviewed the policy and noted the section on *Department Assigned Take-Home Vehicles* <u>applies only to OC Public Works.</u> Although the policy has requirements concerning use, need, authorization, and reporting of take-home vehicles, it does not define responsibilities between OC and user departments/agencies. OC Public Works is waiting for guidance from the new CEO on countywide fleet management. **Modifications to the take-home vehicle policy and procedures may be needed depending on direction from the new CEO.** Because OC Public Works established policy and procedures that are accessible countywide and includes criteria for assigning and monitoring compliance of take-home vehicles, we consider this recommendation implemented.

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.

<u>Current Status:</u> **Implemented.** Our Second Follow-Up Audit found that OC Public Works posted the OC Fleet Management Vehicle Disposal policy on its OC Fleet website and is accessible countywide. We reviewed the policy and noted that it only applies to OC Public Works.

As stated above in #1, OC Public Works has not finalized County fleet management policies and is waiting on guidance from the new CEO. The policy on countywide vehicle replacement, disposal, auctioning and surplus still needs further clarification. OC Public Works management states that "OC Public Works is responsible for a portion of the County's fleet vehicles." Yet, OC Public Works' Policy - OC Fleet Management Vehicle Disposal states 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."

Modifications to the fleet replacement, retirement, disposal, auctioning and surplus policy and procedures may be needed depending on direction from the new CEO. Because OC Public Works established policies and procedures over fleet replacement, retirement, disposal, auctioning and surplus of County fleet that are accessible countywide, we consider this recommendation implemented.



7. <u>Updating Policy and Procedures for Pool Vehicle Administration (Control Finding)</u>
OC Public Works/OC Fleet Services update their policies and procedures over pool vehicles including standardized form use to reflect current practices.

<u>Current Status:</u> **Implemented.** Our Second Follow-Up Audit found that OC Public Works posted the *Use of County Vehicles* on OC Fleet website. Policy 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. Therefore, we consider this recommendation implemented.

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 at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Mary Fitzgerald, Director, OCPW/Administration
Tony Bernard, Manager, OCPW/OC Fleet & Procurement Services
Randi Dunlap, Policy and Compliance Manager, OCPW/Central Quality Assurance
Larry Stansifer, Manager, OCPW/Central Quality Assurance
Anthony Marquez, Manager, OCPW/OC Fleet Services
Juan Ochoa, Operations Manager, OCPW/OC Fleet Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors