



Metropolitan St. Louis Sewer District

Review of the Fleet Management Process

Fiscal Year 2016

August, 2016

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

The St. Louis Metropolitan Sewer District Review of the Fleet Management Process

August, 2016

Table of Contents

Introduction and Scope	1
Objectives	2
Methodology.....	3
Overall Conclusion and Results	4
Opportunities for Improvement	5
Acknowledgements	12

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

INTRODUCTION AND SCOPE

The area of Fleet Management was last reviewed by Internal Audit (IA) in 2007. (An independent consultant, at the request of Operations, reviewed the area in 2011.)

As of December 31, 2015 the District's fleet operations consisted of the following:

- A total of 136 vehicles as follows (excludes big equipment vehicles such as vector trucks and TV inspection trucks):
 - Sixty-three (63) vans
 - Forty-nine (49) pick-up trucks
 - Twenty-four (24) automobiles

- Fuel stations located at the following sites:
 - Sulphur Yard
 - Grand Glaize Yard/Treatment Plant
 - Mintert Yard
 - Lemay Treatment Plant
 - Bissell Treatment Plant

- Garage/Shops located at the following sites:
 - Sulphur
 - Grand Glaize

The District currently utilizes two systems to manage fleet operations:

- MAXIMO – Asset/maintenance/work order management system
- GASBOY – Fuel management and dispensing system

Scope

The scope for reviewing the Fleet Management process consisted of the following areas for the following periods:

- Current procedures in place for managing the District's fleet and fuel (fieldwork: Spring/Summer 2016).
- Use (mileage) of vehicle fleet: Calendar 2015.
- Fuel disbursement activity (GASBOY): September 1, 2015 through April 30, 2016.
- Mileage reimbursement data: Calendar years 2013 through 2015.

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OBJECTIVES

Objectives

The overall objective of this engagement was to ensure processes and procedures used to manage the District's vehicle fleet are designed and implemented in a manner that ensures the fleet is utilized in a manner that is effective and efficient.

Specifically, Internal Audit (IA) focused on determining whether:

- Policies are adequately designed, documented and maintained (up-to-date).
- Fleet administration processes incorporate control procedures that adequately address areas of risk.
- District vehicles are inventoried and properly tracked and safeguarded/controlled.
- Use and consumption of vehicle fuel is properly controlled, tracked, and analyzed.
 - District assets (fuel) are adequately safeguarded.
- Vehicle mileage and usage history is maintained, reviewed, and analyzed.
- Vehicle maintenance and repair is properly tracked, monitored and performed at appropriate intervals.
- Vehicle purchasing or leasing methods are cost-effective.
- The vehicle fleet is sized appropriately and utilized effectively to accommodate the operational requirement/needs of the District. Structure is cost-effective.
 - There is a cost-effective balance between the use of District fleet vehicles and the use of employee personal vehicles (mileage reimbursements costs).

METHODOLOGY

Methodology

To accomplish the above objectives, IA:

- Obtained and reviewed District policies and documentation related to fleet and fuel management.
- Performed site visits and conducted interviews and walkthroughs with key District personnel. Reviewed fleet assets and observed operations.
 - Developed an understanding of and identified:
 - Key controls and processes used to manage and administer the District's vehicle fleet and fuel.
 - Roles and responsibilities of District personnel.
 - Process and/or control gaps or deficiencies, if any.
- Obtained access to District operating systems:
 - MAXIMO (asset management/work orders).
 - GASBOY (fuel management).
- Reviewed, analyzed and tested the fleet and fuel related data in the operating systems:
 - Fuel consumption and costs.
 - Repair and maintenance costs.
 - Work order data.
 - Usage/mileage data.
- Obtained and reviewed District employee listings:
 - Database (a.k.a. Employee Master File) maintained by Human Resources.
 - GASBOY fuel system database.
 - Reviewed for inconsistencies or discrepancies between the two systems.
- Obtained mileage and reimbursement cost data for employee business use of personal vehicles.
 - Compared and analyzed the use of personal vehicle data with the data for District fleet usage.
 - Identified trends in the data and developed recommendations regarding the allocation between the use of personal vehicles and the use of District fleet vehicles.

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OVERALL CONCLUSION AND RESULTS

In the opinion of Internal Audit, in all significant respects, the controls and procedures utilized to manage and administer the District's vehicle fleet are effectively designed and implemented. However, IA did note matters that are opportunities for strengthening processes and improving the District's efforts to operate the vehicle fleet in an efficient and effective manner. These opportunities are discussed in detail in the *Opportunities for Improvement* section of this report.

Initial Inherent Business Process Risk: Moderate Risk # Overall Assessment of Engagement Results: Satisfactory **

DEFINITIONS

How Results Are Assessed

** Engagement results are evaluated as *Satisfactory*, *Generally Satisfactory* or *Unsatisfactory*.

- **Satisfactory** (*clean opinion*) – No significant engagement findings² or material weaknesses³ were noted. Engagement findings¹ may have been noted.
- **Generally Satisfactory** (*qualified opinion, i.e. "except for"*) – Results contain significant engagement findings². No material weaknesses³ were noted.
- **Unsatisfactory** (*adverse opinion, immediate Management attention required*) – Significant engagement findings² and/or material weaknesses³ were noted.

Types of Findings

1. Engagement Finding (#Low Risk): An engagement finding is a condition that could adversely affect the organization but is less severe than a significant engagement finding or significant deficiency. Classification includes process or control deficiencies that are not significant deficiencies as well as includes other low risk or low impact conditions.

2. Significant Engagement Finding (# Moderate to High Risk): A significant engagement finding is a condition that could adversely affect the organization. Definition includes all types of findings, such as irregularities, waste, ineffectiveness, conflicts of interest, illegal acts, errors, and significant deficiencies in internal control over financial reporting as well as other significant internal control weaknesses. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

3. Material Weakness (# High Risk): A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected in a timely basis. For internal audit purposes, the definition also includes material and/or severe irregularities, waste, ineffectiveness, conflicts of interest, illegal acts, errors, and other material control weaknesses, etc.

(The term "material weakness" should be thought of as a serious category of significant engagement findings and/or significant deficiencies. However, not all significant engagement findings and significant deficiencies are material weaknesses.)

^ - Definitions are based on guidance from the IIA Standards, GAAS, and the PCAOB.

- Risk is assessed at the District (Entity) Level. (Risk to the District as a whole)

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OPPORTUNITIES FOR IMPROVEMENT

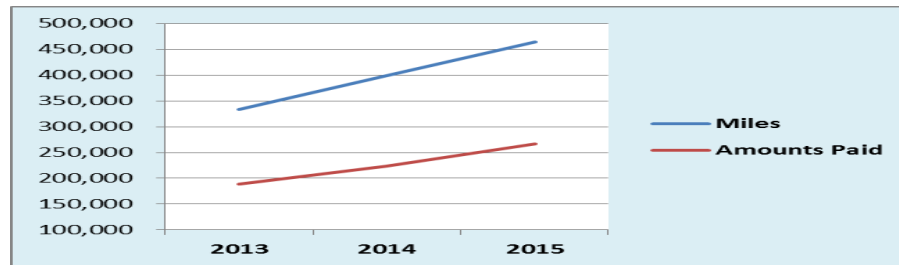
Issue 1 – Use of District Fleet Vehicles versus Employee Business Mileage Reimbursements

Condition:

Based on an analysis of employee business mileage reimbursement costs and fleet vehicle usage, IA noted the following:

- Over the past three (3) calendar years the District paid the following in employee business mileage reimbursement costs:

<i>Mileage Reimbursement Data for 2013 - 2015</i>				
	2013	2014	2015	Total
Miles	333,764	398,199	463,911	1,195,874
Amounts Paid	\$ 188,573	\$ 223,093	\$ 266,594	\$ 678,260



- From **2013 to 2015**, business miles driven and reimbursement costs increased by **39% and 41%**, respectively.
- During calendar 2015**, the District had twenty (20) employees that incurred **over 9,000** business miles using their personal vehicles, five (5) of which incurred **over 14,000** business miles. For the twenty (20) employees, **total reimbursement costs amounted to \$133,100 for 2015**, approximately 50% of the total mileage reimbursement costs for 2015. The composition of the twenty (20) employees is as follows:
 - Sixteen (16) Construction Inspectors
 - Four (4) MWBE Compliance Inspectors
- During calendar 2015 District fleet vehicle mileage was as follows:

Annual Mileage	Number of Vehicles	
	Within Each Range	Cumulative
0 - 3,000	31	31
3,001 - 6,000	44	75
6,001 - 9,000	33	108
9,001 - 12,000	19	127
12,001 - 15,000	3	130
15,001 +	6	136

This report is intended solely for the use of The Metropolitan St. Louis Sewer District (“MSD”) and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OPPORTUNITIES FOR IMPROVEMENT

The data reveals the following:

- Mileage reimbursement costs have steadily increased over the past three calendar years. The rise in reimbursement costs can be attributed directly to the increase in construction projects related to Project Clear and the expansion of the District's Diversity Division, as mileage for the various inspectors has significantly increased.
- Of the 136 vehicles in the District's fleet, thirty-one (31) were driven 3,000 miles or less during 2015. Seventy-five (75) were driven 6,000 miles or less in 2015.
- There appear to be opportunities to reduce the usage of employee vehicles and the related reimbursement costs by utilizing the District's vehicle fleet more effectively.

Recommendation:

IA recommends that:

- The District performs a review and analysis of the use of the District's vehicle fleet and the use of employee vehicles and associated mileage reimbursement costs.
- Using the results of the analysis, Management develop a policy to address guidelines for assigning and allocating the District's vehicle fleet in a manner that is more effective in controlling District mileage reimbursement costs.

Risk Rating at District (Entity) Level: Low

Risk Rating at Business Process Level: Moderate

Process Owner Response:

Management agrees with IA's recommendations and will execute these tasks:

- Determine the breakeven point between owning and maintaining a District vehicle versus mileage reimbursement. This will establish the tipping point for when a District vehicle is more economical than mileage reimbursement.
- Develop District policy for justification of vehicles based on business need and revise the District's Automobile Pool policy (approved 3/92) to better facilitate intermittent user needs.

Date of Implementation:

- Breakeven point determination will be completed by September 2016
- Policy revisions will be made and submitted for acceptance by December 2016

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OPPORTUNITIES FOR IMPROVEMENT

Issue 2 – Fuel System: Dispensing Fuel and System Access

Condition:

IA noted the following regarding the fuel dispensing system:

- a. Regarding the actual dispensing of fuel, IA:
 - Noted that fuel system overrides were used to dispense fuel as follows:
 - o **1,265 transactions** using a system override code and **370 transactions** using a FOB key, for a total of **1,635 transactions**, which represents **15%** of fuel dispensing transactions for the 8-month period of **September 2015 through April 2016**. Fuel dispensed through the override process amounted to:
 - ✓ 16,657 total gallons
 - ✓ 10.2 gallons per transaction
 - o When the overrides are utilized, system controls are bypassed, reducing the safeguards around district assets (fuel). In addition, vehicle information such as make, model, vehicle mileage, and engine hours, is not captured for the vehicle. Fuel costs are captured but are not assigned to a District vehicle.
 - The omitted data hinders Management’s ability to capture real-time data for use in preventive maintenance planning.
 - Not assigning fuel costs hinders Management’s ability to accurately track the operating costs for each vehicle.
- b. Regarding fuel system access, IA:
 - Identified forty-two (42) individuals that are set as up as users in the GasBoy fuel system that are not listed as active employees in the database maintained by Human Resources (HR). After additional research, it was determined that each individual had separated from the District (terminated, retired, etc.). Again, this condition compromises the effectiveness of the controls around the District’s assets (fuel).
 - o It should be noted that IA did review the fuel system transaction history for each of the forty-two (42) individuals mentioned above. **No transactions were noted to occur beyond the separation date of each former employee.**

OPPORTUNITIES FOR IMPROVEMENT

Recommendation:

IA recommends the following:

- a. Strengthen the procedures and controls around the use of system overrides. Steps to be taken may include the following:
 - Determine the root cause of the rate of occurrence for override transactions. Respond accordingly by taking appropriate steps, such as performing additional employee training.
 - Implement procedures that (further) restrict the usage of the override code and the FOB keys.
 - Implement procedures to increase efforts to monitor this type of activity.
 - o Review activity on periodic basis (monthly).
 - o Investigate individual transactions as warranted.

- b. Regarding system access:
 - Eliminate fuel system access for non-active (former) employees. IA will provide listing.
 - Through a coordinated effort with HR, implement procedures to ensure the fuel system is updated as individuals are removed from the active employee database maintained by HR.
 - o Periodically, reconcile the fuel system access listing with the records provided by HR.

Risk Rating at District (Entity) Level: Low

Risk Rating at Business Process Level: Moderate

Process Owner Response:

Management agrees with IA's findings and will implement the following corrective actions:

- Deactivate the existing override code; initiate new override code with gallon restriction and employee badge requirement.
- Implement updated procedures on the usage of override code and FOB key usage.
- Develop monthly reporting of the override code and FOB key transactions; audit these transactions for misuse and patterns of behavior; and based on findings take appropriate actions to address neglect and strengthen controls.
- Develop a process to compare Master Employee list (from HR) with fuel system users and keep these lists in synch.

Date of Implementation:

- Deactivation of the existing code and new code will be active by August 2016.
- Updated procedures for override code and FOB key transactions will be in place by August 2016.
- Monthly reporting of override code and FOB key transactions will be in place by August 2016.
- Process to compare employee list will be in place by September 2016.

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OPPORTUNITIES FOR IMPROVEMENT

Issue 3 – Repair and Maintenance Costs: Procedures to Capture and Track

Condition:

In reviewing procedures to track and capture vehicle repair and maintenance costs, IA noted the following:

- Garage personnel is not consistent in:
 - Charging out labor accurately to the correct asset (vehicle receiving work).
 - Generic work orders (charge labor to admin) are too often utilized.
 - Charging out parts to the correct asset.
 - Recording inventory adjustments for part shortages. Instead of recording an adjustment, personnel may capture the inventory shortage through a work order.

All of the above detrimentally affect Management's ability to accurately track and capture the repair and operating costs for each vehicle, which affects the following:

- Process for determining which vehicles to decommission.
- Process to determine appropriate fleet size.
- Determination of the appropriate allocation between the use of fleet vehicles versus the use of employee vehicles.

Recommendation:

IA recommends the following:

- Management should take steps to ensure personnel adequately understand the procedures to be followed when processing work orders and recording parts and labor. Steps may include the following:
 - Providing personnel with additional training to reemphasize or clarify the procedures to be followed.
 - Provide additional supervision and/or perform "spot" accuracy checks of work order transactions.
 - Increase analytic review of work order data to identify and address procedural issues or inaccuracies.

Risk Rating at District (Entity) Level: Low

Risk Rating at Business Process Level: Moderate

Process Owner Response:

Management agrees with IA's recommendations and will take the following actions:

- Fleet staff will receive refresher training on work order entry and expectations.
- Accuracy checks of completed work orders will be implemented by supervision.
- The Operations Department is currently implementing Asset Management practices across the department. These practices include revised procedures for asset management record keeping, work management, and reliability. These same practices will be incorporated into the Fleet group's daily activities.

This report is intended solely for the use of The Metropolitan St. Louis Sewer District ("MSD") and is not intended to be and should not be used by any other parties without the prior written consent of MSD.

OPPORTUNITIES FOR IMPROVEMENT

Date of Implementation:

- Refresher training on work orders will be complete by August 2016.
- Accuracy checks of work orders will be initiated by August 2016.
- Tactical Asset Management Plan will be published by June 2017.

OPPORTUNITIES FOR IMPROVEMENT

Issue 4 – Documented Procedures

Condition:

Regarding internally-developed procedural documents, IA noted the following:

- The documents have not been reviewed and/or updated in several years:
 - A systematic process is not in place to ensure the procedural documents are periodically reviewed and updated.
 - Documented procedures, in some cases, do not reflect the actual procedures currently being performed by garage personnel.

Recommendation:

IA recommends that Management:

- Initially, evaluate and reconcile documented procedures with actual procedures. Review and update the documented procedures, as appropriate, and correct or adjust the actual procedures performed, as appropriate.
- Develop a systematic process to ensure that documented procedures are periodically evaluated, updated, and reconciled with the actual procedures performed.

Risk Rating at District (Entity) Level: Low

Risk Rating at Business Process Level: Low

Process Owner Response:

Management agrees with IA's recommendations and will review documented procedures with actual practices and update the procedures as appropriate. These updated procedures will be consolidated into a manual for ease of use. The manual in turn will outline a routine review process for the procedures to ensure sustainability of operations.

Date of Implementation:

Procedure manual will be published by June 2017.

ACKNOWLEDGEMENTS

Internal Audit Engagement Team:

MSD Internal Audit:

Todd Loretta

Brown Smith Wallace:

Ron Steinkamp

Adam Rouse

We would like to thank District personnel for their excellent cooperation and assistance during this engagement.

Specifically, we would like to express our gratitude to the following:

Operations:

Jonathon Sprague

Bret Berthold

Chris Pfeuffer

Kevin Uhlmansiek

Lester Fenton

Mike Dulle

Chris Brandt

Ron Merck