



AUDIT HIGHLIGHTS

Fleet Parts Operation

April 26, 2019

Audit Report No. 1912

WHY WE DID THIS AUDIT

An audit of Fleet Parts Operation was included on the City Council-approved fiscal year 2018/19 Audit Plan. The audit objective was to assess management controls over and cost-effectiveness of Fleet's parts inventory operations.

BACKGROUND

Fleet Management Operations (Fleet) operates service bays and parts rooms at the North Corp Yard and the McKellips Service Center. The service bays and parts rooms operate Monday through Friday about 20 hours per day, providing maintenance and service for more than 1,200 City vehicles and similar equipment used by various departments including Police, Fire, Solid Waste, Transit and Parks & Recreation. Fleet uses the FASTER Fleet Management System to track parts inventory purchases and issuances. Over the past five fiscal years, parts inventory purchases increased from \$2.8 million to \$3.5 million. Parts issued nearly 44,000 individual parts in FY 2017/18.

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WHAT WE FOUND

Inventory controls are not effective to safeguard the fleet parts inventory.

Departmental policies designed to provide strong inventory controls are not effective.

- Auditors found discrepancies when checking random inventory samples.
- Inventory discrepancies are routinely adjusted by the Parts technicians and generally not investigated by the supervisor.
- Inventory variances reported in FY2017/18 totaled more than \$77,000, or 18% of total inventory items.
- Current physical security measures do not effectively limit access to the Parts rooms, and FASTER system access controls can be improved.

Operational efficiency can be improved.

Fleet's operational goal of returning 70% of vehicles to service within one day may result in a larger parts inventory and more Parts staff.

- Parts has an inventory turnover ratio of 4.5 to 5.0 over the past four years, and the majority of items have between 90 days and one year of inventory in stock. These inventory levels create higher holding costs for the City.
- Parts technicians are not scheduled efficiently, and some shifts receive little or no supervision.

WHAT WE RECOMMEND

We recommend that the Fleet Management Director:

- Ensure the Equipment Parts Supervisor reviews all equipment parts discrepancies before adjustments are made, install electronic keypads and security cameras in the parts rooms, and improve FASTER system security.
- Categorize vehicles as essential or non-essential and identify high priority items to keep in stock. Further, adjust scheduling based on issuance demand and ensure supervision of all shifts.

MANAGEMENT RESPONSE

The department agreed with the recommendations and expects to implement its action plans by June 30, 2020.