EVENTS & TRANSPORTATION

FLEET AND TRANSIT

AUTO PARTS INVENTORY

AUDIT REPORT #17-2208

Audit & Advisory Services

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# Background

In accordance with the UCLA Administration fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) conducted an audit of Fleet and Transit’s (F&T) auto parts inventory activities.

F&T is a department comprised of two operating units: Fleet Services, a self-supporting auxiliary enterprise; and Transit Operations, a subsidized service enterprise. F&T provides fleet management services for approximately 1,081 vehicles, which include low speed vehicles and carts, as well as specialty vehicles for specific departmental applications such as ambulances, shuttle buses, street sweepers, utility carts, and trailers.

F&T has two distinct vehicle maintenance and repair shops. The first functions as the campus’s maintenance and repair facility for non-diesel vehicles that weigh one ton or less. This shop performs all types of vehicle maintenance and repairs except for body damage and other repairs that require specialized equipment. This shop has its own tow truck, which services University vehicles within a five mile range. The second functions as a heavy-duty vehicle maintenance and repair facility for campus and UCLA Health system shuttle buses, and transit buses and other large specialty vehicles in the University’s fleet, such as ambulances, and rolling clinics.

Auto parts inventory is an essential component of vehicle maintenance and repair services provided by F&T. Those services include, but are not limited to:

* Tune-ups, including lube, oil, and filter changes
* Inspections and preventive maintenance
* Air conditioning repair
* Tire and brake service
* Emissions testing

FleetFocus is a fleet management software information system used by Fleet Services that includes comprehensive preventive maintenance schedules, work orders and labor tracking, as well as parts and inventory management.

The Fleet Operations Manager oversees the shop’s auto parts inventory function and reports to the F&T Director. The F&T Director reports to the Executive Director of Events & Transportation. For fiscal year end June 30, 2016, auto parts expenses were approximately $769,052 and ending inventory was approximately $154,026 for parts, and $18,398 for fluids.

# Purpose and Scope

The purpose of the review was to ensure that the F&T’s structure and controls, and the related systems and procedures surrounding auto parts inventory are conducive to accomplishing its business objectives. Where applicable, compliance with University and departmental policies and procedures was also evaluated.

The scope of the review focused on controls surrounding the following auto parts inventory activities:

* Accountability Review
* Ordering
* Receiving
* Issuing
* Physical Inventory
* Security

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests and other procedures considered necessary in achieving the purpose. Interviews were conducted with F&T shop management and staff, and supporting documentation related to various auto parts inventory activities and processes were examined.

# Summary Opinion

Based on the results of the work performed within the scope of the audit, the F&T’s overall organizational structure and controls surrounding auto parts inventory are generally conducive to accomplishing its business objectives. However, internal controls could be further strengthened in the areas of monitoring the accountability structure, “core charge” tracking, and physical inventory procedures.

The audit results and corresponding recommendations are detailed in the following section of the audit report. Audit Results and Recommendations

Accountability Review

F&T’s accountability structure in the Distributed Administrative Computing Security System (DACSS) in effect for March 2017 was evaluated for effective delegation of authority in initiating, processing, and reviewing auto parts purchasing transactions, and for adherence to the UCLA Financial Policy on “Principles of Financial Accountability.” According to the UCLA Financial Policy, maintaining and securing an effective accountability structure should provide for the routine update of DACSS to ensure that proper access is granted to inquire, prepare, and/or review transactions. The following were noted:

1. Accountability Structure

Although the Chief Administrative Office (CAO) has established an effective DACSS structure for the delegation of initiating, processing, and reviewing auto parts purchasing transactions, the structure should be reviewed and updated. Specifically, A&AS’ review disclosed the following concerns:

* The three storekeepers were set up with a $5,000 BruinBuy purchasing maximum amount. The storekeepers use their BruinBuy purchasing access to perform the receiving function for auto parts inventory. The processing of the purchases in BruinBuy is performed by Events & Transportation (E&T) Accounts Payable. A&AS verified with Information Technology (IT) Services and UCLA Purchasing that the storekeepers would still be able to perform the receiving function in BruinBuy, if their BruinBuy access was limited to a zero dollar maximum.
* The Fleet Operations Manager was set up as a mandatory reviewer for accounts that begin with 721 and fund 66070 Fleet Operations, but was not set up as a reviewer for fund 66164 Transit Operations, therefore he did not receive any PANs related to auto parts purchased for Transit Operations. Discussions with management indicated that he should be set up as a non-mandatory reviewer for auto parts that are purchased for Transit Operations.
* The Fleet Operations Manager did not have viewing/receiving access to BruinBuy. Management decided that the Fleet Operations Manager should be granted viewing/receiving access rights.
* The Senior Storekeeper was the backup purchaser for automobiles for account/fund number 721293-66071. Although the access was appropriate at the time, the F&T Director decided that the purchasing access was no longer necessary and the access was deleted.

After discussions with A&AS, management contacted the Departmental Security Administrator (DSA) and requested all necessary updates to the DACSS structure.

Recommendation: The CAO should monitor accountability delegations by reviewing quarterly DACSS reports to ensure that the structure reflects access that is appropriate and consistent with the department’s organizational structure and job responsibilities.

Response: We concur. The CAO (i.e., Fleet & Transit Director) will continue to monitor accountability delegations via quarterly DACSS reports and work with the E&T Senior Financial Analyst to address access issues as appropriate.

1. Post Authorization Notifications (PAN) Review

The PAN Aging Reports available on the online Document Direct system were queried to verify that employees who are set up as mandatory reviewers for auto parts purchases do not have any unread PANs greater than 14 days. Additionally, the PAN Audit Review was queried to verify that in the past year, mandatory reviewers had read their PANs “within two business days of receipt” in accordance with the UCLA Financial Policy.

* As of March 2017, mandatory reviewers for auto parts purchases have read all their PANs. Although all PANs were read, one mandatory reviewer did not read all their PANs in accordance with the UCLA Financial Policy during the nine month period of July 1, 2016 - March 31, 2017, as there were over 200 PANs that had remained unread between 14-17 calendar days in the mandatory reviewer’s queue. Discussions with management revealed that the issue had been previously identified in a separate fiscal year 2016-17 audit. Further examination of the PANs during the recent three month period of January 4, 2017, to March 31, 2017, revealed that the mandatory reviewer had made improvements and PANs had been reviewed in accordance with the UCLA Financial Policy.

There were no significant control issues found in this area.

Ordering

Auto Parts Purchases

The adequacy of internal controls surrounding the auto parts purchasing processes was evaluated to ensure that there was proper authorization, separation of duties, and compliance with policies and procedures. A judgmental sample of 20 auto parts purchases from July 2016 – April 2017 were selected for audit test work. A&AS reviewed supporting documentation that included the invoice, work order detail reports, PANs, BruinBuy information, departmental emails, and the detail general ledger. Audit test work indicated the following:

* Purchases were requested by a storekeeper based on a justified need.
* E&T Accounts Payable processed the invoices for payment.
* Invoices were properly approved when placed.
* Invoices were approved for payment to the vendor.
* Purchases were made against the appropriate Full Accounting Unit (FAU).
* Amounts posted to the campus general ledger reconciled to the vendor invoices.

There were no significant control issues found in this area.

Core Charges

Discussions were held with F&T management and staff to determine the process for identifying, tracking, and ensuring that core charges are accurately credited in a timely manner. The eight cores listed in the Core Log for the period of July 2016 - March 2017 were tested for accuracy of core charge credits and timeliness.

Although Management has established procedures for identifying and tracking core charges, as well as maintaining supporting documentation for each core charge, procedures over core charges should continue to be strengthened. The following were noted:

* Ten out of twenty-four dates (e.g., order date, returned to vendor date, and/or credit issued date) were incorrectly recorded in the Core Log.
* One out of eight core charges was not accurately credited. Management subsequently provided a credit memo with the remaining balance during the audit.

Recommendation: In order to strengthen the core charge tracking process, management should periodically review the Core Log to ensure that credits received are accurate, and the data in the report is reliable.

Response: We concur. The Fleet Operations Manager will continue to review the Core Log to help ensure the accuracy of information contained therein.

## Receiving

Business processes for receiving was evaluated for effectiveness through interviews, observations, review of written procedures, and sample testing.

Review of the supporting documentation for the sample of 20 auto parts purchases from fiscal year 2016-17 showed that staff had performed receiving in accordance with the Fleet Maintenance Parts Receiving procedures. The written procedures require that prior to signing and stamping invoices, auto parts must be inspected and the invoice reviewed to ensure that items received correspond to what was ordered and are free of damage.

Fleet Services receiving procedures appear adequate. When auto parts are received, the items are inspected to ensure they correspond to what was ordered. The information is then entered into FleetFocus to update the inventory levels, and the barcode labels are printed. The auto parts are also recorded in the BruinBuy system so the vendor may be paid and the transaction uploads to the campus general ledger. The invoice is then stamped with the date, the appropriate FAU, and a “charge to” stamp if it belongs to a specific automobile. The invoice is also annotated with the vehicle and work order numbers, signed, and forwarded to E&T Accounts Payable for processing of payment via BruinBuy. Once the parts are labeled, the storekeeper places them in their assigned stocking locations.

There were no significant control issues found in this area.

## Issuing

A review of how auto parts inventory items are issued from the stock room was performed to determine adequacy and compliance with departmental procedures and best business practices. Discussions with the storekeepers and F&T management were conducted and applicable documents were reviewed.

Storekeepers are responsible for issuing auto parts to technicians. A technician must first provide the storekeeper with a hard copy of the Work Order and a list of the requested items on the Parts Order form. If the items are in stock, the storekeeper retrieves them from the parts room, fills out the remaining applicable fields on the Parts Order form, and records the issued parts in FleetFocus to update the inventory levels. Both the storekeeper and the technician write their initials on the Parts Order form to acknowledge that the parts have been released. The paper copies are given back to the technician together with the parts. For tracking purposes, each requested part is linked to a Work Order within FleetFocus, which contains details of the vehicle being serviced.

If the requested items are not in stock and must be ordered, the storekeeper fills out the applicable fields on the Parts Order form and keeps the paperwork until the parts arrive. When the technician returns to pick up the items, FleetFocus is updated, both employees write their initials on the Parts Order form, and the hard copies are given back to the technician along with the parts.

The processes to issue items from the stock room appear to be in compliance with departmental procedures and best business practices.

There were no significant control issues found in this area.

Physical Inventory

The 10% Monthly Physical Inventory procedures and the supporting documentation for a sample of nine monthly inventory counts that were conducted during the period of July 2016 - April 2017 was reviewed to verify that the monthly physical inventory counts in the sample were properly conducted, adequately documented, reviewed and approved by management, and any significant variances were investigated.

Our review of nine monthly inventory counts showed that while the Fleet Operations Manager electronically adjusts/documents variances to the inventory report in FleetFocus, six of the nine hard copy reports had not been adequately documented in accordance with the 10% Monthly Inventory procedures and current departmental practices. The following issues were noted:

* One report had adjustments made to the count difference for two items, but one of the adjustments was not initialed by the Fleet Operations Manager.
* Four reports had count variances that were not verified with a check mark.
* One monthly inventory report had a page that was not initialed by the verifying person.
* Two reports had three to seven pages that were not initialed by the Fleet Operations Manager.

Recommendation: Management should ensure that the 10% monthly inventory counts are conducted in accordance with departmental practices and procedures. Count variances in the monthly inventory report should be verified with a check mark and adjustments should be initialed by management to ensure inventory accuracy. Also, each page should be initialed by the verifying person and the Fleet Operations Manager to further ensure that the count variances have been appropriately reviewed and documented.

Response: We concur. Management will work with impacted staff to ensure that 10% monthly inventory counts are conducted in accordance with departmental practices and procedures.

## Security

A walk-through of the auto parts inventory storage area was conducted to observe how inventory is stored and to determine that the storage areas are secure during normal business hours to the extent necessary in order to maintain adequate control over inventory, but without interrupting on-going operations. The listing of keys to the Parts Room was also reviewed to ensure that keys were assigned to the appropriate personnel.

Security over auto parts inventory appear adequate, and access to auto parts inventory is limited to the appropriate personnel who have been assigned a key to the Parts Room.

There were no significant control issues found in this area.

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