

INTERNAL AUDIT REPORT

2014-04

Work Orders

Fleet Maintenance Section
Maintenance and Operations Division
Public Works Department

April 29, 2014

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Mayor Dan Sullivan

April 29, 2014

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2014-04, Work Orders, Fleet Maintenance Section, Maintenance and Operations Division, Public Works Department**. A brief summary of the report is presented below.

In accordance with the 2013 Audit Plan, we have completed an audit of the work orders at the Fleet Maintenance Section of the Public Works Department. The objective of this audit was to determine whether all of the parts and labor used on vehicles were properly recorded in the work orders and the vehicle master files.

Based on our observation, it is our opinion that the recording in the work orders and the vehicle master files of parts and labor used on vehicles needs improvement. Specifically, there was a lack of accountability for parts issued to the Street Maintenance Section to be installed into vehicles and equipment by Street Maintenance Section personnel. Additionally, parts were issued out of the Fleet Maintenance Section parts room for equipment at Street Maintenance Section, but were not always installed on the equipment. Moreover, costs were not always properly capitalized in capital work orders and operational work orders we reviewed. Likewise, incorrect job codes were sometimes entered into capital work orders, labor hours in some capital work orders reviewed appeared excessive, and repair notes were not always entered in work orders. Furthermore, most work orders we reviewed, having no part and no labor charges, were closed instead of cancelled and some capital work orders were not closed in a timely manner. Finally, there was a lack of segregation of duties in Fleet Maintenance Section's Parts Department and Fleet Maintenance Section had no formal written policies or procedures regarding the work order process.

There were ten findings in connection with this audit. Management was responsive to the findings and recommendations.

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Introduction. The Fleet Maintenance Section (Fleet Maintenance) of the Public Works Department is responsible for the acquisition, management, maintenance, and disposal of about 1,000 vehicles and equipment units in the Municipality of Anchorage (Municipality). The majority of these vehicles fall into three categories: general government (under 1 ton), heavy duty (over 1 ton), and Anchorage Police Department (APD) vehicles. The entire range of maintenance services from preventive to complete rebuild is tracked using work orders in FleetFocus M5. Fleet Maintenance operations are governed by Policy and Procedure (P&P) 76-4, *Fleet Services*.

Objective and Scope. The objective of this audit was to determine whether all of the parts and labor used on vehicles were properly recorded in the work orders and the vehicle master files. We judgmentally selected 50 capital work orders and 485 operational work orders generated from January 2013 through October 2013. In addition, we reviewed 200 vehicle master records for the past 2 years.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of November through December 2013.

Overall Evaluation. The recording in the work orders and the vehicle master files of parts and labor used on vehicles needs improvement. Specifically, there was a lack of accountability for parts issued to Street Maintenance to be installed into vehicles and equipment by Street Maintenance personnel. Additionally, parts were issued out of the Fleet Maintenance parts room for equipment at Street Maintenance, but were not always installed on the equipment. Moreover, costs were not always properly capitalized in capital work orders and operational work orders we reviewed. Likewise, incorrect job codes were sometimes entered into capital work orders, labor hours in some capital work orders reviewed appeared excessive, and repair notes were not always entered in work orders. Furthermore, most work orders we reviewed, having no part and no labor charges, were closed instead of cancelled and some capital work orders were not closed in a timely manner. Finally, there was a lack of segregation of duties in Fleet Maintenance's Parts Department and Fleet Maintenance had no formal written policies or procedures regarding the work order process.

FINDINGS AND RECOMMENDATIONS

1. Lack of Accountability for Parts Issued to Street Maintenance.

- a. Finding.** There was a lack of accountability for parts issued to Street Maintenance to be installed on vehicles and equipment by Street Maintenance personnel. For example:
 - *No Signature Required* - When parts were picked up by Street Maintenance personnel, they were not required to sign for the parts verifying that they had received the parts. As a result, when we questioned Street Maintenance personnel regarding parts they had picked up they could not always recall or document receiving them.

- *Repair Notes Not Always Used* - Absence of repair notes in the work orders often made it difficult to determine why the part was needed, especially in those cases where the same part had recently been issued for the same vehicle.
- *Labor Hours Unclear* – Although a part may have been issued to Street Maintenance, it was sometimes difficult to determine if the part was installed by Fleet Maintenance staff or by Street Maintenance staff because labor hours were not always properly recorded.
- *Part Location Unclear* – Parts issued to Street Maintenance were not always coded to the correct parts location. For example, parts issued to Street Maintenance were sometimes recorded to Location 1 instead of Location 3. Location 1 is Fleet Maintenance’s heavy duty shop/parts room. Location 3 is Street Maintenance. As a result, it was unclear if Street Maintenance actually received the part.
- *Work Performed Not Always Recorded* – Work performed by Street Maintenance staff was not always recorded to work orders. Specifically, when a part was issued to Street Maintenance, a work order was created. After obtaining the part from Fleet Maintenance, Street Maintenance personnel installed it on the equipment. Since Street Maintenance did not have access to M5, they should have notified Fleet Maintenance of the work performed. However, Street Maintenance did not inform Fleet Maintenance of their labor hours and only sometimes informed them of the work performed. As a result, the vehicle master records were not accurate.

b. **Recommendation.** The Maintenance and Operations Superintendent should strengthen the controls over parts issued to Street Maintenance. In addition, he should

consider providing Street Maintenance access to M5 so that labor hours and work performed can be recorded on work orders to the appropriate equipment.

- c. **Management Comments.** Management stated, “We concur with these findings. Due to these findings Fleet Maintenance has developed a new Work Order/Parts charge Policy and Procedure. The new procedure is included as an attachment to this document and creates a permanent fix to these findings.” See Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Parts Prematurely Removed from Inventory Records.**

- a. **Finding.** Parts were issued out of the Fleet Maintenance parts room for equipment at Street Maintenance, but were not always installed on the equipment. Specifically, more than 1,000 cutting edge ice bits and cutting edge grader blades worth more than \$115,000 dollars were issued to Street Maintenance equipment through work orders. However, the blades were not installed but stored for future use. Issuing parts in advance of installation and without knowing whether or not they will be installed on the assigned equipment distorted the accuracy of the work orders and vehicle master records. In addition, expensing inventory items in advance of installation overstates expenses and understates the year end parts inventory at Fleet Maintenance.
- b. **Recommendation.** The Maintenance and Operations Superintendent should ensure that parts issued to equipment are actually installed on the equipment and not stockpiled at Street Maintenance.

- c. **Management Comments.** Management stated, “We concur with this finding. Cutting edges for the graders and other equipment have always been issued to Street Maintenance upon delivery. This has been the acceptable practice for over 25 years. These cutting edges should not be in inventory because they are expendable items and during heavy snow removal operations may need to be changed several times a week. These cutting edges have always been stored at the Street Maintenance yard. Our plan to remedy this finding is to move the budget for these cutting edges from fund 601 Equipment Maintenance to Department ID 7430 Street Maintenance Operations. In addition Street Maintenance is going to build a locked fenced area to store the cutting edges in until installed.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Capital Work Not Always Capitalized.**

- a. **Finding.** Costs were not properly capitalized for 45 of 50 (90 percent) capital work orders and 35 of 485 (7 percent) operational work orders we reviewed. For example, 45 work orders had one or more incorrect repair reasons. Instead of using the repair reason “Capital Improvement” other repair reasons such as “Inspect – New” were used. As a result, labor costs were not capitalized. Many of these capital work orders were for Anchorage Police Department vehicles. The remaining 35 work orders showed costs that should have been capitalized but were expensed. Work order costs can be capitalized or expensed. Costs are capitalized when expenditures are used to acquire assets or improve the useful life of existing assets. Expenditures made to restore or maintain a vehicle at its original condition are expensed. Failure to capitalize these costs distorted the book value of vehicles and their rental rates.

- b. **Recommendation.** The Maintenance and Operations Superintendent should develop and implement a guide that outlines capitalization criteria as well as proper repair reasons, job codes, and other fields to be used for capital work orders.

- c. **Management Comments.** Management stated, “We concur with this finding. Our process for the vehicle/equipment check in has been changed. We are now capturing the full cost of capitalization. This has been corrected by conducting advanced training of the M-5 Fleet Focus software system. The new process ensures that all job codes associated to new vehicles/equipment will be capitalized. This will reflect the true cost of preparing the vehicle/equipment for service in the fleet.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Correct Job Codes Not Always Used in Capital Work Orders.**

- a. **Finding.** Incorrect job codes were entered into some capital work orders. Specifically, in 5 of 50 (10 percent) capital work orders reviewed the job code “Repair” was used instead of the job code “Install”. As a result, some vehicle master records showed new vehicles being repaired. Although the parts were capitalized, having improper job codes distorted the vehicle master record and made it difficult to determine if capitalization costs were correctly applied.

- b. **Recommendation.** The Maintenance and Operations Superintendent should ensure that correct repair reasons, job codes, and other fields to be used when recording capital work orders are properly recorded.

- c. **Management Comments.** Management stated, “We concur with this finding. This finding is addressed in the answer to number 3 above.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Excessive Labor Hours Charged to Some Capital Work Orders.**

- a. **Finding.** Labor hours in 5 of 50 (10 percent) capital work orders reviewed appeared excessive. For example, in one case 28.5 labor hours were charged to inspect a new vehicle exceeding by more than three times the reasonable time of 8 hours to perform the job. As a result, labor charges in vehicle master files may have been overstated.

- b. **Recommendation.** The Maintenance and Operations Superintendent should develop a guide specifying the maximum time allowed on standard jobs.

- c. **Management Comments.** Management stated, “We concur with this finding. Fleet management will closely oversee the check in process to ensure the necessary job codes are added to the work order. With the addition of job codes the labor hours will follow best practices. The inspection and adding of components to the new vehicles / equipment require new job codes for such work. Job notes are required daily on all work performed to comply with time standards.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Repair Notes in Work Orders Not Always Completed.**

- a. **Finding.** Repair notes were not always entered in work orders. Our audit revealed that 464 of 535 (87 percent) reviewed work orders did not contain repair notes. The absence of repair notes often made it impossible to reconstruct the course of events that led to specific work order entries. It also made it difficult to discern whether the work orders contained correct entries or had some other implications. For example, the absence of repair notes in the work orders with parts but no labor charges made it difficult to determine what happened to the parts.
- b. **Recommendation.** The Maintenance and Operations Superintendent should require that repair notes are entered in work orders to clearly describe the work performed.
- c. **Management Comments.** Management stated, “We concur with this finding. New procedures require repair notes on all work order job codes. The General Foreman has been tasked with ensuring there are the necessary notes. These notes are to include Complaint, Cause, and Correction. With these Job notes the General Foreman must look for necessary parts charges that are reflective of the repair operation.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Work Orders with No Charges Closed Instead of Cancelled.**

- a. **Finding.** Thirty of 34 (88 percent) work orders we reviewed, having no part and no labor charges, were closed instead of cancelled. It appears that many of these work orders were opened by mistake. Almost all of these work orders displayed one or more job names with no labor hours and no parts charged. Jobs not performed but

appearing in the vehicle master records created the impression that they were actually performed. In addition, these empty work orders distorted work order statistics.

- b. **Recommendation.** The Maintenance and Operations Superintendent should ensure that work orders with no parts and no labor charges are canceled instead of closed.
- c. **Management Comments.** Management stated, “We concur with this finding. These work orders were opened in error. The current process is to cancel all work orders opened in error.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Capital Work Orders Not Closed in a Timely Manner.**

- a. **Finding.** Some capital work orders were not closed in a timely manner. Specifically, we found 35 of 50 capital work orders had been completed for over 10 months but were still open. In most cases, the vehicles were already in service and several subsequent work orders were opened and closed with the earlier work orders remaining open for no apparent reason. For example, one work order was opened for a new vehicle on June 5, 2012 and work was completed on November 15, 2012. However, as of November 2013 the work order remained opened.
- b. **Recommendation.** The Maintenance and Operations Superintendent should ensure that capital work orders are closed when the work is completed.

- c. **Management Comments.** Management stated, “We concur with this finding. The check in process has been adjusted to include closing the capital work order before the vehicle / equipment is issued to the using department. The General Foreman has been tasked with running a completed work order report to aid in closing work orders in a timely manner.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

9. **Lack of Segregation of Duties.**

- a. **Finding.** There was a lack of segregation of duties in Fleet Maintenance’s Parts Department. Functions including requisition, receiving, and recording of parts as well as creating new work orders to charge the parts, issuing the parts, and closing work orders were performed by the same individuals. As a result, controls over the parts were weakened allowing the opportunity for loss or misappropriation.
- b. **Recommendation.** To strengthen internal controls, the functions of handling parts and creating and closing work orders should be assigned to different individuals.
- c. **Management Comments.** Management stated, “We concur with this finding. The creation / completion of work orders in all locations will be handled by the supervisor of those shifts. The creation and completion of work orders in the Tire shop will be handled by the Parts Warehouse II. The creation of work orders in Street Maintenance will be handled by the Expeditor and Parts Warehouse II. The General Foreman will be responsible for oversight and the completion and closing of work orders to ensure we have all data necessary to justify the parts charges, work order,

job codes, and labor hours. There is a lack of funding for Fleet to hire additional staff. Fleet incurred a staffing reduction in 2013 of two full time employees and three temporary positions.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

10. **No Formal Written Policies/Procedures.**

- a. **Finding.** Fleet Maintenance had no formal written policies or procedures regarding the work order process. Policy and Procedure 76-4 states that the Fleet Services Manager is to “Establish procedures and controls for efficient and effective administration of operating and capital expenditures for vehicles and equipment”. Written policies and procedures formalize management directives and are a foundation for strong internal controls. They also provide continuity in procedure use and application. The absence of formal written policies or procedures resulted in discrepancies between actual practice and the practice expected by management. For example, although Fleet Maintenance Management thought repair notes were being entered into work orders, repair notes were not always entered into work orders.
- b. **Recommendation.** The Maintenance and Operations Superintendent should develop and implement written policies and procedures regarding the work order process.
- c. **Management Comments.** Management stated, “We concur with this finding. Fleet section is in the process of writing formal procedures that will cover all findings that are covered in this Internal Audit. Once the procedures are completed and approved by the necessary personnel, Fleet will conduct formal training with the staff. This

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training will be completed by April 30, 2014. Fleet has already instituted many of the changes necessary to properly document work order data and correct the deficiencies noted.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

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Attachment 1

Work Order / Parts Charge Policy and Procedure

1. The individual from Streets who requested the parts must provide all the Unit #s and the reason the applicable parts are needed. (Complaint) **No Exceptions!**
2. All parts that are going to Streets will be billed to work orders generated exclusively in Location 3 with the appropriate job codes. **No Exceptions!**
3. All parts must be billed to a Location 3 work order before they are 'handed over the counter'. **No Exceptions!**
4. In the notes section the following should be recorded:
 - 4.1 The name of the person who ordered the part along with the date and time ordered.
 - 4.2 The name of the person who received the part along with the date and time received.
5. There will be two printed copies of the work order one will be given to Streets personnel and the other signed copy will be store here a Fleet. This copy of the work order must be returned to Fleet Management within three days after the 3 C's are recorded on the work order along with the name of the individual(s) and the amount time it required completing the repair. The 3 C's are defined as:
 - 5.1 Complaint: Is defined as what the operator and/or ET have stated is wrong with the Unit. (I.E. Engine will not crank over/start.)
 - 5.2 Cause: Is defined as what actual made the Unit fail. (I.E. Batteries are flat and alternator is not charging.)
 - 5.3 Correction: Is defined as actual repair performed to correct the Complaint and Cause. (I.E. ET replaced alternator and batteries, ET verified that alternator is charging as designed and batteries test okay at this time.)