

Audit

Follow Up

As of March 31, 2006



“StarMetro (formerly Taltran) Parts”

(Report #0519, Issued March 4, 2005)

Report #0620

July 7, 2006

Summary

StarMetro (formerly Taltran) has completed 17 of the 29 action plan steps that were developed for this audit, each initially due for completion no later than March 31, 2006. In regard to the remaining 12 steps: (1) two steps will no longer be necessary if management replaces the FASTER system with a new fleet inventory and maintenance system; (2) actions had been initiated but not yet completed for another two steps; and (3) management asserts plans are to initiate and complete the other eight steps by the end of summer 2006.

In audit report #0519, we identified issues that indicated the need for management to strengthen the control environment. Identified issues included, for example, the need to: (1) restrict access to vehicle parts, (2) better control access within the FASTER system, (3) restrict employee system permissions within the FASTER system to preclude performance of incompatible duties, (4) correctly record transactions, (5) identify vehicles to which parts are issued, (6) implement some available FASTER functions, (7) improve controls over periodic inventory counts of parts, and (8) obtain and use available FASTER system reports to manage and monitor parts activity. Twenty-nine action plan steps were developed to address the identified issues, each initially due for completion no later than March 31, 2006.

In regard to the 29 action steps, StarMetro management, with the assistance of Information Systems Services (ISS) in some instances, completed 17 steps that better restrict access to parts, control access to the FASTER system, ensure proper execution of transactions, and strengthen controls over periodic inventory counts. However, actions still need to be completed that further restrict access to parts, control access to

FASTER, ensure proper execution of transactions, enhance managerial monitoring and oversight, and facilitate operations.

StarMetro management expressed their intent to complete each of the uncompleted action steps by the end of summer 2006.

Scope, Objectives, and Methodology

The audit and subsequent follow up engagements were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing.

Report #0519

The scope of report #0519 included a review of StarMetro vehicle parts operations during the period October 1, 2001, through September 3, 2004. Activities relating to the acquiring, receiving, inventorying, issuing, safeguarding, and accounting for those parts were evaluated and analyzed. Use of the FASTER system as an accounting and management tool was evaluated. We also reviewed the control environment, including management's participation in establishing sound internal control practices, and certain related activities, including processing vehicle repair and service work orders.

The objectives of the audit were to determine whether:

- StarMetro vehicle parts were properly purchased for authorized uses and accurately accounted for in the City accounting system;
- Use of the FASTER system was adequate to ensure the accuracy and completeness of parts data; and
- Sound internal control practices were in place in regard to parts and related activities.

Report #0620

This is our second follow up on action plan steps identified in audit report #0519. In our first follow up, we reported on the progress and status of efforts to implement action plan steps due as of September 30, 2005. The purpose of this second follow up is to report on the progress and status in completing the recommended action plan steps due for completion during the period October 1, 2005, through March 31, 2006. To obtain information, we conducted interviews with key staff, made observations, and reviewed relevant documentation.

Previous Conditions and Current Status

In report #0519, we identified issues that indicated the need for management to strengthen internal controls,

and specifically the control environment. Identified issues included, for example, the need to: (1) restrict access to vehicle parts, (2) better control access within the FASTER system, (3) restrict employee system permissions within the FASTER system to preclude performance of incompatible duties by a single employee, (4) correctly record transactions, (5) identify vehicles to which parts are issued, (6) implement some available FASTER functions, (7) improve controls over periodic inventory counts of parts, and (8) obtain and use available FASTER system reports to manage and monitor parts activity. Twenty-nine action plan steps were developed to address the identified issues. Each of those 29 action steps was due for completion no later than March 31, 2006. Table 1 provides a summary of those 29 action steps and their current status.

Table 1

Action Plan Steps from Report #0519 due as of March 31, 2006, and Current Status

Action Plan Steps	Current Status
Restrict Access to the Parts Room	
<ul style="list-style-type: none"> Doors accessing the parts room will be locked when the parts room is unattended by parts specialists or other authorized staff. 	<p>✓ In our prior follow up audit report (#0607), we noted that actions had been completed to control access to the parts room from the technician (mechanic) supervisors' office. During our current follow up fieldwork, we determined that the door accessing the parts room from the shop floor was also properly locked and secured. The parts specialists asserted that they now keep that door locked except to allow authorized entry into the parts room.</p>
<ul style="list-style-type: none"> Unescorted access to the parts room will be restricted to the parts specialists, the division superintendent, and other staff authorized to issue parts on behalf of the parts specialists. 	<p>✓ In our prior follow up audit report (#0607), we noted that management had implemented procedures restricting parts room access to the parts specialists, division superintendent, and technician supervisors. However, we reported that management acknowledged that individual technicians continued to occasionally access the parts room when that room was temporarily unattended. During our current follow up fieldwork, our discussions with various technicians indicated that they no longer access the parts room unattended. In addition, those technicians asserted that management had emphasized that the parts room should no longer be accessed when that room was temporarily unattended.</p>
<ul style="list-style-type: none"> Staff other than shop technicians (e.g., supervisory staff) will be designated and authorized to receive and issue parts in those instances when both parts specialists are away from the parts room. 	<p>✓ Completed during prior period.</p>

<ul style="list-style-type: none"> • Access to the accounting clerk’s office will be changed so that the office is accessed directly from the shop and not from the parts room. 	<ul style="list-style-type: none"> ✘ Completion of this action was temporarily delayed after structural issues made initial plans to change access (i.e., place a new door into the accounting clerk’s office directly from the shop floor) economically infeasible. Management has subsequently adopted an alternative plan that will provide for a small hallway from the shop floor from which separate doors will be used to access the accounting clerk’s office and the parts room. Management intends to complete that alternative plan during summer 2006.
<p>Control Access to the FASTER System</p>	
<ul style="list-style-type: none"> • Employees will no longer be allowed to use the system permissions of other employees to record data or access FASTER. 	<ul style="list-style-type: none"> ◇ The status of this step remains the same as reported in the prior follow up report (#0607). Specifically, corrective actions have been taken in two of the three instances where this occurred as (1) each parts specialist now has and uses his own unique system password (permission) to access and record activity in FASTER and (2) the common system permissions shared by the different technicians (mechanics) were updated such that those permissions no longer allow update capability to parts records in FASTER. In regard to the third circumstance, we reported that the accounting clerk continued to use the system permission of one of the parts specialists to record inventory adjustments in FASTER that resulted from the annual count and reconciliation process conducted in September 2005. Management indicated that this would be corrected in the subsequent physical count and reconciliation process tentatively scheduled for September 2006. Accordingly, we will follow up on this planned corrective measure in our next follow up for the period ending September 30, 2006.
<ul style="list-style-type: none"> • Each user will be assigned a unique user identification (ID) and instructed to use a protected password with that user ID. 	<ul style="list-style-type: none"> ✓ This issue was resolved through an alternative action. Specifically, instead of having each shop technician obtain and use a unique user ID and password, it was determined more efficient to change the technician permissions so that they could no longer record parts activity (issues, returns, and adjustments) in FASTER or delete FASTER work orders. Making those technician permissions more restrictive eliminated the need to assign each technician a separate user ID and protected password.
<ul style="list-style-type: none"> • User IDs and passwords will be protected and not shared among employees. 	<ul style="list-style-type: none"> ✓ As noted in the previous action, this issue was resolved through an alternative action. Specifically, changing the system permissions as described eliminated the risks of inappropriate parts activity being recorded in FASTER by shop technicians. Accordingly, it was determined more efficient to allow the shop technicians to continue using common (shared) user IDs and passwords to record labor on system work orders.

<ul style="list-style-type: none"> • Terminals for accessing FASTER will be locked or employees required to sign out of FASTER when employees are temporarily away from their workstations. 	<ul style="list-style-type: none"> ✓ Changing technician system permissions as described in the previous action steps eliminated the need to require technicians to sign out of FASTER and/or lock shop terminals when temporarily away from their workstations. In addition, we noted that the terminals of the parts specialists are now effectively secured as the parts room in which they are located is now secured with access limited to authorized staff. Lastly, we noted that the technician supervisors have applied available software tools that automatically lock their terminals whenever there is no activity (e.g., entering data or researching information) after 60 seconds. That action effectively secures their terminals whenever the technician supervisors are temporarily away from their office for lunch, extended meetings, overnight, etc.
<ul style="list-style-type: none"> • Policies providing for these changed procedures (i.e., controlling access to the FASTER system) will be established and documented. Employees will be trained on these policies. 	<ul style="list-style-type: none"> ✗ Management indicated that this step, initially due for completion by March 31, 2006, would be completed by July 31, 2006. (NOTE: Management indicated that if the FASTER system is replaced with a new fleet inventory and maintenance software system as is currently being considered, established policies will be revised to accommodate the new system.)
<p>Properly Restrict Employee System Permissions</p>	
<ul style="list-style-type: none"> • FASTER system permissions will be established such that (1) recording of parts activity will be limited to parts specialists and their designated backups; (2) only designated supervisory/managerial staff will be allowed to approve, close, reopen, or delete work orders; (3) the ability to record parts inventory quantity adjustments will be limited to appropriate staff; and (4) system administrator permissions will be assigned to appropriate staff, and employees with those system administrator permissions will not be allowed to access and change live FASTER data (i.e., production data). 	<ul style="list-style-type: none"> ✓ Actions were taken to change system permissions in accordance with good control practices. For example, changes were made so that technicians can no longer issue or return parts in FASTER, adjust inventory quantities, or delete work orders. The permissions of parts specialists were changed so they could no longer close or delete work orders in FASTER. Similarly, the permissions of technician supervisors were changed so they could no longer delete work orders or issue or return parts in FASTER. Also, all permissions for the accounting clerk were correctly changed to inquiry capability only. Lastly, permissions were changed so that assigned Information System Services (ISS) staff within the Department of Management and Administration (DMA) no longer serve as system administrators or have the ability to change data entered into FASTER by StarMetro staff (i.e., production data).
<ul style="list-style-type: none"> • Staff, including the maintenance division superintendent, will be provided appropriate FASTER system training. 	<ul style="list-style-type: none"> ♣ While some FASTER training has been provided to StarMetro staff since the initial audit, management indicated during our current follow up fieldwork that consideration is being given to replacing FASTER with a different fleet inventory and maintenance software system. Accordingly, management has determined it prudent at this point to delay spending time and resources on additional FASTER training until a final decision is made on what software system will be used.

<ul style="list-style-type: none"> In those instances where FASTER system permissions cannot be restricted to preclude employees from performing incompatible job duties due to resource limitations, compensating controls (generation and review of FASTER activity reports by management) will be placed into operation. 	<p>X As noted in the initial audit report, parts specialists having access and control over parts inventory also enter receipt of parts into FASTER. In an ideal control environment, those inventory custodian and recording functions would be performed by different individuals. However, as segregating those functions would not be cost efficient at StarMetro due to staff and resource limitations, compensating controls should be placed into operation to mitigate the applicable risk. One such compensating control would be for an independent employee (i.e., not having routine access to the parts inventory) to periodically compare parts acquisitions recorded in the PeopleSoft Financials records by the accounting clerk to parts acquisitions (receipts) recorded in FASTER by the parts specialists. Any significant differences would be indicative of errors or potential fraudulent activity. As of the end of our current follow up fieldwork, we noted that management had not implemented that or any other alternative compensating control. (Note: Management did attempt to address this issue through use of a separate report prepared by the parts specialists. However, that action did not provide for an effective control to compensate for the lack of segregation of duties.) Management indicated that it planned to have appropriate controls in place by July 31, 2006.</p>
<p>Ensure Proper Execution of Transactions</p>	
<ul style="list-style-type: none"> StarMetro will designate and use a unique account code to budget and account for parts acquisitions. That account code will be used solely for parts acquisitions that should also be recorded in FASTER. Staff will be instructed to charge acquisitions of parts and other items to the correct account codes. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> Each parts issuance will be charged in FASTER to the specific vehicle or component on which the part is installed. Parts will no longer be charged to a generic "FLEET" code that precludes a determination of what vehicle a part was installed. 	<p>√ Parts are no longer charged to a generic "FLEET" code. All issued parts are now charged to the specific vehicle or component on which the part is installed.</p>
<ul style="list-style-type: none"> Parts warranties will be tracked in FASTER. That information will be used to ensure that faulty or broken parts under warranty are identified and credit (replacement parts or credit for parts) is obtained from the applicable vendor/manufacturer. 	<p>X This action step has not been implemented. Management indicated that this step would be completed by June 30, 2006.</p>
<ul style="list-style-type: none"> All lubricants issued to vehicles will be tracked in FASTER. 	<p>X This action step has not been implemented. Management indicated that this step would be completed by June 30, 2006.</p>
<ul style="list-style-type: none"> A policy will be implemented that specifies that work orders should not be deleted in FASTER. Any incorrect work order or work order created in error will instead be closed with appropriate explanation in the notes field in FASTER. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> An equitable method for allocating freight costs to parts acquisitions will be implemented. 	<p>√ Freight costs are now equitably and consistently allocated to the individual parts to which those costs pertain.</p>

<ul style="list-style-type: none"> Parts specialists will become familiar with available City price agreements for vehicle parts. The parts specialists will ensure that prices paid for parts covered by those agreements are at least as good as the prices established by the agreements. 	<p>√ Completed during prior period.</p>
<p>Strengthen Controls over Periodic Inventory Counts</p>	
<ul style="list-style-type: none"> Employees other than the parts specialists will control the periodic inventory counts. The parts specialists will no longer control the counting (including re-counting) process, compare the counts to recorded quantities in FASTER, or identify and mark changes to be made to recorded quantities. 	<p>X This action step has not been completed. The annual physical count in September 2005 was initially made and recorded by technicians, without assistance from the parts specialists. However, as similarly noted in the initial audit report, the parts specialists made re-counts and any resulting adjustments to the initial counts made by the technicians. Allowing the parts specialists to perform re-counts and make adjustments, in effect, negated the independence provided through the technician counts. Accordingly, there still has not been as independent count of parts inventory and reconciliation to the FASTER records. We recommend that parts specialists not be given control over the subsequent annual physical inventory count and reconciliation, tentatively scheduled for September 2006.</p>
<ul style="list-style-type: none"> Accounting Services staff within the Department of Management and Budget (DMA) will oversee the annual inventory counts of StarMetro parts and related reconciliations. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> The results of periodic inventory counts and related reconciliations/adjustments to the recorded quantities will be reviewed and approved by management. 	<p>√ Management obtains and reviews reports reflecting the results of inventory counts and related adjustments.</p>
<ul style="list-style-type: none"> Efforts will be made to reduce the number of errors that resulted in the need to record inventory adjustments in FASTER. This will include informing parts specialists of the type errors described in the report that should not occur. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> When they are known, specific reasons for each inventory adjustment will be documented in FASTER. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> System permissions allowing the recording of inventory adjustments will be restricted to the maintenance division superintendent. 	<p>√ This issue was resolved through alternative action. Management elected to allow the senior parts specialists to continue recording parts inventory adjustments in FASTER. However, monthly reports of those adjustments are generated and provided to the maintenance division superintendent for review.</p>
<p>Enhance Managerial Monitoring and Oversight</p>	
<ul style="list-style-type: none"> Management will generate and review available FASTER reports on a continuing basis to assess vehicle and maintenance division efficiency and effectiveness. 	<p>◇ Management does now routinely obtain and review FASTER reports that reflect parts inventory adjustments. However, other FASTER reports that reflect activity regarding StarMetro's vehicles and related maintenance efforts still are not generated and reviewed by management. Management indicated that this step, initially due for completion by March 31, 2006, would be completed by July 31, 2006.</p>

Enhance FASTER Operating Environment	
<ul style="list-style-type: none"> • ISS staff, in conjunction with StarMetro and the Public Works Division, will explore the combination of the StarMetro and Fleet Division FASTER operating environments and make a recommendation to management. 	<ul style="list-style-type: none"> ♣ StarMetro management is currently considering replacing the FASTER system with a different fleet inventory and maintenance software system. If a new software system is acquired and implemented at StarMetro and the Fleet Division continues with FASTER, combination of the StarMetro and Fleet Division operating environments will no longer be a consideration.
Facilitate Operations	
<ul style="list-style-type: none"> • Internal operating procedures and processes for the parts operation will be documented. The areas addressed will include, but not be limited to: (1) ordering, receiving, and issuing parts; (2) recording transactions and activity in FASTER; (3) inventorying, safeguarding, and controlling access to parts; (4) establishing FASTER system permissions; (5) tracking warranties; (6) allocating freight costs; (7) using available price agreements; (8) conducting periodic inventory counts and documenting reasons for inventory adjustments; and (9) managerial oversight through review of FASTER reports and use of those reports as compensating controls when duties cannot be segregated among different employees due to resource limitations. 	<ul style="list-style-type: none"> X Such procedures have not been established. Management indicated that step would be completed by July 31, 2006.
<ul style="list-style-type: none"> • Internal operating procedures and processes relating to work orders will be documented. The areas listed will include, but not be limited to, the creation, processing, approving closing, and re-opening of work orders. 	<ul style="list-style-type: none"> X Such procedures have not been established. Management indicated that step would be completed by July 31, 2006.

Table Legend:

- Issue addressed in the original audit.
- ✓ Issue addressed and resolved.
- X Action step not completed.
- ◇ On-going activities; some progress made.
- ♣ Action step delayed pending management decision on whether FASTER system will be replaced with a new fleet inventory and maintenance software system.

Conclusion

StarMetro has completed 17 of the 29 action plan steps developed to address issues identified in the initial audit. In regard to the remaining 12 steps:

- Two steps will no longer be necessary if management replaces the FASTER system with a new fleet inventory and maintenance system. Those two steps involve (1) providing additional FASTER system training to staff and (2) combining the FASTER operating environments of StarMetro and the City's Fleet Division.
- Some progress has been made in regard to two action steps. However, additional actions should be

taken before the related issues can be considered resolved. Specifically, actions still needed include:

- The accounting clerk should use her own system user ID and password to access FASTER (or other fleet inventory software system) and record inventory adjustments, instead of entering those adjustments into FASTER through the sign-on (user ID and password) of the senior parts specialists.
- Management needs to obtain and review applicable system reports on a continuing basis in order to help assess vehicle and maintenance division efficiency and effectiveness.
- Appropriate actions had not yet been initiated and completed for eight issues. Those steps pertained

to (1) restricting access of the accounting clerk to the parts room, (2) tracking warranties and lubricants in the fleet inventory and maintenance software system, (3) establishing and implementing documented policies and procedures in regard to the general parts and work order operations as well as controlling access to the fleet inventory and maintenance software system, and (4) strengthening controls over periodic inventory counts by not allowing the parts specialists to control the recount and adjustment processes.

In view of management's intention to assess the need to retain or replace FASTER with a new fleet inventory and maintenance software system, we recommend that such assessment also address internal controls in each system considered. Management should also address and identify the reasons that justify using FASTER for the City's Fleet Division and a separate system for StarMetro.

We appreciate the cooperation and assistance StarMetro staff provided in this audit follow up.

Appointed Official Response

City Manager:

I believe this report addresses the level of commitment that StarMetro has to redefining all areas of the City's mass transit department. I commend the City Auditor and staff for their time and effort. I have full confidence that once the maintenance software issue is resolved all recommendations and procedures will be put into practice.

Copies of this Audit Follow Up or audit report #0519 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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