

# **Final Audit Follow Up**

*As of September 30, 2006*



## **StarMetro (formerly Taltran) Parts**

*(Report #0519, Issued March 4, 2005)*

**Report #0706**

**December 4, 2006**

### **Summary**

**StarMetro (formerly Taltran) has completed 26 of the 29 action plan steps that were developed for this audit. In regard to the remaining three steps: (1) significant efforts have been made towards completion of two action steps which, as a result, are being turned over to management to ensure completion and (2) one step is being turned over to management for resolution upon their determination whether to replace FASTER with a new fleet inventory and maintenance system.**

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.

In regard to the 29 action steps, StarMetro management, with the assistance of Information Systems Services (ISS) in some instances, completed 26 steps that better restrict access to parts, control access to the FASTER system, ensure proper execution of transactions, strengthen controls over periodic inventory counts, and enhance managerial oversight and the overall operating environment. Upon completion, action steps currently being implemented should further enhance accountability and operations.

StarMetro management continues to consider

replacing the FASTER with a different fleet inventory and maintenance software system. As also recommended in the previous follow up audit report, management's assessment and decision on this matter should address internal controls in each system considered. Furthermore, cost-benefit analyses should be prepared that justify the final decisions regarding replacing or retaining FASTER.

Because of management's overall success in completing the action plan steps developed to address identified issues, this is our final follow up on the initial audit.

### **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 #0706**

This is our third and final follow up on action plan steps identified in audit report #0519. In our first two follow ups, we reported on the progress and status of efforts to implement action plan steps due as of September 30, 2005, and as of March 31, 2006. The purpose of this final follow up is to report on the progress and status in completing the recommended action plan steps due for completion during the period April 1, 2006, through September 30, 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 September 30, 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 September 30, 2006, and Current Status**

Action Plan Steps	Current Status
<b>Restrict Access to the Parts Room</b>	
<ul style="list-style-type: none"> <li>Doors accessing the parts room will be locked when the parts room is unattended by parts specialists or other authorized staff.</li> </ul>	✓ Completed during prior period.
<ul style="list-style-type: none"> <li>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.</li> </ul>	✓ Completed during prior period.
<ul style="list-style-type: none"> <li>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.</li> </ul>	✓ Completed during prior period.
<ul style="list-style-type: none"> <li>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.</li> </ul>	✓ A small hallway was created from the shop floor into the parts areas from which separate doors are used to access the accounting clerk's office and the parts room. The door from that hallway into the parts room remains closed and locked except when being used by authorized staff. Only authorized staff is provided keys to that door.
<b>Control Access to the FASTER System</b>	
<ul style="list-style-type: none"> <li>Employees will no longer be allowed to use the system permissions of other employees to record data or access FASTER.</li> </ul>	✓ The final corrective action was completed for the three circumstances noted in the initial audit. Two of those circumstances were previously addressed and reported as completed in our prior follow up report. The third circumstance involved the accounting clerk using the system permission of a parts specialist to record inventory adjustments in FASTER. The parts

	<p>specialist's system permission had been used because no separate system permission was assigned to the accounting clerk. In regard to that circumstance, we noted that the accounting clerk was temporarily assigned a separate system permission to record adjustments resulting from the annual inventory count and reconciliation process conducted in August 2006. That temporary system permission was properly removed subsequent to the completion of that process.</p>
<ul style="list-style-type: none"> <li>Each user will be assigned a unique user identification (ID) and instructed to use a protected password with that user ID.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>User IDs and passwords will be protected and not shared among employees.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Terminals for accessing FASTER will be locked or employees required to sign out of FASTER when employees are temporarily away from their workstations.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ The Parts Processing Manual completed by StarMetro in June 2006 addressed controlling access to FASTER through assignment of unique passwords to authorized system users based on job functions and responsibilities, and by requiring system users to sign out of FASTER when they anticipate being away from their computer terminals for an extended period.</p>
<p><b>Properly Restrict Employee System Permissions</b></p>	
<ul style="list-style-type: none"> <li>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).</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Staff, including the maintenance division superintendent, will be provided appropriate FASTER system training.</li> </ul>	<p>✓ Since the initial audit, staff has continued to learn additional functions and capabilities of FASTER. In August 2006, an on-site consultant assisted StarMetro staff in addressing FASTER issues and functionality. For example, one of the technician supervisors received additional training in extracting, from FASTER, useful managerial reports on parts and maintenance activity.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>◇ 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</p>

	<p>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, StarMetro management had initiated efforts to complete this action step. Specifically, reports were generated that reflect parts acquisitions recorded in both FASTER and the PeopleSoft Financial records. Independent staff was verifying, on a sample basis, that acquisitions reflected in the PeopleSoft Financials records were also reflected in FASTER. Furthermore, StarMetro management indicated that a new project coordinator has been hired. Management stated that one task to be assigned to that position is implementation of an effective and efficient means of ensuring that parts acquisitions recorded in PeopleSoft Financials are properly recorded in FASTER.</p>
<p><b>Ensure Proper Execution of Transactions</b></p>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>◇ Warranty information is now recorded in FASTER for parts as they are acquired. In regard to the existing parts inventory (i.e., parts acquired and still in inventory before this action step initiated), parts specialists are currently in the process of identifying and recording warranty information in FASTER. As of the end of our audit fieldwork, the parts specialists estimated that warranty information had been entered for approximately 20% of those parts. The recording of that warranty information into FASTER will allow the system to automatically notify parts specialists and technicians when a part being replaced is under warranty.</p>
<ul style="list-style-type: none"> <li>All lubricants issued to vehicles will be tracked in FASTER.</li> </ul>	<p>✓ Lubricants are now recorded and tracked in FASTER.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>An equitable method for allocating freight costs to parts acquisitions will be implemented.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Parts specialists will become familiar with available</li> </ul>	<p>✓ Completed during prior period.</p>

<p>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>	
<p><b>Strengthen Controls over Periodic Inventory Counts</b></p>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ This action step was completed for the annual parts inventory count and related records reconciliation conducted in August 2006. Specifically, employees other than the parts specialists controlled both the initial counts and subsequent recounts. In addition, the accounting clerk recorded adjustments in FASTER based on differences identified between the final counts and related records. While one of the parts specialists did perform the initial comparison of the final counts to quantities recorded in FASTER for purposes of identifying differences and needed adjustments, staff other than the parts specialists subsequently independently verified those comparisons and differences.</p>
<ul style="list-style-type: none"> <li>Accounting Services staff within the Department of Management and Budget (DMA) will oversee the annual inventory counts of StarMetro parts and related reconciliations.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>The results of periodic inventory counts and related reconciliations/adjustments to the recorded quantities will be reviewed and approved by management.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>When they are known, specific reasons for each inventory adjustment will be documented in FASTER.</li> </ul>	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>System permissions allowing the recording of inventory adjustments will be restricted to the maintenance division superintendent.</li> </ul>	<p>✓ Completed during prior period.</p>
<p><b>Enhance Managerial Monitoring and Oversight</b></p>	
<ul style="list-style-type: none"> <li>Management will generate and review available FASTER reports on a continuing basis to assess vehicle and maintenance division efficiency and effectiveness.</li> </ul>	<p>✓ After receiving appropriate training, StarMetro staff started generating FASTER reports for managerial review. Examples of reports generated and used by management include reports reflecting parts inventory status, parts inventory adjustments, parts received by vendor, parts reclassified as obsolete, independent parts issues, equipment (vehicles) due for maintenance, and equipment usage.</p>
<p><b>Enhance FASTER Operating Environment</b></p>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>✦ StarMetro is still considering replacing FASTER with a different fleet inventory and maintenance software system. To date, two vendors have presented their software products to StarMetro for consideration. StarMetro has also requested assistance from ISS in identifying other available software systems and features of those systems. In this endeavor, we recommend that StarMetro management complete</p>

	<p>documented cost benefit analyses to substantiate the decision on which software system to use. In the event that the decision is made to continue with FASTER, we recommend that the StarMetro, ISS, and the Public Works Division explore combining the StarMetro and Fleet Division operating environments and, in turn, make a recommendation to City management.</p>
<p><b>Facilitate Operations</b></p>	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>√ StarMetro developed documented internal operating procedures for the parts operations. Among other areas, those procedures address (1) ordering, receiving, and issuing parts; (2) recording transactions and activity in FASTER; (3) inventorying, safeguarding, and controlling access to parts; (4) FASTER security; (5) using available price agreements and contracts to ensure parts are obtained at the best prices; (6) conducting periodic inventory counts; (7) tracking warranties; and (8) making system reports available to assist management.</li> </ul>
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>√ A procedural memorandum providing guidance on the process for generation, processing, and completion of system work orders was prepared and distributed to all maintenance division staff. StarMetro is also currently documenting more detailed internal procedures and processes relating to work orders.</li> </ul>

**Table Legend:**

- Issue addressed in the original audit.
- √ Issue addressed and resolved.

- ◊ Action step initiated and in process; turned over to management to ensure completion.
- ♣ Issue turned over to management for ultimate resolution.

**Conclusion**

StarMetro has completed 26 of the 29 action plan steps developed to address issues identified in the initial audit. In regard to the remaining three steps:

- Significant progress has been made in the implementation for two steps as:
  - A process has been initiated for comparing parts acquisitions recorded in the PeopleSoft Financials system to parts acquisitions recorded in FASTER as a means to ensure that parts are properly recorded and accounted for in FASTER.
  - Warranty information for parts is currently being identified and recorded in FASTER.
- One step, involving combining the FASTER operating environments of StarMetro and the City's Fleet Division, has been turned over to management for resolution upon management's

determination whether to replace FASTER with a different fleet inventory and maintenance software system.

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

**Appointed Official Response**

**City Manager:**

We want to thank the City Auditor for the information and assistance aiding in the completion of the StarMetro parts audit. The City is committed to the continued procedural effectiveness, significantly enhanced through this audit, in the StarMetro parts area. The final StarMetro audit report illustrates the level of commitment StarMetro management placed on the successful completion of this process.

Copies of this Final 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](mailto:auditors@talgov.com)).

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