

**Dutchess County Department of Public Works  
Dutchess County Auto Service Center  
2014-2015**

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## **Comptroller's Summary**

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance regarding the achievement of objectives, relating to operations, reporting and compliance. Internal controls are important to help the organization accomplish its mission, reduce opportunities for fraud, prevent loss of funds or other resources, ensure compliance with laws, regulations, policies and procedures, preserve integrity and ensure public confidence and protect employees.

## **Organization and Background**

The Dutchess County Auto Service Center (ASC) is a division of the Department of Public Works. The Auto Center services and maintains the County automotive fleet and provides services to several municipal agencies. Services include maintenance and repair, purchase and registration of new vehicles and state inspections. Our previous audit was conducted in 2012.

## **Audit Scope, Objective and Methodology**

The objective of our audit was to review and assess the adequacy of internal controls over the Auto Center's processes and through this written report provide assistance to management to improve internal controls at the Auto Service Center.

A total of \$2,009,421.32 was expended by the County for the ASC in 2014. Of this amount, a total of \$302,859.23 was expended on parts for the repair and maintenance of vehicles. In addition to this annual appropriation, funds are also spent from various capital accounts to purchase replacement vehicles for the fleet.

Policies and procedures and the associated auto center activities selected for review were as follows: parts purchasing, parts distribution, billing; fleet accidents and breakdowns including towing and insurance recoveries; impound tracking and disposition; and parts and vehicle inventories.

## **Summary of Findings/Recommendations**

Oversight and monitoring by management was deficient in several areas. Administrative controls and day to day accounting processes had deteriorated resulting in significant internal control deficiencies. Duty segregation and oversight was not in place for parts purchasing and distribution resulting in items not being properly safeguarded and accounted for. Accounting records for various services were not maintained.

Efforts should be made to review and recognize opportunities to maximize the use of monitoring through oversight, operating procedures, reporting lines, authorizations and responsibilities.

## **Control Environment**

Control environment sets the tone for compliance and every other area of internal control. The control environment is the internal control and control consciousness established and maintained by both management and employees and supports compliance with laws, rules, regulations and management directives. Management is responsible to educate employees regarding the importance of internal controls. In addition, management is responsible to ensure that internal controls are in place to safeguard county assets.

### **Findings**

- Controls were not in place. Specifically,
  - The administrative procedure manual governing day to day activities was outdated and incomplete and not available for 'users' of the ASC services since 2012.
  - Operating guidelines for Auto Center Staff were not written and processes that were previously in place were discontinued without the knowledge of DPW management.
  - Duties were not properly segregated and checks and balances were not in place.
  - Management did not institute and enforce daily oversight procedures including verifications of parts purchasing and distributions, billings, the handling of accidents, inventory and recordkeeping for various areas.

- The Parts Inventory and Distribution software is not adequate to handle the transactions for the Auto Service Center. Parts are not barcoded but are manually entered into the system and on work orders. Computer security authorizations were not limited which provided the opportunity to override inherent controls. Several employees shared the same password.

#### Recommendations

- The Department of Public Works should perform a comprehensive review of all Auto Service Center functions to ensure controls are adequate to properly account for and safeguard county funds.
  - The administrative procedures manual should be updated and utilized by employees for daily operations.
  - Operating guidelines for ASC staff should be clearly written defining processes and oversight.
  - Duties should be properly segregated and checks and balances put in place. On-going reviews of auto center procedures should be instituted to ensure internal controls are functioning at all times.
  - Management should institute and enforce daily oversight procedures of transactions, recordkeeping and inventory.
  - A Parts inventory, distribution and billing software should be purchased that adequately accounts for Auto Service Center transactions.
  - Authorization controls should be reviewed. Consideration should be given to placing administrative control authorization with the County's computer information center with management review and approval for all changes.

#### Information and Communication

Communication is the exchange of useful information between and among people within the organization to support decisions and coordinate activities. An organization must internally communicate information, including objectives and responsibilities for internal control, to support the functioning of all other components of the internal control system.

#### Finding

- There was a lack of formal communication to employees on processes, procedures, job assignments and responsibility to reinforce internal controls. Specifically,
  - Manuals were not available which prescribed formal methods of operations. This included an internal manual for daily duties and responsibilities and an external manual for users of the auto service center.
  - Management and employees were not fully trained on the operation and capabilities of the fleet software as a result inherent software controls were not maximized to support a strong control environment.

#### Recommendation

- Consistent formal and informal communication must be instituted to promote a strong control environment. Roles and responsibilities of personnel including management must be clearly defined, documented and communicated. Specifically,
  - Manuals should be updated to institute formal methods of communication to disseminate guidelines, policies and procedures.
  - Management and employees should be trained on the operation and capabilities of the software and utilize the software to support a strong control environment.

## Risk Assessment

Risk should continuously be assessed, managed, prevented and reduced. Events that threaten the accomplishment of an entity's objectives ultimately impact an organization's ability to function effectively and efficiently. Fraud risk and Information Technology risk have been identified as important risk assessment areas for internal control. Specific risk factors identified at the Auto Service Center included: information technology, the accounting and lack of duty segregation for parts purchasing, distribution and inventorying and the accounting for accidents and vehicle breakdowns which required towing.

### Findings

- Management did not consistently identify, assess and address risk factors as evidenced by:
  - Absence of updated policies and procedures for 'users' of the fleet.
  - Duties were not properly segregated to ensure checks and balances particularly with regards to the purchasing, distribution, inventory and billing of parts.
  - Duties previously performed to provide oversight of parts were eliminated in the past year by a supervisor. In addition, logs documenting various activities were not maintained to ensure accountability of vehicles and funds as they related to accidents, towing, insurance recoupment and inventory records
  - The absence of written policies and procedures for the various activities overseen by the Auto Service Center including accounting practices, job responsibilities and internal controls.

### Recommendations

- Management should assess and identify risks on an on-going basis with specific attention to opportunities for fraud. Action should be taken to address significant events that threaten internal controls and that create opportunity for bypassing internal controls.
  - Review and update policies and procedures. Periodic assessments should be done on an on-going basis.
  - Management should periodically review job duties to ensure proper checks and balances.
  - Plan for changes and updates to accounting practices, job responsibilities and internal controls.
  - Update the parts software after a full assessment to ensure internal control exposures are addressed. Operational changes should be implemented and documented in a department procedures manual and personnel should be trained.

## Control Activities

Control activities for this report include the various areas reviewed for policies and procedures and accounting records.

### Findings

- Parts functions were not properly segregated. There was no segregation of duties for the parts ordering, receiving and distribution. In addition, inventory was not conducted for 18 months by the DPW Administrative Staff.
- Department procedures and best practices were not adhered to for the following:
  - All parts purchased were not entered as items in the parts inventory. Approximately 50% of the items purchased were entered as special order items and directly billed to a vehicle.
  - At the time of our last review (2012) written work orders and the computerized work order, which produces the bill generated from the parts system, were reviewed and verified by a Supervisor. This process was discontinued in 2013/2014. *During our current audit, it was reinstated.*
  - At the time of our last review (2012) and in all prior audits, the computerized work order billing was placed in the respective car file to maintain a record of the work completed on the vehicle. This process was discontinued in 2014 resulting in the elimination of an audit trail.

- Tires and filters were found missing during the recent inventory (which was conducted by DPW staff while we were performing this review). The previous inventory was 18 months prior and there were no periodic inventories taken of selected items to provide accountability.
- Accident logs were not consistently maintained. Previously, accident logs with the accompanying accident reports were maintained to assess and monitor the progression of recoverable and unrecoverable accidents. This included the follow-up with the Office of Risk Management and the County Department of Law.
- Payments for the recovery of accidents caused by others to county vehicles were not recorded. In some cases, it was noted funds were directly paid by the insurance agency to the body shop, which has never been county procedure. In addition, it appears funds may not have been recouped for some chargeable accidents as a result of this lack of recordkeeping.
- Quotes for body damage associated with accidents were not consistently maintained and the minimum three quote requirement could not be verified.

#### Recommendation

- Procedures should be implemented to address all of the above findings to ensure proper internal controls. Management should review processes employees are currently performing and establish appropriate internal control procedures which include separation of duties, recordkeeping, oversight, inventory processes, authorization and verification of key activities. Policies and procedures and oversight tools (such as reports) would help prevent or reduce risks, ensure data integrity and allow for effective and efficient management.

### **Monitoring**

Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Monitoring is most effective, when all employees understand the mission, objective, responsibilities and levels of tolerance.

#### Findings

- Management did not perform ongoing monitoring activities in regards to the purchasing, distribution and billing of parts.
- Management was not aware of various reports available to assess recordkeeping.
- Management did not perform a review of the various activities to assess recordkeeping and ensure best practices were in place.

#### Recommendations

- Management should undertake ongoing monitoring activities for all auto center activities. Periodic review should be conducted and noted on the various logs, files and inventory reports.
- Management should gain an understanding and utilize pertinent reports to ensure key control activities are monitored.
- Periodic assessments should be conducted by various management levels to ensure recordkeeping and best practices are in place.