

Final Audit Follow Up

As of September 30, 2004



“Fleet Repair and Maintenance Warranty Work”

(Report #0324, Issued September 8, 2003)

Report #0515

January 25, 2005

Summary

The Fleet Division within the Development and Transportation Service Area has completed 27 of the 30 action plan steps identified in our previously issued report #0324, issued on September 8, 2003. There were two action plan steps determined not necessary and one action plan step is in progress with management.

In audit report #0324, we identified needed improvements in the repair and maintenance warranty work program managed by the City's Fleet Division (Fleet). We made recommendations in the areas of:

- manufacturer warranty agreements;
- warranty and recall repairs by Fleet staff and local dealerships;
- vehicle and part warranty information contained in Fleet's automated recordkeeping system; and
- compliance with the City's Fleet Management Policy #124CP (preventive maintenance program).

Scope, Objectives, and Methodology

The original audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing, as appropriate. This follow up audit was for the period October 1, 2003, to September 30, 2004.

Report #0324

The scope of Report #0324 was a review of the City's Fleet Division repair and maintenance warranty work program for the period of October 1999 through December 2002, and selected records through May 2003. The primary objectives of the audit were to answer the following questions:

- Did Fleet comply with the terms and conditions of the vehicle manufacturers' warranty agreements?
- Was the FASTER system implemented properly to take full advantage of the benefits of the warranty agreements by identifying warranty repair work orders and parts covered by warranty?
- Did Fleet have records of manufacturers' recall notices?
- Were payments from warranty claims deposited timely and properly?
- Did Fleet customers (departments) receive full refunds for reimbursed warranty work?
- Did Fleet comply with City Commission Policy #124CP and furnish a report of preventive maintenance "no-shows" and third notices to City management?

Report #05XX

This audit follow up focuses on the action plan steps that executive management and Fleet Management have implemented. We reviewed the relevant documentation provided by Fleet. We also interviewed staff and reviewed a sample of equipment and parts records in FASTER.

Previous Conditions and Current Status

In Report #0324, the primary purpose was to assist the City Manager and executive management to improve the Fleet Division repair and maintenance warranty work program. Our review of the repair and maintenance warranty work program showed that: Fleet did not have adequate records to support claims that were submitted to manufacturers; the approved hourly labor rate used for reimbursement claims was too low; records were not adequate to determine if claims had been submitted to manufacturers for all warranty repairs; coding on work orders did not identify warranty or recall work; warranty information on equipment and parts was not recorded in FASTER; some safety recall notices were not complete;

customers did not receive full credit for warranty claims; Fleet did not provide management an annual report of preventive maintenance “no shows”; and Fleet did not provide department directors a report of third attempts to schedule preventive maintenance service.

Our recommendations addressed the need for policies and procedures to improve recordkeeping and monitoring of warranty and recall repairs and preventive maintenance service work.

Since a Fleet Superintendent was appointed on an interim basis October 1, 2002 and then on a permanent basis February 7, 2004, significant improvements have been made that address the weaknesses in Fleet operations, such as:

- mandating the use of original equipment numbers for parts;

- hiring a business analyst into a new position to administer the FASTER system;
- coordinating staff training on the new FASTER version;
- establishing work groups of Fleet staff to study the FASTER user manual and recommend procedure modifications to better utilize FASTER, including warranty work; and
- facilitating training on the procedure modifications to other staff.

As of September 30, 2004, 27 of the 30 (100%) action plan steps were completed, two action plan steps were determined not necessary, and one action plan step is in process with management. Table 1 identifies the action plan steps and describes the current status.

**Table 1
Action Plan Steps from Report #0324 and Current Status**

Action Plan Steps	Current Status
Comply with Terms and Conditions of the Vehicle Manufacturers' Warranty Agreements.	
<ul style="list-style-type: none"> • Coordinate with Accounting Services to conduct an annual analysis of Fleet costs and determine a new revised hourly labor rate. 	<ul style="list-style-type: none"> ✓ In September 2004, Fleet completed its most recent annual analysis of its costs and the hourly labor rate it charges customers was increased from \$46.00 to \$57.00 in October 2004.
<ul style="list-style-type: none"> • Request an adjusted hourly labor rate from the manufacturers based on the results of the cost analysis and the rate charged by local repair shops. 	<ul style="list-style-type: none"> ✓ Warranty repairs to equipment of manufacturers, other than FORD and General Motors (GM), are requested and approved in advance of performing the repair and are at hourly labor rates Fleet charges its customers. In November 2004, Fleet requested FORD and GM increase the approved labor rates it uses for warranty claims. FORD approved an increase from \$46.00 to \$53.50 in December 2004 and Fleet expects GM to approve an increase by March 31, 2005.
<ul style="list-style-type: none"> • Establish procedures to maintain adequate records of warranty reimbursement claims filed with manufacturers. 	<ul style="list-style-type: none"> ✓ Fleet procedures for GM and FORD include recording the claim using the manufacturers' on-line claim filing system and filing a hard-copy of the claim; for others, filing a hard-copy claim with the manufacturer.
<ul style="list-style-type: none"> • Develop a spreadsheet to monitor warranty reimbursement claims filed with manufacturers. 	<ul style="list-style-type: none"> ✓ Fleet procedures include maintaining a log of the pending claims and tracking the pending claims for approval and payment. Fleet expects to implement a warranty claim-tracking module in a new version of FASTER that will record pending claims with manufacturers and track the approval and payment of the claims. The tracking module should eliminate the need for separate hard-copy documents.
Implement FASTER to take Advantage of Manufacturers' Warranty Agreements by Identifying Warranty Repair Work Orders and Parts Covered by Warranty.	
<ul style="list-style-type: none"> • Complete entry of vehicle warranty information in FASTER. 	<ul style="list-style-type: none"> ✓ A check of 1,206 vehicles acquired within the past two years showed that all warranty information was recorded in FASTER.
<ul style="list-style-type: none"> • Establish procedures for recording warranty work orders in FASTER. 	<ul style="list-style-type: none"> ✓ Fleet has developed procedures to record warranty work orders in FASTER using reason code 'S' instead of '2' to separately identify warranty work.
<ul style="list-style-type: none"> • Complete entry of part warranty information in FASTER. 	<ul style="list-style-type: none"> ✓ A check of 16,947 different parts acquired within the past two years showed that 99.8% of the warranty information had been recorded in FASTER.

Record and Track Manufacturer Recall Notices.	
<ul style="list-style-type: none"> Develop procedures to track recall notices from manufacturers. 	<ul style="list-style-type: none"> ✓ Fleet has developed procedures to track recall notices from manufacturers that include: receiving the notices, distributing the notices to the responsible service department supervisor; recording the notices on spreadsheets (TPD vehicles separate from others); scheduling the work in FASTER as deferred maintenance; and periodic review of the deferred maintenance list to schedule recall repairs.
<ul style="list-style-type: none"> Develop a listing of all outstanding recall notices and review with Risk Management. 	<ul style="list-style-type: none"> ✓ Fleet reported that they completed all 108 recall repairs that were safety recalls and have discussed this action item with Risk Management.
<ul style="list-style-type: none"> Complete safety recall repairs as soon as possible by the local dealerships, or complete the repairs in-house with assistance from manufacturer representatives, or take the vehicles out of operation until the repairs are completed. 	<ul style="list-style-type: none"> ✓ This issue addressed 54 recall notices received by Fleet Management for brake repairs (considered safety repairs) on heavy trucks. After the manufacturer approved the local dealership to perform the repairs, the repairs were completed by July 2004.
<ul style="list-style-type: none"> Develop and prepare periodic reports on the status of recall notices and submit the reports to management for review. 	<ul style="list-style-type: none"> ✓ Copies of the two spreadsheets showing pending recall notices are shared with Fleet Management periodically. Fleet procedures include the immediate scheduling of safety recall repairs and notifying Risk Management when experiencing excessive delays over 60 days in completing recall repairs.
Properly and Timely Deposit Payments from Manufacturers for Warranty Claim Reimbursements.	
<ul style="list-style-type: none"> Develop procedures to help ensure that warranty reimbursement payments received from manufacturers are deposited in a timely manner. 	<ul style="list-style-type: none"> ✓ Fleet procedures require the forwarding of warranty reimbursements received at Fleet to the Revenue Office of the Treasurer-Clerk within three days.
<ul style="list-style-type: none"> Instruct manufacturers to submit payment directly to the Treasurer-Clerk so it can be deposited immediately and credited to the proper revenue account in a timely manner. 	<ul style="list-style-type: none"> ✓ Fleet notified the manufacturers to send warranty reimbursements directly to the Treasurer-Clerk and we confirmed that this is occurring.
<ul style="list-style-type: none"> Coordinate with Accounting Services to establish a separate revenue account for warranty reimbursement payments. 	<ul style="list-style-type: none"> ✓ A separate revenue account for the recording of warranty reimbursement payments has been established.
<ul style="list-style-type: none"> Monitor the manufacturers' claim approval processes and identify amounts approved for warranty claims. 	<ul style="list-style-type: none"> ✓ To identify the amounts approved for payment, Fleet monitors the manufacturers' on-line warranty claim web sites that track the progress of warranty claim submissions, approvals, and payments.
<ul style="list-style-type: none"> Coordinate with Accounts Receivable in Accounting Services to arrange for the billing of manufacturers so that a receivable can be established. 	<ul style="list-style-type: none"> ◇ Fleet Management and Accounts Receivable staff decided not to implement this action step since most of the warranty work is done by the local dealerships and there are few warranty claims submitted to the manufacturers.
<ul style="list-style-type: none"> Develop and prepare periodic reports on the status of warranty claims and the amounts of warranty claims received. 	<ul style="list-style-type: none"> ✓ A copy of the spreadsheet used to record and track warranty claims submitted to the manufacturers serves as the report to management.
<ul style="list-style-type: none"> Submit periodic reports on the status of warranty claims to management for review. 	<ul style="list-style-type: none"> ✓ The warranty claims tracking spreadsheet is shared with management when status of claims changes.
Provide Full Refunds to Customers for Reimbursed Warranty Work.	
<ul style="list-style-type: none"> Develop procedures to identify warranty work in FASTER as either billable or non-billable work. Provide a full refund to the customer (departments) of the amount reimbursed if the customer was originally billed for the warranty work. 	<ul style="list-style-type: none"> ✓ Fleet internal procedures direct the establishment of all warranty work as non-billable. If repair work is initially coded as billable (non-warranty work) and is later determined to be eligible for warranty claim, Fleet internal procedures direct reimbursement of the department that was charged for the warranty work to be fully refunded the amount reimbursed when payment is received.
<ul style="list-style-type: none"> Prepare and submit warranty claims for reimbursement within manufacturers' time constraints. 	<ul style="list-style-type: none"> ✓ Fleet prepares and submits warranty claims to manufacturers within 60 days or earlier, which is the requirement of the warranty agreements.

<ul style="list-style-type: none"> Confirm the manufacturers' approval of the claim amount. 	<ul style="list-style-type: none"> ✓ Fleet staff confirms the approval of the claim amount on the manufacturers' on-line warranty claim web sites, from confirmations sent to Fleet in the mail, or through the confirmation of the receipt of payment.
<ul style="list-style-type: none"> Establish the approved amount in the account receivable billing. 	<ul style="list-style-type: none"> ◇ Fleet Management and Accounts Receivable staff decided not to implement this action step since most warranty work is done through the manufacturers' local dealerships and few claims are submitted for warranty work done by Fleet.
<p>Implement Procedures to Submit Reports Required by the Fleet Management Policy #124CP.</p>	
<ul style="list-style-type: none"> Review the reporting requirements of City Commission Policy #124CP. 	<ul style="list-style-type: none"> ✓ Fleet completed their review of the City Commission Policy #124CP.
<ul style="list-style-type: none"> Determine what reports on preventive maintenance should be prepared and furnished to department directors and assistant city managers on a monthly, quarterly, or annual basis. 	<ul style="list-style-type: none"> ◆ Fleet Administrative Guidelines require Fleet Management to prepare and distribute: a monthly non-compliance report for preventive maintenance to department fleet liaisons as a second notice of a "no-show"; an annual report to department directors that indicates the number of second notices that occurred each month in the year as a third notice; and an annual report of third notices to assistant city managers. Although these are not new reports, Fleet has not issued them to management. Fleet Management intends to prepare the preventive maintenance schedules and reports based on either mileage or hours of vehicle usage. The mileage or hours usage data is provided through an interface between the fuel management system and FASTER. Fleet Management has not been confident in the mileage or hours usage data provided through the interface with the fuel management system in the past and therefore has not prepared and issued the preventive maintenance reports required in the guidelines. A new fuel management system is intended to provide accurate mileage and hours data to the FASTER system. Once the interface has been installed and proven effective, Fleet Management plans to prepare and distribute the preventive maintenance schedules and reports that the guidelines require. Fleet Management estimates that distribution of schedules and reports should begin by March 31, 2005. Therefore, this action step is being referred to management for their further monitoring actions.
<ul style="list-style-type: none"> Prepare revision to Fleet Management Policy #124CP to incorporate reporting of preventive maintenance service work. 	<ul style="list-style-type: none"> ✓ Fleet Management revised the Fleet Administrative Guidelines to include the reporting of preventive maintenance service work.

Table Legend:

- Issue addressed in the original audit
- ✓ Issue addressed and resolved
- ◆ Management responsible to implement
- ◇ Management has decided not to implement

We appreciate the cooperation of the Fleet Division and the assistance provided in this Audit Follow Up.

Appointed Official Response

City Manager: The improvements to the vehicle and parts warranty work program are very encouraging. Thanks to the auditing staff for identifying needed improvements and the follow-up research to assure the completion of requested action plans. Thanks to Fleet Management staff for the continued improvements.

Copies of this Audit Follow Up #0515 or audit report #0324 may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), via request 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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