


Hernando County Clerk of Circuit Court
Audit Services Department
Audit Report
Fleet Vehicle Maintenance and Replacement Program
May 22, 2024

MANAGEMENT LETTER

TO: Jeffrey Rogers, County Administrator

VIA: The Honorable Douglas A. Chorvat, Jr.

FROM: Elizabeth Hogan, CIA, CFE, Director of Audit Services 

DATE: May 22, 2024

SUBJECT: Fleet Vehicle Maintenance and Replacement Program Audit

In accordance with the Audit Services Department's Audit Project Schedule, the internal audit team conducted an audit of the Fleet Operations Department's Vehicle Maintenance and Replacement Program. Based on testing, observations, and communications with key personnel, the audit team produced the attached report for your review. Management's responses to the recommendations are also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "Correspondence to Note" item.

The purpose of this report is to furnish management with independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The audit report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the internal audit team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The courtesies and cooperation extended by the employees of the Fleet Operations Department during the audit were sincerely appreciated.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact Audit Services at (352) 540-6235, or just stop by our offices in Room 300C.

ATTACHMENT: Fleet Vehicle Maintenance and Replacement Program Audit Report

Copy: Gordon Onderdonk, PE, LEED AP, Director of Utilities

Copy: Board of County Commissioners

Chairwoman Elizabeth Narverud
Commissioner John Allocco
Commissioner Jerry Campbell
Commissioner Steve Champion
Commissioner Brian Hawkins

Copy: Audit Services Planning & Priorities Committee

The Honorable Doug Chorvat, Jr., CPM, CGCIO, Clerk of Circuit Court and Comptroller
Albert Bertram, Budget Director
Toni Brady, MBA, CPM, CGFO, Deputy County Administrator
Jon Jouben, Esq., County Attorney
Jeffrey Rogers, PE., County Administrator
Joshua Stringfellow, CPA, Director of Financial Services
William Blend, CPA, CFE, Shareholder, MSL P.A.
Jeff Wolf, CPA, Shareholder, MSL P.A.

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Executive Summary

The purpose of this audit was to provide management with some level of assurance that vehicle/equipment parts were properly accounted for and billed; County Departments were properly billed for parts, repairs, and/or new vehicles/equipment; procurement of goods and services complied with County Purchasing Policy; system access rights aligned with staff's job duties and responsibilities, and vehicle/equipment purchases complied with the Board of County Commissioners (BOCC) approved replacement list and were properly recorded in Assetworks.

The results of our review are addressed in the following discussion points.

Discussion Point 1: Vehicle and Equipment Maintenance

To gain an understanding of the department's maintenance and billing processes in place, the Audit Services Department (ASD) interviewed key personnel, observed the parts rooms, and reviewed Standard Operating Procedures.

To evaluate the billing processes in place, the ASD selected samples from Work Order and Direct Issued parts billings and tested for compliance with purchasing policies, repair timeliness, departmental billing accuracy, and payment timeliness. In addition, markup rates for 100% of the population were recalculated for accuracy.

Based on the review, the Contractor Operated Parts Store (COPARS) contract was properly executed, Standard Operating Procedures were complete, and the department maintained an effective workflow with controls in place to document the maintenance process, review parts used against work order documentation, and obtain proper authorizations prior to payment. Although these segments of the processes appeared to be functioning as intended, there were areas within the processes that could be improved. Improvements could be made to ensure contract compliance, enhanced physical security of the Hernando County Parts Room, and ensure proper rates are charged to departments for accurate billing.

Discussion Point 2: System Access Rights

The ASD reviewed the access rights granted to all users of the Assetworks system. For Fleet Operations Department personnel, job descriptions were compared to the access rights permissions to ensure that they were granted based on the NIST principle of least privilege. The National Institute of Standards and Technology (NIST) principle of least privilege states "a security architecture should be designed so that each entity is granted the minimum system resources and authorizations that the entity needs to perform its function." ¹

Based on the results of the review, the ASD determined that most system users were assigned to user groups which were appropriately granted specific access rights based on their assigned location. However, the review also identified that four Fleet Operations Department employees were granted System Administrator rights, which allows unrestricted access to add, modify, and delete data.

¹ https://csrc.nist.gov/glossary/term/least_privilege

Discussion Point 3: Fleet Replacement Program

To determine if the procurement of new vehicles and equipment complied with the BOCC approved replacement list and that they were properly recorded in the system and billed to the County Departments, a sample of assets was selected from the BOCC replacement lists. The information on the vendor invoices such as description, Vehicle Identification Number (VIN), and total amount was compared to the Assetworks system to determine if the vehicle/equipment was similar to the original asset or with the approved asset type and that the information was accurately input into the system. A complete audit trail of replaced assets was not documented in Assetworks. Therefore, Fleet Operations Management had to manually provide the data to the ASD. Based on the asset numbers manually provided by Fleet Operations Management, the assets reviewed were similar to the original asset or the approved asset type. However, the information on the vendor invoice was not accurately input into the system for all of the assets reviewed.

The Fleet Operations Department worked with the Purchasing and Contracts Department to procure the necessary vehicles and equipment. Purchase Orders were issued for all of the assets that were reviewed.

In addition, the ASD reviewed the charges to the County Departments for accuracy. The majority of the assets reviewed were properly billed to the County Departments, but there were a few instances in which either the original cost or the life of the asset was incorrectly entered into Assetworks.

Acknowledgement

Other minor findings not included in the attached report were communicated to management and/or corrected during fieldwork.

Fieldwork was performed by: Elizabeth Hogan, CIA, CFE, Director of Audit Services
Vicky Sizemore, Internal Auditor

Management's response was provided by: Gordon Onderdonk, PE, LEED AP, Director of Utilities
Brenda Peschel, Fleet Operations Manager

Management's response was approved by: Jeffrey Rogers, County Administrator

This report was reviewed and authorized by Douglas A. Chorvat, Jr., Clerk of Circuit Court and Comptroller.



Douglas A. Chorvat, Jr.

5/29/2024

Date

Background Information

BACKGROUND INFORMATION

The Hernando County Board of County Commissioners provides services to citizens through various County departments. These departments strive to provide and maintain quality services to citizens, which requires the daily use of equipment and vehicles. The Fleet Operations Department has the responsibility to oversee all equipment and vehicles with a purchase price over \$10,000, which includes procurement, repair/maintenance, disposal/surplus, and replacement. The department accomplishes this by following Federal regulations as well as internal policies and procedures.

The Fleet Operations Department is categorized as an Internal Service Fund. Internal Service Funds may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.²

ORGANIZATIONAL STRUCTURE

The Hernando County Fleet Operations Department under the leadership of the Director of Utilities, at the time of the audit, was comprised of 1 Fleet Operations Manager; 1 Finance Coordinator; 1 Fleet Maintenance Supervisor; 1 Master EVT Technician; 6 Fleet Technician II; and 1 Asset Information Specialist.

FINANCIAL INFORMATION

FLEET VEHICLE AND EQUIPMENT MAINTENANCE

The Fleet Operations Department invoices County Departments monthly for repairs performed both in-house and by Contracted Outside Repairs (outside repairs). Through the monthly billing process, County Departments reimburse the Fleet Operations Department for costs incurred along with mark-up rates charged on parts and outside repairs. During the annual budget process the Fleet Operations Department determines the labor rate and markup rates necessary to cover overhead costs.

Revenue Analysis

To perform this review, the ASD included FY21 for comparison purposes only. The revenue from the Fleet Operations Department vehicle maintenance fund was \$2,768,992, \$3,063,190, and \$1,595,025 in FY21, FY22, and FY23 (qtrs. 1-2), respectively. The reimbursement for parts costs, outside repairs costs, and labor charges accounted for approximately 80% of total revenue in each fiscal year. Labor Charges accounted for 33%, 30%, and 25% of the total vehicle maintenance fund for FY21, FY22, and FY23 (qtrs. 1-2). The revenue from the markup rates for parts (Parts Svc) and outside repairs (O/S Repairs) combined accounted for 9%, 11%, and 10% of the total vehicle maintenance fund for FY21, FY22, and FY23 (qtrs. 1-2).

² https://gars.gasb.org/3047379/2147483502/gars/standards/cod1300_Standards
Codification -> 1. General Principles -> 1300 – Fund Accounting [GASBS 34, ¶68]

The revenue comparison for the various sources is depicted in the chart below.

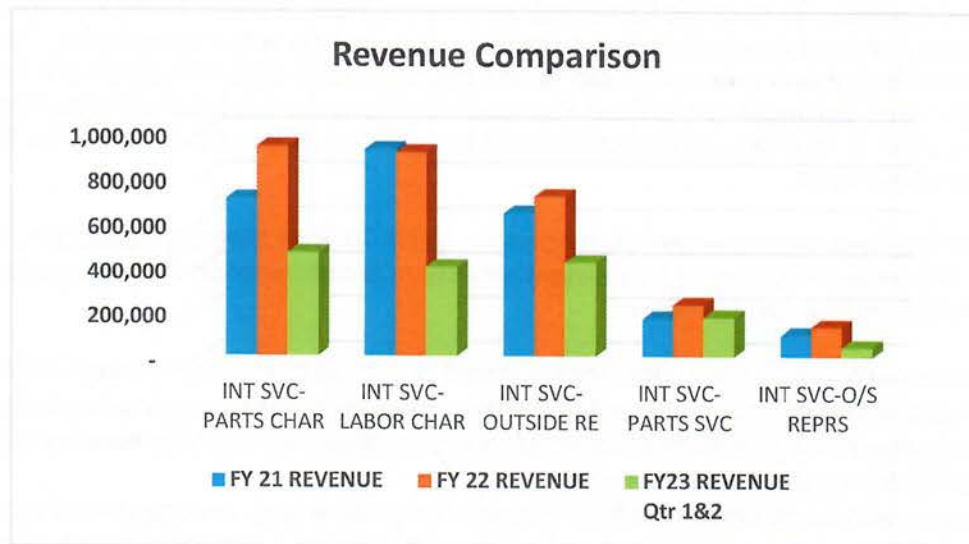


Figure 1 - Auditor generated

Expenditure Analysis

The expenditures of the Fleet Operations Department vehicle maintenance fund were \$2,900,533, \$2,980,031, and \$1,303,428 in FY 21, FY22, and FY23 (qtrs.1-2), respectively. Personnel and Operating expenses comprise the majority of the expenditure, with Operating expenses being the most significant due to expenditures for O/S Repairs and Parts. Operating expenses were 68%, 75%, and 73% of total expenditure and Personnel expenses were 25%, 22%, and 21% for FY21, FY22, and FY23 quarters 1-2, respectively. The expenditure comparison is depicted in the chart below.

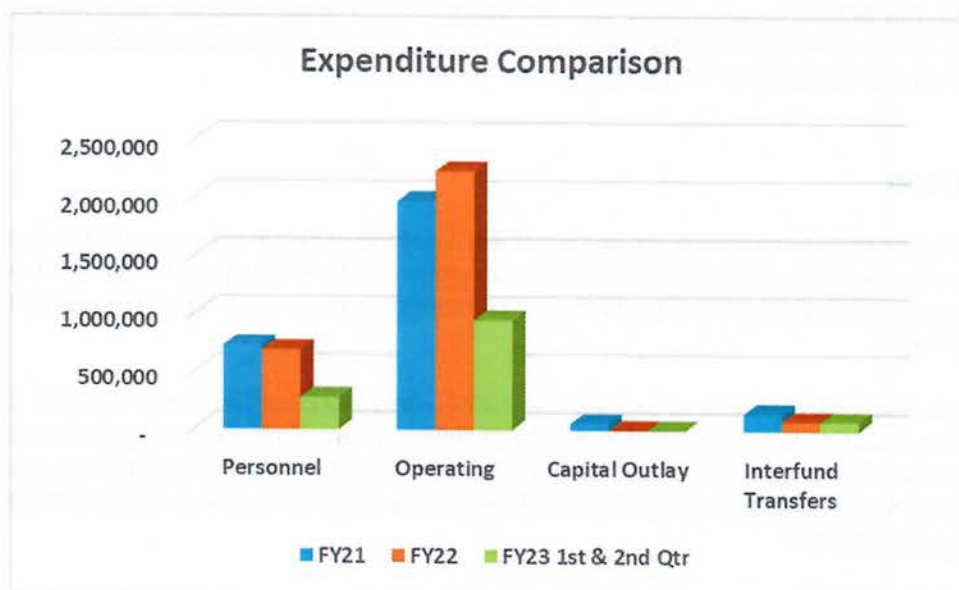


Figure 2 - Auditor generated

FLEET REPLACEMENT PROGRAM

During the budget process, Fleet Operations Management in coordination with County Departments identified vehicles and equipment that needed to be replaced. Fleet Operations Management compiled a list of the identified assets and presented it to the BOCC for approval. Upon approval, the Fleet Operations Department in conjunction with the Purchasing and Contracts Department procured and paid for the assets. County Departments have the option to make a one-time payment to the Fleet Replacement Fund for the total cost incurred to purchase the asset or to make monthly payments (referred to as lease payments) for the expected life of the asset.

According to the Fleet Replacement Study conducted in 2018 by Mercury Associates, Inc. for the County, the three fleet capital financing methods, or a combination thereof, generally used by governmental entities are as follows:

- *Purchase with cash using funds appropriated on an ad hoc (year-to-year) basis*
- *Purchase with cash accumulated in a sinking or reserve fund, usually accompanied by a cost-charge back system that collects funds from fleet user organizations incrementally to defray the costs of assets they use*
- *Purchase with funds borrowed from financial institutions (e.g. an equipment loan, or master "lease-purchase" agreement, a line of credit, etc.) and/or investors (e.g. certificates of participation, general obligation bonds, etc.)*

In 2016, the Fleet Operations Department began utilizing a Line of Credit (LOC) to finance the purchase of vehicles and equipment. On September 12, 2016, the BOCC approved a seven-year LOC not to exceed \$5.0 million. The BOCC subsequently approved a second LOC on December 18, 2018, that was for seven to ten years, not to exceed a maximum of \$6.3 million.

As of 9/30/2022, the total outstanding long-term debt principal balance was approximately \$5.1 million. Of the outstanding principal balance, approximately \$1.0 million was the current portion (due within one year) and \$4.1 million was the long-term portion. The interest rates on the various draws ranged from 1.73% to 3.723%.

On 6/13/2023, the BOCC approved a Non-Ad Valorem Revenue Note for just over \$4.0 million for the purchase of vehicles and related necessary equipment. Principal payments commence on 5/1/2024 with a payoff date of 5/1/2033.

Revenue Analysis

The main components of revenue for the Fleet Replacement Program were reimbursements from the County Departments for the capital equipment, interest payments for the line of credit, and insurance; an Administrative Fee to cover personnel and operating costs; and the sale of surplus equipment.

Total Revenue was \$5,046,927 and \$4,965,159 in FY21 and FY22, respectively. In FY22, \$334K of proceeds from the LOC was included in the total revenue amount. Excluding the proceeds derived from the Line of Credit in 2022, Fleet Replacement Program Fund revenue decreased approximately \$416K from FY21 to FY22. This change was largely due to a \$394K decrease in the sale of surplus equipment.

Total Revenue as of 3/31/2023 was \$2,346,599.

Expenditure Analysis

The main components of expenses for the Fleet Replacement Program were capital outlay, debt service, depreciation, insurance, and personnel costs.

Total Expense was \$8,698,095 and \$8,268,302 in FY21 and FY22, respectively. The decrease in expenses was largely due to a decrease in capital outlay offset by an increase in depreciation. In FY22, Debt Service payments totaled \$1.1 million.

Total Expenses as of 3/31/2023 were \$3,258,359.

OBJECTIVE

The purpose of this audit was to provide management with some level of assurance that vehicle/equipment parts were properly accounted for and billed; County Departments were properly billed for parts, repairs, and/or new vehicles/equipment; procurement of goods and services complied with County Purchasing Policy; system access rights aligned with staff's job duties and responsibilities, and vehicle/equipment purchases complied with the BOCC approved replacement list and were properly recorded in the Assetworks system.

SCOPE

The audit period covered in this review was Fiscal Year 2021/2022, and the first two quarters of Fiscal Year 2022/2023.

To accomplish the audit objectives, the Audit Team performed the following procedures:

- Interviewed key personnel, observed physical security of inventory, reviewed department policies and procedures, evaluated compliance with Contractor Operated Parts Store (COPARS) contract pricing, compared staff job descriptions to assigned system access rights, assessed compliance with BOCC approved replacement list, and tested relevant processes
- Utilized IDEA data analytics software to
 - Select samples of work orders, direct issued parts, and vehicle/equipment replacements
 - Analyze markup rate on 100% of parts issued

The audit procedures performed identified procedures and practices that could be improved. The Opportunities for Improvement are listed below.

Opportunity for Improvement	Description	Page Reference
1.1	Verify parts pricing complies with the COPARS contract	13-14
1.2	Establish physical access controls for County owned parts	14
1.3	Accurately charge the mark-up and PM rates	14-15
2.1	Assign access rights based on NIST principle of least privilege	16
3.1	Maintain complete and accurate data on Vehicles & Equipment	17-18

This audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

Discussion Points

Discussion Point 1: Vehicle and Equipment Maintenance

The Fleet Operations Department performs in-house repair and maintenance services and schedules outside repairs when necessary.

To facilitate the performance of the in-house repairs and maintenance, the County has a Contractor Operated Parts Store (COPARS) on site. The vendor for the COPARS orders and maintains parts inventory for the department.

To gain an understanding of the department's maintenance and billing processes in place, the ASD interviewed key personnel, observed the parts rooms, and reviewed Standard Operating Procedures.

To evaluate the billing processes in place, the ASD selected samples from Work Order and Direct Issued parts billings and tested for compliance with purchasing policies, repair timeliness, departmental billing accuracy, and payment timeliness. In addition, markup rates for 100% of the population were recalculated for accuracy.

Based on the review, the COPARS contract was properly executed, Standard Operating Procedures were complete, and the department maintained an effective workflow with controls in place to document the maintenance process, review parts used against work order documentation, and obtain proper authorizations prior to payment. Although these segments of the processes appeared to be functioning as intended, there were areas within the processes that could be improved. Improvements could be made to ensure contract compliance, enhanced physical security of the Hernando County Parts Room, and ensure proper rates are charged to departments for accurate billing.

1.1 **Opportunity for Improvement: Verify parts pricing complies with the COPARS Contract**

The County and Vector Fleet Management LLC entered into a 3-year Contractor Operated Parts Store contract effective September 1, 2021. The vendor agreed to operate and staff the on-site Contractor Operated Parts Store and bill the County at the end of each month. As per the contract, unless federal funds were utilized, vendor/contractor branded parts were to be sold to the County at the "current jobber store acquisition List Price less a 45% discount." The Contract also stated that "Pricing shall be available to County, per request, via a pricing website, which shall be updated when prices change." However, the review determined that Fleet Management had not requested pricing information and that a pricing website was not available to the County. As a result, the reasonableness of pricing was unable to be determined.

Recommendation: Fleet staff should work with the vendor to obtain pricing information from the vendor and confirm that the price billed complies with the Contract.

Management Response: In September 2023, parts vendor started sending monthly reports showing parts pricing and how it compares to the market and as it relates to the contract. Fleet meets with the vendor monthly to verify the pricing complies with the contract.

Implementation Date: 9/14/2023

1.2 Opportunity for Improvement: Establish physical access controls for County owned parts

The Hernando County Parts Room is located inside the vendor operated parts store. The parts room door remains unlocked and vendor staff as well as technicians access the room as needed to obtain parts for ongoing repairs/maintenance.

Recommendation: To enhance the physical security of parts owned by Hernando County, Fleet Operations Management should restrict access to the Hernando County Parts room to key personnel.

Management Response: Fleet and DPW are working together to install new security throughout the facility restricting access to each space to authorized personnel only, including the parts room. The parts room will have HID card access with only authorized employees having access.

Implementation Date: Kick off for the security installation is 3/29/24

1.3 Opportunity for Improvement: Accurately charge the budgeted mark-up and Preventative Maintenance (PM) rates

During the budget process, Fleet Operations Management determines the necessary markup and PM flat labor rates to cover the Fleet Operations Department's operational costs. The Fleet Operations Department charges all departments markup fees on direct issued parts, parts required to complete work orders (excluding federally funded repairs), and outside service repairs. Markup rates and PM flat rates require updating in Assetworks on an annual basis.

Parts markup rates were sporadically changed during the audit period. Parts markup rates were tested for 100% of the population of Issued Parts Charges for FY22 and the 1st and 2nd Qtr of FY23. The correct markup rates were 25% and 30% for FY22 and FY23, respectively. In both FY22 and FY23, the range of rates charged was 25% - 30%. Incorrect markup rates resulted in the Fleet Operations Department overcharging approximately \$33,791 in FY22 billings and undercharging approximately \$5,056 in FY23 billings.

A sample of work orders for outside service repairs disclosed that the budgeted markup rate of 15% was not charged in either FY 22 or FY 23. The Fleet Operations Department assessed a mark-up rate of 20% in FY 22 and 10% in FY 23. As a result, the Fleet Operations Department overcharged departments a net amount of \$944.83 for the sampled work orders.

The PM flat labor rate on the PM workorders included in the sample did not agree with budgeted rate provided by Fleet Management. The PM flat labor rate was incorrect on

19 of 21 (90%) of the applicable work orders. As a result, the Fleet Operations Department undercharged departments a net amount of \$772.80 for the sampled work orders.

Recommendation: At the start of each Fiscal Year, the Fleet Operations Department should adjust the various mark up and PM rates to align with the rates determined to be necessary during the budget process to adequately fund operations. The monthly billings should periodically be reviewed to confirm the accuracy of the billing amount.

Management Response: Fleet instituted a new Fleet Management Information System on March 1, 2024. The new program makes it much easier to verify mark-ups and rates. Fleet has been diligent in checking monthly billing prior to sending to finance to make sure that all rates are correct.

Implementation Date: 3/1/24

Discussion Point 2: System Access Rights

The ASD reviewed the access rights granted in the Assetworks system to ensure that they were aligned with each staff member's job or departmental responsibilities. System users work in various departments, such as, the Fleet Operations Department; other County Departments; the Clerk of Circuit Court & Comptroller's Office; and for vendors. Access rights were reviewed for all users, their assigned user groups, and their assigned locations. Fleet Operations Department staff job descriptions were utilized to determine if their granted access rights aligned with their job responsibilities.

It was determined that all system users were assigned to user groups which were granted specific access rights based on their assigned location. Fleet Operations Department staff were assigned access rights that aligned with their job responsibilities with the exception of four staff members, who were granted access rights that extended beyond what was required.

2.1 **Opportunity for Improvement:** Assign system access rights based on the NIST principle of least privilege

System Administrator rights were given to four Fleet Operations Department employees: the Fleet Operations Manager, Finance Coordinator, Fleet Maintenance Supervisor, and the Master EVT Technician. The purpose stated was to allow for back-up in the case of absence and also for the Maintenance Supervisor and Master EVT Technician to close out work orders in the system. However, users can be granted specific permissions within the user groups they are assigned to and do not require System Administrator rights. The Information Technology Department indicated that System Administrator rights had previously been removed from Fleet Operations Department staff. It appeared that Fleet Operations personnel circumvented the implemented access controls as the System Administrator rights were not restored by the Information Technology Department. According to the National Institute of Standards and Technology (NIST), under the principle of least privilege, "a security architecture should be designed so that each entity is granted the minimum system resources and authorizations that the entity needs to perform its function."³

Recommendation: It is recommended that access rights to all systems be assigned to staff based on the principle of least privilege and that System Administrator rights be solely assigned to Information Technology staff.

Management Response: Fleet instituted a new Fleet Management Information System on March 1, 2024. The new program provides the minimum amount of privileges necessary for the employees to perform their job duties.

Implementation Date: 3/1/24

³ https://csrc.nist.gov/glossary/term/least_privilege

Discussion Point 3: Fleet Replacement Program

Fleet Operations Management in conjunction with County Departments identifies vehicles and equipment that should be replaced. The list of vehicles/equipment identified for replacement along with additions to the fleet is submitted to the BOCC for approval during the budget process. Once approved, Fleet Operations Management moves forward with the procurement of the vehicles/equipment in conjunction with the Purchasing and Contracts Department. Upon delivery of the asset, the vendor is paid from the Fleet Replacement Fund. County Departments then reimburse the Fleet Replacement Fund by either making a one-time payment for the total cost of the asset or remitting monthly payments based on the total cost amortized over the life of the asset.

To evaluate the processes in place for the Fleet Replacement Program the ASD selected a sample of assets from the approved BOCC lists, the information on the vendor invoices such as description, Vehicle Identification Number (VIN), and total amount was compared to the Assetworks system to determine if the vehicle/equipment was similar to the original asset or with the approved asset type and that the information was accurately input into the system. Based on the asset numbers manually provided by Fleet Operations Management, the assets reviewed were similar to the original asset or the approved asset type. However, the information on the vendor invoice was not always accurately input into the system.

The Fleet Operations Department worked with the Purchasing and Contracts Department to procure the needed vehicles and equipment. Purchase Orders were issued for the reviewed assets.

As mentioned above, upon delivery of the asset, vendor payments were made from the Fleet Replacement Program Fund. The Fleet Operations Department then billed the County Department's for the cost. Most of the assets tested were properly billed to the County Departments, but there were a few instances in which either the original cost or the life of the asset was incorrectly entered into Assetworks.

3.1 Opportunity for Improvement: Maintain complete and accurate data on Vehicles & Equipment

Testing of the sample of vehicles and equipment disclosed records in Assetworks that were incomplete and/or inaccurate. At the time of the audit, a complete audit trail of replaced assets was not documented in the Assetworks system. Therefore, management had to manually provide the asset numbers for the selected assets. In addition, there were a few instances in which the data (total cost and/or life of the asset) used to calculate the monthly billing amount and the VIN were incorrectly recorded in the system.

Recommendation: Management should ensure that a complete and accurate audit trail of vehicle/equipment replacements which demonstrates compliance with the approved replacement list is maintained. In addition, management should review data input of new purchases to ensure records are complete and accurate. Furthermore, vehicle and equipment data should be reviewed for accuracy and completeness prior to migrating it to the new software.

Management Response: Fleet diligently produced data load sheets making sure all

information going into new program was an accurate description of each asset. Each asset that is put on the replacement list and a vehicle is ordered, will be notated on the record. The turn in sheet or vehicle acceptance forms will be scanned in and placed in the vehicle file. One person will be entering the information into the new program and a second person will double check the entries to verify the information entered is correct.

Implementation Date: 3/1/24