



## THE CITY OF SAN DIEGO

DATE: December 23, 2014

TO: Tony Heinrichs  
Deputy Chief Operating Officer

FROM: Eduardo Luna, CIA, CGFM, City Auditor  
Office of the City Auditor

SUBJECT: Fleet Services Division Fraud Risk Assessment Report

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At your request, we conducted a Fraud Risk Assessment of the Public Works Department, Fleet Services Division's parts purchasing function. As requested we assessed the adequacy of internal controls over the fleet parts purchasing function. As part of this Fraud Risk Assessment, our office conducted document reviews, on-site facility tours, and interviews of representatives from the Fleet Services Division. We also considered the impact of recent changes on Fleet Services including managed competition and the award of a sole-source contract to NAPA Auto Parts. Our objective was to identify the financial and operational risks related to the parts purchasing function, and to highlight conditions at the Fleet warehouse locations that heighten the risk of fraud.<sup>1</sup> By mitigating fraud risk, management can reduce much of the opportunity for fraud to occur, increase the chances of detecting fraud, and, at the same time, promote fraud awareness and prevention throughout the Division.

Our Fraud Risk Assessment determined that the Fleet Parts Division can improve its physical security and internal controls in order to reduce the opportunity for fraud to occur. A confidential detailed report was provided to you explaining in detail the fraud risks identified and related control weaknesses that should be addressed. The detailed report will not be distributed publically so that the control weaknesses we identified will not be exploited.

We made six recommendations to address the issues identified during the assessment to further strengthen internal controls and to help reduce the risk of fraud. Two recommendations are related to physical security, two are related to improving and strengthening controls over the FleetFocus inventory system, and two are aimed at improving inventory control procedures. The following is the recommendations made and the Department's responses to each one.

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**Summary of Recommendations and Department Responses:**

**Recommendation 1:**

The Public Works Department should evaluate the need for interior and exterior security cameras as identified to protect the Fleet Services Division's assets.

**Department's Response:** Agree. Fleet Services will conduct a cost/benefit analysis of additional physical security equipment and include any resulting expenditure request for interior and exterior cameras in the department's FY 2016 budget request. Public Works has amended the As-Needed Facilities Condition Assessment Contract with Alpha Facilities Solutions, Inc. to conduct a security assessment of the (identified facilities). This assessment is expected to be completed in January 2015.

**Recommendation 2:**

The Public Works Department should coordinate with the Park and Recreation Department to ensure that the necessary repairs are made as identified.

**Department's Response:** Agree. Park and Recreation Department staff has addressed approximately 70% of the fence and brush visibility issues (at the identified facility). The facility condition assessment will evaluate the need for any additional fencing repairs and improvements.

**Recommendation 3:**

The Public Works Department should consider evaluating the costs and benefits of acquiring a software bridge between FleetFocus and SAP once the other changes to the Fleet Parts function have been implemented.

**Department's Response:** Agree. Based on Department experience with SAP upgrades, the cost of a FleetFocus bridge is anticipated to cost approximately \$500,000. Fleet Services, with the Department of IT's assistance, will perform a business case analysis to evaluate improved SAP-FleetFocus integration. Anticipated completion date is July 30, 2015.

**Recommendation 4:**

The Public Works Department should perform a review of FleetFocus system access rights to ensure that the lowest level of access necessary for an individual to perform their job duties is granted.

**Department's Response:** Agree. A review is in progress. Anticipated completion date is April 30, 2015.

**Recommendation 5:**

The Fleet Services Division should complete a wall-to-wall inventory of parts at the four primary Fleet Services Division locations and the Kearny Villa Fire Repair Facility as planned to ensure current, complete, and accurate inventory records by the end of the 2014 calendar year.

**Department's Response:** Agree. However, this effort will not be completed until April 30, 2015.

**Recommendation 6:**

The Fleet Services Division should perform the revised cyclical inventory count procedures at the four primary Fleet Services Division locations by the beginning of the 2015 calendar year.

**Department's Response:** Agree. As agreed during the exit briefing with Audit staff, Public Works will start the cyclical inventory count procedures after the completion of the wall to wall inventory, addressed in recommendation 5.

We appreciate all of the assistance we received from the staff of the Fleet Services Division of the General Services Branch of the Public Works Department during this Fraud Risk Assessment. Thank you.

Respectfully submitted,



Eduardo Luna  
City Auditor

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<sup>1</sup> We were not engaged to and did not conduct an audit or examination, the objective of which would have included the expression of an opinion on financial data. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been included in this report. This Fraud Risk Assessment was not conducted in accordance with generally accepted government auditing standards.