



**AUDIT DEPARTMENT**

**AUTOMOTIVE SERVICES  
COST ALLOCATION AUDIT**

**For the period July 1, 2004, through June 30, 2005**

**JEREMIAH P. CARROLL II, CPA**  
Audit Director



# Audit Department

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June 23, 2006

Mr. Thom Reilly  
Clark County Manager  
500 South Grand Central Parkway, 6th Floor  
Las Vegas, Nevada 89106

Dear Mr. Reilly:

As provided by our annual audit plan, we have conducted an audit of the Automotive Services Division of Finance. Our procedures considered transactions for the period July 1, 2004, through June 30, 2005. We examined and tested transactions, controls, and compliance for this period.

The objectives of the audit were to determine whether:

- billing rates are all-inclusive, competitive, and adequate to cover the departmental costs being incurred,
- costing and invoicing is being calculated appropriately,
- accounts receivable is being monitored and controlled, and
- internal controls exist, are adequate, and followed.

Our examination revealed that the billing rates are more than adequate to cover departmental costs. However, these billing rates should only be sufficient enough for the department to break even. Automotive Services is reassessing the current rates and will make any necessary adjustments by the end of fiscal year 2006. In addition, we noted that internal controls over the invoicing, accounts receivable, and month-end procedures are present but could be strengthened to ensure each is properly being monitored and processed in a timely manner.

A draft report was provided to the Chief Financial Officer, and his response is included. The assistance and cooperation of the Automotive Services Division staff are greatly appreciated.

Sincerely,

/s/ Jeremiah P. Carroll

Jeremiah P. Carroll II, CPA  
Audit Director

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**AUTOMOTIVE SERVICES  
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For the period July 1, 2004, through June 30, 2005**

**BACKGROUND**

Nevada Revised Statute (NRS) 244.296, County Code Chapter 2.44.030, and County Administrative Guideline #6 govern the use, operation, and accountability of County vehicles. These directives instruct the Board of County Commissioners to establish guidelines over the use of County-owned vehicles, and empower the County Manager or his designee to administrate the purchase of property and equipment, as well as the related maintenance and inventory control over such assets. Currently, the Automotive Services Division is the County Manager's designee and is responsible for this function.

Automotive Services has three locations: Stephanie Road, Russell Road and McCarran Airport to support this task. As they are set-up as an Internal Service Fund, Automotive Services bills their customers monthly for the services and supplies provided.

Automotive Services uses a program called Maximus 4 (M4) to capture the charges that it incurs. Work orders are created within M4 and are used to monitor costs specifically by job. As jobs are completed, they are closed within M4. A monthly report is run that summarizes the work orders that are complete. This information is used to record accounting information in the general ledger.

**OBJECTIVES**

The objectives of the audit were to determine whether:

- billing rates are all-inclusive, competitive, and adequate to cover the departmental costs being incurred,
- costing and invoicing is being calculated appropriately,
- accounts receivable is being monitored and controlled, and
- internal controls exist, are adequate, and followed.

**SCOPE AND METHODOLOGY**

To accomplish our objectives, a preliminary survey was conducted that included a review of Nevada Revised Statutes and County Fiscal Directives. We interviewed personnel and examined transactions on a sample basis. The conclusions, findings, and recommendations of our audit are a result of the procedures performed to accomplish the objectives.

The audit covered the period from July 1, 2004, through June 30, 2005. The last day of fieldwork was January 13, 2006. It was conducted through discussions with appropriate personnel, a review of policies and procedures, and substantive testing of detailed accounts. Our audit was performed in accordance with generally accepted governmental auditing standards.

## RESULTS IN BRIEF

Current Automotive Services billing rates appear to be all-inclusive, competitive, and more than adequate to cover departmental costs (net of depreciation expense). Since the majority of Automotive Services' capital expenditures are handled through Fund 437 (Capital Projects), and not through Fund 685 (Automotive), it is reasonable to exclude depreciation expense (when assessing billable rates and comparing revenue to expenses). Net of depreciation, the fund appears to have a surplus. However, these billing rates should only be sufficient enough for the department to break even. Automotive Services is reassessing the current rates and will make any necessary adjustments by the end of FY 2006. Additionally, internal controls exist and are followed, but these controls could be strengthened over the month-end closing, invoicing, and accounts receivable areas. This would provide a higher level of assurance that bills and related cash receipts are processed in a timely manner. Additionally, it would help ensure the appropriate recording of monthly accounting information on the general ledger. Furthermore, requiring correct odometer information when obtaining fuel at the Stephanie Shop should help with monitoring scheduled maintenance of County vehicles. Other findings and each individual finding are discussed in detail below.

## DETAILS OF FINDINGS

### JV Input Error

In conjunction with reviewing the billing process, we examined several journal entries and noted that the information on some of the entries did not reflect what was actually recorded on the general ledger. The dollar amounts and the division numbers were erroneously inputted. This input error caused an over/understatement of accounts.

We recommend that the Comptroller's Office more closely review all entries to help ensure that appropriate accounting information is being recorded on the general ledger. Further, we recommend that Automotive Services regularly monitors the activity on its accounts and reports any discrepancies to the Comptroller's Office on a timely basis.

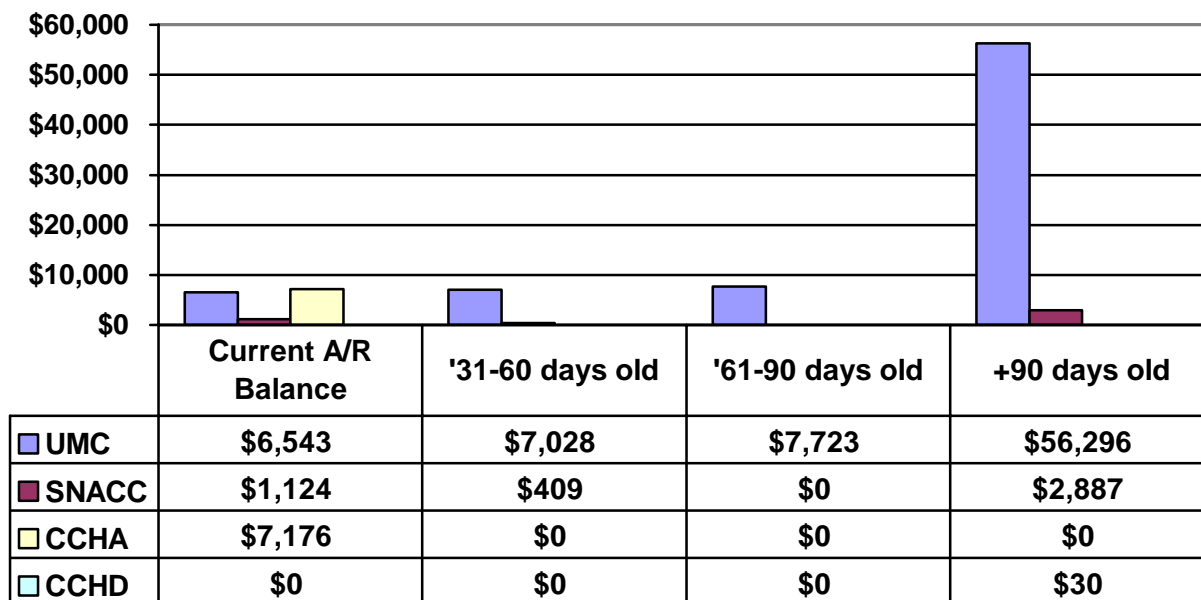
### Preparing Timely Invoices

At the end of every month, an M4 report is generated showing the work orders that have closed for that month. The report lists by department and by work order, the detailed rate components that are to be billed. As part of the detail testing for the billing month of August 2004, we noted that the Automotive Services invoices to University Medical Center (UMC), amounting to \$6,742, were not billed until February 2005, with payment not received until June 2005. In addition, we did not find any documentation substantiating that the invoice to Southern Nevada Area Communication Council (SNACC) in the amount of \$436 was ever created or sent out, nor was payment received.



We recommend that Automotive Services ensures that monthly invoices are being created and sent out soon after month-end reports are available. This will help facilitate the efficient use of County resources. However, we understand that the County has no control over the timeliness of UMC's payment processing.

**Monitoring Accounts Receivable (A/R)**



**Automotive Services Accounts Receivable Balance  
at June 30, 2005 by Customer and Age**

Per review of the monthly aging A/R report generated from the Comptroller's Office, Automotive Services' accounts receivable balance was \$89,216 as of June 30, 2005. Of this balance, we noted that the amount due from UMC was \$77,590, of which \$56,296 was over 90 days old. Per further testing, we verified that invoices from UMC and SNACC were still outstanding as of the last day of fieldwork on January 13, 2006.

We recommend that Automotive Services closely monitor its accounts receivable. The Division should utilize the monthly aging A/R report available within SAP. This should help keep track of the status of all the invoices it created. Again, we understand that Clark County Automotive has no control over the timeliness of UMC's payments processing.

**Charges Captured Timely**

Detail testing disclosed that charges for Unit #03714, work order # 166540, were closed in June 2004. However, these costs (\$2,556.28) were not billed until August 2004. This resulted in a delay of charges being billed to and reimbursed from the customer.



We recommend that Automotive Services research the cause of this event, and perhaps employ programming changes within M4 to ensure non-recurrence of these instances. It should also reassess its month-end process and implement controls to help identify unusual activity.

### **Monitoring Fuel Consumption**

In performing detail testing of transactions, we reviewed bio-diesel charges amounting to \$2,677 for vehicle number 11250 for August 2004. We found that appropriate and accurate information should be required when fuel is obtained at the various automotive pumping stations. This issue was addressed previously in the Gas Card Usage Audit performed in FY 2005. By necessitating additional information (such as correct odometer readings), Automotive Services can better track and promptly schedule routine maintenance work. This should help preserve and maintain County assets.

### **Invoices Are Not Clearing**

In testing accounts receivable, we noted that cash receipts from University Medical Center for Automotive Services costs are not being consistently posted against the invoices generated within Decision Master. When no supporting documentation is attached to a deposit slip, the cash receipt gets deposited without being posted against an invoice. This cash receipts posting process is still applicable within the current SAP system.

We recommend that Automotive Services provide invoice detail information when submitting cash receipts for deposit. In addition, we recommend that the Treasurer's Office request the missing information when such instances occur.

### **Monthly Unit Charges Not Agreeing to Detail**

In performing detail testing of transactions, we reviewed charges for vehicle unit number 11250 for August 2004. We found that the amount per the billing report of \$6,906.20 did not agree with the detailed information provided by Financial Systems of \$6,440.03. By the draft conference date on Wednesday, April 19, 2006, Automotive Services had not provided information explaining this difference of \$466.

We recommend that Automotive Services implement controls to ensure that information flowing through its system is accurate and auditable.

## **SUBSEQUENT EVENTS**

During the draft conference meeting, clarification on the "charges captured timely" finding was requested. In the process of getting answers as to how charges are being billed months after they are incurred, several questions and potential control issues emerged. First, we asked why work orders would be closed prior to all charges being captured. Second, we inquired as to why



charges were backdated to a prior Fiscal Year. Lastly, we questioned how a work order could still accept charges after it had been closed. These questions need to be addressed and properly answered to help ensure that internal controls are in place that will mitigate improper procedures. We recommend that Automotive Services collaborate with Maximus to place restrictions within the M4 program to monitor and control the processing of Automotive Services work orders.



**APPENDIX A**  
**Management's Response**

# MEMORANDUM

## DEPARTMENT OF FINANCE

**GEORGE W. STEVENS**  
Chief Financial Officer

**SUSAN LAWEWAY**  
Deputy Director

**YOLANDA T. KING**  
Assistant Director

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TO: Jeremiah P. Carroll II, Director

FROM: George W. Stevens, Chief Financial Officer

SUBJECT: Automotive Services' Cost Allocation Audit – Revised Draft Report

DATE: June 7, 2006

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This memo is in response to issues raised in the most recent audit of the Automotive Division of Finance.

Results in Brief: The report states that the billing rates appear to be all-inclusive, competitive and more than adequate to cover departmental costs (net of depreciation expenses). Further the audit states it is reasonable to exclude the depreciation charges as the capital costs are paid through Fund 437 not through Fund 685. While this is true relative to vehicle replacement capital costs, other capital costs associated with the operation have not historically been funded by Fund 437. The current billing rates may, in fact, be adequate to fund annual operating costs, but clearly are not adequate to fund any significant reinvestment in Automotive's facilities or capital equipment.

In reviewing the Fund 685 balance sheet for the past few years, it does also appear that the fund finished Fiscal Year 2005 with working capital of about \$2.2 million. However, \$1.0 million of this amount represented a one-time transfer to the fund in order to build a reserve in anticipation of the proposed development of a new automotive maintenance facility in conjunction with the proposed Public Works Southwest Service Center. When this is excluded, the fund's working capital represents only about ten percent (10%) of annual expenditures or only slightly more than one month of activity. Prior to Fiscal Year 2005, Automotive operated with virtually no working capital, an untenable situation given the fact that the costs of providing services must be incurred well in advance of the ability to bill for these services. Now that more adequate working capital is available to support daily operations, rates will be periodically monitored and adjusted to prevent a reoccurrence of the serious cash flow deficiencies that existed historically.

JV Input Error: Automotive will continue to monitor activity on accounts and report any discrepancies.

Preparing Invoices Timely: Automotive continues to place an emphasis on completing invoices in a timely manner. The implementation of SAP allows billing to be automatically withdrawn from customers' accounts with the exceptions of UMC and Clark County Housing Authority. During the transition from Decision Master to SAP there were a number of issues related to the conversion and proper posting of payments. To date, the majority of these issues have been addressed and it is anticipated that billing and posting of payments will occur much more timely in the future.

Charges Captured Timely: Within the past year, new procedures have been put in place to ensure charges are correctly captured. For example, the last week of the month open work orders are reviewed to ensure any work orders that can be closed are closed which further facilitates timely

billing.

Monitoring Fuel Consumption: Finance staff is working diligently to configure software correctly to allow us to properly account for mileage when vehicles are fueled. We will continue to work toward a solution to this issue.

Clearing Invoices: Since migrating to SAP, Automotive has coordinated with the Treasurer's office to better understand requirements for submitting deposits. With this information, all deposits are now being completed in accordance with these guidelines.

Agreeing Monthly Unit Charges to Detail: The example referenced in the audit was a result of incomplete selection criteria on the report. When correctly selected, the detail is accurately reflected. (A copy of the correct selection is attached to this report.)

Subsequent Events: Work orders are no longer closed at the end of the month. Newly implemented procedures require work orders to be closed upon completion of repairs. If for any reason adjustment or late payments must be applied to a work order, the release of a vehicle is not delayed. Adjustments and/or late payments are posted to work orders as appropriate and necessary notation is captured in the system to track these changes.

**APPENDIX B**  
**Audit's Response to Management's Response**

# MEMORANDUM

Jeremiah P. Carroll II, CPA  
*Director*

## AUDIT DEPARTMENT

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**TO:** George Stevens, Chief Financial Officer  
**FROM:** Jeremiah P. Carroll II, Director  
**SUBJECT:** Response to Management's Response  
**DATE:** June 20, 2006

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Automotive Services responded to the Automotive Services Cost Allocation Draft Report on June 20, 2006. In its response relating to the finding of Agreeing Monthly Unit Charges to Detail, it states that "the example reference in the audit was a result of incomplete selection criteria on the report". For clarification, when the draft report was completed and sent to Automotive Services for response, the information they provided for a detailed selection made did not agree to their summary report. However, the appropriate information was provided subsequent to the draft report being released. Had this information been provided during fieldwork, the finding as stated above would have been resolved and not included in the draft report.