



INTERNAL AUDIT

Preliminary Assessment of the Vehicle Disposal process

R-23-02

November 27, 2023

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action	For Information	Reviewed prior to release
Executive Director		*	*
Chief Financial Officer		*	
Chief Service Development Officer		*	
Manager Capital Assets & Project Control	*		
Manager NRV Perf & Maintenance	*		

Executive Summary

Introduction

The Audit Committee directed Internal Audit (IA) to perform a preliminary assessment of vehicle disposal practices to determine if controls and processes are adequately designed and operating effectively to ensure the achievement of management objectives over the proper disposal of UTA’s surplus vehicles. The Audit Committee approved the audit plan on December 12, 2022.

IA completed the preliminary assessment phase on November 13, 2023, and conducted the work in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute of Internal Auditors. Luke Barber, Senior Internal Auditor, performed the assessment.

Background and Functional Overview

Vehicle disposals are the responsibility of the Capital and Project Controls department. This responsibility historically was undefined, which caused a haphazard approach to disposing vehicles.

In 2022, IA learned of the UTA “boneyard”, a field owned by UTA where retired vehicles were stored long-term. On July 8, 2022, the auditors went to the location to document the condition of the boneyard at that time. IA documented the following conditions:

- There were approximately 160 vehicles located at the boneyard.
- Nine of the vehicles had very clearly been in an accident.
- The vehicles consisted of 95 long buses, 52 short buses (primarily Ford E-450s), five passenger vans (Chevy E3500), with the rest being standard passenger-type vehicles.
- There were signs of animal activity, such as stool in vehicles, remains, and a large fox den (we saw the foxes on a previous visit).
- Fluids were not drained from some vehicles.
- Keys were left in the ignition of most vehicles.

Management addressed the conditions at the boneyard and disposed the vehicles in September 2022. Nonetheless, these conditions confirmed the need for an audit of the Vehicle Disposal Process to verify that management creates a governed process that would prevent boneyard conditions in the future.

Objectives and Scope

The primary areas of focus for the preliminary assessment were:

- Obtaining the highest possible salvage value for disposed vehicles
- Environmental compliance
- Timely disposal
- Optimizing disposal decisions

IA did not define a specific period of review. The assessment was goal was to review current state.

Summary

As part of a risk-based audit approach, management and IA identified certain inherent risks and fraud risks that, if not addressed, could prevent the achievement of objectives of the Vehicle Disposal Process.

A total of 14 key risks were identified, including vehicles being kept beyond their useful life, appropriate sell off avenues, and a lack of decision and process ownership. Controls existed or were in development to appropriately manage all risks examined, though management is still drafting the underlying standard operating procedures (SOP). IA could not complete the assessment with the control environment not fully defined. IA will review the SOPs and process as part of a 2024 follow-up audit of the Support Fleet.

IA noted that three separate sales of vehicles from September 12, 2022 – September 12, 2023, had proceeds over \$200,000. Management is required to request Board approval for transactions over the amount of \$200,000 but did not for these disposals.

IA appreciates the assistance offered by management and staff in completing this preliminary assessment.

Attachment A: Details of Recommendations

Preliminary Assessment Finding R-23-02-1 Board Approval Over \$200K Risk Level: Medium

Details:

The Capital Assets group has sent vehicles and other equipment to TNT Auction 12 times from September 12, 2022, to September 12, 2023. Total proceeds from these disposal sales was just over \$1.6 million and three of these disposals exceeded \$200,000 as a singular sale, as shown in the data table below¹. Management did not receive Board approval prior to completing these sales.

Figure 1. Total Vehicle Disposal Proceeds from 9/12/2022-9/12/2023

Sale dates	Gross amounts	Net amounts
9/12/2022	\$ 718,025.00	\$ 681,073.75
9/13/2022	\$ 14,429.00	\$ 12,136.10
11/10/2022	\$ 225,850.00	\$ 214,557.50
12/2/2022	\$ 116,050.00	\$ 110,247.50
12/2/2022	\$ 15,225.00	\$ 11,032.50
1/1/2023	\$ 60,000.00	\$ 57,000.00
3/10/2023	\$ 51,095.00	\$ 44,725.50
3/10/2023	\$ 112,570.00	\$ 106,941.50
6/1/2023	\$ 1,315.00	\$ 1,183.50
6/1/2023	\$ 231,660.00	\$ 219,627.00
9/12/2023	\$ 166,900.00	\$ 158,555.00
9/12/2023	\$ 12,750.00	\$ 11,375.00
Totals	\$ 1,725,869.00	\$ 1,628,454.85

Three vehicle disposal sales totaled over \$200,000 but management did not receive Board approval.

Criteria:

Board of Trustees Policy No. 2.2, III, Section D.1 Contract, Change Order, and Disbursement Authority

The Board of Trustees will review and approve contracts that exceed a total value of \$200,000 over the life of the contract, including any option years.

¹ Data source: JD Edwards accounting system

Underlying Cause:

Governance and oversight of the asset disposal process and the funds received have been lacking. Management is taking steps to establish governance and procedures for vehicle disposals.

Effect:

The Board establishes oversight on contracts with a value over \$200,000 in compliance with State law. This oversight helps ensure sound decision making in alignment with UTA's overall strategic vision.

Recommendations:

1. Capital Assets group should seek approval from the Board for the sale of any vehicles which combined might exceed \$200,000.

Alternatively, Capital Assets could provide an annual, or other periodic (such as quarterly), update to the Board regarding planned vehicle sales.

2. Capital Assets should incorporate this Board approval process into SOPs.

Management Response and Action Plan:

The Capital Asset Group was unaware that the oversight on contracts over \$200,000 included revenue contracts. Capital Assets will provide options to discuss at Audit Committee on the process of reporting to the Board anticipated vehicle sales for the year, the gross and net revenue values, and the portion UTA's auction provider has retained over the contract term.

Capital Assets will incorporate the approval process into SOPs.