

**Fleet Services Follow-Up Audit
March 2008**

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City Auditor's Office

March 14, 2008

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office's follow-up on the City's Fleet Services Contract report released in December 2006. The purpose of the follow-up was to determine the implementation status of prior contract audit recommendations.

Our follow-up audit results indicate that management implemented four of the seven recommendations made in the previous audit report.

We would like to thank management for assisting the City Auditor's Office during this project.

A handwritten signature in black ink, reading "Patrice Randle". The signature is written in a cursive, flowing style.

Patrice Randle, CPA
City Auditor

- c: Jim Holgersson, City Manager
- Fiona Allen, Deputy City Manager
- Robert Byrd, Deputy City Manager
- Gilbert Perales, Deputy City Manager
- Trey Yelverton, Deputy City Manager
- Julie Hunt, Water Utilities Director

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Fleet Services Follow-Up



Office of the City Auditor

Patrice Randle, CPA
City Auditor

Project #07-18

March 14, 2008

Executive Summary

The City Auditor's Office reviewed fleet activity for fiscal year 2007

Fiscal year 2007 estimated contract costs totaled \$2,424,510 (\$1,777,410 target, \$647,100 non-target)

Fiscal year 2007 actual expenditures totaled \$2,697,369 (\$1,777,410 target, \$919,959 non-target)

Four of seven recommendations were implemented

Implemented

- *Monthly summary of non-target costs by department*
- *Safety inspection reports*
- *Changes to upcoming bid documents*
- *Detailed subcontractor invoices*

Not Implemented

- *Annual cost reconciliations*
- *Proper reclassification of target and non-target work*
- *Written policies and procedures*

The City Auditor's Office has completed a follow-up to the December 15, 2006 Fleet Services Audit. The follow-up audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The objective of the follow-up was to determine the status of prior audit recommendations.

Management concurred with all seven recommendations presented in the initial audit report. However, our follow-up indicated that three of the prior audit recommendations had not been implemented.

Management has begun the process to revise documents for the fleet services contract and departments are being notified of when vehicle safety inspections are due. Department Heads are also notified of non-target costs incurred by their departments.

The City Auditor's Office concluded that the City did not properly administer the fleet services contract. Management did not request or review annual cost summaries to determine whether the City's fleet costs were reasonable.

The labor rate per target hour is calculated in Exhibit A of this report. A comparison of budget to actual contract costs is shown in Exhibit B of this report. These issues are discussed in the Status of Prior Audit Recommendations section of this report.

Audit Scope and Methodology

The City Auditor's Office reviewed fleet activity from October 2006 through September 2007. The following methodology was used in completing the audit:

- Reviewed policies and procedures
- Interviewed Environmental Services staff
- Examined new processes and procedures within Fleet Services
- Reviewed subcontractor invoices

Status of Prior Audit Recommendations

Recommendation:

The Environmental Services Director should require that, while operating under the existing contract, FVS prepare and submit an annual reconciliation of target charges that will be reviewed by the Fleet Contract Administrator for reasonableness.

Management's Response:

Concur with recommendation. The Environmental Services Director will require that, while operating under the existing contract, FVS prepare and submit an annual reconciliation of target charges that will be reviewed by the Fleet Contract Administrator. The annual target charges are identified as a fixed amount each year by contract. The reconciliation will be compared to the amount established by the contract for variances.

Target Date: October 2007

Responsibility: Fleet Services Contract Administrator

Implementation Status:

Not Implemented. Management did not request that First Vehicle Services (FVS) submit a summary of target costs in its standard revenue and expense format for FY 2006. Management was, therefore, not in a position to judge the reasonableness of the contractor's actual expenditures in relation to the target costs bid. It was not until January 2008, that the City requested the FY 2007 income and expense statement. The Environmental Services Department stated that they plan to perform an annual cost reconciliation to review contract costs for reasonableness.

Recommendation:

The Environmental Services Director should require that the Fleet Contract Administrator implement analytical procedures to determine if non-target work performed by FVS during normal shop hours could be re-classified as target work.

Management's Response:

Concur with recommendation. Analytical procedures to determine if non-target work performed by FVS during normal shop hours could be reclassified as target work will be developed.

Target Date: March 1, 2007

Responsibility: Fleet Services Contract Administrator

Implementation Status:

Not Implemented. City staff conducted no analyses to determine if non-target work conducted during normal business hours could be reclassified as target work.

The City Auditor's Office has included an analysis of target fleet service costs as Exhibit A. This analysis indicates that the City paid over \$70 per target labor hour recorded in the automated fleet management system for FY 2007.

Exhibit B presents a comparison of non-target contract estimates and actual expenditures over the last two years. Although non-target costs decreased in FY 2007, the City still exceeded the contract estimate for non-target costs by over \$272,000.

Recommendation:

The Environmental Services Director, in conjunction with the Financial Services Director, should consider revising future fleet maintenance bid documents to require that bidders report total labor hours used in the estimated target bid costs. The City should then analyze the labor information to ensure that the City is not billed additionally for non-target work performed with excess target capacity.

Management's Response:

Concur with recommendation. The Environmental Services Director, in conjunction with the Financial Services Director, will consider revising future fleet maintenance bid documents to require that bidders report total labor hours used in the estimated target bid costs. The bids submitted for the current contract were not required to include labor hour estimates, and there is no requirement in the existing contract with FVS for a specific or minimum number of labor hours. The contract has the option for one remaining extension for a period of one year, which will be for FY 2008. When the development of the bid document for future services is developed, this recommendation will be included.

Target Date: Upon bid on fleet maintenance contract (Spring 2008 anticipated)

Responsibility: Environmental Services Director and Purchasing Supervisor

Implementation Status:

Implemented. Resolution No. 08-024, dated January 8, 2008, authorizes the execution of a professional services contract with Spectrum Consultants, Inc. This contract includes a review of fleet management and development of a Request for Proposal for fleet maintenance services.

Recommendation:

The Environmental Services Director should require that a summary of non-target costs incurred by specific departments due to abuse/neglect, accidents and physical damage be formally communicated, in writing, to appropriate Department Heads on no less than a monthly basis.

Management's Response:

Concur with recommendation. Due to the relative size of their respective fleets, most non-target costs incurred by the City are related to the public safety, public works, and water utilities departments. The Environmental Services Director will ensure that a monthly report indicating total non-target charges incurred due to abuse, neglect or carelessness (including accidents) is sent to the appropriate department heads.

Target Date: Implemented

Responsibility: Fleet Services Contract Administrator

Implementation Status:

Implemented. The Environmental Services Director e-mails non-target invoice summaries, sorted by organization, to Department Heads on a monthly basis.

Recommendation:

The Environmental Services Director should require that payments for subcontracted work be supported with detailed invoices that specify billing components such as parts, labor, taxes, VIN/ City vehicle number, etc. and that City staff randomly review subcontractor invoices for propriety prior to authorizing payment.

Management's Response:

Concur with recommendation. The Environmental Services Director will require the contractor to receive and maintain detailed invoices from all subcontractors prior to submitting requests for non-target payment for this work to the City, and will also ensure random reviews of these detailed invoices prior to authorizing payment. FVS was advised of this requirement and began complying December 1, 2006; the random review of subcontractor invoices by the Contract Administrator began at the same time.

Target Date: Implemented

Responsibility: Fleet Services Contract Administrator

Implementation Status:

Implemented. Sampled subcontractor invoices were submitted to FVS in a format that specified billing components and identified the vehicle by VIN or City vehicle number.

Recommendation:

The Environmental Services Director should establish a procedure requiring that Department Heads be contacted to enforce policy when a department has not complied with FVS' request that vehicles be brought in for inspections.

Management's Response:

In addition to the notices sent to departments by FVS indicating that a vehicle is due for service, FVS has recently instituted a program to distribute a monthly Safety Inspection report for units coming due for annual safety inspections. This report will be distributed to the department heads, and copied to their staff members as they designate.

Target Date: Implemented

Responsibility: Fleet Services Contract Administrator

Implementation Status:

Implemented. FVS contacts Department Heads each month via email, notifying them of any units coming due for an inspection. Environmental Services takes no action to ensure that this service is completed in a timely manner unless they are notified by FVS, at which time the Environmental Services Department contacts Department Heads.

The City Auditor's Office did note that one City vehicle had a state inspection performed eight months after the due date. The City Auditor's Office was informed that this particular vehicle was in use throughout this eight month period.

Recommendation:

The Environmental Services Director should ensure that written policies and procedures related to the effective management of fleet services are developed and adhered to. Fleet Management policies and procedures should include, but may not be limited to, vehicle acquisition, maintenance, rotations and disposition.

Management's Response:

Concur with recommendation. Written procedures will be developed prior to March 1, 2007, covering the scope of the City's responsibilities for fleet management. Briefly these will include:

- Acquisition – With a few exceptions for specialty vehicles such as fire apparatus, the City purchases its vehicles from state contracts and buy boards. All replacements are for vehicles that have reached the end of their useful lives, except for the annual purchase of police patrol units.
- Maintenance – The City does not manage the maintenance of vehicles. Managing the routine maintenance of City vehicles is the responsibility of FVS. The Contract Administrator oversees and approves (or denies) non-target repairs of vehicles that are necessitated by accidents, operator abuse, stripping for auctions, up-fitting of specialized equipment, and repairs to vehicles that have exceeded their replacement lives.

- Rotations – The “cascading” of vehicles, if/when appropriate, is the responsibility of the contractor. This responsibility was transferred as part of the contract amendment adopted in April 2005, and will be monitored by the Contract Administrator.
- Disposition – The City auctions vehicles in accordance with rules and procedures established by the Purchasing Division. Vehicles are auctioned when they are replaced, or deemed no longer necessary to support the delivery of services to citizens.

Target Date: March 1, 2007

Responsibility: Fleet Services Contract Administrator

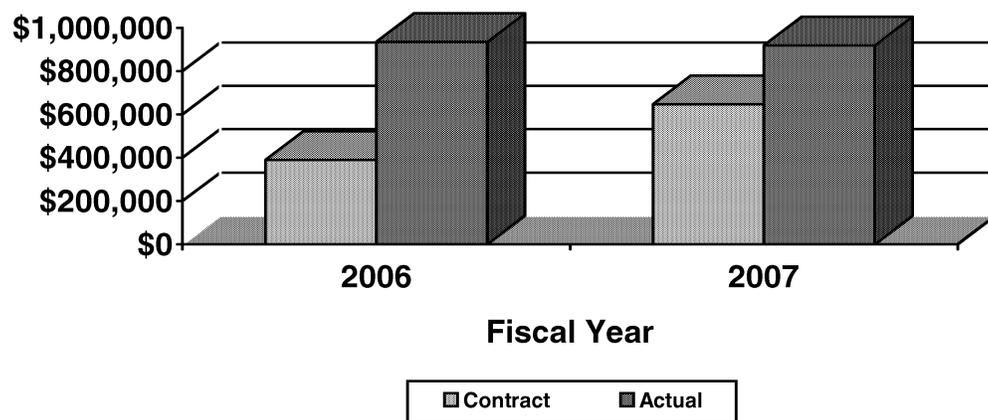
Implementation Status:

Not Implemented. The Environmental Services Department does not currently have written policies and procedures governing the management of the City’s fleet. Spectrum Consultants, Inc. has developed a detailed job description for the Fleet Manager position. Management within the Environmental Services Department has indicated that departmental policies and procedures are anticipated by September 2008.

Analysis of First Vehicle Services Target Costs FY 2007		
Total Fee		\$ 1,777,409
Payroll	\$ 898,586	
Parts	438,226	
Sub-contract Costs	113,382	
Overhead	41,246	
Total Expenses		1,491,440
Contribution to Margin		\$ 285,969
Components Included in the Fleet Focus Labor Rate (Excludes Profit)		
Payroll		\$ 898,586
Overhead:		
Uniform	\$ 11,897	
Solid Waste	3,720	
Tools & Equipment	8,106	
Travel Expense	5,054	
Safety Expense	3,320	
Recruit/Hire Expense	1,298	
Maintenance, Training, Seminar	3,251	
Start Up	2,928	
Employee Welfare	1,272	
Professional Services	400	
Total Overhead		41,246
Payroll and Overhead		\$ 939,832
Labor Hours Recorded in Fleet Focus		13,390
Labor Rate per Hour Recorded in Fleet Focus		\$70.19

Source: Vendor Income Statement and Fleet Focus data

Non-Target Contract Estimate to Actual Expenditure Comparison



Source: Lawson Financial System