

**Fleet Utilization and Replacement Audit
September 2013**

Patrice Randle, City Auditor
Craig Terrell, Assistant City Auditor
Lee Hagelstein, Internal Auditor

Fleet Utilization and Replacement Audit

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Fleet Utilization and Replacement Audit



Office of the City Auditor
Patrice Randle, CPA
City Auditor

Project # 13-07

September 20, 2013

Executive Summary

Routine review of fleet repair and maintenance costs, and replacement

Target and non-target costs are tracked within the Fleet Focus system

Elimination of 23 underutilized assets could result in cost savings of over \$100,000

Possibility of departments sharing other underutilized vehicles and equipment

Opportunities for Improvement

Eliminate or reassign underutilized assets

Evaluate useful life parameters

Reconcile the annual target cost report to Fleet Focus

As part of the Fiscal Year 2013 Annual Audit Plan, the City Auditor's Office conducted an audit of the City of Arlington's Fleet Utilization and Replacement process. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objectives of the audit were to determine whether:

- maintenance and repair costs support the need to replace vehicles and/or equipment; and,
- the City's fleet contains underutilized assets that could be eliminated or reassigned.

During this audit, it was noted that the City's Fleet Services Division routinely reviews target and non-target costs to identify work that has been performed under the fleet services contract.

Numerous fleet assets were identified as underutilized and appropriate for elimination. With regard to beyond useful life, the City Auditor's Office noted that optimal useful life of asset classes is analyzed based on industry standards rather than actual fleet usage.

The City Auditor's Office also noted that even though the fleet services vendor submits an annual cost report documenting work included in the annual contract price (e.g., preventative maintenance), the vendor does not reconcile the annual report to the Fleet Focus system. Fleet Focus entries are based on vendor's work orders. However, significant discrepancies were noted when comparing the labor cost reported in the vendor's annual report to auditor calculations based on Fleet Focus data.

These findings and recommendations are discussed in the Detailed Audit Findings section of this report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The following methodology was used in completing the audit.

- Reviewed the fleet maintenance service contract
- Reviewed target and non-target costs
- Reviewed the Public Works and Transportation Operations Manual
- Surveyed users regarding current fleet operations
- Obtained a fleet inventory to perform analytical tests
- Identified underutilized fleet assets and requested justification from departments

There were scope limitations with this audit process.

- The City Auditor's Office could not determine, with certainty, the total cost of non-target repairs/maintenance being performed on specific assets. As stated in Finding #3, the hourly labor rate could not be verified. Since excessive repair/maintenance cost (which includes labor) is one way to evaluate an asset for possible elimination or replacement, we did not perform tests to identify assets that should be replaced due to excessive maintenance.
- The City Auditor's Office was not able to determine if the useful life parameters of various classes of fleet assets are optimal, which would have an effect on target costs, non-target costs, and the optimal time for replacement. The asset useful life schedule within the fleet services contract is based on industry standards rather than the City of Arlington's actual fleet usage.

Background

The City of Arlington operates a fleet of vehicles and equipment which consisted of 1,288 units as of January 7, 2013. The fleet is comprised of vehicles and equipment ranging in size from large dump trucks and fire engines to four-wheel carts and trailers.

In August 2003, the City outsourced and entered into a contract with First Vehicle Services for fleet maintenance services. The 2003 contract was initially a three-year agreement with two, one-year extensions. In December 2008, the City entered into a new contract with All Star Fleet Services, LLC, who later changed their name to G4S Integrated Fleet Services, LLC. The 2008 contract resulted from a re-bid and is active until September 30, 2015.

The City of Arlington's Fleet Services Division uses Fleet Focus software to track inventory, maintenance/repair costs and other relevant information relating to the City's fleet (i.e. purchase date, make, model, department, mileage, etc.). The vendor is provided access to Fleet Focus in order to input work orders and related cost information.

Pricing under the annual fleet maintenance contract is structured around vehicle equivalents (VEs). The VE concept revolves around the actual size of the vehicle/equipment, its intended use and the estimated cost of general repairs/maintenance over the useful life of the asset. For example, since larger vehicles cost more to maintain than smaller vehicles, larger vehicles result in higher VEs. The VEs ranged from 8.0 for large equipment to 1.0 for sedans. In reference to intended use, police patrol sedans have a higher VE (2.5) than other sedans (1.0).

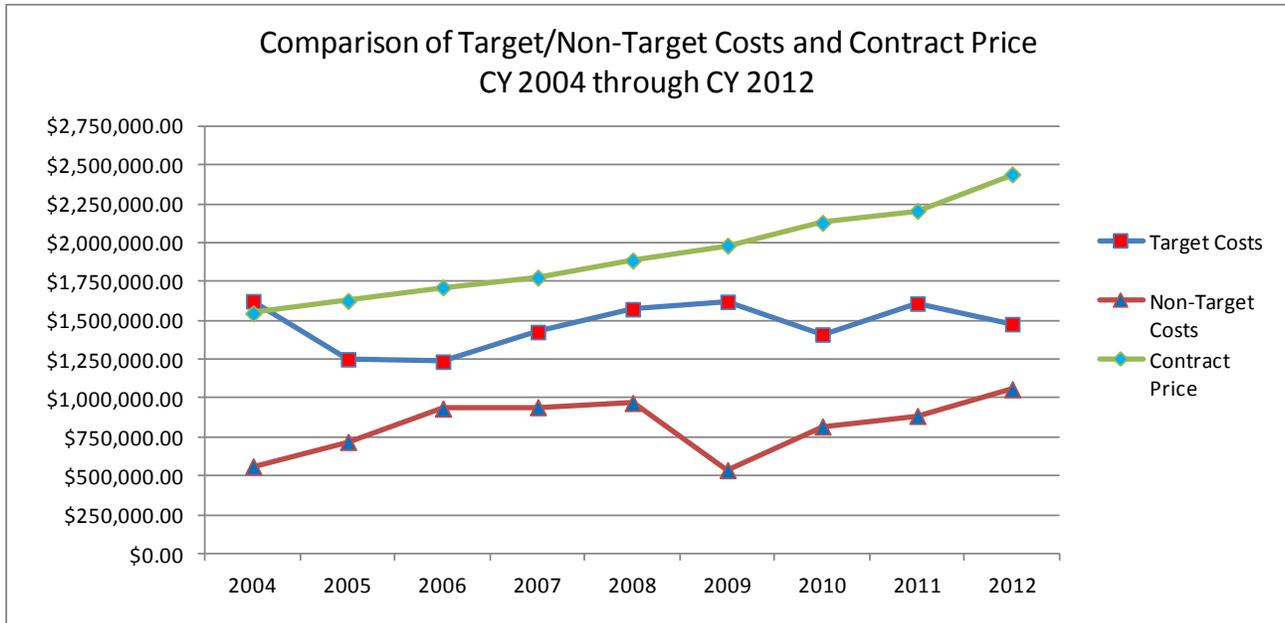
Fleet Costs

Included in the fleet services cost structure are target and non-target costs.

- Target costs apply to preventative maintenance, inspections, routine mechanical repairs, tire services, fuses and light bulbs. Target costs are included in the annual contract price.
- Non-target costs apply to vehicle repairs that are unpredictable and cannot be estimated in advance. Non-target costs exclude all preventative maintenance, but include items such as beyond useful life repairs, accident/collision repairs, after-hour calls, up-fits (excluding police patrol sedans), repairs due to damage, etc. Beyond useful life repairs are the most costly of non-target expenses.

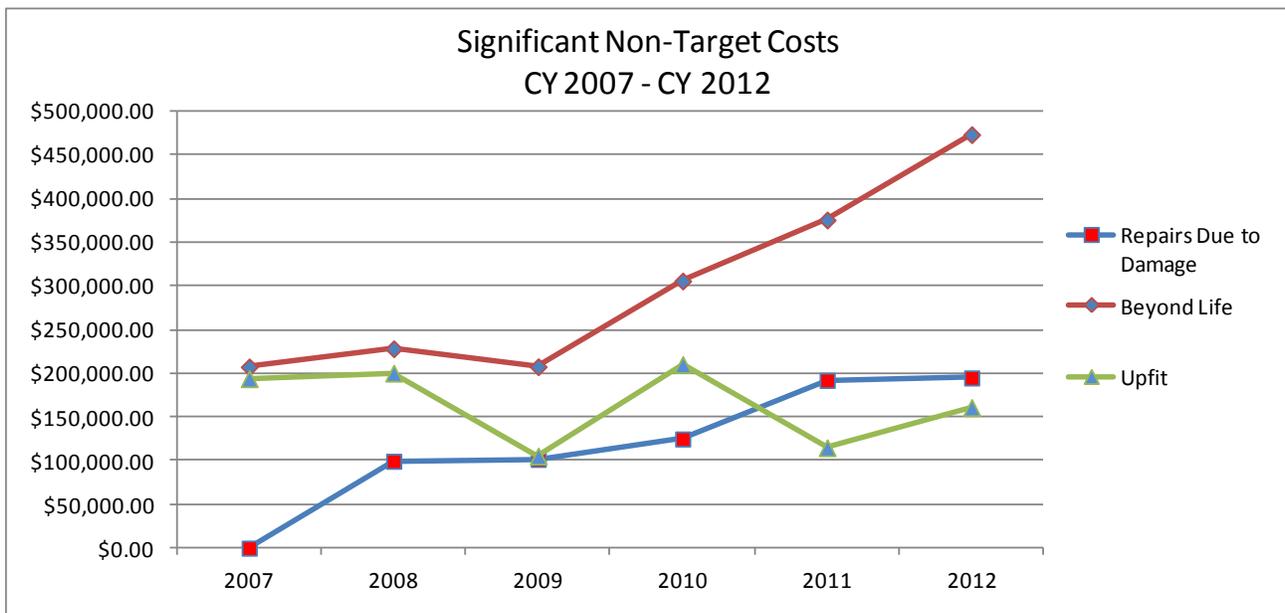
Beyond useful life parameters are established within the contract. Each type of vehicle/equipment is assigned a useful life according to time and mileage. For example, a sedan has a useful life of 80,000 miles or 8 years, whereas a dump truck has a useful life of 120,000 miles or 12 years. Some equipment has a useful life based on hours of usage. A backhoe/loader, for example, has a useful life of 6,000 hours or 12 years. Once an asset reaches the end of its useful life, repairs and/or maintenance costs are charged as non-target expenses.

Prior to October 2012, contract pricing and maintenance costs were based on calendar year. The following chart compares target and non-target costs and contract pricing for CY2004 through CY2012.



Source: Fleet Focus and Lawson Financial System

The following chart shows the three largest maintenance costs over the past six years.



Source: Fleet Focus

Beyond Life: The most significant increase is related to beyond useful life costs. This increase is due mainly to the age of the fleet. As of 01/07/13, there were 917 units of “rolling stock”. Of those 917 units, there were 214 units beyond useful life according to age and 99 according to mileage. Fifty-two of these units were beyond useful life in both age and mileage.

Up-fit: Up-fit charges are billed when specialty devices are added to vehicles/equipment after purchase. While up-fit charges for police sedans are considered target services, up-fits for other vehicles/equipment are considered non-target services. These charges fluctuate mainly based on the type of equipment that is purchased and the modifications that are required.

Repairs Due to Damage: Repairs due to damage have increased slightly during the past four years. This category includes physical damage to vehicles/equipment that is caused by vandalism, abuse, misuse, work damage, unreported accidents or acts of God.

Funding for Fleet Replacement

Funding for fleet replacement is allocated through the City's budgetary process. Other than the budgeted allocation, there are times when additional funds are provided. For example, in FY2013, \$1,082,000 was allocated for fleet capital costs. Additional funding of \$810,000 was provided from the Gas Fund, specifically for additional Police vehicles. In FY2012, \$900,000 was allocated for fleet capital costs, while additional one-time funding of \$436,254 was provided for vehicles.

Detailed Audit Findings

1. Underutilized assets have not been eliminated or reassigned.

It is good business practice to reassign or sell underutilized vehicles and equipment. If underutilized vehicles and equipment are not reassigned or sold, the City ends up paying unnecessary fleet charges.

In January 2008, the City Council approved Resolution 08-024, authorizing a contract with Spectrum Consultants, Inc. to perform a fleet services review and to develop an RFP to select a fleet services provider. One item included within the contract was a review of underutilized assets. Spectrum Consultants selected 4,000 miles/year for vehicles or 400 hours/year for heavy equipment as the criteria for determining underutilization.

During this audit, the City Auditor's Office obtained an inventory list of "rolling stock" as of January 7, 2013. Of the 917 units listed, 108 units (69 vehicles and 39 pieces of heavy equipment) were noted to be at or below the utilization criteria established by Spectrum Consultants. Those 108 units were, therefore, selected for further research to determine if they could be eliminated or reassigned.

Based on vehicle mileage, equipment hours, and departmental feedback, 23 of the 108 units were determined to be underutilized and eligible for elimination or reassignment. It should be noted that while five of the 23 underutilized assets will be removed from the fleet services contract, those assets will be retained and maintained by Parks staff. The 23 units are included within the following chart.

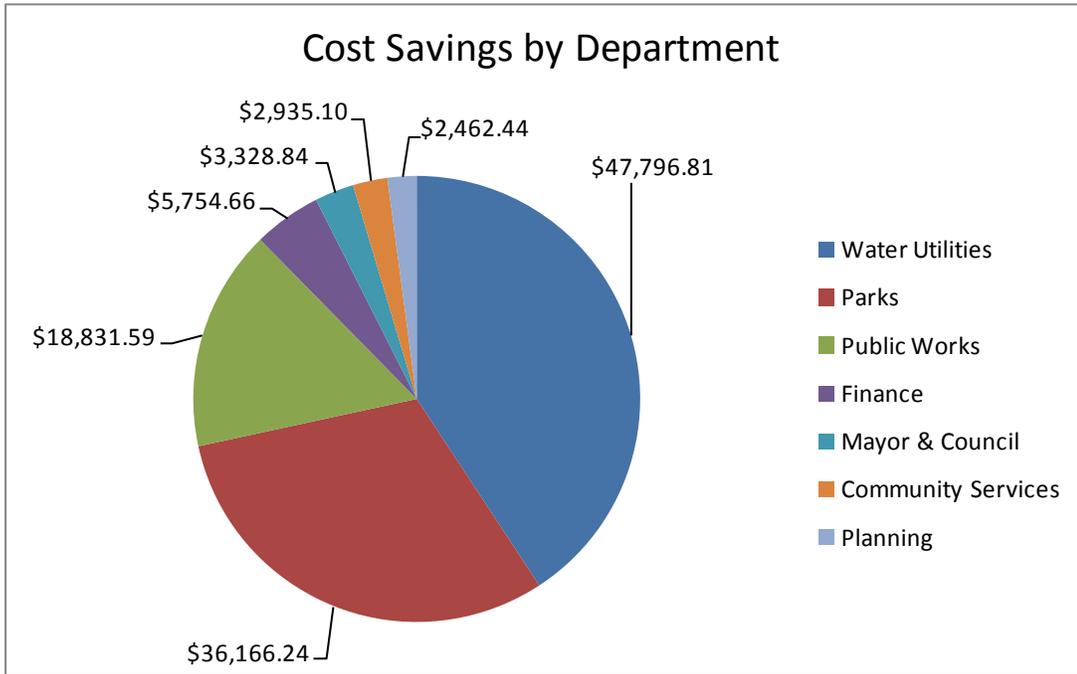
**UNDERUTILIZED ASSETS
BASED ON MILEAGE OR HOURS AND DEPARTMENT FEEDBACK**

<u>Unit</u>	<u>Department</u>	<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Description</u>	<u>VE *</u>	<u>Target Cost *</u>	<u>Non-Target Cost (2012)</u>	<u>Total Cost</u>
Vehicles									
2897	Mayor & Council	2008	FORD	ESCAPE	HYBRID FORD ESCAPE	1.4	\$ 3,168.41	\$ 160.43	\$ 3,328.84
2632	Finance	2003	DODGE	NEON	SEDAN COMPACT	1.0	2,263.15	169.24	2,432.39
2433	Finance	2001	CHEV	ASTRO	VAN PASSENGER 8	1.2	2,715.78	606.49	3,322.27
2610	Community Services	2002	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	671.95	2,935.10
2617	Planning	2002	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	199.29	2,462.44
2353	Parks	2001	FORD	RANGER	FLEETSIDE COMPACT	1.2	2,715.78	446.20	3,161.98
1577	Parks	1994	CHEV	C2500	FLEETSIDE 3/4 TON	1.4	3,168.41	-	3,168.41
2631	Public Works	2003	DODGE	NEON	SEDAN COMPACT	1.0	2,263.15	87.88	2,351.03
2599	Fleet - Central Pool	2002	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	45.78	2,308.93
2607	Fleet - Central Pool	2002	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	-	2,263.15
2615	Fleet - Central Pool	2002	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	446.84	2,709.99
2400	Water	2000	FORD	TAURUS	SEDAN MID SIZE	1.0	2,263.15	698.83	2,961.98
	Vehicle Subtotal					13.2	\$ 29,873.58	\$ 3,532.93	\$ 33,406.51
Equipment									
1924	Parks	1996	FORD	555E	BACKHOE / LOADER	3.5	7,921.03	2,959.80	10,880.83
1616	Parks	1995	FORD	F800	TRK DUMP 12 FT 6 YD	4.0	\$ 9,052.60	\$ 27.39	\$ 9,079.99
2334	Parks	2001	NVSTR	4900	TRK HOOKLIFT	4.0	9,052.60	822.44	9,875.04
1922	Public Works	2007	KOMAT	WB147	BACKHOE / LOADER	3.5	7,921.03	1,277.46	9,198.49
2337	Water	2000	KOMAT	FB15MK-2	FORK LIFT - ELEC	0.0	-	-	-
2755	Water	2005	NVSTR	7100 SBA	NF / VACTOR	0.0	-	2,145.48	2,145.48
1697	Water	1985	BOBCA	743	LOADER SKID STEER	2.0	4,526.30	3,146.47	7,672.77
2004	Water	1992	GMC	TOP KICK	TRK STAKE W/HOIST	3.5	7,921.03	751.20	8,672.23
2575	Water	1992	GMC	TOP KICK	TRK VALVE OPERATOR/WELD	3.5	7,921.03	-	7,921.03
2104	Water	1990	CASE	621	LOADER 2.5 YD	4.0	9,052.60	-	9,052.60
2328	Water	2001	NVSTR	4900	TRK DUMP W/SADLCOMPT	4.0	9,052.60	318.13	9,370.73
	Equipment Subtotal					32.0	\$ 72,420.82	\$ 11,448.37	\$ 83,869.19
					TOTALS	45.2	\$ 102,294.40	\$ 14,981.30	\$ 117,275.70

* Annual Amount Charged to Departments, per VE	
Target Costs (G4S Contract)	\$ 1,275.56
General & Administrative (Overhead)	280.40
Capital (Replacements)	707.19
	\$ 2,263.15

Asset will be deleted from the Fleet Services Maintenance Contract, but will be retained by the Department . While the fleet services contract will be reduced by target costs associated with the vehicle, the City will still incur maintenance and repair costs.

The following chart illustrates approximate departmental cost savings that would be recognized as a result of the asset eliminations.



Source: Fleet Focus

As previously noted, the City Auditor’s Office concluded that 18 of the 108 underutilized units were eligible for elimination or reassignment. Departments determined that the remaining 90 units should be retained for reasons noted in the following chart.

<u>Reason</u>	<u># of Units</u>	<u>Total VEs</u>	<u>Total Cost</u>
Re-Assignment	3	4.0	\$ 9,052.60
Increased Usage	9	14.4	32,589.36
Emergency Response	15	19.4	43,905.11
Operational Necessity	63	143.1	323,856.77
Total	90	180.9	\$ 409,403.84

Source: Fleet Services Division and City Departments

As shown, the annual target cost to retain these assets would be approximately \$409,000. However, there is a possibility that sharing of vehicles and equipment between City departments could lead to the future elimination or reassignment of assets. For informational

purposes, a detailed listing of these additional 90 units is included as Exhibit I and II of this report.

The City Auditor's Office noted that, since February 2010, the Fleet Services Division has regularly performed an analysis of the City's fleet. Although these analyses resulted in the identification of underutilized assets, not all assets identified as underutilized were eliminated or reassigned. Upon conclusion of our audit fieldwork, the Public Works and Transportation Department finalized written policies and procedures. These revised procedures include guidelines relating to the review and reassignment and/or elimination of underutilized assets. Public Works' revised procedures specify a minimum usage basis of 4,200 miles or 300 hours of use annually for its fleet.

Recommendation:

The City Manager should require that the 23 units identified in this finding be eliminated from the City's fleet inventory or be reassigned to replace older units that are currently in operation, but will be eliminated upon replacement.

Management's Response:

Concur. The Fleet Services Division will begin its evaluation of vehicles to be reassigned or stripped for auction.

Target Date: December 31, 2013

Responsibility: City of Arlington Fleet Manager

2. City vehicle replacement parameters may not be cost effective.

A good management practice of an on-going fleet replacement plan is to match available funds with necessary fleet replacements.

The Public Works and Transportation Department has very little control over the amount of funds available for capital replacement. For FY2012 and FY2013, the Fleet Services Division was allocated \$1,336,254 and \$1,892,000, respectively, for asset replacement through the City's budgetary process. Based on the City's contract parameters for determining "beyond useful life", approximately 35% of the City's fleet (vehicles and equipment) was beyond useful life as of January 2013.

In order to maximize the usefulness of the City's fleet, it is important to determine the actual useful life of specific asset classes. And, in order to decrease non-target costs, it is essential to minimize, if not eliminate, beyond useful life assets. According to the Fleet Services Division, useful life parameters within the current fleet maintenance contract are based on industry standards provided by the vendor. For example, within the current maintenance contract, a mid-size sedan has a standard useful life of eight (8) years or 80,000 miles. However, through an evaluation of the City's fleet of mid-size sedans, fleet management might determine that the

useful life is actually nine (9) years or 95,000 miles based on actual repair and maintenance history for classes of vehicles.

As noted within the Audit Scope and Methodology section of this report, the City Auditor's Office was unable to verify the actual labor costs related to individual vehicle repairs. Non-verification of actual labor costs, per vehicle, would prevent Fleet Services management from calculating the optimal replacement for classes of vehicles.

The elimination of beyond useful life assets at the optimal replacement point (when the decreasing depreciation intersects with the increasing operating costs) helps ensure that the City is maximizing the return on its investment. Replacement of assets at the optimal point will also result in reduced non-target cost, and will result in an increased residual value when the assets are replaced at the proper time. New assets would be more fuel-efficient, will comply with "green" initiatives, and should be more reliable.

Since the current contract is in effect until September 30, 2015, management may consider it unnecessary to perform this analysis at this time.

Recommendation:

Prior to the renewal or re-bid of the fleet maintenance contract, the Director of Public Works and Transportation should perform an analysis of the City's fleet (based on actual usage of the various groups of assets within the fleet) to develop optimal useful life parameters.

Management's Response:

Concur. Once Target Labor is being captured in the FMIS, optimum life expectancies will then be considered when negotiating subsequent fleet services contracts.

Target Date: October 1, 2015 (end of current contract term) or October 1, 2017 if two one-year renewal options are approved

Responsibility: City of Arlington Fleet Manager

3. The annual fleet services report of target costs is not being reconciled to the City's reporting software (Fleet Focus).

In 2008, the City of Arlington, through Spectrum Consultants, Inc., sent out a Request for Proposal (RFP) for maintenance services. Section 12.5.4 of the RFP states: "Within 90 days of the conclusion of the contract year – there will be an annual cost reconciliation provided to the city. The annual cost reconciliation will be defined by the contract administrator, but may include the following. At the conclusion of the contract year, the contractor will provide an annual summary of all target costs (broken down by salaries and benefits, repair parts, sublet services, overhead and management fee, etc.) in its standard revenue and expense format. The contractor will also provide the City with a unit-by-unit summary of maintenance and repair

activity for the prior year based entirely on information extracted directly from the fleet management information system (currently Fleet Focus). Differences between the contractor’s revenue and expenses statement and information extracted from the fleet management information system (currently Fleet Focus) should be negligible. Any differences due to reporting periods and/or accounting methodologies must be reconciled by the contractor and fully explained to City Contract Administrator, financial and/or audit staff.”

Section 1.1.2.9.5.4 of the vendor’s technical response also states that the vendor will provide the City with an annual reconciliation at the conclusion of each contract year, and that prior to submission, the vendor’s Project Manager will coordinate closely with the City Contract Administrator to establish the format and the information to be provided. The vendor’s technical response clarifies that at a minimum, the reconciliation was to include an Annual Summary of Target Costs (broken down to reflect components of direct and indirect costs) and a Unit-by-Unit Summary of Maintenance and Repair Activity for the prior year.

The following schedules compare the G4S annual target cost report to information obtained from Fleet Focus. It should be noted that CY2012 numbers only include data for the first nine calendar months.

Comparison of Target Costs				Comparison of Labor Costs			
<u>CY</u>	<u>Fleet Focus</u>	<u>G4S Report</u>	<u>Difference</u>	<u>CY</u>	<u>Fleet Focus</u>	<u>G4S Report</u>	<u>Difference</u>
2009	\$1,621,691	\$2,436,899	\$815,208	2009	\$530,037	\$1,159,442	\$629,405
2010	\$1,411,425	\$2,367,164	\$955,739	2010	\$477,364	\$1,152,569	\$675,205
2011	\$1,610,253	\$2,445,908	\$835,655	2011	\$485,435	\$1,017,909	\$532,474
2012	\$1,137,227	\$1,883,225	\$745,998	2012	\$350,750	\$807,992	\$457,242

Source: Fleet Focus and G4S Annual Report

As shown, Fleet Focus indicates that the majority of the differences are due to labor costs. This could mainly be due to the hourly labor rate established within the initial contract, dated December 30, 2008. The initial contract established an hourly labor rate of \$38.80, which is currently recorded on work orders. However, during this audit, the City Auditor’s Office compared the total number of labor hours recorded in Fleet Focus to the total labor cost from the G4S annual report, and arrived at a labor rate of approximately \$81.00 per hour.

In addition, the following chart compares total labor cost, per the vendor, to the number of hours entered into Fleet Focus via work orders. A material difference was noted. For example, the vendor reported \$807,992 in target payroll costs for FY2012. At an hourly labor rate of \$38.80, the City would expect to receive 20,824.5 target labor hours [$\$807,992 / \38.80]. However, only 8,733 target labor hours were entered in Fleet Focus for FY2012. Based on the charted information, data being entered into Fleet Focus is incorrect and/or incomplete, the

labor rate within the contract is too low, or the City is not receiving the number of target labor hours that it is entitled to, based on the total target labor cost.

<u>CY</u>	<u>Vendor Labor Cost</u>	<u>Expected Labor Hours *</u>	<u>Fleet Focus Labor Hours</u>	<u>Difference</u>
2009	\$1,159,442	29,883	13,484	(16,399)
2010	\$1,152,569	29,705	12,303	(17,402)
2011	\$1,017,909	26,235	12,511	(13,724)
2012	\$807,992	20,825	8,733	(12,092)

* Based on labor costs at \$38.80/hourly contract rate

Source: Fleet Focus and G4S Annual Report

Within their “Best and Final Offer”, the fleet services vendor proposed that in the interest of teaming and further proving their commitment to partner with the City of Arlington, target cost under-runs would be shared with the City on a 55-45 basis. Based on the vendor’s analysis of their actual cost for target work performed, 55% of savings on the target costs would be returned to the City.

During the preliminary stages of this audit, the City Auditor’s Office requested the vendor’s 2009 - 2012 annual reports of the target budget. Reconciliation reports were provided which met the minimum requirements of Section 1.1.2.9.5.4 of the vendor’s technical response. However, a reconciliation of the contractor’s revenue and expense statement (annual report of target costs) and Fleet Focus was not conducted as required within the RFP.

The Fleet Services Division has not required the vendor to prepare a reconciliation between the annual target cost report and Fleet Focus. Without the annual reconciliation of target costs, City staff cannot determine if the City is receiving services equal to the value of the contract pricing and cannot determine if refunds should have resulted from target cost under-runs.

Prior audit reports released by the City Auditor’s Office on December 15, 2006 and March 14, 2008 make reference to this reconciliation weakness. These prior audit findings are included as Exhibit III and Exhibit IV of this report.

Recommendation:

The Director of Public Works and Transportation should require that the vendor submit a reconciliation of the contractor’s annual report of target costs to Fleet Focus, and should require an explanation of any variances.

Management's Response:

Concur. The City will require the Fleet Maintenance Contractor to immediately begin capturing all Target Labor information within the limitations of Fleet Focus. If additional reporting components are required in order to comply with this Audit, Fleet will make every effort to procure the component with available funding.

The City of Arlington's Fleet Manager will also require that the vendor reconcile and report the difference between their revenue and expense statement and Fleet Focus.

Target Date: December 31, 2014

Responsibility: City of Arlington Fleet Manager, G4S Contract Manager and the Information Technology Department

Exhibit I

Additional Underutilized Vehicles						
Unit #	Department/Division	Year	Make	Model	Description	VE
1370	Fire - Emergency Management	2009	CHEV	C3500	1 TON CREW CAB	1.5
1369	Fire - Emergency Management	2009	CHEV	C3500	1 TON CREW CAB	1.5
2985	NS - Code Compliance	2010	FORD	F150	1/2 TON EXT CAB	1.4
3025	PW - Storm Water Management	2011	FORD	F150	1/2 TON EXT CAB	1.4
2767	PW - Fleet Central Motor Pool	2005	FORD	F150	1/2 TON EXT CAB	1.4
2432	Police - Community Services	2001	CHEV	ASTRO	ASTRO VAN CARGO	1.2
2633	Fire - Medical Operations	2003	DODGE	NEON	COMPACT	1.0
2929	PW - Construction Management	2011	FORD	RANGER	COMPACT EXT CAB PKUP	1.2
2931	PW - Construction Management	2011	FORD	RANGER	COMPACT EXT CAB PKUP	1.2
2930	PW - Construction Management	2011	FORD	RANGER	COMPACT EXT CAB PKUP	1.2
2668	Water - Engineering	2004	FORD	EXPLORER	EXPLORER 4 X 4	1.6
2669	Water - Laboratory	2004	FORD	EXPLORER	EXPLORER 4 X 4	1.6
2437	IT - Technology Services Main	2001	FORD	F250	FLEET SIDE 3/4 TON CNG	1.4
3029	Parks - Asset Management	2011	CHEV	C2500	FLEET SIDE 3/4 TON	1.4
2764	Fire - Training	2005	FORD	F150	FLEET SIDE 1/2 T	1.2
2917	NS - Code Compliance	2010	FORD	F150	FLEET SIDE 1/2 T	1.2
2920	NS - Code Compliance	2010	FORD	F150	FLEET SIDE 1/2 T	1.2
2709	NS - Code Compliance	2007	CHEV	C1500	FLEET SIDE 1/2 T	1.2
2083	NS - Code Compliance	2008	CHEV	C1500	FLEET SIDE 1/2 T	1.2
2994	PW - Fleet Shop Motor Pool	2010	FORD	F150	FLEET SIDE 1/2 T	1.4
3032	PW - Traffic Engineering	2011	FORD	F150	FLEET SIDE 1/2 T	1.4
2675	PW - Facility Services Custodia	2004	CHEV	C1500	FLEET SIDE 1/2 T	1.2
2921	PW - Facility Repair & Renovati	2010	FORD	F150	FLEET SIDE 1/2 T	1.2
2997	PW - Facility Repair & Renovati	2011	FORD	F150	FLEET SIDE 1/2 T	1.4
2730	Water - Treatment Operations	2005	FORD	F150	FLEET SIDE 1/2 T	1.2
2466	Water - Treatment Maintenanc	2001	FORD	F150	FLEET SIDE 1/2 T	1.2
2787	C D & P - Inspections	2005	TOYOTA	PRIUS	HYBRID SEDAN	1.0
2786	C D & P - Environmental Health	2005	TOYOTA	PRIUS	HYBRID SEDAN	1.0
2785	C D & P - Environmental Health	2005	TOYOTA	PRIUS	HYBRID SEDAN	1.0
2784	IT - Network Support	2005	TOYOTA	PRIUS	HYBRID SEDAN	1.0
2789	Police - Community Services	2005	TOYOTA	PRIUS	HYBRID SEDAN	1.0
3045	PW - Fleet Central Motor Pool	2011	FORD	FUSION	HYBRID SEDAN	1.0
3046	PW - Fleet Central Motor Pool	2011	FORD	FUSION	HYBRID SEDAN	1.0
2896	PW - UMTA Operations - Hand	2008	FORD	ESCAPE	HYBRID SEDAN	1.4
2390	Fire - Prevention	2000	FORD	TAURUS	SEDAN MID SIZE	1.0
3024	Fire - Prevention	2011	FORD	FUSION	SEDAN MID SIZE	1.0
2392	Police - Business Services	2000	FORD	TAURUS	SEDAN MID SIZE	1.0
2601	Police - Business Services	2002	FORD	TAURUS	SEDAN MID SIZE	1.0
2393	Police - Business Services	2000	FORD	TAURUS	SEDAN MID SIZE	1.0
2604	Police - East Division	2002	FORD	TAURUS	SEDAN MID SIZE	1.0
2596	Police - Personnel	2002	FORD	TAURUS	SEDAN MID SIZE	1.0
2597	Police - South Division	2002	FORD	TAURUS	SEDAN MID SIZE	1.0
2591	Police - South Division	2002	FORD	TAURUS	SEDAN MID SIZE	1.0
3052	Police - Investigations	2011	FORD	FUSION	SEDAN MID SIZE C	1.0
3053	Police - North Division	2011	FORD	FUSION	SEDAN MID SIZE C	1.0
3051	Police - Technical Services	2011	FORD	FUSION	SEDAN MID SIZE C	1.0
1703	Police - Operations Support	2010	FREIT	M2106	TRK BOX VAN 25500 GWW	4.0
1702	Water - South Field Operations	2010	FORD	F550	TRK CREWCAB W/MAINT BODY	3.0
1701	Water - North Field Operations	2010	FORD	F550	TRK CREWCAB W/MAINT BODY	3.0
1324	Fire - Resource Management	2000	FORD	F450	TRK STAKE W/LIFT GATE	1.8
1795	Water - Engineering	1996	CHEV	TAHOE	TRK TAHOE SUV 4 X 4	1.6
2963	Parks - Asset Management	2011	CHEV	C2500	UTILITY 3/4 T	1.4
1984	Water - Treatment Maintenanc	2007	FORD	F250	UTILITY 3/4 T	1.4
1985	Water - Treatment Maintenanc	2007	FORD	F250	UTILITY 3/4 T	1.4
1929	Fire - Medical Operations	1997	CHEV	G1500	VAN CARGO	1.3
2082	Police - South Division	1998	FORD	E-250	VAN CARGO 3/4 TON	1.3
3037	Parks - Eunice Recreation Cen	2011	FORD	E350	VAN PASSENGER 12	1.3
2781	Parks - Dottie Lynn Recreation	2006	FORD	E-350	VAN PASSENGER 12	1.3
TICK	EXPLANATION					
	Department chooses to maintain due to Operational Necessity					
	Department chooses to maintain due to necessary Emergency Response					

Exhibit II

Additional Underutilized Equipment

<u>Unit #</u>	<u>Department or Division</u>	<u>Year</u>	<u>Make</u>	<u>Model</u>	<u>Description</u>	<u>VE</u>
1691	PW - Street Maint (GF)	2006	ASI	AZ500	ASPHALT ZIPPER	2.8
1923	PW - Street Maint (Tax)	2007	KOMAT	WB147	BACKHOE / LOADER 4WD	3.5
2473	Water - S Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2742	Water - S Field Ops	2005	KOMAT	WB140-2N	BACKHOE / LOADER	3.5
2743	Water - S Field Ops	2005	KOMAT	WB140-2N	BACKHOE / LOADER	3.5
2744	Water - S Field Ops	2005	KOMAT	WB140-2N	BACKHOE / LOADER	3.5
2745	Water - S Field Ops	2005	KOMAT	WB140-2N	BACKHOE / LOADER	3.5
2472	Water - I/I Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2468	Water - N Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2469	Water - N Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2470	Water - N Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2471	Water - N Field Ops	2001	JCB	214E	BACKHOE / LOADER	3.5
2510	PW - Storm Water Mgmt.	2008	MENZI	A91	EXCAVATOR WALKING	4.0
2336	PW - Traffic Signals	2000	KOMAT	FG25SHT-12	FORK LIFT 5000 LB PROPANE	1.5
2101	PW - Fleet Line Shop	1970	CLARK	IT40	FORK LIFT GAS 4K	1.5
2194	PW - Storm Water Mgmt.	1999	DEERE	444H	LOADER 2.5 YD 4 IN 1	4.0
3124	Water - N Field Ops	2012	CTRPL	924K	LOADER 3.1 YD	4.0
2973	PW - Storm Water Mgmt.	2011	BOBCAT	S70	LOADER SKID STEER	2.0
2195	PW - Street Maint (Tax)	1999	DEERE	260	LOADER SKID STEER	2.0
1921	PW - Storm Water Mgmt.	2007	KOMAT	SK820	LOADER SKID STEER	2.0
2640	Water - S Field Ops	2002	DEERE	270	LOADER SKID STEER	2.0
2365	PW - Street Maint (Tax)	2007	HAMM	HD12	ROLLER DOUBLE DRUM	3.0
2367	PW - Street Maint (Tax)	2007	HAMM	HD12	ROLLER DOUBLE DRUM	3.0
2368	PW - Street Maint (Tax)	2007	HAMM	HD12	ROLLER DOUBLE DRUM	3.0
2366	PW - Street Maint (GF)	2007	HAMM	HD12	ROLLER DOUBLE DRUM	3.0
2649	PW - Storm Water Mgmt.	2004	STRLG	SC8000	SWEEPER ELGIN EAGLE	6.0
2369	Water - S Field Ops	2009	NVSTR	7400 SBA	TANDEM DUMP	4.5
2952	PW - Street Lights	2011	BOBCAT	MT52 B	TRACKED MINI LOADER	2.0
1561	Water - Treatment Maint.	2008	CHALLENGER	MT445B	TRACTOR/LOADER	4.0
2188	PW - Traffic Signals	1999	CASE	460	TRENCH-BACKHOE	3.0
2335	PW - Street Maintenance (Tax)	2001	NVSTR	4900	TRK HOOKLIFT	4.0
2004	Water - Meter Maint.	1992	GMC	TOP KICK	TRK WELDING W/HOIST	3.5
NOTE: Departments indicated that each piece of equipment listed should be retained due to operational necessity.						

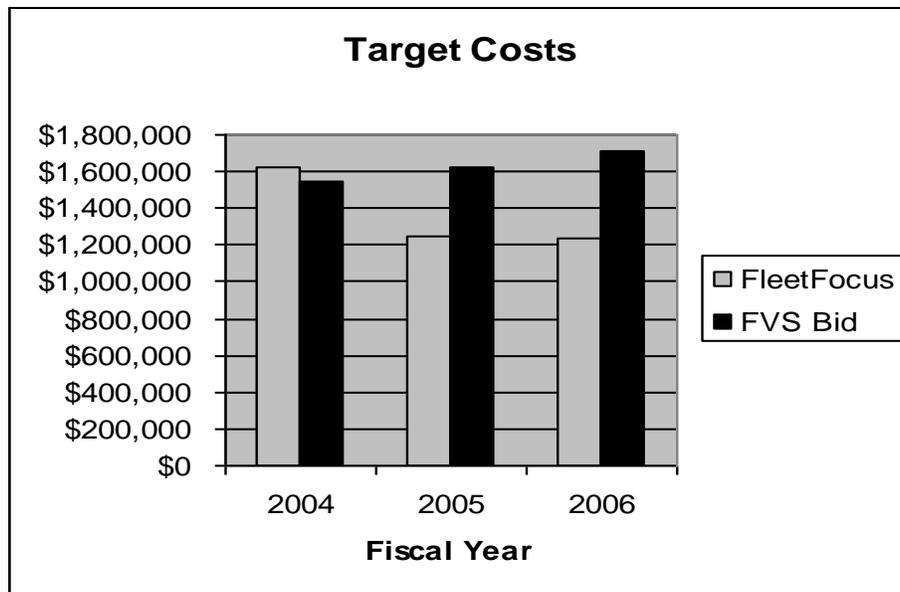
Exhibit III

Detailed Audit Findings

1. Annual contract cost reconciliation not submitted by contractor, nor requested for review by City management.

The City's bid document requires that at the conclusion of each contract, the contractor submit an annual summary of target costs in its standard revenue and expense format. Differences between the contractor's revenue and expense statement and information extracted from FleetFocus are to be reconciled by the contractor so the City can judge the reasonableness of the contractor's actual expenditures in relation to the target costs bid. If the contractor's actual expenditures vary by more than five (5) percent from the target bid, the bid document states that the City reserves the right to direct the contractor to increase spending and service levels and/or rebate funds to the City. Our audit results indicated that no such reconciliation was requested by, nor submitted to, the City. Rather than requiring documented reconciliations, management relied on physical observations and dialogue with the vendor.

The following chart compares total target costs extracted from FleetFocus to FVS' total target costs bid.



- In 2004, target costs extracted from FleetFocus exceeded FVS' target costs bid by approximately \$77,000.
- In 2005 and 2006, FVS' target costs bid exceeded the FleetFocus target costs by approximately \$375,000 and \$477,000, respectively.

Internal Audit requested and received a copy of FVS' 2005 revenue and expense statement. Although management had not deemed the revenue and expense statement necessary, the statement is required in order to determine whether contract expenditures are reasonable.

Total target costs in the 2005 revenue and expense statement (\$1,627,445) agreed with FVS' target bid amount. However, none of the statement components (labor, parts, subcontracts), agreed with FleetFocus. Based on the number of target labor hours recorded in FleetFocus in FY 2005, the City paid FVS in excess of \$70 per each recorded target labor hour, as shown in the table below:

Analysis of First Vehicle Services Costs FY 2005		
Total Fee		\$ 1,627,446
Payroll	\$ 852,027	
Parts	463,264	
Sub-contract Costs	109,243	
Overhead	<u>107,674</u>	
Total Expenses		<u>1,532,208</u>
Contribution to Margin		<u>\$ 95,238</u>
 Components Included in the FleetFocus Labor Rate (Excludes Profit)		
Payroll		\$ 852,027
Overhead:		
Uniform	\$ 11,993	
Solid Waste	5,754	
Tools & Equipment	36,555	
Travel Expense	10,179	
Safety Expense	1,797	
Recruit/Hire Expense	1,563	
Maintenance, Training, Seminar	3,066	
Start Up	34,734	
Employee Welfare	1,810	
Professional Services	<u>223</u>	
Total Overhead		<u>107,674</u>
Payroll and Overhead		<u>\$ 959,701</u>
Labor Hours Recorded in FleetFocus		<u>12,207</u>
Labor Rate per Hour Recorded in FleetFocus		<u>\$ 78.62</u>

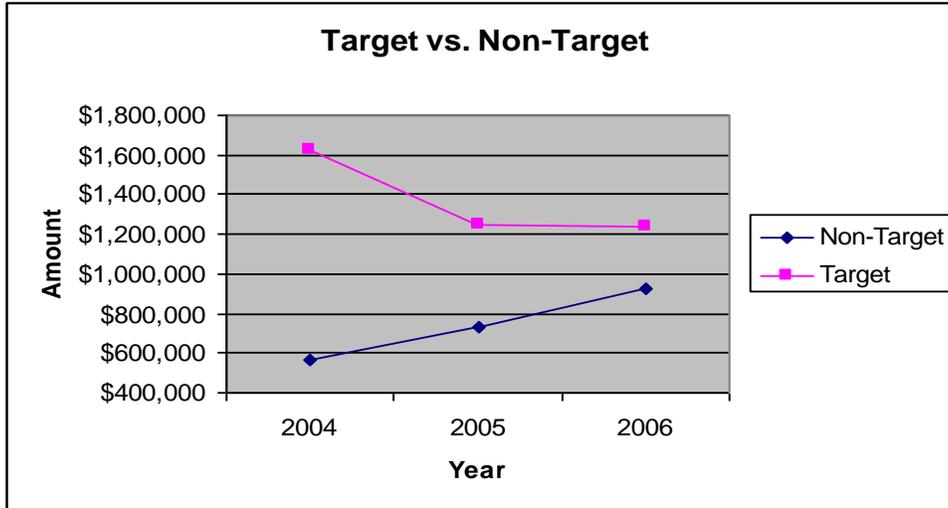
Source: First Vehicle Services FY 2005 Revenue and Expense Statement and FleetFocus data

FVS' bid response also states that "Non-Target work performed during normal work hours by our core staff will NOT be billed to the City, until such work extends beyond our normal shop hours." Since, City staff was not aware of what comprised FVS' core staff, the City cannot determine whether work billed as non-target was performed with excess target capacity. FVS indicated that other than the City not being billed for non-target work requiring only a small amount of labor, the City was billed non-target for all non-target services performed.

The following is an example of available cost savings when core staff/target capacity is known.

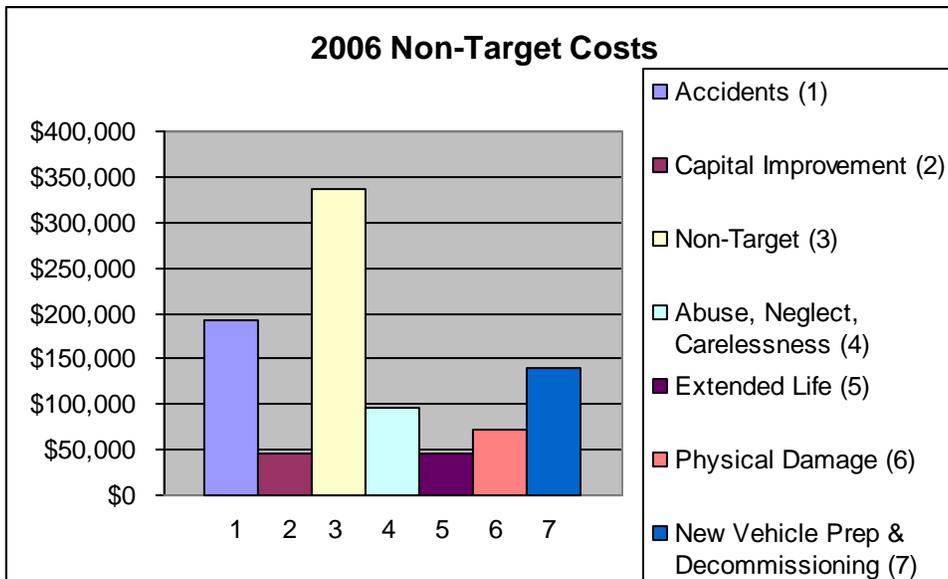
Target Capacity: 2 FTEs working 8 hours (a total of 16 hours) @ \$45.00 per hour	
Scenario 1 (Current Practice)	City's Cost
Five <i>target</i> work orders billed at <i>eight labor hours</i> during normal shop hours	fixed target cost - \$720.00
One <i>non-target</i> work order billed at <i>eight labor hours</i> and performed during normal shop hours.	\$45.00 x 8 hours = <u>360.00</u>
	Total: <u>\$1,080.00</u>
Scenario 2 (Known Target Capacity)	City's Cost
Five <i>target</i> work orders billed at <i>eight labor hours</i> during normal shop hours	fixed target cost - \$720.00
One <i>non-target</i> work order billed at <i>eight labor hours</i> and performed during normal shop hours.	<u>0.00</u>
	Total: <u>\$720.00</u>
<ul style="list-style-type: none"> • Since the eight <i>non-target</i> hours are within the contractor's 16-hour <i>target</i> capacity, they are already accounted for in the City's fixed target cost. • The City is in a position to require that the contractor not bill an additional cost for <i>non-target</i> work performed with excess <i>target</i> capacity. • The City saves \$360.00. 	

FleetFocus records indicate that the City's non-target costs (those that are more unpredictable in nature and cannot reasonably be estimated in advance) have been on the rise since the fleet services contract was initiated. In FY 2006, the City budgeted \$735,000 for non-target services. However, approximately \$935,000 was expended. Target costs (those preventive in nature) declined between the first and second year of the contract, but remained more constant in 2006, as shown in the following chart.



Source: FleetFocus

FleetFocus records indicate that 2006 non-target charges were categorized as follows:



Source: Fleet Focus

NOTE: FVS began using more descriptive reason codes in 2006. Prior to descriptive reason codes, non-target work was classified in a general “non-target” category, as indicated in the chart above.

With non-target costs on the rise and very difficult to estimate, it would be a good business decision to strengthen controls over the overall management of non-target services. Although Fleet Services indicated that user departments are briefed on a routine basis, the City’s management of non-target costs could be improved if maintenance activity reports are provided to departments on a routine basis, specifically repairs that are related to abuse/neglect, accidents and physical damage.

Department Heads are more likely to be aware of their department's share of non-target costs if they are provided such information. The routine user reports could provide information related to the amount and types of maintenance costs specifically incurred by their department (abuse, accidents, etc.), and could place departments in a position to more promptly address problem areas that could perhaps lower non-target maintenance costs. The departmental user reports may also help identify erroneous billings to the City.

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

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

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

Exhibit IV

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.

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