



AUDIT OF FLEET MANAGEMENT DIVISION

Exit Conference Date: April 25, 2006

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Report No. 06-13

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

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CITY OF ORLANDO

MEMORANDUM

To: Vernon L. Whitehurst, Fleet Management Division Manager

From: Beryl H. Davis, CPA, CGFM, Director
Office of Audit Services and Management Support

Date: Exit Conference: April 25, 2006 Release: May 30, 2006

Subject: Audit of Fleet Management Division (Report No. 06-13)

In accordance with our annual operations plan, the Office of Audit Services and Management Support has performed an audit of the Fleet Management Division (Fleet). Our objectives were to examine Fleet's vehicle replacement program, repair and maintenance data, and selected policies, procedures and controls for the fiscal year ended September 30, 2005.

Our audit was conducted in accordance with generally accepted government auditing standards, except that we did not perform tests of data gathered from computer-based resources. We interviewed City staff from Fleet and various City departments, reviewed vehicle replacement, repair and maintenance data from the FASTER software application, and performed such other auditing procedures as we considered necessary in the circumstances.

We determined overall that Fleet's vehicle and equipment acquisition, repairs and maintenance are being performed systematically and adequately, there are numerous effective controls over these processes, and certain innovations are in progress. This report identifies several recommendations to improve Fleet processes.

Our review of the adequacy of the Vehicle Replacement Fund indicates that the \$17 million on hand is sufficient for 1 ½ to 2 average years' replacement requirements. However, there is a backlog of approximately \$17 million in assets that have already passed their initially established estimated useful lives without replacement. This circumstance may stem from the fact that there was no substantial cash infusion upon the initial establishment of the fund in 1997. We also found that current contributions are used to fund near-term replacements of other vehicles, not replacement of the vehicles making the contributions. These particulars are tracked by Fleet's software, which can prepare projections of replacement requirements. We recommend that Fleet annually prepare long-term calculations of cash needs for vehicle replacement and report the results to upper management.

We noted the experience and diligence of the Fleet Management Division officials and employees and the Technology Management Division employee with whom we worked, and we would like to express our appreciation to them for their courtesy and cooperation during this audit.

BHD/am

**c: Honorable Buddy Dyer, Mayor
Byron W. Brooks, Chief Administrative Officer
Rebecca W. Sutton, Chief Financial Officer
Cheryl J. Henry, Chief of Staff
Kevin J. Edmonds, General Administration Department Director
Jody Litchford, Interim City Attorney
Conrad Cross, Chief Information Officer
Jon Mead, Director of Purchasing and Materials Management**

EXECUTIVE SUMMARY

**Objectives,
Scope,
Methodology and
Results**
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The objectives of our audit of the Fleet Management Division (Fleet) were to: (1) review selected policies, procedures and controls for adequacy; (2) examine the vehicle replacement program, particularly adequacy of accumulated funding, and (3) examine the repair and maintenance work order data for reasonableness and timeliness. The audit period was the fiscal year ended September 2005.

Our methodology included a review of reports from Fleet's FASTER software for analyzing vehicle replacement, and obtaining detailed electronic information regarding all work order transactions contained in FASTER for FY 2005. This information was analyzed using an automated "data-extraction" tool (ACL). We did not test the accuracy of the data entered into this database but, rather, utilized the information to obtain an understanding of the repair and maintenance work performed.

We determined that Fleet's vehicle and equipment acquisition, repairs and maintenance are being performed systematically and adequately and there are numerous effective controls over these processes. We identified some suggestions for improvement that are explained further in this report.

**Project and
Report Long-
Term Cash Needs
Annually**
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When the Vehicle Replacement Fund was established in 1997, it was not substantially funded. Therefore, the replacement fund cash that is collected each year based upon vehicles and equipment currently in use has been utilized to replace other vehicles and equipment going out of service. Management, Budget and Accounting Department staff in the past referred to this as "basically run on a cash flow basis" or "pay as you go basis" and we agree with this characterization.

The cash balance is currently approximately \$17 million, as a result of a more rigorous deferral of replacements of vehicles. At present, the replacement of vehicle assets projected to cost

over \$17 million has been deferred and these vehicles are expected to need replacement within a few years. Whether some of these deferrals are of great concern and others of little concern is not set forth in this data.

We requested FASTER replacement projection data, shown in Appendix 1, and we computed an average of \$8.3 million per year in replacement funds is needed for FY 07 through FY 10. However, assuming the \$17 million backlog is also replaced within the next four years, the average amount needed then becomes \$12.6 million per year for the next four years. These calculations indicate that the current \$17 million cash on hand could be sufficient to fund replacements for approximately 1 ½ to 2 average years.

We recommend that the Fleet Management Division annually project long-term cash needs for vehicle and equipment replacement, and report the results to upper management. Also, each year Fleet should summarize and communicate the degree of concern about the assets that comprise the deferred replacements (e.g. the current \$17 million backlog).

**Establish
Policies for
Maintaining
Vehicle
Replacement
Fund Cash**

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There are no City or internal policies and procedures for contributions to or expenditures from the Vehicle Replacement Fund, or for ensuring an acceptable cash balance.

While Fleet has a process to collect and expend funds for vehicle replacement that is based upon sound data and this process is performed methodically, such process should be enhanced and be adopted as policy. We recommend that Fleet work with the Finance Department to develop guidelines that will ensure that replacement policies are clear and being followed, and that the replacement fund cash is maintained at an agreed-upon level. Specifics for how to determine the appropriate Vehicle Replacement Fund amount should be established to augment the City's policy to maintain various City reserves within predetermined ranges.

**Compare
Actual Lives and
Replacement
Costs of Assets to
Projected Figures**

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Fleet annually performs the important step to project the individual assets to be replaced in the upcoming year and to review customers' replacement requests. However, we found that it does not retrospectively compare the actual lives and replacement costs of vehicles replaced each year with the projected useful lives and replacement costs of these assets. We recommend that Fleet perform such a comparison annually, to demonstrate compliance with replacement policies and to verify that its methodologies support its objective to effectively assess and utilize replacement funds.

**Establish
Policies for
Maintaining Fleet
Operating Fund
Cash**

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Several years ago, at the request of a former Management, Budget & Accounting Director, Fleet set a goal to increase its operating cash balance to \$1.5 million. This was done to alleviate a situation in which Fleet's cash flow of payments to vendors preceded its collections from customers and caused Fleet to pay an "interest" charge to the General Fund each month. Fleet's method to increase the cash balance was to increase Fleet's charges to its customers. We found that the cash balance for Fleet operations was \$1.7 million at September 30 2005, although this amount diminished to \$36,000 by March 2006. In consultation with the Finance Department, Fleet should re-establish how much operating cash should be maintained and what effect this has on its charges to customers, and it should adopt operating fund cash balance policies.

**Communicate
Late Maintenance
Concerns to
Department
Directors and
Chiefs**

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We found that some departments are often late in scheduling preventive maintenance service for their vehicles. The December 2005 preventive maintenance notification report prepared by Fleet for customer departments indicates that 193 vehicles Citywide were due for preventive maintenance service. Of these, 51% of the vehicles were overdue one or more months.

In OPD's main patrol program, 77 vehicles were due for

preventive maintenance in December 2005. Of these, 57 or 74% of these patrol vehicles were past due for one or more months. The February 2006 preventive maintenance report indicates that 16 or 25% of patrol vehicles were past due for two to four months.

Enforcement of preventive maintenance schedules lies in the patrol officers' chain of command. To ensure that any continuing issues are addressed about vehicles not being timely presented for maintenance, the General Administration Department Director should communicate with the appropriate Department Directors and Chiefs about these concerns as long as these conditions persist.

Monitor and Increase Technicians' Billable Hours

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Fleet technicians' FY 05 total charged hours are low compared to an industry benchmark of 1,500 annual billable hours per technician. The FASTER record indicates for 28 technicians:

<u>Annual Billable Hours per Technician</u>	<u>Number of Technicians in this Category</u>
1,200 or fewer hours	12
1,201 to 1,400 hours	4
1,401 to 1,699 hours	12

Reasons Fleet gave us include: technicians are busy but do not enter all of their billable time into the FASTER system; and numerous non-billable activities each month, many of which Fleet cannot limit.

We recommend that Fleet monitor the technicians' billable hours daily and take several steps: provide the supervisors an efficient way to ensure work on vehicles during rush periods is recorded; complete a project to simplify the repair type codes so workers can efficiently find codes to record their work; and finish developing non-billable work codes to explain time not spent on work orders, so supervisors can judge whether

technicians' daily billable hours are correct. We suggest that Fleet report to the General Administration Department Director if there are recurring instances when the parts room is closed because of a lack of Purchasing staff and quantify the associated reduction in billable productivity.

**Prepare a Plan
to Improve
Customer
Satisfaction**

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Because Fleet has many internal City customers, one of its performance measurements is to maintain its performance in the upper quadrant of an annual Internal Assessment Survey. For FY 05, the target score was 7.5 and the actual was 6.3.

Customers gave us some positive comments about the reasonableness of the labor rate and parts markup, the preventive maintenance appointment system, contacts to the customer departments about drivers' vehicle care matters, and periodic meetings with Fleet managers. They also gave examples of ways Fleet could further assist them, such as additional reports and a copy of the completed work orders on certain occasions. Some customer concerns relate to cost and timeliness of service.

We recommend that Fleet prepare a plan to improve customer satisfaction, including innovations such as its adoption of standard "flat" charges for certain services, and an annual communication about Fleet services, vehicle charges, industry practices, etc. This plan should be determined through discussions with customers and approved by the General Administration Department Director.

**Improve
Customer Access
to and Use of
Billing
Information**

Page 29

Not all customers find it easy to find and review the relevant customer billing information, from the over 1,000 pages of information that Fleet posts electronically each month. The response we received from inquiries to two customer departments indicate they do not consider it practical to review the billings as currently rendered. The billings include details and summaries of maintenance and repairs, fuel, motor pool, and other charges such as insurance, replacement, and City

administrative fee charges for one month. Year to date figures are not provided.

An important customer service and internal control is to enable and encourage customers to efficiently review the charges made to the vehicles for which they are responsible.

We recommend that Fleet improve customer access to and use of billing information through: monthly reports to meet management needs, information for appropriate Fleet customer staff about use of billing data, and possible technology improvements.

**Request
Technology
Management to
Document
FASTER
Processes**

Page 31

Preparing customer billings and some management reports requires the expertise of a designated Technology Management (TM) Division employee, who has a number of other assignments. The designated TM staff has been serving the FASTER system for many years; however, there is no person in TM who is assigned as “back-up” for this individual. Fleet staff can prepare some reports but should be enabled to prepare more of these. The FASTER reports have been tailored by the designated TM staff to meet the City’s unique procedures; thus the FASTER vendor might not be able to assist in some areas if the TM employee were absent.

During our audit we also noted some additional FASTER reports which would prove useful, and a 2002 review of Fleet by industry consultant Maximus indicated that FASTER was underutilized. A fuller use of FASTER is needed and our review indicates that TM should enable the designated staff to document procedures so that another TM staff person or Fleet staff could perform the monthly billing and certain other FASTER reports.

We recommend that the Fleet Management Division request the Technology Management Division to document billing and other FASTER processes, assign back-up staff for the FASTER system, and enable Fleet staff to prepare more of its own

FASTER reports.

**Develop
Annual Inventory
of Vehicles and
Equipment**

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Fleet does not conduct a periodic inventory of the vehicles and other equipment that it maintains. Although Fleet has the opportunity to verify the existence and condition of all the vehicles that must be brought to the Fleet facility periodically for maintenance, the vehicles and equipment are dispersed among the City departments responsible for the proper use and control of these assets. Fleet does not have a systematic process to compare the City's fixed asset records with the assets it physically observes. Further, not all equipment must be brought to Fleet for maintenance, and there is no coordinated effort to ensure the existence or condition of these items. Florida Statute 274.02(2) requires governmental units to take a complete physical inventory of all property annually, compare this with the property record and reconcile all discrepancies.

Fleet providing annual inventory listings to the departments in possession of the vehicles and equipment, requesting them to verify the information, could perhaps accomplish this. Fleet should report discrepancies to the General Administration Department Director. We recommend that the Fleet Management Division work with the appropriate staff to develop a process that will meet the statutory requirements for an annual inventory for all vehicles and equipment under the Fleet Management Division.

**Other
Recommendations**

We made other recommendations in this report: to improve the matching of the General Fund Administrative Service Fee with the Fleet Service Fee; to close work orders more timely; and to update or create any undocumented internal policies and procedures for its major functions.

BACKGROUND

The City of Orlando's Fleet Management Division (Fleet) is a service support division of the City of Orlando's General Administration Department. Fleet manages, through acquisition, maintenance and repair, the light and heavy vehicles and other motorized equipment and accessories for all General Fund and Enterprise Fund programs Citywide. This function had been combined under one Bureau with Facilities Management until separated effective October 1, 2003, during a Citywide reorganization.

Fleet's clients are City employees and Fleet's mission statement is: "To maintain and repair City of Orlando vehicles and equipment to achieve their maximum economic service life and lowest lifetime maintenance costs with minimum amount of downtime."

Fleet is organized into two Internal Service Fund programs: #511, Fleet Management Fund, and #512, Vehicle Replacement Fund. We determined from the FASTER database that Fleet manages a total of 2,108 vehicle and equipment items. The recorded acquisition cost totaled approximately \$70 million at September 30, 2005.

For the fiscal year ended September 30, 2005, the Fleet Management operations results showed revenues of \$12.7 million and expenditures of \$11.9 million. The Vehicle Replacement Fund activity showed revenues of \$10.0 million and expenditures of \$9.6 million.

Fleet has 45 authorized positions consisting of 39 positions in maintenance and 6 in administration. During this audit, we were advised that Human Resources has tried a number of creative means to fill the four to seven vacancies in maintenance staff, which is apparently an industry-wide challenge. The management consists of a Fleet Management Division Manager, Fleet Management Superintendent who supervises the day-to-day repair and maintenance activities, and a Fleet Fiscal Manager who supervises the office staff.

Since 1998 Fleet has used a software application named FASTER to maintain detailed information about all vehicle and equipment assets acquired, replaced, maintained and repaired by Fleet. Fleet opens a work order in FASTER for all work performed. In FY 05 there were 16,550 work orders. All labor hours charged to work orders are entered into FASTER by the individual technicians and the shop floor supervisors. Vehicle parts purchased and issued to work orders are recorded by designated Office of Purchasing and Materials Management staff who are paid for by Fleet through the annual budget process.

The labor rate charged by Fleet is \$71 per hour and covers salaries, benefits and a markup; parts and subcontracted work are marked up 15%; and fuel is marked up 5%. The markups are to cover Fleet's internal administrative costs. These rates were changed in accordance with recommendations made in a 2002 study of Fleet by an industry consultant, Maximus. Other charges billed by Fleet through FASTER to all its customers on a per vehicle, per month basis are insurance charges, a Fleet Service Fee to recover the General Fund Administrative Service Fee charged to all City funds, payments for vehicles leased from third parties and from Fleet's motor pool, and an equal monthly charge spread over the life of each vehicle to provide replacement funds. These charges are billed to customers electronically, and reports summarizing these charges are posted to the City's computer network that is accessible to all customers.

The Vehicle Replacement Fund, established in 1997, is currently the primary source of cash for replacing vehicles and equipment Citywide. Fleet has a systematic method to collect vehicle and equipment replacement funds from all the customer programs. For each vehicle and equipment item, equal monthly charges over a pre-established estimated useful life are collected.

The cash requirements to replace assets and the cash contributions that replenish the replacement fund vary from year to year based upon changes in the fleet assets that occur each year. To illustrate annual Vehicle Replacement Fund cash flow, for FY 06 the following activity is anticipated:

<u>Account Activity, Fund 512</u>	\$ in Millions
Cash balance September 30, 2005	\$ 17.5
Less FY 05 encumbrance (commitments made and awaiting payment)	(4.2)
Less projected FY 06 replacements	(6.8)
Plus estimated amount to be collected in FY 06	<u>8.6</u>
Cash balance expected at September 30, 2006	<u>\$ 15.1</u>

Fleet annually provides each department a list of vehicles that will accumulate a threshold of "15 points" as calculated by the FASTER software, to be considered for replacement in the upcoming budget year. The three factors considered for replacement are the number of months, the number of miles, and the lifetime accumulated repair and maintenance costs. The departments indicate for each vehicle and equipment item whether to replace or to defer it, and Fleet reviews the responses and comes to decisions with the departments. As FASTER has a number of customers in this industry, Fleet's use of this methodology is not unique.

SUMMARY OF RECOMMENDATIONS AND RESPONSES

RECOMMENDATIONS	RESPONSES
The Fleet Management Division should:	
1. Develop a procedure to annually project long-term cash needs for vehicle and equipment replacement, explain concerns that lie within the deferred replacements backlog, and report the results to upper management.	Concur
2. Create policies and procedures regarding collecting and expending the Vehicle Replacement Fund cash.	Concur
3. With the Finance Department, determine and document policies for a suitable Vehicle Replacement Fund cash balance, considering applicable OMB requirements.	Concur
4. Compare the actual lives and replacement costs of vehicles replaced each year with the projected useful lives and replacement costs used to determine vehicle replacement charges.	Concur
5. Ensure that Fleet Service Fee revenue collected to offset the General Fund Administrative Service Fee is properly budgeted and allocated between the operating and replacement funds.	Concur
6. Determine how much operating cash should be maintained and what effect this has on the charges to customers, and should adopt Fleet Management Fund cash balance policies.	Concur
7. Carry out its stated policy to close work orders within 30 days.	Concur with Reservations
8. Request the General Administration Department Director to communicate with Department Directors and Chiefs about late maintenance concerns.	Concur
9. More closely monitor and take several steps to increase technicians' billable work order hours.	Concur

RECOMMENDATIONS	RESPONSES
10. Prepare a plan to improve customer satisfaction, including innovations, and an annual communication to provide customers significant information.	Concur with Reservations
11. Work with customer and Technology Management Division staff to provide monthly management reports and improve customers' access to and use of monthly billing information.	Concur
12. Request the Technology Management Division to document billing and other FASTER processes, assign back-up staff, and enable Fleet Management staff to prepare more of its own regular reports.	Concur
13. Work with the appropriate staff to develop a process that will meet the statutory requirements for an annual inventory for all vehicles and equipment under the Fleet Management Division.	Concur
14. Update or create any undocumented internal policies and procedures for its major functions, including technical and administrative activities.	Concur

ISSUES AND RECOMMENDATIONS

Objectives, Scope, Methodology and Results

The objectives of our audit of the Fleet Management Division (Fleet) were to: (1) review selected policies and procedures, controls, and efficiency and effectiveness matters; (2) examine the vehicle replacement program including whether acquisition costs are reasonable, accumulated funding is adequate, vehicles are timely replaced, records are adequate for accident repairs, and utilization of the motor pool; and (3) examine repair and maintenance work order data for reasonableness of charges, timeliness of work, and billings to departments.

The audit period was the fiscal year ended September 2005.

We interviewed City staff from Fleet, the Technology Management Division (TM), the Office of Purchasing and Materials Management (Purchasing), and the Finance Department.

Our methodology included a review of reports from Fleet's FASTER software prepared in order to analyze vehicle replacement, and obtaining detailed electronic information regarding all work order transactions contained in FASTER for FY 2005. We used an automated "data-extraction" tool (ACL) to analyze work order completion dates, technician productivity, whether preventive maintenance is performed when required, and other procedures. We did not test the accuracy of the data entered into this database but, rather, utilized the information to obtain an understanding of the repair and maintenance work performed.

We determined overall that: (1) Fleet's vehicle and equipment acquisition, repairs and maintenance are being performed systematically and adequately and there are numerous effective

controls over these processes; (2) There is cash available in the Vehicle Replacement Fund to cover approximately 1 ½ to 2 average years of vehicle replacements (although the \$17 million cost of the past-due backlog of vehicles equals the current cash of \$17 million); and, of vehicles replaced in FY 05, 92% had met and largely exceeded their initially established estimated useful lives; and (3) Labor rates and parts markup charges are in line with a consultant's recommendations, Fleet has successfully piloted standard charges for police patrol vehicles, and 88% of labor was completed and 70% of work orders were closed within 6 days. We made several recommendations for improvement as follows.

**Project and
Report Long-
Term Cash Needs
Annually**

We reviewed the adequacy of the cash in the Vehicle Replacement Fund, Fund 512. We noted that when the replacement fund was established in 1997, it was not substantially funded. Thus, replacement fund amounts collected each year from vehicles and equipment currently in use have been utilized to replace other vehicles and equipment going out of service in upcoming years.

A 2004 email from the Management, Budget and Accounting Department referred to this system as "basically run on a cash flow basis," and we agree with this characterization. The current system of collecting for the vehicle replacement cash fund is useful for assessing replacement fund charges to the various customer departments based upon their vehicle utilization, and for predicting current and future needs, but it does not have the effect of building substantial cash reserves for replacements beyond the short term.

Since FY 2003, the fund increased to its current approximately \$17 million, as a result of more rigorous deferral of

replacements of vehicles due to Citywide budget concerns. At present, FASTER data indicate that assets with useful lives ending in or before FY 06 have a projected replacement cost of over \$17 million. Whether some of these deferrals are of great concern and others of little concern is not set forth in this data.

The vehicles and equipment purchased using replacement fund cash for the seven years FY 1999-2005 totaled \$40.5 million, according to historical records provided by Fleet. This is an average of \$5.8 million per year during that period, and reflects that a portion of replacements was deferred from their initial projected replacement year.

Appendix 1 shows graphically the projections of cash required for replacements, calculated by Fleet using FASTER data. For the four years FY 07 through FY 10, the projected cash required for replacement of equipment currently on hand and which reaches the end of their useful lives in FY 07 through FY 10 totals \$33.3 million, which is an average of \$8.3 million per year. If the \$17 million of deferred assets were also acquired during FY 07 through FY 10, the average for these four years would increase to \$12.6 million. These calculations indicate that the current \$17 million cash on hand could be sufficient to fund replacements for approximately 1 ½ to 2 average years.

The FASTER data, although based upon projected replacement dates that will not likely prove to be exact, signal a precaution that the amounts due each year may fluctuate widely from the average. Notably, in Appendix 1, besides the currently deferred \$17 million replacements, the projection indicates that FY 08 and FY 10 each have perhaps \$12 million in assets due for replacement consideration, before considering any possible replacement of the current backlog.

The City of Tallahassee's vehicle replacement reserve fund has cash for approximately two years of replacements, which its internal auditor has characterized as a "pay as you go" basis. The City of Tallahassee performed an informal survey and found that Tallahassee and Orlando utilize a replacement fund

and a methodology of collecting an amount for vehicle replacement each month a vehicle is in service. In many cities and counties, either a replacement fund is not used, or each department is responsible for establishing or obtaining funds for its vehicle requirements.

We found that, while the ability to make long-term cash requirement projections based upon estimated useful life is available through the FASTER system, there is no policy or procedure to do so regularly or to communicate the results to upper management. The importance of this is that the cash requirements and vehicle needs and conditions may fluctuate widely from year to year, so using the best available information is advisable. A 15 to 20 year projection of this type was recommended in a 2002 study of Orlando's Fleet division by industry consultant Maximus, Inc. This study also explained that the wide fluctuation in cash requirements necessitates a "smoothing" financial technique, to build sufficient cash so that individual years do not adversely affect the replacement fund.

We believe that a long-term cash requirement projection for replacements should be performed during the preparation of each annual budget. Also, each year Fleet should summarize what comprises the deferred replacements (e.g. the current \$17 million backlog), and explain the degree of concern about these assets. A process to classify the deferred replacements as critical, moderate, etc., similar to that used for the Technology Management Division's projects, could assist Fleet and Budget staff to judge whether other cash sources will be needed, or how long replacements may be further deferred. Fleet should communicate these figures to the General Administration Department Director and the Finance Department annually.

Recommendation 1. We recommend that the Fleet Management Division develop a procedure to annually project long-term cash needs for vehicle and equipment replacement, explain concerns that lie within the deferred replacements backlog, and report the results to upper management.

Response

We concur. While Fleet has produced annual reports detailing future cash needs through 2018, we have not presented these results to upper management. Fleet will create a procedure to do so annually and to provide the deferred replacements backlog.

**Establish Policies
for Maintaining
Vehicle
Replacement
Fund Cash**

We found that there are no City or internal policies and procedures setting forth several important controls over the management of the Vehicle Replacement Fund.

We found that the current practices, although they are methodical and based on data, are not documented for contributions to or expenditures from the Vehicle Replacement Fund and for determining an acceptable cash balance. These decisions affect the viability and sound management of the Vehicle Replacement Fund and should be established and approved officially by management.

During each budget cycle, Fleet Management historically provides each customer with listings showing vehicles and equipment expected to reach the end of their projected useful life within one year, and the customers work with Fleet Management to determine whether replacements will be needed. However, guidelines and considerations for these decisions are not in writing.

Also, although the City has adopted a policy and procedure to maintain certain City reserve funds within predetermined ranges, specifics for how to determine the range for the Vehicle Replacement Fund are not set forth.

The value of documenting procedures to effectively manage the Vehicle Replacement Fund is to provide guidance for decisions made to contribute to and expend from the fund and to maintain it at an adequate level for future planned activity.

This is especially important for two reasons. First, the fund has been used in the past to fund increased vehicle levels and

second, a federal OMB circular restricts the accumulation of cash in internal service funds.

In 2002 when the City phased its patrol vehicle utilization from 24-hour 7-day usage to assignment of take-home vehicles to all police staff, this required acquisition of 281 additional (not replacement) vehicles costing approximately \$6.4 million. Funds previously collected for vehicle replacement of \$4.3 million comprised a portion of the funding for this action.

Before the creation of the Vehicle Replacement Fund, the City's external auditors advised that the cash balance of the Fleet fund was too high for an internal service fund. We noted a similar comment in the 2002 study performed by industry consultant Maximus, which cited restrictions on accumulating cash in internal service funds by Federal OMB Circular A-87.

Current research into this area revealed that the Vehicle Replacement Fund may be considered a reserve fund, not an internal service fund. During the process of establishing policies and procedures for the effective management of the Vehicle Replacement Fund, Fleet should consult with the Finance Department to ensure that the City is providing adequate funds and meeting all applicable restrictions regarding the Vehicle Replacement Fund balance.

Recommendation 2. We recommend that the Fleet Management Division create policies and procedures regarding collecting and expending the Vehicle Replacement Fund cash.

Response We concur. The Fleet Fiscal Manager will request to meet with the Finance Department to create policies and procedures regarding collecting and expending the Vehicle Replacement Fund cash.

Recommendation 3. We recommend that the Fleet Management Division, with the Finance Department, determine and document policies for a suitable Vehicle Replacement Fund cash balance, considering applicable OMB requirements.

Response We concur. The Fleet Fiscal Manager will request to meet with the Finance Department to determine and document policies for a suitable Vehicle Replacement Fund cash balance, considering applicable OMB requirements.

Compare Actual Lives and Replacement Costs of Assets to Projected Figures We found that Fleet conscientiously projects the individual assets to be replaced in each upcoming year and reviews customers' replacement requests. However, it does not retrospectively compare the actual replacements made each year with the projected replacements, as to whether estimated useful lives and other replacement factors were actually attained before replacement, or how closely the projected replacement costs matched the actual replacement costs.

Determining what was collected for each vehicle and paid out for its replacement is important to ensure that projection methodologies are sound, with reasonably accurate projected lives and replacement costs, and to demonstrate compliance with replacement policies. Fleet should create a procedure to perform an annual comparison of the actual lives and replacement costs for replaced vehicles and equipment with their projections, to support Fleet's objective of effective assessment and utilization of replacement funds.

Recommendation 4. We recommend that the Fleet Management Division compare the actual lives and replacement costs of vehicles replaced each year with the projected useful lives and replacement costs used to determine vehicle replacement charges.

Response We concur. While Fleet produces numerous reports evaluating the City's Fleet, we have not compared the actual lives and replacement costs of vehicles replaced each year with the projected useful lives and replacement costs used to determine vehicle replacement charges.

Improve Matching of General Fund Fleet budgets each year to collect an amount of Fleet Service Fee Revenue sufficient for each fund to cover its obligation to

Service Fee and Fleet Service Fee

pay the General Fund Administrative Service Fee. The revenue is collected per vehicle served.

One cause of a mismatch of these two service fees is that the General Fund Administrative Service Fee is determined when budgets are finalized and not changed during the year; whereas, the Fleet Service Fee Revenue is charged based upon actual revenues from customer departments, which normally will fluctuate from the budgeted amount. Another cause in FY 05 was that the General Fund Administrative Service Fee and the Fleet Service Fee Revenue were not budgeted to equal each other, because of an oversight.

As a result, the net revenue in the Fleet Management Fund, which is an internal service fund that should ultimately have a zero net revenue, was higher than it should be by \$165,682; and the net revenue in the Vehicle Replacement Fund, which had an objective to increase its cash available to replace vehicles and equipment, was lower than it should be by \$82,553. On the positive side, the net dollar effect upon the customers was \$83,129 using the above figures, which, divided among all of Fleet's customers, is relatively minor in comparison to the combined FY 05 revenues of approximately \$20 million in the two funds.

To reduce the possibility of a mismatch between the Fleet Service Fee charged to customers and the amounts paid for the General Fund Administrative Service Fee, Fleet should ensure that the projected budgeted amounts are properly allocated between each fund. At the end of each year, if actual results differ from the budget, Fleet should request Finance to make an adjusting entry to credit the proper amounts of Fleet Service Fee Revenue to each fund to correspond with the General Fund Administrative Service Fee paid from each fund.

Recommendation 5.

We recommend that the Fleet Management Division ensure that Fleet Service Fee revenue collected to offset the General Fund Administrative Service Fee is properly budgeted and allocated between the operating and replacement funds.

Response

We concur. At fiscal year-end an adjusting entry will be made between the Fleet Maintenance and the Fleet Replacement funds to ensure both actual Fleet Service Fee Revenue results are equal to budget.

Establish Policies for Maintaining Fleet Operating Fund Cash

The Fleet Management Fund, as an internal service fund that performs the repairs and maintenance of vehicles and equipment Citywide, should by definition charge out all of its costs to its customers with the result that the fund would have a zero net revenue or loss for a fiscal year. To do this, during the budget process Fleet estimates its costs for the year and performs calculations to ensure that its markups on direct costs, such as labor, parts, subcontracts, and fuel, yield enough revenue to pay for Fleet's indirect costs, such as staff, shop supplies, telephone, utilities, stormwater utility tax, and administrative expenses.

The cash balance in the Fleet Management Fund has increased over the last three fiscal years to a FY 05 balance of \$1.7 million. However, the cash balance at the end of January 2006 and March 2006 was down to approximately \$300,000 and \$36,000, respectively, which illustrates the following point.

The Fleet Fiscal Manager explained that, in the past, there was a negative cash flow situation during portions of each month in Fleet's operating fund, resulting from the business cycle requiring vendors to be paid each month before the monthly billings are collected from Fleet's customers. This required the General Fund, in turn, to charge Fleet a calculated amount of "interest" on this negative cash balance each year. To alleviate this situation, a previous Management, Budget & Accounting Director advised Fleet to accumulate a \$1.5 million cash balance in its operating fund. The method chosen to do this was to increase its charges to its customers.

To avoid an unwarranted rise in this cash balance, the Fleet Fiscal Manager should review whether the prior estimate of \$1.5 million in cash is still suitable for the needs of the

operating fund, and discuss the conclusions with the Finance Department. Fleet should establish policies and procedures about maintaining the Fleet Management Fund cash balance.

Recommendation 6.

We recommend that the Fleet Management Division determine how much operating cash should be maintained and what effect this has on the charges to customers, and adopt Fleet Management Fund cash balance policies.

Response

We concur. As stated above, the Fleet Maintenance fund's cash balance floats, down to \$36,000 last month. Fleet Management does perform a monthly cash review and while the original estimate was to accumulate \$1.5 million, the target is closer to \$1.7 million due to the increase in fuel costs. Now that it would appear that a suitable cash float has been reached, the Fleet Fiscal Manager will request a meeting with the Finance Department and Fleet will establish policies and procedures on maintaining the Fleet Management Fund cash balance.

**Close Work
Orders More
Timely**

Work orders are not closed in a timely manner, after the labor is completed. Work orders are closed as follows: 36% on the same day; 34% in 2-6 days; 23% in 7-30 days; and 7% in 31-150 days.

The Fleet Management Division has a target to close all work orders within 30 days. The Fleet Management Division Manager reviews open work orders weekly or biweekly to determine why they remain open. Fleet indicates that the primary reason work orders are not closed within its standard of 30 days is the difficulty of obtaining vendors' invoices, which must be charged to the work order before they are closed. Sometimes work orders remain open because the supervisors, who are responsible to close them, are too busy with shop floor supervision duties. Fleet currently has a supervisor vacancy, which compounds this problem.

Leaving work orders open long after the labor has been completed is not a good practice. To prevent staff from

incorrectly charging parts or labor to an open work order, a good control is to close the work order when the labor is completed.

We suggest that Fleet work to reduce the number of work orders open more than 30 days, and document this procedure to ensure it occurs within the specified time.

Recommendation 7. We recommend that the Fleet Management Division carry out its stated policy to close work orders within 30 days.

Response Concur with reservations. Fleet Management closes most work orders within 24 hours, however we are dependent upon the City's Vehicle Parts Division, outside vendors and the City's Risk Management Division for required paperwork.

**Communicate
Late Maintenance
Concerns to
Department
Directors and
Chiefs**

Fleet Management's standard for preventive maintenance for most vehicles is every 3,000 miles and every 12 months. The 3,000-mile service consists of approximately 25 maintenance and inspection items for regular vehicles and approximately 50 items for public safety vehicles. If preventive maintenance is not done on a regular basis, the City's equipment may not perform cost-effectively and safely. This is especially critical for public safety vehicles.

Fleet prepares a monthly preventive maintenance notification report for the City's departments listing all the equipment due for preventive maintenance. We found that departments are often late in scheduling preventive maintenance service for their equipment. The December 2005 preventive maintenance notification report indicates that 193 vehicles Citywide were due for preventive maintenance service. Of these, 51% of the vehicles were overdue one or more months.

In OPD's main patrol program, 77 vehicles were due for preventive maintenance in December 2005. Of these, 57 or 74% of these patrol vehicles were past due for one or more months. The February 2006 preventive maintenance report indicates that 16 or 25% of patrol vehicles were past due for

two to four months.

We discussed the past due situation with Fleet's liaison in OPD. The OPD liaison indicated that some paperwork is not processed by the time the preventive maintenance notification report is prepared. However, Fleet has already taken steps to ensure that the notification report is accurate, such as obtaining records from Orlando Utilities Commission for preventive maintenance in the same month the contracted service was performed.

Enforcement of preventive maintenance schedules lies in the patrol officers' chain of command. While Fleet sends the regular monthly notification reports to the departmental directors and chiefs, the reports are then delegated to managers and supervisors for enforcement. Realizing that this is a difficult area, we believe that the General Administration Department Director should bring to the attention of the Police Chief, and likewise to other departmental directors whenever appropriate, any continuing issues about vehicles not timely presented to Fleet for preventive maintenance.

Fleet should improve its monthly preventive maintenance notification reports by including more explanation to customers of the information on these reports, and make a strong case to the City's departments regarding the importance of the required preventive maintenance.

Recommendation 8.

We recommend that the Fleet Management Division request the General Administration Department Director to communicate with Department Directors and Chiefs about late maintenance concerns.

Response

We Concur.

Monitor and Increase Technicians' Billable Hours

We found that the Fleet technicians' total charged hours during the audit period are low compared to an industry study. Fleet Management is alert to this situation and is taking steps to increase the technicians' chargeable hours. The 2002 report on

Fleet competitiveness by industry consultant Maximus, Inc. notes that best in class fleet organizations strive to meet 1,500 billable hours per technician. The industry benchmark for billable hours is 1,450 to 1,550 hours per year per technician.

In our analysis of 28 technicians' labor hours charged to work orders, 12 had billable hours of 1,200 or less; 4 had from 1,201 to 1,400; and 12 had from 1,401 to 1,699 billable hours. Fleet Management indicated that technicians are busy, and gave us several reasons that contribute to the lower billable hours:

- (1) Technicians do not enter all their billable time into the FASTER system. They stated this is primarily because of heavy workloads in rush periods and the complexity of choosing from an excessive array of repair type descriptions. Thus the number of billable hours reported in FASTER would be underreported.
- (2) There are numerous non-billable activities or events each month, such as employee recognition programs or City-required informational sessions. There have also been occasions in which technicians have lost productivity related to parts room closings due to parts room staff being absent or leaving to procure parts.

To accomplish the industry benchmark of 1,450 to 1,550 billable hours per year per technician, Fleet should monitor the technicians' billable hours daily and monthly and take several steps: provide the supervisors an efficient way to note vehicles worked on during rush periods, to ensure the technicians' time is charged to them; complete a project to reduce the numerous repair type codes and descriptions so that technicians can efficiently find them to charge their work; finish developing non-billable work codes to explain time not spent on work orders, so supervisors can judge whether technicians' daily billable hours are correct; and continue to train the technicians.

The issue of the parts room being closed, although this is infrequent, is a concern, as the technicians cannot work

effectively and Fleet customers may experience delays in service. Purchasing has the responsibility to staff the parts room during the two daily shifts at Fleet, and Fleet is charged annually for Purchasing's parts personnel. Purchasing and Materials Management has indicated two parts positions were eliminated, and it is taking steps to eliminate occasions when parts room employees cannot be present. We suggest that Fleet quantify these costs if they recur, and report them periodically to the General Administration Department Director.

Recommendation 9.

We recommend that Fleet more closely monitor and take several steps to increase technicians' billable work order hours, as described above.

Response

We concur. We agree that technician's billable work order hours should be increased.

**Prepare a Plan to
Improve
Customer
Satisfaction**

Reliable services, good communications, and clear expectations are hallmarks of satisfactory customer relations. Because Fleet has many internal City customers, one of its performance measurements is to maintain its performance in the upper quadrant of an annual Internal Assessment Survey. For FY 05, the target score was 7.5 and the actual was 6.3 on a 10 point scale. In 2003 and 2004 the overall satisfaction level for Fleet services was in the middle third, which was described in the ratings as "average." We became aware that some customer concerns relate to cost and timeliness of service.

The use of customer satisfaction as a performance measurement was adopted subsequent to the 2002 study by industry consultant Maximus, Inc., which included a focus group of Fleet customers. Fleet managers and/or supervisors meet with their counterparts in customer departments at various intervals during the year, which is a proactive procedure.

The Fleet operations being vital to the success of its customers, we believe Fleet should develop a plan to address any recurring customer service concerns and increase customer satisfaction.

This plan should be developed through discussion with Fleet customers. Fleet should adopt the plan with the approval of, and interim review by, the General Administration Department Director.

A plan feature could be an annual communication to Fleet's customers, regarding its services and how vehicle maintenance and repair charges are determined, including the labor rates, parts markup, overhead and administrative charges, procedures for insurance charges and accident repairs. This could be an opportunity to give the status of innovations, such as the use of standard "flat" charges for certain vehicles, and of processes, such as vehicle replacement. Industry practices or benchmarks and Fleet's volume and service statistics could be provided to assist customers to better understand the nature of Fleet services and how the City's Fleet is typical or exceptional in comparison to others.

Customers offered examples of ways Fleet could work with them, such as: (1) provide training for efficient use of electronic billing documents, and information such as vehicles in the motor pool; (2) provide a report of vehicle expense history; (3) as a safety consideration, provide a copy of the completed work order on the seat of vehicles repaired overnight and picked up before the work day begins; and (4) when long-term replacement projections are prepared, obtain updated estimates of useful lives based upon customers' experience.

We received positive comments from customers also, such as: (1) the labor rate and parts markup are reasonable; (2) the preventive maintenance appointment system is wonderful; (3) Fleet's contacts to the customer departments about drivers' vehicle care matters are appreciated, and (4) periodic meetings with Fleet managers are beneficial.

We believe Fleet should establish a plan to increase customer satisfaction through innovations and an annual communication for appropriate members of customer departments.

Recommendation 10. We recommend that the Fleet Management Division prepare a plan to improve customer satisfaction, including innovations, and an annual communication to provide customers significant information.

Response We concur with reservations. Fleet will develop a plan to address any recurring customer service concerns and increase customer satisfaction. We will continue to work on Fleet “flat” charges for certain vehicles to stabilize costs to the customer. Fleet will continue to expand customer service forms, however, we believe that the annual Internal Assessment Survey is not a true reflection of our users.

**Improve
Customer Access
to and Use of
Billing
Information**

We have been informed that not all customers find it easy to navigate the computer system to find the customer billing and repair information they should review more thoroughly. The billings are prepared by the Technology Management (TM) Applications Developer V who is assigned to support the FASTER system. This individual formats the data in FASTER reports, then converts them for customers for viewing on the City’s O:Fleet drive. Most personnel with City computers have access to read this data as desired.

The monthly billings prepared by Fleet consists of five electronic documents totaling over 1,000 pages among them per month: details of maintenance and repairs; details of fuel; details and summary of motor pool; and a summary of insurance, replacement, City administrative fee, fuel, and maintenance and repair charges. Each of the billing documents lists all the programs that Fleet serves and all the vehicles under each program. Year to date figures are not provided.

The Fleet Fiscal Manager indicated that some customers’ occasional questions about how to get access or about charges in the monthly billings cause her to suspect that monthly billings are not regularly reviewed by the fiscal or program managers. This agrees with the response we got from inquiries to two customer departments, indicating that they do not

review or consider it practical to review the billings as currently rendered.

An important customer service and control to ensure proper customer charges and effective management by customers is to enable and encourage customers to efficiently review all charges made to the vehicles for which they are responsible.

We suggest that Fleet provide a monthly summary report to customers' managers, consulting with them to determine what would assist them most, and that the Fleet Fiscal Manager provide the appropriate customer personnel with information about how to access and use Fleet billings through training or other methods.

The Fleet Fiscal Manager also should discuss with the assigned TM staff possible steps to improve the accessibility and utilization of the monthly billings. A possible improvement to electronic access could include search capability on Fleet's intranet Webpage to assist customers to locate the current or historical billing information that is pertinent to them. An alternate solution might be to provide customers with a link from Lotus Notes to a special area in Fleet's intranet Webpage so that customers may get to their own billing more easily.

Recommendation 11. We recommend that the Fleet Management Division work with customer and Technology Management Division staff to provide monthly management reports and improve customers' access to and use of monthly billing information.

Response We concur. The Fleet Fiscal Manager will consult with Departmental Fiscal Managers to determine what information would assist them most, and about how to access and use Fleet billings through group or one-on-one training. However, the fact that the user Departments have the responsibility for reviewing the accuracy of program charges is implicit. Fleet Management produces thousands of pages of reporting documentation monthly, but it should be incumbent upon the user Departments to ensure their fiscal personnel perform the

review function or receive the adequate training to do so. The Fleet Fiscal Manager will discuss with the TM Applications Developer assigned to Fleet for possible steps to improve the accessibility, possible with a web connection.

**Request
Technology
Management to
Document
FASTER
Processes**

The FASTER software collects extensive data, and has extensive reporting capabilities. A possible delay or failure in billings or other reports could create a weakness in Fleet's ability to monitor and control its operations and billings.

Fleet staff can devise or print certain reports, but, generally, preparing customer billings and some management reports is complex and requires the expertise of TM Applications Developer, who has a number of other assignments.

The designated TM staff has been serving Fleet and the FASTER system for many years; however, we found that no one is designated as a "back-up" for this individual within the TM Division. In the past TM assigned someone with enough expertise to substitute for the TM staff with primary responsibility; however, that staff person was subsequently assigned substantial duties on other software applications and is not currently familiar with the changes in FASTER. In addition, the FASTER reports have been tailored by the designated TM staff to meet the City's unique procedures; thus the FASTER vendor might not be able to assist in some areas if the TM staff were absent.

The FASTER reports, including monthly billings, are an important tool for management purposes, and for transferring funds from the user Departments to Fleet. During our audit we noted some additional reports which, if obtained from FASTER, would prove useful, and the 2002 Maximus report indicated that FASTER was underutilized. A fuller use of FASTER suggests that TM should enable the designated staff to give more attention to this system. The designated TM staff indicated to us a need to document these procedures so that

another TM staff person or Fleet staff could perform the monthly billing, as well as certain other FASTER duties.

We believe that Fleet should request TM to enable the designated staff to document these procedures and review them with another TM staff person, and also to provide Fleet with the capability to perform and ensure the accuracy of more of its own regular reports.

Recommendation 12. We recommend that the Fleet Management Division request the Technology Management Division to document billing and other FASTER processes, assign back-up staff, and enable Fleet Management staff to prepare more of its own regular reports.

Response We concur.

Develop Annual Inventory of Vehicles and Equipment

The Fleet Management Division does not conduct a periodic inventory of the vehicles and other equipment that it maintains.

There are two reasons for this: (1) the vehicles and equipment are dispersed among the City departments responsible for the proper use and control of these assets; (2) Fleet has the opportunity to verify the existence and condition of all the vehicles that must be brought to the Fleet facility periodically for maintenance.

However, Fleet does not have a systematic process to compare the fixed asset records with the physically observed assets. Further, not all equipment must be brought to Fleet for maintenance, and there is no coordinated effort to ensure the existence or condition of these items. Also, Fleet does not regularly reconcile the vehicle and equipment details and totals in its FASTER data to those in the fixed asset module that supports the City's PeopleSoft general ledger. These steps are important internal controls over the assets and the asset records.

Florida Statute 274.02(2) requires governmental units to take a

complete physical inventory of all property annually, compare this with the property record and reconcile all discrepancies.

Fleet should establish an efficient, practical means to perform an annual physical inventory for Fleet vehicles and equipment. This could perhaps be accomplished by providing annual inventory listings to the departments in possession, which would return corrected listings to Fleet. Fleet should reconcile the departmental responses to Fleet's vehicle and equipment records and report discrepancies to the General Administration Department Director.

Recommendation 13. We recommend that the Fleet Management Division work with the appropriate staff to develop a process that will meet the statutory requirements for an annual inventory for all vehicles and equipment under the Fleet Management Division.

Response We concur. Fleet plans on establishing an efficient, practical system to perform an annual physical inventory for vehicles and equipment by providing inventory listings to the departments, which would be returned to Fleet after physical verification. Fleet would then reconcile the departmental responses to Fleet's vehicle and equipment records and report discrepancies to the General Administration Department Director.

Update or Create Undocumented Internal Policies and Procedures

Fleet does not have up-to-date internal policies and procedures directing its staff how to perform major activities. The Fleet Management Division Manager has some memoranda for selected procedures and reports. The existing written internal policies and procedures for technicians and supervisors date back to a period when the Fleet Management Division was combined with the Facilities Management Division. There are limited written administrative policies and procedures as a framework for the Fleet Fiscal Manager and office personnel to perform their major duties, such as procedures for establishing customer charges annually.

Internal policies and procedures should be updated or created

to include guidance for significant activities and be kept up to date, to ensure consistency, to place responsibility, and to aid staff in case of absences or vacancies in personnel.

Recommendation 14.

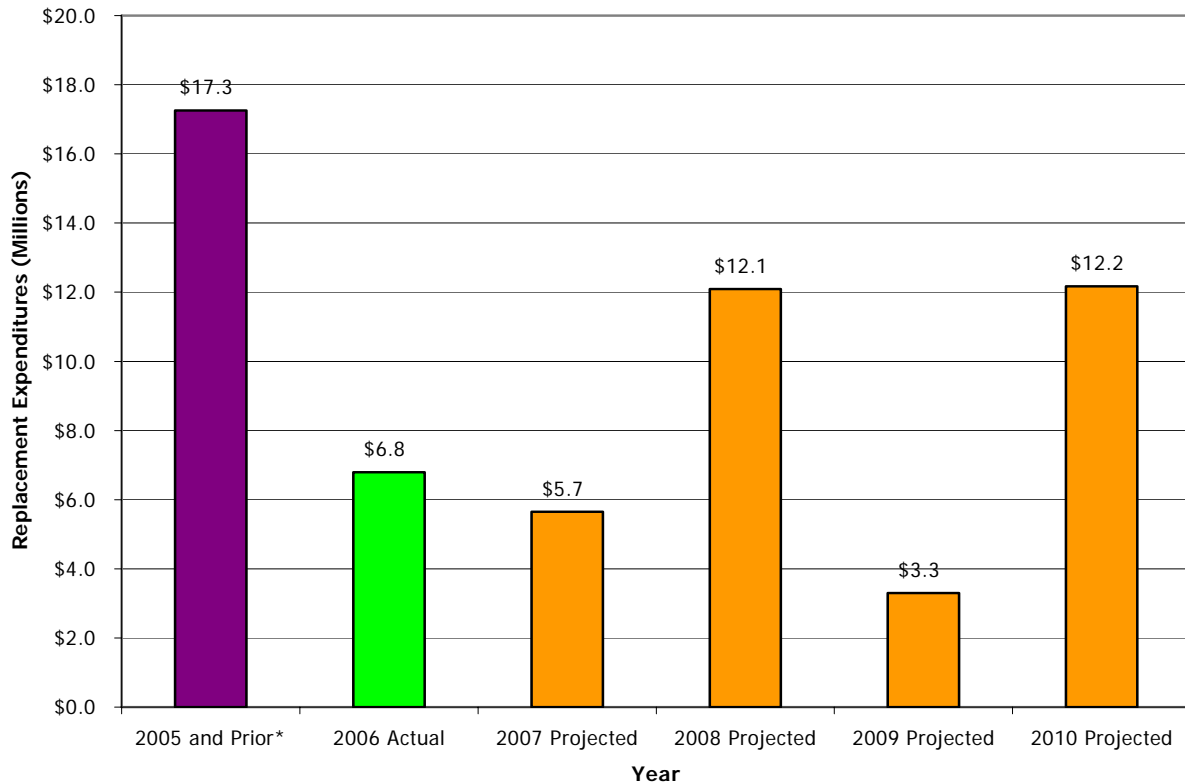
We recommend that the Fleet Management Division update or create any undocumented internal policies and procedures for its major functions, including technical and administrative activities.

Response

We concur.

APPENDIX 1

****Replacement Data for Vehicles and Equipment on Hand at February 20, 2006**



It is important to note that the projected amounts are based upon the initially determined estimated useful life of each asset.

*The 2005 and prior amount represents assets on hand that have been retained past their initial estimated lives. It should be assumed that the majority of these assets will need to be replaced within a few years.

**The projected data are the replacements in FY 2007 through FY 2010 for currently held assets only. Therefore, the projected data does not include vehicles/equipment to be purchased in the future and replaced in the future that are either:

- (1) The next generation of replacements, or
- (2) New vehicles/equipment that are not replacements.