



# Richmond City Council

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*Richmond, Virginia*

## OFFICE OF THE CITY AUDITOR

### **Audit Report No. 2009-01**

*on the*

**Richmond Department of General Services  
Bureau of Fleet Management**

**Limited Review and Follow up**

August 2008

## OFFICIAL GOVERNMENT REPORT

*Richmond City Council*

### **OFFICE OF THE CITY AUDITOR**

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*Committed to increasing government efficiency, effectiveness,  
and accountability on behalf of the Citizens of Richmond.*

### ***Objectives and Methodology***

The objectives of the limited review and follow up were to:

1. Ensure that procedures for monitoring fleet maintenance costs are complete, accurate, and reasonable.
2. Follow up on the status of implementation of the 2007 Fleet Audit recommendations.

Since Fleet was audited in May of 2007, that audit provided a reasonable basis for conclusions regarding the internal control structure and recommendations. Controls were deemed to be weak and recommendations were issued.

The methodology included:

- Entrance conferences with City of Richmond Interim Director of Public Works and the Fleet Services Manager
- Interviews with City personnel
- Observed operations at Parker Field (Fleet Services' facility)
- Reviewed financial data, supporting documents, relevant information and conducted other appropriate tests as deemed necessary
- Analyzed data recorded in automated system

### ***Introduction***

The audit report issued in May 2007 on the Fleet Services Division (Fleet) identified several operational deficiencies and questioned the accountability over more than \$20 million in annual spending on this function. These findings pointed out serious weaknesses in the management of the resources entrusted to Fleet. The Public Works Department, who then had the responsibility for Fleet, concurred with 53 of the 54 recommendations made by the City Auditor's office. The

City Administration has the ultimate fiduciary responsibility to make sure that all the known operational deficiencies are addressed and to manage public resources in the most efficient manner. In some instances, Fleet personnel may not have the liberty to make critical decisions independently.

<b><i>Status of Recommendation Implementation</i></b>	Implemented	10	19%
	Partially Implemented	3	6%
	Not Implemented	41	75%
	Total	54	100%

According to the Comptroller General of United States:

***According to  
Comptroller  
General of the  
United States,  
implementation of  
recommendations  
is important***

“Auditing is essential to government accountability to the public. Audits and attestation engagements provide an independent, objective, nonpartisan assessment of the stewardship, performance, or cost of government policies, programs, or operations, depending upon the type and scope of the audit.

Audit recommendations are well researched solutions to deficiencies noticed during the audit. Implementation of recommendations results in improvements in processes and controls. Not implementing recommendations allows the known deficiencies to continue resulting in waste or operational inefficiencies.”

***Scope Limitation***

During this audit, the City Administration could have been more cooperative in providing requested information necessary for the review. City personnel were not always forthcoming to provide needed information, did not always respond in a timely manner, or provide complete information. During the wrap-up phase of this review, the

City Auditor received a memo from the Chief Administrative Officer notifying him that, effective July 22, 2008, the staff had been directed not to respond to outstanding questions. The City Auditor had to complete the review with only the available information previously received. Therefore, the City Auditor does not have assurance the information provided is complete. These circumstances may have precluded identification of all incidents of material control weaknesses and potential misuse of public resources.

Under the leadership of the City's new Chief Administrative Officer, Fleet provided more information that was taken into account to make changes to the report prior to issuing it.

Other than the impairment of independence as stated above, the review was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

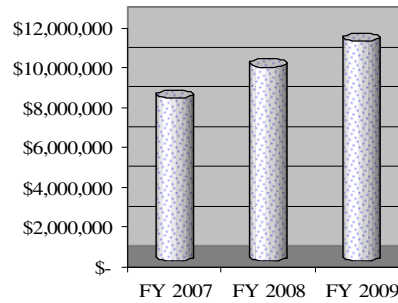
***Budget  
Increases***

***Instead of a  
reduction by  
addressing  
inefficiencies,  
the Fleet  
budget  
actually  
increased  
substantially***

The May 2007 audit identified opportunities for saving several million dollars which would have been realized if the recommendations were implemented in a timely manner. The auditors reviewed subsequent budgets to determine if reductions were made to the Fleet budget. However, as presented in the following table, Fleet's budget continued to increase:

	2007	2008	2009
<b>Adopted Budget for FYs 2007 &amp; 2008 (net of debt service); Approved Budget for FY 2009</b>	\$16,745,268	\$20,634,690	\$22,246,910
<b>Less: Depreciation</b>	\$5,710,000	\$5,772,635	\$5,945,815
<b>Less: Budgeted Fuel</b>	\$2,870,553	\$5,135,900	\$5,289,977
<b>Adjusted Budgeted Operational Costs</b>	\$8,164,715	\$9,726,155	\$11,011,118
<b>% Change in Budgeted costs from FY 2007</b>		19.1%	34.9%

**Adjusted Budgeted Operational Costs (Net of Depreciation and Fuel)**



	FY 2007	FY 2008	FY 2009
Adjusted Budgeted Operational Costs	\$8,164,715	\$9,726,155	\$11,011,118

This chart reflects the fact that Fleet operational costs have risen substantially (\$2.85 million) rather than being reduced by addressing deficiencies identified by the May 2007 audit.

***Information Management***

The existing MCMS computer system has been in use at Fleet since 1996. However, Fleet personnel are unable to fully use the system or input data accurately due to a lack of proper training. Although there has been a recent upgrade of Fleet’s information system, there is no assurance the employees will receive appropriate training on the upgraded system which is a modern version of the current system. Without appropriate training, the upgraded system may be as underutilized as the MCMS system.

***System Upgrade***

Despite the recommendations for complete outsourcing of the Fleet operations, the Administration has embarked upon upgrading the existing Fleet information system (MCMS) to an enhanced version,

(M5). This new system is estimated to cost \$469,000. Normally, this action may not be considered inappropriate if there is a methodical plan to reap benefits that are likely. However, there are significant issues as follows:

1. Any computerized system for a function is useless if the data processed by it is unusable. The May 2007 audit pointed out that the existing formatted Fleet data is unusable for managing the operation. Unless the data is cleaned up, it is not possible to use any automated tool to extract meaningful information.

***Without clean data and standardized data entry, upgrading the system may not yield benefits***

Fleet lost an opportunity to develop data entry standards and key in proper data subsequent to the issuance of the May 2007 audit. This type of action would have provided Fleet with at least one year of good data that could have been used for meaningful purposes. This process also would have been helpful to determine the usefulness of the current system and to avoid spending additional public funds.

Instead of cleaning the data and determining if the current system will be able to retrieve usable information, the Administration appears to have committed about \$469,000 for the upgrade and left the data cleanup for a later date. The result is that the new system will have the same issues that the old system had.

According to the copy of the M5 contract provided by Procurement, the City did not emphasize data conversion. In fact, the City indicated that it has a limited amount of data to be converted from MCMS. The contract further states that detailed repair history is not included in the data conversion process. No other historical data will be converted, and parts inventory will not be converted.

***Fleet has not developed a list of expected benefits prior to purchasing a \$469,000 upgrade***

2. It is a well established practice to develop expectations related to the performance and utility of the system prior to the purchase of a new system or the installation of a major upgrade. This method helps the government to determine if it would be beneficial to spend the money for the benefit received. Despite audit inquiries, a list of expected benefits from the upgraded system was not available from the Administration.

***Fleet does not know what information will be available from the upgraded system***

3. Repeated inquiries by auditors to Fleet and Department of Information Technology personnel related to the capabilities of the upgraded system remained unanswered. Upgrading the system is not beneficial if it is not capable of producing reports that can be used for improving Fleet management.

The Administration used the upgrade in process as the prime reason for not implementing many audit recommendations. Some of the recommendations did not depend on automation and could have been implemented.

### ***General Management***

The May 2007 Audit Report addressed lack of policies and procedures, the need for improvement in communications with users and appropriately managing Fleet performance. The following are observations in these areas.

- Fleet submitted updated written policies and procedures to the Auditors just prior to issuing this report. The effectiveness of and agency compliance with these policies can only be evaluated at a later date.

***Meaningful performance reports are not available***

- Fleet still needs to improve communication with users. Meetings with its customers are held sporadically at best. Lack of proper communication with users could impact customer service adversely.
- Fleet is still not able to provide meaningful performance reports to management. Without such reports, it may not be possible for the Administration to judge the effectiveness of Fleet management.

***Asset Management***

***Safeguarding***

***An accurate count of vehicles and equipment owned by the City is still unknown***

The decentralized nature of fleet management has resulted in a lack of control over vehicles and equipment. The consultant hired to inventory City vehicles and equipment did not have confidence the inventory count was complete. If the City does not know the number of vehicles and pieces of equipment it owns, it is very difficult to manage them. Under these circumstances, missing vehicles or equipment may not be detected in a timely manner.

***The value of vehicle and equipment assets was arbitrarily reduced in the City's financial records by \$1.4 million***

No evidence has been provided by the City Administration to verify that the recommended asset reconciliation procedures have been implemented. Therefore, in addition to lack of physical controls to verify fixed assets, accounting controls appear to be missing. The situation worsened when the Finance Department arbitrarily restated Fleet assets by lowering the value of vehicles and equipment in the City's financial statements by nearly \$1.4 million. This type of action, without substantial detail, prevents detection of missing assets and distorts public reporting of the City's financial information.

***158 active vehicles in DMV records could not be located in City records indicating errors or missing vehicles***

During the comparison between the State Department of Motor Vehicles and the City's records, the auditors could not find matching vehicles on the City's records for 158 active vehicles. This situation may represent reporting or record keeping errors. However, the possibility of vehicles missing from the City cannot be ruled out. There were 585 other vehicles DMV listed as inactive that could not be readily matched with MCMS data. This situation may represent either missing vehicles or deleted records by the City. Either way, the accountability over City vehicles appears to have been compromised.

This represents a serious discrepancy that does not assure the safeguarding of public assets. The City has a total gross investment of about \$61 million in these assets. Weak controls expose these assets to misuse or abuse.

***Usage***

***69 vehicles appeared to be under utilized***

This sizable investment of public funds in vehicles and equipment is justified only when these assets are most efficiently used for the provision of public services. During this review, the auditors identified evidence of possible underutilization of assets. For example, 69 vehicles appeared to be underutilized using a minimum mileage criteria established by the City of Richmond. Due to lack of proper monitoring, there is no assurance that the equipment is being appropriately utilized. The previous audit identified opportunities for reducing the City's investment. However, these recommendations have not been implemented.

***Too Many Vehicles and pieces of Equipment?***

In comparing Richmond's fleet size with those of four other localities with similar population sizes, the auditors found that the other localities

***Substantial  
fleet reduction  
opportunities  
exist***

serve about 132 people per fleet unit as compared to Richmond which serves only 84 people per unit. This suggests that if Richmond has the opportunity to reduce the number of units in its fleet from 2,300 to about 1,450, additional savings of a substantial portion of the current annual maintenance costs could result. Although this is not meant to be considered an exhaustive analysis, it revealed a substantial opportunity for Richmond to reduce the fleet size. A detailed, thorough analysis of each unit must be conducted to determine its necessity.

***Without proper  
replacements,  
the City may be  
losing  
substantial  
resources***

***Replacements***

The fleet management industry publishes models to methodically replace vehicles and equipment in order to keep a balance between capital and operating costs. These models allow fleet managers to keep the total cost of ownership of assets to a minimum. The Administration is not in a position to adopt any of these models until many of the pertinent recommendations of the May 2007 audit have been implemented. Without implementing these recommendations, the City may be losing a substantial amount in capital and operational resources.

***Lack of a  
methodical  
approach for  
2006 fleet  
reductions may  
have resulted in  
a productivity  
loss***

***December 2006 Fleet Reduction***

Fleet Services received a directive from the City Administration to reduce the size of the City's fleet by 500 vehicles by the end of calendar year 2006. The consultants hired by City to inventory and verify the physical existence of vehicles and equipment noted that the fleet reduction during the fourth quarter of 2006, which resulted in the elimination of several hundred vehicles, was based on a "haphazard rather than a systematic approach" to reducing the fleet. The auditors observed some evidence indicating that, after the reduction, the personnel who require vehicles sometimes do not have them available for use. This results in a loss of productivity.

## *Operations Management*

### *Accuracy of Mileage Information*

Accurate cost per mile data is critical to evaluating operating costs. Virtually every function dealing with fleet vehicle management requires a decision dependent upon accurate vehicle odometer mileage. Therefore, vehicle mileage accuracy is critical for managing Fleet. However, Fleet still does not have a quality assurance process or edit reports to detect this continuing deficiency. Auditors found vehicle mileage data to be unreliable.

### *Labor Standards*

Fleet has elected to defer the establishment of labor time standards until the M5 system upgrade. The ability to establish initial benchmarks for standard jobs performed by Fleet's technicians is not dependent upon the installation of a system upgrade. Instead, this information should already be available based on industry standards. It appears that Fleet is missing the opportunity to compile and implement labor standards. This task may take a considerable amount of time once the upgrade is implemented. This means that labor management will not improve even after the upgrade is implemented until labor standards are formulated.

***Fleet missed an opportunity to establish labor standards prior to a system upgrade***

### *Employee Training*

The previous audit recommended that the City determine the level of training needed to ensure a mechanic's competency to perform quality repairs. Also, although there is some evidence of training, the recommendations included the development of a comprehensive training program for all existing mechanics based on their skill sets. However, these recommendations have not been implemented.

***Fuel  
Management***

In the May 2007 report, auditors found significant internal control weaknesses with regard to control over fuel usage. The absence of timely implementation appears to have been costly. Since the issuance of the audit report, there have been documented fuel theft cases which came to light and resulted in a \$93,000 loss for the City.

***Vulnerabilities  
identified in the  
previous audit  
related to fuel  
cards have not  
yet been  
resolved***

Abuse of fuel cards contributed to the theft of fuel. However, since the issuance of the May 2007 audit, the control weaknesses related to the fuel cards still remain. The cards are still issued to vehicles rather than individuals. Despite the management announcement of issuing Personalized Identification Numbers (PIN) to employees, no PINs are presently in use. This means that if the original vulnerability related to fuel use still exists, attempts to steal fuel from the City may not be deterred.

***Controls over  
fuel may have  
further  
weakened***

In addition to the regular-use fuel cards, the Administration has issued at least 414 miscellaneous fuel cards to City agencies. The majority of these cards are not assigned to specific vehicles or equipment. The responsibility to establish controls on these cards is left to the City agencies. Written guidelines for card usage were not available during the review. However, just prior to issuing this report, the auditors were provided with written guidelines. The auditors did not have an opportunity to evaluate compliance with these guidelines. The subsequent follow-up review will include such an evaluation. This situation provides an additional avenue for abuse and threat of theft to the City's investment in fuel inventories.

Fleet has begun an initiative to replace the current fuel card system with ring technology. This involves the installation of an electronic

device on all City vehicles and equipment that will control fueling. The plans to install the ring technology have been deferred from an initial target date of July 31, 2008. The new target date has not been established.

### *Service Alternatives*

The previous audit recommended outsourcing the entire Fleet operation. The Administration has delayed implementation of this recommendation substantially. During meetings between auditors, Fleet and Administration personnel, there was general agreement that:

- Fleet Services has been historically run as an inefficient operation;
- No one really knows how much the Fleet operation should cost;
- Months would be needed to build reliable data upon which to gauge effective measures of performance.

***Additional  
research  
confirmed  
savings  
identified in  
previous audit  
by outsourcing  
Fleet***

The auditors' research of relevant literature identified ten reasons why entities outsource:

1. Reduce and control operating costs
2. Improve entity focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available
9. Share risks
10. Cash infusion

Consultation with some of the top 100 fleets in the United States confirmed some of the above benefits realized by them via outsourcing. Audit evaluation confirmed that original audit projections of savings due to fleet outsourcing are still valid.

The City of Pittsburgh, PA (ranked as 25<sup>th</sup> best fleet of 2007) indicated that their locality elected to privatize its fleet operations as one of several means to actuate savings opportunities. They affirmed the following benefits from privatizing:

- The vehicle availability rate rose to 90+% (vs high 70%-to-low 80% range when fleet maintenance was in-house).
- Privatization reduced the number of required employees from 70 to 48 who continued to perform the same level of work.
- The privatized operation was current on industry trends including EPA recommendations and regulations, nationwide training, and certifications.
- The privatized operation offered comparable salary and benefits which was one of the negotiated contract stipulations.
- The privatized operation received very high customer service satisfaction rates including 41% “Excellent” and 46% “Good”.
- Significant savings had been attained through privatization.

***Issuance of the RFI does not appear to be a good faith effort by the City***

The City of Richmond Administration issued the Request for Information (RFI) on July 1, 2008, and promised that an outsourcing RFP will be issued. In the introduction section of the RFI, the City specifically states that:

- “The RFI shall not be construed as intent by the City of Richmond, Virginia, Department of General Services, Fleet Management Division, to purchase, commit to purchase, or

obligate at some future date the services or products described therein.

- This RFI is solely an instrument of information gathering for analytical purposes. Persons or entities shall not interpret anything in this RFI as a solicitation to acquire or purchase their services.”

In addition, the RFI required vendors to submit a price proposal for the service. This means that the City expects vendors to commit to a price and terms of service without the City committing to acquire the service. This does not appear to be a good faith effort. It is well known that vendors must spend significant amounts of time and effort to prepare a proposal. Conditions such as the above could deter qualified vendors from submitting proposals.

### ***Conclusion***

The majority of recommendations made in the May 2007 audit report have not been implemented. This means that most of the inefficiencies and vulnerabilities identified have continued a year after issuance of the audit. Not addressing known inefficiencies could result in further waste of public resources. Meanwhile, the budget appropriations for Fleet’s operating expenditures (net of depreciation and fuel costs) have increased by \$2.85 million.

Substantial weakness in internal controls and inadequacy in recordkeeping continue to exist. Additional investment in a system upgrade made to address some of these issues may not be very beneficial due to lack of reliable data.

There appears to be substantial savings in outsourcing the Fleet operation. More efforts need to be made to outsource the operation.

# **Attachment**

## **Detailed Discussion on Audit Follow-up**

### ***Status of Implementation***

Approximately one year from the date of the audit report, Fleet Services has implemented only 10 (19%) of 54 recommendations. The remaining 44 (81%) recommendations are either not implemented or satisfactory progress has not been achieved.

### ***Organization***

The status of recommendations is discussed in broad categories consistent with the original report dated May 18, 2007 to improve readability as follows:

- General Management
- Information Management
- Asset Management
- Operations Management and Customer Service
- Service Alternative

### ***General Management***

#### ***Policies and Procedures***

##### ***May 2007 Audit Recommendation:***

1. *Update the policies and procedures manual to reflect current policies and practices (Implemented).*

Policies are general statements that guide thinking and action in decision-making and indicate a preferred method for achieving objectives. Procedures are specific directives that define how the work is to be done. They document managerial direction and improve efficiency through the standardization of actions, facilitate training of personnel, and mitigate the risk of knowledge loss due to personnel turnover. Best practices can also be woven into policies and procedures to help ensure implementation.

Since the May 2007 audit, Fleet hired a consulting firm to inventory vehicles and equipment, who echoed the above recommendation included in the audit report. The risk of not having formal, updated procedures is significant. This may lead to an inconsistent following of City policies and a resulting long term adverse impact.

Policies and procedures were not available during the review for auditors' examination. However, just prior to issuing this report, written policies and procedures were delivered to the City Auditor's office.

***May 2007 Audit Recommendation:***

- 2. Comply with City policies and Fleet Services policies (Not Implemented).*

The instances which triggered this recommendation involved a violation of City procurement policy and spending in excess of a contract limit. The auditors did not have the opportunity to evaluate Fleet's adherence to these policies. This recommendation will be reevaluated in the next follow-up.

***May 2007 Audit Recommendation:***

- 3. Resume periodic meetings with users to obtain feedback useful in improving and enhancing user service. Communicate Fleet Services' efforts or the reasons for its inability to address user concerns (Implemented).*

Fleet appears to have resumed meetings with users since the arrival of the present Fleet Manager for the purpose of improving and enhancing customer service. However, these meetings have been conducted sporadically. Conducting these meetings regularly would provide Fleet personnel input from their customers that can be used in improving customer service.

***May 2007 Audit Recommendation:***

- 4. Require the division management to improve communication with the employees, evaluate fairness in employee treatment, and deal with other issues raised in this survey (Implemented).*

Auditors obtained some evidence that the present Fleet Manager is conducting a monthly meeting with mechanics and requires floor supervisors to meet with their mechanics almost daily.

***May 2007 Audit Recommendation:***

*39. Require Fleet Services to submit monthly performance reports to DPW management (Partially Implemented).*

Fleet Services submits a limited workload report to management. This report, however, is not useful for evaluating performance of the fleet by comparing it with some benchmarks.

Auditors noted that the content of the report submitted by Fleet is limited to information such as the number of various types of jobs like preventive maintenance (PM), state inspections, and work orders completed during a month. Critical cost data needed to monitor efficiency and effectiveness such as maintenance costs per vehicle, maintenance costs per mile, miles per gallon per vehicle, or any substantial trend analysis is not included. Without an established set of critical best practice metrics to measure performance, there can be no effective management of costs.

The stock management adage “You can’t manage what you don’t measure” is a well-established business axiom. Without measurement, there is no understanding of what is getting better or what is getting worse; therefore, there can be no management for improvement. Pam Nelson, CEO of CCG Systems Inc and a fleet management operations expert, notes that more and more fleets are being privatized in recent years. Private companies promote and guarantee financial performance. She concludes that entities that do not know their numbers remain vulnerable.

In general, all of the 100 Best Fleets in the United States as rated by Government Fleet Magazine are metrics-driven. Some of the fleets were in-house and some were privatized. Using a similar performance management system could help the City of Richmond Fleet to better utilize resources entrusted to them.

## ***Information Management***

### ***May 2007 Audit Recommendations:***

12. *Determine the system support contract terms and require the Fleet Manager to monitor vendor compliance with the contract (Not Implemented)*
13. *Follow-up on deliverables and services included in the annual maintenance agreements, such as system upgrade activities; and ensure the system properly works after system upgrades (Not Implemented).*

The 2007 report noted that Fleet paid \$18,000 for a system upgrade, but Fleet had no documentation of the upgrade or any deliverables at the end of the project. In addition, Fleet personnel didn't have adequate knowledge of what services were included in the annual maintenance fee or whether the City was receiving all services covered under the contract.

In light of the fact that Fleet's lack of appropriate use of the computerized system and data has resulted in continuing inefficiencies, getting assistance with system maintenance and use is very important. However, auditors did not find evidence of a formal policy regarding contract administration or any indication that contract compliance was achieved since the May 2007 report.

Although the above recommendations pertain to better utilization of money already spent and not on any future upgrades, Fleet has deferred implementation of this recommendation until the M5 upgrade is completed. This upgrade was going to be completed by the end of March 2008 but has not been completed yet. The deferral of implementation of these recommendations is not justified.

### ***May 2007 Audit Recommendation:***

14. *Consult DIT for future upgrades and related data conversion project management (Implemented).*

Auditors were provided evidence to indicate that Fleet and DIT were working together on the system upgrade.

***May 2007 Audit Recommendation:***

*16. Review the types of reports that are needed to effectively manage the Fleet Services operations and determine whether the reports are available as standard system reports or through using system queries (Not Implemented).*

Fleet deferred implementation of this recommendation until the fall of 2008 after the M5 upgrade. The City of Richmond has owned this system for the past twelve years and has input fleet maintenance data since then. City personnel should already have knowledge about the system's reporting capabilities.

The City is already paying for system support. Obtaining help from the vendor to extract meaningful information can help the Fleet Manager significantly. This could be a prudent interim step until a system upgrade is completed. However, Fleet has chosen to continue operating without information needed for proper management of the function. This continues the inefficiencies identified in the May 2007 report.

The City has elected to purchase a system upgrade to house data to manage fleet operations without a demonstrated idea of what it expects to receive from the upgrade. The auditors inquired into the Fleet Manager's vision of use of the upgraded system. The Manager could not explain what type of data is expected to be accumulated and extracted that can help to address issues identified by the audit. There is no apparent vision or available evidence to support that management identified beforehand what kinds of reports are required to run the fleet operation efficiently and effectively and whether M5 has the ability to produce these reports. Fleet notes that M5 has some 340 reports, but it has not yet determined which ones it will use.

Also, reviewing the data on the present MCMS system to determine how much, if any, data is salvageable is a laborious and time-consuming task. This task should have been given a higher priority over the decision to purchase the upgrade. It is an essential task to determine if the City should keep MCMS or purchase M5. Without clean data, both systems will be ineffective in delivering useful and accurate information. However, the

City proceeded with its plan to purchase the upgrade for about \$469,000 without completing data cleaning. This appears to be an example of poor planning that may lead to additional losses for the City.

According to the copy of the contract provided by Procurement, detailed repair history is not included in the data conversion. The City has indicated that a limited amount of data will be converted from MCMS. The City expressed a preference for manually entering data into M5. Also, no historical data will be converted and no parts data will be converted.

***May 2007 Audit Recommendation:***

*6. Consider interfacing other systems referred to in the report to MCMS (Not Implemented)*

The 2007 report noted that many City systems already have data used by MCMS. The City Administration indicated that the M5 upgrade will be linked to a data warehouse that will allow the creation of customized reports. The effectiveness of this proposed link will have to be evaluated in a subsequent follow-up.

***May 2007 Audit Recommendation:***

*10. Consider increasing the details in the system relative to commercial charges (Not Implemented).*

No progress has been made on this recommendation. Fleet's standard practice had been to code outside charges from other repair shops as "commercial charges" with no further coding detail about the type of repair or service rendered. When multiple repairs are made along with preventive maintenance work, only one item is chosen for the description. This obscures analysis of such charges without retrieving the invoice. Fleet deferred this piece to be examined pursuant to the M5 upgrade. Consequently, no details have been provided to the auditors.

## ***System Training***

### ***May 2007 Audit Recommendations:***

- 5. Provide adequate training to the staff to minimize or eliminate data input errors (Not Implemented).*
- 9. Provide adequate training to the employee serving as System Administrator (Not Implemented).*
- 15. Provide adequate documentation to system users for day-to-day operations (Not Implemented).*

The May 2007 audit found that the original users of MCMS were provided training, but did not have system documentation such as user, report, technical reference material and other general information guides. Inaccurate and inconsistent data prevents management of accountability and productivity issues resulting in loss or waste of public funds. The May 2007 audit found that proper training and configuration of the MCMS system to use edit checks would mitigate these discrepancies. This was deemed a significant management oversight issue.

It appears that Fleet lost the opportunity to capture good data on vehicle maintenance since the issuance of the previous audit. They could have taken several steps to at least mitigate the risk of improper data entry by all MCMS users. Detailed instructions for the entry of vehicle information could have been provided to ensure that all required fields would be populated with data in a consistent manner. Edit reports could have been developed to reject data entry that did not meet the prescribed format. "Cheat sheet" instructions could have been developed for all users within their authorized areas of system access.

Fleet is currently upgrading its system from MCMS to M5; however, neither details of M5 training nor any copies of M5 manuals have been provided to the auditors. Evaluation of the success of this training will have to be evaluated in a subsequent follow-up.

***May 2007 Audit Recommendation:***

*17. Train appropriate employees for creating system queries (Not Implemented).*

Fleet elected not to pursue training personnel under the MCMS system and, instead, deferred this training to the M5 installation scheduled to occur in July 2008. As noted above, the evaluation of this training will have to be evaluated in a subsequent follow-up.

## ***Asset Management***

Fleet Services has recorded approximately \$61.9 million in gross value of equipment in the City's 2007 Comprehensive Annual Financial Report. Currently, the auditors could not verify that there is a procedure in place to account for these vehicles within the City's Fixed Asset Module. In the 2007 report, the auditors noted that neither Finance nor DPW staff performed the annual reconciliation procedure between the MCMS system and the City's financial system. The risk for this discrepancy is significant. Incomplete fixed assets and MCMS records may not be able to detect a missing vehicle in a timely manner.

***May 2007 Audit Recommendations:***

- 23. Assign the City-wide fleet management responsibility to Fleet Services. This would include acquisition, maintenance and repairs, disposal and replacements (Not Implemented).*
- 24. Expedite the completion of new Vehicle Acquisition and Specification procedures, along with the policies and procedures and distribute accordingly (Not Implemented).*
- 25. Perform an analysis of the City-wide Fleet (Not Implemented).*
- 26. Acquire vehicles and equipment that are sufficient for the City's needs and operational purposes. Require departments to justify the need for additional features and functionality over the models that satisfy the City's needs (Not Implemented).*

Fleet asserts that it is already a central point for all vehicle orders although a formal policy to support this claim was not available during the review. A written policy was provided just prior to issuance of this report. The City Auditor's Office did not have an opportunity to evaluate Fleet's compliance with this policy. The policy made available

during the review was a copy of a procurement procedure from the Department of General Services pertaining to the Department of Public Utilities. The procedure describes that DPU will keep ownership of the vehicles and equipment and use Fleet as a consultant in procurements. Fleet views its role as a consultant to the City departments and agencies.

A firm of consultants hired by the City Administration noted in its report that Fleet must have oversight and total control of the on-boarding/off-boarding process to ensure that future inventories would be complete. The consultants noted that they came upon many “unknown” assets that had never been accounted for by Fleet or entered into the MCMS data base. Since these assets were acquired independently from Fleet’s control, they were never on-boarded by Fleet. Consequently, vehicles and equipment were not assigned unit numbers, rate classes, or end-of-life dates.

Auditors compared the City of Richmond’s number of vehicles and equipment against that of four localities with similar population sizes that have privatized their fleet maintenance operations. The auditors observed that the localities averaged one unit for about 132 people while Richmond averaged one unit for 84 people. This suggests that, by matching this ratio, Richmond could reduce the number of units in its fleet from 2,300 to about 1,450 units. The result could be an additional savings of a substantial portion of the current annual maintenance costs. Although this is not meant to be considered an exhaustive analysis, it revealed a substantial opportunity for Richmond to reduce the fleet size. A detailed, thorough analysis of the necessity of each unit must be conducted.

***May 2007 Audit Recommendations:***

- 18. Work with Finance staff to ensure that the city’s year-end-asset reconciliation procedures are properly performed (Not Implemented).*
- 19. Require the user agencies annually report number and locations of vehicles and any other pertinent information so Fleet Services can have an accurate count of all City vehicles (Not Implemented).*
- 20. Discontinue the practice of deleting data related to disposed assets from the MCMS system (Implemented).*

21. *Work with Finance to review options for the most logical way to accumulate and track the City's fixed assets in the Fixed Asset module (Not Implemented).*
22. *Perform more systematic verification of all vehicles and equipment annually to assure their existence and condition (Implemented).*

Despite numerous requests to the Finance Department, the City Auditor's Office could not get a response specifying the progress made on these recommendations. It does not appear that these recommendations have been fully implemented. These recommendations were made after the auditors observed significant difference between the value of vehicles and equipment listed on the City's fixed assets and the Fleet system's records. As described before, there is no way to verify the accuracy of either balance.

After more than a year since the issuance of the audit report, Fleet has not been able to identify exactly how many vehicles and pieces of equipment the City owns. The accuracy of the inventory compiled by the consultant hired by Fleet heavily depended upon the information provided by City departments. The City Administration has made efforts to implement recommendations related to physical inventorying and verification of assets. However, the consultant did not have a high degree of confidence on the completeness of the inventory.

The Fleet Manager reported in the December 13, 2007 RichmondWorks presentation that some agencies were not disclosing vehicles and equipment for fear that the items would be confiscated during the inventory. When asked by the auditors whether 100% of the inventory had been captured, the Fleet Manager declined to comment.

To verify the completeness of inventory, auditors requested the Virginia State Department of Motor Vehicles (DMV) to provide a list of all active and inactive vehicles registered to the City of Richmond. The auditors electronically matched these records with the City Fleet records. DMV provided a listing indicating 1,607 active and 1,014

inactive vehicles for a total of 2,621 vehicles. The result of this matching test is detailed as follows:

***Active Vehicles on DMV records:***

DMV recorded 158 more active vehicles than the City Auditors could account for compared to City records. This situation may represent reporting or record keeping errors. However, the possibility of vehicles missing from the City cannot be ruled out. The City does not appear to have proper accountability over these assets and, accordingly, the internal controls appear to be weak. In the worst case scenario, if these vehicles are missing, a very significant loss to the City exists.

Auditors were able to match the remaining 1,449 vehicles to DMV's active vehicles file. Of the 1,449 matched, MCMS indicated that 61 of the vehicles were sold, 49 were listed as not active and one was listed as demolished. This suggests that appropriate information has not been communicated to DMV in a timely manner.

***Inactive Vehicles on DMV records:***

Auditors could find matches to only 429 vehicles on MCMS records out of 1,014 vehicles listed on DMV's inactive City vehicles records. Of the 429 matched, MCMS indicated that 32 of the vehicles were still active and 4 were listed as back in service. This is an additional example of the inconsistency of information between the two record sources that should always be in balance via a reconciliation procedure.

The remaining 585 inactive vehicles on DMV records could not be readily matched with MCMS data. This situation may represent either missing vehicles or deleted records by the City. Either way, the accountability over City vehicles appears to have been compromised.

***MCMS Non-Matches to DMV records:***

In doing a reverse match from MCMS records to the DMV records, approximately 1,600 vehicles listed in MCMS could not be readily traced to DMV records. There are a number of reasons for the non-match such as:

- Vehicle identification number (VIN) or Title numbers may be missing or incorrect on MCMS records;
- DMV could have purged data after a certain number of years; or
- Vehicles operated under a security umbrella (displaying “Blind Tags” – police, sheriff, commonwealth attorney, etc) may not show up on the DMV listing provided to the City Auditor’s office.

Based on the above observations, it seems that the City does not have a practice to reconcile City records to DMV records, which is a prudent method to assure accuracy of the City’s records.

Fleet is not consistently notifying DMV of vehicle additions, deletions, or to make registration corrections. We could not determine by this test if MCMS information is correct or if DMV information is fully accurate. Since this is the only semi-independent method of reconciling vehicles, there is a chance that vehicles could go missing for a number of years before detection, if detected at all.

***Unjustified Restatement of Assets***

During the review of the City’s Fleet financial statements for FY 2007, the auditors observed that a restatement to the Fleet assets for FY 2006 resulted in a net reduction of \$1,390,075 to an asset category, “Equipment of the Future.” The auditors were informed that, due to the differences between Fleet’s records and the City’s records, a decision was reached to arbitrarily adjust the City’s fixed assets value to match the value from Fleet’s records. Neither Fleet nor Finance could provide adequate supporting documentation

justifying the restatement. Essentially, City assets were written down without proper documentation or justification. An arbitrary adjustment such as this write-down of the City's financial records does not conform to generally accepted accounting principles. These types of accounting adjustments combined with weak controls could result in missing vehicles or serious errors-going undetected.

**May 2007 Audit Recommendations:**

- 27. *Establish appropriate minimum usage criteria for each class of City vehicles and equipment (Implemented).*
- 28. *Periodically review underutilized vehicles and submit the results to the Chief Administrative Officer (Not Implemented).*
- 29. *Analyze the departmental vehicle needs more comprehensively. Establish motor pool based where possible to reduce the number of vehicles (Not Implemented).*

The May 2007 audit noted that the City has a sizable investment in vehicles and equipment. This type of investment of public funds is justified only when these assets are used most efficiently to provide public services. The audit identified many underutilized vehicles and equipment items. During the review, Fleet did not have formal vehicle and equipment utilization policies, however, policies and procedures were received just prior to the issuance of this report. Underutilized assets present an opportunity for consolidation and reduction, thus, saving valuable public resources.

The auditors used information obtained from the City Administration to identify 69 vehicles used for less than 6,000 miles annually as follows:

Agency	Underutilized vehicles
Assessor's Office	2
Public Works	8
Public Utilities	2
General Services	29
Probation Services	5
Parks & Recreation	3
Risk Management	1
Community Development	14
Social Services	5

The auditors developed and sent a questionnaire to these departments that requested:

- a synopsis of how each vehicle listed was being used,
- a rationale for the use of the vehicle given its apparent underutilization,
- any plans to increase the use of the listed vehicles,
- whether the department could do without one or more of the listed vehicles, and
- whether using the motor pool vehicles would be a viable alternative

The auditors received at least partial replies from Social Services, Community Development, Parks and Recreation and Juvenile Court (Probation Services); the other five agencies did not furnish a reply. One agency pointed out that using the motor pool to obtain a vehicle created delays in use. Due to the incomplete response and the directive from the Chief Administrative Office not to respond to auditors' inquiries, the results were inconclusive.

Evaluation of the effectiveness of this newly received policy will have to be deferred to a subsequent follow-up.

***May 2007 Audit Recommendation:***

*30. Encourage the use of personal vehicles for the City business where appropriate (Not Implemented).*

While there is a City policy in place on personal vehicle usage reimbursement, Fleet notes that it cannot mandate that employees use their vehicles in performing official duties; any additional consideration would require direction and support from City Administration.

Utah and Georgia are two states that have websites that promote cost comparisons between personal use of vehicles and fleet options to save money. While the potential savings is not the sole determinant for encouraging the use of personal vehicles, use of such analytic tools promotes focusing on cost-efficient practices and proactively addresses issues which cannot continue to be ignored.

***May 2007 Audit Recommendations:***

- 31. Develop appropriate criteria for replacement of vehicles and equipment and communicate them to the City departments (Not Implemented).*
- 32. Use the replacement criteria for accomplishing vehicles and equipment replacements in order to minimize overall cost of ownership (Not Implemented).*
- 33. Use the replacement list compiled using established criteria with annual budget constraints (Partially Implemented).*

The 2007 report noted that Fleet did not have a sound vehicle and equipment replacement policy. Fleet's current policy should:

- Specify a guideline related to replacement criteria such as miles driven, number of years of service, maintenance costs incurred, etc.;
- Denote who has the responsibility and authority for making replacement decisions; and
- Include a requirement of proper documentation explaining the rationale for the replacement decisions.

Fleet compiles a list of vehicles to be replaced. However, this list considers principally the age of the vehicle, arbitrary target replacement mileage, and maintenance costs. These are inadequate measures that do not consider important operating cost factors. For example, an older vehicle nearing target replacement mileage on which major repairs have been performed, such as the replacement of the engine and/or transmission, will show high maintenance costs and be replaced. However, the City would miss the opportunity to take advantage of lower operating and maintenance costs after these major repairs have been completed. For more meaningful analysis and effective replacements, measures such as cost per mile must be used to keep overall fleet costs at an optimal level. Fleet does not have the capability to compile such statistics. No effort has been made to develop such measures and track the information.

***May 2007 Audit Recommendation:***

- 11. Establish a management policy to input the specific vehicle location data within the system data fields (Not Implemented).*

In the 2007 report, auditors noticed that Fleet staff didn't consistently use several data fields for recordkeeping purposes. "Location" fields may indicate where a vehicle is maintained at an agency such as DPU. The current practice does not allow larger departments to readily locate a specific vehicle. Use of a street address or a specific building location would be more useful.

With regard to the recommendation, Fleet stated that it would develop a procedure and policy to capture vehicle location data during the upgrade of the MCMS system and that the new policy and procedures would be included in the M5 training and upgrade project. A review of the recent Fleet policies and procedures did not reveal guidelines regarding the assignment of location fields to fleet inventory items.

***May 2007 Audit Recommendations:***

- 34. Provide an update to the Office of Chief Administrative Officer related to actual savings generated due to the reduction and reduction in future maintenance costs (Not Implemented).*
- 35. Reduce Fleet Services related budget by expected maintenance cost savings (Not Implemented).*

The consultants hired by Fleet to inventory and verify physical existence of vehicles and equipment noted that the fleet reduction during the fourth quarter of 2006 resulting in the elimination of several hundred vehicles was based on "haphazard rather than a systematic approach" to reducing the fleet.

The City Auditor's Office has learned that the lack of methodical reductions have impacted City operations. Some of the employees required to work in the field cannot perform their duties due to unavailability of vehicles. There is no accountability over the loss of productivity due to this reason. As discussed in the previous audit report, the reduction of vehicles did not produce extraordinary savings. It is possible that the citywide loss of productivity due to lack of availability of vehicles may outweigh the original savings. In addition, poor citizen service results.

Fleet did not concur with recommendation #35. Fleet contends that a direct relationship between vehicle reduction and cost savings is not available, and that it cannot determine a maintenance baseline for the purpose of reducing maintenance costs. The inability to capture and measure costs appears to prevent effective management of City resources. Consequently, Fleet has not reported the information included in the above recommendation to the Office of the Chief Administrative Officer. In addition, Fleet has not voluntarily identified the cost reduction resulting from a smaller fleet and proposed reductions in their budget.

### ***Operations Management and Customer Service***

#### ***May 2007 Audit Recommendation:***

*7. Require the Service Writer and Mechanics to verify accuracy of mileage information provided by the user (Not Implemented).*

In the May 2007 report, the auditors noted unreliable mileage data in MCMS. Audit observations and analysis of MCMS records indicated that odometer readings were not routinely entered into the database. Fleet does not have a quality assurance process or edit reports to detect this continuing deficiency. Subsequently, an internal memorandum was sent to all staff to remind them to enter this information.

The accurate cost per mile data is critical to evaluating ownership and operating costs. Virtually every function dealing with fleet vehicle management requires a decision dependent upon accurate vehicle odometer mileage. These include:

- Vehicle replacement/lifecycle analysis
- Proper vehicle maintenance and repair intervals
- Vehicle statistical analysis
- Forecasting
- Benchmarking
- Fuel consumption analysis
- Utilization policy

Auditors found that odometer readings are still not reliable. During the follow-up, the auditors reviewed vehicle repair records for the period January through April 2008. During that period, 554 vehicles were serviced repeatedly but their odometer readings were not updated in MCMS. There were 1,049 instances where the odometer readings on these vehicles remained unchanged from visit to visit. It is evident that this critical information was still not captured in the records.

### ***Miles per Gallon Analysis***

The auditors requested odometer readings through the Chief Administrative Office for the purposes of analyzing miles per gallon for vehicles. However, this analysis had to be aborted due to the unreliability of data. The data showed miles per gallons for selected active vehicles ranging from 0.86 miles per gallon to 758.37 miles per gallon. Also, a review of Fleet data revealed numerous instances of low vehicle mileage per vehicle; however, the inaccurate odometer data in MCMS rendered any analysis as unreliable. The lack of implementing edit reports to detect erroneous fuel data may have contributed to another missed opportunity to capture accurate data that is critical to controlling costs.

#### ***May 2007 Audit Recommendation:***

8. *Generate exception reports to detect unusual or unreasonable entries in the data fields (Not Implemented).*

In the 2007 report, the auditors noted that exception reports identifying work orders with questionable labor hours and costs were not available. There is no evidence that Fleet attempted to resolve this issue. Fleet deferred implementation of this recommendation until completion of the system upgrade.

#### ***May 2007 Audit Recommendations:***

36. *Establish appropriate performance measures (Not Implemented).*
38. *Use the comparison between actual time and established standards to evaluate mechanics (Not Implemented).*

The May 2007 report noted that detailed labor standards are already in use in the private and public sector. During the audit, Fleet used software called ALLDATA, which provides labor standards for various vehicles and equipment repairs and maintenance jobs. According to the Fleet Manager, the MCMS system has the capability to establish standard jobs, but that feature was not used nor implemented after the May 2007 report.

Fleet has elected to defer the establishment of labor time standards until the M5 system upgrade. The ability to establish initial benchmarks for standard jobs performed by Fleet's technicians is not dependent upon the installation of a system upgrade. Instead, this information should already be available based on data extraction, access to ALLDATA or other industry standards. It appears that Fleet is missing an opportunity to compile and implement labor standards. This task may take a considerable amount of time once the upgrade is implemented. This means that labor management will not improve even after the upgrade is implemented until labor standards are formulated.

***May 2007 Audit Recommendation:***

*37. Discontinue adjusting labor hours charged to repairs and maintenance activity (Not Implemented).*

In the 2007 report, the auditors compared actual labor hours to standard hours per ALLDATA for reasonableness. Although the actual labor hours were comparable to ALLDATA standards, the auditors learned that supervisors could exercise discretion to adjust a mechanic's time if the supervisor believes that the mechanic appeared to overcharge his hours on a given task. Supervisors may or may not consult with the mechanic before changing the time recorded, and these adjustments are not specifically tracked by management. This increases the risk that actual times and ensuing measures of actual productivity could be altered. This situation defeats the purpose of using published standards and results in misrepresentation of labor efficiency. In these circumstances, Fleet Services management is not able to evaluate and manage labor costs. The resulting data may be useless for performance management. This issue remains unresolved.

***May 2007 Audit Recommendations:***

- 40. Determine the level of training needed to ensure mechanics competency in order to perform quality repairs (Partially Implemented).*
- 41. Develop a comprehensive training program for all existing mechanics based on their skill sets (Not Implemented).*
- 42. Provide appropriate training to mechanics based on systematic evaluation of needs (Not Implemented).*

Auditors reviewed Fleet's documentation and deemed that training was being provided to mechanics. The auditors saw improved documentation to support that the mechanics were receiving training; however, there was no evidence that a systematic evaluation of training needs or a comprehensive training program was established.

With regard to the above recommendations, Fleet noted that it is working with Human Resources to develop a comprehensive in-house training program for the mechanics.

***Fuel Management***

***May 2007 Audit Recommendations:***

- 43. Implement appropriate monitoring to verify user accountability and necessary testing programs to comply with the Fuel Card Policy effective March 13, 2006 (Not Implemented).*
- 44. Establish appropriate edit checks in the system to prevent data input in various system fields that exceed pre-established parameters (Not Implemented).*

In the May 2007 report, auditors found significant internal control weaknesses with regard to control over fuel usage. Fleet had not taken advantage of the system's edit checks feature that would restrict users from obtaining fuel outside preset limits. Auditors also noted that most of the fueling sites were not staffed or otherwise monitored using security cameras.

The absence of timely implementation appears to have been costly. In the fall of 2007, a Henrico man was charged with stealing more than \$20,000 of City fuel with a gas card from a former employee of the Richmond Ambulance Authority. In January 2008, a City School District employee was arrested for an apparent theft of thousands of dollars worth of diesel fuel. According to police, three gas cards were used to purchase about 27,000 gallons of diesel fuel worth about \$73,000 during the period of October through December 2007.

In February 2008, almost nine months after the 2007 report was issued, the City Administration cancelled all fuel cards and issued new cards. Under the new policy, employees would have personal identification numbers (PINs) that would tie them to any use of the new cards. During this review, auditors learned that the PIN number feature to assign individual accountability was not used on the new fuel cards. Instead, the fuel cards are still assigned to vehicles rather than to individuals. Therefore, issuance of new cards did not improve controls and the weaknesses originally identified still continue.

The auditors have also learned that an additional 414 miscellaneous fuel cards have been issued to various City agencies. Of these, at least 143 cards are actually being used. These cards are not issued to specific individuals, vehicles or pieces of equipment. The agencies are allowed to let their employees use the cards at their discretion. The agencies are expected to develop procedures to control fuel usage on these cards. During the review, no guidelines were available; however, some guidelines for control procedures were produced just prior to the issuance of this report. Given the continuing weaknesses noted in the fuel cards, this situation increases exposure of the City's investment in already vulnerable fuel inventories to the risk of theft.

Fleet has begun an initiative to replace the current fuel card system with ring technology. An electronic ring and chip will be installed in all City equipment to identify each unit based on inventory data in order to activate the fueling pump. Data from each fueling transaction is recorded in the vendor's fuel information system. Additionally, all City fueling data is transferred from the vendor's system to Fleet's MCMS information

system. Once the rings are installed, all fuel cards will be deactivated. Since the current contract with the fuel supplier has been terminated, the plans to install the ring technology have been deferred from an initial target date of July 31, 2008. The new target date has not been established.

***May 2007 Audit Recommendations:***

45. *Prohibit departments from using premium and plus grades of fuel except where required (Implemented).*
46. *Implement controls at the pumps in conjunction with the fuel vendor to allow premium/plus usage to only authorized users (Implemented).*
47. *Monitor usage with exception reports or edit checks to ensure compliance (Implemented).*

The auditors did observe progress during their follow-up review. With regard to recommendation number 47, the fuel vendor provided evidence that an exception report was available. However, the auditors do not have assurance that Fleet personnel request or use this report regularly.

***May 2007 Audit Recommendation:***

48. *Conduct a detailed study of usage, operations, and maintenance cost and locations of fueling sites; and determine the most cost effective way to provide fueling services, including the possibilities of privatization (Not Implemented).*

Despite the identification of underutilized fuel sites in the May 2007 report, Fleet deferred review of this recommendation until the Fall of 2008.

***Parts Operations:***

***May 2007 Audit Recommendations:***

49. *Conduct a feasibility study to determine if cost savings would result by bringing the parts operation back in-house or pursuing some other outsourcing alternative (Not Implemented).*

50. *Evaluate the prices of the parts supplied by various sources and available using the state contract to determine best source of parts procurement. (Not Implemented).*

In the 2007 report, the auditors noted that Fleet Services had privatized the parts room operations. However, this contract could have been monitored more effectively. A limited comparison of the vendor's prices and State contract prices on five items revealed that the vendor's prices were about 20% higher. This indicated the possibility of purchasing parts at a lower cost on the State contract. The 2007 report also found that about half of the mechanics did not appear to be satisfied with the quality of the parts delivered.

The May 2007 audit identified an annual projected savings opportunity of about \$265,000 if the parts operation was brought in-house. In sum, this suggests that City resources continue to be spent excessively without a plan of remedial action in sight. Fleet has deferred reviewing this recommendation until the implementation of M5 and the fuel ring technology. However, these improvements are not a prerequisite for implementation of the above recommendations.

### ***Service Alternative***

#### ***May 2007 Audit Recommendations:***

51. *Any future outsourcing contract must include performance measures and an incentive to obtain best part prices (Not Implemented).*
52. *Outsource Fleet Services operations after conducting thorough research and inviting all major companies providing Fleet Management Services to local governments (Not Implemented).*
53. *Ensure that the contract includes appropriate performance measures, financial rewards for superior performance and financial penalties for not meeting performance criteria (Not Implemented).*
54. *Hire a contract administrator knowledgeable both in fleet operations and prudent management practices to monitor contractor performance and compliance with the contract (Not Implemented).*

The 2007 audit report found that:

- Fleet system data cannot be used for performance measurement comparison to industry standards or productivity because the completeness and accuracy of the data is doubtful;
- Fleet's adjusted expenditures have increased about 49% over the past five years;
- On average, Richmond spent 76% more than other Virginia localities;
- Several hundred thousand dollars were charged to miscellaneous work orders; and
- Frontline supervisors can alter work order details and costs after the fact.

Auditors surveyed municipal government customers who had utilized vendors to privatize their fleet management due to problems stemming from inadequate management, inaccurate record-keeping, unreliable data, employee non-productivity, and workplace inefficiencies. The positive comments from these municipal entities could be characterized as follows:

- They saved money from privatizing their fleet operations.
- They were satisfied with their vendor's performance.
- The benefits derived from overall improvement in efficiency and effectiveness surpassed accumulated dollar value savings.
- Most of the entities noted the necessity of a properly written contract as a prerequisite to a beneficial relationship with the external contractor.

During meetings between auditors, Fleet and Administration personnel, there was general agreement that:

- Fleet Services has been historically run as an inefficient operation;
- No one really knows how much the Fleet operation should cost; and
- Months would be needed to build reliable data upon which to gauge effective measures of performance.

The City Auditor’s Office still strongly supports the concept of outsourcing Fleet operations based on their industry research. One outsourcing expert cited ten reasons why entities outsource:

1. Reduce and control operating costs
2. Improve entity focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available
9. Share risks
10. Cash infusion

For comparative purposes and to verify the continued validity of the original recommendations, the auditors benchmarked seven of the “100 Best Fleets” localities reviewed in the magazine, “Government Fleet”, against the City of Richmond’s fleet operations. These municipalities have outsourced their fleet operations. The following is an update of the 2007 survey of municipalities who privatized their fleets:

<b>Locality (Rank in 100 Best Fleets)</b>	<b># of Vehicles &amp; Equipment (2007)</b>	<b>Cost of Operations Less depr. &amp; fuel)</b>	<b>Average cost/unit</b>	<b>Population</b>	<b>Population per unit</b>
Allegheny County, PA (#13)	700	\$1,966,393	\$2,809	*910,000	1,300
City of Augusta/Richmond County, GA (#47)	2,295	\$3,504,521	\$1,527	194,000	85
City of Fort Lauderdale, FL (#61)	1,558	\$5,283,421	\$3,391	186,000	119
City of Fort Wayne, IN (#8)	1,650	\$2,500,000	\$1,515	249,000	151
Harford County, MD (#23)	1,088	\$3,059,474	\$2,812	241,000	222
Montgomery	2,400	\$5,085,914	\$2,119	932,000	388

County, MD (#81)					
City of Wilmington, DE (#27)	572	\$2,005,812	\$3,507	73,000	128
Avg of outsourced localities	<b>1,466</b>	<b>3,343,648</b>	<b>\$2,281</b>		
<b>City of Richmond</b>	<b>2,304</b>	<b>\$8,819,281</b>	<b>\$3,828</b>	<b>193,000</b>	<b>84</b>
Potential excess spending by Richmond per vehicle (\$3,828 - \$2,281)			<b>\$1,547</b>		
Potential excess spending by Richmond per vehicle against outsourced localities (\$1,547 x 2,304 vehicles) (Rounded)			<b>\$3,600,000</b>		

*\*Excludes City of Pittsburgh*

Fort Wayne, Indiana was recognized as #1 in the 2006 100 Best Fleets competition. This fleet, which is privatized, employs Six Sigma techniques to promote efficiency and eliminate waste. The fleet has grown 17% over the past five years, but the overall maintenance cost of the fleet costs 15% less than 10 years ago. The overall availability has averaged 99% during the past four years.

The City of Pittsburgh, PA (ranked as #25 in the 100 Best Fleets of 2007) indicated that their locality elected to privatize its fleet operations as one of several means to actuate savings opportunities. They affirmed the following benefits from privatizing:

- The vehicle availability rate rose to 90+% (vs. high 70%-to-low 80% range when fleet maintenance was in-house).
- The required number of employees was reduced from 70 to 48 who continued to perform the same level of work.
- Currency on industry trends including EPA recommendations and regulations, nationwide training, and certifications was evident.
- Comparable salary and benefits were offered which was one of the negotiated contract stipulations.
- Very high customer service satisfaction rates including 41% “Excellent” and 46% “Good” were received.
- Significant savings had been attained through privatization.

Pittsburgh reported that the locality's fleet size was around 1,000 vehicles and pieces of equipment serving a population of approximately 312,000 covering 60 square miles. By contrast, Richmond's fleet size as confirmed by an outside consultant is around 2,300 vehicles and pieces of equipment. The auditors note that Richmond's population is approximately 193,000 covering about 60 square miles. This comparison suggests that Richmond's fleet size is more than double that of the locality that serves about 50% more people. The auditors found several other examples, too numerous to discuss in this report, where outsourcing has significantly benefited the government.

The foregoing analysis suggests that the significant savings potential through outsourcing that was identified in the 2007 report remains valid. It should be noted that for successful outsourcing, there should be management and staff receptiveness towards the vendor. Efforts must be made to introduce and promote the vendor's services throughout the organization. Lack of these types of efforts could lead to failure of the outsourcing as it did in the Virginia State government.

The City Administration announced over a year ago that the outsourcing RFP was being developed and noted that potential savings could be quantified by extending a bid invitation (RFP) for these services. In an April 2008 communication, the City Administration indicated that the City's preferred approach would be to issue a "Request for Information (RFI) /Request for Qualifications (RFQ)" by the first week of June 2008, review the responses, and be prepared to issue an RFP sometime by early to mid-summer. More recently, the Administration issued the Request for Information (RFI) July 1, 2008, and the Administration promised that an outsourcing RFP would be issued by the Audit Committee meeting scheduled for September 2008.

Issuing the RFI does not appear to be a good faith effort. In the introduction section of the RFI, the City specifically states that:

- "The RFI shall not be construed as intent by the City of Richmond, Virginia, Department of General Services, Fleet Management Division, to purchase, commit to purchase, or obligate at some future date the services or products described therein.

- This RFI is solely an instrument of information gathering for analytical purposes. Persons or entities shall not interpret anything in this RFI as a solicitation to acquire or purchase their services.”

However, in section 6 of the RFI, the following price information (reproduced from the RFI) is requested from vendors:

- **Price Proposal.** *This tab should include estimated pricing arrangement for the services provided in your approach. The pricing should detail the following information:*
  - *Management Salary by position*
  - *Personnel rate and annual cost per position category*
  - *Leases and Rents expense*
  - *Estimated Parts for Preventive Maintenance*
  - *Management Fees*
  - *Rate of Return*
- *When developing pricing structures, the contractor should give consideration to probable penalties that would be assessed by the City if certain performance measures were not met. The example below depicts such penalties as they appear in contracts of other public entities contacted around the United States:*
  - *If the availability base is 93% and above, no reduction will be taken.*
  - *If the availability base is 92% to less than 93%, the City will reduce the contractor’s monthly payment by 5%.*
  - *If the availability base is 91% to less than 92%, the City will reduce the contractor’s monthly payment by 7%.*
  - *If the availability base is 90% to less than 91%, the City will reduce the contractor’s monthly payment by 10%.*
  - *If the availability base is less than 90%, the City will reduce the contractor’s monthly payment by 15%.*

It is well known that companies who prepare responses to an RFP incur substantial effort. An RFI, on the other hand, is generally a document that asks for data from prospective vendors in order to determine if the vendor is qualified to receive a formal RFP.

The RFI issued by Fleet requests pricing information and thus, appears to act like an RFP. The language stating that the City has no intent to purchase goods and services based on responses received may discourage qualified companies from expending resources to respond. In turn, this may significantly reduce the number of qualified vendors who will respond to an ensuing RFP.

During this review, the City Administration reversed itself and stated that the RFP cannot occur prior to the implementation of M5 in order to build more accurate costs. That means that the RFP cannot be issued until credible data is available. Implementation of M5 will not automatically assure adequate data. Implementation should be preceded by 1) intensive planning and gap-fit analysis to maximize the desired benefits from the upgrade and 2) exhaustive data cleansing to ensure the information is complete and accurate. However, during this review, auditors did not observe any such efforts.

In addition, the City established a requirement of a fleet availability rate of 93% in the RFI. This means, on average, that 93 out of 100 vehicles are in-service and not in the maintenance shop. Upon inquiry, the auditors were informed that Fleet does not track the vehicle/equipment availability rate. City Procurement noted that it reviewed the RFPs of other localities and selected this figure to develop the RFI arbitrarily. Therefore, the information gathered from the RFI cannot be used to compare to the existing Fleet operations, defeating the purpose of the RFI issuance.

Similarly, the auditors asked about the 97% rework performance standard (i.e., 97% of vehicles will not require rework). Fleet asserts the rework data has been tracked since January 2008, but there is no apparent “rework” % figure. The auditors asked Fleet management to explain its methodology for calculating the rework %, but Fleet personnel did not provide an explanation. It does not appear that credible data exists to evaluate the RFI responses.