

AUDIT TEAM

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GENERAL FLEET VEHICLE USE

JANUARY 15, 2013

MAYOR AND CITY COUNCIL

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<i>Patrick J. Ryan</i>	<i>Ward 8</i>



January 15, 2013

The Mayor and City Council:

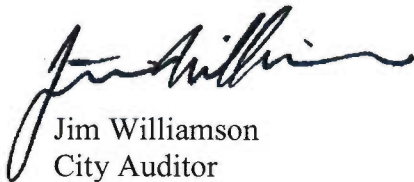
The Office of the City Auditor has completed an audit of procedures ensuring the City's general fleet of light-duty vehicles is efficiently used as of March 31, 2012.

Based on the results of our audit, we believe that established procedures are not adequate to ensure light-duty general fleet vehicles are efficiently used and vehicle use is not adequately considered in vehicle replacement decisions.

To improve these procedures, the Office of Management and Budget should work with departments to annually assess the need for and cost-effective alternatives to maintaining and replacing low-use general fleet vehicles. As with similar reviews performed by OMB, related conclusions and recommendations should be forwarded to the City Manager's Office for final decision making. See Recommendations 1 and 2.

We did not assess whether vehicles taken home by employees have been properly authorized based on a cost-effective business purpose. Personal use of vehicles taken home by employees may be significant to overall use of vehicles operated by the Police (OCPD) and Fire (OCFD) Departments, assessment of which will be considered in future audit plans by the Office of the City Auditor.

The content and emphasis of items in this report have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the recommendations and observations arising from our audit. Management's responses are attached to this report in their entirety.


Jim Williamson
City Auditor


Matt Weller
Assistant City Auditor

GENERAL FLEET VEHICLE USE

AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to evaluate the adequacy and effectiveness of procedures ensuring that the City's general fleet of light-duty vehicles (e.g., sedans, sport utility vehicles, vans, and pick-ups less than 1 ton) is efficiently used as of March 31, 2012.

Procedures performed during this audit included assessing vehicle usage reporting and monitoring procedures; determining cumulative use and age of light-duty vehicles; reviewing pool vehicle use and mileage reimbursements paid; evaluating fleet replacement procedures; and interviewing department managers regarding use of selected light-duty vehicles.

The scope of this audit was limited to evaluating vehicle usage. We did not assess the effectiveness of the City's strategic fleet replacement plan, which was developed in 2005 with assistance from a consultant. Vehicles owned and operated by public trusts affiliated with the City were not included in the scope of this audit. Additionally, we did not assess whether vehicles taken home by employees have been properly authorized based on a cost-effective business purpose. Personal use of vehicles taken home by employees may be significant to overall use of vehicles operated by the Police (OCPD) and Fire (OCFD) Departments, assessment of which will be considered in future audit plans by the Office of the City Auditor.

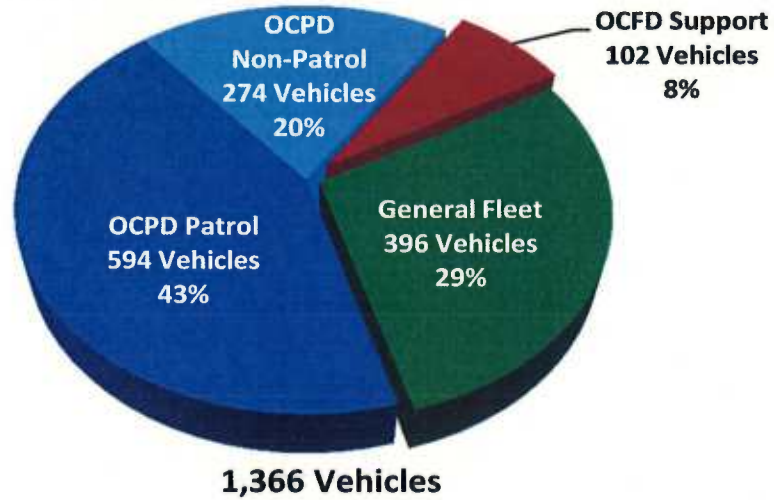
We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

BACKGROUND

The General Services Department - Fleet Services Division (Fleet Services) is responsible for compiling and distributing general fleet (i.e., City-owned vehicles operated by all departments except for OCPD and OCFD) information to aid departments in managing vehicles, including usage monitoring and vehicle replacement decisions. OCPD and OCFD are responsible for compiling management information for their vehicle fleets.

The general fleet comprises approximately one-third of the City's light-duty vehicle fleet.

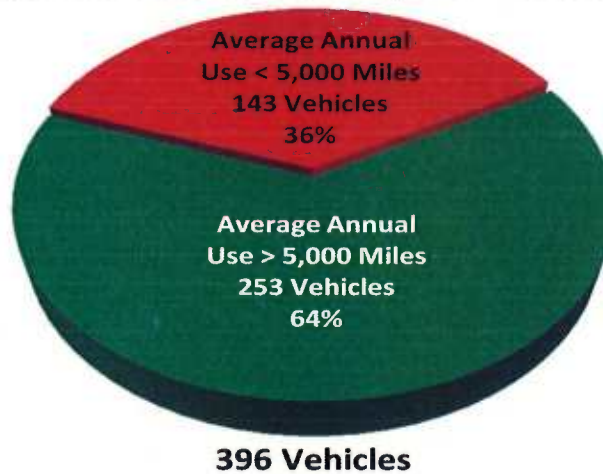
Exhibit 1: City Light-duty Vehicles as of 3/31/12



Source: M5 Fleet Inventory System and OCFD fuel database.

Industry standards for use of light-duty vehicles are not available. We applied average annual use less than 5,000¹ miles to identify vehicles that may be underutilized. We noted 24 or 3% of vehicles operated by OCPD and 9 or 9% of OCFD operated vehicles with average annual use of less than 5,000 miles, while 143 or 36% of general fleet vehicles met this criterion.

Exhibit 2: General Fleet Light-duty Vehicle Average Annual Use as of 3/31/12



Source: M5 Fleet Inventory System.

However, as previously stated, miles driven by employees for personal reasons may significantly impact OCPD and OCFD vehicle usage. 593 or 68% and 52 or 51% of light-duty vehicles operated by OCPD and OCFD, respectively, are authorized to be taken home by employees, while 6 or 2% of general fleet light-duty vehicles are authorized for such use.

¹ Average annual use of less than 5,000 miles was chosen based on a 2011 fleet management program review conducted by a consultant for the City of Tulsa. This figure is slightly higher than that used by Fleet Services to identify and periodically report potentially underutilized vehicles. See note 2 on page 3.

The following sections of this report include recommendations intended to provide constructive light-duty fleet management suggestions. These recommendations may be applicable to the City's equipment and heavy-duty vehicle fleet, in which case management should implement the recommendations for those fleet classifications as well. Each recommendation included in this report is immediately followed by *management's response*, which are attached in their entirety to this report.

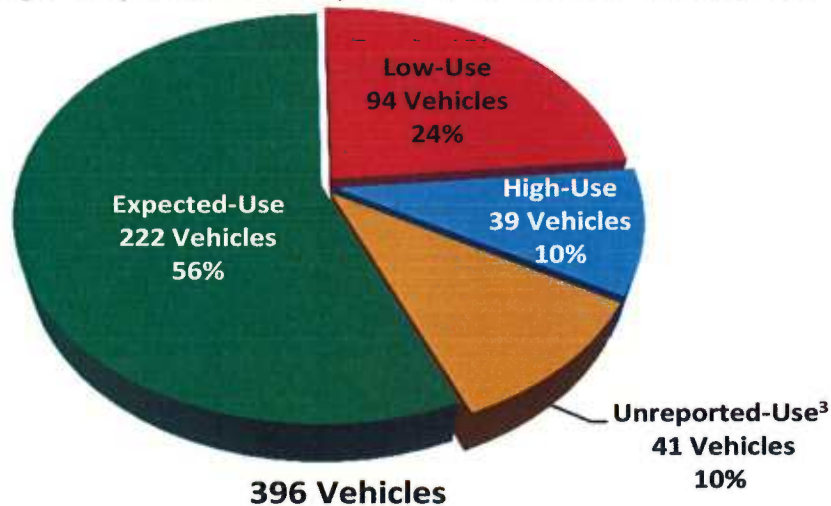
RESULTS OF WORK PERFORMED

Established procedures are not adequate to ensure light-duty general fleet vehicles are efficiently used and vehicle use is not adequately considered in vehicle replacement decisions.

MONITORING VEHICLE USE

The process for addressing underutilized vehicles is ineffective. Fleet Services has adopted the expected life and mileage for light-duty general fleet vehicles (generally 8-10 years and 105,000 miles) recommended by the consultant during development of the 2005 strategic fleet replacement plan. Fleet Services recently began periodically producing and distributing reports to department managers listing low-use vehicles. Fleet Services has defined low-use light-duty vehicles as those driven less than 34% of their average annual expected use goal² during the previous 12 months. Reports produced for the 12 months ended March 31, 2012 indicated approximately one-fourth of light-duty general fleet vehicles had low-use.

Exhibit 3: General Fleet Light-duty Vehicle Use Reported for 12 Months Ended 3/31/12



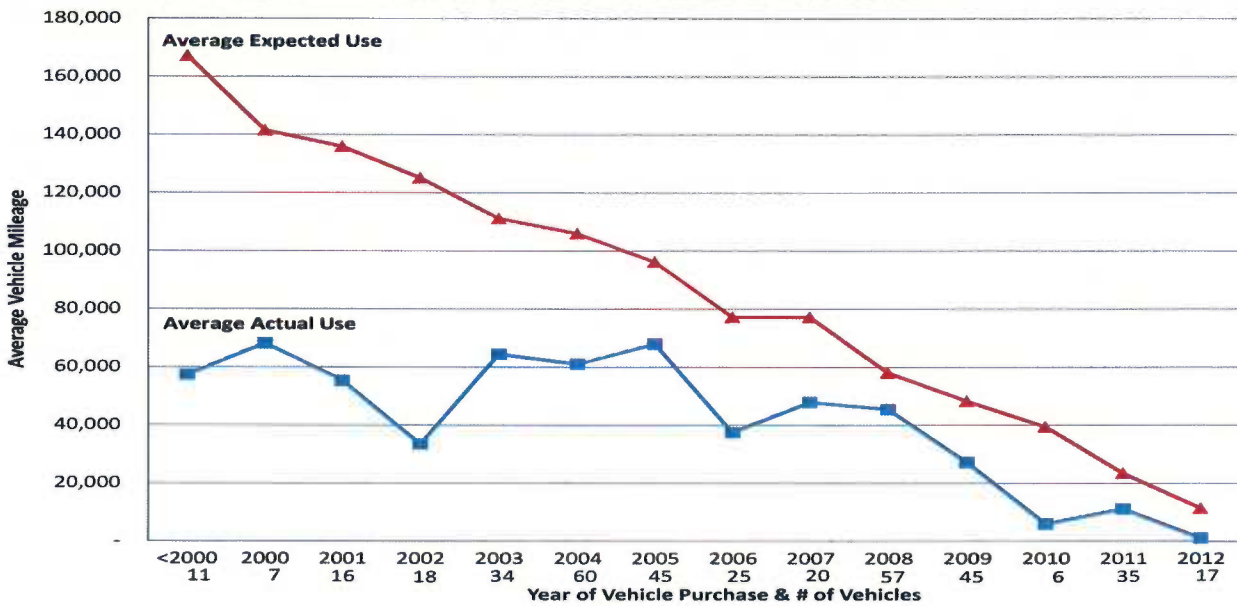
Source: M5 Fleet Inventory System.

² Average annual expected use goals were derived for each vehicle class by Fleet Services based on overall expected vehicle life and mileage. For example, the average annual expected use goal for mid-size sedans is 13,125 miles (105,000 total expected miles divided by an expected life of 8 years). Low-use mid-size sedans are defined as those driven less than 4,463 miles (34% of 13,125 miles).

³ Use is not reported for vehicles that have been in service less than 1 year.

Overall, average cumulative use of general fleet light-duty vehicles is well below expected.

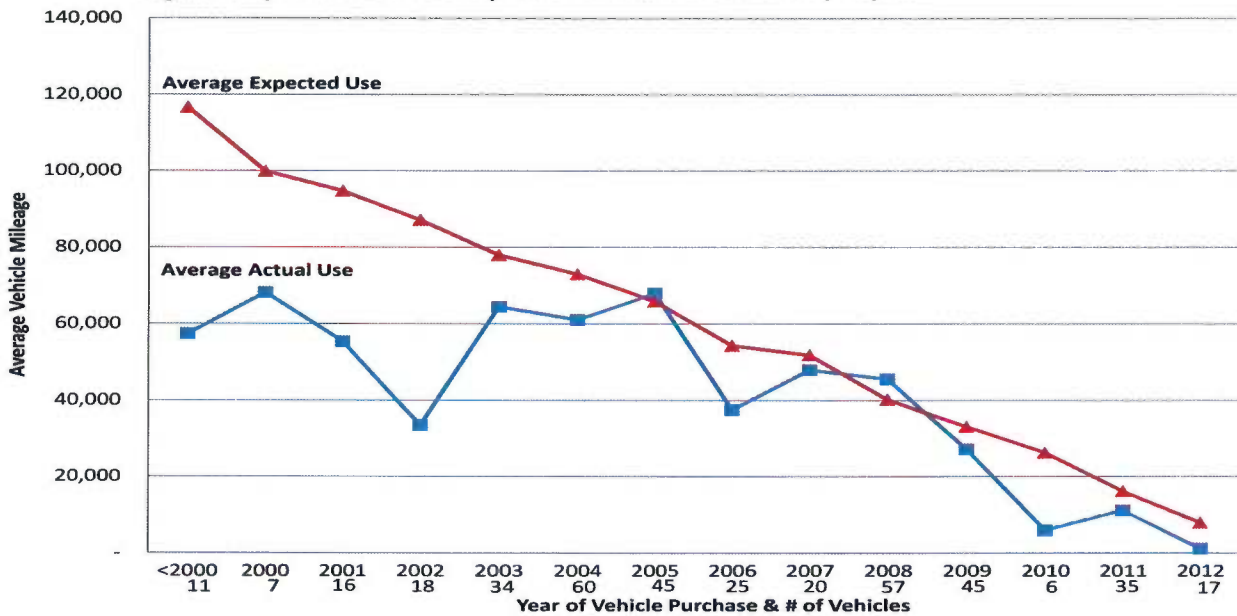
**Exhibit 4: Average Actual vs. Expected Use
Light-duty General Fleet by Year of Purchase as of 3/31/12**



Source: Average actual total use by year of vehicle purchase per M5 Fleet Inventory System compared to average expected total use for those vehicles based on annual expected use derived by Fleet Services. See note 2 on page 3.

In fact, accumulated mileage on light-duty general fleet vehicles reflects actual use more in line with expected vehicle lives approximately 4 years longer (12-14 years) than those currently used by Fleet Services (8-10 years).

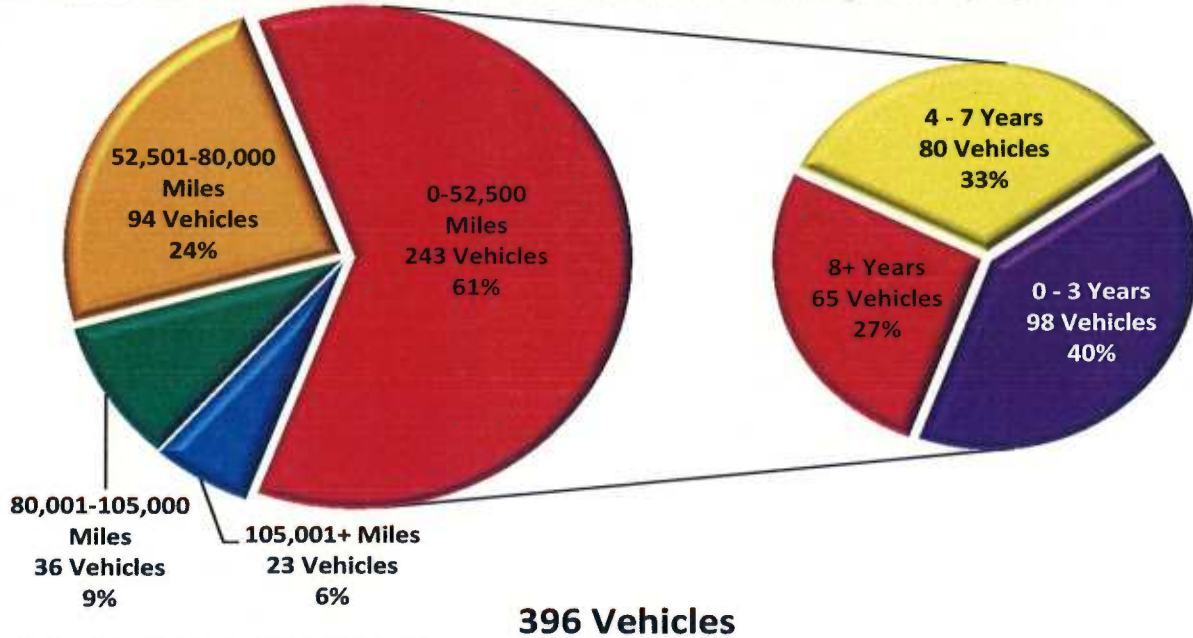
**Exhibit 5: Average Actual vs. Expected Use with 4-year Life Expectancy Increase
Light-duty General Fleet by Year of Purchase as of 3/31/12**



Source: Average actual total use by year of vehicle purchase per M5 Fleet Inventory System compared to average expected total use for those vehicles based on annual expected use derived by adding 4 years to life expectancies used by Fleet Services.

Another indicator of an underutilized light-duty general fleet is that over one-fourth of the vehicles with less than one-half of their expected use (52,500 miles) have substantially reached their expected life (at least 8 years old).

Exhibit 6: General Fleet Light-duty Vehicles Accumulated Mileage as of 3/31/12



Source: M5 Fleet Inventory System.

We reviewed life-to-date general fleet light-duty vehicle ownership costs (operation, maintenance and depreciation) and interviewed department managers regarding samples of vehicles that appeared to be underutilized (less than 5,000 miles) for the 12 months ended March 31, 2012. We also reviewed citywide employee mileage reimbursements for the fiscal year ended June 30, 2012. Results of these procedures included the following:

- Departments maintaining low-use vehicles based on a perceived need for City and department vehicle markings.
- Departments maintaining low-use vans and trucks for transporting equipment when such pool and shop loaner vehicles are centrally available through Fleet Services.
- Departments maintaining pool or shop loaner vehicles when such vehicles are centrally available through Fleet Services.
- 12 pool and 13 shop loaner vehicles centrally available from Fleet Services meeting low-use criteria (less than 5,000 miles).

- Over 160 light-duty vehicles with annual ownership costs based on a sample of 10 low-use vehicles exceeding extrapolated mileage reimbursement costs for the same number of miles driven⁴.
- Mileage reimbursements paid to 4 employees exceeding extrapolated vehicle ownership costs for the same number of miles reimbursed.

A Fleet Management Policy Manual was adopted by the City Manager's Office in December 1999. The policy requires annual review of fleet use by the City Manager's Office to determine whether low-use vehicles should be retained, reassigned or eliminated.

An objective, responsible party reviewing low-use vehicles for operational need and effective resource allocation as provided in the fleet management policy manual is sound. However, it is not realistic to expect the City Manager's Office to independently perform the type of detailed analysis necessary to effectively fulfill this role. The Office of Management & Budget (OMB) routinely performs similar reviews, interacts with departments and makes recommendations to the City Manager's Office regarding other aspects of City operations (operating budget, department business plans, capital improvement plan, etc.).

Recommendation (1)

OMB should work with departments in assessing the need for and cost-effective alternatives to maintaining low-use general fleet vehicles. As with similar reviews performed by OMB, related conclusions and recommendations should be forwarded to the City Manager's Office for final decision making.

Finance Department Response (1)

Agree with recommendation. OMB is working with the General Services Department and the City Manager's Office to develop an annual review of all underutilized fleet vehicles. The first review will be conducted at the end of FY 2013 prior to the FY 2014 fleet replacement process.

⁴ Ownership costs were more than extrapolated mileage reimbursement costs for annual mileage up to 6,624 miles at the current IRS mileage reimbursement rate of \$0.555 per mile. While this could be another way of quantifying low-use vehicles, there could be a valid reason for owning some of these vehicles instead of reimbursing mileage.

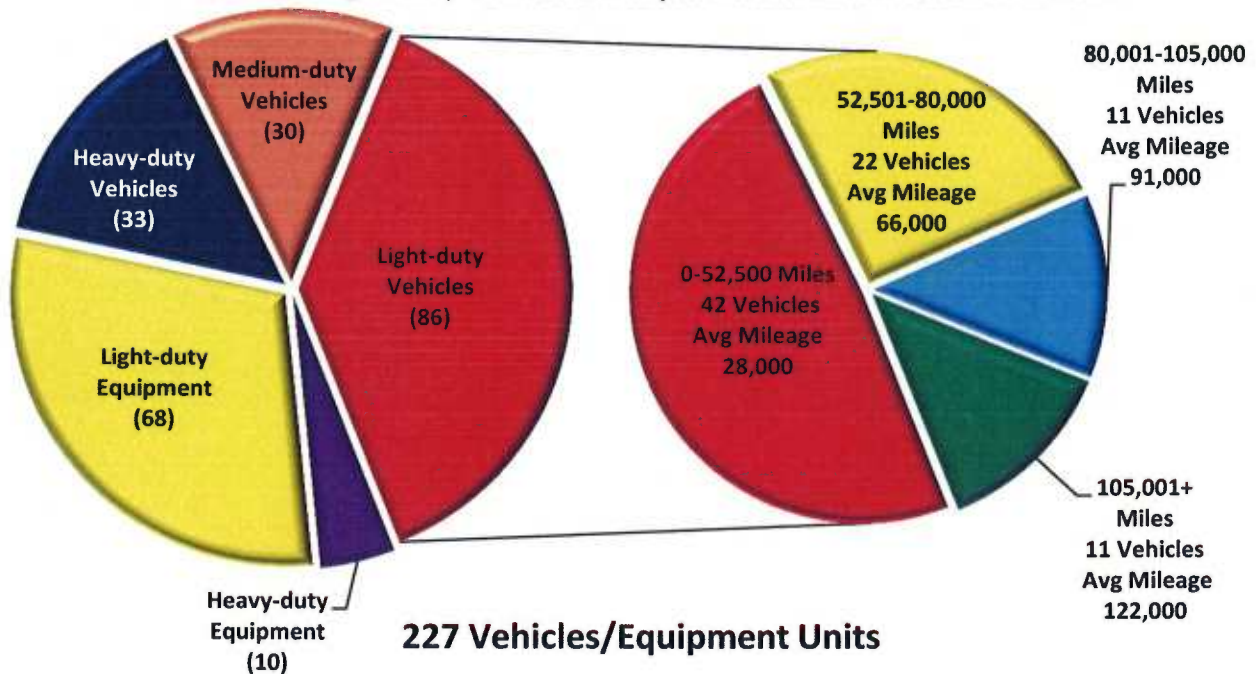
VEHICLE REPLACEMENT

The goal of the fleet replacement program is replacement before maintenance costs become prohibitive. Maintenance costs generally become prohibitive at varying combinations of mileage and age. As of March 31, 2012, we noted that average maintenance costs for light-duty general fleet vehicles with less than 100,000 miles averaged \$530 per year for vehicles more than 10 years old and \$811 per year for vehicles less than 10 years old. Maintenance costs for vehicles with more than 100,000 miles, regardless of age, averaged approximately \$1,400 per year. Vehicle mileage appears to be a strong indicator of increasing maintenance costs while vehicle age has no appreciable impact.

All fleet vehicles and equipment are annually assigned a replacement score⁵ by the M5 Fleet Management System. Fleet Services produces a listing of fleet vehicles/equipment meeting only expected life criteria prioritized based on assigned replacement scores. Assigned replacement scores are then used to allocate available replacement funding to departments on a pro-rata basis. Departments select specific vehicles/equipment to be replaced from the list, regardless of assigned replacement scores or use, given constraints of their pro-rata funding allocation.

The list used by departments to select general fleet vehicles/equipment for replacement in fiscal year 2012 totaled \$9.3 million. 86 light-duty vehicles with a replacement cost of \$1.8 million were included on the list, 64 of which, with a replacement cost of \$1.3 million, had use well below expected.

Exhibit 7: General Fleet Light-duty Vehicles on Replacement List for Fiscal Year 2012

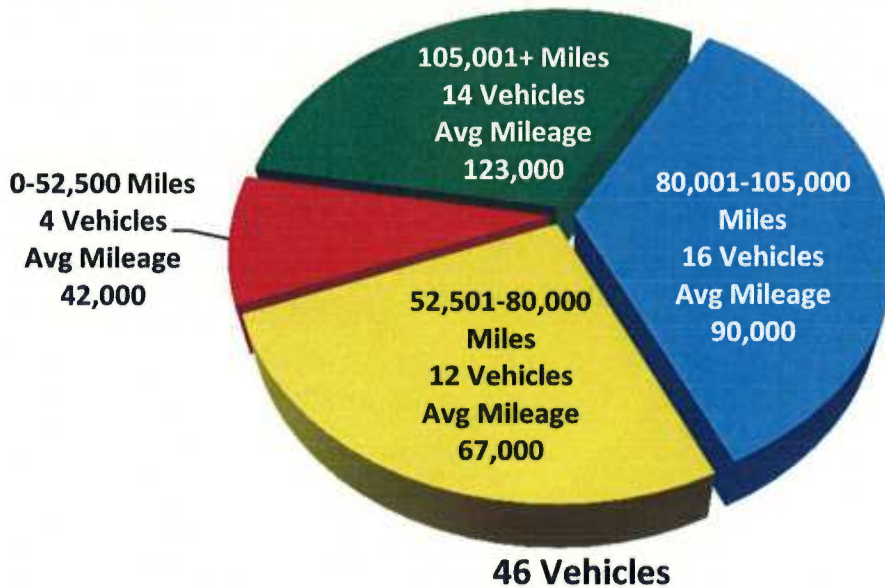


Source: Fleet replacement list prepared by Fleet Services and M5 Fleet Inventory System.

⁵ The replacement score is based on a number of factors (age, accumulated use, historic maintenance costs, etc.) as determined by Fleet Services in consultation with City fleet-using departments.

We reviewed all light-duty general fleet vehicles removed from service during fiscal years 2011 and 2012, noting that 46 vehicles were replaced because of ‘normal wear’ or ‘scheduled replacement’. 16 of these vehicles had accumulated use well below expected.

**Exhibit 8: General Fleet Light-duty Vehicles Replaced
Normal Wear or Scheduled Replacement during Fiscal Years 2011 and 2012**



Source: City Council Resolutions and M5 Fleet Inventory System.

The fleet management policy manual requires approval from the City Manager’s Office to replace vehicles that have not met their expected use. However, as previously discussed, it is not realistic to expect the City Manager’s Office to independently perform the type of detailed analysis necessary to effectively fulfill this role (see Recommendation 1). Additionally, combining the annual vehicle use analysis with the vehicle replacement process would allow for more complete information in resource allocation decisions.

Recommendation (2)

OMB should work with departments in assessing the need for and cost-effective alternatives to replacing low-use general fleet vehicles. Performing this review in conjunction with the annual vehicle use analysis discussed in Recommendation 1 should be considered. As with similar reviews performed by OMB, related conclusions and recommendations should be forwarded to the City Manager’s Office for final decision making.

Finance Department Response (2)

Agree with recommendation. OMB is working with General Services and the City Manager’s Office to develop an independent annual review of all fleet replacement decisions. This new process will be implemented in FY 13 and will begin immediately. In future years, the process will follow the underutilization review and begin earlier in the fiscal year.

OTHER COMMENTS

As previously discussed, whether vehicles taken home by employees have been properly authorized based on a cost-effective business purpose was not included in the scope of this audit. However, during our review we noted certain control weaknesses relating to take-home vehicles that should be addressed by management.

OCPD Fleet

OCPD has a take-home vehicle program established to place marked police vehicles throughout the City to increase visibility and availability of police services and encourage interaction between citizens and the police. As of March 31, 2012, 265 take-home vehicles were assigned.

OCPD also has a home-storage vehicle program allowing officers to take marked and unmarked law enforcement vehicles home for the sole purpose of providing the ability to immediately respond to call-out situations. As of March 31, 2012, 328 home-storage vehicles were assigned.

While documented authorization is required for take-home vehicles, no such requirement exists for home-storage vehicles.

Recommendation (3)

Authorization for home-storage vehicles complying with OCPD policy regarding business purpose for such assignments should be documented.

OCPD Response (3)

Agree with recommendation. By January 1, 2013, the Police Department will create a form to track assignment and document approval of home-storage vehicles. The Police Department recognizes there are some employees who have home-storage vehicles that do not meet the criteria listed in Procedure 206.0. Assignment of those vehicles has taken place over many years and removing home storage vehicles from sworn employees could require an agreement with the Fraternal Order of Police.

OCFD Fleet

OCFD maintains separate lists of light-duty vehicles and employees authorized to take these vehicles home. As of March 31, 2012, there were 102 OCFD fleet light-duty vehicles and 52 employees authorized to take them home. Without a record of the specific vehicle assigned to each employee, accountability for compliance with OCFD standard operating procedures regarding take-home vehicle use may not be possible.

Recommendation (4)

Specific vehicle assigned should be recorded for each employee authorized to take a vehicle home.

OCFD Response (4)

Agree with recommendation. In accordance with OCFD Standard Operating Procedures Administration Section 026, "Vehicle Assignment and Use Policy", all OCFD Personnel that are assigned use of a City of Oklahoma City Vehicle are required to read OCFD Operating Procedures ADN/026 and sign a memorandum stating that they have read and understand the policy.

The memorandum will clearly state the City of Oklahoma City CID number (city identification number) of the vehicle that the signee has been assigned. It will state the level of assignment in accordance with the ADN/026 that the signee has been granted. It will also state the start date of assignment. Upon conclusion of assignment, the signee will turn-in the vehicle to Fire Maintenance Administration, at which time their closeout signature and date will be required on the original memorandum.

Previously, Fire Admin handled distribution of the policy memo and signatures. Now, the Fire Maintenance Section will manage all aspects of the vehicle use program, maintaining up-to-date files on what city vehicles are in operation and who is operating it. The Fleet Maintenance database that previously tracked only assignments of vehicles will now also track the level of usage assigned, and have a link to a copy of the memo signed by the employee. Fire Maintenance will notify assigned drivers of preventive maintenance requirement and any repairs that need to be performed.

General Fleet

IRS regulations require reporting imputed income for personal use of take-home vehicles, including commuting to and from work⁶. We noted that imputed income was not reported for 5 employees with City owned take-home vehicles and 7 employees with Trust owned take-home vehicles during the 12 months ended January 31, 2012.

Recommendation (5)

Fleet Services should work with departments and the Finance Department to ensure that all employees authorized for take-home vehicle use have imputed income recorded in the City's Kronos timekeeping system.

General Services Department Response (5)

Agree with the recommendation: Beginning December 31, 2012, the General Services Department will provide the Finance Department a monthly report of all General Fund and Trust employees who have been approved by the City Manager's Office to take City owned vehicles home. Beginning in January 2013, the General Services Department will notify departments of any employee authorized to take a vehicle home, but who does not have imputed income recorded for the prior month.

⁶ IRS regulations relating to imputed income for personal use of take-home vehicles do not apply to public safety employees.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor
THROUGH: James D. Couch, City Manager *JOC*
FROM: Craig Freeman, Finance Director *CF*
DATE: January 9, 2013
SUBJECT: Audit #12-7 – General Fleet Vehicle Use

Following are management's responses to the first two recommendations in the General Fleet Vehicle Use Audit. Responses to the other recommendations will come from the appropriate departments.

1. Agree with recommendation. OMB is working with the General Services Department and the City Manager's Office to develop an annual review of all underutilized fleet vehicles. The first review will be conducted at the end of FY 2013 prior to the FY 2014 fleet replacement process.
2. Agree with recommendation. OMB is working with General Services and the City Manager's Office to develop an independent annual review of all fleet replacement decisions. This new process will be implemented in FY 13 and will begin immediately. In future years, the process will follow the underutilization review and begin earlier in the fiscal year.




MEMORANDUM

The City of
OKLAHOMA CITY
Police Department



TO: Jim Williamson, City Auditor

THROUGH: James Couch, City Manager

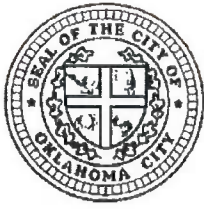
FROM: William Citty, Chief of Police 

DATE: December 13, 2012

SUBJECT: Audit 12-07 General Fleet Vehicle Use

The following is the Police Department's response to Recommendation (3) as listed in the referenced audit:


Agree with recommendation. By January 1, 2013, the Police Department will create a form to track assignment and document approval of home-storage vehicles. The Police Department recognizes there are some employees who have home-storage vehicles that do not meet the criteria listed in Procedure 206.0. Assignment of those vehicles has taken place over many years and removing home storage vehicles from sworn employees could require an agreement with the Fraternal Order of Police.



MEMORANDUM

The City of
OKLAHOMA CITY
Fire Department



TO: Jim Williamson, City Auditor
THROUGH: James D. Couch, City Manager
FROM: G. Keith Bryant, Fire Chief 
DATE: December 19, 2012
SUBJECT: General Fleet Vehicle Use Audit – OCFD Response/Vehicle Use Program

Recommendation

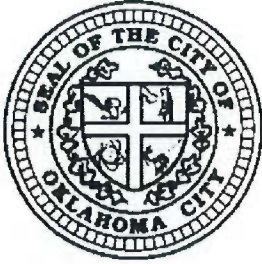
Specific vehicle assigned should be recorded for each employee authorized to take a vehicle home.

OCFD Response

Agree with recommendation. In accordance with OCFD Standard Operating Procedures Administration Section 026, "Vehicle Assignment and Use Policy", All OCFD Personnel that are assigned use of a City of Oklahoma City Vehicle are required to read OCFD Operating Procedure ADN/026 and sign a memorandum stating that they have read and understand the policy.

The memorandum will clearly state the City of Oklahoma City CID number (city identification number) of the vehicle that the signee has been assigned. It will state the level of assignment in accordance with the ADN/026 that the signee has been granted. It will also state the start date of assignment. Upon conclusion of assignment, the signee will turn-in the vehicle to Fire Maintenance Administration, at which time their closeout signature and date will be required on the original memorandum.

Previously, Fire Admin handled distribution of the policy memo and signatures. Now, the Fire Maintenance Section will manage all aspects of the vehicle use program, maintaining up-to-date files on what city vehicles are in operation and who is operating it. The Fleet Maintenance database that previously tracked only assignments of vehicles will now also track the level of usage assigned, and have a link to a copy of the memo signed by the employee. Fire Maintenance will notify assigned drivers of preventive maintenance requirements and any repairs that need to be performed.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: James D. Couch, City Manager

FROM: Paula J. Falkenstein, General Services Director

DATE: December 27, 2012

SUBJECT: Audit 12-7 General Fleet Vehicle Use

PJF

The following is the General Services Department's response to recommendation five (5) outlined in the recent General Fleet Vehicle Use audit.

Agree with the recommendation: Beginning December 31, 2012, the General Services Department will provide the Finance Department a monthly report of all General Fund and Trust employees who have been approved by the City Manager's Office to take City owned vehicles home. Beginning in January 2013, the General Services Department will notify departments of any employee authorized to take a vehicle home, but who does not have imputed income recorded for the prior month.

Thank you for your professional review of this program.