

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

FLEET MANAGEMENT DIVISION AUDIT

July 2003

Alex J. McLaughlin, Comptroller

July 25, 2003

Jeffrey P. Kraham, County Executive:

The Department of Audit and Control has audited the Fleet Management Division. The principle objectives were to measure the cost effectiveness and efficiency of Broome County's Fleet operation and to compare our operation to peer counties and other alternatives.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, it is our opinion that substantial opportunity exists for Fleet Management to improve cost effectiveness and efficiency.

Sincerely,

Alex J. McLaughlin
Comptroller

cc: Daniel A Schofield, Chairman of the Legislature
Members of the Legislature
Louis P. Augostini, Clerk of the Legislature
William M. Barber, Commissioner of Public Works

BACKGROUND

Fleet Management's stated mission is to provide and maintain a fleet of vehicles that will meet the needs of the individual departments with safety, efficiency and ease of operation.

Fleet Management, an internal service fund, is responsible for the purchase and maintenance of over 200 Broome County vehicles. Fleet is not generally responsible for maintenance of vehicles at the Airport, Highway garage, Landfill, Parks Department nor Transit.

For 2003, Fleet was authorized for three (3) Automotive Mechanics and one (1) Head Mechanic. Fleet Management is under the Deputy Commissioner of Public Works / Building and Grounds.

Fleet spends about \$1,000,000 per year, and typically posts a net loss in the neighborhood of \$300,000. Usually, about \$250,000 is spent annually on vehicle replacements, but for 2003, that amount is \$0.

The objectives of our audit were to measure the cost effectiveness and the efficiency of Broome County's Fleet Operation and to compare our operation to peer counties and other alternatives.

As pre-audit research, we obtained temporary access to the member areas of the National Association of Fleet Administrators (NAFA) website. From their database we were able to obtain a number of articles published by the National Association of Fleet Administrators (Fleet Executive magazine and the 2002 New Vehicle Acquisition Survey) and other Industry magazines (Automotive Fleet, Fleet Financials). We also reviewed several Federal and State Fleet Audits.

We also obtained and reviewed a listing of Fleet vehicles as of February 26, 2003. We reconciled the Fleet records to Broome County inventory records maintained by this department, accumulated these records on a spreadsheet and calculated average annual miles (a measure of vehicle utilization). Additionally, we inquired about the Fleet operations of five peer counties, reviewed vehicle acquisitions (2002) and chargeback records (2001 and 2002). We also physically observed a sample of Fleet vehicles.

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES

-FLEET MANAGEMENT-

FINDING 1: FLEET VEHICLES AND FACILITIES ARE NEAT, CLEAN, SAFE APPEARING AND VISUALLY APPEALING

Our audit effort included a qualitative review of Fleet Management's facilities and Fleet maintained vehicles. We found both the facilities and vehicles to be neat, clean, safe appearing and visually appealing. All vehicles and facilities that we observed gave the appearance of being properly cared for and maintained. We also noted that all vehicles in our sample were properly New York State Inspected.

Keeping vehicles and facilities neat, clean, safe and visually appealing makes it easier for employees using the vehicles and facilities to perform at an optimum level. Fleet Management seems to recognize this, and they should be commended for their efforts in this area.

FINDING 2: FLEET SIZE SHOULD BE REDUCED

As part of our examination, we calculated an average annual miles per year for vehicles maintained by Fleet (excluding highway patrol cars). Then we compared the Fleet's average miles per year to the industry benchmark standard. Based on our analysis, the size of the Broome County Fleet (excluding Highway patrol cars) should be reduced by 13% (25 vehicles). We also observed many Fleet cars parked in the County Building's parking garage for extended periods of time. One car we observed sat unused for over 45 days.

The National Association of Fleet Administrators (NAFA) benchmark standard for a fleet vehicle is 12,000 miles a year. Broome County vehicles purchased and maintained by Fleet average 10,400 miles per year. Broome County could achieve significant annual cost savings if the Fleet size were reduced and per unit utilization increased to the industry standard, 12,000 miles per year.

Management currently does not consider average miles per year or any other performance measure when making vehicle acquisition decisions. As a result, Fleet vehicles are simply acquired to replace aging and/or disposed of vehicles. This informal methodology does not address whether the fleet is appropriately sized to achieve its objectives.

A 13% reduction in the size of Broome County's fleet would result in annual savings to the County of more than \$95,000 per year.

RECOMMENDATIONS:

We recommend that Fleet begin to measure the utilization of vehicles. We also recommend that Fleet Management seek to achieve the industry benchmark of 12,000 miles annually. This will enable Fleet management to reduce the fleet to the appropriate size.

MANAGEMENT RESPONSE:

Should 25 vehicles be taken from fleet, the remaining vehicles will incur additional use. The additional use will require an increase in maintenance and possible repairs, thereby increasing the maintenance cost per vehicle.

Vehicles are stationed with departments that are located in various parts of Broome County. This provides employees with easy access to the vehicles. Removing vehicles would greatly affect access.

FINDING 3: BROOME COUNTY SHOULD REDUCE THE NUMBER OF TAKE HOME VEHICLES

We obtained and reviewed a list of "take home" vehicles. The following titles have 24-hour take home vehicles:

- 1) County Executive
- 2) Deputy County Executive
- 3) Director of Real Property
- 4) Telecommunications Manager
- 5) Landfill Supervisor
- 6) Commissioner of Mental Health/Social Services
- 7) Maintenance Supervisor-Public Works
- 8) Director of Highways
- 9) Assistant General Highway Supervisor
- 10) Director of Emergency Services/Fire Coordinator
- 11) Director of Security
- 12) County Clerk
- 13) Sheriff
- 14) Undersheriff
- 15) First Assistant Correctional Facility Administrator
- 16) Second Assistant Correctional Facility Administrator
- 17) Chief Investigator, District Attorney

- 18) Investigator, District Attorney
- 19) Chief Investigator, Public Defender
- 20) Investigator, District Attorney (second title)
- 21) Commissioner of Transportation
- 22) Commissioner of Parks and Recreation
- 23) EMS Coordinator
- 24) Commissioner of Public Works
- 25) Deputy Commissioner of Public Works – Building & Grounds
- 26) Deputy Commissioner of Public Works – Solid Waste
- 27) Equipment Service Supervisor
- 28) Equipment Mechanic III

Of the 28 assignments, 19 (68%) are considered to be, based on IRS regulations, taxable fringe benefits.

The peer counties we contacted (Albany, Dutchess, Niagara, Oneida, Saratoga, and Ulster) allowed only limited take home use of vehicles. Dutchess County has only nine officials who are assigned their own county vehicles for 24-hour use.

We also reviewed fleet information from Erie County. Based on a three month survey, Erie County found that more than half the cars and trucks were used primarily to get employees to and from work, and not for any other county purpose. As a result, the county is reducing the number of 24-hour vehicles from 60 to 27 (55%).

Prior to the reduction in 24-hour vehicles, 0.9% of Erie County's 6,675 employees had take home vehicles. After the reduction, 0.4% of Erie County employees still have take home vehicles. Currently, 1.46% of Broome County's 1,915 employees have take home vehicles. A similar reduction for Broome County would result in a reduction of 15 fewer take home vehicles (a savings of nearly \$58,000 per year).

RECOMMENDATIONS:

We recommend that Broome County discontinue the permanent assignment of take-home vehicles to employees with the exception of "on call" positions related to emergency county services, law enforcement and investigator positions. We also recommend that Fleet Management establish procedures requiring approval for temporary assignment of take home vehicles.

MANAGEMENT RESPONSE:

Not all take home vehicles are for the exclusive use of one person. Once the employee with take home privileges has arrived at work, his or her vehicle is available for others to use.

Fleet Management has an established procedure that has been, and is being used, for approval for temporary assignment of take home vehicles.

FINDING 4: EMPLOYEES FRINGE BENEFIT NOT PROPERLY TAXED

Providing a take home vehicle to an employee is considered a form of compensation. As such, the value of the compensation must be properly calculated and taxed. We compared the list of assigned take home vehicles to payroll records. We noted that two employees are provided vehicles and do not have their gross wages adjusted for this taxable fringe benefit.

In accordance with IRS regulations, any commuting use of a vehicle (other than qualified non-personal use vehicles) is to be treated as compensation.

Qualified non-personal use vehicles are:

- Clearly marked police, fire and emergency vehicles.
- Unmarked vehicles used by law enforcement officers if the use is officially authorized.
- Heavy Trucks and Buses
- Tractors

Failing to ensure that employee fringe benefits are correctly accounted for can result in violations of Federal law with the possibility of fines.

RECOMMENDATIONS:

We recommend that the identified employees' gross wages be adjusted to properly account for their taxable fringe benefit. We also recommend that Fleet Management develop a system to ensure taxable fringe benefits are correctly accounted for. A list of the particular employees affected is being provided under separate cover.

MANAGEMENT RESPONSE:

To ensure employees who have take home vehicles are properly taxed, a copy of the vehicle assignment request will be sent to the Payroll Department. Finance has been informed this new procedure will be implemented.

FINDING 5: RECORDS PERTAINING TO TAKE HOME VEHICLE USE ARE NOT PROPERLY MAINTAINED

As previously discussed, we obtained and reviewed a list of take home vehicles assigned to Broome County employees. We noted that the list contained two retired employees and another employee that, according to the employee's department, no longer is assigned a take home vehicle.

Not monitoring or periodically reviewing and updating the list of employees that have a take-home vehicle is a control weakness.

Unauthorized employees could be taking home county vehicles without management's knowledge.

RECOMMENDATION:

We recommend that Fleet management develop procedures to ensure that 24 hour a day use of county vehicles is closely monitored and documented.

MANAGEMENT RESPONSE:

To verify take home vehicle use, twice a year Fleet will send each department a request for an update on take home vehicle assignments. A copy of the updates will be forwarded to our Security Division which has agreed to verify all vehicle keys have been turned in once an employee is leaving Broome County's employ. Before a person receives their last paycheck they must be "processed" out by Security, thus assuring any key will be turned over to Broome County.

FINDING 6: FLEET CHARGEBACKS ARE INEFFECTIVE WHEN COMPARED TO LEASE (RENTAL) PAYMENTS

Fleet Management is accounted for as an Internal Service Fund. The cost of services is financed through interdepartmental chargebacks.

Fleet charges back \$35 an hour for labor costs and marks up repair parts. Fleet

also marks up gasoline costs. However, we noted that the repair parts and gasoline are not marked up by a consistent percentage. We also noted that the Fleet Management Internal Service Fund has been operating at a deficit in excess of \$300,000 per year for the last few years.

Overall, in reviewing chargebacks, we noted Fleet's process for calculating chargebacks is relatively ineffective when compared to the option of charging a periodic lease amount to departments.

Charging a lease amount for Fleet vehicles would more evenly spread the cost of fleet vehicles across departments. Repair costs for all fleet vehicles of a particular type would be aggregated and factored into the lease payment for that type of vehicle. Component failure risk would only have to be assessed at the fleet level, rather than at the vehicle level in order for departments to budget properly and for Fleet to collect all it is owed.

A lease charge also will reduce the amount of paperwork for Fleet Management, as specific repair/service history need not be a part of the bill. Departments could be billed once per year, rather than quarterly.

RECOMMENDATIONS:

We recommend that Fleet Management recover costs by charging a lease amount to each user department. We also recommend that the lease charge include an appropriate amount for depreciation of fleet vehicles, enabling Fleet Management to recover all appropriate costs and facilitating the establishment of a vehicle replacement fund.

MANGEMENT RESPONSE:

Fleet Management could recover costs by charging a lease charge plus a charge for gas. This could be implemented during the 2004 budget if approved by the appropriate authority. This charge could also be used to establish a separate fund for vehicle replacement.

FINDING 7: FLEET DOES NOT HAVE A FORMAL VEHICLE REPLACEMENT POLICY

During the course of our audit, we noted that Fleet has not established formal vehicle replacement policies. We also noted that Fleet Management has previously charged departments for depreciation of vehicles, but did not reserve funding in anticipation of vehicle replacements.

The ability to replace vehicles on an established replacement program is critical to cost effective fleet management.

Without planning for future vehicle replacement, short-term budgetary shortages can result in an aging fleet. In turn, extended replacement cycles can result in major component failure, a myriad of other repairs and excessive downtime, all of which will offset any supposed savings.

Presently, vehicles are acquired based exclusively on the availability of funding in the current year.

RECOMMENDATIONS:

We recommend that Fleet management establish standard replacement program by various vehicle types. We are forwarding average replacement policies by vehicle type (for the Public Service Sector) that we obtained from the National Association of Fleet Administrator's (NAFA) 2002 Marketing Survey.

We also recommend that, in future years, the depreciation component of the previously recommended department lease payment be reserved for future vehicle acquisitions.

MANAGEMENT RESPONSE:

Fleet Management's present informal vehicle replacement policy is eight years – 80,000 miles for cars and ten years – 100,000 miles for light trucks. Due to budget constraints, we are not always able to implement this policy. We are open to re-evaluation of the present situation and looking at expanding the policy to include additional vehicles.

It would be beneficial for Fleet to have the depreciation component of the department lease payment be reserved for future vehicle purchases.

FINDING 8: FLEET MANAGEMENT HAS INEFFECTIVE PROCEDURES FOR PREVENTATIVE MAINTENANCE SCHEDULING

During the course of our examination, we inquired about Fleet preventative maintenance procedures. Presently, Fleet places a sticker in the vehicle window noting the mileage when the vehicle is due for its next oil change. Preventative maintenance scheduling is largely dependent on employees keeping track of

vehicle mileage and turning it in at the appropriate time.

We obtained and reviewed records (work history) for various Fleet vehicles. Based on mileage information, we noted instances where timely preventative maintenance was not performed. Based on our review, current preventative maintenance scheduling practices are ineffective.

While Fleet has the technology to flag “coming due” vehicles based on fuel mileage or repair order mileage; they have not updated their preventative maintenance scheduling procedures to take advantage of these capabilities.

Failure to perform preventative maintenance on time, due to ineffective scheduling procedures, or for any reason, increases the risk of repairs or replacement of costly major vehicle components.

RECOMMENDATIONS:

We recommend that Fleet Management establish and document preventative maintenance scheduling procedures that ensure preventative maintenance is performed in a timely manner.

The preventative maintenance procedures should incorporate vehicle manufacturers minimum recommended service intervals.

We also recommend that Fleet perform preventative maintenance inspections before the expiration of major component warranties.

MANAGEMENT RESPONSE:

Fleet will establish preventative maintenance procedures using our existing maintenance software. These procedures will be implemented during the next twelve months.

FINDING 9: FLEET MANAGEMENT DOES NOT PERIODICALLY ANALYZE MAINTENANCE /REPAIR COSTS

During the course of our audit, we noted that Fleet accumulates but does not periodically review maintenance/ repair cost data.

Management is responsible for setting operating standards to measure an activity's economical and efficient use of resources.

There is a relationship between depreciation and maintenance/repair costs. Over time, the rate of depreciation will drop while maintenance/ repair costs will rise. The point at which they intersect is where replacement should normally be considered.

Not reviewing maintenance / repair costs increases the risk that the point where maintenance / repair costs increase beyond the value of the vehicle will not be detected.

RECOMMENDATION:

We recommend that Fleet Management periodically analyze maintenance/repair cost data.

MANAGEMENT RESPONSE:

Fleet accumulates the data required to review the maintenance/repair cost. Our Director of Administration will be reviewing this data which will then be used to assist in the determination of vehicle replacement.

FINDING 10: MONEY COULD BE SAVED BY PURCHASING VEHICLES WITH FEWER OPTIONS

As part of our examination, we reviewed Broome County vehicle purchase orders for 2002. We noted that options purchased via state contract added an additional 2% to the purchase price of vehicles. We also noted that our peer counties do not purchase additional options for their fleet vehicles.

According to Fleet personnel, additional options are purchased to enhance the resale value of vehicles sent to auction. However, Fleet Management does not benchmark resale efforts to ensure that vehicle options result in a higher sale price at auction. Furthermore, since most County vehicles are held onto until they are virtually used up, there is little or no residual value in options at the time of disposal.

The County is spending thousands of dollars per year on unnecessary options for fleet vehicles.

RECOMMENDATION:

We recommend that Fleet Management discontinue the practice of purchasing extra options.

MANAGEMENT RESPONSE:

Once some of the new procedures implemented in response to this report are in place, we will have the ability to measure the effect of options on resale value.

FINDING 11:FLEET DOES NOT HAVE WRITTEN POLICIES AND PROCEDURES

During the course of our audit, we noted that Fleet Management does not have written management policies and procedures detailing methods of calculating chargebacks and performance measures. Additionally, there are no formal written policies and procedures for replacement policy, safety procedures, and accounting procedures.

Even though DPW oversees the operation, Broome County has elected not to have a formal fleet manager for over a decade. As a result, a comprehensive Fleet Management Policy has not been developed.

Written policies and procedures would provide guidance that facilitates the effective administration of the operation.

Written policies and procedures, including applicable internal control features decrease the risk of errors and irregularities.

Not having written policies and procedures can result in inconsistently calculated chargebacks, lack of or incorrectly calculated performance measures, and the performance of accounting functions by inappropriate personnel or in an improper manner. Additionally, no written safety procedures increase the risk of damage or injuries.

RECOMMENDATION:

We recommend that the County prepare, implement, and maintain written policies and procedures. As a best practice, we are forwarding a copy of a peer county's Fleet Management Policy (Dutchess County) that we recommend for use as a template.

MANAGEMENT RESPONSE:

Fleet has written safety procedures for lock-out/tag-out, right to know and personal protective equipment.

Other procedures deemed necessary will be implemented during the next two years.

FINDING 12: OPPORTUNITIES FOR CONSOLIDATION EXIST IN FLEET OPERATIONS

During the course of our audit, we noted that Fleet Management's somewhat decentralized structure is not unlike several of our Peer Counties. Fleet is not responsible for vehicles at the Airport, Transit, Parks, Highway and the Landfill. As a best practice, we noted that Dutchess County has a centralized Automotive Service Center that services all county vehicles. In fact, Dutchess County contracts services to surrounding municipalities.

Consolidation of Fleet Services can result in a considerable reduction of overall administrative and operating expenditures for Broome County and could provide cooperative opportunities with other municipalities.

RECOMMENDATION:

We recommend that Broome County consider the benefits associated with consolidated Fleet Services for all County Departments.

We further recommend that the County consider developing a Fleet Management Facility and function that could provide fleet maintenance and service to all local municipalities, school districts and fire districts.

MANAGEMENT RESPONSE:

The workforce and size of facility we currently have are adequate for the number of vehicles Fleet is responsible for. The work is done in an efficient manner with a staff skilled in the technical knowledge needed to perform the required duties. Should a decision be made for Broome County Fleet to provide maintenance and service to any or all local municipalities and school and fire districts, we could offer any assistance necessary to provide the needed increase in skilled staffing and facility size requirements.