

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT

**BOARD OF COUNTY COMMISSIONERS
FLEET VEHICLE REPLACEMENT PROGRAM
FOLLOW-UP 1
May 30, 2007**

HERNANDO COUNTY CLERK OF CIRCUIT COURT
AUDIT SERVICES DEPARTMENT
MEMORANDUM

TO: Gary Kuhl, County Administrator
Charles Mixson, Public Works Director/County Engineer
Terry Yeager, Fleet Manager

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Director

DATE: May 30, 2007

SUBJECT: Fleet Vehicle Replacement Program - Follow-up 1

The Audit Services Department's Audit Projects Schedule included a follow-up consultation to Spectrum Consultants, Inc.'s 2005 consulting project of the Board of County Commissioners' Fleet Replacement Program. Based on testing, observations, and communications with key personnel, the Audit Services Department has produced the attached report for your review. Management's response is also included. A copy of this report has been forwarded to the Board of County Commissioners as an agenda "correspondence to note" item.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The consulting report is a tool to help management discern and implement specific improvements. It is not an appraisal or rating of management.

Although the Audit Services Department exercised due professional care in the performance of this project, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

I would like to thank the Fleet Management Department and especially Diane Kafrissen, Administrative Secretary, for her cooperation during this project.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office in Room 201.

ATTACHMENT

Copy: BOARD OF COUNTY COMMISSION:

Commissioner Christopher "Chris" Kingsley
Commissioner Diane Rowden
Commissioner David Russell
Commissioner Rose Rocco
Chairman Jeff Stabins
Larry Jennings, Deputy County Administrator
Jon Jouben, Assistant County Attorney
Gary Kuhl, County Administrator
George Zoettlein, Office of Management and Budget Director

CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

OTHER:

Lori Nissen, Partner, KPMG
Hernando Today
St. Petersburg Times - Hernando Edition
WWJB Radio Station
Hernando County Public Library

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Acknowledgement

Other minor findings, not included in this report, have been communicated to management and/or corrected during fieldwork. I thank management and staff for their cooperation.

Original fieldwork was performed by Spectrum Consultants, Inc.

Follow-up fieldwork was performed by Colin Engels, Assistant Auditor.

Assistance was provided by Nancy Brown, Audit Administrative Assistant.

Management's 2005 response was provided by George Zoettlein, Office of Management and Budget Director, and authorized by Gary Adams, County Administrator.

Management's 2006 response was provided by Charles Mixson, Public Works Director/County Engineer and authorized by Gary Kuhl, County Administrator.

This report was reviewed and authorized by Peggy Prentice, CIA, CISA, Audit Services Director and Karen Nicolai, CPA, Clerk of Circuit Court, on May 30, 2007.

DISRUPTION OF FIELDWORK

Due to the resignation of the auditor in charge of this audit, fieldwork began as planned but had to be placed on-hold for approximately five (5) months until another auditor was able to fit this project into his work schedule. This disruption caused extensive lag time between management's follow-up response and the ASD's follow-up comments and recommendations. When this project restarted, management was provided the opportunity to update their follow-up management response.

Purpose and Scope

PURPOSE

Address the degree of implementation of recommendations 1 - 8 presented by Michael Corbett of Spectrum Consultants, Inc. in the *Fleet Vehicle Replacement Program Findings & Recommendations Report* dated June 29, 2005.

SCOPE

The Audit Services Department (ASD) provided management with independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. The scope of work included a request for and a review of management's response to Spectrum Consultants' recommendations. The ASD addressed whether management implemented corrective actions which effectively addressed the original findings and recommendations. The ASD determined if these actions, implemented partially or fully, were implemented timely as stated in management's response. The corrective actions, or lack of the same, were evaluated under current conditions. A determination was made as to what, if any, corrective action is still needed to alleviate any concerns.

Scope Limitation

As this consultation was a follow-up to Spectrum Consultants' project, the Audit Services Department's review was limited to only the recommendations and observations made by Spectrum Consultants, Inc.

Executive Summary

Recommendation 1 of the *Fleet Vehicle Replacement Program Findings & Recommendations Report dated June 29, 2005*, was not implemented as Fleet Management personnel indicated that there were issues precluding them from implementing an effective five-year plan. During fieldwork, management committed to addressing these issues and anticipates implementation by the end of calendar year 2007.

Recommendation 2 of the *Fleet Vehicle Replacement Program Findings & Recommendations Report dated June 29, 2005*, was not fully implemented. See comments for Recommendation 7 below.

Recommendation 3 of the *Fleet Vehicle Replacement Program Findings & Recommendations Report dated June 29, 2005*, addressed issues regarding the elimination of vehicles with the Hernando County fleet that were being used less than 300 hours or driven less than 2,800 miles in any given year. The vehicles that met these criteria were deemed to be “low use” and constituted a drain on the resources of Hernando County. Per the aforementioned report, those vehicles identified as low use should be eliminated from the fleet in order to facilitate immediate cost savings in the areas of vehicle maintenance, fuel, and other costs associated with vehicle ownership (i.e. insurance, capital costs, depreciation, etc.). Although the fleet has not yet been reduced, a committee composed of the Assistant County Administrator, Department of Public Works Director/County Engineer, and the Fleet Manager has assumed the responsibility of seeing that this action is properly incorporated into Fleet Management Department operations.

Recommendation 4 of the *Fleet Vehicle Replacement Program Findings & Recommendations Report dated June 29, 2005*, dealt with measures that, if undertaken by the Fleet Management Department, would potentially lead to a reduction in costs associated with vehicle accidents. Specifically, efforts directed toward identifying vehicle damage caused by irresponsible use and assigning accountability to the drivers was cited as being critical to making this recommendation successful. Overall, the Audit Services Department determined that the Fleet Management Department has properly implemented the steps outlined in the recommendation into their operation. However, there is a lack of written policy in regard to describing the actual actions they are taking and guidance to Fleet Management Department employees on what they should be doing in the most frequently occurring situations. The Audit Services Department found that this absence of a standard operating procedure created problems for all stakeholders. Mainly, these include an inability to demonstrate consistency in accident recordkeeping operations and how that information is distributed. Further, it may lead to training inconsistencies since a “gold standard” for proper employee conduct does not exist.

Recommendation 7 of the *Fleet Vehicle Replacement Program Findings & Recommendations Report dated June 29, 2005*, was not implemented as found by the Audit Services Department during fieldwork based on the following four (4) findings:

1) The Fleet Management Department has not incorporated a clear outline of the charging methodology that is being used (though the requisite information is contained in clear terms within the budget kick-off presentation). *Also applies to Recommendation 2a.*

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- 2) The current charging methodology will lead to significant cash reserves over a long period of time. Though the Fleet Management Department consensus is that they are aware of this issue, they have not taken any formal action to address it as they feel that the low Vehicle Replacement Fund cash reserve needs to be addressed first.
- 3) Six (6) vehicles that were due for replacement prior to FY 2006/07 have not yet been disposed of and no written justification can be found to explain why. *Also applies to Recommendation 2d.*
- 4) Customer incentive programs have not yet been implemented. *Also applies to Recommendation 2c.*

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Background

Fleet transportation is a vital part of most Hernando County Board of County Commissioners services. The Fleet Management Department provides facilities, manpower, and support services for the repair and maintenance of approximately 475 vehicles and 81 miscellaneous units of equipment with a current replacement value of approximately \$18,759,828 which represents an increase of 13 vehicles and 19 miscellaneous units of equipment since June 2005.

The overall operating and replacement budget for FY 2004/05 was over \$5.5 million annually, in FY 2006/07 it decreased to over \$5.2 million. This decrease was due to standard fluctuation in vehicle replacement spending related to the variable cost of the vehicles replaced from year to year and payoff of initial Vehicle Replacement Fund loans. In 2005, Spectrum Consultants, Inc. anticipated the County's replacement funding to stay generally consistent from year to year with the pay-off of the initial loans and full implementation of the centralized fleet management program. (In FY 2000/01, the County borrowed \$4 million at 4% interest for five years as a one-time effort to initiate the replacement reserve fund and purchase necessary vehicles and equipment.) These initial loans were paid off in 2006.

The County continues to use one major County facility for repair activities performed in-house. In the previous decade, fleet maintenance was outsourced to two (2) private companies and then the function was returned to an in-house operation with the use of County employees. The staffing level since FY 04/05 decreased from 14 full-time personnel including administration, supervision, and technicians to 12 full-time personnel as of February 28, 2007 (1 technician and 1 administrative position were eliminated).

Operating and Replacement Budget

The Fleet Management Department budget has been approved as follows:

	2004/05 Approved	2006/07 Approved
Vehicle Maintenance	\$1,610,836	\$1,883,453
Central Fueling System	\$910,140	\$2,110,637
Fleet Replacement Program	\$3,061,474	\$1,236,232
Total Operating & Replacement	\$5,582,450	\$5,230,322

**Note: Fluctuations in costs from 2004/05 to 2006/07 are due to the following reasons 1) Vehicle Maintenance – Fleet size increase annotated in Background. 2) Central Fueling System – Overall rapid expansion in gasoline costs. 3) Fleet Replacement Program – Price variance in vehicles replaced from year to year and payments made for the 2001 loans which are now paid off.*

In June 2005, Fleet Management was organized under and reported to the County Administrator. This was one of three primary organizational arrangements in U.S. municipalities. Other organizational arrangements include Public Works or General and Administrative Services. In the spring of 2005, the Fleet Management Department was moved from directly under the County Administrator to under the Department of Public Works Director/County Engineer, Charles Mixson. The Fleet Manager reports to Charles Mixson.

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Fleet Maintenance
Organization Chart
March 2007

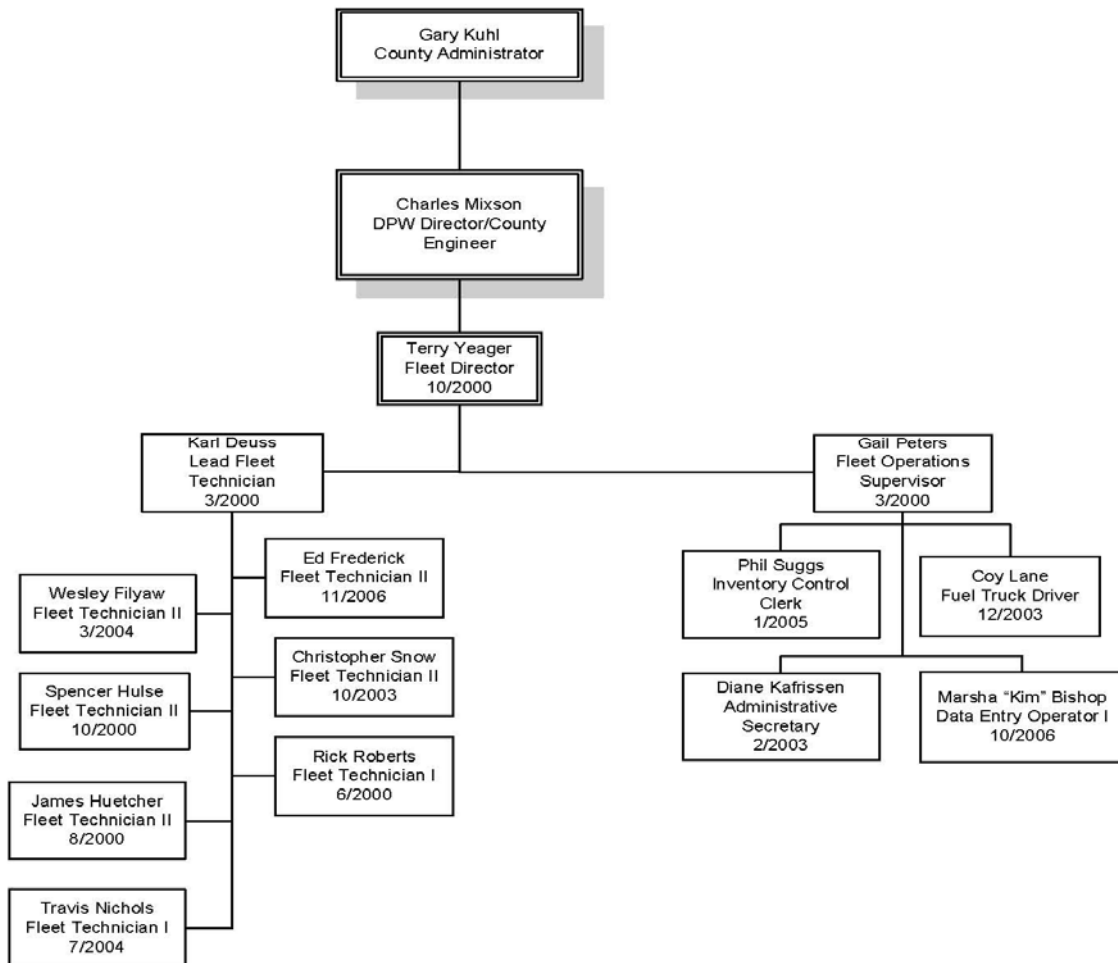


Chart Denotes Current Employee
Name, Job Title, and Hire Date

DISCUSSION POINTS, SUMMARY OF RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

FIVE YEAR PLAN IMPLEMENTATION

Spectrum Consultants, Inc.'s Recommendation 1, June 2005: Upon payoff of initial replacement program in 2005, re-balance and establish the next five-year replacement program.

Management Response, June 2005: During fiscal year 2005/06 (December 6, 2005), final payment will be made on the fleet replacement loan. At that time, the Fleet Manager along with upper management, will discuss the progress of the program, determine priorities and focus on the future. Taking into consideration the recommendations of this report, a five-year plan will be developed. This plan, once approved, will take effect fiscal year 2006/07 (October 1, 2006).

Management Response, Follow-Up 1, September 2006: Fleet has been working with its Director, Charles Mixson and the new Assistant County Administrator, Larry Jennings, to move in formulating a new strategy for the next five years.

ASD Discussion Point, Follow-Up 1, April 2007: On February 28, 2007, the auditor met with Fleet Management personnel to discuss various topics critical to the fleet replacement program. Fleet Management personnel indicated that there were issues precluding them from implementing an effective five-year plan at this time but feel that these have been addressed and the plan will be in place by the end of calendar year 2007. Due to these circumstances, the auditor was unable to adequately test this recommendation.

ASD Recommendation, Follow-Up 1, April 2007: The annual and five year financial analyses should be performed and documented. Due to Fleet Management's commitment to implement the recommendation, this item should be scheduled for a follow-up.

FLEET VEHICLE PROCUREMENT POLICY

Spectrum Consultants, Inc.'s Recommendation 2, June 2005: Improve the Equipment Procurement Policy - S.O.P. #1.

Management Response, June 2005: Currently any department requesting an upgrade to a current vehicle due for replacement is required to budget for, and pay the amount of the upgrade. Requests will be discussed with the Fleet Manager before approval is given. Once the department receives the new vehicle, they are required to make monthly payments based on the replacement cost of the new vehicle. If a department is requesting an additional vehicle, it is discussed with the Fleet Manager, as to need and use. If approved, the requesting department purchases the vehicle through the budget process, and transfers the vehicle to the fleet department where it is put into the replacement program.

Fleet Management is evaluating the possibility of separating the fleet into two categories, light duty and heavy duty, for a more accurate way of applying disposal income. This possibility will be discussed further with the issuance of the five-year plan. Also, discontinuation of monthly replacement costs once the vehicle has been fully depreciated, but still in service, will be discussed and added to fleet procedures.

Management Response, Follow-Up 1, September 2006: Fleet has evaluated the possibility of splitting the fleet into two categories, light and heavy duty. It has determined that there is no clear advantage in splitting the pool. Each department pays into the program at the rate determined for their vehicles. Some pieces of equipment will cost considerably more when replaced than a normal truck or car. The reserve fund that vehicles and equipment is purchased through still generates enough revenue and interest to offset the dollars paid out.

The vehicle justification process will be handled by a new committee consisting of a Fleet Representative, Charles Mixson, Department of Public Works Director/County Engineer, and Larry Jennings, Assistant County Administrator. Criteria for additions, upgrades and replacements will be evaluated and determined for function and necessity.

ASD Discussion Point, Follow-Up 1, April 2007: The ASD addressed:

- a) *Whether departments are being charged the incremental cost of vehicle upgrades* - The ASD conducted interviews with two (2) departments (*Animal Services & Recreation*) to determine if they were being charged the incremental cost of upgrades. Both entities reported that they did indeed pay for the cost of any upgrades made to the vehicle however, there was no written documentation outlining how this aspect of the vehicle replacement program was designed to work. Fleet Management indicated that the lack of documentation on the procedure was due to anticipated changes involving the inclusion of all upgrade costs within the total cost of a vehicle (which are billed over the service life of the vehicle). The old system requires user departments to pay up front for all upgrades added to vehicles. This new plan is designed to simplify accounting procedures by reducing the number of line items that must be tracked by Finance.

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ASD Recommendation, Follow-Up 1, April 2007: Inclusion of procedure in the Standard Operating Policy is necessary. Without a clear written policy, a dangerous ambiguity is created in which the potential for mistakes or misinformation is significant and trust is diminished. Consideration should be given to updating the Standard Operating Procedures to address the current process and management's directives.

- b) Fleet Management's level of involvement in regards to reviewing, evaluating, and making recommendations on new fleet vehicle procurement - Hernando County Fleet Management Policies and Procedures revised February 7, 2007, lists a requirement for vehicle replacement in which all replacement submissions are reviewed by a committee consisting of the Assistant County Administrator, Department of Public Works Director/County Engineer, and the Manager of Fleet Operations. Recommendations are then forwarded to the Office of Management and Budget.

It appears that this recommendation was implemented which alleviated the concern.

- c) Fleet Management's progress toward segregating replacement funds into targeted accounts based on vehicle class/type - Per the Fleet Management response dated September 19, 2006, Fleet Management did not implement the recommendation.

ASD Recommendation, Follow-Up 1, April 2007: Consideration should be given to segregating replacement funds into targeted accounts.

- d) Steps taken to alter accounting procedures used in calculating vehicle depreciation and serviceable life - Fleet Management justified its' decision not to implement this part of the recommendation based upon the Vehicle Replacement Program being in a financial building phase in regard to funds on deposit within the Vehicle Replacement Fund. Further, management cited that imposing such a cost would deplete the account and eliminate the ability to run the vehicle replacement program self sufficiently. As of February 7, 2007, the Fleet Management Department adopted a lease program which includes the major aspect of charging the user department a monthly fee throughout the service life of the vehicle irregardless of whether the vehicle has been fully depreciated. This plan replaces the previous arrangement where user departments were charged for a single year of additional fees should a vehicle remain in service past its projected life cycle.

ASD Recommendation, Follow-Up 1, April 2007: While this plan will build needed cash reserves within the vehicle replacement fund, there should be plans in place to implement a much more regressive fee schedule so that overall cost savings can be fully realized.

FLEET VEHICLE POOL PLAN

Spectrum Consultants, Inc.’s Recommendation 3, June 2005: Develop a more effective pooling strategy.

Management Response, June 2005: The Fleet Manager is in the process of establishing a pooling and loaner system. At times there are insufficient vehicles to accommodate the need. Over time and through evaluation, the right proportion of vehicles to need will be established. At present, the County does have the ability through an outside vendor to rent necessary vehicles. Currently, the individual departments are coordinating directly with the vendor, but a procedure is being prepared for Fleet Management to oversee this function. As the fleet continues to be replaced, the Fleet Manager will be able to better evaluate each department’s needs and become more efficient in rotating vehicles.

Management Response, Follow-Up 1, September 2006: Fleet Management has added vehicles to the loaner pool and will increase the pool size by four new vehicles in FY 2007, bringing the total to ten. Fleet feels it has the right proportion of vehicles to serve the County’s departmental needs through loaner and rental vehicles.

ASD Discussion Point, Follow-Up 1, April 2007: The ASD addressed the effectiveness of Fleet Management Department’s pool strategy and how this positively influenced efforts to “right size” the fleet. Specifically: **1)** the steps taken to reduce/justify “low use” vehicles in the fleet; (those vehicles logging less than 2,800 miles or 300 hours annually per the *Fleet Operations & Maintenance Finding & Recommendations Report* dated September 9, 2004, and the *Fleet Vehicle Replacement Program Findings & Recommendations Report* dated June 29, 2005); **2)** degree to which commercial options are available to user departments; and **3)** availability of heavy duty units and equipment.

- 1) Ten (10) vehicles (see Table 1.0) were selected from the Fleet Focus database that met the previously mentioned criteria of less than 2,800 miles or 300 hours of usage annually. The ASD reviewed records on each of these vehicles and none possessed any formal justification from user departments as to why they needed these vehicles. Per Hernando County Fleet Management Policies and Procedures Revised February 7, 2007, a committee comprised of the Assistant County Administrator, the Department of Public Works Director/County Engineer, and the Fleet Manager has been convened to engage in several activities related to the fleet replacement program. One of the projects currently in action involves identifying low use vehicles and requesting written justification from the departments utilizing those vehicles.

The recommendation has been partially implemented. Concern over right-sizing the fleet still exists, however, measures are being taken by a review committee (Department of Public Works Director/County Engineer, Assistant County Administrator, and Fleet Manager) to thoroughly examine which vehicles can be eliminated. These measures are in their infancy.

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ASD Recommendation, Follow-Up 1, April 2007: This recommendation should be scheduled for a follow-up to evaluate the progress of efforts aimed at minimizing the overall size of the vehicle fleet.

Asset No.	Veh. Description	Dept.	In-Service Date	Issue	Findings
9487	2001 Cushman 3-wheel	Facilities	Apr-01	343 hrs. in 5 years	Low use – no justification identified
15111	2006 JD Gator Utility	Old Hosp.	Sep-06	0 hrs.	Does not fuel at central facility and not yet scheduled for PM
15073	2006 JCB Backhoe	Road	Sep-06	Replacement year listed as 2006	Replacement date entry error - Corrected
13943	2004 Polaris Ranger	Mos. Cont.	Sep-04	82 hrs. in 3 yrs. = \$785 in repairs	Low use – no justification identified
9145	1994 Ford Tractor 3430	Parks	Jun-94	639 hrs. in 13 yrs.	Low use – no justification identified
11984	2002 MF Tractor	Parks	Oct-02	756 hrs. in 5 yrs.	Low use – no justification identified
9361	1999 Ditch Witch Trencher	Water	Dec-99	0 hrs. in 7 yrs.	Low use – no justification identified
11985	2002 MF Tractor	Water	Jan-03	305 hrs. in 7 yrs.	Low use – no justification identified
6799	1990 Case Forklift	Waste Wtr.	Feb-90	1335 hrs. in 17 yrs.	Low use – no justification identified
9241	1996 New Holland Skid Ldr.	Waste Wtr.	Oct-96	484 hrs. in 11 yrs.	Low use – no justification identified

Table 1.0

- 2) Commercial rental services are available to County departments through a fixed price contract with Enterprise Rent-A-Car. This contract was negotiated and is maintained by the Purchasing and Contracts Department and is separate from the Fleet Vehicle Replacement Program though it does provide an augment to the Fleet Vehicle Replacement Program loaner pool. It should be noted that this contract covers cars, light duty trucks, and sport utility vehicles but does not include heavy duty vehicles or equipment. It appears that the recommendation has been implemented and the concern has been alleviated.

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- 3) The fleet vehicle replacement program loaner pool consists of ten (10) vehicles which are made available to County departments as needed. Departments who have a vehicle receiving maintenance are provided a vehicle from the loaner pool free of charge on a first-come first-served basis. County departments who request loaner pool vehicles to supplement their own department's fleet are charged \$25 per day for cars, light trucks, etc. and \$50 dollars per day for rental of heavy duty vehicles and equipment. As of April 11, 2007, the loaner pool contained eight (8) cars, light trucks, and sport utility vehicles that are classified as light duty vehicles. The remaining two (2) vehicles are classified as heavy duty (both are dump trucks). The utilization of these loaner vehicles in the 1st Quarter and 2nd Quarter of FY 2006/2007 yielded revenue of \$4,500 for Fleet Management. It appears that the recommendation has been implemented and the concern has been alleviated.

ACCIDENT/INCIDENT MITIGATION PLAN

Spectrum Consultants, Inc.'s Recommendation 4, June 2005: Reduce asset replacement and repair costs related to accidents and driver-caused incidents and elevate such incidents to the existing County Safety Committee.

Management Response, June 2005: The Fleet Manager is doing this on an informal basis. He is asked, from time to time about the condition of a vehicle and what may have been the cause of such condition; driver misuse, incorrect operation of the vehicle, etc. Further discussions will be necessary to see if it is proper and reasonable for the Fleet Manager to act individually upon these incidents or if there should be a committee to advise on findings and/or recommendations.

Management Response, Follow-Up 1, September 2006: Fleet continues to work with Risk Management and each user department to discuss possible causes and remedies to misuse, abuse and neglect.

ASD Discussion Point, Follow-Up 1, April 2007: The ASD reviewed accident/incident reports maintained by Fleet Management going back to 2005 and the procedures in place to track and assign work to those vehicles. During its review, the ASD was able to ascertain three key positive conclusions. These are: **1)** Fleet Management appears to be properly segregating work into “targeted” work (work classified as preventative) and “non-targeted” work (classified as unscheduled or accident related); **2)** In instances of “non-targeted” work being conducted, the Fleet Management Department is maintaining detailed records on the work performed, costs associated, reason the work is being performed, and parties involved which has achieved the stated goal of assigning accident responsibility to reduce asset replacement and repair costs; and **3)** Accident/incident reports are brought to the attention of the Safety Committee via the Risk Management Department (per Safety Committee bylaws, elevating incidents to the Safety Committee is the responsibility of Risk Management not Fleet Management). Details include:

- 1) Targeted work within Fleet consists of “PM’s” (preventable maintenance) which are defined as comprehensive maintenance combined with an extensive vehicle inspection. These fall into three (3) categories of either PM “A”, PM “B”, or PM “C” with each scheduled to occur at specific service life intervals as defined by the type of vehicle involved. Maintenance such as oil changes, transmission fluid changes, and radiator flushes are performed during these times but can include a wide range of activities depending on what the service schedule calls for. “Non-targeted” work is defined as all other maintenance activity. These activities are separated using segregated work orders and are further separated within Fleet Focus by linking them to associated accident/incident reports.
- 2) Fleet maintains physical paper records on accidents as well as computer based records to include scanned documents and digital photos. This process complies with recommendations made by Spectrum Consultants, Inc.
- 3) During testing, the ASD found that there was no direct reporting of accidents or incidents to the Safety Committee by Fleet Management. It must be mentioned, however, that this is not due to any failure on the part of Fleet Management. Because of information flow

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procedures, Fleet should not be the “first responder” in cases of accident reporting (this responsibility falls on the user departments and Risk Management). Instead, per County regulations, all reports are to be passed to Risk Management for processing. Fleet is then informed via email by Risk Management or the user department that the vehicle needs to be repaired (Risk Management gives final approval for commencement of work). The vehicle is photographed and damage is annotated. Once this is completed, the vehicle is retained for inspection by a claim adjuster who determines insurance liability partly based on repair estimates provided by Fleet. Per Safety Committee bylaws and Risk Management controls the associated accident/incident report is forwarded to the Safety Committee by Risk Management’s permanent sitting Safety Committee member.

ASD Recommendation, Follow-Up 1, April 2007: Although Fleet Management procedures are in line with recommendations made by Spectrum Consultants, Inc., the associated Standard Operating Procedures (SOP’s) do not outline management’s directives. A written policy should be generated to include this information.

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FLEET VEHICLE STANDARDIZATION

SPECTRUM CONSULTANTS, INC.'S RECOMMENDATION 5, JUNE 2005: Formalize standardization of the fleet and consider other procurement options.

Management Response, June 2005: To the extent of the Fleet Manager's ability, this is currently being done. He is required to follow County purchasing and procurement procedures. Every effort is being made to standardize the fleet whenever possible, both for type of vehicle and parts, in order to maintain a cost-effective operation.

Management Response, Follow-Up 1, September 2006: Fleet has made every effort to standardize the vehicles purchased. Fleet has purchased vehicles from the same manufacturer to keep consistency in the fleet. This included the larger vehicles and equipment also.

ASD Discussion Point, Follow-Up 1, April 2007: Fleet Management has "piggybacked" on the Florida County Sheriff's vehicle bid contract. This is a statewide contract and provides volume savings to government entities that purchase vehicles through the contract. A committee has also been created that is comprised of the Assistant County Administrator, Department of Public Works Director/County Engineer, and Fleet Manager whose one of many stated goals is to review vehicle requests for compliance with standardization efforts. There are currently three (3) manufacturers represented with these being: GM (Chevrolet and GMC), Chrysler (Dodge and Jeep), and Ford. Many of the vehicles that are currently in the County fleet are more than five (5) years old and some as old as 16 years and as such, this should be considered an evolutionary process rather than a revolutionary one.

It appears that the recommendation has been implemented and the concern has been alleviated.

FLEET VEHICLE DISPOSAL PLAN

Spectrum Consultants, Inc.'s Recommendation 6, June 2005: Perform prompt disposal and test private auction services routinely comparing resale values.

Management Response, June 2005: All surplus property is required to go through the Purchasing Department for resale. Purchasing organizes the auctions and dispose of the property. Once the sale is completed and all associated administrative costs are deducted, the net profit is returned to the Fleet Replacement Fund. At present, the Fleet Manager has little control of this operation.

Management Response, Follow-Up 1, September 2006: Fleet follows the County's procedure for the disposal of surplus equipment. This process is controlled by the Purchasing Department. Fleet budgets a yearly return of \$150,000 from auctioned equipment.

ASD Discussion Point, Follow-Up 1, April 2007: Of the 25 vehicles auctioned in September 2007, the ASD ticked and tied the vehicles' identification numbers (VIN's) from the Sales Statement to the corresponding I-2 form. The ASD matched the I-2 forms necessary to transfer the vehicle to a surplus status against the Seller Statement from the referenced auction house outlining the vehicles that were sold and how much money was obtained from their sale to place back into the vehicle replacement fund. Three (3) I-2 forms were selected for additional scrutiny which included verification of purchase price accuracy, verification of final mileage prior to disposal, and ensuring that duplicate forms were forwarded to the appropriate County departments. In interviews conducted within the Purchasing and Contracts Department, the ASD was able to determine that there are generally two auctions per year (fall and spring). Per Purchasing and Contracts personnel, two auctions per year is the maximum possible due to limiting factors involved in staging an auction to include several mandated requirements that have specified lengths of time for which they must occur. Additionally, in order to increase the potential number of vehicles that will be auctioned at any one given time and to increase exposure, the County has pooled its surplus fleet with that of the Hernando County School Board and Southwest Florida Water Management District (SWFMD). There is generally at least a two month gap between the time the vehicles arrive in surplus and conducting of the auction (does not include lag time between identification of vehicles that require replacement, arrival from the manufacturer of new vehicles, and Fleet installation of upgrades, County insignia, and paperwork processing required to enter new vehicle into County service). The County has explored several options for disposition of vehicles to include other auctioneers, car dealerships, and salvage yards. The current auction house has been determined by the County to be the best available option and is under contract with the County. There was no comparative analysis (comparison of Blue Book or Edmunds listed vehicle value against vehicle revenue gained through the auction) performed due to 1) the lack of information in the Blue Book or Edmunds regarding commercial or heavy duty vehicles and a dearth of vehicle values for wholesale or auction markets; 2) the prohibitive cost of and thus inability to access the Black Book which contains the needed information but whose use is confined to the used automobile market; and 3) corroborating statements made by all County departments associated with the vehicle disposal program espousing the success of the current auction house.

It appears that the recommendation has been implemented and the concern has been alleviated.

CHARGING SYSTEM

Spectrum Consultants, Inc.'s Recommendation 7, June 2005: Management objectives of charging system.

Management Response, June 2005: Once the Fleet Replacement loan is paid, the program can be re-evaluated and areas of concern will be addressed. The first five years of the program has given Fleet Management a solid foundation to predict and evaluate the future needs of this program. Ultimately, this will result in a more efficient and cost-effective fleet program.

Management Response, Follow-Up 1, September 2006: Fleet has minimized the replacement costs through utilizing state and the local sheriffs' bid to purchase vehicles at lower costs than some of the original vehicles purchased, therefore lowering the department's capital costs of the unit being replaced. The majority of vehicles and equipment are now replaced on schedule. There are, however, a few pieces of the larger equipment that still have not been replaced timely. Departments have a stable rate environment from year-to-year ensuring a relatively easy budget process and informed repair structure through the fleet reporting system.

ASD Discussion Point, Follow-Up 1, April 2007:

1. In regard to minimization of costs, Fleet's use of existing Florida County Sheriff's (statewide) contracts has brought them in line with the recommendation made by Spectrum Consultants, Inc. to "piggyback" on existing state contracts. This practice has allowed the County to purchase vehicles at a reduced price.
2. The replacement criteria provide clear thresholds that must be met in order for a vehicle to be replaced. Further, the criteria provides clear steps to follow when determining whether vehicles are meeting service goals and whether user departments are using vehicles in a responsible manner.
3. Fleet Management's charging methodology is a clearly defined process which has been distributed to user departments in detail using the annual budget kick-off meeting. Further, by calculating the monthly fee based on the current cost of the vehicle, the costs are proportional to the amount of money that the user department is drawing from the vehicle replacement fund. Although the charges for vehicles are clearly stated in the budget kick-off presentation, there is very little information in the written policy dated February 7, 2007. There is also no clear information on the "new" lease system that was implemented with this revised policy.

The written Fleet Management policy (SOP 1) does not include clear information on what charges are levied on user departments and why (although it is included in the budget kick-off presentation in detail). There is also a lack of information on the newly implemented vehicle lease rate methodology (program entails charging user departments monthly user fees throughout the vehicle life as opposed to the old system where vehicles were only charged up until they reached their depreciable life plus one year).

ASD Recommendation, Follow-Up 1, April 2007: Alleviating this concern requires inclusion of all changes and current procedure into written fleet policies.

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4. Using FY 2005/06 budget data obtained through the Finance Department, the ASD was able to determine that Fleet annual revenues were \$2,663,764 (\$2,432,608 in monthly fees and fleet addition charges, and \$231,156 in disposal revenue). This is the dollar amount of the vehicles that could be replaced/added in the Fleet in FY 2005/06 with no decrease or increase in cash reserves. In FY 2004/05, Vehicle Replacement Fund expenditures totaled \$3,061,474. In FY 2006/07, the budgeted amount is \$1,236,232. The ASD conducted tests using a spreadsheet to calculate capital outlays for additions and replacements, and revenues. The tests included an eight (8) year average replacement age for vehicles and the revenue stream totaling \$2,663,764 for an average per vehicle fee of \$399 (revenues averaged over 550 vehicles which includes all vehicle replacement fund revenue except interest income). Costs associated with replacing fleet additions in outlying years were also added into the model. Overall, the tests revealed that with the current charging methodology, replacing 14% of the fleet in each fiscal year would produce a significant cash surplus, more so considering that additions to the fleet are currently paid up front (this policy is scheduled to be phased out) with the user department then being charged their monthly fee to “pay ahead” on future vehicles (test conducted with vehicle replacement fund absorbing costs of fleet additions). The test included total replacement costs at \$2,000,000 and additional costs to be \$500,000 (includes both actual vehicle additions and price increases) for a total of \$2,500,000 annually. The ASD considered this to be a very aggressive procurement schedule and a “worst case scenario.” Testing indicated that in reality, revenues on average would cover a “normal” replacement schedule (of 13.15% of vehicles per annum) with years having a lower expenditure in replacement capital supporting years where capital expenditure was much more robust. It seems that there are still many costs that the vehicle replacement fund could absorb and still remain self sufficient while passing the cost savings onto user.

The current charging methodology will eventually lead to a large increase in cash reserves within the vehicle replacement fund.

ASD Recommendation, Follow-Up 1, April 2007: Alleviating this concern requires changes in procedure that will reduce costs placed on user departments, most notably, applying funds obtained in disposal of user vehicles as a credit toward the price of a new vehicle for that department and phasing out the requirement for user departments to pay up front for additional vehicles essentially requiring them to pay twice for the same vehicle in a single budget year (as of April 24, 2007, this policy is scheduled to be phased out).

5. Per the ASD’s review of the Fleet Focus Report dated February 28, 2007, there are currently 51 vehicles and pieces of heavy equipment of the 542 (556 fleet items less 14 Fleet Management Department vehicles which were not included in the report) that either now require replacement per fleet replacement criteria or will need replacement in the coming fiscal year. It should be mentioned that 16 of these vehicles required replacement prior to FY 2006/07 (10 of these 16 are loaner pool vehicles) and a noticeable percentage of the fleet is less than five (5) years old. However, increasing repair costs and decreasing resale value may lead to increased overall costs to the County if this becomes a regular practice. As referenced above, with proper planning, there should be sufficient funds in the Vehicle Replacement Fund to continue replacing vehicles and equipment in a timely fashion with a potential for surplus available (increasingly so with the

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new lease plan) to finance planned and unforeseen fleet additions without passing those costs on to user departments with any other method than their calculated monthly fee.

Six (6) vehicles that met replacement criterion in prior years have yet to be replaced.

ASD Recommendation, Follow-Up 1, April 2007: This concern requires more diligent annual monitoring of replacement schedules. These six (6) vehicles must be replaced soon or a written justification needs to be generated outlining why they have not been replaced and should include a tentative schedule on when they will be replaced.

6. The ASD's review of overall Fleet efforts seems to indicate that with the Preventative Maintenance (PM) system and promulgation of clear replacement criteria, the emergence of costs associated with unexpected repairs should occur infrequently and usually due to irresponsible use of vehicles by users or inferior quality control on the part of manufacturers.
7. Per an ASD review of the overall fleet replacement program and references to the report submitted by Spectrum Consultants, Inc., it appears that Fleet has implemented several best business practices (BBP). These BBP's should facilitate easy comparison with other fleets as performance metrics will be easily comparable with other fleets due to homogeneity of operations.
8. Currently, incentives provided to user departments are in a superficial stage as the only real incentives are directed at the program as a whole and not to individual departments. This may create a psychological barrier to fully "coming on board" with the present plan and/or any future changes.

Incentive programs, particularly the "trade-in" program, have not been implemented.

ASD Recommendation, Follow-Up 1, April 2007: This concern involves providing tangible positive financial benefits to user departments that consistently engage in responsible vehicle use. For example, the above mentioned vehicle credit plan and eliminating up front vehicle costs could help create a more engaged user audience and may help reduce complaints from departments with larger vehicles claiming that they are subsidizing the program.

CHARGEBACK IMPLEMENTATION

Spectrum Consultants, Inc.'s Recommendation 8, June 2005: Implement chargeback recommendations #13-16 in the 2004 General Audit (Fleet Operations & Maintenance Findings & Recommendations Report dated September 9, 2004.)

Management Response, June 2005: These recommendations are currently being implemented. Rate and charge methodology are established and recalculated annually, prior to the budget kick-off meeting. The Fleet Manager developed a PowerPoint presentation to educate the users of the fleet program on how the program functions. Any and all questions were answered, and if necessary arrangements have been made with individual department Directors to evaluate fleet needs prior to budget submittal.

Management Response, Follow-Up 1, September 2006: A PowerPoint presentation is used at each budget kick-off meeting reviewing the methodology explaining the rate and charge system. Each department is given a complete list of vehicles that have met two of the three replacement criteria and is up for replacement. The documents include the proposed unit for replacement, the old and new monthly rate, and the annual increase or decrease in the rate.

Spectrum Consultants, Inc.'s General Audit Recommendation 13: Require accurate internal pricing and calculate all rates and charges annually according to an acceptable activity-based costing methodology. In this manner, all rates and charges will be based on true costs and reflect measures of efficiency. Of greater importance is the confidence that customers will gain that the charges are based on actual costs.

ASD Discussion Point 13, Follow-Up 1, April 2007: It appears that charging methodology is set and is calculated annually per the recommendation. Charges are also outlined in the Nuts & Bolts Newsletter.

It appears that the recommendation has been implemented and the concern has been alleviated.

Spectrum Consultants, Inc.'s General Audit Recommendation 14: Publish the rates and charges methodology, the actual rate calculations and the annual rates, and development process in order to build confidence in the charging system.

ASD Discussion Point 14, Follow-Up 1, April 2007: Rates and charges methodology is promulgated in the annual budget kick-off meeting presentation and in information guides presented to user departments.

It appears that the recommendation has been implemented and the concern has been alleviated.

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Spectrum Consultants, Inc.'s General Audit Recommendation 15: Develop a PowerPoint rates presentation for the annual budget kick-off meeting where Fleet Management has a standing invitation. The presentation could also be used to train customers and new employees as to how Fleet works on a continuous basis.

ASD Discussion Point 15, Follow-Up 1, April 2007: For the annual budget kick-off meeting, Fleet develops and promulgates a PowerPoint presentation which outlines current charging methodology and other important information designed to answer some of the more frequently asked questions posed.

It appears that the recommendation has been implemented and the concern has been alleviated.

Spectrum Consultants, Inc.'s General Audit Recommendation 16: Continue but formalize the current annual meeting with key customer departments in preparation for annual budget, replacement and rate setting processes.

ASD Discussion Point 16, Follow-Up 1, April 2007: This was not implemented because Fleet does not see the need to formalize the meetings as rate calculation methodology is expected to remain constant for some time so user departments should have little problem budgeting from year to year. Per the Fleet Manager, an open door policy is in effect. The Fleet Manager cited that he would rather contact individual departments based on timely budget data from the Office of Management and Budget. On March 26 and 28, 2007, the ASD interviewed the Airport and Industrial Park Director, the Assistant Utilities Director, the Purchasing and Contracts Director, and the Development Director in regards to annual meetings with Fleet Management. All three directors indicated that annual meetings were unwarranted and that the open door policy is adequate and meets their current needs.

The ASD requested records from Fleet Management which specifically outlined the process taken to promulgate information to the various user departments. The ASD further examined the value of the information in relation to actual practices that were revealed during the course of this follow-up. Overall, it appears that Fleet has made great strides in distributing information to the user departments. Multiple channels are being used to educate the departments on where their vehicle dollars are going and why they are being charged in the first place. Some examples include the Nuts & Bolts Newsletter, a short publication that is distributed monthly to County personnel to keep them apprised of any new developments in the fleet and to make them aware of various services offered by Fleet Management.

The current rate development process involves extrapolating the present cost of a vehicle over its expected service life with an additional charge for insurance as outlined in Fleet SOP 1 dated February 7, 2007. Though user departments are paying for so-called "present costs," they are in essence paying ahead for their next vehicle with the disposal fee being used to offset the increased cost of a new vehicle due to inflation or other factors. Through the Nuts & Bolts Newsletter and annually at the budget kick-off, Fleet provides user departments with a slide presentation and handouts (department specific) aimed at explaining the pricing

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methodology used in determining the department's monthly charge and getting user departments into the mindset that they are stakeholders in Fleet operations. This is done in an effort to drive down overall costs through responsible use and ownership.

Though the recommendation was not implemented, the ASD does not find this to be material as user departments have expressed disapproval for a plan that would require them to attend a meeting which may or may not benefit their interests. Overwhelmingly, user departments prefer the current system where they voice concerns and questions as they arise.

At this time, the ASD feels that the recommendation should not be implemented.