

## **Managerial Summary**

### **A. Introduction, Background, and Scope**

As part of the annual audit plan, we reviewed the City of Chesapeake's Central Fleet Management's (Central Fleet) administrative processes for the period of July 1, 2009 to November 30, 2010. Our review was conducted for the purpose of evaluating whether Central Fleet's processes (1) were effective and efficient, and (2) goods and services were procured in accordance with applicable City and State guidelines. The audit of Central Fleet focused significantly on a review of fuel site safety and security, competitive contract procurement issues, and other operational issues.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

For Fiscal Year (FY) 2009-2010, Central Fleet had an operating budget of \$9,013,734 and a capital outlay budget of \$6,369,277. Central Fleet started FY2010 with an authorized compliment of 41 full-time personnel; however, the City's 2010 reduction in force reduced its compliment by two staff members. Central Fleet occupied offices on Executive Blvd at the City's Butts Station Operating Center. They were also responsible for seven fuel site locations throughout the City.

According to the FY2010 City Budget, Central Fleet's annual Internal Service Fund and Capital Budget was in excess of \$15 million, which was approximately 2% of the City's total operating budget. In July 2010, the City transferred Central Fleet's line of reporting from the Department of General Services to the City Manager's Office. As of the date of our report, however, the City had not yet reinstated Central Fleet to full departmental status.

To conduct this audit, we made observations at Central Fleet's fuel site locations, and obtained an understanding of Central Fleet's expenditures and competitive bidding practices. We also performed an in-depth study of Central Fleet's work flow processes which included the uploading of vehicles into the DM2 software system, the chipkey activation process for fuel pumps, and the process for transferring data captured by the DM2 system to Central Fleet's FleetFocus system and AssetWorks InfoCenter (InfoCenter) - the system used to process reports for departmental use. Surveys were

also conducted to gain insight on user departments' perceptions of their satisfaction with Central Fleet's service delivery, as well as their confidence in the reliability and accuracy of reports produced by Central Fleet's InfoCenter system. We also obtained an understanding of controls over fuel, parts inventory, and fuel credit card purchases.

### **Major Observations and Conclusions**

Based on our review we determined that, although the majority of Central Fleet users were highly satisfied with the services they provided, there were several significant operational issues that hindered Central Fleet's ability to carry out its objectives. These issues included work flow deficiencies, fuel inventory credit card and safety controls, parts and equipment inventory control, and the need to issue Invitation For Bids (IFBs) for repair contracts and reduce the number of non-PO vouchers.

To address these issues, we recommended that Central Fleet continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data. We also recommended that Central Fleet develop procedures that facilitate accurate monitoring and reconciliation of fuel inventories, eliminate its fuel credit cards, use Public Procurement to establish one centralized credit distribution point, and take steps to improve the safety and security of the fuel sites. Central Fleet should also secure and reconcile the parts and equipment inventories, work to expedite the IFB issuance process for vehicle and equipment repairs, issue all future personal chipkeys using employee numbers assigned by the City, and work with Public Procurement to stage the release of multiple POs per contract to control its spending.

This report in draft was provided to Central Fleet officials for review and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Central Fleet management, supervisors, and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

### **B. Performance Information**

According to the City's FY2010 budget document, Central Fleet was responsible for managing all of the rolling stock for the City from procurement through disposal. Central Fleet was also responsible for performing preventative maintenance, inspections, major and minor mechanical repairs, and providing other automotive support to provide a safe, reliable, and economical fleet for the City's operations. Central Fleet's staff also maintained all miscellaneous power equipment (chainsaws, tractors, pumps, etc.) belonging to the City. Central Fleet operated seven fueling sites located throughout the City for use by City drivers. Central Fleet also controlled the distribution of fuel and repair parts, maintained individual vehicle and equipment records, and recommended the purchase of new and replacement vehicles and equipment.

Customer service surveys issued by Central Fleet in 2009 indicated that the majority of survey respondents gave an “excellent” rating to the garage’s performance. The Audit Services’ 2010 survey results were consistent with Central Fleet’s survey results and also showed that department heads also rated the garage’s performance as “excellent” and “good.” However our survey noted that, although department heads were very satisfied with the overall garage staff performance, they were not as satisfied with vehicle and equipment reports provided them by Central Fleet’s InfoCenter for their management purposes.

In September 2009, the City was awarded a grant of \$244,214 as part of the national Clean Diesel Funding Assistance Program funded by the American Recovery and Reinvestment Act (ARRA). In October 2010, these funds were obligated for the purpose of funding the premiums associated with the cost of the retrofitted technology. On November 29, 2010, the City encumbered a total of \$1,140,047 to purchase five diesel-fueled refuse trucks and one grapple truck to replace six vehicles currently in operation that were less energy efficient than the ARRA required. All \$244,214 of the ARRA grant funds were applied to the premiums associated with those purchases.

For FY 2010, Central Fleet removed 36 vehicles from the fleet since they were too costly to maintain for their age. This action saved the city \$249,975 in repair costs and generated \$27,135 in revenue from the disposal of the equipment. Central Fleet continually strived to reduce the size of the fleet as evidenced by the decrease in vehicles from 1,398 in FY 2004 to 1,247 vehicles in FY2009.

Central Fleet had undertaken a number of environmental initiatives. These initiatives included:

- Recycling 190,500 pounds of paper, cardboard, and plastic, saving the City \$16,192 in tipping fees
- Using inmate labor to wash 4,260 vehicles saving the city \$111,738 in car washes and avoiding \$127,930 in environmental costs
- Recycling 139,232 pounds of metal, generating \$7,107 in revenue
- Recycling 9,490 gallons of used oil, generating \$3,892 in revenue
- Recapping 696 tires for reuse in the fleet
- Recycling 83,030 pounds of tires

Central Fleet was awarded twice, in 2009 and 2010, the Automotive Service Excellence “Blue Seal” award from the National Association of Service Excellence, becoming the only ASE Certified Garage in Chesapeake, one of only three municipal garages certified in Virginia, and only one of 172 municipal garages certified in the nation.

Central Fleet was chosen as one of the 100 Best Government Fleets in North America for 2009 and 2010 by Bobit Business Media Fleet Group, publishers of *Automotive Fleet*, *Work Truck*, *Government Fleet*, *Business Fleet*, *Fleet Financials*, and *GreenFleet* magazines, and The 100 Best Fleets in North America.

## **C. Work Flow and Fuel Control Issues**

Most user departments were very satisfied with Central Fleet's service performance delivery. Despite this situation, Central Fleet had a number of workflow and fuel control issues that needed to be addressed. These issues included improvement of their workflow and the accuracy of user reports, improving fuel inventory controls, eliminating fuel credit cards, and addressing fuel safety and security issues.

### **1. Work Flow and System Deficiencies**

**Finding** - The workflow processes utilized by Central Fleet for vehicle assignment, chipkey issuance, and mileage verification were not sufficiently controlled to ensure the accuracy of vehicle, fuel, and odometer information. In addition, user departments were less than satisfied with the accuracy of vehicle and equipment reports produced by Central Fleet's InfoCenter system.

**Recommendation** - Central Fleet should continue to take steps to improve its workflow processes and the reliability and usefulness of vehicle reporting data.

**Response** - Central Fleet Management (CFM) agrees with the finding. The accuracy of the data in the InfoCenter reporting module is due, in part, to incorrect mileage data entry when employees fuel their vehicles. With FuelFocus, the mileage will be captured in the system electronically from the vehicle's on-board computers. There are still equipment in the fleet that don't have on-board computers to track miles/hours; this means we'll have to use fueling keys to identify those pieces and to activate the pumps to refuel, such as for: lawnmowers, hand-held power tools, and some off-road construction equipment. However, CFM is able to run exception reports on the use of the new fueling keys to track usage. The operators will still be responsible for entering the actual mileage or hour-meter reading for that equipment, if appropriate, to insure accurate information in our database for reporting. The new fueling system will also use the employee ID cards to track who is fueling which vehicle, and reports may be run on that data to monitor fuel distribution.

### **2. Fuel Inventory Control**

**Finding** - Although Central Fleet accumulated the data necessary for a perpetual inventory of gasoline and diesel fuel, fuel inventory reconciliations were only being performed annually. Additionally, the levels of diesel and gasoline fuel inventory were inaccurate because the methods of measuring fuel were inaccurate.

**Recommendation** - Central Fleet should perform more frequent reconciliations of fuel inventory based on the EPA requirements. Additionally, it should ensure the methods of measuring the actual fuel inventory are accurate.

**Response** - Central Fleet Management agrees with the findings. There is no local, state, or federal requirement for non-commercial fuel sites to calibrate their equipment. However, it does make good business sense to accurately track fuel distribution. CFM will explore the costs associated with regularly calibrating the fuel pumps and TLS systems and determine if it is cost effective. Central Fleet's fuel reconciliations will be moved up from annual inventory checks to quarterly inventory checks with the eventual goal of performing fuel reconciliations monthly. Spreadsheets of the fuel inventories and journal entries accounting for differences will be maintained electronically on the garage servers.

CFM's cost to repair the unreadable totalizers on four fuel pumps is \$1,000. Additionally, the cost to calibrate the fuel pumps at all fueling sites is \$2,500. This cost does not include fees to adjust pumps out of calibration. Additional fees would depend upon the reasons for pumps being out of calibration.

### **3 . Fuel Credit Cards**

**Finding** - Fuel Credit Card distribution within the City was not sufficiently centralized. In addition, many of the fuel credit card transactions did not have adequate supporting documentation. Also, some cards were used for local fuel purchases.

**Recommendation** - The City should eliminate all fuel credit cards and have new credit cards issued through Public Procurement, to establish one centralized distribution point.

**Response** - Central Fleet Management agrees with this finding. CFM notified all departments, in our September 2006 Fleet News and at our October 7, 2010 Fleet User's Group Meeting, that Central Fleet's fuel company credit cards will be canceled on January 31, 2011. Departments have been working with Purchasing to obtain P-cards for those individuals needing to purchase fuel when traveling. The Sheriff's Department recently obtained an extension of the January 31<sup>st</sup> deadline to get their P-cards in place. The Sheriff's Department will have their program in place by February 28<sup>th</sup> at which point all of the fuel credit cards will be deactivated.

### **4. Fuel Site Safety and Security**

**Finding** - The safety and security of the fueling sites needed improvement. Spill Prevention, Control, and Countermeasure (SPCC) plans for the fuel sites were not readily accessible and were not clearly marked. The fuel nozzles were not routinely tested to ensure automatic shut off when vehicle/equipment tanks were full. There was no automated emergency services notification in the event of a spill. Also, a heavy rainfall contaminated two in-ground fuel tanks.

**Recommendation** - Central Fleet should take steps to improve the safety and security of the fuel sites.

**Response** - Regarding the Spill Prevention, Control, and Countermeasure (SPCC) Plan, Part 40 of the Code of Federal Regulations (CFR) 112.3 states, "the plan must be available for on-site review by the Regional Administrator during normal working hours." All of our inspectors interpret that to mean that the SPCC plan is to be available at the City Garage, not the individual fueling stations. Signs are posted at the fuel sites informing the operator what to do in case of a spill. Central Fleet will look at the signs to see what improvements can be made to increase their visibility. CFM is in the process of removing the old, unused, SPCC boxes at the fueling sites; all boxes should be removed by the end of this week.

CFM will research to see if an alarm notification can be incorporated into the fuel island's hardware upgrade with the FuelFocus program.

There is no Local, State or Federal requirement to test the automatic shutoff features on fuel nozzles. Operators are responsible to notify the Garage when nozzles fail, and most operators do; when notified, the Garage sends a Fleet Road Call technician to replace the nozzle. Manpower shortages limit CFM from testing all 62 nozzles on a regular basis.

The Public Works Department schedules the annual training on spill prevention. Central Fleet will ask them to invite all users of the City's fueling sites to participate in the training if space and funding allows. Additionally, CFM will incorporate some spill prevention training in quarterly Fleet User's Group meetings.

CFM's cost to repair the damaged bollards at the fuel sites is \$2,400. We will determine if sufficient funding is available for the repairs.

#### **D. Other Operational Issues**

We noted that Central Fleet needed to enhance inventory controls for parts and equipment. It also needed to expedite the IFB process for vehicle and equipment repair work. Central Fleet needed to process more purchases through the Purchase Order (PO) payment method to control spending. Finally, Central Fleet needed to develop methods to protect social security numbers from identity theft.

##### **1. Parts and Equipment Inventory Control**

**Finding** - Central Fleet was not reconciling their parts inventory to their perpetual inventory records maintained in FleetFocus. Additionally, the City's equipment inventory was not secure and was accessible to employees and contractors.

**Recommendation** - Central Fleet should take steps to both better secure and reconcile the parts and equipment inventories.

**Response** - Central Fleet Management disagrees in part with this finding. CFM's parts inventory is in a secured location, monitored by our parts contractor, Tidewater Fleet Supply, LLC., with limited access to authorized persons. The parts inventory was reconciled by CFM employees five times in FY09 and four times in FY10 using FleetFocus.

The City's powered hand-held equipment inventory was not reconciled on a regular basis. And, the back door to the parts room, which is locked to outside entry, was able to be opened from the inside to gain access to the outside as a fire exit. It is through this door that a City employee, who was authorized to be in the parts room to repair computers, stole the powered equipment. That back door has since had an alarm installed which activates whenever the door is opened and which requires a key to silence. Additionally, the powered small equipment has been moved into an enclosed, locked, partition in the parts room where it will be inventoried quarterly as part of the cyclic inventory performed on the parts inventory.

## **2. Repair Contracts**

**Finding** - Although Central Fleet had been working with Public Procurement to issue a formal bid for repair work, delays in the development and issuance of an open Invitation for Bid (IFB) caused undue delays in open competition for equipment and vehicle repair work.

**Recommendation** - Central Fleet should work to expedite the IFB process. Central Fleet should establish a date to publish and award the IFB for Central Fleet vehicle and equipment repairs to comply with competitive bidding requirements.

**Response** - Central Fleet Management does not establish dates to publish and award IFB's, that is strictly the function of the City's Purchasing and Contract Manager. CFM will provide IFB specifications for repair contracts (accident repairs, truck repairs, hydraulic repairs, and small equipment repairs) to the Purchasing and Contract Manager by July 1, 2011.

## **3. Volume of Small Purchases**

**Findings** - The large volume of Central Fleet's small purchases (known as non-Purchase Order vouchers) valued at less than \$5,000 diverted staff resources away from garage operations, and also bypassed Public Procurement's purchase order (PO) spending controls.

**Recommendation** - Central Fleet should work with Public Procurement to stage the release of multiple POs per contract to control City spending throughout the year.

**Response** - Central Fleet Management agrees with this finding. Finance suggests we continue to operate as we are now until we get the repairs contracts in place through Purchasing.

#### **4. Identity Theft Protection**

**Finding** - Several Central Fleet staff members had access to the chip key system, yet there was no system in place to prevent unauthorized access to social security numbers in the database.

**Recommendation** - Central Fleet should take steps to remove the social security numbers from the database and issue all future personal chip keys using employee numbers assigned by the City.

**Response** - Central Fleet Management agrees with this finding. With the new FuelFocus fueling system, city of Chesapeake badge number or RFID sticker number will be used to identify users of the fueling system. The old spreadsheet with employee SSN's that was used in conjunction with the DM2 software has been destroyed. Access to the present database holding the SSN's in DM2 is password protected and restricted to the three CFM employees responsible for issuing chip-keys and maintain the DM2 chip-key program. Once the FuelFocus system is up and running the old database using the employee's SSN will be destroyed.